FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429
FORM 10-Q

(Mark one)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2019

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

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine **(State or other jurisdiction of incorporation or organization)**	**01-0029040** **(I.R.S. Employer Identification No.)**
500 Canal Street, Lewiston, Maine **(Address of principal executive offices)**	**04240** **(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	**NBN**	**The NASDAQ Stock Market LLC**
(Title of each class)	**(Trading Symbol)**	**(Name of each exchange on which registered)**

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 1, 2019, the registrant had outstanding 9,012,649 shares of voting common stock, $1.00 par value per share and 44,783 shares of non-voting common stock, $1.00 par value per share.

Part I.	**Financial Information**		
	Item 1.	**Financial Statements (Unaudited)**	
		Balance Sheets **September 30, 2019 and June 30, 2019**	**2**
		Statements of Income **Three Months Ended September 30, 2019 and 2018**	**3**
		Statements of Comprehensive Income **Three Months Ended September 30, 2019 and 2018**	**4**
		Statements of Changes in Shareholders' Equity **Three Months Ended September 30, 2019 and 2018**	**5**
		Statements of Cash Flows **Three Months Ended September 30, 2019 and 2018**	**6**
		Notes to Unaudited Financial Statements	**7**
	Item 2.	**Management's Discussion and Analysis of Financial Condition and Results of Operations**	**24**
	Item 3.	**Quantitative and Qualitative Disclosure about Market Risk**	**35**
	Item 4.	**Controls and Procedures**	**35**
Part II.	**Other Information**		
	Item 1.	**Legal Proceedings**	**36**
	Item 1A.	**Risk Factors**	**36**
	Item 2.	**Unregistered Sales of Equity Securities and Use of Proceeds**	**36**
	Item 3.	**Defaults Upon Senior Securities**	**36**
	Item 4.	**Mine Safety Disclosures**	**36**
	Item 5.	**Other Information**	**36**
	Item 6.	**Exhibits**	**36**
		Signatures	**37**

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2019	June 30, 2019
Assets		
Cash and due from banks	$ 2,533	$ 2,482
Short-term investments	65,828	54,425
Total cash and cash equivalents	68,361	56,907
Available-for-sale debt securities, at fair value	74,256	75,774
Equity securities, at fair value	7,022	6,938
Total investment securities	81,278	82,712
Residential real estate loans held for sale	1,707	3,179
SBA loans held for sale	-	731
Total loans held for sale	1,707	3,910
Loans:		
Commercial real estate	635,424	668,496
Commercial and industrial	224,670	232,839
Residential real estate	71,900	71,218
Consumer	2,045	2,507
Total loans	934,039	975,060
Less: Allowance for loan losses	5,280	5,702
Loans, net	928,759	969,358
Premises and equipment, net	10,778	5,582
Real estate owned and other repossessed collateral, net	1,936	1,957
Federal Home Loan Bank stock, at cost	1,258	1,258
Intangible assets, net	326	434
Loan servicing rights, net	2,614	2,851
Bank-owned life insurance	16,749	17,057
Other assets	9,287	11,832
Total assets	$ 1,123,053	$ 1,153,858
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 67,481	$ 68,782
Savings and interest checking	103,508	101,061
Money market	264,984	270,835
Time	471,983	501,693
Total deposits	907,956	942,371
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	14,857	14,829
Lease liability	5,538	323
Other liabilities	21,601	27,755
Total liabilities	964,952	1,000,278
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2019 and June 30, 2019	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,994,129 and 8,997,326 shares issued and outstanding at September 30, 2019 and June 30, 2019, respectively	8,994	8,997
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 44,783 shares issued and outstanding at September 30, 2019 and June 30, 2019	45	45
Additional paid-in capital	78,231	78,095
Retained earnings	72,267	67,581
Accumulated other comprehensive loss	(1,436)	(1,138)
Total shareholders' equity	158,101	153,580
Total liabilities and shareholders' equity	$ 1,123,053	$ 1,153,858

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

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Interest and dividend income:		
Interest and fees on loans	$ 19,704	$ 17,525
Interest on investment securities	451	362
Other interest and dividend income	340	880
Total interest and dividend income	20,495	18,767
Interest expense:		
Deposits	4,316	3,682
Federal Home Loan Bank advances	125	118
Subordinated debt	282	601
Obligation under lease agreements	35	7
Total interest expense	4,758	4,408
Net interest and dividend income before provision (credit) for loan losses	15,737	14,359
Provision (credit) for loan losses	(136)	532
Net interest and dividend income after provision (credit) for loan losses	15,873	13,827
Noninterest income:		
Fees for other services to customers	413	492
Gain on sales of SBA loans	252	851
Gain on sales of residential loans held for sale	213	174
Net unrealized gain (loss) on equity securities	40	(40)
Loss on real estate owned, other repossessed collateral and premises and equipment, net	(2)	(40)
Bank-owned life insurance income	241	110
Other noninterest income	19	7
Total noninterest income	1,176	1,554
Noninterest expense:		
Salaries and employee benefits	6,387	5,509
Occupancy and equipment expense	898	1,127
Professional fees	392	534
Data processing fees	984	601
Marketing expense	93	124
Loan acquisition and collection expense	611	439
FDIC insurance premiums	(18)	81
Intangible asset amortization	109	109
Other noninterest expense	898	831
Total noninterest expense	10,354	9,355
Income before income tax expense	6,695	6,026
Income tax expense	1,919	1,492
Net income	$ 4,776	$ 4,534
Weighted-average common shares outstanding:		
Basic	9,043,761	8,995,925
Diluted	9,211,874	9,183,729
Earnings per common share:		
Basic	$ 0.53	$ 0.50
Diluted	0.52	0.49
Cash dividends declared per common share	$ 0.01	$ 0.01

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

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

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018
Net income	$ 4,776	$ 4,534
Other comprehensive income (loss), before tax:		
Available-for-sale debt securities:		
Change in net unrealized gain (loss) on available-for-sale debt securities	41	(74)
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	(451)	482
Reclassification adjustments included in interest expense	-	70
Total derivatives and hedging activities	(451)	552
Total other comprehensive income (loss), before tax	(410)	478
Income expense (benefit) related to other comprehensive loss	(112)	129
Other comprehensive income (loss), net of tax	(298)	349
Comprehensive income	$ 4,478	$ 4,883

