FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-Q

(Mark one)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2020

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

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 2, 2020, the registrant had outstanding 8,191,786 shares of voting common stock, $1.00 par value per share and zero shares of non-voting common stock, $1.00 par value per share.

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2020	June 30, 2020
Assets		
Cash and due from banks	$ 2,811	$ 2,795
Short-term investments	200,454	140,862
Total cash and cash equivalents	203,265	143,657
Available-for-sale debt securities, at fair value	67,581	64,918
Equity securities, at fair value	7,266	7,239
Total investment securities	74,847	72,157
Residential real estate loans held for sale	778	601
SBA loans held for sale	558	28,852
Total loans held for sale	1,336	29,453
Loans:		
Commercial real estate	648,455	679,537
Commercial and industrial	207,855	212,769
Residential real estate	74,376	77,722
Consumer	1,424	1,574
Total loans	932,110	971,602
Less: Allowance for loan losses	9,536	9,178
Loans, net	922,574	962,424
Premises and equipment, net	9,372	9,670
Real estate owned and other repossessed collateral, net	4,102	3,274
Federal Home Loan Bank stock, at cost	1,390	1,390
Loan servicing rights, net	2,323	2,113
Bank-owned life insurance	17,180	17,074
Other assets	20,391	16,423
Total assets	$ 1,256,780	$ 1,257,635
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 133,900	$ 94,749
Savings and interest checking	165,282	137,824
Money market	311,561	302,343
Time	406,887	477,436
Total deposits	1,017,630	1,012,352
Federal Home Loan Bank advances	15,000	15,000
Paycheck Protection Program Liquidity Facility Advances	-	12,440
Subordinated debt	14,967	14,940
Lease liability	4,190	4,496
Other liabilities	32,442	33,668
Total liabilities	1,084,229	1,092,896
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2020 and June 30, 2020	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,147,003 and 8,153,841 shares issued and outstanding at September 30, 2020 and June 30, 2020, respectively	8,147	8,154
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 44,783 shares issued and outstanding at September 30, 2020 and June 30, 2020	45	45
Additional paid-in capital	68,452	68,302
Retained earnings	97,672	89,960
Accumulated other comprehensive loss	(1,765)	(1,722)
Total shareholders' equity	172,551	164,739
Total liabilities and shareholders' equity	$ 1,256,780	$ 1,257,635

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

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

	Three Months Ended September 30,			
	2020		2019	
Interest and dividend income:				
Interest and fees on loans	$	18,105	$	19,704
Interest on available-for-sale securities		290		451
Other interest and dividend income		88		340
Total interest and dividend income		18,483		20,495
Interest expense:				
Deposits		3,058		4,316
Federal Home Loan Bank advances		124		125
Paycheck Protection Program Liquidity Facility		2		-
Subordinated debt		281		282
Obligation under lease agreements		25		35
Total interest expense		3,490		4,758
Net interest and dividend income before provision (credit) for loan losses		14,993		15,737
Provision (credit) for loan losses		377		(136)
Net interest and dividend income after provision (credit) for loan losses		14,616		15,873
Noninterest income:				
Fees for other services to customers		499		413
Gain on sales of PPP loans		1,110		-
Gain on sales of SBA loans		-		252
Gain on sales of residential loans held for sale		83		213
Net unrealized gain on equity securities		-		40
Loss on real estate owned, other repossessed collateral and premises and equipment, net		(157)		(2)
Correspondent fee income		4,747		-
Bank-owned life insurance income		106		241
Other noninterest income		28		19
Total noninterest income		6,416		1,176
Noninterest expense:				
Salaries and employee benefits		6,351		6,387
Occupancy and equipment expense		926		898
Professional fees		363		392
Data processing fees		1,025		984
Marketing expense		41		93
Loan acquisition and collection expense		689		611
FDIC insurance premiums (credits)		48		(18)
Intangible asset amortization		-		109
Other noninterest expense		490		898
Total noninterest expense		9,933		10,354
Income before income tax expense		11,099		6,695
Income tax expense		3,305		1,919
Net income	$	7,794	$	4,776
Weighted-average common shares outstanding:				
Basic		8,196,828		9,043,761
Diluted		8,315,096		9,211,874
Earnings per common share:				
Basic	$	0.95	$	0.53
Diluted		0.94		0.52
Cash dividends declared per common share	$	0.01	$	0.01

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

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Net income	$ 7,794	$ 4,776
Other comprehensive income (loss), before tax:		
Available-for-sale debt securities:		
Change in net unrealized gain on available-for-sale debt securities	(242)	41
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	184	(451)
Total other comprehensive loss, before tax	(58)	(410)
Income tax benefit related to other comprehensive loss	(15)	(112)
Other comprehensive loss, net of tax	(43)	(298)
Comprehensive income	$ 7,751	$ 4,478

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2019	-	$ -	8,997,326	$ 8,997	44,783	$ 45	$ 78,095	$ 67,581	$ (1,138)	$ 153,580
Net income	-	-	-	-	-	-	-	4,776	-	4,776
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(298)	(298)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(90)	-	(90)
Stock-based compensation	-	-	-	-	-	-	388	-	-	388
Issuance of restricted common stock	-	-	5,000	5	-	-	(5)	-	-	-
Cancellation and forfeiture of restricted common stock	-	-	(11,300)	(11)	-	-	(217)	-	-	(228)
Adjustment for adoption of ASU 2016-01	-	-	3,103	3	-	-	(30)	-	-	(27)
Balance at September 30, 2019	-	$ -	8,994,129	$ 8,994	44,783	$ 45	$ 78,231	$ 72,267	$ (1,436)	$ 158,101
Balance at June 30, 2020	-	$ -	8,153,841	$ 8,154	44,783	$ 45	$ 68,302	$ 89,960	$ (1,722)	$ 164,739
Net income	-	-	-	-	-	-	-	7,794	-	7,794
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	-	(43)	(43)
Dividends on common stock at $0.01 per share	-	-	-	-	-	-	-	(82)	-	(82)
Stock-based compensation	-	-	-	-	-	-	273	-	-	273
Cancellation of shares to satisfy tax payments	-	-	(6,838)	(7)	-	-	(123)	-	-	(130)
Balance at September 30, 2020	-	$ -	8,147,003	$ 8,147	44,783	$ 45	$ 68,452	$ 97,672	$ (1,765)	$ 172,551

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

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

	Three Months Ended September 30, 2020	2019
Operating activities:		
Net income	$ 7,794	$ 4,776
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for loan losses	377	(136)
Loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	157	2
Net unrealized (gain) on equity securities	-	(40)
Accretion of loans, net	(2,784)	(1,959)
Amortization of subordinated debt issuance costs	27	28
Originations of loans held for sale	(58,633)	(10,945)
Net proceeds from sales of loans held for sale	58,199	13,616
Gain on sales of residential loans held for sale	(83)	(213)
Gain on sales of SBA and other loans held for sale	-	(252)
Gain on sales of PPP loans	(1,110)	-
Net increase in servicing rights	(210)	237
Amortization of intangible assets	-	109
Bank-owned life insurance income, net	(106)	(241)
Depreciation and amortization of premises and equipment	575	629
Deferred income tax benefit	(1,486)	-
Stock-based compensation	273	388
Amortization of available-for-sale debt securities, net	71	73
Changes in other assets and liabilities:		
Other assets	(2,465)	2,655
Other liabilities	(1,042)	(6,603)
Net cash provided by (used in) operating activities	(446)	2,124
Investing activities:		
Purchases of available-for-sale debt securities	(19,407)	-
Proceeds from maturities and principal payments on investment securities, net	16,402	1,441
Loan purchases	(4,578)	(28,622)
Loan originations, principal collections, and purchased loan paydowns, net	75,594	71,313
Purchases and disposals of premises and equipment and capitalization of right-of-use asset, net	(277)	(271)
Proceeds from life insurance death benefits	-	549
Proceeds from sales of real estate owned and other repossessed collateral	-	19
Net cash provided by investing activities	67,734	44,429
Financing activities:		
Net change in deposits	5,278	(34,415)
Repayments under Paycheck Protection Program Liquidity Facility, net	(12,440)	-
Repayment of lease liability	(306)	(339)
Dividends paid on common stock	(82)	(90)
Repurchases for tax withholdings on restricted common stock	(130)	(228)
Stock options exercised, net	-	(27)
Net cash (used in) financing activities	(7,680)	(35,099)
Net increase in cash and cash equivalents	59,608	11,454
Cash and cash equivalents, beginning of period	143,657	56,907
Cash and cash equivalents, end of period	$ 203,265	$ 68,361
Supplemental schedule of noncash investing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 985	$ -
Capitalization of lease liability	-	5,554

