FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

(Mark one)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2022

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

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine **(State or other jurisdiction of incorporation or organization)**	**01-0029040** **(I.R.S. Employer Identification No.)**
27 Pearl Street, Portland, Maine **(Address of principal executive offices)**	**04101** **(Zip Code)**

(207) 786-3245
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Voting Common Stock, $1.00 par value	NBN	The NASDAQ Stock Market LLC

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of April 30, 2022, the registrant had outstanding 7,645,160 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	March 31, 2022	June 30, 2021
Assets		
Cash and due from banks	$ 2,319	$ 2,850
Short-term investments	223,492	1,007,641
Total cash and cash equivalents	225,811	1,010,491
Available-for-sale debt securities, at fair value	55,723	59,737
Equity securities, at fair value	6,955	7,230
Total investment securities	62,678	66,967
Loans:		
Commercial real estate	838,296	725,287
Commercial and industrial	337,061	257,604
Residential real estate	56,180	56,591
Consumer	788	1,142
Total loans	1,232,325	1,040,624
Less: Allowance for loan losses	5,816	7,313
Loans, net	1,226,509	1,033,311
Premises and equipment, net	9,493	11,271
Real estate owned and other repossessed collateral, net	-	1,639
Federal Home Loan Bank stock, at cost	1,282	1,209
Loan servicing rights, net	1,696	2,061
Bank-owned life insurance	17,815	17,498
Other assets	20,832	29,955
Total assets	$ 1,566,116	$ 2,174,402
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 381,866	$ 972,495
Savings and interest checking	495,800	325,062
Money market	272,614	287,033
Time	117,842	277,840
Total deposits	1,268,122	1,862,430
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	-	15,050
Lease liability	4,862	6,061
Other liabilities	30,663	43,470
Total liabilities	1,318,647	1,942,011
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; No shares issued and outstanding at March 31, 2022 and June 30, 2021	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 7,727,312 and 8,150,480 shares issued and outstanding at March 31, 2022 and June 30, 2021, respectively	7,727	8,151
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; No shares issued and outstanding at March 31, 2022 and June 30, 2021	-	-
Additional paid-in capital	48,159	64,420
Retained earnings	192,759	161,132
Accumulated other comprehensive loss	(1,176)	(1,312)
Total shareholders' equity	247,469	232,391
Total liabilities and shareholders' equity	$ 1,566,116	$ 2,174,402

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

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021	Nine Months Ended March 31, 2022	Nine Months Ended March 31, 2021
Interest and dividend income:				
Interest and fees on loans	$ 21,873	$ 20,893	$ 63,061	$ 57,106
Interest on available-for-sale securities	65	158	235	641
Other interest and dividend income	73	110	365	252
Total interest and dividend income	22,011	21,161	63,661	57,999
Interest expense:				
Deposits	916	1,803	3,408	7,390
Federal Home Loan Bank advances	122	145	377	395
Paycheck Protection Program Liquidity Facility	-	300	-	302
Subordinated debt	-	282	-	845
Obligation under capital lease agreements	21	28	70	84
Total interest expense	1,059	2,558	3,855	9,016
Net interest and dividend income before provision for loan losses	20,952	18,603	59,806	48,983
Provision for loan losses	(287)	(211)	(1,582)	531
Net interest and dividend income after provision for loan losses	21,239	18,814	61,388	48,452
Noninterest income:				
Fees for other services to customers	476	441	1,236	1,427
Gain on sales of PPP loans	-	33,010	86	34,124
Gain on sales of residential loans held for sale	-	4	-	105
Net unrealized loss on equity securities	(258)	(99)	(332)	(115)
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	56	-	55	(344)
Correspondent fee income	4,970	5,970	18,842	16,798
Bank-owned life insurance income	105	105	317	318
Other noninterest income	59	38	97	69
Total noninterest income	5,408	39,469	20,301	52,382
Noninterest expense:				
Salaries and employee benefits	7,258	5,113	22,226	17,436
Occupancy and equipment expense	916	940	2,667	2,914
Professional fees	540	599	1,455	1,405
Data processing fees	1,167	1,302	3,341	3,392
Marketing expense	160	130	511	290
Loan acquisition and collection expense	452	855	2,911	2,368
FDIC insurance premiums	98	119	298	324
Other noninterest expense	810	578	2,518	1,868
Total noninterest expense	11,401	9,636	35,927	29,997
Income before income tax expense	15,246	48,647	45,762	70,837
Income tax expense	4,659	14,485	13,895	20,705
Net income	$ 10,587	$ 34,162	$ 31,867	$ 50,132
Weighted-average shares outstanding:				
Basic	7,687,737	8,344,797	7,907,398	8,261,248
Diluted	7,790,963	8,421,247	7,998,221	8,347,882
Earnings per common share:				
Basic	$ 1.38	$ 4.09	$ 4.03	$ 6.07
Diluted	1.36	4.06	3.98	6.01
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
Net income	$ 10,587	$ 34,162	$ 31,867	$ 50,132
Other comprehensive income, before tax:				
Change in net unrealized gain (loss) on available-for-sale debt securities	(764)	(127)	(1,036)	(521)
Change in accumulated loss on effective cash flow hedges	889	931	1,220	1,426
Total other comprehensive income, before tax	125	804	184	905
Income tax expense related to other comprehensive income	34	217	48	244
Other comprehensive income, net of tax	91	587	136	661
Comprehensive income	$ 10,678	$ 34,749	$ 32,003	$ 50,793

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 Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,499	$ 105,766	$ (1,648)	$ 181,962
Net income	-	-	-	-	-	-	-	34,162	-	34,162
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	587	587
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(84)	-	(84)
Stock-based compensation	-	-	-	-	-	-	235	-	-	235
Balance at March 31, 2021	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,734	$ 139,844	$ (1,061)	$ 216,862
Balance at December 31, 2021	-	$ -	7,815,566	$ 7,816	-	$ -	$ 50,440	$ 182,248	$ (1,267)	$ 239,237
Net income	-	-	-	-	-	-	-	10,587	-	10,587
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	91	91
Common stock repurchased	-	-	(79,588)	(80)			(2,682)	-	-	(2,762)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(76)	-	(76)
Stock-based compensation	-	-	-	-	-	-	392	-	-	392
Cancellation and forfeiture of restricted common stock	-	-	(8,666)	(9)	-	-	9	-	-	-
Balance at March 31, 2022	-	$ -	7,727,312	$ 7,727	-	$ -	$ 48,159	$ 192,759	$ (1,176)	$ 247,469
	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2020	-	$ -	8,153,841	$ 8,154	44,783	$ 45	$ 68,302	$ 89,960	$ (1,722)	$ 164,739
Net income	-	-	-	-	-	-	-	50,132	-	50,132
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	661	661
Conversion of non-voting common stock to voting common stock	-	-	44,783	45	(44,783)	(45)	-	-	-	-
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(248)	-	(248)
Stock-based compensation	-	-	-	-	-	-	743	-	-	743
Cancellation and forfeiture of restricted common stock	-	-	(6,838)	(7)	-	-	(123)	-	-	(130)
Stock options exercised, net	-	-	153,011	153	-	-	812	-	-	965
Balance at March 31, 2021	-	$ -	8,344,797	$ 8,345	-	$ -	$ 69,734	$ 139,844	$ (1,061)	$ 216,862
Balance at June 30, 2021	-	$ -	8,150,480	$ 8,150	-	$ -	$ 64,420	$ 161,132	$ (1,312)	$ 232,391
Net income	-	-	-	-	-	-	-	31,867	-	31,867
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	136	136
Common stock repurchased	-	-	(535,489)	(536)	-	-	(17,287)	-	-	(17,823)
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(240)	-	(240)
Stock-based compensation	-	-	-	-	-	-	1,407	-	-	1,407
Issuance of restricted common stock	-	-	136,575	136	-	-	(136)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(29,674)	(30)	-	-	(189)	-	-	(219)
Stock options exercised, net	-	-	5,420	6	-	-	(56)	-	-	(50)
Balance at March 31, 2022	-	$ -	7,727,312	$ 7,727	-	$ -	$ 48,159	$ 192,759	$ (1,176)	$ 247,469