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Loss	Equity
Balance at June 30, 2018	-	$ -	8,056,527	$ 8,057	882,314	$ 882	$ 77,016	$ 54,236	$ (1,761)	$ 138,430
Net income	-	-	-	-	-	-	-	4,534	-	4,534
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	349	349
Conversions between voting common stock and non-voting common stock, net	-	-	61,572	61	(61,572)	(61)	-	-	-	-
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(89)	-	(89)
Stock-based compensation	-	-	-	-	-	-	299	-	-	299
Issuance of restricted common stock	-	-	114,925	114	-	-	(114)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(6,376)	(6)	-	-	(126)	-	-	(132)
Adjustment for adoption of ASU 2016-01	-	-	-	-	-	-	-	(180)	180	-
Balance at September 30, 2018	-	$ -	8,226,648	$ 8,226	820,742	$ 821	$ 77,075	$ 58,501	$ (1,232)	$ 143,391
Balance at June 30, 2019	-	$ -	8,997,326	$ 8,997	44,783	$ 45	$ 78,095	$ 67,581	$ (1,138)	$ 153,580
Net income	-	-	-	-	-	-	-	4,776	-	4,776
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(298)	(298)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(90)	-	(90)
Stock-based compensation	-	-	-	-	-	-	388	-	-	388
Issuance of restricted common stock	-	-	5,000	5	-	-	(5)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(11,300)	(11)	-	-	(217)	-	-	(228)
Stock options exercised, net	-	-	3,103	3	-	-	(30)	-	-	(27)
Balance at September 30, 2019	-	$ -	8,994,129	$ 8,994	44,783	$ 45	$ 78,231	$ 72,267	$ (1,436)	$ 158,101

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

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

	Three Months Ended September 30, 2019	2018
Operating activities:		
Net income	$ 4,776	$ 4,534
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	(136)	532
Loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	2	40
Net unrealized (gain) loss on equity securities	(40)	40
Accretion of loans, net	(1,959)	(1,592)
Accretion of fair value adjustments on borrowings, net	-	57
Amortization of subordinated debt issuance costs	28	28
Originations of loans held for sale	(10,945)	(25,271)
Net proceeds from sales of loans held for sale	13,616	26,523
Gain on sales of residential loans held for sale	(213)	(174)
Gain on sales of SBA and other loans held for sale	(252)	(851)
Net decrease (increase) in servicing rights	237	(40)
Amortization of intangible assets	109	109
Bank-owned life insurance income, net	(241)	(110)
Depreciation and amortization of premises and equipment	629	333
Stock-based compensation	388	299
Amortization of available-for-sale debt securities, net	73	109
Changes in other assets and liabilities:		
Other assets	2,655	496
Other liabilities	(6,603)	(9,085)
Net cash provided by (used in) operating activities	2,124	(4,023)
Investing activities:		
Purchases of available-for-sale debt securities	-	(15,992)
Proceeds from maturities and principal payments on investment securities, net	1,441	17,680
Loan purchases	(28,622)	(34,803)
Loan originations, principal collections, and purchased loan paydowns, net	71,313	24,538
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(271)	(56)
Proceeds from life insurance death benefits	549	-
Proceeds from sales of real estate owned and other repossessed collateral	19	694
Net cash provided by (used in) investing activities	44,429	(7,939)
Financing activities:		
Net increase (decrease) in deposits	(34,415)	60,567
Repayment of lease liability	(339)	(69)
Dividends paid on common stock	(90)	(89)
Repurchases for tax withholdings on restricted common stock	(228)	(132)
Stock options exercised, net	(27)	-
Net cash provided by (used in) financing activities	(35,099)	60,277
Net increase in cash and cash equivalents	11,454	48,315
Cash and cash equivalents, beginning of period	56,907	157,402
Cash and cash equivalents, end of period	$ 68,361	$ 205,717
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ -	$ 50
Capitalization of lease liability	5,554	-

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

1. Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Northeast Bank (the “Bank”). These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2019 (“Fiscal 2019”) included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation (“FDIC”).

Corporate Reorganization

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

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

Adoption of ASU 2016-02 Leases

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

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

2. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities will be required to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within the fiscal year. Upon adoption of ASU 2016-02 on July 1, 2019, the Bank recorded an asset of $4.5 million and a liability of $5.5 million as a result of recognizing the right-of-use assets and lease liabilities, which are included in premises and equipment, net, and lease liability, respectively, on the balance sheets.

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 April and May 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments ("ASU 2019-04") and ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief ("ASU 2019-05"), respectively. These updates clarify the guidance in ASU 2016-13 which introduced Topic 326. ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. ASU 2019-05 provides entities that have certain instruments within the scope of subtopic 326-20 with an option to irrevocably elect the fair value option. These ASUs will be effective for fiscal years beginning after December 15, 2019. Upon adoption on July 1, 2019, there was no impact on the Bank's financial statements.

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

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

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

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

3. Investment Securities

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

	September 30, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 56,986	$ 352	$ (2)	$ 57,336
Agency mortgage-backed securities	17,156	4	(240)	16,920
Total available-for-sale debt securities	74,142	356	(242)	74,256
Equity investments measured at net asset value	7,078	-	(56)	7,022
Total investment securities	$ 81,220	$ 356	$ (298)	$ 81,278

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

At September 30, 2019, 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 quarters ended September 30, 2019 or 2018. At September 30, 2019, securities with a fair value of $74.3 million were pledged as collateral to secure potential or outstanding FHLBB advances.

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

	September 30, 2019					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ -	$ -	$ 9,014	$ (2)	$ 9,014	$ (2)
Agency mortgage-backed securities	773	(1)	15,478	(239)	16,251	(240)
Total available-for-sale debt securities	773	(1)	24,492	(241)	25,265	(242)
Equity investments measured at net asset value	-	-	5,423	(56)	5,423	(56)
Total investment securities	$ 773	$ (1)	$ 29,915	$ (297)	$ 30,688	$ (298)

	June 30, 2019					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ -	$ -	$ 9,031	$ (14)	$ 9,031	$ (14)
Agency mortgage-backed securities	-	-	18,010	(285)	18,010	(285)
Total available-for-sale debt securities	-	-	27,041	(299)	27,041	(299)
Equity investments measured at net asset value	-	-	5,350	(96)	5,350	(96)
Total investment securities	$ -	$ -	$ 32,391	$ (395)	$ 32,391	$ (395)

There were no other-than-temporary impairment losses on securities during the quarters ended September 30, 2019 and 2018.

At September 30, 2019, the Bank had twenty-two securities in a continuous loss position for greater than twelve months. At September 30, 2019, all of the Bank's investment securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Bank's investment securities at September 30, 2019 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's investment portfolio, management of the Bank considers the Bank's ability and intent to hold such securities to maturity or recovery of cost. At September 30, 2019, the Bank did not intend to sell and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of its amortized cost. As such, management does not believe any of the Bank's investment securities are other-than-temporarily impaired at September 30, 2019.