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Northeast Bank (the "Bank"). These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position, results of operations, and cash flows for the interim periods presented. These accompanying unaudited financial statements and notes should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended June 30, 2020 ("Fiscal 2020") included in the Bank's Annual Report on Form 10-K filed with the Federal Deposit Insurance Corporation ("FDIC").

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into during June 2020. As a result of this agreement, when the third party purchases Paycheck Protection Program ("PPP") loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Federal Reserve. During the quarter ended September 30, 2020, the Bank received $5.3 million in correspondent fees. These fees are deferred, along with those received in the prior quarter, are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank continues to recognize the correspondent fees in income over the expected lives of the related loans (approximately two years). For the quarter ended September 30, 2020, the Bank recognized $822 thousand in correspondent fee income.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. As the third party has not received payments on PPP loans, as of September 30, 2020, the Bank estimated the net servicing income based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (approximately two years). For the quarter ended September 30, 2020, the Bank recognized $3.9 million in net servicing income. The timing and amount of this net servicing income is subject to change, depending on a number of factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

2. Recent Accounting Pronouncements

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

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements (Topic 820) ("ASU 2018-13"). This update modifies disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This includes removing requirements related to transfers between Level 1 and Level 2, the policy of timing of transfers between levels, and the valuation process for Level 3 fair value measurements, modifying disclosure requirements related to investments in certain entities that calculate net asset value, and adding disclosure requirements for changes in unrealized gains and losses for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The adoption of this guidance did not have a significant impact on the Bank's financial statements.

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

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

3. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
September 30, 2020				
U.S. Government agency securities	$ 55,394	$ 306	$ -	$ 55,699
Agency mortgage-backed securities	11,602	280	-	11,882
Total available-for-sale debt securities	66,996	586	-	67,581
Equity investments measured at net asset value	7,213	52	-	7,266
Total securities	$ 74,209	$ 638	$ -	$ 74,847
June 30, 2020				
U.S. Government agency securities	$ 51,020	$ 483	$ -	$ 51,503
Agency mortgage-backed securities	13,070	345	-	13,415
Total available-for-sale debt securities	64,090	828	-	64,918
Equity investments measured at net asset value	7,187	52	-	7,239
Total securities	$ 71,277	$ 880	$ -	$ 72,157

At September 30, 2020, the Bank held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the quarters ended September 30, 2020 or 2019. At September 30, 2020, securities with a fair value of $63.6 million were pledged as collateral to secure potential or outstanding Federal Home Loan Bank of Boston ("FHLBB") advances or letters of credit.

The Bank had no securities in loss positions at September 30, 2020 and June 30, 2020.

There were no other-than-temporary impairment losses on securities during the quarters ended September 30, 2020 and 2019.

At September 30, 2020, all of the Bank's securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The unrealized gains on the Bank's securities at September 30, 2020 are attributable to changes in interest rates.

In addition to considering current trends and economic conditions that may affect the quality of individual securities within the Bank's investment portfolio, management of the Bank considers the Bank's ability and intent to hold such securities to maturity or recovery of cost.

The securities measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of September 30, 2020, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 3.93 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of September 30, 2020. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 30,010	$ 30,199
Due after one year through five years	25,384	25,500
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	55,394	55,699
Agency mortgage-backed securities	11,602	11,882
Total available-for-sale debt securities	$ 66,996	$ 67,581

4. Loans, Allowance for Loan Losses and Credit Quality

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

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

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

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

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

	September 30, 2020			June 30, 2020		
	Originated	Purchased	Total	Originated	Purchased	Total
			(In thousands)			
Commercial real estate	$ 256,286	$ 347,532	$ 603,818	$ 262,142	$ 374,545	$ 636,687
Commercial and industrial	203,379	338	203,717	208,169	355	208,524
SBA	48,775	-	48,775	47,095	-	47,095
Residential real estate	64,043	10,333	74,376	65,998	11,724	77,722
Consumer	1,424	-	1,424	1,574	-	1,574
Total loans	$ 573,907	$ 358,203	$ 932,110	$ 584,978	$ 386,624	$ 971,602

Total loans include deferred loan origination fees, net, of $354 thousand as of September 30, 2020 and $336 thousand as of June 30, 2020.

Past Due and Nonaccrual Loans

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

	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
September 30, 2020				(In thousands)				
Originated portfolio:								
Commercial real estate	$ -	$ 30	$ -	$ 3,872	$ 3,902	$ 252,384	$ 256,286	$ 4,583
Commercial and industrial	-	180	-	-	180	203,199	203,379	180
SBA	-	-	-	3,008	3,008	45,767	48,775	4,106
Residential real estate	88	163	-	103	354	63,689	64,043	704
Consumer	41	23	-	21	85	1,339	1,424	26
Total originated portfolio	129	396	-	7,004	7,529	566,378	573,907	9,599
Purchased portfolio:								
Commercial real estate	1,901	1,286	-	6,949	10,136	337,396	347,532	10,282
Commercial and industrial	-	-	-	57	57	281	338	194
Residential real estate	-	146	-	1,077	1,223	9,110	10,333	1,372
Total purchased portfolio	1,901	1,432	-	8,083	11,416	346,787	358,203	11,848
Total loans	$ 2,030	$ 1,828	$ -	$ 15,087	$ 18,945	$ 913,165	$ 932,110	$ 21,447
June 30, 2020								
Originated portfolio:								
Commercial real estate	$ -	$ 26	$ -	$ 3,864	$ 3,890	$ 258,252	$ 262,142	$ 4,585
Commercial and industrial	18	-	-	216	234	207,935	208,169	216
SBA	-	34	-	2,982	3,016	44,079	47,095	4,118
Residential real estate	-	-		180	180	65,818	65,998	832
Consumer	6	12	-	9	27	1,547	1,574	29
Total originated portfolio	24	72	-	7,251	7,347	577,631	584,978	9,780
Purchased portfolio:								
Commercial real estate	731	1,066	-	6,071	7,868	366,677	374,545	9,946
Commercial and industrial	-	-	-	57	57	298	355	210
Residential real estate	-	-	-	1,169	1,169	10,555	11,724	1,169
Total purchased portfolio	731	1,066	-	7,297	9,094	377,530	386,624	11,325
Total loans	$ 755	$ 1,138	$ -	$ 14,548	$ 16,441	$ 955,161	$ 971,602	$ 21,105

