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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019

Commission File Number: 1-14588

Northeast Bancorp

(Exact name of registrant as specified in its charter)

Maine	01-0425066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 Canal Street, Lewiston, Maine	04240
(Address of Principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 1, 2019, the registrant had outstanding 8,996,751 shares of voting common stock, $1.00 par value per share and 44,783 shares of non-voting common stock, $1.00 par value per share.

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except share and per share data)

	March 31, 2019	June 30, 2018
Assets		
Cash and due from banks	$ 2,507	$ 3,889
Short-term investments	150,346	153,513
Total cash and cash equivalents	152,853	157,402
Available-for-sale securities, at fair value	76,938	81,068
Equity securities, at fair value	6,819	6,619
Total investment securities	83,757	87,687
Residential real estate loans held for sale	1,276	3,405
SBA loans held for sale	-	3,750
Total loans held for sale	1,276	7,155
Loans		
Commercial real estate	641,157	579,450
Commercial and industrial	231,176	188,852
Residential real estate	86,754	100,256
Consumer	2,566	3,244
Total loans	961,653	871,802
Less: Allowance for loan losses	5,658	4,807
Loans, net	955,995	866,995
Premises and equipment, net	5,786	6,591
Real estate owned and other repossessed collateral, net	2,014	2,233
Federal Home Loan Bank stock, at cost	1,258	1,652
Intangible assets, net	542	867
Loan servicing rights, net	2,943	2,970
Bank-owned life insurance	16,948	16,620
Other assets	8,030	7,564
Total assets	$ 1,231,402	$ 1,157,736
Liabilities and Shareholders' Equity		
Deposits		
Demand	$ 76,003	$ 72,272
Savings and interest checking	104,678	109,637
Money market	296,720	420,886
Time	539,223	352,145
Total deposits	1,016,624	954,940
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	24,217	23,958
Capital lease obligation	395	605
Other liabilities	21,978	24,803
Total liabilities	1,078,214	1,019,306
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2019 and June 30, 2018	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,241,314 and 8,056,527 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	8,241	8,057
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 800,554 and 882,314 shares issued and outstanding at March 31, 2019 and June 30, 2018, respectively	801	882
Additional paid-in capital	77,732	77,016
Retained earnings	68,274	54,236
Accumulated other comprehensive loss	(1,860)	(1,761)
Total shareholders' equity	153,188	138,430
Total liabilities and shareholders' equity	$ 1,231,402	$ 1,157,736

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

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands, except share and per share data)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Interest and dividend income:				
Interest and fees on loans	$ 18,796	$ 15,408	$ 55,256	$ 45,292
Interest on available-for-sale securities	444	280	1,229	813
Other interest and dividend income	939	795	2,789	1,818
Total interest and dividend income	20,179	16,483	59,274	47,923
Interest expense:				
Deposits	4,447	2,696	12,111	7,001
Federal Home Loan Bank advances	116	118	359	438
Subordinated debt	578	525	1,752	1,550
Obligation under capital lease agreements	5	10	19	31
Total interest expense	5,146	3,349	14,241	9,020
Net interest and dividend income before provision for loan losses	15,033	13,134	45,033	38,903
Provision for loan losses	414	364	1,047	1,156
Net interest and dividend income after provision for loan losses	14,619	12,770	43,986	37,747
Noninterest income:				
Fees for other services to customers	408	435	1,240	1,437
Gain on sales of SBA loans	568	560	2,361	1,921
Gain on sales of residential loans held for sale	108	227	387	772
Gain on sales of other loans	582	516	582	537
Net unrealized gain on equity securities	65	-	75	-
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	-	4	(64)	15
Bank-owned life insurance income	108	108	328	331
Other noninterest income	27	32	56	55
Total noninterest income	1,866	1,882	4,965	5,068
Noninterest expense:				
Salaries and employee benefits	5,782	5,329	16,991	15,756
Occupancy and equipment expense	957	1,159	2,692	3,418
Professional fees	483	423	1,516	1,291
Data processing fees	827	619	2,764	1,846
Marketing expense	160	172	413	329
Loan acquisition and collection expense	609	264	1,633	998
FDIC insurance premiums	81	77	242	236
Intangible asset amortization	107	107	325	325
Other noninterest expense	746	825	2,433	2,053
Total noninterest expense	9,752	8,975	29,009	26,252
Income before income tax expense	6,733	5,677	19,942	16,563
Income tax expense	1,905	1,745	5,455	4,741
Net income	$ 4,828	$ 3,932	$ 14,487	$ 11,822
Weighted-average shares outstanding:				
Basic	9,044,230	8,927,544	9,029,409	8,897,633
Diluted	9,198,077	9,143,177	9,194,346	9,133,515
Earnings per common share:				
Basic	$ 0.53	$ 0.44	$ 1.60	$ 1.33
Diluted	0.52	0.43	1.58	1.29
Cash dividends declared per common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03

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

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net income	$ 4,828	$ 3,932	$ 14,487	$ 11,822
Other comprehensive income, before tax:				
Available-for-sale securities:				
Change in net unrealized loss on available-for-sale securities	365	(431)	925	(605)
Derivatives and hedging activities:				
Change in accumulated loss on effective cash flow hedges	(830)	179	(1,453)	362
Reclassification adjustments included in interest expense	40	26	147	73
Total derivatives and hedging activities	(790)	205	(1,306)	435
Total other comprehensive loss, before tax	(425)	(226)	(381)	(170)
Income benefit related to other comprehensive loss	(113)	(60)	(102)	(40)
Other comprehensive loss, net of tax	(312)	(166)	(279)	(130)
Comprehensive income	$ 4,516	$ 3,766	$ 14,208	$ 11,692

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

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED 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 June 30, 2017	-	-	7,840,460	$ 7,841	991,194	$ 991	$ 77,455	$ 38,142	$ (1,632)	$ 122,797
Net income	-	-	-	-	-	-	-	11,822	-	11,822
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(130)	(130)
Conversions between voting common stock and non-voting common stock, net	-	-	82,464	83	(82,464)	(83)	-	-	-	-
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(266)	-	(266)
Stock-based compensation	-	-	-	-	-	-	635	-	-	635
Issuance of restricted common stock	-	-	22,000	22	-	-	(22)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(39,630)	(40)	-	-	(58)	-	-	(98)
Stock options exercised, net	-	-	111,375	111	-	-	(1,084)	-	-	(973)
Adjustment for adoption of ASU 2018-02	-	-	-	-	-	-	-	283	(283)	-
Balance at March 31, 2018	-	$ -	8,016,669	$ 8,017	908,730	$ 908	$ 76,926	$ 49,981	$ (2,045)	$ 133,787
Balance at June 30, 2018	-	-	8,056,527	$ 8,057	882,314	$ 882	$ 77,016	$ 54,236	$ (1,761)	$ 138,430
Net income	-	-	-	-	-	-	-	14,487	-	14,487
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(279)	(279)
Conversions between voting common stock and non-voting common stock, net	-	-	81,760	81	(81,760)	(81)	-	-	-	-
Dividends on common stock at $0.03 per share	-	-	-	-	-	-	-	(269)	-	(269)
Stock-based compensation	-	-	-	-	-	-	997	-	-	997
Issuance of restricted common stock	-	-	116,925	117	-	-	(117)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(18,166)	(18)	-	-	(120)	-	-	(138)
Stock options exercised, net	-	-	4,268	4	-	-	(44)	-	-	(40)
Adjustment for adoption of ASU 2016-01	-	-	-	-	-	-	-	(180)	180	-
Balance at March 31, 2019	-	$ -	8,241,314	$ 8,241	800,554	$ 801	$ 77,732	$ 68,274	$ (1,860)	$ 153,188

	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, 2017	-	-	8,017,334	$ 8,017	921,939	$ 922	$ 76,805	$ 45,855	$ (1,596)	$ 130,003
Net income	-	-	-	-	-	-	-	3,932	-	3,932
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(166)	(166)
Conversions between voting common stock and non-voting common stock, net	-	-	13,209	14	(13,209)	(14)	-	-	-	-
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(89)	-	(89)
Stock-based compensation	-	-	-	-	-	-	150	-	-	150
Issuance of restricted common stock	-	-	10,000	10	-	-	(10)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(23,874)	(24)	-	-	(19)	-	-	(43)
Adjustment for adoption of ASU 2018-02	-	-	-	-	-	-	-	283	(283)	-
Balance at March 31, 2018	-	$ -	8,016,669	$ 8,017	908,730	$ 908	$ 76,926	$ 49,981	$ (2,045)	$ 133,787
Balance at December 31, 2018	-	-	8,236,917	$ 8,237	811,946	$ 812	$ 77,455	$ 63,535	$ (1,548)	$ 148,491
Net income	-	-	-	-	-	-	-	4,828	-	4,828
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(312)	(312)
Conversions between voting common stock and non-voting common stock, net	-	-	11,392	11	(11,392)	(11)	-	-	-	-
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(89)	-	(89)
Stock-based compensation	-	-	-	-	-	-	309	-	-	309
Cancellation and forfeiture of restricted common stock	-	-	(10,289)	(10)	-	-	5	-	-	(5)
Stock options exercised, net	-	-	3,294	3	-	-	(37)	-	-	(34)
Balance at March 31, 2019	-	$ -	8,241,314	$ 8,241	800,554	$ 801	$ 77,732	$ 68,274	$ (1,860)	$ 153,188

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

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Operating activities:		
Net income	$ 14,487	$ 11,822
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,047	1,156
Loss (gain) on sale and impairment of real estate owned and other repossessed collateral, net	64	(15)
Net unrealized gain on equity securities	(75)	-
Discount accretion and fair value adjustments on loans, net	(6,025)	(6,759)
Amortization of fair value adjustments on borrowings, net	176	159
Amortization of subordinated debt issuance costs	83	83
Originations of loans held for sale	(58,036)	(68,622)
Net proceeds from sales of loans held for sale	67,396	75,146
Gain on sales of residential loans held for sale	(387)	(772)
Gain on sales of SBA and other loans held for sale	(2,943)	(2,458)
Net decrease (increase) in servicing rights	27	(152)
Amortization of intangible assets	325	325
Bank-owned life insurance income, net	(328)	(331)
Depreciation of premises and equipment	992	969
Stock-based compensation	997	635
Deferred income tax expense	-	498
Amortization of available-for-sale debt securities, net	274	637
Changes in other assets and liabilities:		
Other assets	(269)	(1,924)
Other liabilities	(4,227)	(2,759)
Net cash provided by operating activities	13,578	7,638
Investing activities:		
Purchases of available-for-sale debt securities	(27,969)	(15,203)
Proceeds from maturities and principal payments on investment securities, net	32,626	20,913
Loan purchases	(88,741)	(71,474)
Loan originations, principal collections, and purchased loan paydowns, net	3,967	36,397
Purchases and disposals of premises and equipment, net	(187)	(824)
Redemption of Federal Home Loan Bank stock	394	180
Proceeds from sales of real estate owned and other repossessed collateral	756	1,262
Net cash used in investing activities	(79,154)	(28,749)
Financing activities:		
Net increase in deposits	61,684	86,430
Dividends paid on common stock	(269)	(266)
Repayment of Federal Home Loan Bank advances	-	(5,000)
Repayment of capital lease obligation	(210)	(198)
Repurchases for tax withholdings on restricted common stock	(138)	(98)
Stock options exercised, net	(40)	(973)
Net cash provided by financing activities	61,027	79,895
Net decrease in cash and cash equivalents	(4,549)	58,784
Cash and cash equivalents, beginning of period	157,402	163,283
Cash and cash equivalents, end of period	$ 152,853	$ 222,067
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 601	$ 1,338

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

NORTHEAST BANCORP AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
March 31, 2019

1. Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of Northeast Bancorp ("Northeast" or the "Company") and its wholly-owned subsidiary, Northeast Bank (the "Bank").