The investments measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of September 30, 2019, 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 3.68 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of September 30, 2019. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 36,002	$ 36,147
Due after one year through five years	20,984	21,189
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	56,986	57,336
Agency mortgage-backed securities	17,156	16,920
Total available-for-sale debt securities	$ 74,142	$ 74,256

4. Loans, Allowance for Loan Losses and Credit Quality

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

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

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

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

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

	September 30, 2019			June 30, 2019		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Commercial real estate	$ 262,468	$ 319,246	$ 581,714	$ 294,395	$ 316,835	$ 611,230
Commercial and industrial	219,515	595	220,110	226,424	628	227,052
SBA	58,270	-	58,270	63,053	-	63,053
Residential real estate	59,514	12,386	71,900	62,041	9,177	71,218
Consumer	2,045	-	2,045	2,507	-	2,507
Total loans	$ 601,812	$ 332,227	$ 934,039	$ 648,420	$ 326,640	$ 975,060

Total loans include deferred loan origination fees, net, of $88 thousand as of September 30, 2019 and $113 thousand as of June 30, 2019.

Past Due and Nonaccrual Loans

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

	September 30, 2019							
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 164	$ 133	$ -	$ 2,329	$ 2,626	$ 259,842	$ 262,468	$ 3,152
Commercial and industrial	-	-	-	-	-	219,515	219,515	-
SBA	2,528	397	-	491	3,416	54,854	58,270	1,465
Residential real estate	579	353	-	535	1,467	58,047	59,514	1,515
Consumer	4	7	-	83	94	1,951	2,045	136
Total originated portfolio	3,275	890	-	3,438	7,603	594,209	601,812	6,268
Purchased portfolio:								
Commercial real estate	210	1,114	-	4,163	5,487	313,759	319,246	6,731
Commercial and industrial	-	8	-	276	284	311	595	472
Residential real estate	-	3	-	631	634	11,752	12,386	631
Total purchased portfolio	210	1,125	-	5,070	6,405	325,822	332,227	7,834
Total loans	$ 3,485	$ 2,015	$ -	$ 8,508	$ 14,008	$ 920,031	$ 934,039	$ 14,102

	June 30, 2019							
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 1,300	$ 17	$ -	$ 2,398	$ 3,715	$ 290,680	$ 294,395	$ 3,417
Commercial and industrial	-	-	-	13	13	226,411	226,424	13
SBA	392	-	-	1,288	1,680	61,373	63,053	1,745
Residential real estate	172	150	-	2,083	2,405	59,636	62,041	2,773
Consumer	37	27	-	81	145	2,362	2,507	148
Total originated portfolio	1,901	194	-	5,863	7,958	640,462	648,420	8,096
Purchased portfolio:								
Commercial real estate	777	961	-	3,969	5,707	311,128	316,835	5,543
Commercial and industrial	18	-	-	279	297	331	628	497
Residential real estate	-	4	-	631	635	8,542	9,177	631
Total purchased portfolio	795	965	-	4,879	6,639	320,001	326,640	6,671
Total loans	$ 2,696	$ 1,159	$ -	$ 10,742	$ 14,597	$ 960,463	$ 975,060	$ 14,767

Allowance for Loan Losses and Impaired Loans

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

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

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

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

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

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

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

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

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

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

- Other effects resulting from trends in the valuation of underlying collateral.

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

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

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

	Three Months Ended September 30, 2019						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 376	$ 2,065	$ 717	$ 50	$ 520	$ 1,974	$ 5,702
Provision (credit)	15	(209)	(38)	1	20	75	(136)
Recoveries	-	-	16	2	-	-	18
Charge-offs	(26)	(17)	(4)	(4)	(45)	(208)	(304)
Ending balance	$ 365	$ 1,839	$ 691	$ 49	$ 495	$ 1,841	$ 5,280

	Three Months Ended September 30, 2018						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 605	$ 1,527	$ 620	$ 39	$ 587	$ 1,429	$ 4,807
Provision (credit)	99	93	164	(12)	10	178	532
Recoveries	2	7	7	18	-	-	34
Charge-offs	(81)	-	(2)	(2)	-	-	(85)
Ending balance	$ 625	$ 1,627	$ 789	$ 43	$ 597	$ 1,607	$ 5,288

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

	September 30, 2019						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
				(Dollars in thousands)			
Allowance for loan losses:							
Individually evaluated	$ 110	$ 87	$ -	$ 34	$ -	$ 290	$ 521
Collectively evaluated	255	1,752	691	15	-	1,551	4,264
ASC 310-30	-	-	-	-	495	-	495
Total	$ 365	$ 1,839	$ 691	$ 49	$ 495	$ 1,841	$ 5,280
Loans:							
Individually evaluated	$ 3,862	$ 3,522	$ 6,900	$ 172	$ -	$ 3,454	$ 17,910
Collectively evaluated	55,652	258,946	212,615	1,873	-	54,816	583,902
ASC 310-30	-	-	-	-	332,227	-	332,227
Total	$ 59,514	$ 262,468	$ 219,515	$ 2,045	$ 332,227	$ 58,270	$ 934,039

	June 30, 2019						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
				(Dollars in thousands)			
Allowance for loan losses:							
Individually evaluated	$ 128	$ 105	$ 4	$ 33	$ -	$ 227	$ 497
Collectively evaluated	248	1,960	713	17	-	1,747	4,685
ASC 310-30	-	-	-	-	520	-	520
Total	$ 376	$ 2,065	$ 717	$ 50	$ 520	$ 1,974	$ 5,702
Loans:							
Individually evaluated	$ 4,930	$ 3,666	$ 6,913	$ 182	$ -	$ 3,348	$ 19,039
Collectively evaluated	57,111	290,729	219,511	2,325	-	59,705	629,381
ASC 310-30	-	-	-	-	326,640	-	326,640
Total	$ 62,041	$ 294,395	$ 226,424	$ 2,507	$ 326,640	$ 63,053	$ 975,060

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

	September 30, 2019			June 30, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(Dollars in thousands)			
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 2,614	$ 2,614	$ -	$ 2,643	$ 2,643	$ -
Commercial and industrial	6,900	6,900	-	6,909	6,909	-
SBA	2,424	2,994	-	3,014	3,001	-
Residential real estate	2,258	2,258	-	3,550	3,550	-
Consumer	133	133	-	143	143	-
Purchased:						
Commercial real estate	9,816	12,315	-	7,892	10,108	-
Commercial and industrial	293	341	-	297	359	-
Residential real estate	631	704	-	202	217	-
Total	25,069	28,259	-	24,650	26,930	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	908	908	87	1,023	1,023	105
Commercial and industrial	-	-	-	4	4	4
SBA	1,030	1,030	290	334	334	227
Residential real estate	1,604	1,604	110	1,380	1,380	128
Consumer	39	39	34	39	39	33
Purchased:						
Commercial real estate	4,054	4,351	315	3,676	4,031	316
Commercial and industrial	179	224	180	199	244	199
Residential real estate	-	-	-	429	488	5
Total	7,814	8,156	1,016	7,084	7,543	1,017
Total impaired loans	$ 32,883	$ 36,415	$ 1,016	$ 31,734	$ 34,473	$ 1,017

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

	Three Months Ended September 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 2,629	$ 6	$ 1,354	$ 3
Commercial and industrial	6,905	88	10	-
SBA	2,718	55	2,216	40
Residential real estate	2,904	13	3,097	19
Consumer	138	1	275	2
Purchased:				
Commercial real estate	8,854	79	6,491	59
Commercial and industrial	295	-	102	-
Residential real estate	417	-	202	-
Total	24,860	242	13,747	123
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	966	3	1,260	22
Commercial and industrial	2	-	31	-
SBA	681	-	1,161	6
Residential real estate	1,492	18	2,313	23
Consumer	39	-	41	-
Purchased:				
Commercial real estate	3,865	66	4,575	31
Commercial and industrial	189	-	353	-
Residential real estate	215	-	-	-
Total	7,449	87	9,734	82
Total impaired loans	$ 32,309	$ 329	$ 23,481	$ 205

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.

