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 September 30, 2013

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of October 31, 2013, the registrant had outstanding 9,552,587 shares of voting common stock, $1.00 par value per share and 880,963 shares of non-voting common stock, $1.00 par value per share.

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PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2013	June 30, 2013
Assets		
Cash and due from banks	$ 2,849	$ 3,238
Short-term investments	74,502	62,696
Total cash and cash equivalents	77,351	65,934
Available-for-sale securities, at fair value	118,207	121,597
Loans held for sale	5,418	8,594
Loans	483,486	435,376
Less: Allowance for loan losses	1,224	1,143
Loans, net	482,262	434,233
Premises and equipment, net	9,827	10,075
Real estate owned and other repossessed collateral, net	3,413	2,134
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	5,721	5,721
Intangible assets, net	3,334	3,544
Bank owned life insurance	14,502	14,385
Other assets	4,920	4,422
Total assets	$ 724,955	$ 670,639
Liabilities and Stockholders' Equity		
Deposits		
Demand	$ 50,392	$ 46,425
Savings and interest checking	91,330	90,970
Money market	85,855	84,416
Time	304,521	262,812
Total deposits	532,098	484,623
Federal Home Loan Bank advances	42,985	28,040
Wholesale repurchase agreements	15,343	25,397
Short-term borrowings	1,970	625
Junior subordinated debentures issued to affiliated trusts	8,310	8,268
Capital lease obligation	1,695	1,739
Other liabilities	8,708	8,145
Total liabilities	611,109	556,837
Commitments and contingencies	—	—
Stockholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2013 and June 30, 2013	—	—
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 9,552,587 and 9,565,680 shares issued and outstanding at September 30, 2013 and June 30, 2013, respectively	9,553	9,566
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 880,963 shares issued and outstanding at September 30, 2013 and June 30, 2013	881	881
Additional paid-in capital	93,081	92,745

Retained earnings		11,904		12,524
Accumulated other comprehensive loss		(1,573)		(1,914)
Total stockholders' equity		113,846		113,802
Total liabilities and stockholders' equity	$	724,955	$	670,639

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

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

	Three Months Ended September 30,			
	2013		2012	
Interest income:				
Loans	$	8,457	$	7,341
Available-for-sale securities		282		347
Other		52		89
Total interest income		8,791		7,777
Interest expense:				
Deposits		1,047		978
Federal Home Loan Bank advances		323		259
Wholesale repurchase agreements		95		219
Short-term borrowings		5		6
Junior subordinated debentures issued to affiliated trusts		192		193
Obligation under capital lease agreements		22		24
Total interest expense		1,684		1,679
Net interest income before provision for loan losses		7,107		6,098
Provision for loan losses		77		228
Net interest income after provision for loan losses		7,030		5,870
Noninterest income:				
Fees for other services to customers		439		310
Net securities gains		—		792
Gain on sales of loans held for sale		539		756
Gain on sales of portfolio loans		216		—
(Loss) gain recognized on real estate owned and other repossessed collateral, net		(38)		451
Investment commissions		675		675
Bank-owned life insurance income		118		123
Other noninterest income		14		43
Total noninterest income		1,963		3,150
Noninterest expense:				
Salaries and employee benefits		5,144		4,057
Occupancy and equipment expense		1,355		1,078
Professional fees		426		423
Data processing fees		314		268
Marketing expense		44		187
Loan acquisition and collection expense		473		454
FDIC insurance premiums		110		117
Intangible asset amortization		210		265
Legal settlement recovery		(250)		—
Other noninterest expense		686		653
Total noninterest expense		8,512		7,502
Income before income tax expense		481		1,518
Income tax expense		161		484
Net income	$	320	$	1,034
Net income available to common stockholders	$	320	$	936
Weighted-average shares outstanding:				
Basic		10,440,513		10,383,441
Diluted		10,440,513		10,383,441
Earnings per common share:				
Basic	$	0.03	$	0.09
Diluted	$	0.03	$	0.09
Cash dividends declared per common share	$	0.09	$	0.09

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

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

	Three Months Ended September 30, 2013	2012
Net income	$ 320	$ 1,034
Other comprehensive income (loss), before tax:		
Available-for-sale securities:		
Change in net unrealized gain or loss on available-for-sale securities	517	157
Reclassification adjustment for net gains included in net income	—	(792)
Total available-for-sale securities	517	(635)
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	19	6
Reclassification adjustments for net gains included in net income	(19)	(18)
Total derivatives and hedging activities	—	(12)
Total other comprehensive income (loss), before tax	517	(647)
Income tax expense (benefit) related to other comprehensive (loss) income	176	(220)
Other comprehensive income (loss), net of tax	341	(427)
Total comprehensive income	$ 661	$ 607

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

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NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands, except share and per share data)

	Preferred Stock Shares	Preferred Stock Amount	Voting Common Stock Shares	Voting Common Stock Amount	Non-voting Common Stock Shares	Non-voting Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at June 30, 2012	4,227	$ 4	9,307,127	$ 9,307	1,076,314	$ 1,076	$ 96,359	$ 12,235	$ 158	$ 119,135
Net income	—	—	—	—	—	—	—	1,034	—	1,034
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	—	(427)	(427)
Conversion of non-voting common stock to voting common stock	—	—	105,845	106	(105,845)	(106)	—	—	—	—
Dividends on preferred stock	—	—	—	—	—	—	—	(53)	—	(53)
Dividends on common stock at $0.09 per share	—	—	—	—	—	—	—	(935)	—	(935)
Stock-based compensation	—	—	—	—	—	—	99	—	—	99
Accretion of preferred stock	—	—	—	—	—	—	45	(45)	—	—
Balance at September 30, 2012	4,227	$ 4	9,412,972	$ 9,413	970,469	$ 970	$ 96,503	$ 12,236	$ (269)	$ 118,853
Balance at June 30, 2013	—	$ —	9,565,680	$ 9,566	880,963	$ 881	$ 92,745	$ 12,524	$ (1,914)	$ 113,802
Net income	—	—	—	—	—	—	—	320	—	320
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	341	341
Dividends on common stock at $0.09 per share	—	—	—	—	—	—	—	(940)	—	(940)
Stock-based compensation	—	—	—	—	—	—	323	—	—	323
Forfeiture of restricted common stock	—	—	(13,093)	(13)	—	—	13	—	—	—
Balance at September 30, 2013	—	$ —	9,552,587	$ 9,553	880,963	$ 881	$ 93,081	$ 11,904	$ (1,573)	$ 113,846

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

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

	Three Months Ended September 30, 2013	2012
Operating activities:		
Net income	$ 320	$ 1,034
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	77	228
Loss (gain) on sale and impairment of real estate owned, net	102	(451)
Accretion of fair value adjustments on loans, net	(1,317)	(1,692)
Accretion of fair value adjustments on deposits, net	(201)	(275)
Accretion of fair value adjustments on borrowings, net	(67)	(441)
Originations of loans held for sale	(27,433)	(38,204)
Net proceeds from sales of loans held for sale	31,148	35,856
Gain on sales of loans held for sale	(539)	(756)
Gain on sales of portfolio loans	(216)	—
Amortization of intangible assets	210	265
Bank-owned life insurance income, net	(118)	(123)
Depreciation of premises and equipment	522	424
Gain on sale of premises and equipment	(1)	—
Net gain on sale of available-for-sale securities	—	(792)
Stock-based compensation	323	99
Amortization of securities, net	335	420
Changes in other assets and liabilities:		
Other assets	(497)	349
Other liabilities	387	(177)
Net cash provided by (used in) operating activities	3,035	(4,236)
Investing activities:		
Proceeds from sales of available-for-sale securities	—	159,579
Purchases of available-for-sale securities	(3,004)	(167,294)
Proceeds from maturities and principal payments on available-for-sale securities	6,576	3,647
Loan purchases	(16,348)	(31,023)
Loan originations and principal collections, net	(31,961)	11,437
Purchases of premises and equipment	(284)	(514)
Proceeds from sales of premises and equipment	11	—
Proceeds from sales of real estate owned and other repossessed collateral	150	595
Proceeds from sales of portfolio loans	205	—
Net cash used in investing activities	(44,655)	(23,573)
Financing activities:		
Net increase in deposits	47,676	33,862
Net decrease in short-term borrowings	1,345	(725)
Dividends paid on preferred stock	—	(53)
Dividends paid on common stock	(940)	(935)
Proceeds from FHLB advances	15,000	—
Repayment of wholesale repurchase agreements	(10,000)	(30,000)
Repayment of capital lease obligation	(44)	(42)
Net cash provided by financing activities	53,037	2,107
Net increase (decrease) in cash and cash equivalents	11,417	(25,702)
Cash and cash equivalents, beginning of period	65,934	128,274
Cash and cash equivalents, end of period	$ 77,351	$ 102,572
Supplemental schedule of noncash investing and financing activities:		
Transfers from loans to real estate owned and other repossessed collateral	$ 1,531	$ 3,010
Transfers from real estate owned and other repossessed collateral to loans	—	1,055