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Company'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 consolidated financial statements and notes thereto for the fiscal year ended June 30, 2018 ("Fiscal 2018") included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC").

On January 7, 2019, the Company entered into an Agreement and Plan of Merger (the "Plan of Merger") with its wholly-owned bank subsidiary, Northeast Bank (the "Bank"). Under the terms of the Plan of Merger, the Company will merge with and into the Bank (the "Reorganization"), with the Bank continuing as the surviving entity. If the proposed Reorganization is approved and effected, the bank holding company structure will be eliminated and the Bank will become the top-level company.

At the effective time of the Reorganization, each outstanding share of voting and non-voting common stock of the Company, par value $1.00 per share, respectively, will be canceled and converted into the right to receive one share of voting and non-voting common stock, respectively, of the Bank. As a result, the shares of the Bank's common stock are expected to be owned directly by the Company's shareholders in the same proportion as their ownership of the Company's common stock immediately prior to the Reorganization.

Following the Reorganization, it is expected that the surviving entity, the Bank, will be a publicly-traded company listed on the NASDAQ Global Market under the same ticker symbol currently used by the Company, "NBN." It is also expected that the Bank's common stock will be registered under the Securities Exchange Act of 1934 (the "Exchange Act"), which vests the Federal Deposit Insurance Corporation (the "FDIC") with the power to administer and enforce certain sections of the Exchange Act applicable to banks. Following the Reorganization, the Bank will file periodic and current reports and other materials required by the Exchange Act with the FDIC, and the Company will no longer file these reports and materials with the SEC.

The Bank will have the same board of directors following the Reorganization as the Company had immediately prior to the Reorganization, and the executive officers of the Company will hold the same positions and titles.

The Reorganization has been approved by the boards of directors of the Company and the Bank. On March 11, 2019, the Company announced that the Bank had received the approval from the FDIC for the corporate reorganization. Additionally, the Company filed a proxy statement/offering circular and other proxy materials on March 29, 2019 with the SEC and intends to hold a special meeting of its shareholders to consider and vote upon the Plan of Merger on May 9, 2019. In addition to shareholder approval, the Reorganization will be subject to various closing conditions, including, among others, the receipt of all remaining required regulatory approvals, including the approval of the Maine Bureau of Financial Institutions.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2015-14") was issued in August 2015 which deferred adoption to annual reporting periods beginning after December 15, 2017, which was adopted during the three months ended September 30, 2018. The timing of the Company's revenue recognition did not change. The Company's largest portions of revenue, interest and fees on loans, interest and dividend income on securities and short-term investments, bank-owned life insurance income, and gain on sales of loans, are specifically excluded from the scope of the guidance. Additionally, fees for other services to customers includes loan servicing fee income which is accounted for under ASC Topic 860, *Transfers and Servicing*, ("Topic 860"), and is not subject to Topic 606. The other component of fees for other services to customers is deposit fees. The majority of the Company's deposit fees are specifically related to a customer accessing its funds, in which case the revenue is currently recognized in a consistent manner with Topic 606. Revenue that is not specifically related to a customer accessing its funds (i.e. account maintenance fees), can be waived; however, the amount of waived fees is not considered material, and thus the revenue is consistently recognized with Topic 606. All other revenue is also recognized in a manner consistent with Topic 606. Because of the above, the adoption did not have an impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires the Company to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current GAAP. The Company adopted this guidance during the three months ended September 30, 2018. This adoption resulted in a reclassification of $180 thousand from accumulated other comprehensive loss to retained earnings in the consolidated financial statements, with no net effect on shareholders' equity. In addition, the disclosure of the fair value of "Loans, net" in "Notes to Unaudited Consolidated Financial Statements – Note 10: Fair Value Measurements" is now calculated based on an exit pricing strategy versus an entry pricing strategy.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities will be required to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within the fiscal year. The Company is currently evaluating the impact of the adoption of ASU 2016-02 to determine the potential impact it will have on its consolidated financial statements. The Company's assets and liabilities will increase based on the present value of the remaining lease payments for leases in place at the adoption date; however, this is not expected to be material to the Company's results of operations. Upon adoption of ASU 2016-02 on July 1, 2019, the Company expects to record an asset of approximately $4.5 million and a liability of approximately $5.5 million on the Consolidated Balance Sheets as a result of recognizing the right-of-use assets and lease liabilities.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)* ("ASU 2016-13"). This guidance is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this guidance replace the incurred loss impairment methodology in current 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. This ASU will be effective for fiscal years beginning after December 15, 2019. Early adoption is available as of the fiscal year beginning after December 15, 2018. The Company is evaluating the provisions of the guidance, and will closely monitor developments and additional guidance to determine the potential impact on the Company's consolidated financial statements. Management is in the process of identifying the methodologies and the additional data requirements necessary to implement the guidance and has engaged an existing third-party service provider to assist in implementation.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09") which amends the scope of modification accounting for share-based payment arrangements. This update provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. This update was adopted during the three months ended September 30, 2018 and did not have an impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815)* ("ASU 2017-12"). This guidance permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk, and improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

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

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

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

3. Investment Securities

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

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 57,022	$ 151	$ (47)	$ 57,126
Agency mortgage-backed securities	20,328	-	(516)	19,812
Equity investments measured at net asset value	6,991	-	(172)	6,819
Total investment securities	$ 84,341	$ 151	$ (735)	$ 83,757

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 57,129	$ -	$ (242)	$ 56,887
Agency mortgage-backed securities	25,276	-	(1,095)	24,181
Equity investments measured at net asset value	6,866	-	(247)	6,619
Total investment securities	$ 89,271	$ -	$ (1,584)	$ 87,687

At March 31, 2019 and June 30, 2018, the Company held no securities of any single issuer (excluding the U. S. Government and government 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 and nine months ended March 31, 2019 or 2018. At March 31, 2019, no investment securities were pledged as collateral to secure outstanding borrowings.

The following summarizes the Company'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.

	March 31, 2019					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ 1,998	$ (1)	$ 18,017	$ (46)	$ 20,015	$ (47)
Agency mortgage-backed securities	-	-	19,812	(516)	19,812	(516)
Equity investments measured at net asset value	-	-	5,243	(172)	5,243	(172)
Total investment securities	$ 1,998	$ (1)	$ 43,072	$ (734)	$ 45,070	$ (735)

	June 30, 2018					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government agency securities	$ 25,988	$ (126)	$ 30,899	$ (116)	$ 56,887	$ (242)
Agency mortgage-backed securities	1,265	(27)	22,916	(1,068)	24,181	(1,095)
Equity investments measured at net asset value	-	-	5,076	(247)	5,076	(247)
Total investment securities	$ 27,253	$ (153)	$ 58,891	$ (1,431)	$ 86,144	$ (1,584)

There were no other-than-temporary impairment losses on securities during the three and nine months ended March 31, 2019 or 2018.

At March 31, 2019, the Company had 30 securities in an unrealized loss position. At March 31, 2019, all of the Company's available-for-sale securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Company's investment securities at March 31, 2019 is attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, management of the Company also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. At March 31, 2019, the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the investment securities before recovery of its amortized cost. As such, management does not believe any of the Company's investment securities are other-than-temporarily impaired at March 31, 2019.

The investments measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of March 31, 2019, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 4.30 years.

ASU 2016-01, *Recognition and Measurements of Financial Assets and Financial Liabilities*, was adopted on July 1, 2018, and a cumulative effect adjustment of $180 thousand was recorded to reclassify the amount of accumulated unrealized losses, net, related to equity securities from accumulated other comprehensive loss to retained earnings. For the three and nine months ended March 31, 2019, the Company recognized net unrealized gains on equity securities of $65 thousand and $75 thousand, respectively.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of March 31, 2019. Actual maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 20,062	$ 20,014
Due after one year through five years	36,960	37,112
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	57,022	57,126
Agency mortgage-backed securities	20,328	19,812
Total available-for-sale debt securities	$ 77,350	$ 76,938

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 Company 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 Company'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 Company's estimate, at acquisition, of the expected undiscounted principal, interest, and other cash flows over the Company's initial investment in the loan. The excess of contractually required payments receivable over the cash flows expected to be collected on the loan represents the purchased loan's "nonaccretable difference." Subsequent improvements in expected cash flows of loans with nonaccretable differences result in a prospective increase to the loan's effective yield through a reclassification of some, or all, of the nonaccretable difference to accretable yield. The effect of subsequent credit-related declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

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

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Company 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 Company'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 Company's loan portfolio is as follows on the dates indicated:

	March 31, 2019			June 30, 2018		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Commercial real estate	$ 278,750	$ 304,843	$ 583,593	$ 249,428	$ 276,051	$ 525,479
Commercial and industrial	224,332	757	225,089	181,800	995	182,795
SBA	63,653	-	63,653	60,156	-	60,156
Residential real estate	72,026	14,726	86,752	86,202	13,926	100,128
Consumer	2,566	-	2,566	3,244	-	3,244
Total loans	$ 641,327	$ 320,326	$ 961,653	$ 580,830	$ 290,972	$ 871,802

Total loans include deferred loan origination costs, net, of $79 thousand and $223 thousand as of March 31, 2019 and June 30, 2018, respectively.

Past Due and Nonaccrual Loans

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

	March 31, 2019							
	Past Due 30-59 Days	Past Due 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	Nonaccrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 368	$ 136	$ -	$ 2,522	$ 3,026	$ 275,724	$ 278,750	$ 2,643
Commercial and industrial	247	-	-	16	263	224,069	224,332	16
SBA	2,128	354	-	1,614	4,096	59,557	63,653	2,172
Residential real estate	1,504	1,143	-	1,138	3,785	68,241	72,026	2,317
Consumer	26	38	-	158	222	2,344	2,566	236
Total originated portfolio	4,273	1,671	-	5,448	11,392	629,935	641,327	7,384
Purchased portfolio:								
Commercial real estate	5,651	648	-	2,291	8,590	296,253	304,843	4,795
Commercial and industrial	-	-	-	138	138	619	757	369
Residential real estate	430	-	-	202	632	14,094	14,726	202
Total purchased portfolio	6,081	648	-	2,631	9,360	310,966	320,326	5,366
Total loans	$ 10,354	$ 2,319	$ -	$ 8,079	$ 20,752	$ 940,901	$ 961,653	$ 12,750

	June 30, 2018							
	Past Due 30-59 Days	Past Due 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	Nonaccrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 27	$ 210	$ -	$ 98	$ 335	$ 249,093	$ 249,428	$ 1,428
Commercial and industrial	-	-	-	32	32	181,768	181,800	34
SBA	-	-	-	831	831	59,325	60,156	1,405
Residential real estate	493	181	-	1,355	2,029	84,173	86,202	3,212
Consumer	77	82	-	19	178	3,066	3,244	134
Total originated portfolio	597	473	-	2,335	3,405	577,425	580,830	6,213
Purchased portfolio:								
Commercial real estate	659	274	-	3,086	4,019	272,032	276,051	5,180
Commercial and industrial	17	-	-	91	108	887	995	363
Residential real estate	-	-	-	202	202	13,724	13,926	202
Total purchased portfolio	676	274	-	3,379	4,329	286,643	290,972	5,745
Total loans	$ 1,273	$ 747	$ -	$ 5,714	$ 7,734	$ 864,068	$ 871,802	$ 11,958

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

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

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

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

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

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the Company 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 Company will be unable to realize cash flows as expected at acquisition. For loans accounted for under ASC 310-30 for which cash flows can reasonably be estimated, loan impairment is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to changes in interest rate indices and other non-credit related factors, discounted at the loan's effective rate assumed at acquisition. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the scheduled principal and interest payments when due.