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

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

	Nine Months Ended March 31, 2022	Nine Months Ended March 31, 2021
Operating activities:		
Net income	$ 31,867	$ 50,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(1,582)	531
(Gain) loss recognized on real estate owned, other repossessed collateral and premises and equipment, net	(55)	344
Net unrealized loss on equity securities	332	115
Accretion of loans, net	(8,420)	(7,669)
Amortization of subordinated debt issuance costs	-	83
Originations of loans held for sale	(6,333)	(2,307,655)
Net proceeds from sales of loans held for sale	6,232	2,162,879
Gain on sales of PPP loans	(86)	(34,124)
Gain on sales of residential loans held for sale	-	(105)
Net decrease (increase) in servicing rights	365	(36)
Bank-owned life insurance income, net	(317)	(318)
Depreciation and amortization of premises and equipment	1,962	1,919
Deferred income tax benefit	-	(1,488)
Stock-based compensation	1,407	743
Amortization of available-for-sale debt securities, net	372	279
Changes in other assets and liabilities:		
Other assets	9,066	(28,554)
Other liabilities	(11,585)	22,318
Net cash provided by (used in) operating activities	23,397	(140,606)
Investing activities:		
Purchases of available-for-sale debt securities	(8,951)	(31,649)
Proceeds from maturities and principal payments on investment securities, net	11,500	34,832
Loan purchases	(151,412)	(135,757)
Loan originations, principal collections, and purchased loan paydowns, net	(31,822)	212,481
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(302)	(1,220)
Purchases of Federal Home Loan Bank stock	(73)	-
Proceeds from sales of real estate owned and other repossessed collateral	1,872	1,043
Net cash (used in) provided by investing activities	(179,188)	79,730
Financing activities:		
Net (decrease) increase in deposits	(594,308)	286,352
Redemption of subordinated debt	(15,050)	-
Advances under Paycheck Protection Program Liquidity Facility, net	-	95,661
Repayment of lease liability	(1,199)	(955)
Dividends paid on common stock	(240)	(248)
Repurchases of common stock	(17,823)	-
Cancellation and forfeiture of restricted common stock	(219)	(130)
Stock options exercised, net	(50)	965
Net cash (used in) provided by financing activities	(628,889)	381,645
Net change in cash and cash equivalents	(784,680)	320,769
Cash and cash equivalents, beginning of period	1,010,491	143,657
Cash and cash equivalents, end of period	$ 225,811	$ 464,426
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 53	$ 1,005
Transfer from fixed assets to real estate owned and other repossessed collateral, net	118	-
Capitalization of lease liability	-	2,930

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 Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2021 ("Fiscal 2021") included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into in June 2020. As a result of this agreement, when the third party purchases U.S. Small Business Association's ("SBA's") Paycheck Protection Program ("PPP") loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Board of Governors of the Federal Reserve System (the "Federal Reserve'). The Bank received no correspondent fees during the quarters ended March 31, 2022 and 2021 and during the nine months ended March 31, 2022. During the nine months ended March 31, 2021, the Bank received $5.8 million in correspondent fees. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the expected lives of the related loans (approximately two years). For both the quarters ended March 31, 2022 and 2021, the Bank recognized $1.1 million in correspondent fee income. For the nine months ended March 31, 2022 and 2021, the Bank recognized $3.3 million and $3.0 million in correspondent fee income, respectively.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. At March 31, 2022, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (approximately two years). For the quarters ended March 31, 2022 and 2021, the Bank recognized $3.9 million and $4.9 in net servicing income, respectively. For the nine months ended March 31, 2022 and 2021, the Bank recognized $15.6 million and $13.8 million in net servicing income, respectively. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

2. Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13"). This guidance is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB issued ASU 2019-10, Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates ("ASU 2019-10"), which delays the effective date for ASU 2016-13 for smaller reporting companies, which allows the Bank to adopt the standard on July 1, 2023. Management has elected to delay the adoption of ASU 2016-13. Management has engaged an existing third-party service provider to assist in implementation and is in the process of identifying the methodologies necessary to implement the guidance.

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
March 31, 2022				
U.S. Government agency securities	$ 51,194	$ -	$ (647)	$ 50,547
Agency mortgage-backed securities	5,326	-	(150)	5,176
Total available-for-sale debt securities	56,520	-	(797)	55,723
Equity investments measured at net asset value	7,338	-	(383)	6,955
Total securities	$ 63,858	$ -	$ (1,180)	$ 62,678
June 30, 2021				
U.S. Government agency securities	$ 51,561	$ 64	$ (33)	$ 51,591
Agency mortgage-backed securities	7,938	208	-	8,146
Total available-for-sale debt securities	59,499	272	(33)	59,737
Equity investments measured at net asset value	7,282	-	(52)	7,230
Total securities	$ 66,781	$ 272	$ (85)	$ 66,967

At March 31, 2022, the Bank held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the three or nine months ended March 31, 2022 or 2021. At March 31, 2022, securities with a fair value of $55.7 million were pledged as collateral to secure potential or outstanding Federal Home Loan Bank of Boston ("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.

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
March 31, 2022						
U.S. Government agency securities	$ 44,594	$ (547)	$ 5,953	$ (101)	$ 50,547	$ (648)
Agency mortgage-backed securities	5,102	(150)	-	-	5,102	(150)
Equity investments measured at net asset value	-	-	5,303	(383)	5,303	(383)
Total investment securities	$ 49,696	$ (697)	$ 11,256	$ (484)	$ 60,952	$ (1,181)
June 30, 2021						
U.S. Government agency securities	$ 23,307	$ (33)	$ -	$ -	$ 23,307	$ (33)
Agency mortgage-backed securities	-	-	-	-	-	-
Equity investments measured at net asset value	5,591	(52)	-	-	5,591	(52)
Total investment securities	$ 28,898	$ (85)	$ -	$ -	$ 28,898	$ (85)

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

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

The investments measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of March 31, 2022, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 3.97 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of March 31, 2022. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 28,137	$ 28,016
Due after one year through five years	23,058	22,531
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,195	50,547
Agency mortgage-backed securities	5,326	5,176
Total available-for-sale debt securities	$ 56,521	$ 55,723

4. Loans, Allowance for Loan Losses and Credit Quality

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

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

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

In cases where a borrower experiences financial difficulty and the Bank makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring (“TDR”), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. The Bank began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The Coronavirus Aid, Relief, and Economic Security Act along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as a TDR. Accordingly, the Bank does not account for such loan modifications as TDRs. As of March 31, 2022, the Bank granted such short-term deferments on loan balances of $141.8 million. Of the $141.8 million of loan deferrals, $98.9 million were full payment deferrals, of which none are still on deferral. Of the full payment deferrals that have resumed payments, as of March 31, 2022, $97.5 million are current, $1.2 million are 30-59 days past due, and $197 thousand are greater than 90 days past due. The remaining $42.9 million of deferrals were interest-only deferrals, of which only $4.1 million are still on deferral, all of which are current. For loans accounted for under ASC 310-30, the Bank evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Bank's expectations at acquisition, the modified loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

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

	March 31, 2022			June 30, 2021		
	Originated	Purchased	Total	Originated	Purchased	Total
			(Dollars in thousands)			
Commercial real estate	$ 334,153	$ 472,115	$ 806,268	$ 268,649	$ 419,833	$ 688,482
Commercial and industrial	334,392	123	334,515	254,526	334	254,860
SBA	34,574	-	34,574	39,549	-	39,549
Residential real estate	48,594	7,586	56,180	47,704	8,887	56,591
Consumer	788	-	788	1,142	-	1,142
Total loans	$ 752,501	$ 479,824	$ 1,232,325	$ 611,570	$ 429,054	$ 1,040,624

Total loans include deferred loan origination fees, net, of $586 thousand as of March 31, 2022 and $329 thousand as of June 30, 2021.

Past Due and Nonaccrual Loans

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

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More - Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
March 31, 2022				(Dollars in thousands)				
Originated portfolio:								
Commercial real estate	$ 71	$ -	$ -	$ 1,221	$ 1,292	$ 332,861	$ 334,153	$ 6,115
Commercial and industrial	6	-	-	-	6	334,386	334,392	54
SBA	-	-	-	620	620	33,954	34,574	669
Residential real estate	490	99	-	248	837	47,757	48,594	621
Consumer	3	-	-	9	12	776	788	12
Total originated portfolio	570	99	-	2,098	2,767	749,734	752,501	7,471
Purchased portfolio:								
Commercial real estate	6,181	689	-	3,406	10,276	461,839	472,115	10,303
Commercial and industrial	-	-	-	21	21	102	123	64
Residential real estate	-	-	-	74	74	7,512	7,586	74
Total purchased portfolio	6,181	689	-	3,501	10,371	469,453	479,824	10,441
Total loans	$ 6,751	$ 788	$ -	$ 5,599	$ 13,138	$ 1,219,187	$ 1,232,325	$ 17,912
June 30, 2021								
Originated portfolio:								
Commercial real estate	$ 1,200	$ 23	$ -	$ 1,005	$ 2,228	$ 266,421	$ 268,649	$ 549
Commercial and industrial	-	-	-	-	-	254,526	254,526	4,389
SBA	232	-	-	788	1,020	38,529	39,549	1,105
Residential real estate	59	208	-	320	587	47,117	47,704	696
Consumer	-	3	-	36	39	1,103	1,142	42
Total originated portfolio	1,491	234	-	2,149	3,874	607,696	611,570	6,781
Purchased portfolio:								
Commercial real estate	-	1,012	-	5,222	6,234	413,599	419,833	10,715
Commercial and industrial	-	-	-	57	57	277	334	148
Residential real estate	-	-	-	1,114	1,114	7,773	8,887	1,114
Total purchased portfolio	-	1,012	-	6,393	7,405	421,649	429,054	11,977
Total loans	$ 1,491	$ 1,246	$ -	$ 8,542	$ 11,279	$ 1,029,345	$ 1,040,624	$ 18,758

Allowance for Loan Losses and Impaired Loans

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

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

> Commercial real estate: Loans in this segment are primarily income-producing properties. For owner-occupied properties, the cash flows are derived from an operating business, and the underlying cash flows may be adversely affected by deterioration in the financial condition of the operating business. The underlying cash flows generated by nonowner-occupied properties may be adversely affected by increased vacancy rates. Management periodically obtains rent rolls and operating statements, with which it

monitors the cash flows of these loans. Adverse developments in either of these areas will have an adverse effect on the credit quality of this segment. For purposes of the allowance for loan losses, this segment also includes construction loans.