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

NORTHEAST BANCORP AND SUBSIDIARY
Notes to Unaudited Consolidated Financial Statements
September 30, 2013

1. Basis of Presentation

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

These 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 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, 2013 ("Fiscal 2013") included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11"). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* ("ASU 2013-01). The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The new standards are effective for annual periods beginning January 1, 2013 and for interim periods within those annual periods. Retrospective application is required. The adoption of this guidance did not have a material impact on the consolidated financial statements.

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3. Securities Available-for-Sale

Securities available-for-sale at amortized cost and fair values are summarized below.

	September 30, 2013		June 30, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 45,181	$ 45,223	$ 45,289	$ 45,333
Agency mortgage-backed securities	75,146	72,984	78,944	76,264
	$ 120,327	$ 118,207	$ 124,233	$ 121,597

The gross unrealized gains and unrealized losses on available-for-sale securities follow.

	September 30, 2013		June 30, 2013	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
	(Dollars in thousands)			
U.S. Government agency securities	$ 42	$ —	$ 44	$ —
Agency mortgage-backed securities	—	(2,162)	—	(2,680)
	$ 42	$ (2,162)	$ 44	$ (2,680)

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. The following table summarizes realized gains and losses on available-for-sale securities.

	Three Months Ended September 30,	
	2013	2012
	(Dollars in thousands)	
Gross realized gains	$ —	$ 831
Gross realized losses	—	(39)
Net security gains	$ —	$ 792

At September 30, 2013, investment securities with a fair value of approximately $42.9 million 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.

	September 30, 2013					
	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	$ —	$ —	$ —	$ —	$ —	$ —
Agency mortgage-backed securities	69,719	(2,155)	3,265	(7)	72,984	(2,162)
	$ 69,719	$ (2,155)	$ 3,265	$ (7)	$ 72,984	$ (2,162)

	June 30, 2013					
	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	$ —	$ —	$ —	$ —	$ —	$ —
Agency mortgage-backed securities	76,264	(2,680)	—	—	76,264	(2,680)
	$ 76,264	$ (2,680)	$ —	$ —	$ 76,264	$ (2,680)

There were no other-than-temporary impairment losses on securities during the three months ended September 30, 2013 or 2012.

At September 30, 2013, the Company had one security in a continuous loss position for greater than twelve months. At September 30, 2013, 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 available-for-sale securities at September 30, 2013 is attributable to changes in interest rates.

Management of the Company, in addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. Management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at September 30, 2013.

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The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of September 30, 2013. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 42,176	$ 42,217
Due after one year through five years	3,004	3,005
Due after five years through ten years	39,441	38,715
Due after ten years	35,706	34,270
	$ 120,327	$ 118,207

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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, 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.

All loans purchased by the Company in the secondary market by the Bank's Loan Acquisition and Servicing Group ("LASG") 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 declines in expected cash flows of purchased loans are recorded through a specific allocation in the allowance for loan losses.

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

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"). 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 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 follows.

	September 30, 2013			June 30, 2013		
	Originated	Purchased	Total	Originated	Purchased	Total
	(Dollars in thousands)					
Residential real estate	$ 110,720	$ 2,645	$ 113,365	$ 89,734	$ 2,706	$ 92,440
Home equity	33,255	—	33,255	35,389	—	35,389
Commercial real estate	109,326	174,746	284,072	100,402	164,046	264,448
Construction	42	—	42	42	—	42
Commercial business	40,220	21	40,241	29,686	34	29,720
Consumer	12,511	—	12,511	13,337	—	13,337
Total loans	$ 306,074	$ 177,412	$ 483,486	$ 268,590	$ 166,786	$ 435,376

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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 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 adequacy 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: commercial real estate, commercial business, consumer, residential real estate, and purchased loans. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate: All loans in this segment are collateralized by residential real estate and repayment is primarily dependent on the credit quality 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.

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, 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 business: 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. Continued weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

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

Purchased: Loans in this segment are secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the LASG. Loans acquired by the LASG are, with limited exceptions, performing loans at the date of purchase. Loans in this segment acquired with specific material credit deterioration since origination are identified as purchased credit-impaired. 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.

The general component of the allowance for loan losses 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
- Other effects resulting from trends in the valuation of underlying collateral

There were no significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the three months ended September 30, 2013 or 2012.

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 for commercial business and commercial real estate loans 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 that loan. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for

impairment based on the group's historical loss experience adjusted for qualitative factors. Accordingly, the Company does not separately identify individual consumer and residential loans for individual impairment and disclosure. However, all loans modified in troubled debt restructurings are individually reviewed for impairment.

For all portfolio segments, except 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 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 estimated at acquisition. Loan impairment of purchased loans 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 the collecting scheduled principal and interest payments when due.

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

	Three Months Ended September 30, 2013						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 594	$ 173	$ 70	$ 189	$ 76	$ 41	$ 1,143
Provision	115	(10)	(26)	(53)	25	26	77
Recoveries	6	—	6	18	—	—	30
Charge-offs	(20)	—	—	(6)	—	—	(26)
Ending balance	$ 695	$ 163	$ 50	$ 148	$ 101	$ 67	$ 1,224

	Three Months Ended September 30, 2012						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 214	$ 93	$ 292	$ 225	$ —	$ —	$ 824
Provision	213	(22)	(36)	73	—	—	228
Recoveries	1	—	—	3	—	—	4
Charge-offs	(127)	—	(203)	(58)	—	—	(388)
Ending balance	$ 301	$ 71	$ 53	$ 243	$ —	$ —	668

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

	September 30, 2013						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 190	$ 81	$ 44	$ 11	$ 65	$ —	$ 391
Collectively evaluated	505	82	6	137	—	67	797
ASC 310-30	—	—	—	—	36	—	36
Total	$ 695	$ 163	$ 50	$ 148	$ 101	$ 67	$ 1,224
Loans:							
Individually evaluated	$ 2,281	$ 1,561	$ 123	$ 201	$ 2,544	$ —	$ 6,710
Collectively evaluated	141,694	107,807	40,097	12,310	—	—	301,908
ASC 310-30	—	—	—	—	174,868	—	174,868
Total	$ 143,975	$ 109,368	$ 40,220	$ 12,511	$ 177,412	$ —	$ 483,486

	June 30, 2013						
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						

Allowance for loan losses:							
Individually evaluated	$ 235	$ 85	$ 63	$ 23	$ 65	$ —	$ 471
Collectively evaluated	359	88	7	166	—	41	661
ASC 310-30	—	—	—	—	11	—	11
Total	$ 594	$ 173	$ 70	$ 189	$ 76	$ 41	$ 1,143
Loans:							
Individually evaluated	$ 2,626	$ 1,558	$ 110	$ 149	$ 1,129	$ —	$ 5,572
Collectively evaluated	122,497	98,886	29,576	13,188	—	—	264,147
ASC 310-30	—	—	—	—	165,657	—	165,657
Total	$ 125,123	$ 100,444	$ 29,686	$ 13,337	$ 166,786	$ —	$ 435,376

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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.