Allowance for Loan Losses and Impaired Loans

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

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

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

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

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

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
Three Months Ended September 30, 2020				(In thousands)			
Beginning balance	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Provision (credit)	546	56	(137)	(42)	4	(50)	377
Recoveries	-	-	-	1	-	-	1
Charge-offs	(10)	-	-	-	(1)	(9)	(20)
Ending balance	$ 2,613	$ 1,013	$ 4,840	$ 408	$ 32	$ 630	$ 9,536
Three Months Ended September 30, 2019							
Beginning balance	$ 2,065	$ 717	$ 1,974	$ 376	$ 50	$ 520	$ 5,702
Provision (credit)	(209)	(38)	75	15	1	20	(136)
Recoveries	-	16	-	-	2	-	18
Charge-offs	(17)	(4)	(208)	(26)	(4)	(45)	(304)
Ending balance	$ 1,839	$ 691	$ 1,841	$ 365	$ 49	$ 495	$ 5,280

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
September 30, 2020				(In thousands)			
Allowance for loan losses:							
Individually evaluated	$ 62	$ 81	$ 647	$ 101	$ 1	$ -	$ 892
Collectively evaluated	2,551	932	4,193	307	31	-	8,014
ASC 310-30	-	-	-	-	-	630	630
Total	$ 2,613	$ 1,013	$ 4,840	$ 408	$ 32	$ 630	$ 9,536
Loans:							
Individually evaluated	$ 4,805	$ 7,080	$ 4,230	$ 3,700	$ 72	$ 18,182	$ 38,069
Collectively evaluated	251,481	166,299	44,545	60,343	1,352	-	554,020
ASC 310-30	-	-	-	-	-	340,021	340,021
Total	$ 256,286	$ 203,379	$ 48,775	$ 64,043	$ 1,424	$ 358,203	$ 932,110
June 30, 2020							
Allowance for loan losses:							
Individually evaluated	$ 14	$ 103	$ 759	$ 90	$ 3	$ -	$ 969
Collectively evaluated	2,063	854	4,218	359	26	-	7,520
ASC 310-30	-	-	-	-	-	689	689
Total	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Loans:							
Individually evaluated	$ 4,813	$ 7,116	$ 4,243	$ 2.574	$ 76	$ 14,111	$ 32,933
Collectively evaluated	257,329	201,053	42,852	63,424	1,498	-	566,156
ASC 310-30	-	-	-	-	-	372,513	372,513
Total	$ 262,142	$ 208,169	$ 47,095	$ 65,998	$ 1,574	$ 386,624	$ 971,602

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

	September 30, 2020			June 30, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 1,560	$ 1,560	$ -	$ 4,660	$ 4,660	$ -
Commercial and industrial	6,900	6,900	-	6,900	6,900	-
SBA	2,094	2,094	-	2,185	2,185	-
Residential real estate	1,654	1,577	-	1,624	1,624	-
Consumer	48	48	-	49	49	-
Purchased:						
Commercial real estate	9,993	12,606	-	9,168	11,299	-
Commercial and industrial	67	113	-	69	114	-
Residential real estate	2,162	2,274	-	1,169	1,190	-
Total	24,478	27,172	-	25,824	28,021	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	3,245	3,245	62	153	153	14
Commercial and industrial	180	180	81	216	216	103
SBA	2,136	2,136	647	2,058	2,058	759
Residential real estate	2,046	2,046	101	950	950	90
Consumer	24	24	1	27	27	3
Purchased:						
Commercial real estate	5,833	6,609	503	3,564	4,353	548
Commercial and industrial	127	172	127	141	186	141
Residential real estate	-	-	-	-	-	-
Total	13,591	14,412	1,522	7,109	7,943	1,658
Total impaired loans	$ 38,069	$ 41,584	$ 1,522	$ 32,933	$ 35,964	$ 1,658

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

	Three Months Ended September 30,			
	2020		2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 3,110	$ 1	$ 2,629	$ 6
Commercial and industrial	6,900	60	6,905	88
SBA	2,140	-	2,718	55
Residential real estate	1,639	7	2,904	13
Consumer	48	1	138	1
Purchased:				
Commercial real estate	9,581	27	8,854	79
Commercial and industrial	68	-	295	-
Residential real estate	1,666	12	417	-
Total	25,152	108	24,860	242
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	1,699	2	966	3
Commercial and industrial	198	-	2	-
SBA	2,097	3	681	-
Residential real estate	1,498	15	1,492	18
Consumer	26	1	39	-
Purchased:				
Commercial real estate	4,699	50	3,865	66
Commercial and industrial	134	-	189	-
Residential real estate	-	22	215	-
Total	10,351	93	7,449	87
Total impaired loans	$ 35,503	$ 201	$ 32,309	$ 329

Credit Quality

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
			(In thousands)			
September 30, 2020						
Loans rated 1- 6	$ 239,507	$ 196,297	$ 38,422	$ 29,575	$ 342,188	$ 845,989
Loans rated 7	12,259	6,900	6,413	32	3,871	29,475
Loans rated 8	4,520	182	3,940	35	12,144	20,821
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 256,286	$ 203,379	$ 48,775	$ 29,642	$ 358,203	$ 896,285
June 30, 2020						
Loans rated 1- 6	$ 257,157	$ 201,051	$ $ 38,054	$ 28,740	$ 371,354	$ 896,356
Loans rated 7	401	6,900	5,055	32	3,893	16,281
Loans rated 8	4,584	218	3,986	35	11,377	20,200
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 262,142	$ 208,169	$ $ 47,095	$ 28,807	$ 386,624	$ 932,837

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

Troubled Debt Restructurings

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

	Three Months Ended September 30, 2020		2019	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
		(Dollars in thousands)		
Extended maturity	2	$ 3,072	3	$ 632
Adjusted interest rate	-	-	-	-
Rate and maturity	2	1,150	-	54
Principal deferment	-	-	1	-
Court ordered concession	-	-	-	-
Total	4	$ 4,222	4	$ 686

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,					
	2020			2019		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	2	$ 1,150	$ 1,150	2	$ 168	$ 171
Home equity	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Commercial and industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total originated portfolio	2	1,150	1,150	2	168	171
Purchased portfolio:						
Commercial real estate	1	790	790	2	515	515
Residential real estate	1	2,282	2,282	-	-	-
Total purchased portfolio	2	3,072	3,072	2	515	515
Total	4	$ 4,222	$ 4,222	4	$ 683	$ 686

As of September 30, 2020, there were no further commitments to lend to borrowers associated with loans modified in a TDR.

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the three months ended September 30, 2020 nor the three months ended September 30, 2019.

ASC 310-30 Loans

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
	(In thousands)	
Contractually required payments receivable	$ 7,222	$ 38,701
Nonaccretable difference	(825)	(106)
Cash flows expected to be collected	6,397	38,595
Accretable yield	(1,819)	(9,973)
Fair value of loans acquired	$ 4,578	$ 28,622

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

	As of and for the Three Months Ended September 30, 2020	As of and for the Three Months Ended September 30, 2019
	(In thousands)	
Loans acquired during the period	$ 392	$ -
Loans at end of period	11,186	7,065

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
	(In thousands)	
Beginning balance	$ 154,936	$ 146,995
Acquisitions	1,819	9,973
Accretion	(6,540)	(5,790)
Reclassifications from non-accretable difference to accretable yield	446	1,318
Disposals and other changes	(6,971)	(7,498)
Ending balance	$ 143,690	$ 144,998

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

	September 30, 2020	June 30, 2020
	(In thousands)	
Unpaid principal balance	$ 384,487	$ 417,190
Carrying amount	351,789	383,142

5. Transfers and Servicing of Financial Assets

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

Capitalized servicing rights as of September 30, 2020 totaled $2.3 million, compared to $2.1 million as of June 30, 2020, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold during the three months ended September 30, 2020 totaled $4.8 million, compared to $10.9 million during the three months ended September 30, 2019. Mortgage loans serviced for others totaled $5.7 million at September 30, 2020 and $6.3 million at June 30, 2020. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $19.3 million and $18.4 million at September 30, 2020 and June 30, 2020, respectively.