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

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

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
Three Months Ended March 31, 2022							
Beginning balance	$ 2,329	$ 1,589	$ 1,495	$ 223	$ 16	$ 388	$ 6,040
Provision (credit)	(14)	(10)	(182)	(11)	(6)	(64)	(287)
Recoveries	-	-	42	1	-	29	72
Charge-offs	(8)	(1)	-	-	-	-	(9)
Ending balance	$ 2,307	$ 1,578	$ 1,355	$ 213	$ 10	$ 353	$ 5,816
Three Months Ended March 31, 2021							
Beginning balance	$ 2,441	$ 1,310	$ 5,222	$ 308	$ 36	$ 609	$ 9,926
Provision (credit)	(16)	(129)	(21)	(27)	-	(18)	(211)
Recoveries	-	-	-	1	3	8	12
Charge-offs	-	-	(721)	-	(7)	(179)	(907)
Ending balance	$ 2,425	$ 1,181	$ 4,480	$ 282	$ 32	$ 420	$ 8,820
Nine Months Ended March 31, 2022							
Beginning balance	$ 2,322	$ 1,195	$ 3,118	$ 234	$ 32	$ 412	$ 7,313
Provision (credit)	38	384	(2,021)	(24)	(20)	61	(1,582)
Recoveries	8	1	282	3	4	29	327
Charge-offs	(61)	(2)	(24)	-	(6)	(149)	(242)
Ending balance	$ 2,307	$ 1,578	$ 1,355	$ 213	$ 10	$ 353	$ 5,816
Nine Months Ended March 31, 2021							
Beginning balance	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Provision (credit)	358	224	202	(170)	15	(98)	531
Recoveries	-	-	22	3	3	17	45
Charge-offs	(10)	-	(721)	-	(15)	(188)	(934)
Ending balance	$ 2,425	$ 1,181	$ 4,480	$ 282	$ 32	$ 420	$ 8,820

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(Dollars in thousands)			
March 31, 2022							
Allowance for loan losses:							
Individually evaluated	$ 12	$ 268	$ 36	$ 44	$ 1	$ -	$ 361
Collectively evaluated	2,295	1,310	1,319	169	9	-	5,102
ASC 310-30	-	-	-	-	-	353	353
Total	$ 2,307	$ 1,578	$ 1,355	$ 213	$ 10	$ 353	$ 5,816
Loans:							
Individually evaluated	$ 13,522	$ 6,954	$ 1,076	$ 1,815	$ 38	$ 17,333	$ 40,738
Collectively evaluated	320,631	327,438	33,498	46,779	750	-	729,096
ASC 310-30	-	-	-	-	-	462,491	462,491
Total	$ 334,153	$ 334,392	$ 34,574	$ 48,594	$ 788	$ 479,824	$ 1,232,325
June 30, 2021							
Allowance for loan losses:							
Individually evaluated	$ 47	$ 82	$ 77	$ 57	$ 7	$ -	$ 270
Collectively evaluated	2,275	1,113	3,041	177	25	-	6,631
ASC 310-30	-	-	-	-	-	412	412
Total	$ 2,322	$ 1,195	$ 3,118	$ 234	$ 32	$ 412	$ 7,313
Loans:							
Individually evaluated	$ 12,282	$ 7,041	$ 1,744	$ 2,174	$ 77	$ 18,281	$ 41,599
Collectively evaluated	256,367	247,485	37,805	45,530	1,065	-	588,252
ASC 310-30	-	-	-	-	-	410,773	410,773
Total	$ 268,649	$ 254,526	$ 39,549	$ 47,704	$ 1,142	$ 429,054	$ 1,040,624

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

	March 31, 2022			June 30, 2021		
	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	$ 9,650	$ 9,650	$ -	$ 5,056	$ 5,056	$ -
Commercial and industrial	6	6	-	10	10	-
SBA	871	871	-	869	869	-
Residential real estate	1,185	1,185	-	1,362	1,363	-
Consumer	28	28	-	56	56	-
Purchased:						
Commercial real estate	14,315	18,522	-	14,324	17,715	-
Commercial and industrial	21	104	-	64	109	-
Residential real estate	901	947	-	1,927	1,973	-
Total	26,977	31,313	-	23,668	27,151	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	3,872	3,872	12	7,226	7,225	47
Commercial and industrial	6,948	6,948	268	7,031	7,031	82
SBA	205	205	36	875	875	77
Residential real estate	630	630	44	812	812	57
Consumer	10	10	1	21	21	7
Purchased:						
Commercial real estate	2,054	2,866	311	1,881	2,293	328
Commercial and industrial	42	87	42	85	129	84
Residential real estate	-	-	-	-	-	-
Total	13,761	14,618	714	17,931	18,386	682
Total impaired loans	$ 40,738	$ 45,931	$ 714	$ 41,599	$ 45,537	$ 682

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

	Three Months Ended March 31,			
	2022		2021	
	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	$ 10,219	$ 93	$ 5,380	$ 733
Commercial and industrial	6	-	6	-
SBA	1,007	(4)	1,800	11
Residential real estate	1,239	5	4,390	(41)
Consumer	30	-	41	8
Purchased:				
Commercial real estate	14,442	43	17,761	39
Commercial and industrial	11	-	67	-
Residential real estate	1,350	-	2,105	11
Total	28,304	137	31,550	761
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	3,896	48	2,395	48
Commercial and industrial	6,962	40	7,071	60
SBA	207	2	3,583	2
Residential real estate	666	10	1,336	18
Consumer	14	-	23	1
Purchased:				
Commercial real estate	1,970	12	4,011	23
Commercial and industrial	49	-	106	-
Residential real estate	-	-	-	-
Total	13,764	112	18,525	152
Total impaired loans	$ 42,068	$ 249	$ 50,075	$ 913

	Nine Months Ended March 31,			
	2022		2021	
	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	$ 7,902	$ 133	$ 4,425	$ 737
Commercial and industrial	8	-	3,453	60
SBA	1,017	3	1,970	(5)
Residential real estate	1,269	12	3,014	118
Consumer	42	-	45	10
Purchased:				
Commercial real estate	14,241	136	13,671	195
Commercial and industrial	21	-	68	-
Residential real estate	1,611	-	1,885	32
Total	26,111	284	28,351	1,147
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	5,574	205	2,047	50
Commercial and industrial	7,327	113	3,635	102
SBA	376	6	2,840	(52)
Residential real estate	743	36	1,417	64
Consumer	17	-	24	3
Purchased:				
Commercial real estate	2,162	38	4,355	116
Commercial and industrial	64	-	120	-
Residential real estate	-	-	-	22
Total	16,262	398	14,438	305
Total impaired loans	$ 42,372	$ 682	$ 42,789	$ 1,452

Credit Quality

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
			(In thousands)			
March 31, 2022						
Loans rated 1- 6	$ 323,988	$ 327,436	$ 33,416	$ 26,693	$ 466,539	$ 1,178,072
Loans rated 7	4,332	6,900	609	-	2,906	14,747
Loans rated 8	5,833	56	549	-	10,379	16,817
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 334,153	$ 334,392	$ 34,574	$ 26,693	$ 479,824	$ 1,209,636
June 30, 2021						
Loans rated 1- 6	$ 258,616	$ 247,483	$ $ 35,974	$ 20,543	$ 410,743	$ 973,359
Loans rated 7	8,570	6,910	2,596	30	8,984	27,090
Loans rated 8	1,463	133	979	35	9,327	11,937
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 268,649	$ 254,526	$ $ 39,549	$ 20,608	$ 429,054	$ 1,012,386

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

Troubled Debt Restructurings

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2022		2021		2022		2021	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
				(Dollars in thousands)				
Extended maturity	-	$ -	-	$ -	3	$ 1,472	6	$ 9,612
Rate and maturity	5	932	-	-	6	2,418	4	4,251
Principal deferment	-	-	1	182	5	1,330	5	5,799
Court ordered concession	-	-	2	331	-	-	2	331
	5	$ 932	3	$ 513	14	$ 5,220	17	$ 19,993

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

	2022			2021		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
Three Months Ended March 31,			(Dollars in thousands)			
Originated portfolio:						
Commercial real estate	-	$ -	$ -	1	$ 45	$ 45
Commercial and industrial	-	-	-	1	286	286
Residential real estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	-	-	-	2	331	331
Purchased portfolio:						
Commercial real estate	5	921	932	1	182	182
Commercial and industrial	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Total purchased portfolio	5	921	932	1	182	182
Total	5	$ 921	$ 932	3	$ 513	$ 513
Nine Months Ended March 31,						
Originated portfolio:						
Commercial real estate	1	$ 1,349	$ 1,486	2	$ 3,594	$ 3,919
Commercial and industrial	1	407	407	2	336	336
Residential real estate	1	45	48	3	7,150	7,150
Consumer	-	-	-	-	-	-
Total originated portfolio	3	1,801	1,941	7	11,080	11,405
Purchased portfolio:						
Commercial real estate	11	3,212	3,279	9	7,732	7,798
Commercial and industrial	-	-	-	-	-	-
Residential real estate	-	-	-	1	790	790
Total purchased portfolio	11	3,212	3,279	10	8,522	8,588
Total	14	$ 5,013	$ 5,220	17	$ 19,602	$ 19,993

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

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three and nine months ended March 31, 2022 and 2021.