	At September 30, 2013			At June 30, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Residential real estate	$ 964	$ 1,025	$ —	$ 1,158	$ 1,225	$ —
Consumer	80	85	—	88	93	—
Commercial real estate	443	476	—	434	479	—
Commercial business	79	133	—	47	101	—
Purchased:						
Commercial real estate	2,345	3,697	—	928	1,279	—
Total	3,911	5,416	—	2,655	3,177	—
Impaired loans with a valuation allowance:						
Originated:						
Residential real estate	1,317	1,287	190	1,468	1,420	235
Consumer	121	121	11	61	61	23
Commercial real estate	1,118	1,126	81	1,124	1,131	85
Commercial business	44	79	44	63	98	63
Purchased:						
Commercial real estate	199	275	65	201	276	65
Total	2,799	2,888	391	2,917	2,986	471
Total impaired loans	$ 6,710	$ 8,304	$ 391	$ 5,572	$ 6,163	$ 471

	Three Months Ended September 30,			
	2013		2012	
	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	$ 1,061	$ 6	$ 552	$ 5
Consumer	84	1	22	1
Commercial real estate	439	7	1,366	20
Commercial business	63	3	270	3
Purchased:				
Commercial real estate	1,637	7	528	—
Total	3,284	24	2,738	29
Impaired loans with a valuation allowance:				
Originated:				
Residential real estate	1,393	18	420	9
Consumer	91	1	37	1
Commercial real estate	1,121	26	550	6
Commercial business	54	—	398	—
Purchased:				
Commercial real estate	200	2	—	—
Total	2,859	47	1,405	16
Total impaired loans	$ 6,143	$ 71	$ 4,143	$ 45

Credit Quality

The Company utilizes a ten-point internal loan rating system for its purchased loan portfolio and originated commercial real estate, construction and commercial business 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 liquidation 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 commercial real estate, construction, and commercial business loans. Semi-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.

	September 30, 2013				
	Originated Portfolio				
	Commercial Real Estate	Construction	Commercial Business	Purchased Portfolio	Total
	(Dollars in thousands)				
Loans rated 1- 6	$ 104,656	$ 42	$ 39,894	$ 173,513	$ 318,105
Loans rated 7	3,651	—	44	1,478	5,173
Loans rated 8	1,019	—	282	2,421	3,722
Loans rated 9	—	—	—	—	—
Loans rated 10	—	—	—	—	—
	$ 109,326	$ 42	$ 40,220	$ 177,412	$ 327,000

	June 30, 2013				
	Originated Portfolio				
	Commercial Real Estate	Construction	Commercial Business	Purchased Portfolio	Total
	(Dollars in thousands)				
Loans rated 1- 6	$ 95,834	$ 42	$ 29,340	$ 161,965	$ 287,181
Loans rated 7	3,537	—	82	3,226	6,845
Loans rated 8	1,031	—	264	1,595	2,890
Loans rated 9	—	—	—	—	—
Loans rated 10	—	—	—	—	—
	$ 100,402	$ 42	$ 29,686	$ 166,786	$ 296,916

Past Due and Nonaccrual Loans

The following is a summary of past due and non-accrual loans:

	September 30, 2013							
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Residential real estate	$ 193	$ 379	$ —	$ 1,686	$ 2,258	$ 108,462	$ 110,720	$ 1,945
Home equity	57	97	—	215	369	32,886	33,255	229
Commercial real estate	56	—	—	98	154	109,172	109,326	471
Construction	—	—	—	—	—	42	42	—
Commercial business	—	—	—	44	44	40,176	40,220	62
Consumer	204	126	—	158	488	12,023	12,511	259
Total originated portfolio	510	602	—	2,201	3,313	302,761	306,074	2,966
Purchased portfolio:								

Residential real estate	—	—	—	—	—	2,645	2,645	—
Commercial business	—	—	—	—	—	21	21	—
Commercial real estate	741	363	—	2,238	3,342	171,404	174,746	2,553
Total purchased portfolio	741	363	—	2,238	3,342	174,070	177,412	2,553
Total loans	$ 1,251	$ 965	$ —	$ 4,439	$ 6,655	$ 476,831	$ 483,486	$ 5,519

	June 30, 2013							
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Residential real estate	$ 278	$ 408	$ —	$ 1,965	$ 2,651	$ 87,083	$ 89,734	$ 2,346
Home equity	53	47	—	253	353	35,036	35,389	334
Commercial real estate	91	326	—	98	515	99,887	100,402	473
Construction	—	—	—	—	—	42	42	—
Commercial business	—	—	—	44	44	29,642	29,686	110
Consumer	193	77	—	117	387	12,950	13,337	136
Total originated portfolio	615	858	—	2,477	3,950	264,640	268,590	3,399
Purchased portfolio:								
Residential real estate	—	—	—	—	—	2,706	2,706	—
Commercial business	—	—	—	—	—	34	34	—
Commercial real estate	—	2,210	—	1,135	3,345	160,701	164,046	1,457
Total purchased portfolio	—	2,210	—	1,135	3,345	163,441	166,786	1,457
Total loans	$ 615	$ 3,068	$ —	$ 3,612	$ 7,295	$ 428,081	$ 435,376	$ 4,856

Troubled Debt Restructurings

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

	Three Months Ended September 30,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	1	$ 14	—	$ —
Adjusted interest rate	1	82	—	—
Rate and maturity	—	—	1	222
Principal deferment	2	341	—	—
	4	$ 437	1	$ 222

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

	Three Months Ended September 30,					
	2013			2012		
	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	—	$ —	$ —	1	$ 222	$ 222
Home equity	1	14	14	—	—	—
Commercial real estate	1	323	323	—	—	—
Commercial business	1	18	18	—	—	—
Consumer	1	82	82	—	—	—
Total originated portfolio	4	437	437	1	222	222
Purchased portfolio:						
Residential real estate	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Total purchased portfolio	—	—	—	—	—	—
Total	4	$ 437	$ 437	1	$ 222	$ 222

The Company considers TDRs past due 90 days or more to be in payment default. One loan modified in a TDR in the last twelve months defaulted during the three months ended September 30, 2013; the recorded investment of such loan was $69 thousand. As of September 30, 2013, there were no further commitments to lend associated with loans modified in a TDR.

ASC 310-30 Loans

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

	Three Months Ended September 30, 2013

		(Dollars in thousands)
Contractually required payments receivable	$	22,217
Nonaccretable difference		(173)
Cash flows expected to be collected		22,044
Accretable yield		(5,696)
Fair value of loans acquired	$	16,348

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

		Three Months Ended September 30, 2013
		(Dollars in thousands)
Beginning balance	$	108,251
Acquisitions		5,696
Accretion		(3,738)
Reclassifications to (from) accretable yield		87
Disposals and other		(3,491)
End balance	$	106,805

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

		September 30, 2013		June 30, 2013
		(Dollars in thousands)		
Unpaid principal balance	$	210,188	$	202,722
Carrying amount	$	174,866	$	165,657

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5. Earnings Per Share (EPS)

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

	Three Months Ended September 30,			
	2013		2012	
	(Dollars in thousands, except share and per share data)			
Net income	$	320	$	1,034
Preferred stock dividends and accretion		—		(98)
Net income available to common shareholders	$	320	$	936
Weighted average shares used in calculation of basic EPS		10,440,513		10,383,441
Incremental shares from assumed exercise of dilutive securities		—		—
Weighted average shares used in calculation of diluted EPS		10,440,513		10,383,441

Anti-dilutive options and warrants excluded from the calculation of dilutive earnings per share follow.