	September 30, 2019					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1- 6	$ 258,755	$ 212,366	$ 48,801	$ 12,466	$ 321,179	$ 853,567
Loans rated 7	562	6,901	8,940	36	3,292	19,731
Loans rated 8	3,151	248	529	309	7,756	11,993
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 262,468	$ 219,515	$ 58,270	$ 12,811	$ 332,227	$ 885,291

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

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

Troubled Debt Restructurings

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

	Three Months Ended September 30,			
	2019		2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	3	$ 632	-	$ -
Adjusted interest rate	-	-	-	-
Rate and maturity	-	54	3	170
Principal deferment	1	-	-	-
Court ordered concession	-	-	-	-
Total	4	$ 686	3	$ 170

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

	Three Months Ended September 30,					
	2019			2018		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	2	$ 168	$ 171	3	$ 170	$ 170
Home equity	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	2	168	171	3	170	170
Purchased portfolio:						
Commercial real estate	2	515	515	-	-	-
Residential real estate	-	-	-	-	-	-
Total purchased portfolio	2	515	-	-	-	-
Total	4	$ 683	$ 686	3	$ 170	$ 170

As of September 30, 2019, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three months ended September 30, 2019. Two loans modified in a TDR in the last twelve months totaling $1.5 million defaulted during the three months ended September 30, 2018.

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.

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	(Dollars in thousands)			
Contractually required payments receivable	$	38,701	$	61,540
Nonaccretable difference		(106)		(174)
Cash flows expected to be collected		38,595		61,366
Accretable yield		(9,973)		(26,563)
Fair value of loans acquired	$	28,622	$	34,803

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

	As of and for the Three Months Ended September 30, 2019		As of and for the Three Months Ended September 30, 2018	
	(Dollars in thousands)			
Loans acquired during the period	$	-	$	-
Loans at end of period		7,065		4,915

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

	Three Months Ended September 30, 2019		Three Months Ended September 30, 2018	
	(Dollars in thousands)			
Beginning balance	$	146,995	$	138,178
Acquisitions		9,973		26,563
Accretion		(5,790)		(5,533)
Reclassifications from non-accretable difference to accretable yield		1,318		578
Disposals and other changes		(7,498)		(6,992)
Ending balance	$	144,998	$	152,794

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

	September 30, 2019		June 30, 2019	
	(Dollars in thousands)			
Unpaid principal balance	$	358,280	$	352,717
Carrying amount		324,523		318,886

5. Transfers and Servicing of Financial Assets

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

Capitalized servicing rights as of September 30, 2019 totaled $2.6 million, compared to $2.9 million as of June 30, 2019, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold during the three months ended September 30, 2019 totaled $10.9 million, compared to $13.2 million during the three months ended September 30, 2018. Mortgage loans serviced for others totaled $6.9 million at September 30, 2019 and $7.1 million at June 30, 2019. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $22.1 million and $22.3 million at September 30, 2019 and June 30, 2019, respectively.

SBA loans sold during the quarter ended September 30, 2019 totaled $2.4 million, compared to $12.3 million during the quarter ended September 30, 2018. SBA loans serviced for others totaled $166.7 million at September 30, 2019 and $171.9 million at June 30, 2019.

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

Contractually specified servicing fees were $172 thousand and $247 thousand for the quarters ended September 30, 2019 and 2018, respectively, and were included as a component of loan-related fees within noninterest income.

The significant assumptions used in the valuation of the servicing rights included a range of discount rates from 5.7% to 26.9% and a weighted average prepayment speed assumption of 16.4%.

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

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

	Three Months Ended September 30,	
	2019	2018
	(Dollars in thousands, except share and per share data)	
Net income	$ 4,776	$ 4,534
Weighted average shares used in calculation of basic EPS	9,043,761	8,995,925
Incremental shares from assumed exercise of dilutive securities	168,113	187,804
Weighted average shares used in calculation of diluted EPS	9,211,874	9,183,729
Basic earnings per common share	$ 0.53	$ 0.50
Diluted earnings per common share	0.52	0.49

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the three months ended September 30, 2019 and 2018.

7. **Derivatives and Hedging Activities**

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

The Bank currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At September 30, 2019 and June 30, 2019, the Bank had posted cash collateral totaling $2.4 million and $1.6 million, respectively, with dealer banks related to derivative instruments in a net liability position.

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

Risk Management Policies—Derivative Instruments

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

Interest Rate Risk Management—Cash Flow Hedging Instruments

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

Information pertaining to outstanding swap agreements is as follows:

September 30, 2019									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.09%	3.38%	n/a	$ (1,130)	$ (1,130)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.09%	3.23%	n/a	(715)	(715)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.09%	2.77%	n/a	(236)	(236)	Other Liabilities
$ 15,000							$ (2,081)	$ (2,081)	

June 30, 2019									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.32%	3.38%	n/a	$ (846)	$ (846)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.32%	3.23%	n/a	(573)	(573)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.32%	2.77%	n/a	(211)	(211)	Other Liabilities
$ 15,000							$ (1,630)	$ (1,630)	

During the three months ended September 30, 2019 and 2018, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three months ended September 30, 2019 and 2018 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. Other Comprehensive Income

The components of other comprehensive income are as follows:

	Three Months Ended September 30,					
	2019			2018		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain(loss) on available-for-sale debt securities	$ 41	$ 11	$ 30	$ (74)	$ (20)	$ (54)
Change in accumulated loss on effective cash flow hedges	(451)	(123)	(328)	482	130	352
Reclassification adjustment for losses included in net income	-	-	-	70	19	51
Total derivatives and hedging activities	(451)	(123)	(328)	552	149	403
Total other comprehensive (loss) income	$ (410)	$ (112)	$ (298)	$ 478	$ 129	$ 349

Accumulated other comprehensive loss is comprised of the following:

	September 30, 2019	June 30, 2019
	(Dollars in thousands)	
Unrealized gain on available-for-sale debt securities	$ 114	$ 73
Tax effect	(31)	(20)
After tax amount	83	53
Unrealized loss on cash flow hedges	(2,081)	(1,630)
Tax effect	562	439
After tax amount	(1,519)	(1,191)
Accumulated other comprehensive loss	$ (1,436)	$ (1,138)

9. Commitments and Contingencies

Commitments

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

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

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

	September 30, 2019		June 30, 2019	
	(Dollars in thousands)			
Commitments to originate loans	$	27,308	$	11,991
Unused lines of credit		41,313		21,488
Standby letters of credit		2,383		2,383

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling $82 thousand and $52 thousand recorded in other liabilities at September 30, 2019 and June 30, 2019, respectively.