ASC 310-30 Loans

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

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021	For the Nine Months Ended March 31, 2022	For the Nine Months Ended March 31, 2021
	(In thousands)			
Contractually required payments receivable	$ 35,160	$ 49,799	$ 196,021	$ 170,928
Nonaccretable difference	(5,531)	(401)	(6,174)	(3,344)
Cash flows expected to be collected	29,629	49,398	189,847	167,584
Accretable yield	(5,709)	(9,503)	(38,435)	(31,827)
Fair value of loans acquired	$ 23,920	$ 39,895	$ 151,412	$ 135,757

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

	As of and for the Three Months Ended March 31, 2022	As of and for the Three Months Ended March 31, 2021	As of and for the Nine Months Ended March 31, 2022	As of and for the Nine Months Ended March 31, 2021
	(Dollars in thousands)		(Dollars in thousands)	
Loans acquired during the period	$ 1,065	$ -	$ 1,065	$ 1,035
Loans at end of period	7,392	11,547	7,392	11,547

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

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021	For the Nine Months Ended March 31, 2022	For the Nine Months Ended March 31, 2021
	(Dollars in thousands)		(Dollars in thousands)	
Beginning balance	$ 143,120	$ 148,976	$ 137,987	$ 154,936
Acquisitions	5,709	9,503	38,435	31,827
Accretion	(7,187)	(6,718)	(21,043)	(19,830)
Reclassifications from non-accretable difference to accretable yield	2,047	1,074	4,490	3,346
Disposals and other changes	(6,362)	(6,735)	(22,542)	(24,179)
Ending balance	$ 137,327	$ 146,100	$ 137,327	$ 146,100

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

	March 31, 2022	June 30, 2021
	(Dollars in thousands)	
Unpaid principal balance	$ 505,317	$ 455,108
Carrying amount	469,857	419,815

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

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

The number of shares outstanding for basic and diluted EPS is presented as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2021	2022	2021
	(In thousands, except share and per share data)			
Net income	$ 10,587	$ 34,162	$ 31,867	$ 50,132
Average number of common shares outstanding	7,800,237	8,344,797	8,002,444	8,261,248
Less: average unvested non-participating restricted stock awards	(112,500)	-	(95,046)	-
Weighted average shares used in calculation of basic EPS	7,687,737	8,344,797	7,907,398	8,261,248
Effect of dilutive stock options	80,373	76,450	80,030	86,634
Effect of dilutive unvested restricted stock awards	22,853	-	10,793	-
Weighted average shares used in calculation of diluted EPS	7,790,963	8,421,247	7,998,221	8,347,882
Basic earnings per common share	$ 1.38	$ 4.09	$ 4.03	$ 6.07
Diluted earnings per common share	$ 1.36	$ 4.06	$ 3.98	$ 6.01

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

6. **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 both March 31, 2022 and June 30, 2021, the Bank had posted cash collateral totaling $2.5 million with dealer banks related to derivative instruments in a net liability position.

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

Risk Management Policies—Derivative Instruments

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

Interest Rate Risk Management—Cash Flow Hedging Instruments

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

Information pertaining to outstanding swap agreements is as follows:

March 31, 2022									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.96%	3.38%	n/a	$ (525)	$ (525)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.96%	3.23%	n/a	(247)	(247)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.96%	2.77%	n/a	(42)	(42)	Other Liabilities
$ 15,000							$ (814)	$ (814)	

June 30, 2021									
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	0.30%	3.38%	n/a	$ (1,079)	$ (1,079)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.30%	3.23%	n/a	(707)	(707)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.30%	2.77%	n/a	(248)	(248)	Other Liabilities
$ 15,000							$ (2,034)	$ (2,034)	

During the three and nine months ended March 31, 2022 and 2021, no interest rate swap agreements were terminated prior to maturity. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three and nine months ended March 31, 2022 and 2021 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

7. Other Comprehensive Income

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

	Three Months Ended March 31,					
	2022			2021		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
			(Dollars in thousands)			
Change in net unrealized gain or loss on available-for-sale securities	$ (764)	$ (206)	$ (558)	$ (127)	$ (35)	$ (92)
Change in accumulated loss on effective cash flow hedges	889	240	649	931	252	679
Total other comprehensive income	$ 125	$ 34	$ 91	$ 804	$ 217	$ 587

	Nine Months Ended March 31,					
	2022			2021		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
			(Dollars in thousands)			
Change in net unrealized gain or loss on available-for-sale securities	$ (1,036)	$ (280)	$ (756)	$ (521)	$ (141)	$ (380)
Change in accumulated loss on effective cash flow hedges	1,220	328	892	1,426	385	1,041
Total other comprehensive income	$ 184	$ 48	$ 136	$ 905	$ 244	$ 661

Accumulated other comprehensive loss is comprised of the following:

	March 31, 2022	June 30, 2021
	(Dollars in thousands)	
Unrealized gain (loss) on available-for-sale debt securities	$ (797)	$ 239
Tax effect	215	(65)
After tax amount	(582)	174
Unrealized loss on cash flow hedges	(814)	(2,034)
Tax effect	220	548
After tax amount	(594)	(1,486)
Accumulated other comprehensive loss	$ (1,176)	$ (1,312)

8. Commitments and Contingencies

Commitments

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

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

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

	March 31, 2022	June 30, 2021
	(Dollars in thousands)	
Commitments to originate loans	$ 22,584	$ 15,585
Unused lines of credit	26,298	27,455
Standby letters of credit	-	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling $71 thousand and $84 thousand recorded in other liabilities at March 31, 2022 and June 30, 2021, 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.

9. Fair Value Measurements

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

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

> Level 1 — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
>
> Level 2 — Valuations based on significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 — Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value of other Financial Instruments:

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

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

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

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

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

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

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

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

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

	Total	Level 1	Level 2	Level 3
March 31, 2022		(In thousands)		
Assets				
Investment securities:				
U.S. Government agency securities	$ 50,547	$ -	$ 50,547	$ -
Agency mortgage-backed securities	5,176	-	5,176	-
Equity investments measured at net asset value[(1)]	6,955	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 814	$ -	$ 814	$ -
June 30, 2021				
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,591	$ -	$ 51,591	$ -
Agency mortgage-backed securities	8,146	-	8,146	-
Equity investments measured at net asset value[(1)]	7,230	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 2,034	$	$ 2,034	$ -

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

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

	Total	Level 1	Level 2	Level 3
March 31, 2022		(In thousands)		
Collateral dependent impaired loans	$ 1,160	$ -	$ -	$ 1,160
Real estate owned and other repossessed collateral	-	-	-	-
Loan servicing rights	1,696	-	-	1,696
June 30, 2021				
Collateral dependent impaired loans	$ 1,101	$ -	$ -	$ 1,101
Real estate owned and other repossessed collateral	1,639	-	-	1,639
Loan servicing rights	2,061	-	-	2,061

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

	Fair Value				
	March 31, 2022		June 30, 2021		Valuation Technique
	(Dollars in thousands)				
Collateral dependent impaired loans	$	1,160	$	1,101	Appraisal of collateral[1]
Real estate owned and other repossessed collateral		-		1,639	Appraisal of collateral[1]
Loan servicing rights		1,696		2,061	Discounted cash flow[2]

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 20% to 30%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 17.8% to 18.4%. For discount rates, the range was 0.4% to 47.5%.

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

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2022		2021		2022		2021	
	(Dollars in thousands)							
Collateral dependent impaired loans	$	(92)	$	49	$	22	$	(12)
Real estate owned and other repossessed collateral		-		-		-		(337)
Loan servicing rights		92		276		64		170
Total	$	-	$	325	$	86	$	(179)

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

	Carrying Amount		Total		Level 1		Level 2		Level 3
March 31, 2022					(Dollars in thousands)				
Financial assets:									
Cash and cash equivalents	$	223,492	$	223,492	$	223,492	$	-	$	-
Securities		55,723		55,723		-		55,723		-
Equity investments measured at net asset value[1]		6,955		6,955		-		-		-
Federal Home Loan Bank stock		1,282		1,282		-		1,282		-
Loans, net		1,232,325		1,229,429		-		-		1,229,429
Accrued interest receivable		3,281		3,281		-		3,281		-
Financial liabilities:									
Deposits		1,268,122		1,266,698		-		1,266,698		-
Federal Home Loan Bank advances		15,000		15,000		-		15,000		-
Lease liability		4,862		4,702		-		4,702		-
Interest rate swaps		814		814		-		814		-
June 30, 2021									
Financial assets:									
Cash and cash equivalents	$	1,007,641	$	1,007,641	$	1,007,641	$	-	$	-
Securities		59,737		59,737		-		59,737		-
Equity investments measured at net asset value[1]		7,230		7,230		-		-		-
Federal Home Loan Bank stock		1,209		1,209		-		1,209		-
Loans, net		1,040,624		1,037,230		-		-		1,037,230
Accrued interest receivable		3,083		3,083		-		3,083		-
Financial liabilities:									
Deposits		1,862,430		1,864,216		-		1,864,216		-
Federal Home Loan Bank advances		15,000		15,000		-		15,000		-
Capital Lease Obligation		6,061		6,138		-		6,138		-
Subordinated debt		15,050		15,484		-		-		15,484
Interest rate swaps		2,034		2,034		-		2,034		-

(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.