	Three Months Ended September 30,	
	2013	2012
Stock options	1,166,804	788,549
Warrants	—	67,958
	1,166,804	856,507

6. 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 other 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 techniques - There have been no changes in the valuation techniques used during the current period.

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

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

Available-for-sale 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 agency mortgage-backed

securities, as well as certain preferred and trust preferred stocks. Level 3 securities are securities for which significant unobservable inputs are utilized.

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 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:

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.

Fair Value of other Financial Instruments:

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

FHLB and Federal Reserve stock - The carrying value of FHLB stock and Federal Reserve stock approximates fair value based on redemption provisions of the FHLB and the Federal Reserve.

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 loss.

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.

Borrowings - The fair value of the Company's borrowings with the FHLB is estimated by discounting the cash flows through maturity or the next repricing date based on current rates available to the Company for borrowings with similar maturities. The fair value of the Company's short-term borrowings, capital lease obligations, wholesale repurchase agreements and other borrowings is 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.

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

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Securities available-for-sale:				
U.S. Government agency securities	$ 45,223	$ —	$ 45,223	$ —
Agency mortgage-backed securities	72,984	—	72,984	—
Other assets - interest rate caps	—	—	—	—
Other assets - interest rate swaps	28	—	28	—
Liabilities				
Other liabilities - interest rate swaps	$ 397	$ —	$ 397	$ —

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Securities available-for-sale:				
U.S. Government agency securities	$ 45,333	$ —	$ 45,333	$ —
Agency mortgage-backed securities	76,264	—	76,264	—
Other assets - interest rate caps	—	—	—	—
Liabilities				
Other liabilities - interest rate swap	$ 389	$ —	$ 389	$ —

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

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 351	$ —	$ —	$ 351
Real estate owned and other repossessed collateral	3,413	—	—	3,413

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 894	$ —	$ —	$ 894
Real estate owned and other repossessed collateral	2,134	—	—	2,134

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

	Carrying Amount	Fair Value Measurements at September 30, 2013			
		Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 77,351	$ 77,351	$ 77,351	$ —	$ —
Available-for-sale securities	118,207	118,207	—	118,207	—
Regulatory stock	5,721	5,721	—	5,721	—
Loans held for sale	5,418	5,423	—	5,423	—
Loans, net	482,262	495,522	—	—	495,522
Accrued interest receivable	1,255	1,255	—	1,255	—
Interest rate caps	—	—	—	—	—
Interest rate swaps	28	28	—	28	—
Financial liabilities:					
Deposits	532,098	496,432	—	496,432	—
FHLB advances	42,985	44,333	—	44,333	—
Wholesale repurchase agreements	15,343	15,969	—	15,969	—
Short-term borrowings	1,970	1,970	—	1,970	—
Capital lease obligation	1,695	1,865	—	1,865	—
Subordinated debentures	8,310	7,453	—	—	7,453
Interest rate swaps	397	397	—	397	—

	Carrying Amount	Fair Value Measurements at June 30, 2013			
		Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Financial assets:					
Cash and cash equivalents	$ 65,934	$ 65,934	$ 65,934	$ —	$ —

Available-for-sale securities	121,597	121,597	—	121,597	—
Regulatory stock	5,721	5,721	—	5,721	—
Loans held for sale	8,594	8,602	—	8,602	—
Loans, net	434,233	444,988	—	—	444,988
Accrued interest receivable	1,396	1,396	—	1,396	—
Interest rate caps	—	—	—	—	—
Financial liabilities:					
Deposits	484,623	449,857	—	449,857	—
FHLB advances	28,040	29,404	—	29,404	—
Wholesale repurchase agreements	25,397	26,092	—	26,092	—
Short-term borrowings	625	625	—	625	—
Capital lease obligation	1,739	1,926	—	1,926	—
Subordinated debentures	8,268	7,594	—	—	7,594
Interest rate swaps	389	389	—	389	—

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.

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 September 30, 2013, the Company had posted cash collateral totaling $800 thousand 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.

September 30, 2013									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Gain (Loss)	Fair Value	Balance Sheet Location
(Dollars in thousands)									
Interest rate swaps:									
$ 10,000	February 2010	February 2015	3 Mo. LIBOR	2.16%	4.69%	n/a	$ (200)	$ (340)	Other Liabilities
5,000	July 2013	July 2033	3 Mo. LIBOR	0.27%	3.38%	n/a	28	28	Other Assets
5,000	July 2013	July 2028	3 Mo. LIBOR	0.27%	3.23%	n/a	(15)	(15)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.27%	2.77%	n/a	(42)	(42)	Other Liabilities
Interest rate caps:									
6,000	September 2009	September 2014	3 Mo. LIBOR	n/a	n/a	2.51%	(34)	—	Other Liabilities
$ 31,000							$ (263)	$ (369)	

June 30, 2013									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Gain (Loss)	Fair Value	Balance Sheet Location
(Dollars in thousands)									
Interest rate swaps:									
$ 10,000	February 2010	February 2015	3 Mo. LIBOR	2.16%	4.69%	n/a	$ (223)	$ (389)	Other Liabilities
Interest rate caps:									
6,000	September 2009	September 2014	3 Mo. LIBOR	n/a	n/a	2.51%	(40)	—	Other Liabilities
$ 16,000							$ (263)	$ (389)	

During the three months ended September 30, 2013 and 2012, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three months ended September 30, 2013 and 2012 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

During the periods presented, amounts recognized in income related hedge ineffectiveness resulted from amortization of the non-zero fair value associated with the Company's single interest rate swap held at the time of the merger with FHB Formation, LLC in December 2010. During the periods presented, amounts recognized in income related to amounts excluded from effectiveness testing resulted from amortization of the acquisition price of interest rate caps. The table below presents amounts recognized in income related to both hedge ineffectiveness and amounts excluded from effectiveness testing.

	Three Months Ended September 30, 2013	2012
	(Dollars in thousands)	
Interest income (expense):		
Interest rate caps	$ (6)	$ (7)
Interest rate swap	25	25
Total	$ 19	$ 18

The Company expects to record interest income of $100 thousand related to interest rate swap ineffectiveness in the next twelve months. The Company expects to record interest expense of $34 thousand related to its purchased interest rate caps in the next twelve months.

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8. Other Comprehensive Income

The components of other comprehensive income (loss) follow.

	Three Months Ended September 30, 2013 Pre-tax Amount	2013 Tax Expense (Benefit)	2013 After-tax Amount	2012 Pre-tax Amount	2012 Tax Expense (Benefit)	2012 After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ 517	$ 176	$ 341	$ 157	$ 53	$ 104
Reclassification adjustment for net gains included in net income	—	—	—	(792)	(269)	(523)
Total available-for-sale securities	517	176	341	(635)	(216)	(419)
Change in accumulated gain or loss on effective cash flow hedges	19	6	13	6	2	4
Reclassification adjustment for net gains included in net income	(19)	(6)	(13)	(18)	(6)	(12)
Total derivatives and hedging activities	—	—	—	(12)	(4)	(8)
Total other comprehensive income (loss)	$ 517	$ 176	$ 341	$ (647)	$ (220)	$ (427)

Accumulated other comprehensive loss is comprised of the following.

	September 30, 2013	June 30, 2013
	(Dollars in thousands)	
Unrealized loss on available-for-sale securities	$ (2,120)	$ (2,636)
Tax effect	721	896
Net-of-tax amount	(1,399)	(1,740)
Unrealized loss on cash flow hedges	(263)	(263)
Tax effect	89	89
Net-of-tax amount	(174)	(174)
Accumulated other comprehensive loss	$ (1,573)	$ (1,914)

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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 and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in 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:

	September 30, 2013	June 30, 2013
	(Dollars in thousands)	
Commitments to originate loans:		
Residential real estate mortgages	$ 15,791	$ 12,445

Construction loans	—	—
Consumer	—	—
Commercial real estate mortgages	8,521	—
Commercial business loans	438	904
	$ 24,750	$ 13,349
Unused lines of credit	$ 31,580	$ 30,809
Standby letters of credit	417	420
Unadvanced portions of construction loans	—	—

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.