The Bank sold no SBA loans during the quarter ended September 30, 2020, compared to $2.4 million during the quarter ended September 30, 2019. SBA loans serviced for others totaled $162.1 million at September 30, 2020 and $152.8 million at June 30, 2020.

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

Contractually specified servicing fees were $283 thousand and $172 thousand for the quarters ended September 30, 2020 and 2019, respectively, and were included as a component of loan-related fees within noninterest income.

The significant assumptions used in the valuation of the servicing rights included a range of discount rates from 3.1% to 20.0% and a weighted average prepayment speed assumption of 18.8%.

6. Earnings Per Share (EPS)

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

	Three Months Ended September 30,	
	2020	2019
	(Dollars in thousands, except share and per share data)	
Net income	$ 7,794	$ 4,776
Weighted average shares used in calculation of basic EPS	8,196,828	9,043,761
Incremental shares from assumed exercise of dilutive securities	118,268	168,113
Weighted average shares used in calculation of diluted EPS	8,315,096	9,211,874
Basic earnings per common share	$ 0.95	$ 0.53
Diluted earnings per common share	0.94	0.52

No stock options were excluded from the calculation of diluted EPS for the three months ended September 30, 2020 and 2019.

7. Derivatives and Hedging Activities

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

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

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

Risk Management Policies—Derivative Instruments

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

Interest Rate Risk Management—Cash Flow Hedging Instruments

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

Information pertaining to outstanding swap agreements is as follows:

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
September 30, 2020									
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.23%	3.38%	n/a	$ (1,602)	$ (1,602)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.23%	3.23%	n/a	(1,048)	(1,048)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.23%	2.77%	n/a	(353)	(353)	Other Liabilities
$ 15,000							$ (3,003)	$ (3,003)	
June 30, 2020									
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	0.30%	3.38%	n/a	$ (1,708)	$ (1,708)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	0.30%	3.23%	n/a	(1,094)	(1,094)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	0.30%	2.77%	n/a	(385)	(385)	Other Liabilities
$ 15,000							$ (3,187)	$ (3,187)	

During the three months ended September 30, 2020 and 2019, 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, 2020 and 2019 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

8. <u>Other Comprehensive Income</u>

The components of other comprehensive income are as follows:

	Three Months Ended September 30,					
	2020			2019		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized gain on available-for-sale debt securities	$ (242)	$ (64)	$ (178)	$ 41	$ 11	$ 30
Change in accumulated loss on effective cash flow hedges	184	49	135	(451)	(123)	(328)
Total other comprehensive (loss) income	$ (58)	$ (15)	$ (43)	$ (410)	$ (112)	$ (298)

Accumulated other comprehensive loss is comprised of the following:

	September 30, 2020	June 30, 2020
	(In thousands)	
Unrealized gain on available-for-sale debt securities	$ 586	$ 828
Tax effect	(159)	(223)
After tax amount	427	605
Unrealized loss on cash flow hedges	(3,003)	(3,187)
Tax effect	811	860
After tax amount	(2,192)	(2,327)
Accumulated other comprehensive loss	$ (1,765)	$ (1,722)

9. <u>Commitments and Contingencies</u>

Commitments

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

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

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

	September 30, 2020	June 30, 2020
	(In thousands)	
Commitments to originate loans	$ 16,710	$ 28,709
Unused lines of credit	24,404	33,146
Standby letters of credit	2,323	2,323

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counter party. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties. The Bank has recorded an allowance for possible losses on commitments and unfunded loans totaling $92 thousand and $52 thousand recorded in other liabilities at September 30, 2020 and June 30, 2020, respectively.

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

10. <u>Fair Value Measurements</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value of other Financial Instruments:

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

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

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

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

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

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

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

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

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

	Total	Level 1	Level 2	Level 3
September 30, 2020		(In thousands)		
Assets				
Investment securities:				
U.S. Government agency securities	$ 55,699	$ -	$ 55,699	$ -
Agency mortgage-backed securities	11,882	-	11,882	-
Equity investments measured at net asset value[1]	7,266	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 3,003	$ -	$ 3,003	$ -
June 30, 2020				
Assets				
Investment securities:				
U.S. Government agency securities	$ 51,503	$ -	$ 51,503	$ -
Agency mortgage-backed securities	13,415	-	13,415	-
Equity investments measured at net asset value[1]	7,239	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 3,187	$	$ 3,187	$ -

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

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

	Total	Level 1	Level 2	Level 3
September 30, 2020		(In thousands)		
Collateral dependent impaired loans	$ 5,974	$ -	$ -	$ 5,974
Real estate owned and other repossessed collateral	4,102	-	-	4,102
Loan servicing rights	2,323	-	-	2,323
June 30, 2020				
Collateral dependent impaired loans	$ 3,095	$ -	$ -	$ 3,095
Real estate owned and other repossessed collateral	3,274	-	-	3,274
Loan servicing rights	2,113	-	-	2,113

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

	Fair Value		
	September 30, 2020	June 30, 2020	Valuation Technique
	(In thousands)		
Collateral dependent impaired loans	$ 5,974	$ 3,095	Appraisal of collateral[(1)]
Real estate owned and other repossessed collateral	4,102	3,274	Appraisal of collateral[(1)]
Loan servicing rights	2,323	2,113	Discounted cash flow[(2)]

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 20% to 100%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 18.8% to 19.9%. For discount rates, the range was 3.1% to 21.1%.

The table below summarizes the total losses on assets measured at fair value on a non-recurring basis for the three months ended September 30, 2020 and 2019.

	Three Months Ended September 30,	
	2020	2019
	(In thousands)	
Collateral dependent impaired loans	$ (40)	$ (246)
Real estate owned and other repossessed collateral	(157)	-
Servicing rights, net	128	(74)
Total	$ (69)	$ (320)

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

	Carrying Amount	Total	Level 1	Level 2	Level 3
September 30, 2020			(Dollars in thousands)		
Financial assets:					
Cash and cash equivalents	$ 203,265	$ 203,265	$ 203,265	$ -	$ -
Securities	67,581	67,581	-	67,581	-
Equity investments measured at net asset value[(1)]	7,266	7,266	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	1,336	1,336	-	1,336	-
Loans, net	932,110	931,447	-	-	931,447
Accrued interest receivable	4,342	4,342	-	4,342	-
Financial liabilities:					
Deposits	1,017,630	1,022,796	-	1,022,796	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Lease liability	4,190	4,356	-	4,356	-
Subordinated debt	14,967	15,854	-	-	15,854
Interest rate swaps	3,003	3,003	-	3,003	-
June 30, 2020					
Financial assets:					
Cash and cash equivalents	$ 143,657	$ 143,657	$ 143,657	$ -	$ -
Securities	64,918	64,918	-	64,918	-
Equity investments measured at net asset value[(1)]	7,239	7,239	-	-	-
Federal Home Loan Bank stock	1,390	1,390	-	1,390	-
Loans held for sale	29,453	29,453	-	29,453	-
Loans, net	971,602	971,371	-	-	971,371
Accrued interest receivable	4,063	4,063	-	4,063	-
Financial liabilities:					
Deposits	1,012,352	1,019,120	-	1,019,120	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Paycheck Protection Program Liquidity Facility	12,440	12,440	-	12,440	-
Capital Lease Obligation	4,496	4,669	-	4,669	-
Subordinated debt	14,940	15,544	-	-	15,544
Interest rate swaps	3,187	3,187	-	3,187	-

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

11. <u>Subsequent Events</u>

We evaluate subsequent events through the date of issuance in the financial statements. There have been no subsequent events that occurred during such period that would require adjustment to or disclosure in the financial statements as of and for the quarter ended September 30, 2020.

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

The following discussion should be read in conjunction with the financial statements, notes and tables included in Northeast Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the FDIC.