10. Subsequent Events

The Bank evaluated for subsequent events through the date the financial statements were issued. 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 March 31, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's (the "Bank's") Annual Report on Form 10-K for the fiscal year ended June 30, 2021, filed with the Federal Deposit Insurance Corporation ("FDIC").

A Note about Forward Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the ongoing disruptions due to the ongoing COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the ongoing COVID-19 pandemic; deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions, including concerns about inflation, or legislative or regulatory initiatives; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; operational risks including, but not limited to, cybersecurity, fraud, natural disasters, war, terrorism, civil unrest and future pandemics; operational risks including, but not limited to, cybersecurity, fraud natural disasters, and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2021 as updated in the Bank's Quarterly Reports on Form 10-Q and other filings submitted to the FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

Business Overview

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

As of March 31, 2022, the Bank had total assets of $1.57 billion, total deposits of $1.27 billion, and shareholders' equity of $247.5 million. We gather retail deposits through our eight full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic is a highly unusual, unprecedented and evolving public health and economic crisis that may have a significant adverse impact on the economy, the banking industry and the Bank in future fiscal periods, all subject to a high degree of uncertainty.

On March 27, 2020, Congress passed, and the President signed, the Coronavirus Aid, Relief, and Economic Security Act to address the economic effects of the COVID-19 pandemic.

- *Paycheck Protection Program*. During the duration of the U.S. Small Business Administration's ("SBA's") Paycheck Protection Program ("PPP"), the Bank had originated more than 34,600 PPP loans totaling approximately $3.33 billion. Qualifying PPP loans are fully guaranteed by the U.S. government, have an initial term of up to five years and earn interest at rate of 1%. As previously announced, the Bank entered into an agreement with The Loan Source, Inc. ("Loan Source") under which the Bank sold PPP loans originated by the Bank to Loan Source. The Bank also contracted to act as the correspondent for Loan Source in connection with Loan Source's pledge of PPP loans to the Board of Governors of the Federal Reserve System's Paycheck Protection Program Liquidity Facility ("PPPLF"). The PPPLF extends credit to depository institutions with a term of up to five years at an interest rate of 0.35%. Only loans issued under the PPP can be pledged as collateral to access the facility.

- *Loan Deferrals*. As of March 31, 2022, the Bank granted such short-term deferments on loan balances of $141.8 million. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms. Of the $141.8 million of loan deferrals, $98.9 million were full payment deferrals, of which none are still on deferral. Of the full payment deferrals that have resumed payments, as of March 31, 2022, $97.5 million are current, $1.2 million are 30-59 days past due, and $197 thousand are greater than 90 days past due. The remaining $42.9 million of deferrals were interest-only deferrals, of which only $4.1 million are still on deferral, all of which are current.

<u>*Strategy*</u>

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

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

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

Generating deposits to fund our business. We offer a full line of deposit products through our 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 discussed in our Annual Report on Form 10-K for the year ended June 30, 2021, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported. There has been no material change in critical accounting policies during the three and nine months ended March 31, 2022.

Overview

Net income decreased by $23.6 million to $10.6 million for the quarter ended March 31, 2022, compared to net income of $34.2 million for the quarter ended March 31, 2021. The decrease was primarily due to no gain on sale of PPP loans and higher salaries expense, partially offset by higher net interest income.

Net income decreased by $18.3 million to $31.9 million for the nine months ended March 31, 2022, compared to net income of $50.1 million for the nine months ended March 31, 2021. The decrease was primarily due to a lower gain on sale of PPP loans, higher salaries expense, and lower credit for loan losses, partially offset by higher net interest income.

Financial Condition

<u>*Overview*</u>

As of March 31, 2022, total assets were $1.57 billion, a decrease of $608.3 million, or 28.0%, from total assets of $2.17 billion as of June 30, 2021, primarily due to the $784.7 million decrease in cash and short-term investments, as discussed below. The principal components of the changes in the balance sheet follow:

Assets

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

Cash and cash equivalents were $225.8 million as of March 31, 2022, a decrease of $784.7 million, or 77.7%, from $1.01 billion at June 30, 2021. The decrease is primarily due to the timing of a large deposit account related to PPP elevated loan payoff collections at June 30, 2021. Cash and short-term investments may fluctuate significantly while PPP collections, including forgiveness amounts, continue, depending on the timing of receipts and remittances of cash amounts.

Investment securities totaled $62.7 million as of March 31, 2022, compared to $67.0 million as of June 30, 2021, representing a decrease of $4.3 million, or 6.4%, 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 $5.3 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.7 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At March 31, 2022, securities with a fair value of $55.7 million were pledged for potential and outstanding FHLBB borrowings.

Loans

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

	Loan Portfolio Changes			
	Three Months Ended March 31, 2022			
	March 31, 2022 Balance	December 31, 2021 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 479,824	$ 484,513	$ (4,689)	(0.97%)
National Lending Originated	680,568	619,223	61,345	9.91%
SBA National	34,574	35,682	(1,108)	(3.11%)
Community Banking	37,359	41,766	(4,407)	(10.55%)
Total	$ 1,232,325	$ 1,181,184	$ 51,141	4.33%

	Nine Months Ended March 31, 2022			
	March 31, 2022 Balance	June 30, 2021 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
National Lending Purchased	$ 479,824	$ 429,054	$ 50,770	11.83%
National Lending Originated	680,568	523,535	157,033	29.99%
SBA National	34,574	39,549	(4,975)	(12.58%)
Community Banking	37,359	48,486	(11,127)	(22.95%)
Total	$ 1,232,325	$ 1,040,624	$ 191,701	18.42%

Loans generated by the National Lending Division for the quarter ended March 31, 2022 totaled $176.0 million, which consisted of $23.9 million of purchased loans, at an average price of 74.6% of unpaid principal balance, and $152.1 million of originated loans.

An overview of the National Lending Division portfolio follows:

	National Lending Portfolio					
	Three Months Ended March 31,					
	2022			2021		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 32,079	$ 152,105	$ 184,184	$ 42,547	$ 69,327	$ 111,874
Net investment basis	23,920	152,105	176,025	39,895	69,327	109,222
Loan returns during the period:						
Yield	8.25%	6.94%	7.50%	8.48%	7.28%	7.83%
Total Return on Purchased Loans (1)	8.30%	N/A	8.30%	8.48%	N/A	8.48%
	Nine Months Ended March 31,					
	2022			2021		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 162,492	$ 414,989	$ 577,481	$ 146,135	$ 194,842	$ 340,977
Net investment basis	151,412	414,989	566,401	135,757	194,842	330,599
Loan returns during the period:						
Yield	8.80%	6.61%	7.55%	8.88%	7.06%	7.90%
Total Return on Purchased Loans (1)	8.80%	N/A	8.80%	8.88%	N/A	8.88%
Total loans as of period end:						
Unpaid principal balance	$ 516,972	$ 680,568	$ 1,197,540	$ 471,778	$ 473,930	$ 945,708
Net investment basis	479,824	680,568	1,160,392	433,497	473,930	907,427

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

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

	Community Banking	National Lending	SBA Division	Total	Percent of Total
March 31, 2022		(Dollars in thousands)			
Originated loans:					
Commercial real estate: non-owner occupied	$ 5,405	$ 257,620	$ 17,895	$ 280,920	22.80%
Commercial real estate: owner occupied	5,464	65,664	14,133	85,261	6.92%
Commercial and industrial	1,926	332,466	2,546	336,938	27.34%
Residential real estate	23,776	24,818	-	48,594	3.94%
Consumer	788	-	-	788	0.06%
Subtotal	37,359	680,568	34,574	752,501	61.06%
Purchased loans:					
Commercial real estate: non-owner occupied	-	296,364	-	296,364	24.05%
Commercial real estate: owner occupied	-	175,751	-	175,751	14.26%
Commercial and industrial	-	123	-	123	0.01%
Residential real estate	-	7,586	-	7,586	0.62%
Subtotal	-	479,824	-	479,824	38.94%
Total	$ 37,359	$ 1,160,392	$ 34,574	$ 1,232,325	100.00%
June 30, 2021					
Originated loans:					
Commercial real estate: non-owner occupied	$ 9,368	$ 187,593	$ 19,508	$ 216,469	20.80%
Commercial real estate: owner occupied	5,738	65,950	17,297	88,985	8.55%
Commercial and industrial	2,572	251,954	2,744	257,270	24.72%
Residential real estate	29,666	18,038	-	47,704	4.58%
Consumer	1,142	-	-	1,142	0.11%
Subtotal	48,486	523,535	39,549	611,570	58.76%
Purchased loans:					
Commercial real estate: non-owner occupied	-	275,809	-	275,809	26.50%
Commercial real estate: owner-occupied	-	144,024	-	144,024	13.84%
Commercial and industrial	-	334	-	334	0.02%
Residential real estate	-	8,887	-	8,887	0.85%
Subtotal	-	429,054	-	429,054	41.22%
Total	$ 48,486	$ 952,589	$ 39,549	$ 1,040,624	100.00%