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.

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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, 2013, filed with the Securities and Exchange Commission.

A Note about Forward Looking Statements

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to the Company'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; the effects of continuing 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; the risk that the Company may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Company's financial statements will become impaired; 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, 2013 as updated in the Company's Quarterly Reports on Form 10-Q and other filings submitted to the Securities and Exchange Commission. 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"), a Maine corporation chartered in April 1987, is a bank holding company registered with the Board of Governors of the Federal Reserve System ("Federal Reserve") under the Bank Holding Company Act of 1956, as amended. The Company's primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank (the "Bank" or "Northeast Bank"), which has ten banking branches. The Bank, which was originally organized in 1872 as a Maine-chartered mutual savings bank, is a Maine state-chartered bank and a member of the Federal Reserve System. As such, the Company and the Bank are currently subject to the regulatory oversight of the Federal Reserve and the State of Maine Bureau of Financial Institutions (the "Bureau").

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* ("ASC 805") 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 of the commitment to hold commercial real estate loans to within 300% of total risk-based capital to exclude owner-occupied commercial real estate loans. All other commitments made to the Federal Reserve in connection with the merger remain unchanged. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve. The Company's compliance ratios at September 30, 2013 follow.

Condition	Ratios at September 30, 2013
(i) Tier 1 leverage ratio	17.23%
(ii) Total risk-based capital ratio	25.63%
(iii) Ratio of purchased loans to total loans	36.29%
(iv) Ratio of loans to core deposits	93.04%
(v) Ratio of commercial real estate loans to total risk-based capital	171.30%

As of September 30, 2013, the Company, on a consolidated basis, had total assets of $725.0 million, total deposits of $532.1 million, and stockholders' equity of $113.8 million. The Company gathers retail deposits through its banking offices in Maine and its online affinity deposit program, ableBanking; originates loans through the Bank's Community Banking 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 and six loan production offices, from the Bank's headquarters in Lewiston, Maine. The Company operates ableBanking and the LASG from its 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 implementing the following strategies:

Measured growth of the commercial loan portfolio. The Company's LASG purchases performing commercial real estate loans, on a nationwide basis, typically at a discount from their outstanding principal balances, producing yields higher than those normally achieved on our originated loan portfolio. Loans are purchased on a nationwide basis from a variety of sources, including banks, insurance companies, investment funds and government agencies, either directly or indirectly through a broker. To a lesser extent, this group also originates, on a nationwide basis, commercial real estate and commercial business loans.

Focus on core deposits. The Company offers a full line of deposit products to customers in the Community Banking Division's market area through its ten-branch network. In June 2012, we launched our online affinity deposit program, ableBanking, a division of Northeast Bank. One of the Company's strategic goals is for ableBanking to provide an additional channel through which to raise core deposits to fund the Company's asset strategy.

Continuing our community banking tradition. The Community Banking Division retains a high degree of local autonomy and operational flexibility to better serve its customers. The Community Banking Division's focus on sales and service is expected to allow us to attract and retain core deposits in support of balance sheet growth, and to continue to generate new loans, particularly through the efforts of the residential mortgage origination team.

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, 2013 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 months ended September 30, 2013.

Overview

Net income was $320 thousand for the quarter ended September 30, 2013, compared to $1.0 million for the quarter ended September 30, 2012. Net income available to common stockholders was $320 thousand, or $0.03 per diluted common share, for the quarter ended September 30, 2013, compared to $936 thousand, or $0.09 per diluted common share, for the quarter ended September 30, 2012. The current quarter included $554 thousand of expenses related to severance and an insurance recovery of $250 thousand related to a lawsuit settled in the previous quarter. Excluding these items, which the Company considers to be non-core, net operating earnings were $521 thousand, or $0.05 per diluted common share.

Net interest income increased by $1.0 million, or 16.5%, to $7.1 million for the quarter ended September 30, 2013, compared to the quarter ended September 30, 2012, primarily due to growth in the purchased loan portfolio. This result is evident in the net interest margin, which increased to 4.24% for the quarter ended September 30, 2013, compared to 3.80% for the quarter ended September 30, 2012.

Noninterest income decreased by $1.2 million for the quarter ended September 30, 2013, compared to the quarter ended September 30, 2012, principally due to the lower securities gains of $792 thousand and a decrease in gains on sales of real estate owned of $489 thousand.

Noninterest expense increased by $1.0 million for the quarter ended September 30, 2013, compared to the quarter ended September 30, 2012, principally due to an increase of $1.0 million in salaries and employee benefits resulting from severance of $554 thousand and increased headcount in the LASG and mortgage lending division.

Financial Condition

Overview

Total assets increased by $54.3 million, or 8.1%, to $725.0 million at September 30, 2013, compared to June 30, 2013. The principal components of the change in the balance sheet were as follows:

- The loan portfolio grew by $48.1 million, or 11.1%, compared to June 30, 2013, principally due to net growth of $35.4 million in commercial loans purchased or originated by the LASG and $12.7 million of net growth in loans originated by the Community Banking Division. Growth in the Community Banking Division during the quarter was principally due to $27.7 million of residential loan originations held in portfolio to increase the Bank's loan purchasing capacity under regulatory conditions. As has been discussed in the Company's prior SEC filings, the Company made certain commitments to the Board of Governors of the Federal Reserve System in connection with the merger of FHB Formation LLC with and into the Company in December 2010. The Company's loan purchase capacity under these conditions follows.

Basis for Regulatory Condition	Condition	Purchased Loan Capacity at September 30, 2013 (Dollars in millions)
Total Loans	Purchased loans may not exceed 40% of total loans	$ 30.2
Regulatory Capital	Commercial real estate loans may not exceed 300% of total risk-based capital	$ 157.3

An overview of the LASG portfolio follows.

	Three Months Ended September 30,					
	2013			2012		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Purchased or originated during the period:						
Unpaid principal balance	$ 18,331	$ 26,426	$ 44,757	$ 42,273	$ 8,799	$ 51,072
Net investment basis	16,348	26,426	42,774	31,349	8,799	40,148
Totals as of period end:						
Unpaid principal balance	$ 214,159	$ 63,588	$ 277,747	$ 133,510	$ 12,594	$ 146,104
Net investment basis	177,412	63,618	241,030	107,440	12,594	120,034
Returns during the period:						
Yield	10.16%	5.71%	9.21%	15.13%	9.54%	14.58%
Total Return (1)	10.62%	5.71%	9.57%	17.41%	9.54%	16.63%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales, and other noninterest income recorded during the period divided by the average invested balance, on an annualized basis.

- Deposits and borrowings increased by $47.4 million and $6.2 million, respectively, from June 30, 2013. Growth in each was tied to the Company's strategy for funding its loan growth, and in particular to mitigate the interest rate risk associated with the increase in its residential loan portfolio. To date, the Company has duration-matched such growth with a mix of term funding raised through deposit listing services and Federal Home Loan Bank advances, the latter in conjunction with interest rate swaps.

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Assets

Cash, Short-term Investments and Securities

Cash and short-term investments were $77.4 million as of September 30, 2013, an increase of $11.4 million, or 17.3%, from $65.9 million at June 30, 2013. This increase is principally the result of the following: (i) growth in deposits and borrowings of $47.5 million and $6.2 million, respectively, (ii) net decreases in securities and loans held for sale of $3.4 million and $3.2 million, respectively, offset by (iii) an increase in portfolio loans of $48.1 million.

Available-for-sale securities, consisting of securities issued by government agencies and government-sponsored enterprises, totaled $118.2 million as of September 30, 2013. At September 30, 2013, securities with a fair value of $42.9 million were pledged for outstanding borrowings.