A Note about Forward Looking Statements

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

Such forward-looking statements reflect the Bank's current views and expectations based largely on information currently available to the Bank's management, and on the Bank's current expectations, assumptions, plans, estimates, judgments, and projections about the Bank's business and industry, and they involve inherent risks and uncertainties. Although the Bank believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Bank cannot give you any assurance that its expectations will in fact occur or that its estimates or assumptions will be correct. The Bank cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the negative impacts and disruptions of the COVID-19 pandemic and measures taken to contain its spread on our employees, customers, business operations, credit quality, financial position, liquidity and results of operations; the length and extent of the economic contraction as a result of the COVID-19 pandemic; continued deterioration in employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions or legislative or regulatory initiatives; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; reputational risk relating to the Bank's participation in the Paycheck Protection Program and other pandemic-related legislative and regulatory initiatives and programs; operational risks including, but not limited to, cybersecurity, fraud, natural disasters and future pandemics; operational risks including, but not limited to, cybersecurity, fraud natural disasters, and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and the other risks and uncertainties detailed in the Bank's Annual Report on Form 10-K for the fiscal year ended June 30, 2020 as updated in the Bank's Quarterly Reports on Form 10-Q and other filings submitted to the FDIC. These forward-looking statements speak only as of the date of this report and the Bank does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

Business Overview

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

On May 15, 2019, Northeast Bancorp, the Bank's former bank holding company, merged with and into the Bank, with the Bank continuing as the surviving entity (the "Reorganization"). The Reorganization eliminated the bank holding company structure and the Bank became the top-level company in the organization. Additionally, the commitments made by Northeast Bancorp to the Federal Reserve were replaced with the following standards relating to its capital levels and asset portfolio composition, which have been incorporated into the Bank's policies and procedures.

- Maintain a Tier 1 leverage ratio of at least 10% (subsequently lowered to 9%);
- Maintain a Total capital ratio of at least 13.5% (subsequently lowered to 12%);
- Limit purchased loans to 60% of total loans;

- Maintain a ratio of the Bank's loans to core deposits of not more than 125%; and

- Hold commercial real estate loans (excluding owner-occupied commercial real estate) to within 500% of Total capital.

These standards are designed to help ensure the Bank will continue to operate in a safe and sound manner, while permitting further growth in the Bank's loan portfolio. The Maine Bureau of Financial Institutions requires the Bank to maintain a Tier 1 leverage ratio of not less than 8.5% and a Total capital ratio of not less than 12.0%

As of September 30, 2020, the Bank had total assets of $1.26 billion, total deposits of $1.02 billion, and shareholders' equity of $172.6 million. We gather retail deposits through our nine full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; and purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division.

Impact of the COVID-19 Pandemic

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

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

- *Paycheck Protection Program ("PPP")*. As of September 30, 2020, the Bank had originated more than 5,000 PPP loans totaling approximately $510.6 million. PPP loans are fully guaranteed by the U.S. government, have an initial term of up to five years and earn interest at rate of 1%. The Bank estimates that tens of thousands of jobs were positively impacted by the Bank's participation in the PPP. As previously announced, the Bank has entered into an agreement with The Loan Source, Inc. ("Loan Source") under which the Bank sold PPP loans originated by the Bank to Loan Source. The Bank has also contracted to act as the correspondent for Loan Source in connection with Loan Source's pledge of PPP loans to the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF").

- *Loan Deferrals*. As of September 30, 2020, the Bank granted short-term deferments on loan balances of $180.9 million. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms. Of the $180.9 million of loan deferrals, $136.2 million were full payment deferrals, of which only $26.8 million are still on deferral. Of the full payment deferrals that have resumed payments, as of September 30, 2020, $109.1 million are current, $103 thousand are 30-59 days past due and $221 thousand are greater than 90 days past due. The remaining $44.7 million of deferrals were interest-only deferrals, whereby the customer is required to make interest-only payments during the deferral period. Of the $44.7 million, as of September 30, 2020, all of the interest-only loan payments are current.

Strategy

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

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

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

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

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in our Annual Report on Form 10-K for the year ended June 30, 2020, filed with the FDIC, to gain a better understanding of how the Bank's financial performance is measured and reported. There has been no material change in critical accounting policies during the three months ended September 30, 2020.

Overview

Net income increased by $3.0 million to $7.8 million for the quarter ended September 30, 2020, compared to net income of $4.8 million for the quarter ended September 30, 2019.

Net interest and dividend income before provision (credit) for loan losses decreased by $744 thousand to $15.0 million for the quarter ended September 30, 2020, compared to $15.7 million for the quarter ended September 30, 2019. The decrease was primarily due to lower rates earned on loans and short-term investments, partially offset by decreased interest expense on deposits from lower rates paid.

Provision (credit) for loan losses increased by $513 thousand to $377 thousand for the quarter ended September 30, 2020, from a $136 thousand credit in the quarter ended September 30, 2019. The increase in the provision for loan losses reflects increases in certain qualitative factors during the current quarter as a result of continued impacts from the COVID-19 pandemic, partially offset by a decrease in loan balances during the quarter. There were no significant changes in qualitative factors during the quarter ended September 30, 2019 and loan balances decreased during the quarter.

Noninterest income increased by $5.2 million for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, primarily due to the following:

- An increase in correspondent fee income of $4.7 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. The correspondent arrangement provides for the Bank to earn a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the quarter is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 822
Amortization of Purchased Accrued Interest	279
Earned Net Servicing Interest	3,646
Total	$ 4,747

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

Quarter	PPP Loans Purchased by Loan Source	Correspondent Fee	Purchased Accrued Interest[(1)]	Total[(2)]
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Total	**$ 3,385,000**	**$ 8,239**	**$ 3,492**	**$ 11,731**

(1) - The Bank's share
(2) - Expected to be recognized into income over approximately 2 years

- An increase in gain on sale of PPP loans of $1.1 million, due to the sale of $53.7 million of PPP loans, which resulted in a net gain based on the recognition of net deferred fees, partially offset by purchase price discounts in the quarter ended September 30, 2020; partially offset by,
- A $252 thousand decrease in gain on Small Business Administration ("SBA") loan sales, as no SBA national loans were sold during the current quarter;
- A $155 thousand increase in losses on real estate owned ("REO"), due to a write-down on an existing REO property during the quarter, as compared to minimal write-downs on REO properties during the quarter ended September 30, 2019;
- A $135 thousand decrease in bank-owned life insurance ("BOLI") income due to a gain from death benefit proceeds recognized in the quarter ended September 30, 2019, as compared to no gain recognized during the current quarter; and
- A $130 thousand decrease in gain on sale of residential loans held for sale due to lower sales volume as compared to the quarter ended September 30, 2019.

Noninterest expense decreased by $421 thousand for the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019, primarily due to the following:

- A decrease in other noninterest expense of $408 thousand, primarily due to a $128 thousand recovery on SBA servicing assets in the quarter ended September 30, 2020, as compared to a $74 thousand impairment charge in the quarter ended September 30, 2019, and a $167 thousand decrease in travel and meals and entertainment expense during the current quarter; and

- A decrease in amortization of intangible assets of $109 thousand as the core deposit intangible became fully amortized during the quarter ended June 30, 2020.

Income tax expense increased by $1.4 million to $3.3 million, or an effective tax rate of 29.8%, for the quarter ended September 30, 2020, compared to $1.9 million, or an effective tax rate of 28.7%, for the quarter ended September 30, 2019. The increase in income tax expense was primarily due to higher pre-tax income, which increased by $4.4 million during the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019. The increase in effective tax rate is primarily due to higher permanent tax differences, additional state filings and higher state apportionment rates in the current quarter.