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

10. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value of other Financial Instruments:

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

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

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

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

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

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

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

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

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

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Investment securities:				
U.S. Government agency securities	$ 57,336	$ -	$ 57,336	$ -
Agency mortgage-backed securities	16,920	-	16,920	-
Equity investments measured at net asset value[(1)]	7,022	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 2,081	$ -	$ 2,081	$ -

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

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

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

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 1,610	$ -	$ -	$ 1,610
Real estate owned and other repossessed collateral	1,936	-	-	1,936
Loan servicing rights	2,614	-	-	2,614

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

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

	Fair Value		
	September 30, 2019	June 30, 2019	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 1,610	$ 1,683	Appraisal of collateral[(1)]
Real estate owned and other repossessed collateral	1,936	1,957	Appraisal of collateral[(1)]
Loan servicing rights	2,614	2,851	Discounted cash flow[(2)]

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 15% to 100%.

(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 14.7% to 16.4%. For discount rates, the range was 5.7% to 26.9%.

The table below summarizes the total losses on assets measured at fair value on a non-recurring basis for the three months ended September 30, 2019 and 2018.

	Three Months Ended September 30,	
	2019	2018
	(In thousands)	
Collateral dependent impaired loans	$ (246)	$ (324)
Real estate owned and other repossessed collateral	-	-
Servicing rights, net	(74)	(107)
Total	$ (320)	$ (431)

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

	Carrying Amount	Fair Value Measurements at September 30, 2019			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 68,361	$ 68,361	$ 68,361	$ -	$ -
Investment securities	74,256	74,256	-	74,256	-
Equity investments measured at net asset value[1]	7,022	7,022	-	-	-
Federal Home Loan Bank stock	1,258	1,258	-	1,258	-
Loans held for sale	1,707	1,707	-	1,707	-
Loans, net	928,759	931,668	-	-	931,668
Accrued interest receivable	3,247	3,247	-	3,247	-
Financial liabilities:					
Deposits	907,956	910,279	-	910,279	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Lease liability	5,538	5,575	-	5,575	-
Subordinated debt	14,857	14,307	-	-	14,307
Interest rate swaps	2,081	2,081	-	2,081	-

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

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

11. Subsequent Events

We evaluate subsequent events through the date of issuance in the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended September 30, 2019.

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2019, filed with the FDIC.

A Note about Forward Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of weakness in general economic conditions on a national basis or in the local markets in which the Bank operates, including changes which adversely affect borrowers' ability to service and repay our loans; 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; operational risks including, but not limited to, cybersecurity, fraud and natural disasters; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2019 as updated in the Bank's Quarterly Reports on Form 10-Q and other filings submitted to the FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

<u>Business Overview</u>

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

On May 15, 2019, Northeast Bancorp, the Bank's former bank holding company, merged with and into the Bank, with the Bank continuing as the surviving entity (the "Reorganization"). As a result of the Reorganization, the bank holding company structure was eliminated and the Bank became the top-level company in the organization. Additionally, the commitments made by Northeast Bancorp to the Federal Reserve in 2010 in connection with the merger of Northeast Bancorp and FHB Formation LLC are no longer applicable, and the Bank replaced the commitments with standards, as further outlined below, relating to its capital levels and asset portfolio composition, which have been incorporated into its policies and procedures.

As a result of the Reorganization, the Bank incorporated the following standards into its policies and procedures:

- Maintain a Tier 1 leverage ratio of at least 10%, which is unchanged from the requirement in the commitments to the Federal Reserve;
- Maintain a Total capital ratio of at least 13.5% (as opposed to 15%);
- Limit purchased loans to 60% of total loans (as opposed to 40%);
- Maintain a ratio of the Bank's loans to core deposits of not more than 125% (as opposed to 100%); and
- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total

capital (as opposed to 300%).

These newly established standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, while permitting further growth in the Bank's loan portfolio as compared to operating under the existing commitments. The Maine Bureau of Financial Institutions' (the "Bureau") order approving FHB Formation LLC's acquisition of Northeast Bancorp in December of 2010 requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 13.5%. These conditions continue to apply to the Bank.

As of September 30, 2019, the Bank had total assets of $1.1 billion, total deposits of $908.0 million, and shareholders' equity of $158.1 million. We gather retail deposits through our ten full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our LASG.

Strategy

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

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

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

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

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in our Annual Report on Form 10-K for the year ended June 30, 2019, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported. There has been no material change in critical accounting policies during the three months ended September 30, 2019.

Overview

Net income increased by $242 thousand to $4.8 million for the quarter ended September 30, 2019, compared to net income of $4.5 million for the quarter ended September 30, 2018.

Net interest and dividend income before provision for loan losses increased by $1.4 million to $15.7 million for the quarter ended September 30, 2019, compared to $14.4 million for the quarter ended September 30, 2018. The increase was primarily due to higher transactional income in the purchased portfolio and higher average balances in the LASG portfolio and yields in the loan portfolio, as well as a decrease in interest expense on subordinated debt due to lower average balances resulting from the redemption of Trust Preferred Securities in May 2019. These increases were partially offset by higher funding costs.

Provision (credit) for loan losses decreased by $668 thousand for the quarter ended September 30, 2019, compared to the quarter ended September 30, 2018, primarily due to the decrease in loan balances during the current quarter, as compared to an increase in loan balances in the quarter ended September 30, 2018.

Noninterest income decreased by $378 thousand for the quarter ended September 30, 2019, compared to the quarter ended September 30, 2018, principally due to the following:

- A decrease in gain on sale of SBA loans of $599 thousand, due to lower volume of SBA loans sold in the quarter ended September 30, 2019 resulting from lower originations in recent quarters; partially offset by,
- An increase in bank-owned life insurance income of $131 thousand, due to a gain from death benefit proceeds recognized in the current quarter; and
- An increase in net unrealized gain on equity securities of $80 thousand.