Loans

Total loans, excluding loans held for sale, amounted to $483.5 million as of September 30, 2013, an increase of $48.1 million, or 11.1%, from $435.4 million as of June 30, 2013. The increase consisted of net growth in loans purchased or originated by the LASG of $35.4 million and net growth in loans originated by the Community Banking Division of $12.7 million. The composition of the Company's loan portfolio follows.

	September 30, 2013			
	Community Banking Division	LASG	Total	Percent of Total
	(Dollars in thousands)			
Originated loans:				
Residential real estate	$ 110,570	$ 150	$ 110,720	22.90%
Home equity	33,255	—	33,255	6.88%
Commercial real estate: non-owner occupied	47,137	32,212	79,349	16.41%
Commercial real estate: owner occupied	27,244	2,733	29,977	6.20%

Construction	42	—	42	0.01%
Commercial business	11,697	28,523	40,220	8.32%
Consumer	12,511	—	12,511	2.59%
Subtotal	242,456	63,618	306,074	63.31%
Purchased loans:				
Residential real estate	—	2,645	2,645	0.55%
Commercial business	—	21	21	0.00%
Commercial real estate: non-owner occupied	—	127,995	127,995	26.47%
Commercial real estate: owner occupied	—	46,751	46,751	9.67%
Subtotal	—	177,412	177,412	36.69%
Total	$ 242,456	$ 241,030	$ 483,486	100.00%

	June 30, 2013			
	Community Banking Division	LASG	Total	Percent of Total
	(Dollars in thousands)			
Originated loans:				
Residential real estate	$ 89,584	$ 150	$ 89,734	20.61%
Home equity	35,389	—	35,389	8.13%
Commercial real estate: non-owner occupied	48,428	18,126	66,554	18.29%
Commercial real estate: owner occupied	30,487	3,361	33,848	7.77%
Construction	42	—	42	0.01%
Commercial business	12,444	17,242	29,686	6.82%
Consumer	13,337	—	13,337	3.06%
Subtotal	229,711	38,879	268,590	61.69%
Purchased loans:				
Residential real estate	—	2,706	2,706	0.62%
Commercial business	—	34	34	0.01%
Commercial real estate: non-owner occupied	—	125,496	125,496	28.83%
Commercial real estate: owner occupied	—	38,550	38,550	8.85%
Subtotal	—	166,786	166,786	38.31%
Total	$ 229,711	$ 205,665	$ 435,376	100.00%

Classification of Assets

Loans are classified as non-performing when 90 days past due, unless a loan is well-secured and in 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 non-performing. In both

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situations, accrual of interest ceases. The Company typically maintains such loans as non-performing 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 to contractual terms, the loan is classified as a troubled debt restructuring ("TDR"). Concessionary modifications may include adjustments to interest rates, extensions of maturity, or other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. 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 written down to its estimated realizable value 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.

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The following table details the Company's nonperforming assets and other credit quality indicators as of September 30, 2013 and June 30, 2013. The net increase in nonperforming assets during the three months ended September 30, 2013 was principally due to two purchased loan relationships. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Non-Performing Assets at September 30, 2013		
	Community Banking Division	LASG	Total
	(Dollars in thousands)		
Loans:			
Residential real estate	$ 1,795	$ 150	$ 1,945
Home equity	229	—	229
Commercial real estate	471	2,553	3,024
Construction	—	—	—

Commercial business	62	—	62
Consumer	259	—	259
Subtotal	2,816	2,703	5,519
Real estate owned and other repossessed collateral	2,383	1,030	3,413
Total	$ 5,199	$ 3,733	$ 8,932
Ratio of nonperforming loans to total loans			1.15%
Ratio of nonperforming assets to total assets			1.23%
Ratio of loans past due to total loans			1.38%
Nonperforming loans that are current			$ 1,079
Commercial loans risk rated substandard or worse			$ 3,722
Troubled debt restructurings:			
On accrual status			$ 2,781
On nonaccrual status			$ 1,308

	Non-Performing Assets at June 30, 2013		
	Community Banking Division	LASG	Total
	(Dollars in thousands)		
Loans:			
Residential real estate	$ 2,346	$ —	$ 2,346
Home equity	334	—	334
Commercial real estate	473	1,457	1,930
Construction	—	—	—
Commercial business	110	—	110
Consumer	136	—	136
Subtotal	3,399	1,457	4,856
Real estate owned and other repossessed collateral	2,134	—	2,134
Total	$ 5,533	$ 1,457	$ 6,990
Ratio of nonperforming loans to total loans			1.12%
Ratio of nonperforming assets to total assets			1.04%
Ratio of loans past due to total loans			1.68%
Nonperforming loans that are current			$ 887
Commercial loans risk rated substandard or worse			$ 2,890
Troubled debt restructurings:			
On accrual status			$ 2,632
Nonaccrual status			$ 1,110

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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 was $1.2 million as of September 30, 2013, which represents an increase of $81 thousand from $1.1 million as of June 30, 2013. During the three months ended September 30, 2013, the loan loss provision exceeded net charge-offs by $81 thousand.

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

	September 30, 2013	June 30, 2013	September 30, 2012
Allowance for loan losses to nonperforming loans	22.18%	23.54%	13.15%
Allowance for loan losses to total loans	0.25%	0.26%	0.18%
Last twelve months of net-charge offs to average loans	0.10%	0.21%	0.24%

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

The cash surrender value of the Company's bank-owned life insurance ("BOLI") assets increased $117 thousand, or 0.8% to $14.5 million at September 30, 2013, compared to $14.4 million at June 30, 2013. Increases in cash surrender value are recognized in other 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 11.9% of the Company's total risk-based capital at September 30, 2013.

Intangible assets totaled $3.3 million and $3.5 million at September 30, 2013 and June 30, 2013, respectively. The $210 thousand decrease was the result of core deposit intangible asset amortization during the period.

Deposits, Borrowed Funds, Capital Resources and Liquidity

Deposits

The Company’s principal source of funding is its core deposit accounts. At September 30, 2013, non-maturity accounts and certificates of deposit with balances less than $250 thousand represented 98.5% of total deposits.

Total deposits increased $47.5 million to $532.1 million as of September 30, 2013 from $484.6 million as of June 30, 2013. The increase, which funded growth in the Company’s loan portfolio, was principally from term deposits raised through listing services, which has provided the Bank with longer term funding than can typically be attracted through retail channels. At September 30, 2013, the Bank had $89 million of such deposit funding, with a weighted-average original term of 3.2 years. The composition of total deposits at September 30, 2013 and June 30, 2013 follows.

	September 30, 2013		June 30, 2013	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 50,392	9.47%	$ 46,425	9.58%
NOW accounts	58,202	10.94%	57,334	11.83%
Regular and other savings	33,128	6.23%	33,636	6.94%
Money market deposits	85,855	16.14%	84,416	17.42%
Total non-certificate accounts	227,577	42.78%	221,841	45.77%
Term certificates less than $250 thousand	296,560	55.72%	254,384	52.49%
Term certificates of $250 thousand or more	7,961	1.50%	8,428	1.74%
Total certificate accounts	304,521	57.22%	262,812	54.23%
Total deposits	$ 532,098	100.00%	$ 484,623	100.00%

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Borrowed Funds

Advances from the FHLB were $43.0 million and $28.0 million at September 30, 2013 and June 30, 2013, the increase due to $15.0 million of new advances during the quarter used to fund residential loan growth. In conjunction with the aforementioned FHLB advances, the Company entered into interest rate swaps with a weighted average pay rate and term of 3.13% and 15 years, respectively. At September 30, 2013, the Company had pledged investment securities with a fair value of $27.2 million, as well as certain residential real estate loans, commercial real estate loans, and FHLB deposits free of liens or pledges to secure outstanding advances and available additional borrowing capacity.