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

	Three Months Ended March 31, 2019						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 585	$ 1,551	$ 874	$ 16	$ 599	$ 1,683	$ 5,308
Provision (credit)	(38)	287	(166)	18	38	275	414
Recoveries	12	-	2	3	-	-	17
Charge-offs	(68)	-	0	(13)	-	-	(81)
Ending balance	$ 491	$ 1,838	$ 710	$ 24	$ 637	$ 1,958	$ 5,658

	Three Months Ended March 31, 2018						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 573	$ 1,312	$ 561	$ 50	$ 520	$ 1,339	$ 4,355
Provision (credit)	33	156	(154)	(1)	169	161	364
Recoveries	2	-	2	3	-	-	7
Charge-offs	(28)	-	-	(7)	-	-	(35)
Ending balance	$ 580	$ 1,468	$ 409	$ 45	$ 689	$ 1,500	$ 4,691

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 605	$ 1,414	$ 620	$ 39	$ 587	$ 1,542	$ 4,807
Provision (credit)	101	417	81	(18)	50	416	1,047
Recoveries	15	7	11	24	-	-	57
Charge-offs	(230)	-	(2)	(21)	-	-	(253)
Ending balance	$ 491	$ 1,838	$ 710	$ 24	$ 637	$ 1,958	$ 5,658

	Nine Months Ended March 31, 2018						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Beginning balance	$ 472	$ 1,219	$ 394	$ 53	$ 303	$ 1,224	$ 3,665
Provision (credit)	251	249	(10)	4	386	276	1,156
Recoveries	10	-	25	34	-	-	69
Charge-offs	(153)	-	-	(46)	-	-	(199)
Ending balance	$ 580	$ 1,468	$ 409	$ 45	$ 689	$ 1,500	$ 4,691

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

	March 31, 2019						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 184	$ 129	$ 4	$ 7	$ -	$ 341	$ 665
Collectively evaluated	307	1,709	706	17	-	1,617	4,356
ASC 310-30	-	-	-	-	637	-	637
Total	$ 491	$ 1,838	$ 710	$ 24	$ 637	$ 1,958	$ 5,658
Loans:							
Individually evaluated	$ 4,546	$ 3,765	$ 6,916	$ 286	$ -	$ 4,019	$ 19,532
Collectively evaluated	67,480	274,985	217,416	2,280	-	59,634	621,795
ASC 310-30	-	-	-	-	320,326	-	320,326
Total	$ 72,026	$ 278,750	$ 224,332	$ 2,566	$ 320,326	$ 63,653	$ 961,653

	June 30, 2018						
	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 322	$ 139	$ 8	$ 6	$ -	$ 112	$ 587
Collectively evaluated	283	1,275	612	33	-	1,430	3,633
ASC 310-30	-	-	-	-	587	-	587
Total	$ 605	$ 1,414	$ 620	$ 39	$ 587	$ 1,542	$ 4,807
Loans:							
Individually evaluated	$ 5,682	$ 2,687	$ 33	$ 292	$ -	$ 3,170	$ 11,864
Collectively evaluated	80,520	246,741	181,767	2,952	-	56,986	568,966
ASC 310-30	-	-	-	-	290,972	-	290,972
Total	$ 86,202	$ 249,428	$ 181,800	$ 3,244	$ 290,972	$ 60,156	$ 871,802

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, 2019			June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 2,707	$ 2,697	$ -	$ 1,445	$ 1,438	$ -
Commercial and industrial	13	13	-	-	-	-
SBA	2,272	2,272	-	2,597	2,597	-
Residential real estate	2,688	2,669	-	3,162	3,154	-
Consumer	264	288	-	271	296	-
Purchased:						
Commercial real estate	7,949	10,545	-	6,601	9,330	-
Commercial and industrial	79	157	-	108	186	-
Residential real estate	202	217	-	202	217	-
Total	16,174	18,858	-	14,386	17,218	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	1,058	1,050	129	1,242	1,234	139
Commercial and industrial	6,903	6,904	4	33	33	8
SBA	1,747	1,747	340	573	573	112
Residential real estate	1,858	1,843	185	2,520	2,497	322
Consumer	22	23	7	21	22	6
Purchased:						
Commercial real estate	3,411	3,817	245	4,748	5,362	280
Commercial and industrial	383	443	338	349	407	307
Total	15,382	15,827	1,248	9,486	10,128	1,174
Total impaired loans	$ 31,556	$ 34,685	$ 1,248	$ 23,872	$ 27,346	$ 1,174

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

	Three Months Ended March 31,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Residential real estate	$ 2,735	$ 2	$ 3,567	$ 11
Commercial real estate	2,538	(2)	2,887	86
Commercial and industrial	13	-	-	-
Consumer	258	(2)	270	2
SBA	2,096	11	1,746	1
Purchased:				
Residential real estate	202	-	54	-
Commercial real estate	7,203	83	9,717	21
Commercial and industrial	82	-	22	-
Total	15,127	92	18,263	121
Impaired loans with a valuation allowance:				
Originated:				
Residential real estate	1,966	10	2,427	60
Commercial real estate	1,062	16	1,369	14
Commercial and industrial	3,466	137	38	-
Consumer	20	-	38	-
SBA	1,735	(15)	759	8
Purchased:				
Residential real estate	-	-	166	-
Commercial real estate	3,499	51	4,756	84
Commercial and industrial	394	-	359	-
Total	12,142	199	9,912	166
Total impaired loans	$ 27,269	$ 291	$ 28,175	$ 287

	Nine Months Ended March 31,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Residential real estate	$ 2,833	$ 33	$ 3,830	$ 85
Commercial real estate	2,113	(2)	2,140	180
Commercial and industrial	14	-	-	-
Consumer	265	1	271	15
SBA	2,009	100	1,798	40
Purchased:				
Residential real estate	202	-	561	-
Commercial real estate	6,929	210	9,292	203
Commercial and industrial	86	-	26	-
Total	14,451	342	17,918	523
Impaired loans with a valuation allowance:				
Originated:				
Residential real estate	2,013	64	2,020	123
Commercial real estate	1,134	57	1,382	63
Commercial and industrial	2,320	137	31	3
Consumer	34	-	37	2
SBA	1,739	(8)	790	11
Purchased:				
Residential real estate	-	-	83	1
Commercial real estate	3,800	106	4,145	149
Commercial and industrial	381	1	227	3
Total	11,421	357	8,715	355
Total impaired loans	$ 25,872	$ 699	$ 26,633	$ 878

Credit Quality

The Company 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 Company formally reviews the ratings of all loans subject to risk ratings. Annually, the Company 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 Company’s recorded investment in that loan, which may be significantly lower than the loan’s unpaid principal balance.

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

	March 31, 2019					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1 - 6	$ 274,791	$ 217,162	$ 56,188	$ 14,434	$ 311,716	$ 874,291
Loans rated 7	1,237	6,902	5,244	37	2,943	16,363
Loans rated 8	2,722	268	2,221	711	5,667	11,589
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 278,750	$ 224,332	$ 63,653	$ 15,182	$ 320,326	$ 902,243

	June 30, 2018					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1 - 6	$ 246,107	$ 181,515	$ 54,730	$ 13,403	$ 279,111	$ 774,866
Loans rated 7	1,821	-	3,882	100	5,899	11,702
Loans rated 8	1,500	285	1,544	823	5,962	10,114
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 249,428	$ 181,800	$ 60,156	$ 14,326	$ 290,972	$ 796,682

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

Troubled Debt Restructurings

The following table shows the Company’s post-modification balance of TDRs by type of modification.

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2019		2018		2019		2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)							
Extended maturity	2	$ 174	1	$ 16	4	$ 194	2	$ 34
Adjusted interest rate	-	-	-	-	-	-	1	15
Rate and maturity	-	-	-	-	4	170	3	2,263
Principal deferment	-	-	4	2,418	-	-	7	3,356
Court ordered concession	-	-	1	94	-	-	1	94
	2	$ 174	6	$ 2,528	8	$ 364	14	$ 5,762

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

	Three Months Ended March 31,					
	2019			2018		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	-	$ -	$ -	2	$ 577	$ 577
Commercial real estate	2	174	174	3	1,224	1,230
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	2	174	174	5	1,801	1,807
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	1	696	721
Commercial and industrial	-	-	-	-	-	-
Total purchased portfolio	-	-	-	1	696	721
Total	2	$ 174	$ 174	6	$ 2,497	$ 2,528

	Nine Months Ended March 31,					
	2019			2018		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	3	$ 170	$ 170	5	$ 624	$ 625
Commercial real estate	2	174	174	5	3,303	3,370
Commercial and industrial	-	-	-	1	655	655
Consumer	-	-	-	-	-	-
Total originated portfolio	5	344	344	11	4,582	4,650
Purchased portfolio:						
Residential real estate	-	-	-	-	-	-
Commercial real estate	-	-	-	2	820	844
Commercial and industrial	3	20	20	1	268	268
Total purchased portfolio	3	20	20	3	1,088	1,112
Total	8	$ 364	$ 364	14	$ 5,670	$ 5,762

The Company considers TDRs past due 90 days or more to be in payment default. Two loans modified in a TDR in the last twelve months totaling $1.5 million defaulted during both the three and nine months ended March 31, 2019. As of March 31, 2019, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

ASC 310-30 Loans

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Dollars in thousands)	
Contractually required payments receivable	$ 5,491	$ 51,602
Nonaccretable difference	(25)	(841)
Cash flows expected to be collected	5,466	50,761
Accretable yield	(862)	(17,740)
Fair value of loans acquired	$ 4,604	$ 33,021

	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
	(Dollars in thousands)	
Contractually required payments receivable	$ 127,059	$ 106,922
Nonaccretable difference	(1,074)	(2,665)
Cash flows expected to be collected	125,985	104,257
Accretable yield	(37,244)	(32,783)
Fair value of loans acquired	$ 88,741	$ 71,474

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

	As of and for the Three Months Ended March 31, 2019	As of and for the Nine Months Ended March 31, 2019
	(Dollars in thousands)	
Loans acquired during the period	$ -	$ -
Loans at end of period	4,950	4,950

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

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(Dollars in thousands)	
Beginning balance	$ 152,835	$ 124,903
Acquisitions	862	17,740
Accretion	(6,017)	(4,476)
Reclassifications from non-accretable difference to accretable yield	256	790
Disposals and other changes	(4,848)	(7,750)
Ending balance	$ 143,088	$ 131,207

	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
	(Dollars in thousands)	
Beginning balance	$ 138,178	$ 131,197
Acquisitions	37,244	32,783
Accretion	(17,198)	(13,145)
Reclassifications from non-accretable difference to accretable yield	1,244	5,313
Disposals and other changes	(16,380)	(24,941)
Ending balance	$ 143,088	$ 131,207

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

	March 31, 2019	June 30, 2018
	(Dollars in thousands)	
Unpaid principal balance	$ 347,432	$ 318,876
Carrying amount	313,886	284,317

5. Transfers and Servicing of Financial Assets

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

Capitalized servicing rights as of March 31, 2019 and June 30, 2018 totaled $2.9 million and $3.0 million, respectively, and are classified as loan servicing rights, net, on the consolidated balance sheets.