Noninterest expense increased by $999 thousand for the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018, primarily due to the following:

- An increase in salaries and employee benefits expense of $878 thousand, primarily due to increases in stock-based compensation, regular compensation, and incentive compensation;
- An increase in data processing fees of $383 thousand, primarily due to increased IT outsourcing costs and the reclassification of IT professional costs from professional fees and occupancy and equipment expense; and
- An increase in loan acquisition and collection expenses of $172 thousand, largely driven by increased loan and collection expenses incurred on loan workouts in the LASG portfolios; partially offset by,
- A decrease in occupancy and equipment expense of $229 thousand, primarily due to a decrease in computer equipment repairs and maintenance expense; and
- A decrease in professional fees of $142 thousand, due to the reclassification of IT professional costs to data processing fees.

Income tax expense increased by $427 thousand to $1.9 million, or an effective tax rate of 28.7%, for the quarter ended September 30, 2019, compared to $1.5 million, or an effective tax rate of 24.8%, for the quarter ended September 30, 2018. The increase in effective tax rate was primarily due to the update of state tax apportionment rates.

Financial Condition

Overview

As of September 30, 2019, total assets were $1.1 billion, a decrease of $30.8 million, or 2.7%, from total assets of $1.2 billion as of June 30, 2019. The principal components of the changes in the balance sheet follow:

The following table highlights the changes in the loan portfolio for the quarter ended September 30, 2019:

	September 30, 2019 Balance	June 30, 2019 Balance	Change ($)	Change (%)
		(Dollars in thousands)		
LASG Purchased	$ 332,227	$ 326,640	$ 5,587	1.71%
LASG Originated	457,350	493,413	(36,063)	(7.31%)
SBA	58,270	63,053	(4,783)	(7.59%)
Community Banking	86,192	91,954	(5,762)	(6.27%)
Total	$ 934,039	$ 975,060	$ (41,021)	(4.21%)

Loans generated by the Bank's LASG for the quarter ended September 30, 2019 totaled $69.2 million, which consisted of $28.6 million of purchased loans, at an average price of 94.4% of unpaid principal balance, and $40.6 million of originated loans. The Bank's SBA Division sold $2.4 million of the guaranteed portion of SBA loans in the secondary market, all of which were originated in the prior quarter. Residential loan production sold in the secondary market totaled $10.9 million for the quarter.

An overview of the Bank's LASG portfolio follows:

	LASG Portfolio					
	Three Months Ended September 30,					
	2019			2018		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
			(Dollars in thousands)			
Loans purchased or originated during the period:						
Unpaid principal balance	$ 30,333	$ 40,537	$ 70,870	$ 37,077	$ 71,136	$ 108,213
Net investment basis	28,622	40,537	69,159	34,803	71,136	105,939
Loan returns during the period:						
Yield	9.73%	7.57%	8.46%	9.46%	7.43%	8.31%
Total Return on Purchased Loans (1)	9.73%	7.57%	8.46%	9.46%	7.43%	8.31%
Total loans as of period end:						
Unpaid principal balance	$ 365,984	$ 457,350	$ 823,334	$ 336,908	$ 407,822	$ 744,730
Net investment basis	332,227	457,350	789,577	300,548	407,822	708,370

(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-U.S. GAAP financial measure. See reconciliation in below table entitled "Total Return on Purchased Loans."

Assets

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

Cash and cash equivalents were $68.4 million as of September 30, 2019, an increase of $11.5 million, or 20.1%, from $56.9 million at June 30, 2019. The increase is primarily due to the decrease in loans, partially offset by the decrease in deposits in the period.

Investment securities totaled $81.3 million as of September 30, 2019, compared to $82.7 million as of June 30, 2019, representing a decrease of $1.4 million, or 1.7%, primarily due to principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.4 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.6 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At September 30, 2019, securities with a fair value of $74.3 million were pledged for potential and outstanding borrowings.

Loans

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

	September 30, 2019				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 51,802	$ 7,712	$ -	$ 59,514	6.37%
Commercial real estate: non-owner occupied	15,024	164,256	34,249	213,529	22.86%
Commercial real estate: owner-occupied	9,505	73,683	19,461	102,649	10.99%
Commercial and industrial	7,816	211,699	4,560	224,075	23.99%
Consumer	2,045	-	-	2,045	0.22%
Subtotal	86,192	457,350	58,270	601,812	64.43%
Purchased loans:					
Residential real estate	-	12,386	-	12,386	1.33%
Commercial real estate: non-owner occupied	-	198,230	-	198,230	21.22%
Commercial real estate: owner-occupied	-	121,016	-	121,016	12.96%
Commercial and industrial	-	595	-	595	0.06%
Subtotal	-	332,227	-	332,227	35.57%
Total	$ 86,192	$ 789,577	$ 58,270	$ 934,039	100.00%

	June 30, 2019				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 55,858	$ 6,183	$ -	$ 62,041	6.36%
Commercial real estate: non-owner occupied	15,781	190,365	36,048	242,194	24.84%
Commercial real estate: owner-occupied	9,303	78,946	21,218	109,467	11.23%
Commercial and industrial	8,505	217,919	5,787	232,211	23.82%
Consumer	2,507	-	-	2,507	0.25%
Subtotal	91,954	493,413	63,053	648,420	66.50%
Purchased loans:					
Residential real estate	-	9,177	-	9,177	0.94%
Commercial real estate: non-owner occupied	-	190,110	-	190,110	19.50%
Commercial real estate: owner-occupied	-	126,725	-	126,725	13.00%
Commercial and industrial	-	628	-	628	0.06%
Subtotal	-	326,640	-	326,640	33.50%
Total	$ 91,954	$ 820,053	$ 63,053	$ 975,060	100.00%

Classification of Assets

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

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

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

The following table details the Bank's nonperforming assets and other credit quality indicators as of September 30, 2019 and June 30, 2019. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Nonperforming Assets at September 30, 2019		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Residential real estate	$ 1,515	$ 631	$ 2,146
Commercial real estate	4,530	6,731	11,261
Commercial and industrial	87	472	559
Consumer	136	-	136
Total nonperforming loans	6,268	7,834	14,102
Real estate owned and other repossessed collateral	-	1,936	1,936
Total nonperforming assets	$ 6,268	$ 9,770	$ 16,038
Ratio of nonperforming loans to total loans			1.51%
Ratio of nonperforming assets to total assets			1.43%
Ratio of loans past due to total loans			1.50%
Nonperforming loans that are current			$ 4,061
Commercial loans risk rated substandard or worse			$ 11,053
Troubled debt restructurings:			
On accrual status			$ 17,272
On nonaccrual status			$ 3,460

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

As of September 30, 2019, nonperforming assets totaled $16.0 million, or 1.43% of total assets, as compared to $16.7 million, or 1.45% of total assets, as of June 30, 2019. The decrease was primarily due to the payoff of a nonperforming Community Bank loan of $1.1 million during the current quarter.

OREO decreased by $21 thousand, or 1.1%, to $1.9 million at September 30, 2019, compared to $2.0 million at June 30, 2019. The decrease was the result of the sale of one property during the quarter ended September 30, 2019.