Wholesale repurchase agreements were $15.3 million and $25.4 million at September 30, 2013 and June 30, 2013, respectively. During the three months ended September 30, 2013, the Company repaid at maturity wholesale repurchase agreements totaling $10.0 million. At September 30, 2013, the Company had pledged investment securities with a fair value of $15.7 million as collateral for outstanding wholesale repurchase agreements.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were $2.0 million and $625 thousand as of September 30, 2013 and June 30, 2013, respectively.

Liquidity

The following table is a summary of the liquidity the Company had the ability to access as of September 30, 2013, in addition to traditional retail deposit products (dollars in thousands).

Brokered time deposits	$ 181,239	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	54,272	Subject to eligible and qualified collateral
Federal Reserve Discount Window Borrower-in-Custody	50	Subject to the pledge of indirect auto loans
Total unused borrowing capacity	235,561	
Unencumbered investment securities	75,338	
Total sources of liquidity	$ 310,899	

Retail deposits and other core deposit sources including deposit listing services are used by the Company to manage its overall liquidity position. While the Company typically does not seek wholesale funding such as brokered deposits, the ability to raise them remains an important part of its liquidity contingency planning. While management closely monitors and forecasts the Company’s liquidity position, it is affected by asset growth, deposit withdrawals and other contractual obligations and commitments. The accuracy of management’s forecast assumptions may increase or decrease the Company’s overall available liquidity.

At September 30, 2013, the Company had $310.9 million of immediately accessible liquidity, defined as additional cash that could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 42.9% of total assets. The Company also had $77.4 million of cash and cash equivalents at September 30, 2013.

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 growth in the deposit base, and the credit availability from the FHLB. 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 carrying amount and unpaid principal balance of junior subordinated debentures totaled $8.3 million and $16.5 million, respectively, as of September 30, 2013. This debt represents qualifying Tier 1 capital for the Company, up to a maximum of 25% of total Tier 1 capital. At September 30, 2013, the carrying amounts of the junior subordinated notes, net of the Company’s $496 thousand investment in the affiliated trusts, qualified as Tier 1 capital.

At September 30, 2013, stockholders' equity was $113.8 million, unchanged from June 30, 2013. Book value per outstanding common share was $10.91 at September 30, 2013 and $10.89 at June 30, 2013. Tier 1 capital to total average assets of the Company was 17.23% as of September 30, 2013 and 17.78% at June 30, 2013.

In addition to the risk-based capital requirements, the Federal Reserve requires top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Company), the minimum leverage capital ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels.

The Federal Reserve's capital adequacy standards also apply to state-chartered banks that are members of the Federal Reserve System, such as the Bank. Moreover, the Federal Reserve has promulgated corresponding regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act. Under these regulations, a bank is "well capitalized" if it has: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) 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

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meet and maintain a specific capital level for any capital measure. A bank is "adequately capitalized" if it has: (1) a total risk-based capital ratio of 8.0% or greater; (2) a Tier 1 risk-based capital ratio of 4.0% or greater; and (3) a leverage capital ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a "well capitalized bank."

The Federal Reserve also must take into consideration: (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution's ability to manage those risks when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. The Bank is currently considered well-capitalized under all regulatory definitions.

The Basel Committee on Banking Supervision has also released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. On July 2, 2013, the Federal Reserve, along with the other federal banking agencies, issued a final rule (the "Final Capital Rule") implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. The majority of the provisions of the Final Capital Rule apply to bank holding companies and banks with consolidated assets of $500 million or more, such as the Company and the Bank. The Final Capital Rule establishes a new capital risk-based capital ratio, a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets to be a "well capitalized" institution, and increase the minimum total Tier 1 capital ratio to be a "well capitalized institution from 6.0% to 8.0%. Additionally, the Final Capital Rule requires that an institution establish a capital conservation buffer of common equity Tier 1 capital in an amount equal to 2.5% of total risk weight assets. The Final Capital Rule revises certain capital definitions and generally makes the capital requirements more stringent. Further, the Final Capital Rule increases the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. Under the Final Capital Rule, the Company may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If the Company does not make this election, unrealized gains and losses would be included in the calculation of its regulatory capital.

The Company must comply with the Final Capital Rule beginning on January 1, 2015.

The Bank and the Company are subject to capital commitments with the Federal Reserve and the Bureau that require higher minimum capital ratios. These commitments require that the Company and the Bank (i) maintain a Tier 1 leverage ratio of at least 10%; and (ii) maintain a total risk-based capital ratio of at least 15%. The Bank and the Company were in compliance with these commitments at September 30, 2013.

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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 Correction Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
September 30, 2013:						
Total capital to risk weighted assets:						
Company	$ 122,245	25.63%	$ 38,162	≥8.0%	$ N/A	N/A
Bank	100,216	20.93%	38,299	≥8.0%	47,873	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	121,021	25.37%	19,081	≥4.0%	N/A	N/A
Bank	96,099	20.07%	19,149	≥4.0%	28,724	≥6.0%
Tier 1 capital to average assets:						
Company	121,021	17.23%	28,101	≥4.0%	N/A	N/A
Bank	96,099	13.72%	28,026	≥4.0%	35,033	≥5.0%

June 30, 2013:						
Total capital to risk weighted assets:						
Company	$ 122,291	27.54%	$ 35,520	≥8.0%	$ N/A	N/A
Bank	99,527	22.30%	35,709	≥8.0%	44,637	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	121,148	27.29%	17,760	≥4.0%	N/A	N/A
Bank	95,485	21.39%	17,855	≥4.0%	26,782	≥6.0%
Tier 1 capital to average assets:						
Company	121,148	17.78%	27,255	≥4.0%	N/A	N/A
Bank	95,485	14.08%	27,121	≥4.0%	33,902	≥5.0%

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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in 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.

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Results of Operations

General

Net income decreased by $714 thousand to $320 thousand for the quarter ended September 30, 2013, compared to $936 thousand for the quarter ended September 30, 2012. Pre-tax income for the quarter ended September 30, 2013 included $554 thousand of expenses related to severance and an insurance recovery of $250 thousand related to a lawsuit settled in the previous quarter.

The following table details the "total return" on purchased loans, which includes transactional income of $912 thousand for the quarter ended September 30, 2013, a decrease of $870 thousand from the quarter ended September 30, 2012 and a decrease of $1.7 million from average transactional income for the four prior quarters.

	Three Months Ended September 30,			
	2013		2012	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 3,739	8.54%	$ 1,911	9.01%
Transactional income:				
Gains on loan sales	216	0.49%	—	0.00%
Gain on sale of real estate owned	—	0.00%	473	2.23%
Other noninterest income	—	0.00%	36	0.17%
Accelerated accretion and loan fees	696	1.59%	1,273	6.00%
Total transactional income	912	2.08%	1,782	8.40%
Total	$ 4,651	10.62%	$ 3,693	17.41%

(1) The total return on purchased loans represents scheduled accretion, accelerated accretion, gains on asset sales, and other noninterest income recorded during the period divided by the average invested balance, on an annualized basis.