Financial Condition

Overview

As of September 30, 2020, total assets were $1.26 billion, a decrease of $855 thousand, or 0.1%, from total assets of $1.26 billion as of June 30, 2020. The principal components of the changes in the balance sheet follow:

The following table highlights the changes in the loan portfolio for the quarter ended September 30, 2020:

	September 30, 2020 Balance	June 30, 2020 Balance	Change ($)	Change (%)
		(Dollars in thousands)		
National Lending Purchased	$ 358,203	$ 386,624	$ (28,421)	(7.35%)
National Lending Originated	462,974	467,612	(4,638)	(0.99%)
SBA	48,775	47,095	1,680	3.57%
Community Banking	62,158	70,271	(8,113)	(11.55%)
Total	$ 932,110	$ 971,602	$ (39,492)	(4.06%)

Loans generated by the Bank's National Lending Division for the quarter ended September 30, 2020 totaled $45.5 million, which consisted of $4.6 million of purchased loans, at an average price of 78.6% of unpaid principal balance, and $40.9 million of originated loans.

Additionally, the Bank originated $23.1 million of PPP loans in the first quarter. The Bank sold PPP loans with a total principal balance of $53.7 million during the quarter ended September 30, 2020, recording a net gain of $1.1 million on the sales primarily resulting from the recognition of net deferred fees, partially offset by purchase price discounts.

An overview of the Bank's National Lending portfolio follows:

	National Lending Portfolio Three Months Ended September 30,					
	2020			2019		
	Purchased	Originated	Total	Purchased	Originated	Total
			(Dollars in thousands)			
Loans purchased or originated during the period:						
Unpaid principal balance	$ 5,822	$ 40,908	$ 46,730	$ 30,333	$ 40,537	$ 70,870
Net investment basis	4,578	40,908	45,486	28,622	40,537	69,159
Loan returns during the period:						
Yield	9.11%	7.04%	7.98%	9.73%	7.57%	8.46%
Total Return on Purchased Loans (1)	9.11%	N/A	9.11%	9.73%	N/A	9.73%
Total loans as of period end:						
Unpaid principal balance	$ 391,895	$ 462,974	$ 854,869	$ 365,984	$ 457,350	$ 823,334
Net investment basis	358,203	462,974	821,177	332,227	457,350	789,577

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

Assets

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

Cash and cash equivalents were $203.3 million as of September 30, 2020, an increase of $59.6 million, or 41.5%, from $143.7 million at June 30, 2020. The increase is primarily due to the decrease in loans and the increase in deposits during the quarter.

Investment securities totaled $74.8 million as of September 30, 2020, compared to $72.2 million as of June 30, 2020, representing an increase of $2.7 million, or 3.7%, primarily due to purchases exceeding maturities of government agencies and principal payments on mortgage-backed securities. Included in investment securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of $5.6 million in a Community Reinvestment Act ("CRA") qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies and an investment of $1.6 million in a CRA qualified fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans. At September 30, 2020, securities with a fair value of $63.6 million were pledged for potential and outstanding borrowings.

Loans

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

	Community Banking	National Lending	SBA Division	Total	Percent of Total
		(Dollars in thousands)			
September 30, 2020					
Originated loans:					
Commercial real estate: non-owner occupied	$ 10,829	$ 175,898	$24,806	$ 211,533	22.69%
Commercial real estate: owner occupied	7,438	62,121	19,831	89,390	9.59%
Commercial and industrial	4,767	198,612	4,138	207,517	22.26%
Residential real estate	37,700	26,343	-	64,043	6.88%
Consumer	1,424	-	-	1,424	0.15%
Subtotal	62,158	462,974	48,775	573,907	61.57%
Purchased loans:					
Commercial real estate: non-owner occupied	-	217,067	-	217,067	23.29%
Commercial real estate: owner occupied	-	130,465	-	130,465	13.99%
Commercial and industrial	-	338	-	338	0.04%
Residential real estate	-	10,333	-	10,333	1.11%
Subtotal	-	358,203	-	358,203	38.43%
Total	$ 62,158	$ 821,177	$ 48,775	$ 932,110	100.00%
June 30, 2020					
Originated loans:					
Commercial real estate: non-owner occupied	$ 11,735	$ 180,261	$ 24,873	$ 216,869	22.32%
Commercial real estate: owner occupied	7,777	62,369	17,977	88,123	9.07%
Commercial and industrial	7,860	200,309	4,245	212,414	21.86%
Residential real estate	41,325	24,673	-	65,998	6.80%
Consumer	1,574	-	-	1,574	0.16%
Subtotal	70,271	467,612	47,095	584,978	60.21%
Purchased loans:					
Commercial real estate: non-owner occupied	-	238,429	-	238,429	24.54%
Commercial real estate: owner-occupied	-	136,116	-	136,116	14.00%
Commercial and industrial	-	355	-	355	0.04%
Residential real estate	-	11,724	-	11,724	1.21%
Subtotal	-	386,624	-	386,624	39.79%
Total	$ 70,271	$ 854,236	$ 47,095	$ 971,602	100.00%

Classification of Assets

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

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

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

The following table details the Bank's nonperforming assets and other credit quality indicators as of September 30, 2020 and June 30, 2020. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

	Nonperforming Assets at September 30, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 6,856	$ 10,282	$ 17,138
Commercial and industrial	2,013	194	2,207
Residential real estate	704	1,372	2,076
Consumer	26	-	26
Total nonperforming loans	9,599	11,848	21,447
Real estate owned and other repossessed collateral	871	3,231	4,102
Total nonperforming assets	$ 10,470	$ 15,079	$ 25,549
Ratio of nonperforming loans to total loans			2.30%
Ratio of nonperforming assets to total assets			2.03%
Ratio of loans past due to total loans			2.03%
Nonperforming loans that are current			$ 5,237
Commercial loans risk rated substandard or worse			$ 19,477
Troubled debt restructurings:			
On accrual status			$ 16,043
On nonaccrual status			$ 4,435

	Nonperforming Assets at June 30, 2020		
	Originated	Purchased	Total
		(Dollars in thousands)	
Loans:			
Commercial real estate	$ 6,861	$ 9,946	$ 16,807
Commercial and industrial	2,058	210	2,268
Residential real estate	832	1,169	2,001
Consumer	29	-	29
Total nonperforming loans	9,780	11,325	21,105
Real estate owned and other repossessed collateral	1,028	2,246	3,274
Total nonperforming assets	$ 10,808	$ 13,571	$ 24,379
Ratio of nonperforming loans to total loans			2.17%
Ratio of nonperforming assets to total assets			1.94%
Ratio of loans past due to total loans			1.69%
Nonperforming loans that are current			$ 5,703
Commercial loans risk rated substandard or worse			$ 20,200
Troubled debt restructurings:			
On accrual status			$ 11,787
Nonaccrual status			$ 4,670

As of September 30, 2020, nonperforming assets totaled $25.5 million, or 2.03% of total assets, as compared to $24.4 million, or 1.94% of total assets, as of June 30, 2020. The increase was primarily due to five National Lending purchased loans totaling $1.1 million that were placed on nonaccrual during the quarter ended September 30, 2020.

OREO increased by $828 thousand, or 25.3%, to $4.1 million at September 30, 2020, compared to $3.3 million at June 30, 2020. The increase was the result of the transfer of one property during the quarter, partially offset by a write-down on an existing property during the quarter ended September 30, 2020.

Allowance for Loan Losses

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

The Bank's allowance for loan losses amounted to $9.5 million as of September 30, 2020, compared to $9.2 million as of June 30, 2020. The increase in the period is primarily the result of an increase in certain qualitative factors as a result of continued impacts from the COVID-19 pandemic, partially offset by a decrease in loan balances during the quarter.