Allowance for Loan Losses

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

The Bank's allowance for loan losses amounted to $5.3 million as of September 30, 2019, compared to $5.7 million as of June 30, 2019. The decrease in the period is primarily the result of the decrease in loan balance.

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

	September 30, 2019	June 30, 2019	September 30, 2018
Allowance for loan losses to nonperforming loans	37.44%	38.61%	45.98%
Allowance for loan losses to total loans	0.57%	0.58%	0.60%
Last twelve months of net-charge offs to average loans	0.07%	0.04%	0.04%

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

Other Assets

Premises and equipment, net, increased by $5.2 million, or 93.1%, to $10.8 million at September 30, 2019, compared to $5.6 million at June 30, 2018. The increase was primarily due to the capitalization of the Bank's right-of-use assets as a result of ASU 2016-02, which was adopted by the Bank during the quarter.

Intangible assets totaled $326 thousand and $434 thousand at September 30, 2019 and June 30, 2019, respectively. The $108 thousand decrease was the result of amortization during the period.

Loan servicing rights, net totaled $2.6 million and $2.9 million at September 30, 2019 and June 30, 2019, respectively. The $237 thousand decrease was the result of the payoff of SBA loans and amortization and the revaluation of the servicing rights performed on a quarterly basis, offset by SBA loans sold during the three months ended September 30, 2019.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets decreased $308 thousand, or 1.8% to $16.7 million at September 30, 2019, compared to $17.1 million at June 30, 2019. The decrease in cash surrender value was due to death benefit proceeds of $549 thousand received on policies during the quarter, partially offset by interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 9.3% of the Bank's regulatory total capital at September 30, 2019.

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

Deposits

The Bank's principal source of funding is its core deposit accounts. At September 30, 2019, non-maturity accounts and non-brokered insured time deposits represented 99.9% of total deposits.

Total deposits decreased by $34.4 million, or 3.7%, from June 30, 2019, attributable primarily to a decrease in time deposits of $29.7 million, or 5.9% and decreases in money market accounts of $5.9 million, or 2.2%, due to the continued intentional run-off of excess higher-cost deposits.

The composition of total deposits at September 30, 2019 and June 30, 2019 is as follows:

	September 30, 2019		June 30, 2019	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 67,481	7.43%	$ 68,782	7.30%
NOW accounts	68,502	7.54%	66,491	7.06%
Regular and other savings	35,006	3.86%	34,570	3.67%
Money market deposits	264,984	29.19%	270,835	28.74%
Total non-certificate accounts	435,973	48.02%	440,678	46.77%
Term certificates of $250 thousand or less	470,980	51.87%	501,192	53.18%
Term certificates greater than $250 thousand	1,003	0.11%	501	0.05%
Total certificate accounts	471,983	51.98%	501,693	53.23%
Total deposits	$ 907,956	100.00%	$ 942,371	100.00%

FHLBB Advances

Advances from the FHLBB were $15.0 million at both September 30, 2019 and June 30, 2019. As of September 30, 2019, the Bank had pledged certain residential real estate loans and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of September 30, 2019, securities with a fair value of $74.3 million were pledged for potential and outstanding borrowings.

Subordinated Debt

On June 29, 2016, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which the Company issued subordinated notes equal to $15.1 million in aggregate principal amount with an interest rate of 6.75% fixed-to-floating maturing in 2026 ("subordinated notes"). The subordinated notes were assumed by the Bank as a result of the Reorganization in May 2019. The subordinated notes, net of issuance costs, totaled $14.9 million and $14.8 million at September 30, 2019 and June 30, 2019, respectively.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at September 30, 2019, in addition to traditional retail deposit products:

	As of September 30, 2019		
	(Dollars in thousands)		
Brokered time deposits	$	279,760	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston		155,979	Unused advance capacity subject to eligible and qualified collateral
Other available lines		17,500	
Total unused borrowing capacity	$	453,239	

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

At September 30, 2019, the Bank had $441.2 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 39.3% of total assets. The Bank also had $68.4 million of cash and cash equivalents at September 30, 2019.

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

Capital

At September 30, 2019, shareholders' equity was $158.1 million, an increase of $4.5 million, or 2.9% from June 30, 2019. Book value per outstanding common share was $17.49 at September 30, 2019 and $16.98 at June 30, 2019.

As of September 30, 2019, the Bank's Tier 1 leverage capital ratio was 14.1%, compared to 12.9% at June 30, 2019, and the Total capital ratio was 19.5% at September 30, 2019, as compared to 18.0% at June 30, 2019. Capital ratios were affected by earnings and lower assets in the quarter.

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

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

As of September 30, 2019 and June 30, 2019, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Common equity tier 1 capital, total capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At September 30, 2019 and June 30, 2019, the Bank's ratios exceeded the regulatory requirements. Management believes that the Bank met all capital adequacy requirements to which they were subject as of September 30, 2019 and June 30, 2019. The Bank's regulatory capital ratios are set forth below as of September 30, 2019 and June 30, 2019.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(Dollars in thousands)						
September 30, 2019							
Common equity tier 1 capital to risk weighted assets	$ 159,231	16.92%	$ 42,351	≥4.5%	$ 61,174	≥6.5%	7.0%
Total capital to risk weighted assets	179,450	19.07%	75,291	≥8.0%	94,114	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	159,231	16.92%	56,469	≥6.0%	75,291	≥8.0%	8.5%
Tier 1 capital to average assets	159,231	14.06%	45,315	≥4.0%	56,644	≥5.0%	4.0%
June 30, 2019							
Common equity tier 1 capital to risk weighted assets	$ 154,311	15.89%	$ 43,706	≥4.5%	$ 63,131	≥6.5%	7.0%
Total capital to risk weighted assets	174,894	18.01%	77,699	≥8.0%	97,124	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	154,311	15.89%	58,274	≥6.0%	77,699	≥8.0%	8.5%
Tier 1 capital to average assets	154,311	12.86%	47,979	≥4.0%	59,974	≥5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Bank is required to maintain a capital conservation buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses and to engage in share repurchases. The required amount of the capital conservation buffer was 2.5% on January 1, 2019.

Stock Repurchases

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank’s outstanding common stock. The repurchase program may be suspended or terminated at any time without prior notice, and it will expire October 21, 2020.

Off-Balance Sheet Financial Instruments

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

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

Results of Operations

General

Net income increased by $242 thousand to $4.8 million for the quarter ended September 30, 2019, compared to net income of $4.5 million for the quarter ended September 30, 2018.

Net Interest Income

Net interest and dividend income before provision for loan losses increased by $1.4 million to $15.7 million for the quarter ended September 30, 2019, compared to $14.4 million for the quarter ended September 30, 2018. The increase was primarily due to higher transactional income in the purchased portfolio, and higher average balances in the LASG portfolio and yields in the loan portfolio, as well as a decrease in interest expense on subordinated debt due to lower average balances resulting from the redemption of Trust Preferred Securities in May 2019. These increases were partially offset by higher funding costs.