Net Interest Income

Net interest income for the three months ended September 30, 2013 and 2012 was $7.1 million and $6.1 million, respectively. The increase of $1.0 million was largely attributable to growth in the LASG loan portfolio, which earned a yield of 9.2% for the quarter ended September 30, 2013 on an average outstanding balance of $220.4 million. Lower transactional interest income in the purchased loan portfolio during the quarter ended September 30, 2013 resulted in a lower yield in comparison to the 2012 quarter; however, increased volume partially offset this unfavorable rate variance. The following table summarizes interest income and related yields recognized on the Company's loans.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking Division	$ 242,700	$ 3,342	5.46%	$ 270,758	$ 3,936	5.77%
LASG:						
Originated	47,208	680	5.71%	9,193	221	9.54%
Purchased	173,167	4,435	10.16%	83,475	3,184	15.13%
Total LASG	220,375	5,115	9.21%	92,668	3,405	14.58%
Total	$ 463,075	$ 8,457	7.25%	$ 363,426	$ 7,341	8.01%

In the quarter ended September 30, 2013, net interest income was negatively affected by a lower level of noncash accretion of fair value adjustments resulting from the merger than in the comparable 2012 quarter. The effect of such accretion will continue to diminish as financial instruments held at the merger mature or prepay. The following table summarizes the effects of such accretion.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Income (Expense)	Effect on Yield / Rate	Average Balance	Income (Expense)	Effect on Yield / Rate
	(Dollars in thousands)					
Interest-earning assets:						
Investment securities	$ 119,298	$ —	0.00%	$ 131,796	$ (3)	-0.01%
Loans	463,075	36	0.03%	363,426	104	0.11%
Other interest-earning assets	83,129	—	0.00%	141,616	—	0.00%
Total interest-earning assets	$ 665,502	$ 36	0.02%	$ 636,838	$ 101	0.06%
Interest-bearing liabilities:						
Interest-bearing deposits	463,128	201	0.17%	393,267	276	0.28%
Short-term borrowings	2,278	—	0.00%	1,251	—	0.00%
Borrowed funds	59,986	108	0.71%	100,186	481	1.90%
Junior subordinated debentures	8,288	(1)	-0.05%	8,124	—	0.00%
Total interest-bearing liabilities	$ 533,680	$ 308	0.23%	$ 502,828	$ 757	0.60%
Total effect of noncash accretion on:						
Net interest income		$ 344			$ 858	
Net interest margin		0.21%			0.53%	

The Company's interest rate spread and net interest margin increased by 47 basis points and 44 basis points, respectively, for the quarter ended September 30, 2013 compared to the quarter ended September 30, 2012. These increases were principally the result of the aforementioned increase in purchased loan volume. The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended September 30, 2013 and 2012.

	Three Months Ended September 30,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities (1)	$ 119,298	$ 282	0.94%	$ 131,796	$ 347	1.04%
Loans (2) (3)	463,075	8,457	7.25%	363,426	7,341	8.01%
Regulatory stock	5,721	4	0.28%	5,473	6	0.43%
Short-term investments (4)	77,408	48	0.25%	136,143	83	0.24%
Total interest-earning assets	665,502	8,791	5.24%	636,838	7,777	4.84%
Cash and due from banks	3,037			3,177		
Other non-interest earning assets	34,012			37,695		
Total assets	$ 702,551			$ 677,710		
Liabilities & Stockholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 59,124	$ 40	0.27%	$ 56,595	$ 42	0.29%
Money market accounts	85,688	112	0.52%	47,349	53	0.44%
Savings accounts	33,926	12	0.14%	31,347	11	0.14%
Time deposits	284,390	883	1.23%	257,976	872	1.34%
Total interest-bearing deposits	463,128	1,047	0.90%	393,267	978	0.99%
Short-term borrowings	2,278	5	0.87%	1,251	6	1.90%
Borrowed funds	59,986	440	2.91%	100,186	502	1.99%
Junior subordinated debentures	8,288	192	9.19%	8,124	193	9.43%
Total interest-bearing liabilities	533,680	1,684	1.25%	502,828	1,679	1.32%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	50,391			49,815		
Other liabilities	5,561			6,223		
Total liabilities	589,632			558,866		
Stockholders' equity	112,919			118,844		
Total liabilities and stockholders' equity	$ 702,551			$ 677,710		
Net interest income		$ 7,107			$ 6,098	

Interest rate spread	3.99%	3.52%
Net interest margin (5)	4.24%	3.80%

(1) Interest income and yield are stated on a fully tax-equivalent basis using a 34% 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.

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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 September 30, 2013 Compared to the Three Months Ended September 30, 2012		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investments securities	$ (32)	$ (33)	$ (65)
Loans	1,867	(751)	1,116
Regulatory stock	—	(2)	(2)
Short-term investments	(37)	2	(35)
Total increase (decrease) in interest income	1,798	(784)	1,014
Interest bearing liabilities:			
Interest bearing deposits	134	(65)	69
Short-term borrowings	3	(4)	(1)
Borrowed funds	(245)	183	(62)
Junior subordinated debentures	4	(5)	(1)
Total (decrease) increase in interest expense	(104)	109	5
Total increase (decrease) in net interest income	$ 1,902	$ (893)	$ 1,009

Provision for Loan Losses

Quarterly, the Company determines the amount of the allowance for loan losses that is adequate 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 acquired with deteriorated credit quality, a provision for loan losses 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 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.

The provision for loan losses for the three months ended September 30, 2013 and 2012 was $77 thousand and $228 thousand, respectively. The decrease in the Company's loan loss provision resulted principally from a quarter over quarter reduction in net charge-offs of $388 thousand.

Noninterest Income

Noninterest income decreased by $1.2 million for the current quarter, compared to the quarter ended September 30, 2012, principally due to the following:

- A decrease of $792 thousand in net securities gains. In the quarter ended September 30, 2012, the Company sold a substantial portion of its available-for-sale investment portfolio and reinvested the sales proceeds in similar securities at lower market yields. There were no security sales in the quarter ended September 30, 2013.
- A decrease of $489 thousand in gains on real estate owned. In the quarter ended September 30, 2012, the Company recognized a gain of $473 thousand on the sale of real estate previously securing a purchased loan.
- A decrease of $217 thousand in gains of loans held for sale, reflecting an increase in mortgage loans held for portfolio in the current quarter as compared to the quarter ended September 30, 2012.

The aforementioned decreases in noninterest income were partially offset by the sale of one LASG loan for a gain of $216 thousand and increased fee income, principally from loan servicing, of $129 thousand.

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Noninterest Expense

Noninterest expense increased by $1.0 million for the current quarter, compared to the quarter ended September 30, 2012, principally due to the following:

- An increase of $1.0 million in salaries and employee benefits, principally due to severance of $554 thousand and increased headcount in the LASG and mortgage lending divisions.
- An increase of $277 thousand in occupancy and equipment expense, principally due to the relocation of the Company's Boston office in the second quarter of fiscal 2013.
- A decrease of $143 thousand in marketing expense, principally due to a reduction in deposit marketing in the quarter ended September 30, 2013.
- A $250 thousand insurance recovery recognized in the quarter ended September 30, 2013.

Income Taxes

The Company's income tax expense was $161 thousand, or an effective rate of 33.5%, for the quarter ended September 30, 2013, as compared to $484 thousand, or an effective rate of 31.9%, for the quarter ended September 30, 2012. The effective rate for each quarter differs from the Company's statutory rate because of favorable book to tax differences, such as tax credits and tax exempt life insurance income.

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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 Securities and Exchange Commission, 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 September 30, 2013.

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 September 30, 2013 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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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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)). **
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101	The following materials from Northeast Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2013 and June 30, 2013; (ii) Consolidated Statements of Income for the three months ended September 30, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the three months ended September 30, 2013 and 2012; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended September 30 2013 and 2012; (v) Consolidated Statements of Cash Flows for the three months ended September 30, 2013 and 2012; and (v) Notes to Unaudited Consolidated Financial Statements. ***

* Filed herewith
** Furnished herewith
*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

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SIGNATURES

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

Date: November 14, 2013

NORTHEAST BANCORP

By: /s/ Richard Wayne
Richard Wayne
President and CEO

By: /s/ Claire S. Bean
Claire S. Bean
Chief Financial Officer

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NORTHEAST BANCORP
Index to Exhibits

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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.

November 14, 2013

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

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

I, Claire Bean, 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.

November 14, 2013

/s/ Claire S. Bean
Claire S. Bean
Chief Financial 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 September 30, 2013 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.

November 14, 2013

/s/ Richard Wayne

Richard Wayne
Chief Executive 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 September 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Claire Bean, 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.

November 14, 2013	/s/ Claire S. Bean
	Claire S. Bean
	Chief Financial Officer