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

	September 30, 2020	June 30, 2020	September 30, 2019
Allowance for loan losses to nonperforming loans	44.46%	43.49%	37.44%
Allowance for loan losses to total loans	1.02%	0.94%	0.57%
Last twelve months of net-charge offs to average loans	0.07%	0.10%	0.07%

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

Other Assets

Premises and equipment, net, decreased by $298 thousand, or 3.1%, to $9.4 million at September 30, 2020, compared to $9.7 million at June 30, 2020. The decrease was primarily due to depreciation.

Loan servicing rights, net totaled $2.3 million and $2.1 million at September 30, 2020 and June 30, 2020, respectively. The $210 thousand increase was primarily the result of the acquisition of SBA loans with servicing assets and the revaluation of the servicing rights performed on a quarterly basis, partially offset by amortization during the three months ended September 30, 2020.

The cash surrender value of the Bank's BOLI assets increased $106 thousand, or 0.6% to $17.2 million at September 30, 2020, compared to $17.1 million at June 30, 2020. The increase in cash surrender value was due to interest earnings. Increases in cash surrender value are recognized in noninterest income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 8.6% of the Bank's regulatory total capital at September 30, 2020.

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

Deposits

The Bank's principal source of funding is its core deposit accounts. At September 30, 2020, non-maturity accounts and non-brokered insured time deposits represented 98.9% of total deposits.

Total deposits increased by $5.3 million, or 0.5%, from June 30, 2020, attributable to increases in demand deposits of $39.2 million, or 41.3%, savings and interest-bearing checking accounts of $27.5 million, or 19.9%, and money market accounts of $9.2 million, or 3.1%, partially offset by a decrease in time deposits of $70.5 million, or 14.8%. The primary reason for the net increase in deposits was due to timing of receipt of short-term customer funds which were subsequently withdrawn after the end of the quarter.

The composition of total deposits at September 30, 2020 and June 30, 2020 is as follows:

	September 30, 2020		June 30, 2020	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Demand deposits	$ 133,900	13.16%	$ 94,749	9.36%
NOW accounts	127,749	12.55%	100,673	9.94%
Regular and other savings	37,533	3.69%	37,151	3.67%
Money market deposits	311,561	30.62%	302,343	29.87%
Total non-certificate accounts	610,743	60.02%	534,916	52.84%
Term certificates of $250 thousand or less	395,711	38.88%	464,237	45.86%
Term certificates greater than $250 thousand	11,176	1.10%	13,199	1.30%
Total certificate accounts	406,887	39.98%	477,436	47.16%
Total deposits	$ 1,017,630	100.00%	$ 1,012,352	100.00%

FHLBB Advances

Advances from the FHLBB were $15.0 million at both September 30, 2020 and June 30, 2020. As of September 30, 2020, the Bank had pledged certain residential real estate loans and commercial real estate loans to secure outstanding advances and provide additional borrowing capacity. As of September 30, 2020, securities with a fair value of $63.6 million were pledged for potential and outstanding borrowings and letters of credit.

Subordinated Debt

On June 29, 2016, Northeast Bancorp entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which Northeast Bancorp issued subordinated notes equal to $15.1 million in aggregate principal amount with an interest rate of 6.75% fixed-to-floating maturing in 2026 ("subordinated notes"). The subordinated notes were assumed by the Bank as a result of the Reorganization in May 2019. The subordinated notes, net of issuance costs, totaled $15.0 million and $14.9 million at September 30, 2020 and June 30, 2020, respectively.

Liquidity

The following table is a summary of unused borrowing capacity of the Bank at September 30, 2020, in addition to traditional retail deposit products:

	As of September 30, 2020 (In thousands)	
Brokered time deposits	$ 314,195	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	200,449	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 532,144	

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

At September 30, 2020, the Bank had $520.3 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 41.4% of total assets. The Bank also had $203.3 million of cash and cash equivalents at September 30, 2020.

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

Capital

At September 30, 2020, shareholders’ equity was $172.6 million, an increase of $7.8 million, or 4.7% from June 30, 2020. Book value per common share was $21.06 at September 30, 2020 and $20.09 at June 30, 2020.

As of September 30, 2020, the Bank’s Tier 1 leverage capital ratio was 14.0%, compared to 13.4% at June 30, 2020, and the Total capital ratio was 21.2% at September 30, 2020, compared to 19.6% at June 30, 2020. Capital ratios were primarily affected by increased earnings and decreased assets.

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

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

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

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

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Minimum Capital Ratio with Capital Conservation Buffer
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Ratio
			(Dollars in thousands)				
September 30, 2020							
Common equity tier 1 capital to risk weighted assets	$ 174,278	18.57%	$ 42,239	≥4.5%	$ 61,012	≥6.5%	7.0%
Total capital to risk weighted assets	198,873	21.19%	75,092	≥8.0%	93,865	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	174,278	18.57%	56,319	≥6.0%	75,092	≥8.0%	8.5%
Tier 1 capital to average assets	174,278	14.02%	49,712	≥4.0%	62,140	≥5.0%	4.0%
June 30, 2020							
Common equity tier 1 capital to risk weighted assets	$ 166,423	17.13%	$ 43,730	≥4.5%	$ 63,166	≥6.5%	7.0%
Total capital to risk weighted assets	190,593	19.61%	77,742	≥8.0%	97,178	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	166,423	17.13%	58,307	≥6.0%	77,742	≥8.0%	8.5%
Tier 1 capital to average assets	166,423	13.36%	49,839	≥4.0%	62,299	≥5.0%	4.0%

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

Stock Repurchases

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remain available to repurchase. The repurchase program may be suspended or terminated at any time without prior notice and will expire October 21, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire July 21, 2021. No shares have been repurchased under this plan.

Off-Balance Sheet Financial Instruments

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

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

Results of Operations

General

Net income increased by $3.0 million to $7.8 million for the quarter ended September 30, 2020, compared to net income of $4.8 million for the quarter ended September 30, 2019.

Net Interest Income

Net interest and dividend income before provision for loan losses decreased by $744 thousand to $15.0 million for the quarter ended September 30, 2020, compared to $15.7 million for the quarter ended September 30, 2019. The decrease was primarily due to lower rates earned on loans and short-term investments, partially offset by decreased interest expense on deposits from lower rates paid.

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

	Interest Income and Yield on Loans					
	Three Months Ended September 30,					
	2020			2019		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 65,438	$ 843	5.11%	$ 90,384	$ 1,267	5.58%
SBA National	48,252	556	4.57%	62,755	1,469	9.31%
SBA PPP	16,901	80	1.88%	-	-	-
National Lending:						
Originated	452,744	8,029	7.04%	469,307	8,928	7.57%
Purchased	374,200	8,597	9.11%	328,819	8,040	9.73%
Total National Lending	826,944	16,626	7.98%	798,126	$ 16,968	8.46%
Total	$ 957,535	$ 18,105	7.50%	$ 951,265	$ 19,704	8.24%

(1) Includes loans held for sale.

The components of total income on purchased loans are set forth in the table below entitled "Total Return on Purchased Loans." When compared to the quarter ended September 30, 2019, regularly scheduled interest and accretion for the quarter ended September 30, 2020 increased by $510 thousand due to the increase in average balances and transactional income increased by $46 thousand. The total return on purchased loans for the quarter ended September 30, 2020 was 9.1%, a decrease from 9.7% for the quarter ended September 30, 2019. The following table details the total return on purchased loans:

	Total Return on Purchased Loans			
	Three Months Ended September 30,			
	2020		2019	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 6,565	6.96%	$ 6,054	7.33%
Transactional income:				
Gain on loan sales	-	0.00%	-	0.00%
Gain on real estate owned	-	0.00%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	2,032	2.15%	1,986	2.40%
Total transactional income	2,032	2.15%	1,986	2.40%
Total	$ 8,597	9.11%	$ 8,040	9.73%

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

The Bank's interest rate spread decreased by 66 basis points to 4.65% and net interest margin decreased by 77 basis points to 4.95% for the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019. The decrease was principally due to lower loans and short-term investment yields, partially offset by lower deposit rates.