Mortgage loans sold during the three months ended March 31, 2019 totaled $7.8 million, compared to $16.4 million during the three months ended March 31, 2018. Mortgage loans sold during the nine months ended March 31, 2019 totaled $28.7 million, compared to $53.1 million during the nine months ended March 31, 2018. Mortgage loans serviced for others totaled $7.3 million at March 31, 2019 and $8.7 million at June 30, 2018. Additionally, the Company was servicing commercial loans participated out to various other institutions amounting to $22.9 million and $32.2 million at March 31, 2019 and June 30, 2018, respectively.

SBA loans sold during the three months ended March 31, 2019 totaled $6.7 million, compared to $5.8 million during the three months ended March 31, 2018. SBA loans sold during the nine months ended March 31, 2019 totaled $31.8 million, compared to $18.4 million during the nine months ended March 31, 2018. SBA loans serviced for others totaled $172.6 million at March 31, 2019 and $162.0 million at June 30, 2018.

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

Contractually specified servicing fees were $185 thousand and $196 thousand for the three months ended March 31, 2019 and 2018, respectively, and were included as a component of loan-related fees within noninterest income. Contractually specified servicing fees were $533 thousand and $693 thousand for the nine months ended March 31, 2019 and 2018, respectively.

The significant assumptions used in the valuation of the servicing rights as of March 31, 2019 included a range of discount rates from 7.2% to 21.4% and a weighted average prepayment speed assumption of 13.5%.

6. Earnings Per Share (EPS)

EPS is computed by dividing net income allocated to common shareholders by the weighted average common shares outstanding (including participating securities). The Company’s only participating securities are unvested restricted stock awards that contain non-forfeitable rights to dividends. The following table shows the weighted average number of 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,	
	2019	2018	2019	2018
	(In thousands, except share and per share data)			
Net income	$ 4,828	$ 3,932	$ 14,487	$ 11,822
Weighted average shares used in calculation of basic EPS	9,044,230	8,927,544	9,029,409	8,897,633
Incremental shares from assumed exercise of dilutive securities	153,847	215,633	164,937	235,882
Weighted average shares used in calculation of diluted EPS	9,198,077	9,143,177	9,194,346	9,133,515
Basic earnings per common share	$ 0.53	$ 0.44	$ 1.60	$ 1.33
Diluted earnings per common share	$ 0.52	$ 0.43	$ 1.58	$ 1.29

For the three and nine months ended March 31, 2019 and 2018, no stock options were excluded from the calculation of diluted EPS.

7. Derivatives and Hedging Activities

The Company has stand-alone derivative financial instruments in the form of interest rate caps that derive their value from a fee paid and are adjusted to fair value based on index and strike rate, and 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 Company's balance sheet as derivative assets and derivative liabilities. The Company 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.

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The Company 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 March 31, 2019, the Company had posted cash collateral totaling $2.1 million with dealer banks related to derivative instruments in a net liability position.

The Company does not offset fair value amounts recognized for derivative instruments. The Company 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 Company 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 Company uses variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company 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 interest rate caps and swap agreements used to hedge variable rate debt is as follows.

March 31, 2019									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
(Dollars in thousands)									
Interest rate swaps:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.60%	3.38%	n/a	$ (567)	$ (567)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.60%	3.23%	n/a	(371)	(371)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.60%	2.77%	n/a	(107)	(107)	Other Liabilities
Forward-starting interest rate swaps:									
6,000	February 2018	September 2029	3 Mo. LIBOR	5.50%	5.88%	n/a	(380)	(380)	Other Liabilities
10,000	February 2018	February 2030	3 Mo. LIBOR	4.49%	4.98%	n/a	(626)	(626)	Other Liabilities
Interest rate caps:									
6,000	October 2014	September 2019	3 Mo. LIBOR	n/a	n/a	2.50%	(19)	3	Other Assets
10,000	March 2015	February 2020	3 Mo. LIBOR	n/a	n/a	2.50%	(63)	9	Other Assets
$ 47,000							$ (2,133)	$ (2,039)	

June 30, 2018									
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:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.05%	3.38%	n/a	$ (293)	$ (293)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.05%	3.23%	n/a	(154)	(154)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.05%	2.77%	n/a	15	15	Other Assets
Forward-starting interest rate swaps:									
6,000	February 2018	September 2029	3 Mo. LIBOR	5.14%	5.88%	n/a	(81)	(81)	Other Liabilities
10,000	February 2018	February 2030	3 Mo. LIBOR	4.23%	4.98%	n/a	(140)	(140)	Other Liabilities
Interest rate caps:									
6,000	October 2014	September 2019	3 Mo. LIBOR	n/a	n/a	2.50%	(91)	15	Other Assets
10,000	March 2015	February 2020	3 Mo. LIBOR	n/a	n/a	2.50%	(83)	49	Other Assets
$ 47,000							$ (827)	$ (589)	

During the three and nine months ended March 31, 2019 and 2018, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three and nine months ended March 31, 2019 and 2018 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. Other Comprehensive Income

The components of other comprehensive income are as follows:

	Three Months Ended March 31,					
	2019			2018		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized loss on available-for-sale debt securities	$ 365	$ 99	$ 266	$ (431)	$ (116)	$ (315)
Change in accumulated loss on effective cash flow hedges	(830)	(223)	(607)	179	48	131
Reclassification adjustment for losses included in net income	40	11	29	26	8	18
Total derivatives and hedging activities	(790)	(212)	(578)	205	56	149
Total other comprehensive loss	$ (425)	$ (113)	$ (312)	$ (226)	$ (60)	$ (166)

	Nine Months Ended March 31,					
	2019			2018		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ 925	$ 251	$ 674	$ (605)	$ (140)	$ (465)
Change in accumulated loss on effective cash flow hedges	(1,453)	(393)	(1,060)	362	82	280
Reclassification adjustment for losses included in net income	147	40	107	73	18	55
Total derivatives and hedging activities	(1,306)	(353)	(953)	435	100	335
Total other comprehensive income	$ (381)	$ (102)	$ (279)	$ (170)	$ (40)	$ (130)

Accumulated other comprehensive loss is comprised of the following:

	March 31, 2019	June 30, 2018
	(Dollars in thousands)	
Unrealized loss on available-for-sale securities	$ (412)	$ (1,584)
Tax effect	110	428
After tax amount	(302)	(1,156)
Unrealized loss on cash flow hedges	(2,133)	(827)
Tax effect	575	222
After tax amount	(1,558)	(605)
Accumulated other comprehensive loss	$ (1,860)	$ (1,761)

9. Commitments and Contingencies

Commitments

The Company 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 consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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

	March 31, 2019	June 30, 2018
	(Dollars in thousands)	
Commitments to grant loans	$ 17,672	$ 20,431
Unfunded commitments under lines of credit	33,338	29,478
Standby letters of credit	2,383	3,183

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 Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company 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 Company has recorded an allowance for possible losses on commitments and unfunded loans totaling $52 thousand recorded in other liabilities at both March 31, 2019 and June 30, 2018.

Contingencies

The Company and its subsidiary are parties 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 Company's consolidated financial position or results of operations.

10. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The Company 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 Company'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 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 Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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

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

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

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

Certain investments are measured at fair value using the net asset value per share as a practical expedient. These investments include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. The Company'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 Company's investment in SBA 7(a) loans can be redeemed quarterly with sixty days' notice. In accordance with ASU 2015-07, these investments have not been included in the fair value hierarchy.

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

Servicing rights, net - The fair value of the 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 servicing rights, net 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 Company’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 Company’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 values of time deposits are 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 Company’s net assets could increase.

FHLBB advances, capital lease obligations and subordinated debentures - The fair value of the Company’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 Company for borrowings with similar maturities. The fair value of the Company’s capital lease obligations and subordinated debentures are estimated by discounting the cash flows through maturity based on current rates available to the Company 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.

	March 31, 2019			
	Total	Level 1	Level 2	Level 3
Assets	(Dollars in thousands)			
Available-for-sale debt securities:				
U.S. Government agency securities	$ 57,126	$ -	$ 57,126	$ -
Agency mortgage-backed securities	19,812	-	19,812	-
Equity investments measured at net asset value[1]	6,819	-	-	-
Other assets – interest rate caps	12	-	12	-
Liabilities				
Other liabilities – interest rate swaps	$ 2,051	$ -	$ 2,051	$ -

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Assets	(Dollars in thousands)			
Available-for-sale debt securities:				
U.S. Government agency securities	$ 56,887	$ -	$ 56,887	$ -
Agency mortgage-backed securities	24,181	-	24,181	-
Equity investments measured at net asset value[1]	6,619	-	-	-
Other assets – interest rate caps	64	-	64	-
Other assets – interest rate swaps	15	-	15	-
Liabilities				
Other liabilities – interest rate swap	$ 668	$ -	$ 668	$ -

(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 are intended to permit reconciliation of the fair value amount to the consolidated financial statements.

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

	March 31, 2019			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 1,802	$ -	$ -	$ 1,802
Real estate owned and other repossessed collateral	2,014	-	-	2,014
Servicing rights, net	2,943	-	-	2,943

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 1,917	$ -	$ -	$ 1,917
Real estate owned and other repossessed collateral	2,233	-	-	2,233
Servicing rights, net	2,970	-	-	2,970

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, 2019	June 30, 2018	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 1,802	$ 1,917	Appraisal of collateral[1]
Real estate owned and other repossessed collateral	2,014	2,223	Appraisal of collateral[1]
Servicing rights, net	2,943	2,970	Discounted cash flow[2]

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Company may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 0% to 100%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 1.7% to 18.9%. For discount rates, the range was 7.2% to 21.4%.