Classification of Assets

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

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

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

The following table details the Bank's nonperforming assets and other credit quality indicators as of March 31, 2022 and June 30, 2021. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Nonperforming Assets at March 31, 2022		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 6,608	$ 10,303	$ 16,911
Commercial and industrial	230	64	294
Residential real estate	621	74	695
Consumer	12	-	12
Total nonperforming loans	7,471	10,441	17,912
Real estate owned and other repossessed collateral	-	-	-
Total nonperforming assets	$ 7,471	$ 10,441	$ 17,912
Ratio of nonperforming loans to total loans			1.45%
Ratio of nonperforming assets to total assets			1.14%
Ratio of loans past due to total loans			1.07%
Nonperforming loans that are current			$ 11,502
Loans risk rated substandard or worse			$ 16,743
Troubled debt restructurings:			
On accrual status			$ 22,827
Nonaccrual status			$ 6,946

	Nonperforming Assets at June 30, 2021		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 5,756	$ 10,715	$ 16,471
Commercial and industrial	286	148	434
Residential real estate	696	1,114	1,810
Consumer	43	-	43
Total nonperforming loans	6,781	11,977	18,758
Real estate owned and other repossessed collateral	-	1,639	1,639
Total nonperforming assets	$ 6,781	$ 13,616	$ 20,397
Ratio of nonperforming loans to total loans			1.80%
Ratio of nonperforming assets to total assets			0.94%
Ratio of loans past due to total loans			1.08%
Nonperforming loans that are current			$ 9,990
Loans risk rated substandard or worse			$ 10,789
Troubled debt restructurings:			
On accrual status			$ 22,319
Nonaccrual status			$ 5,451

As of March 31, 2022, nonperforming assets totaled $17.9 million, or 1.14% of total assets, compared to $20.4 million, or 0.94% of total assets, as of June 30, 2021.

There was no OREO outstanding at March 31, 2022, compared to $1.6 million at June 30, 2021. The decrease was the result of the sale of three OREO properties.

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 $5.8 million as of March 31, 2022, compared to $7.3 million as of June 30, 2021. The decrease in the period is primarily the result of decreases in general qualitative factors as a result of continued economic improvements relative to the COVID-19 pandemic primarily in the SBA segment.

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

	March 31, 2022	June 30, 2021	March 31, 2021
Allowance for loan losses to nonperforming loans	32.47%	38.99%	38.48%
Allowance for loan losses to total loans	0.47%	0.70%	0.88%
Last twelve months of net-charge offs to average loans	-0.04%	0.04%	0.12%

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, decreased by $1.8 million, or 15.8%, to $9.5 million at March 31, 2022, compared to $11.3 million at June 30, 2021. The decrease was primarily due to depreciation for the period.

Loan servicing rights, net totaled $1.7 million and $2.1 million at March 31, 2022 and June 30, 2021, respectively. The $365 thousand decrease was primarily the result of the SBA loan payoffs and amortization, partially offset by recovery from the revaluation of the servicing rights performed on a quarterly basis.

The cash surrender value of the Bank's bank-owned life insurance ("BOLI") assets increased $317 thousand, or 1.8% to $17.7 million at March 31, 2022, compared to $17.5 million at June 30, 2021. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 7.0% of the Bank's regulatory total capital at March 31, 2022.

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

Deposits

The Bank's principal source of funding is its core deposit accounts. At March 31, 2022, non-maturity accounts and non-brokered insured time deposits represented 99.5% of total deposits.

Total deposits decreased by $594.3 million, or 31.9%, from June 30, 2021. The decrease was attributable to decreases in demand deposits of $590.6 million, or 60.7% and time deposits of $160.0 million, or 57.6%, partially offset by an increase in savings and interest checking deposits of $170.7 million, or 52.5%. The primary reason for the net decrease in deposits was due to timing of the receipt of short-term customer funds related to PPP payoff collections prior to June 30, 2021, which were subsequently used to pay down NEWITY's PPPLF balance during the nine months ended March 31, 2022.

The composition of total deposits at March 31, 2022 and June 30, 2021 is as follows:

	March 31, 2022		June 30, 2021	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 381,866	30.11%	$ 972,495	52.22%
NOW accounts	358,613	28.28%	269,056	14.44%
Regular and other savings	137,187	10.82%	56,006	3.01%
Money market deposits	272,614	21.50%	287,033	15.41%
Total non-certificate accounts	1,150,280	90.71%	1,584,590	85.08%
Term certificates of $250 thousand or less	111,735	8.81%	270,176	14.51%
Term certificates greater than $250 thousand	6,107	0.48%	7,664	0.41%
Total certificate accounts	117,842	9.29%	277,840	14.92%
Total deposits	$ 1,268,122	100.00%	$ 1,862,430	100.00%

FHLBB Advances

Advances from the Federal Home Loan Bank of Boston ("FHLBB") were $15.0 million at both March 31, 2022 and June 30, 2021. As of March 31, 2022, the Bank had pledged certain residential and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of March 31, 2022, securities with a fair value of $55.7 million were pledged for potential and outstanding borrowings.

Subordinated Debt

On June 29, 2016, Northeast Bancorp entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which Northeast Bancorp 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 merger of Northeast Bancorp with and into the Bank in May 2019. On July 1, 2021, the Bank redeemed the subordinated notes in full at par plus accrued interest. The subordinated notes, net of issuance costs, totaled $0 and $15.1 million at December 31, 2021 and June 30, 2021, respectively.

Liquidity

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

	As of March 31, 2022	
	(Dollars in thousands)	
Brokered time deposits	$ 391,529	Subject to policy limitation of 25% of total assets
One-way sweep deposits	-	
Federal Home Loan Bank of Boston	95,940	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 504,969	

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

At March 31, 2022, the Bank had $505.0 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 32.2% of total assets. The Bank also had $225.8 million of cash and cash equivalents at March 31, 2022.

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

Capital

At March 31, 2022, shareholders' equity was $247.5 million, an increase of $15.1 million, or 6.5% from June 30, 2021. Book value per outstanding common share was $32.03 at March 31, 2022 and $28.51 at June 30, 2021.

As of March 31, 2022, the Bank's Tier 1 leverage capital ratio was 16.2%, compared to 13.6% at June 30, 2021, and the Total capital ratio was 20.6% at March 31, 2022, compared to 24.3% at June 30, 2021. Capital ratios were primarily affected by increased earnings and decreased assets, while the Total capital ratio was negatively impacted by the redemption of the subordinated debt on July 1, 2021.

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

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

As of March 31, 2022 and June 30, 2021, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Common equity tier 1 capital, Total capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At March 31, 2022 and June 30, 2021, the Bank's ratios exceeded the regulatory requirements. Management believes that the Bank met all capital adequacy requirements to which they were subject as of March 31, 2022 and June 30, 2021. The Bank's regulatory capital ratios are set forth below as of March 31, 2022 and June 30, 2021.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
	(Dollars in thousands)						
March 31, 2022							
Common equity tier 1 capital to risk weighted assets	$ 248,619	20.13%	$ 55,590	≥4.5%	$ 80,297	≥6.5%	7.0%
Total capital to risk weighted assets	254,505	20.60%	98,828	≥8.0%	123,534	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	248,619	20.13%	74,121	≥6.0%	98,828	≥8.0%	8.5%
Tier 1 capital to average assets	248,619	16.17%	61,515	≥4.0%	76,894	≥5.0%	4.0%
June 30, 2021							
Common equity tier 1 capital to risk weighted assets	$ 233,668	22.16%	$ 47,457	≥4.5%	$ 68,548	≥6.5%	7.0%
Total capital to risk weighted assets	256,115	24.29%	84,367	≥8.0%	105,459	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	233,668	22.16%	63,275	≥6.0%	84,367	≥8.0%	8.5%
Tier 1 capital to average assets	233,668	13.63%	68,594	≥4.0%	85,752	≥5.0%	4.0%

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

Stock Repurchases

On July 21, 2020, the Board of Directors adopted a share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. On April 21, 2021, the FDIC and the Maine Bureau of Financial Institutions ("MBFI") approved the number of shares available under this plan to increase up to 1,000,000 shares, or up to $25.0 million of common stock. The Bank terminated this repurchase plan on April 20, 2022. The Bank repurchased 682,904 shares at a weighted average price per share of $32.47 through March 31, 2022 under this program.

On April 20, 2022, the Board of Directors adopted a new share repurchase program to purchase up to $40.0 million of common stock, or up to 1,000,000 shares, representing 13.1% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire April 13, 2023.

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 8: Commitments and Contingencies" for further discussion.

Results of Operations

General

Net income decreased by $23.6 million to $10.6 million for the three months ended March 31, 2022, compared to net income of $34.2 million for the three months ended March 31, 2021, due to no gain on sale of PPP loans, higher salaries expense, and lower correspondent fee income, partially offset by higher net interest income before provision for loan losses and lower income tax expense. Net income decreased by $18.3 million to $31.9 million for the nine months ended March 31, 2022, compared to net income of $50.1 million for the nine months ended March 31, 2021. The decrease was primarily due to lower gain on sale of PPP loans and higher salaries expense, partially offset by higher net interest income before provision for loan losses, lower provision (credit) for loan losses, higher correspondent fee income, and lower income tax expense.

Net Interest Income

Three Months Ended March 31, 2022 and 2021

Net interest and dividend income before provision for loan losses increased by $2.4 million to $21.0 million for the quarter ended March 31, 2022, compared to $18.6 million for the quarter ended March 31, 2021. The increase was primarily due to the following:

- An increase in interest income earned on the National Lending Division's purchased and originated portfolios of $3.7 million, due to higher average balances, partially offset by lower rates earned in both portfolios; and
- A decrease in deposit interest expense of $887 thousand, due to lower interest rates and lower average balances;
- A decrease of $300 thousand in interest expense due to advances taken from the PPPLF to fund PPP originations during the quarter ended March 31, 2021; and
- A decrease of $282 thousand in interest expense due to the payoff of the subordinated debt; partially offset by,
- A decrease in PPP loan interest income of $2.6 million, due to the significant decrease in PPP loans during the quarter ended March 31, 2022.