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

	Interest Income and Yield on Loans					
	Three Months Ended September 30,					
	2019			2018		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 90,384	$ 1,267	5.58%	$ 120,340	$ 1,522	5.02%
SBA	62,755	1,469	9.31%	71,165	1,285	7.16%
LASG:						
Originated	469,307	8,928	7.57%	398,333	7,464	7.43%
Purchased	328,819	8,040	9.73%	304,107	7,254	9.46%
Total LASG	798,126	16,968	8.46%	702,440	14,718	8.31%
Total	$ 951,265	$ 19,704	8.24%	$ 893,945	$ 17,525	7.78%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended September 30, 2018, transactional income for the quarter ended September 30, 2019 increased by $493 thousand, while regularly scheduled interest and accretion increased by $293 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended September 30, 2019 was 9.7%, an increase from 9.5% for the quarter ended September 30, 2018. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended September 30,			
	2019		2018	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 6,054	7.33%	$ 5,761	7.51%
Transactional income:				
Gain on loan sales	-	0.00%	-	0.00%
Gain on sale of real estate owned	-	0.00%	-	0.00%
Accelerated accretion and loan fees	1,986	2.40%	1,493	1.95%
Total transactional income	1,986	2.40%	1,493	1.95%
Total	$ 8,040	9.73%	$ 7,254	9.46%

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

The Bank's interest rate spread increased by 70 basis points to 5.31% and net interest margin increased by 79 basis points to 5.72% for the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018. The increase was principally due to higher loans yields and lower subordinated debt interest expense as a result of the Reorganization, partially offset by higher deposit rates.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended September 30, 2019 and 2018.

	Three Months Ended September 30,					
	2019			2018		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 82,081	$ 451	2.19%	$ 87,873	$ 362	1.63%
Loans (1) (2) (3)	951,265	19,704	8.24%	893,945	17,525	7.78%
Federal Home Loan Bank stock	1,258	19	6.01%	1,652	24	5.76%
Short-term investments (4)	60,347	321	2.12%	172,641	856	1.97%
Total interest-earning assets	1,094,951	20,495	7.45%	1,156,111	18,767	6.44%
Cash and due from banks	2,629			2,571		
Other non-interest earning assets	35,531			31,234		
Total assets	$ 1,133,111			$ 1,189,916		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 65,405	$ 60	0.36%	$ 69,705	$ 55	0.31%
Money market accounts	264,877	1,069	1.61%	406,104	1,548	1.51%
Savings accounts	34,476	14	0.16%	36,176	14	0.15%
Time deposits	484,115	3,173	2.61%	406,151	2,065	2.02%
Total interest-bearing deposits	848,873	4,316	2.02%	918,136	3,682	1.59%
Federal Home Loan Bank advances	15,000	125	3.32%	15,000	118	3.12%
Subordinated debt	14,841	282	7.56%	23,998	601	9.94%
Lease liability	5,690	35	2.45%	560	7	4.96%
Total interest-bearing liabilities	884,404	4,758	2.14%	957,694	4,408	1.83%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	85,090			82,005		
Other liabilities	7,581			9,740		
Total liabilities	977,075			1,049,439		
Shareholders' equity	156,036			140,477		
Total liabilities and shareholders' equity	$ 1,133,111			$ 1,189,916		
Net interest income		$ 15,737			$ 14,359	
Interest rate spread			5.31%			4.61%
Net interest margin (5)			5.72%			4.93%

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

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

	Three Months Ended September 30, 2019 Compared to 2018		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (25)	$ 114	$ 89
Loans	1,130	1,049	2,179
Federal Home Loan Bank stock	(6)	1	(5)
Short-term investments	(595)	60	(535)
Total interest-earning assets	504	1,224	1,728
Interest-bearing liabilities:			
Interest-bearing deposits	(134)	768	634
Federal Home Loan Bank advances	-	7	7
Subordinated debt	(196)	(123)	(319)
Lease liability	34	(6)	28
Total interest-bearing liabilities	(296)	646	350
Total change in net interest income	$ 800	$ 578	$ 1,378

Provision (Credit) for Loan Losses

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

The provision (credit) for loan losses for the three months ended September 30, 2019 and 2018 was a credit of $136 thousand and a provision of $532 thousand, respectively. The decrease in the Bank's provision (credit) for loan losses was primarily due to the decrease in loan balances over the current quarter, as compared to an increase in loan balances in the quarter ended September 30, 2018.

Noninterest Income

Noninterest income decreased by $378 thousand for the quarter ended September 30, 2019, compared to the quarter ended September 30, 2018, principally due to the following:

- A decrease in gain on sale of SBA loans of $599 thousand, due to lower volume of SBA loans sold in the quarter resulting from lower originations in recent quarters; partially offset by,
- An increase in bank-owned life insurance income of $131 thousand, due to a gain from death benefit proceeds recognized in the current quarter; and
- An increase in net unrealized gain on equity securities of $80 thousand.

Noninterest Expense

Noninterest expense increased by $999 thousand for the quarter ended September 30, 2019 compared to the quarter ended September 30, 2018, primarily due to the following:

- An increase in salaries and employee benefits expense of $878 thousand, primarily due to increases in stock-based compensation, regular compensation, and incentive compensation;
- An increase in data processing fees of $383 thousand, primarily due to increased IT outsourcing costs and the reclassification of IT professional costs from professional fees and occupancy and equipment expense; and
- An increase in loan acquisition and collection expenses of $172 thousand, largely driven by increased loan and collection expenses incurred on loan workouts in the LASG portfolios; partially offset by,
- A decrease in occupancy and equipment expense of $229 thousand, primarily due to a decrease in computer equipment repairs and maintenance expense; and
- A decrease in professional fees of $142 thousand, due to the reclassification of IT professional costs to data processing fees.

Income Taxes

Income tax expense increased by $427 thousand to $1.9 million, or an effective tax rate of 28.7%, for the quarter ended September 30, 2019, compared to $1.5 million, or an effective tax rate of 24.8%, for the quarter ended September 30, 2018. The increase in effective tax rate was primarily due to the update of state tax apportionment rates.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

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

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

Based on this evaluation of the Bank's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of September 30, 2019.

There were no changes in the Bank's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2019 that have materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

* Filed herewith

** Furnished herewith

SIGNATURES

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

Date: November 8, 2019

NORTHEAST BANK

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

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

Exhibit 31.1 Certification of the Chief Executive Officer

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

I, Richard Wayne, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 8, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

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

I, Jean-Pierre Lapointe, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 8, 2019

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

Exhibit 32.1. Certificate of the Chief Executive Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

November 8, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

November 8, 2019

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