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, 2019 and 2018.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
	(In thousands)			
Collateral dependent impaired loans	$ (3)	$ (163)	$ (281)	$ (657)
Real estate owned and other repossessed collateral	-	-	(64)	45
Loan servicing rights	94	(140)	(44)	(30)
Total	$ 91	$ (303)	$ (389)	$ (642)

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

	Carrying Amount	Fair Value Measurements at March 31, 2019			
		Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 152,853	$ 152,853	$ 152,853	$ -	$ -
Available-for-sale debt securities	76,938	76,938	-	76,938	-
Equity investments measured at net asset value[1]	6,819	6,819	-	-	-
Federal Home Loan Bank stock	1,258	1,258	-	1,258	-
Loans held for sale	1,276	1,276	-	1,276	-
Loans, net	955,995	954,975	-	-	954,975
Accrued interest receivable	3,320	3,320	-	3,320	-
Interest rate caps	12	12	-	12	-
Financial liabilities:					
Deposits	1,016,624	1,016,348	-	1,016,348	-
Federal Home Loan Bank advances	15,000	15,001	-	15,001	-
Capital lease obligation	395	400	-	400	-
Subordinated debt	24,217	27,330	-	-	27,330
Interest rate swaps	2,051	2,051	-	2,051	-

	Carrying Amount	Fair Value Measurements at June 30, 2018			
		Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 157,402	$ 157,402	$ 157,402	$ -	$ -
Available-for-sale debt securities	81,068	81,068	-	81,068	-
Equity investments measured at net asset value[1]	6,619	6,619	-	-	-
Federal Home Loan Bank stock	1,652	1,652	-	1,652	-
Loans held for sale	7,155	7,155	-	7,155	-
Loans, net	866,995	868,730	-	-	868,730
Accrued interest receivable	2,528	2,528	-	2,528	-
Interest rate caps	64	64	-	64	-
Interest rate swaps	15	15		15	
Financial liabilities:					
Deposits	954,940	953,216	-	953,216	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Capital lease obligation	605	619	-	619	-
Subordinated debt	23,958	25,961	-	-	25,961
Interest rate swaps	668	668	-	668	-

(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 are intended to permit reconciliation of the fair value amount to the consolidated financial statements.

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in Northeast Bancorp's Annual Report on Form 10-K for the fiscal year ended June 30, 2018, filed with the SEC.

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 Northeast Bancorp's 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 and finance sources and revenue sources. 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 Company'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". Although the Company 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 Company cannot give you any assurance that its expectations will, in fact, occur or that its estimates or assumptions will be correct. The Company cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, changes in interest rates and real estate values; competitive pressures from other financial institutions; weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay the Company's loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; operational risks including, but not limited to, cybersecurity breaches, fraud and natural disasters; the risk that the Company may not be successful in the execution of its business strategy; the risk that intangibles recorded in the Company's financial statements will become impaired; the ability of the Company and the Bank to satisfy the conditions to the completion of the Reorganization; the ability of the Company and the Bank to meet expectations regarding the timing, completion and accounting and tax treatments of the Reorganization; the possibility that any of the anticipated benefits of the Reorganization will not be realized or will not be realized as expected; the failure of the Reorganization to close for any reason; the possibility that the Reorganization may be more expensive to complete than anticipated, including as a result of unexpected factors or events; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2018 as updated in the Company's Quarterly Reports on Form 10-Q and other filings submitted to the SEC. These forward-looking statements speak only as of the date of this report and the Company 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 Bancorp ("we," "our," "us," "Northeast" or the "Company"), incorporated under Maine law in 1987, is a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a bank holding company registered under the Bank Holding Company Act of 1956, as amended, the Company is subject to regulation and supervision by the Federal Reserve. The Company's primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank (the "Bank" or "Northeast Bank"), a Maine state-chartered bank originally organized in 1872. As a Federal Deposit Insurance Corporation ("FDIC") insured Maine-chartered bank, the Bank is subject to regulation and supervision by the Maine Bureau of Financial Institutions and the FDIC.

On December 29, 2010, the merger of the Company and FHB Formation LLC, a Delaware limited liability company ("FHB"), was consummated. As a result of the merger, the surviving company received a capital contribution of $16.2 million (in addition to the approximately $13.1 million in cash consideration paid to former shareholders), and the former members of FHB collectively acquired approximately 60% of the Company's outstanding common stock. The Company applied the acquisition method of accounting, as described in Accounting Standards Codification ("ASC") 805, *Business Combinations* to the merger, which represents an acquisition by FHB of Northeast, with Northeast as the surviving company.

In connection with the transaction, as part of the regulatory approval process, the Company and the Bank made certain commitments to the Federal Reserve, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total risk-based capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of the Company's loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital. On June 28, 2013, the Federal Reserve approved the amendment to exclude owner-occupied commercial real estate loans from the commitment to hold commercial real estate loans to within 300% of total risk-based capital. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve. The Company's compliance ratios at March 31, 2019 follow:

Condition	Ratios as of March 31, 2019
(i) Tier 1 leverage capital ratio	13.58%
(ii) Total capital ratio	19.33%
(iii) Ratio of purchased loans to total loans, including loans held for sale	33.27%
(iv) Ratio of loans to core deposits (1)	94.19%
(v) Ratio of non-owner occupied commercial real estate loans to total capital (2)	251.02%

(1) Core deposits include all non-maturity deposits and non-brokered insured time deposits.
(2) For purposes of calculating this ratio, commercial real estate includes all non-owner occupied commercial real estate loans defined as such by regulatory guidance, including all land development and construction loans.

On January 7, 2019, the Company announced the Reorganization. If the Reorganization is completed, these commitments to the FRB will no longer be applicable. The Bank intends to replace these commitments with standards relating to its capital levels and asset portfolio composition, which will be incorporated into its policies and procedures, and compliance with FDIC policy on commercial real estate concentration risk.

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

- Maintain a Tier 1 leverage ratio of at least 10%, which is unchanged from the requirement in the commitments to the FRB;
- Maintain a Total capital ratio of at least 13.5% (as opposed to 15%);
- Limit purchased loans to 60% of total loans (as opposed to 40%);
- Maintain a ratio of the Bank's loans to core deposits of not more than 125% (as opposed to 100%); and
- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital (as opposed to 300%).

These newly established standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, but may permit more growth in the Bank's loan portfolio as compared to operating under the existing commitments. The Maine Bureau of Financial Institutions' order approving FHB Formation LLC's acquisition of the Company in December of 2010 requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 13.5%. These conditions will continue to apply to the Bank whether or not the Reorganization is completed.

On March 11, 2019, the Company announced that the Bank received approval from the FDIC for the Reorganization. The Reorganization remains subject to various closing conditions including, among others, (i) approval by the holders of the outstanding shares of the Company's capital stock entitled to vote on the Reorganization, (ii) receipt of all remaining required regulatory approvals, including approval of the Bank's stock issuance and amended and restated articles of incorporation and bylaws by the Maine Bureau of Financial Institutions, and (iii) approval for listing on NASDAQ of the Bank's voting common stock.

As of March 31, 2019, the Company, on a consolidated basis, had total assets of $1.2 billion, total deposits of $1.0 billion, and shareholders' equity of $153.2 million. The Company gathers retail deposits through its banking offices in Maine and the Bank's online affinity deposit program, ableBanking; originates loans through the Bank's Community Banking Division; originates Small Business Administration ("SBA") and United States Department of Agriculture ("USDA") loans through the Bank's SBA Division; and purchases and originates commercial loans through the Bank's Loan Acquisition and Servicing Group ("LASG"). The Community Banking Division, with ten full-service branches, operates from the Bank's headquarters in Lewiston, Maine. LASG, ableBanking, and the SBA Division operate from the Company's offices in Boston, Massachusetts.

Unless the context otherwise requires, references herein to the Company include the Company and its subsidiary on a consolidated basis.

Strategy

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

Continuing to grow the LASG's national originated and purchased loan business. We purchase 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.

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

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

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

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in Form 10-K for the year ended June 30, 2018 to gain a better understanding of how Northeast'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, 2019.

Overview

Net income increased by $896 thousand to $4.8 million for the quarter ended March 31, 2019, compared to net income of $3.9 million for the quarter ended March 31, 2018.

Net interest and dividend income before provision for loan losses increased by $1.9 million to $15.0 million for the quarter ended March 31, 2019, compared to $13.1 million for the quarter ended March 31, 2018. The increase was primarily due to higher yields and higher average balances in the loan portfolio. These increases were partially offset by higher funding costs and higher average deposit balances.

Noninterest income decreased by $16 thousand for the quarter ended March 31, 2019, compared to the quarter ended March 31, 2018.

Noninterest expense increased by $777 thousand for the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018, primarily due to an increase in salaries and employee benefits expense. This increase resulted from increases in base salary, stock-based compensation expense, incentive compensation, and a decrease in deferred salaries expense. The increase also resulted from an increase in loan acquisition and collection expense, largely driven by increased loan expenses and collection expenses incurred on the purchased loan payoffs and real estate owned during the quarter.

Income tax expense increased by $160 thousand to $1.9 million, or an effective tax rate of 28.3%, for the quarter ended March 31, 2019, compared to $1.7 million, or an effective tax rate of 30.7%, for the quarter ended March 31, 2018. The increase in income tax expense was due to the increase in pre-tax earnings. The decrease in effective tax rate was primarily due to the decrease in the federal corporate income tax rate to 21.0% for the quarter ended March 31, 2019, as compared to the blended federal corporate income tax rate of 28.0% for the quarter ended March 31, 2018, partially offset by a decrease in excess tax benefits recognized in the current period.

Financial Condition

Overview

As of March 31, 2019, total assets were $1.2 billion, an increase of $73.7 million, or 6.4%, from total assets of $1.2 billion as of June 30, 2018. The principal components of the changes in the balance sheet follow:

1. The following table highlights the changes in the loan portfolio for the three and nine months ended March 31, 2019:

	Loan Portfolio Changes Three Months Ended March 31, 2019			
	March 31, 2019 Balance	December 31, 2018 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
LASG Purchased	$ 320,326	$ 330,643	$ (10,317)	(3.12%)
LASG Originated	478,020	435,817	42,203	9.68%
SBA	63,653	67,282	(3,629)	(5.39%)
Community Banking	99,654	104,544	(4,890)	(4.68%)
Total	$ 961,653	$ 938,286	$ 23,367	2.49%

	Nine Months Ended March 31, 2019			
	March 31, 2019 Balance	June 30, 2018 Balance	Change ($)	Change (%)
	(Dollars in thousands)			
LASG Purchased	$ 320,326	$ 290,972	$ 29,354	10.09%
LASG Originated	478,020	397,363	80,657	20.30%
SBA	63,653	60,156	3,497	5.81%
Community Banking	99,654	123,311	(23,657)	(19.18%)
Total	$ 961,653	$ 871,802	$ 89,851	10.31%

Loans generated by the Bank's LASG for the quarter ended March 31, 2019 totaled $89.1 million, which consisted of $4.6 million of purchased loans, at an average price of 98.5% of unpaid principal balance, and $84.5 million of originated loans. The Bank's SBA Division closed and funded $6.4 million of new loans during the quarter ended March 31, 2019. In addition, the Company sold $6.7 million of the guaranteed portion of SBA loans in the secondary market, of which $4.8 million were originated in the current quarter and $1.9 million were originated in prior quarters. Residential loan production sold in the secondary market totaled $7.8 million for the quarter.

As noted above in the "*Business Overview*" section, the Company made certain commitments to the Federal Reserve in connection with the merger of FHB with and into the Company in December 2010. The Company's loan purchase and commercial real estate loan availability under these conditions follow:

Basis for Regulatory Condition	Condition	Availability at March 31, 2019
		(Dollars in millions)
Total Loans	Purchased loans may not exceed 40% of total loans	$ 108.1
Regulatory Capital	Non-owner occupied commercial real estate loans may not exceed 300% of total capital	90.1

On January 7, 2019, the Company announced the Reorganization. If the Reorganization is completed, these commitments to the FRB will no longer be applicable. The Bank intends to replace these commitments with standards relating to its capital levels and asset portfolio composition, which will be incorporated into its policies and procedures, and compliance with FDIC policy on commercial real estate concentration risk.