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

	Interest Income and Yield on Loans					
	Three Months Ended March 31,					
	2022			2021		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 40,144	$ 550	5.56%	$ 52,852	$ 658	5.05%
SBA National	34,605	577	6.76%	44,775	663	6.01%
National Lending:						
Originated	643,707	11,021	6.94%	473,881	8,501	7.28%
Purchased	477,912	9,722	8.25%	406,979	8,513	8.48%
Total National Lending	1,121,619	20,743	7.50%	880,860	17,014	7.83%
Total excluding SBA PPP	$ 1,196,368	$ 21,870	7.41%	$ 978,487	$ 18,335	7.60%
SBA PPP	$ 462	$ 3	3.05%	$ 481,853	$ 2,558	2.15%
Total including SBA PPP	$ 1,196,830	$ 21,873	7.41%	$ 1,460,340	$ 20,893	5.80%

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended March 31, 2021, transactional income increased by $888 thousand for the quarter ended March 31, 2022, and regularly scheduled interest and accretion increased by $377 thousand due to the increase in average balances. The total return on purchased loans for the quarter ended March 31, 2022 was 8.3%, a decrease from 8.5% for the quarter ended March 31, 2021. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended March 31,			
	2022		2021	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 7,166	6.08%	$ 6,789	6.77%
Transactional income:				
Gain on real estate owned	56	0.05%	-	0.00%
Accelerated accretion and loan fees	2,556	2.17%	1,724	1.71%
Total transactional income	2,612	2.22%	1,724	1.71%
Total	$ 9,778	8.30%	$ 8,513	8.48%

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

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 63,865	$ 65	0.41%	$ 69,034	$ 158	0.93%
Loans (1) (2) (3)	1,196,830	21,873	7.41%	1,460,340	20,893	5.80%
Federal Home Loan Bank stock	1,280	6	1.90%	2,410	6	1.01%
Short-term investments (4)	226,820	67	0.12%	387,198	104	0.11%
Total interest-earning assets	1,488,795	22,011	6.00%	1,918,982	21,161	4.47%
Cash and due from banks	2,504			2,112		
Other non-interest earning assets	46,022			62,127		
Total assets	$ 1,537,321			$ 1,983,221		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 353,019	$ 202	0.23%	$ 180,630	$ 90	0.20%
Money market accounts	256,074	192	0.30%	316,116	347	0.45%
Savings accounts	126,902	167	0.53%	38,500	10	0.11%
Time deposits	134,558	355	1.07%	587,440	1,356	0.94%
Total interest-bearing deposits	870,553	916	0.43%	1,122,686	1,803	0.65%
Federal Home Loan Bank advances	15,000	122	3.30%	39,306	145	1.50%
PPPLF advances	-	-	0.00%	345,063	300	0.35%
Subordinated debt	-	-	0.00%	15,015	282	7.62%
Capital lease obligations	5,022	21	1.70%	6,588	28	1.72%
Total interest-bearing liabilities	890,575	1,059	0.48%	1,528,658	2,558	0.68%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	388,171			238,756		
Other liabilities	14,220			20,850		
Total liabilities	1,292,966			1,788,264		
Shareholders' equity	244,355			194,957		
Total liabilities and shareholders' equity	$ 1,537,321			$ 1,983,221		
Net interest income		$ 20,952			$ 18,603	
Interest rate spread			5.52%			3.79%
Net interest margin (5)			5.71%			3.93%
Cost of funds (6)			0.34%			0.59%

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

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

	Three Months Ended March 31, 2022 Compared to 2021		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (11)	$ (82)	$ (93)
Loans	(4,182)	5,162	980
Federal Home Loan Bank stock	(4)	4	-
Short-term investments	(46)	9	(37)
Total interest-earning assets	(4,243)	5,093	850
Interest-bearing liabilities:			
Interest-bearing deposits	(1,022)	135	(887)
Federal Home Loan Bank advances	(127)	104	(23)
PPPLF advances	(300)	-	(300)
Subordinated debt	(282)		(282)
Lease liability	(7)	-	(7)
Total interest-bearing liabilities	(1,738)	239	(1,499)
Total change in net interest income	$ (2,505)	$ 4,854	$ 2,349

Nine Months Ended March 31, 2022 and 2021

Net interest and dividend income before provision for loan losses increased by $10.8 million to $59.8 million for the nine months ended March 31, 2022, compared to $49.0 million for the nine months ended March 31, 2021. The increase was primarily due to the following:

- An increase in interest income earned on loans of $6.0 million, primarily due to an increase in interest income earned on the National Lending Division's originated and purchased portfolios, due to higher average balances, partially offset by lower rates, and a decrease in SBA PPP interest income due to lower average balances;
- A decrease in deposit interest expense of $4.0 million, primarily due to lower average balances, lower interest rates and a repositioning of the Bank's deposit portfolio;
- A decrease in interest expense on subordinated debt of $845 thousand, as the Bank redeemed its $15.1 million subordinated debt in full at par plus accrued interest on July 1, 2021; and
- A decrease of $302 thousand in interest expense due to advances taken from the PPPLF to fund PPP originations during the quarter ended March 31, 2021; partially offset by,
- A decrease in interest income earned on available-for-sale securities of $406 thousand, primarily due to lower rates earned.

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

	Interest Income and Yield on Loans					
	Nine Months Ended March 31,					
	2022			2021		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 42,995	$ 1,692	5.24%	$ 59,272	$ 2,160	4.85%
SBA National	36,322	1,835	6.73%	47,236	1,835	5.17%
National Lending:						
Originated	597,127	29,634	6.61%	459,000	24,331	7.06%
Purchased	452,603	29,883	8.80%	392,183	26,142	8.88%
Total National Lending	1,049,730	59,517	7.55%	851,183	50,473	7.90%
Total excluding SBA PPP	$ 1,129,047	$ 63,044	7.44%	$ 957,691	$ 54,468	7.58%
SBA PPP	$ 827	$ 17	2.74%	$ 164,053	$ 2,638	2.14%
Total including SBA PPP	$ 1,129,874	$ 63,061	7.43%	$ 1,121,744	$ 57,106	6.78%

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the nine months ended March 31, 2021, transactional income for the nine months ended March 31, 2022 increased by $2.9 million, and regularly scheduled interest and accretion increased by $913 thousand due to the increase in average balances. The total return on purchased loans for the nine months ended March 31, 2022 was 8.8%, a decrease from 8.9% for the nine months ended March 31, 2021. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Nine Months Ended March 31,			
	2022		2021	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 21,379	6.29%	$ 20,466	6.95%
Transactional income:				
Gain on real estate owned	31	0.00%	-	0.00%
Accelerated accretion and loan fees	8,504	2.51%	5,676	1.93%
Total transactional income	8,535	2.51%	5,676	1.93%
Total	$ 29,914	8.80%	$ 26,142	8.88%

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

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the nine months ended March 31, 2022 and 2021.

	Nine Months Ended March 31,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 65,295	$ 235	0.48%	$ 70,539	$ 641	1.21%
Loans (1) (2) (3)	1,129,874	63,061	7.43%	1,121,744	57,106	6.78%
Federal Home Loan Bank stock	1,237	19	2.05%	1,725	51	3.94%
Short-term investments (4)	330,722	346	0.14%	232,237	201	0.12%
Total interest-earning assets	1,527,128	63,661	5.55%	1,426,245	57,999	5.42%
Cash and due from banks	2,686			2,703		
Other non-interest earning assets	50,751			47,581		
Total assets	$ 1,580,565			$ 1,476,529		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 303,525	$ 569	0.25%	$ 143,938	$ 330	0.31%
Money market accounts	265,639	591	0.30%	312,797	1,259	0.54%
Savings accounts	99,725	361	0.48%	37,771	36	0.13%
Time deposits	207,304	1,887	1.21%	469,793	5,765	1.63%
Total interest-bearing deposits	876,193	3,408	0.52%	964,299	7,390	1.02%
Federal Home Loan Bank advances	15,000	377	3.35%	22,984	395	2.29%
PPPLF advances	-	-	0.00%	113,932	302	0.35%
Subordinated debt	-	-	0.00%	14,983	845	7.51%
Capital lease obligations	5,431	70	1.72%	5,793	84	1.93%
Total interest-bearing liabilities	896,624	3,855	0.57%	1,121,991	9,016	1.07%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	429,354			157,569		
Other liabilities	14,596			17,527		
Total liabilities	1,340,574			1,297,087		
Shareholders' equity	239,991			179,442		
Total liabilities and shareholders' equity	$ 1,580,565			$ 1,476,529		
Net interest income		$ 59,806			$ 48,983	
Interest rate spread			4.98%			4.35%
Net interest margin (5)			5.22%			4.58%
Cost of funds (6)			0.39%			0.94%

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

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

	Nine Months Ended March 31, 2022 Compared to 2021		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (45)	$ (361)	$ (406)
Loans	417	5,538	5,955
Federal Home Loan Bank stock	(11)	(21)	(32)
Short-term investments	97	48	145
Total interest-earning assets	458	5,204	5,662
Interest-bearing liabilities:			
Interest-bearing deposits	(2,379)	(1,603)	(3,982)
Federal Home Loan Bank advances	(164)	146	(18)
PPPLF advances	(302)	-	(302)
Subordinated debt	(845)	-	(845)
Lease liability	(5)	(9)	(14)
Total interest-bearing liabilities	(3,695)	(1,466)	(5,161)
Total change in net interest income	$ 4,153	$ (6,670)	$ 10,823

Provision for Loan Losses

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

Three Months Ended March 31, 2022 and 2021

Provision (credit) for loan losses for the three months ended March 31, 2022 decreased by $76 thousand to a credit of $287 thousand. The decrease in the Bank's provision (credit) for loan losses was primarily the result of a larger decrease in specific reserves in the quarter ended March 31, 2022, as compared to the quarter ended March 31, 2021.