The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended September 30, 2020 and 2019.

	Three Months Ended September 30,					
	2020			2019		
	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	$ 72,140	$ 290	1.59%	$ 82,081	$ 451	2.19%
Loans (1) (2) (3)	957,535	18,105	7.50%	951,265	19,704	8.24%
Federal Home Loan Bank stock	1,390	33	9.42%	1,258	19	6.01%
Short-term investments (4)	169,609	55	0.13%	60,347	321	2.12%
Total interest-earning assets	1,200,674	18,483	6.11%	1,094,951	20,495	7.45%
Cash and due from banks	2,925			2,629		
Other non-interest earning assets	38,853			35,531		
Total assets	$ 1,242,452			$ 1,133,111		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 123,644	$ 127	0.41%	$ 65,405	$ 60	0.36%
Money market accounts	312,271	535	0.68%	264,877	1,069	1.61%
Savings accounts	37,525	14	0.15%	34,476	14	0.16%
Time deposits	435,827	2,382	2.17%	484,115	3,173	2.61%
Total interest-bearing deposits	909,267	3,058	1.33%	848,873	4,316	2.02%
Federal Home Loan Bank advances	15,000	124	3.28%	15,000	125	3.32%
PPPLF advances	1,758	2	0.45%	-	-	0.00%
Subordinated debt	14,952	281	7.46%	14,841	282	7.56%
Lease liability	4,306	25	2.30%	5,690	35	2.45%
Total interest-bearing liabilities	945,283	3,490	1.46%	884,404	4,758	2.14%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	112,303			85,090		
Other liabilities	17,693			7,581		
Total liabilities	1,075,279			977,075		
Shareholders' equity	167,173			156,036		
Total liabilities and shareholders' equity	$ 1,242,452			$ 1,133,111		
Net interest income		$ 14,993			$ 15,737	
Interest rate spread			4.65%			5.31%
Net interest margin (5)			4.95%			5.72%

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

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

	Three Months Ended September 30, 2020 Compared to 2019		
	Change Due to Volume	Change Due to Rate	Total Change
	(In thousands)		
Interest earning assets:			
Investment securities	$ (50)	$ (111)	$ (161)
Loans	133	(1,732)	(1,599)
Federal Home Loan Bank stock	2	12	14
Short-term investments	223	(489)	(266)
Total interest-earning assets	308	(2,320)	(2,012)
Interest-bearing liabilities:			
Interest-bearing deposits	(72)	(1,186)	(1,258)
Federal Home Loan Bank advances	-	(1)	(1)
PPPLF advances	2	-	2
Subordinated debt	2	(3)	(1)
Lease liability	(8)	(2)	(10)
Total interest-bearing liabilities	(76)	(1,192)	(1,268)
Total change in net interest income	$ 384	$ (1,128)	$ (744)

Provision (Credit) for Loan Losses

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

The provision (credit) for loan losses for the three months ended September 30, 2020 and 2019 was a provision of $377 thousand and a credit of $136 thousand, respectively. The increase in the Bank's provision for loan losses reflects increases in certain qualitative factors during the current quarter as a result of continued impacts from the COVID-19 pandemic, partially offset by a decrease in loan balances during the quarter. There were no significant changes in qualitative factors and loan balances decreased during the quarter ended September 30, 2019.

Noninterest Income

Noninterest income increased by $5.2 million for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, primarily due to the following:

- An increase in correspondent fee income of $4.7 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. The correspondent arrangement provides for the Bank to earn a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the quarter is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 822
Amortization of Purchased Accrued Interest	279
Earned Net Servicing Interest	3,646
Total	$ 4,747

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

Quarter	PPP Loans Purchased by Loan Source	Correspondent Fee	Purchased Accrued Interest(1)	Total(2)
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Total	**$ 3,385,000**	**$ 8,239**	**$ 3,492**	**$ 11,731**

(1) - Northeast Bank's share
(2) - Expected to be recognized into income over approximately 2 years

- An increase in gain on sale of PPP loans of $1.1 million, due to the sale of $53.7 million of PPP loans, which resulted in a net gain based on the recognition of net deferred fees, partially offset by purchase price discounts in the quarter ended September 30, 2020; partially offset by,
- A $252 thousand decrease in gain on Small Business Administration ("SBA") loan sales, as no SBA national loans were sold during the current quarter;
- A $155 thousand increase in losses on REO, due to a write-down on an existing REO property during the quarter, as compared to minimal write-downs on REO properties during the quarter ended September 30, 2019;
- A $135 thousand decrease in BOLI income due to a gain from death benefit proceeds recognized in the quarter ended September 30, 2019, as compared to no gain recognized during the current quarter; and
- A $130 thousand decrease in gain on sale of residential loans held for sale due to lower volume sold as compared to the quarter ended September 30, 2019.

Noninterest Expense

Noninterest expense decreased by $421 thousand for the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019, primarily due to the following:

- A decrease in other noninterest expense of $408 thousand, primarily due to a $128 thousand recovery on SBA servicing assets in the quarter ended September 30, 2020, as compared to a $74 thousand impairment charge in the quarter ended September 30, 2019, and a $167 thousand decrease in travel and meals and entertainment expense during the current quarter; and
- A decrease in amortization of intangible assets of $109 thousand as the core deposit intangible became fully amortized during the quarter ended June 30, 2020.

Income Taxes

Income tax expense increased by $1.4 million to $3.3 million, or an effective tax rate of 29.8%, for the quarter ended September 30, 2020, compared to $1.9 million, or an effective tax rate of 28.7%, for the quarter ended September 30, 2019. The increase in income tax expense was primarily due to higher pre-tax income, which increased by $4.4 million during the quarter ended September 30, 2020 compared to the quarter ended September 30, 2019. The increase in effective tax rate is primarily due to higher permanent tax differences, additional state filings and higher state apportionment rates in the current quarter.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

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

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

Based on this evaluation of the Bank’s disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of September 30, 2020.

There were no changes in the Bank’s internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2020 that have materially affected, or is reasonably likely to materially affect, the Bank’s internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

On October 21, 2019, the Board of Directors adopted a share repurchase program to purchase up to 900,000 shares of its common stock, representing approximately 10.0% of the Bank's outstanding common stock, which was set to expire on October 21, 2020. On October 20, 2020, the FDIC approved the extension of the expiration date of the plan until October 21, 2021, under which 46,902 shares remain available to repurchase. The repurchase program may be suspended or terminated at any time without prior notice and will expire October 21, 2021.

On July 21, 2020, the Board of Directors adopted another share repurchase program to purchase up to $10.2 million of common stock, or up to 600,000 shares, representing 7.3% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it will expire July 21, 2021. No shares have been repurchased under this plan.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

* Filed herewith
** Furnished herewith

SIGNATURES

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

Date: November 6, 2020

NORTHEAST BANK

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

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

Exhibit 31.1 Certification of the Chief Executive Officer

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

I, Richard Wayne, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 6, 2020

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

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

I, Jean-Pierre Lapointe, certify that:

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

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

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

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

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

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

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

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

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

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

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

November 6, 2020

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

Exhibit 32.1. Certificate of the Chief Executive Officer

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Wayne, as Chief Executive Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

November 6, 2020

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 32.2. **Certificate of the Chief Financial Officer**

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

In connection with the Quarterly Report of Northeast Bank (the "Bank") on Form 10-Q for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean-Pierre Lapointe, as Chief Financial Officer of the Bank, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

November 6, 2020

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