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

- Maintain a Tier 1 leverage ratio of at least 10%, which is unchanged from the requirement in the commitments to the FRB;
- Maintain a Total capital ratio of at least 13.5% (as opposed to 15%);
- Limit purchased loans to 60% of total loans (as opposed to 40%);
- Maintain a ratio of the Bank's loans to core deposits of not more than 125% (as opposed to 100%); and
- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital (as opposed to 300%).

These newly established standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, but may permit more growth in the Bank's loan portfolio as compared to operating under the existing commitments. The Maine Bureau of Financial Institutions' order approving FHB Formation LLC's acquisition of the Company in December of 2010 requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 13.5%. These conditions will continue to apply to the Bank whether or not the Reorganization is completed.

On March 11, 2019, the Company announced that the Bank received approval from the FDIC for the Reorganization. The Reorganization remains subject to various closing conditions including, among others, (i) approval by the holders of the outstanding shares of the Company's capital stock entitled to vote on the Reorganization, (ii) receipt of all remaining required regulatory approvals, including approval of the Bank's stock issuance and amended and restated articles of incorporation and bylaws by the Maine Bureau of Financial Institutions, and (iii) approval for listing on NASDAQ of the Bank's voting common stock.

An overview of the Bank's LASG portfolio follows:

	LASG Portfolio					
	Three Months Ended March 31,					
	2019			2018		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 4,675	$ 84,546	$ 89,221	$ 38,493	$ 72,894	$ 111,387
Net investment basis	4,604	84,546	89,150	33,021	72,894	105,915
Loan returns during the period:						
Yield	9.49%	7.87%	8.56%	11.29%	6.83%	8.65%
Total Return on Purchased Loans (1)	10.22%	7.87%	8.87%	12.16%	6.83%	9.00%

	Nine Months Ended March 31,					
	2019			2018		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 94,423	$ 219,348	$ 313,771	$ 81,016	$ 157,958	$ 238,974
Net investment basis	88,741	219,348	308,089	71,474	157,958	229,432
Loan returns during the period:						
Yield	9.75%	7.64%	8.54%	11.53%	6.56%	8.60%
Total Return on Purchased Loans (1)	10.00%	7.64%	8.65%	11.82%	6.56%	8.72%
Total loans as of period end:						
Unpaid principal balance	$ 354,655	$ 478,020	$ 832,675	$ 289,852	$ 381,990	$ 671,842
Net investment basis	320,326	478,020	798,346	254,700	381,990	636,690

(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."

Assets

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

Cash and cash equivalents were $152.9 million as of March 31, 2019, a decrease of $4.5 million, or 2.9%, from $157.4 million at June 30, 2018. The decrease is primarily due to the increase in loans, partially offset by the increase in deposits in the period.

Investment securities totaled $83.8 million as of March 31, 2019, compared to $87.7 million as of June 30, 2018, representing a decrease of $3.9 million, or 4.5%, 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 $5.2 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.6 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At March 31, 2019, no securities were pledged for outstanding borrowings.

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Loans

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

	March 31, 2019				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 62,294	$ 9,732	$ -	$ 72,026	7.49%
Commercial real estate: non-owner occupied	16,517	182,674	23,244	222,435	23.13%
Commercial real estate: owner occupied	9,563	69,996	34,321	113,880	11.84%
Commercial and industrial	8,714	215,618	6,088	230,420	23.96%
Consumer	2,566	-	-	2,566	0.27%
Total originated loans	99,654	478,020	63,653	641,327	66.69%
Purchased loans:					
Residential real estate	-	14,726	-	14,726	1.53%
Commercial real estate: non-owner occupied	-	187,930	-	187,930	19.54%
Commercial real estate: owner occupied	-	116,913	-	116,913	12.16%
Commercial and industrial	-	757	-	757	0.08%
Total purchased loans	-	320,326	-	320,326	33.31%
Total loans	$ 99,654	$ 798,346	$ 63,653	$ 961,653	100.00%

	June 30, 2018				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 79,091	$ 7,111	$ 128	$ 86,330	9.90%
Commercial real estate: non-owner occupied	18,698	137,463	29,488	185,649	21.29%
Commercial real estate: owner occupied	11,351	81,916	24,483	117,750	13.51%
Commercial and industrial	10,927	170,873	6,057	187,857	21.55%
Consumer	3,244	-	-	3,244	0.37%
Total originated loans	123,311	397,363	60,156	580,830	66.62%
Purchased loans:					
Residential real estate	-	13,926	-	13,926	1.60%
Commercial real estate: non-owner occupied	-	150,805	-	150,805	17.30%
Commercial real estate: owner occupied	-	125,246	-	125,246	14.37%
Commercial and industrial	-	995	-	995	0.11%
Total purchased loans	-	290,972	-	290,972	33.38%
Total loans	$ 123,311	$ 688,335	$ 60,156	$ 871,802	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 Company typically maintains such loans as nonperforming until the respective borrowers have demonstrated a sustained period of payment performance.

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

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

The following table details the Company's nonperforming assets and other credit quality indicators as of March 31, 2019 and June 30, 2018. 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, 2019		
	Originated	Purchased	Total
	(Dollars in thousands)		
Loans:			
Residential real estate	$ 2,317	$ 202	$ 2,519
Commercial real estate	3,336	4,795	8,131
Commercial and industrial	1,495	369	1,864
Consumer	236	-	236
Total nonperforming loans	7,384	5,366	12,750
Real estate owned and other repossessed collateral	31	1,983	2,014
Total nonperforming assets	$ 7,415	$ 7,349	$ 14,764
Ratio of nonperforming loans to total loans			1.33%
Ratio of nonperforming assets to total assets			1.20%
Ratio of loans past due to total loans			2.16%
Nonperforming loans that are current			$ 2,361
Commercial loans risk rated substandard or worse			$ 10,677
Troubled debt restructurings:			
On accrual status			$ 11,341
On nonaccrual status			$ 3,179

	Nonperforming Assets at June 30, 2018		
	Originated	Purchased	Total
	(Dollars in thousands)		
Loans:			
Residential real estate	$ 3,212	$ 202	$ 3,414
Commercial real estate	1,499	5,180	6,679
Commercial and industrial	1,368	363	1,731
Consumer	134	-	134
Total nonperforming loans	6,213	5,745	11,958
Real estate owned and other repossessed collateral	115	2,118	2,233
Total nonperforming assets	$ 6,328	$ 7,863	$ 14,191
Ratio of nonperforming loans to total loans			1.37%
Ratio of nonperforming assets to total assets			1.23%
Ratio of loans past due to total loans			0.89%
Nonperforming loans that are current			$ 4,897
Commercial loans risk rated substandard or worse			$ 9,090
Troubled debt restructurings:			
On accrual status			$ 11,915
Nonaccrual status			$ 3,543

As of March 31, 2019, nonperforming assets totaled $14.8 million, or 1.20% of total assets, as compared to $14.2 million, or 1.23% of total assets, as of June 30, 2018.

OREO decreased by $219 thousand, or 9.8%, to $2.0 million at March 31, 2019, compared to $2.2 million at June 30, 2018. The decrease was primarily the result of the sale of one property during the quarter ended September 30, 2018, partially offset by the addition of one property during the quarter ended March 31, 2019.

Allowance for Loan Losses

In connection with the application of the acquisition method of accounting for the merger on December 29, 2010, the allowance for loan losses was reduced to zero when the loan portfolio was marked to its then current fair value. Since that date, the Company has provided for an allowance for loan losses as new loans are originated or in the event that credit exposure in the pre-merger loan portfolio or other acquired loans exceeds the exposure estimated when initial fair values were determined.

The Company’s allowance for loan losses amounted to $5.7 million as of March 31, 2019, compared to $4.8 million as of June 30, 2018. The increase in the period is primarily the result of the increase in loan balance, as well as an increase in qualitative factors.

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

	March 31, 2019	June 30, 2018	March 31, 2018
Allowance for loan losses to nonperforming loans	44.38%	40.20%	34.46%
Allowance for loan losses to total loans	0.59%	0.55%	0.57%
Last twelve months of net-charge offs to average loans	0.04%	0.04%	0.03%

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 Company 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 $805 thousand, or 12.2%, to $5.8 million at March 31, 2019, compared to $6.6 million at June 30, 2018. The decrease was primarily due to depreciation and amortization.

Intangible assets totaled $542 thousand and $867 thousand at March 31, 2019 and June 30, 2018, respectively. The $325 thousand decrease was the result of amortization during the period.

Servicing rights, net totaled $2.9 million and $3.0 million at March 31, 2019 and June 30, 2018, respectively. The $27 thousand decrease was the result of amortization and the revaluation of the servicing rights performed on a quarterly basis, offset by SBA loans sold during the nine months ended March 31, 2019.

The cash surrender value of the Company's bank-owned life insurance ("BOLI") assets increased $328 thousand, or 2.0% to $16.9 million at March 31, 2019, compared to $16.6 million at June 30, 2018. 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 Company to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 9.2% of the Company's regulatory total capital at March 31, 2019.

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

Deposits

The Company's principal source of funding is its core deposit accounts. At March 31, 2019, non-maturity accounts and non-brokered insured time deposits represented 99.9% of total deposits.

Total deposits increased by $61.7 million, or 6.5%, from June 30, 2018, attributable primarily to an increase in time deposits of $187.1 million, or 53.1%, as a result of campaigns in the current period, partially offset by decreases in money market accounts of $124.2 million, or 29.5%.

The composition of total deposits at March 31, 2019 and June 30, 2018 is as follows:

	March 31, 2019		June 30, 2018	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 76,003	7.48%	$ 72,272	7.57%
NOW accounts	68,197	6.71%	73,347	7.68%
Regular and other savings	36,481	3.59%	36,290	3.80%
Money market deposits	296,720	29.18%	420,886	44.07%
Total non-certificate accounts	477,401	46.96%	602,795	63.12%
Term certificates of $250 thousand or less	538,913	53.01%	352,145	36.88%
Term certificates greater than $250 thousand	310	0.03%	-	0.00%
Total certificate accounts	539,223	53.04%	352,145	36.88%
Total deposits	$ 1,016,624	100.00%	$ 954,940	100.00%

FHLBB Advances

Advances from the FHLBB were $15.0 million at both March 31, 2019 and June 30, 2018. As of March 31, 2019, the Company had pledged certain residential real estate loans and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of March 31, 2019, no securities were pledged for outstanding borrowings.

Subordinated Debt

On June 29, 2016, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which the Company issued subordinated notes equal to $15.1 million in aggregate principal amount with an interest rate of 6.75% fixed-to-floating maturing in 2026 ("subordinated notes"). The subordinated notes, net of issuance costs, totaled $14.8 million and $14.7 million at March 31, 2019 and June 30, 2018, respectively.

The Company had junior subordinated debentures issued to affiliated trusts totaling $9.4 million and $9.2 million at March 31, 2019 and June 30, 2018, respectively. The unpaid principal balance of the junior subordinated debentures totaled $16.5 million at both March 31, 2019 and June 30, 2018.