Nine Months Ended March 31, 2022 and 2021

Provision (credit) for loan losses for the nine months ended March 31, 2022 decreased by $2.1 million to a credit of $1.6 million. The decrease in the Bank's provision (credit) for loan losses reflects decreases in certain qualitative factors during the nine months ended March 31, 2022 as a result of continued improvements relative to the COVID-19 pandemic, as compared to increases in certain qualitative factors during the nine months ended March 31, 2021, as a result of impacts from the COVID-19 pandemic.

Noninterest Income

Three Months Ended March 31, 2022 and 2021

Noninterest income decreased by $34.1 million for the quarter ended March 31, 2022, compared to the quarter ended March 31, 2021, principally due to the following:

- A decrease in gain on sale of PPP loans of $33.0 million, due to the sale of PPP loans with a total principal balance of $2.14 billion, which resulted in a net gain based on the recognition of net deferred fees in the quarter ended March 31, 2021 as compared to no sales in the quarter ended March 31, 2022; and
- A decrease in correspondent fee income of $1.0 million from the recognition of correspondent fees and net servicing income. Correspondent income for the quarters ended March 31, 2022 and 2021 is comprised of the following components:

	Three Months Ended March 31,			
	2022		2021	
	(In thousands)			
Correspondent Fee	$	1,087	$	1,098
Amortization of Purchased Accrued Interest		1,690		922
Earned Net Servicing Interest		2,193		3,950
Total	$	4,970	$	5,970

In addition to the net servicing interest income, a summary of PPP loans purchased by Loan Source and related amounts that the Bank will earn over the expected life of the loans is as follows:

Quarter	PPP Loans Purchased by Loan Source(3)	Correspondent Fee	Purchased Accrued Interest(1)	Total(2)
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Q2 FY 2021	1,333,500	495	3,766	4,261
Q3 FY 2021	2,141,900	-	598	598
Q4 FY 2021	4,371,000	171	2,703	2,874
Q1 FY 2022	6,300	-	1	1
Total	$ 11,237,700	$ 8,905	$ 10,560	$ 19,465
Less amounts recognized in Q3 FY 22		(1,087)	(1,690)	(2,777)
Less amounts recognized in previous quarters		(6,255)	(6,193)	(12,448)
Amount remaining to be recognized		$ 1,563	$ 2,677	$ 4,240

(1) - The Bank's share
(2) - Expected to be recognized into income over life of loans
(3) - Loan Source's ending PPP loan balance was $2.79 billion as of March 31, 2022

In addition to the decreases above:

- An increase in unrealized loss on equity securities of $159 thousand.

Nine Months Ended March 31, 2022 and 2021

Noninterest income decreased by $32.1 million for the nine months ended March 31, 2022, compared to the nine months ended March 31, 2021, principally due to the following:

- A decrease in gain on sale of PPP loans of $34.0 million, due to the sale of $2.20 billion of PPP loans, which resulted in a net gain resulting from the recognition of net deferred fees during the nine months ended March 31, 2021 as compared to the sale of $6.3 million of PPP loans, resulting in a net gain of $86 thousand during the nine months ended March 31, 2022; partially offset by,
- An increase in correspondent fee income of $2.0 million from the recognition of correspondent fees and net servicing income. Correspondent income for the nine months ended March 31, 2022 and 2021 is comprised of the following components:

	Nine Months Ended March 31,	
	2022	2021
	(In thousands)	
Correspondent Fee	$ 3,261	$ 2,981
Amortization of Purchased Accrued Interest	5,098	1,813
Earned Net Servicing Interest	10,483	12,004
Total	$ 18,842	$ 16,798

In addition to the increase above:

- A decrease in loss on OREO of $399 thousand, due to net gain on sales of three OREO properties in the nine months ended March 31, 2022, as compared to write-downs and net loss on sales of OREO properties in the nine months ended March 31, 2021.

Noninterest Expense

Three Months Ended March 31, 2022 and 2021

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

- An increase in salaries and employee benefits expense of $2.1 million, primarily due to a decrease in deferred salaries contra-expense related to PPP originations in the quarter ended March 31, 2021, partially offset by a decrease in bonus expense, due to a non-recurring increase in bonus expense in the quarter ended March 31, 2021 attributable to the high level of PPP originations and sales; and
- An increase in other noninterest expense of $175 thousand, primarily due to a $184 thousand decrease in recovery on the SBA servicing asset; partially offset by,
- A decrease in loan expense of $403 thousand, due to decreases in REO expense and collection legal expense due to reimbursements, partially offset by an increase in other collection expense; and
- A decrease in data processing fees of $135 thousand, primarily due to decreases in IT professional implementation expenses and computer service fees, partially offset by increases in software license expense and monitoring and support expense.

Nine Months Ended March 31, 2022 and 2021

Noninterest expense increased by $5.9 million for the nine months ended March 31, 2022 compared to the nine months ended March 31, 2021, primarily due to the following:

- An increase in salaries expense of $4.8 million, primarily due to a decrease of $4.5 million in deferred salaries contra-expense related to PPP originations, an increase of $1.3 million in regular compensation, and an increase of $504 thousand in stock compensation expense, partially offset by a decrease of $1.8 million in bonus expense, attributable to the high level of PPP originations and sales which resulted in increased bonus accrual during the nine months ended March 31, 2021;
- An increase in loan expense of $543 thousand, primarily due to a $1.2 million increase in correspondent expenses associated with the Loan Source arrangement, partially offset by a decrease of $495 thousand in collection and REO expense due to reimbursements received during the nine months ended March 31, 2022; and
- An increase in other noninterest expense of $500 thousand, primarily due to a decrease in the net recovery on the SBA servicing asset, an increase in travel and meals and entertainment expense and correspondent banking fees during the nine months ended March 31, 2022.

Income Taxes

Three Months Ended March 31, 2022 and 2021

Income tax expense decreased by $9.8 million to $4.7 million, or an effective tax rate of 30.6%, for the quarter ended March 31, 2022, compared to $14.5 million, or an effective tax rate of 29.8%, for the quarter ended March 31, 2021. The decrease in income tax expense is due to the decrease in pre-tax income. The increase in the effective tax rate from March 31, 2021 is primarily due to changes in state tax apportionment.

Nine Months Ended March 31, 2022 and 2021

Income tax expense decreased by $6.8 million to $13.9 million, or an effective tax rate of 30.4%, for the nine months ended March 31, 2022, compared to $20.7 million, or an effective tax rate of 29.2%, for the nine months ended March 31, 2021. The decrease in income tax expense is due to the decrease in pre-tax income. The increase in the effective tax rate from the nine months ended March 31, 2021 was primarily due to the decrease in tax benefits arising from the exercise of stock options during the nine months ended March 31, 2022, as well as due to changes in 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 March 31, 2022.

There were no changes in the Bank's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2022 that have materially affected, or is reasonably likely to materially affect, the Bank's internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

The following table summarizes repurchases of the Bank's outstanding common shares in the third quarter of fiscal year 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May be Purchased Under the Plans or Programs
January 1, 2022 – January 31, 2022	-	$ -	-	396,684
February 1, 2022 – February 28, 2022	-	-	-	396,684
March 1, 2022 - March 31, 2022	79,588	34.71	79,588	317,096
	79,588	$ 34.71	79,588	317,096

On July 21, 2020, the Board of Directors adopted a share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. On April 21, 2021, the FDIC and MBFI approved the number of shares available under this plan to increase up to 1,000,000 shares, or up to $25.0 million of common stock. The Bank terminated this repurchase plan on April 20, 2022. The Bank repurchased 682,904 shares at a weighted average price per share of $32.47 through March 31, 2022 under this program.

On April 20, 2022, the Board of Directors adopted a new share repurchase program to purchase up to $40.0 million of common stock, or up to 1,000,000 shares, representing 13.1% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire April 13, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

* Filed herewith

** Furnished herewith

SIGNATURES

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

Date: May 6, 2022

NORTHEAST BANK

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

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

Exhibit 31.1 Certification of the Chief Executive Officer

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

I, Richard Wayne, certify that:

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

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

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

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

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

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

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

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

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

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

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

May 6, 2022

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

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

I, Jean-Pierre Lapointe, certify that:

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

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

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

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

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

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

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

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

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

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

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

May 6, 2022

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

Exhibit 32.1. Certificate of the Chief Executive Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

May 6, 2022

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

May 6, 2022

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