In connection with the Reorganization, the Company intends to redeem the junior subordinated debentures and the Bank will assume the Company's obligations under the subordinated notes.

Liquidity

The following table is a summary of unused borrowing capacity of the Company at March 31, 2019, in addition to traditional retail deposit products:

	As of March 31, 2019 (Dollars in thousands)	
Brokered time deposits	$ 307,541	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	37,637	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 362,678	

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, 2019, the Company had $427.4 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 34.7% of total assets. The Company also had $152.9 million of cash and cash equivalents at March 31, 2019.

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

Capital

The unpaid principal balance and carrying amount of junior subordinated debentures totaled $16.5 million and $9.4 million, respectively, as of March 31, 2019. The unpaid principal balance and carrying amount of subordinated debentures totaled $15.1 million and $14.8 million, respectively, as of March 31, 2019. The junior subordinated debentures represents qualifying Tier 1 capital for the Company, up to a maximum of 25% of total Tier 1 capital, and subordinated debentures represents qualifying Tier 2 capital for the Company. At March 31, 2019, the carrying amounts of the junior subordinated debentures, net of the Company's $496 thousand investment in the affiliated trusts, qualified as Tier 1 capital, and the subordinated debt qualified as Tier 2 capital.

In connection with the Reorganization, the Company intends to redeem the $16.5 million unpaid principal balance of junior subordinated debentures issued by the Company in connection with the issuance of trust preferred securities by its three Delaware statutory trust subsidiaries, and the Bank will assume the Company's obligations under the $15.1 million unpaid principal balance of 6.75% Fixed-to-Floating Rate Subordinated Notes due July 1, 2026. On a pro forma basis as of March 31, 2019, after giving effect to these transactions, the Bank's Tier 1 leverage capital ratio and Total capital ratio would have been 12.3% and 17.8%, respectively, and the Bank would be considered "well capitalized" under all regulatory capital definitions and in excess of the proposed standards. In addition, the redemption of the junior subordinated debentures is expected to result in a reduction in net income of approximately $5.2 million, after tax, during the quarter in which the redemption occurs, due to the write-off of the carrying value discount on the debentures that was recognized in connection with the merger of FHB Formation LLC with and into the Company in December 2010.

At March 31, 2019, shareholders' equity was $153.2 million, an increase of $14.8 million, or 10.7% from June 30, 2018. Book value per outstanding common share was $16.94 at March 31, 2019 and $15.49 at June 30, 2018. Tier 1 capital to total average assets of the Company was 13.6% as of March 31, 2019 and 13.1% at June 30, 2018.

Under the capital rules, risk-based capital ratios are calculated by dividing Tier 1 and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of several risk-weight categories, based primarily on relative risk. The rules require banks and bank holding companies to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6%, a total capital ratio of 8% and a leverage ratio of 4%. Additionally, subject to a transition schedule, the capital rules require a bank holding company to establish a capital conservation buffer of Tier 1 capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

A bank holding company, such as the Company, is considered "well capitalized" if the bank holding company (i) has a total capital ratio of at least 10%, (ii) has a Tier 1 risk-based capital ratio of at least 6%, and (iii) is not subject to any written agreement order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. In addition, the FDIC has amended its prompt corrective action rules to reflect the revisions made by the revised capital rules described above. Under the FDIC's revised rules, which became effective January 1, 2015, an insured state nonmember bank is considered "well capitalized" if it (i) has a total capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 8.0% or greater; (iii) a common Tier 1 equity ratio of 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

The Company and the Bank are considered "well capitalized" under all regulatory definitions. The Company's and the Bank's regulatory capital ratios are set forth below.

	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
March 31, 2019:			(Dollars in thousands)				
Common equity tier 1 capital to risk weighted assets:							
Company	$ 154,557	16.23%	$ 42,841	≥ 4.5%	N/A	N/A	7.0%
Bank	173,290	18.20%	42,839	≥ 4.5%	$ 61,879	≥ 6.5%	7.0%
Total capital to risk weighted assets:							
Company	183,988	19.33%	76,163	≥ 8.0%	N/A	N/A	10.5%
Bank	179,000	18.80%	76,159	≥ 8.0%	95,198	≥10.0%	10.5%
Tier 1 capital to risk weighted assets:							
Company	163,476	17.17%	57,122	≥ 6.0%	N/A	N/A	8.5%
Bank	173,290	18.20%	57,119	≥ 6.0%	76,159	≥ 8.0%	8.5%
Tier 1 capital to average assets:							
Company	163,476	13.58%	48,135	≥ 4.0%	N/A	N/A	4.0%
Bank	173,290	14.41%	48,114	≥ 4.0%	60,143	≥ 5.0%	4.0%
June 30, 2018:							
Common equity tier 1 capital to risk weighted assets:							
Company	$ 139,247	16.02%	$ 39,113	≥ 4.5%	N/A	N/A	7.0%
Bank	156,856	18.04%	39,120	≥ 4.5%	$ 56,506	≥ 6.5%	7.0%
Total capital to risk weighted assets:							
Company	167,567	19.28%	69,535	≥ 8.0%	N/A	N/A	10.5%
Bank	161,714	18.60%	69,546	≥ 8.0%	86,933	≥10.0%	10.5%
Tier 1 capital to risk weighted assets:							
Company	147,990	17.03%	52,151	≥ 6.0%	N/A	N/A	8.5%
Bank	156,856	18.04%	52,160	≥ 6.0%	69,546	≥ 8.0%	8.5%
Tier 1 capital to average assets:							
Company	147,990	13.12%	45,102	≥ 4.0%	N/A	N/A	4.0%
Bank	156,856	13.92%	45,075	≥ 4.0%	56,344	≥ 5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Company 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. The required amount of the capital conservation buffer was 2.5% on January 1, 2019.

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Company if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under FRB rules.

In connection with the merger on December 29, 2010, as part of the regulatory approval process, the Company and the Bank made certain commitments to the Federal Reserve, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of the Company's loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold non-owner occupied commercial real estate loans to within 300% of total capital. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve.

As discussed in more detail above, in connection with the Reorganization, the Bank intends to replace these commitments with standards relating to its capital levels and asset portfolio composition, which will be incorporated into its policies and procedures, and compliance with FDIC policy on commercial real estate concentration risk.

Off-Balance Sheet Financial Instruments

The Company 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 consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

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

Results of Operations

General

Net income increased by $896 thousand to $4.8 million for the quarter ended March 31, 2019, compared to net income of $3.9 million for the quarter ended March 31, 2018. The increase in net income was due to the increase in base interest income, partially offset by lower transactional interest income, higher funding costs, and an increase in noninterest expense.

Net Interest Income

Three Months Ended March 31, 2019 and 2018

Net interest and dividend income before provision for loan losses increased by $1.9 million to $15.0 million for the quarter ended March 31, 2019, compared to $13.1 million for the quarter ended March 31, 2018. The increase was primarily due to higher yields and higher average balances in the loan portfolio. These increases were partially offset by higher funding costs and higher average deposit balances.

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,					
	2019			2018		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 102,850	$ 1,348	5.32%	$ 136,824	$ 1,743	5.17%
SBA	69,247	1,366	8.00%	53,069	1,017	7.77%
LASG:						
Originated	437,499	8,490	7.87%	351,271	5,916	6.83%
Purchased	324,414	7,592	9.49%	241,793	6,732	11.29%
Total LASG	761,913	16,082	8.56%	593,064	12,648	8.65%
Total	$ 934,010	$ 18,796	8.16%	$ 782,957	$ 15,408	7.98%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the three months ended March 31, 2018, transactional income for the three months ended March 31, 2019 decreased by $672 thousand, while regularly scheduled interest and accretion increased by $1.6 million due to the increase in average balance. The total return on purchased loans for the three months ended March 31, 2019 was 10.2%.

The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended March 31,			
	2019		2018	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 6,228	7.79%	$ 4,630	7.77%
Transactional income:				
Gain on loan sales	582	0.73%	516	0.87%
Gain on sale of real estate owned	-	0.00%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	1,364	1.70%	2,102	3.52%
Total transactional income	1,946	2.43%	2,618	4.39%
Total	$ 8,174	10.22%	$ 7,248	12.16%

(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 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 Company's interest rate spread increased by 12 basis points to 4.81% and net interest margin increased by 26 basis points to 5.20% for the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018. The increase was principally due to higher average loan balances in the quarter and higher yields, offset by higher deposit rates and average deposit balances.

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, 2019 and 2018.

	Three Months Ended March 31,					
	2019			2018		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 84,318	$ 444	2.14%	$ 91,630	$ 280	1.24%
Loans (1) (2) (3)	934,010	18,796	8.16%	782,957	15,408	7.98%
Federal Home Loan Bank stock	1,332	26	7.92%	1,758	23	5.31%
Short-term investments (4)	152,854	913	2.42%	202,283	772	1.55%
Total interest-earning assets	1,172,514	20,179	6.98%	1,078,628	16,483	6.20%
Cash and due from banks	2,647			3,079		
Other non-interest earning assets	28,399			32,332		
Total assets	$ 1,203,560			$ 1,114,039		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 68,869	$ 59	0.35%	$ 68,716	$ 49	0.29%
Money market accounts	318,423	1,251	1.59%	428,946	1,437	1.36%
Savings accounts	35,599	14	0.16%	38,369	17	0.18%
Time deposits	501,378	3,123	2.53%	321,271	1,193	1.51%
Total interest-bearing deposits	924,269	4,447	1.95%	857,302	2,696	1.28%
Federal Home Loan Bank advances	15,000	116	3.14%	15,000	118	3.19%
Subordinated debt	24,170	578	9.70%	23,831	525	8.93%
Capital lease obligations	419	5	4.84%	697	10	5.82%
Total interest-bearing liabilities	963,858	5,146	2.17%	896,830	3,349	1.51%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	79,599			78,209		
Other liabilities	9,489			7,714		
Total liabilities	1,052,946			982,753		
Shareholders' equity	150,614			131,286		
Total liabilities and shareholders' equity	$ 1,203,560			$ 1,114,039		
Net interest income		$ 15,033			$ 13,134	
Interest rate spread			4.81%			4.69%
Net interest margin (5)			5.20%			4.94%

(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.

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 Company’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, 2019 Compared to 2018		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (24)	$ 188	$ 164
Loans	3,033	355	3,388
Federal Home Loan Bank stock	(7)	10	3
Short-term investments	(221)	362	141
Total interest-earning assets	2,781	915	3,696
Interest-bearing liabilities:			
Interest-bearing deposits	383	1,368	1,751
Federal Home Loan Bank advances	-	(2)	(2)

Subordinated debt	7	46	53
Capital lease obligations	(3)	(2)	(5)
Total interest-bearing liabilities	387	1,410	1,797
Total change in net interest income	$ 2,394	$ (495)	$ 1,899

Nine Months Ended March 31, 2019 and 2018

Net interest and dividend income before provision for loan losses increased by $6.1 million for the nine months ended March 31, 2019, compared to the nine months ended March 31, 2018. The increase was primarily due to higher average balances and higher rates earned in the loan portfolio. These increases were partially offset by lower transactional income, higher funding costs and higher average deposit balances.

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,					
	2019			2018		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 110,566	$ 4,319	5.20%	$ 142,873	$ 5,242	4.89%
SBA	71,309	4,091	7.64%	52,014	2,772	7.10%
LASG:						
Originated	418,747	24,031	7.64%	340,014	16,746	6.56%
Purchased	311,780	22,815	9.75%	237,183	20,532	11.53%
Total LASG	730,527	46,846	8.54%	577,197	37,278	8.60%
Total	$ 912,402	$ 55,256	8.07%	$ 772,084	$ 45,292	7.81%

(1) Includes loans held for sale.

The following table details the total return on purchased loans. When compared to the nine months ended March 31, 2018, transactional income for the nine months ended March 31, 2019 decreased by $1.8 million, while regularly scheduled interest and accretion increased by $4.1 million due to the increase in average balance.

	Total Return on Purchased Loans			
	Nine Months Ended March 31,			
	2019		2018	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 17,849	7.63%	$ 13,709	7.70%
Transactional income:				
Gain on loan sales	582	0.25%	516	0.29%
Gain on sale of real estate owned	-	0.00%	-	0.00%
Other noninterest income (expense)	-	0.00%	-	0.00%
Accelerated accretion and loan fees	4,966	2.12%	6,823	3.83%
Total transactional income	5,548	2.37%	7,339	4.12%
Total	$ 23,397	10.00%	$ 21,048	11.82%

(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 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 Company's interest rate spread increased by five basis points to 4.81% and net interest margin increased by 15 basis points to 5.15% for the nine months ended March 31, 2019 compared to the nine months ended March 31, 2018. The increase was principally due to higher average balances and higher rates earned in the loan portfolio, partially offset by higher deposit rates and average deposit balances, as well as lower transactional income recognized in the nine months ended March 31, 2019.

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, 2019 and 2018.

	Nine Months Ended March 31,					
	2019			2018		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 85,850	$ 1,229	1.91%	$ 93,816	$ 813	1.15%
Loans (1) (2) (3)	912,402	55,256	8.07%	772,084	45,302	7.82%
Federal Home Loan Bank stock	1,547	74	6.37%	1,852	65	4.68%
Short-term investments (4)	164,841	2,715	2.19%	169,073	1,753	1.38%
Total interest-earning assets	1,164,640	59,274	6.78%	1,036,825	47,933	6.16%
Cash and due from banks	2,606			2,981		
Other non-interest earning assets	30,339			31,924		
Total assets	$ 1,197,585			$ 1,071,730		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 70,882	$ 183	0.34%	$ 69,532	$ 152	0.29%
Money market accounts	366,326	4,259	1.55%	394,364	3,564	1.20%
Savings accounts	35,592	42	0.16%	37,418	42	0.15%
Time deposits	450,064	7,627	2.26%	312,268	3,243	1.38%
Total interest-bearing deposits	922,864	12,111	1.75%	813,582	7,001	1.15%
Federal Home Loan Bank advances	15,000	359	3.19%	17,594	438	3.32%
Subordinated debt	24,084	1,752	9.69%	23,745	1,550	8.70%
Capital lease obligations	490	19	5.17%	764	31	5.41%
Total interest-bearing liabilities	962,438	14,241	1.97%	855,685	9,020	1.40%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	80,953			80,896		
Other liabilities	8,575			7,080		
Total liabilities	1,051,966			943,661		
Shareholders' equity	145,619			128,069		
Total liabilities and shareholders' equity	$ 1,197,585			$ 1,071,730		
Net interest income (5)		$ 45,033			$ 38,913	
Interest rate spread			4.81%			4.76%
Net interest margin (6)			5.15%			5.00%

(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) Includes tax exempt interest income of $10 thousand for the nine months ended March 31, 2018.
(6) Net interest margin is calculated as net interest income divided by total interest-earning assets.

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest bearing liabilities have affected the Company'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, 2019 Compared to 2018		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (74)	$ 490	$ 416
Loans	8,458	1,496	9,954
Federal Home Loan Bank stock	(12)	21	9
Short-term investments	(45)	1,007	962
Total interest-earning assets	8,327	3,014	11,341
Interest-bearing liabilities:			
Interest-bearing deposits	1,408	3,702	5,110
Federal Home Loan Bank advances	(63)	(16)	(79)
Subordinated debt	22	180	202
Capital lease obligations	(11)	(1)	(12)
Total interest-bearing liabilities	1,356	3,865	5,221
Total change in net interest income	$ 6,971	$ (851)	$ 6,120

Provision for Loan Losses

Quarterly, the Company determines the amount of the allowance for loan losses that is appropriate to provide for losses inherent in the Company'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 Consolidated Financial Statements — Note 4: Loans, Allowance for Loan Losses and Credit Quality" for further discussion.

The provision for loan losses for periods subsequent to the merger with FHB reflects the impact of adjusting loans to their then fair values, as well as the elimination of the allowance for loan losses in accordance with the acquisition method of accounting. Subsequent to the merger, the provision for loan losses has been recorded based on estimates of inherent losses in newly originated loans and for incremental reserves required for pre-merger loans based on estimates of deteriorated credit quality post-merger.

Three Months Ended March 31, 2019 and 2018

The provision for loan losses for the three months ended March 31, 2019 and 2018 was $414 thousand and $364 thousand, respectively. The increase in the Company's provision for loan losses was primarily due to changes in the composition of the loan portfolio.

Nine Months Ended March 31, 2019 and 2018

The provision for loan losses for the nine months ended March 31, 2019 and 2018 was $1.0 million and $1.2 million, respectively. The decrease in the Company's provision for loan losses was primarily due to changes in the composition of the loan portfolio.

Noninterest Income

Three Months Ended March 31, 2019 and 2018

Noninterest income decreased by $16 thousand for the quarter ended March 31, 2019, compared to the quarter ended March 31, 2018, principally due to the following:

- A decrease in gain on sale of residential loans of $119 thousand, due to lower volume of residential loans sold in the quarter; and
- A decrease in fees for other services to customers of $27 thousand, due to lower deposit fees and commercial loan servicing fees; offset by,
- An increase in gain on sale of other loans of $66 thousand, due to a higher volume of LASG purchased loans sold in the quarter; and
- An increase in net unrealized gain on equity securities of $65 thousand.

Nine Months Ended March 31, 2019 and 2018

Noninterest income decreased by $103 thousand for the nine months ended March 31, 2019, compared to the nine months ended March 31, 2018, principally due to the following:

- A decrease in gain on sale of residential loans of $385 thousand, due to lower volume of residential loans sold in the period; and
- A decrease in fees for other services to customers of $197 thousand, due to lower commercial loan servicing fees as a result of the write-off of servicing assets related to SBA loans that paid off during the period; offset by,
- An increase in gain on sale of SBA loans of $440 thousand, due to a higher volume of SBA guarantees sold.

Noninterest Expense

Three Months Ended March 31, 2019 and 2018

Noninterest expense increased by $777 thousand for the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018, primarily due to the following:

- An increase in salaries and employee benefits expense of $453 thousand, primarily due to increases in base salary, stock-based compensation expense, incentive compensation, and a decrease in deferred salaries expense;
- An increase in loan acquisition and collection expense of $345 thousand, largely driven by increased loan expenses and collection expenses incurred on the purchased loan payoffs and real estate owned during the quarter; and
- An increase in data processing fees of $208 thousand, primarily due to increased IT outsourcing costs; partially offset by,
- A decrease in occupancy and equipment of $202 thousand, primarily due to a decrease in equipment repairs and maintenance expense.

Nine Months Ended March 31, 2019 and 2018

Noninterest expense increased by $2.8 million for the nine months ended March 31, 2019, compared to the nine months ended March 31, 2018, primarily due to the following:

- An increase in salaries and employee benefits expense of $1.2 million, primarily due to increases in incentive compensation and stock-based compensation expense;
- An increase in data processing fees of $918 thousand, primarily due to increased IT outsourcing costs;
- An increase in loan acquisition and collection expense of $635 thousand, largely driven by increased loan expenses and collection expenses incurred on purchased loan payoffs, real estate owned and increased SBA and purchased loan activity during the period;
- An increase in professional fees of $225 thousand, primarily due to increased legal expense related to the anticipated reorganization and other consulting costs; and
- An increase in other noninterest expense of $380 thousand, primarily due to the quarterly valuation of SBA servicing rights; offset by,
- A decrease in occupancy and equipment expense of $726 thousand due to lower equipment repairs and maintenance.

Income Taxes

Three Months Ended March 31, 2019 and 2018

Income tax expense increased by $160 thousand to $1.9 million, or an effective tax rate of 28.3%, for the quarter ended March 31, 2019, compared to $1.7 million, or an effective tax rate of 30.7%, for the quarter ended March 31, 2018. The increase in income tax expense was due to the increase in pre-tax earnings. The decrease in effective tax rate was primarily due to the decrease in the federal corporate income tax rate to 21.0% for the quarter ended March 31, 2019, as compared to the blended federal corporate income tax rate of 28.0% for the quarter ended March 31, 2018, offset by a decrease in excess tax benefits recognized in the current period.

Nine Months Ended March 31, 2019 and 2018

Income tax expense increased by $714 thousand to $5.5 million, or an effective tax rate of 27.4%, for the nine months ended March 31, 2019, compared to $4.7 million, or an effective tax rate of 28.6%, the nine months ended March 31, 2018. The increase in expense was due to the increase in earnings. The decrease in the effective tax rate was primarily due to the following:

- The new federal corporate income tax rate of 21.0% for the nine months ended March 31, 2019, as compared to the blended federal corporate income tax rate of 28.0% for the nine months ended March 31, 2018; and
- The $498 thousand revaluation of the deferred tax asset as a result of the Tax Cuts and Jobs Act recorded in the nine months ended March 31, 2018; partially offset by,
- A decrease in the income tax benefit recognized of $990 thousand arising from the treatment of vested restricted stock awards under ASU 2016-09, *Compensation–Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,* whereby the tax effects of vested awards or exercised stock options are treated as a discrete item in the reporting period in which they occur.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports the Company 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 SEC, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer (the Company'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 Company'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 Company'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, 2019.

There were no changes in the Company'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, 2019 that have materially affected, or is reasonably likely to materially affect, the Company'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

(c) There were no purchases made by the Company of its common stock during the three months ended March 31, 2019. The Company's amended stock repurchase program expired on October 21, 2018.

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)). **
101	The following materials from Northeast Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 formatted in XBRL: (i) Consolidated Balance Sheets as of March 31, 2019 and June 30, 2018; (ii) Consolidated Statements of Income for the three and nine months ended March 31, 2019 and 2018; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2019 and 2018; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three and nine months ended March 31, 2019 and 2018; (v) Consolidated Statements of Cash Flows for the nine months ended March 31, 2019 and 2018; and (v) Notes to Unaudited Consolidated Financial Statements. *

* 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 8, 2019

NORTHEAST BANCORP

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

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

Exhibit 31.1 Certification of the Chief Executive Officer

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

I, Richard Wayne, certify that:

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

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 8, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

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

I, Jean-Pierre Lapointe, certify that:

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

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 8, 2019

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

Exhibit 32.1. Certificate of the Chief Executive Officer

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

In connection with the Quarterly Report of Northeast Bancorp. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Company, 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 Company 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 8, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. Certificate of the Chief Financial Officer

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

In connection with the Quarterly Report of Northeast Bancorp. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Company, 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 Company 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 8, 2019

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