FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 10-K

(Mark One)

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2019

OR

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

FDIC Certificate No. 19690

NORTHEAST BANK

(Exact name of registrant as specified in its charter)

Maine **(State or other jurisdiction of incorporation or organization)**	**01-0029040** **(I.R.S. Employer Identification No.)**
500 Canal Street, Lewiston, Maine **(Address of principal executive offices)**	**04240** **(Zip Code)**

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller Reporting Company	☑
Emerging growth company	☐		

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

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates, computed by reference to the last reported sales price of the registrant's voting common stock on the NASDAQ Global Market on December 31, 2018 was approximately $150,351,615

As of September 7, 2019, the registrant had outstanding 8,997,557 shares of voting common stock, $1.00 par value per share, and 44,783 shares of non-voting common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2019 Annual Meeting of Shareholders to be held on November 12, 2019 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file such proxy statement with the Federal Deposit Insurance Corporation no later than 120 days after the end of its fiscal year ended June 30, 2019.

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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 factors referenced in this report under Item 1A. "Risk Factors”; changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of weakness in general economic conditions on a national basis or in the local markets in which the Bank operates, including changes which adversely affect borrowers’ ability to service and repay our loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; operational risks including, but not limited to, cybersecurity, fraud and natural disasters; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank’s financial statements will become impaired; and changes in assumptions used in making such forward-looking statements. 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.

Non-GAAP Financial Measures and Reconciliation To GAAP

In addition to evaluating the Bank’s results of operations in accordance with GAAP, management supplements this evaluation with an analysis of certain non-GAAP financial measures, such as net operating earnings and net operating earnings per share. These non-GAAP financial measures are utilized for purposes of measuring performance against the Bank's peer group and other financial institutions, as well as for analyzing its internal performance. The Bank also believes these non-GAAP financial measures help investors better understand the Bank's operating performance and trends and allows for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of unusual items that may obscure trends in the Bank’s underlying performance. These disclosures should not be viewed as a substitute for GAAP operating results, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other financial institutions.

PART I

Item 1. Business

Overview

Northeast Bank (the "Bank"), a Maine state-chartered bank originally organized in 1872, is a Maine-based full-service financial institution.

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

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

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

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

As of June 30, 2019, the Bank had total assets of $1.2 billion, total deposits of $942.4 million, and shareholders' equity of $153.6 million. We gather retail deposits through our ten full-service branches in Maine and through our online deposit program, ableBanking; originate loans through the Community Banking Division; purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our Loan Acquisition and Servicing Group ("LASG"); and originate Small Business Administration and United States Department of Agriculture (“SBA”) loans on a nationwide basis through our national SBA group ("SBA Division").

Strategy

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

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

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

Continuing our community banking tradition. With a history that dates 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.

Market Area and Competition

The LASG and SBA Division activities are nationwide. The LASG competes primarily with community banks, regional banks and private equity funds operating nationwide in its bid to acquire primarily commercial real estate loans. We believe that we often have a competitive advantage in bidding against private equity funds on performing loans because those funds generally have higher funding costs and, therefore, higher expectations for return on investment than we do. Furthermore, private equity funds typically do not compete for small balance commercial loans and typically pursue larger, bulk transactions. Due to improving credit quality over the past several years and the low interest rate environment, the supply of loans available for purchase has declined, competition has increased, and spreads have tightened. Despite these trends, we believe that the LASG continues to have a competitive advantage in bidding against other banks because we have a specialized group with experience in purchasing commercial real estate loans. Additionally, most banks we compete against are community banks looking to acquire loans in their market; these banks usually have specific criteria for their acquisition activities and do not pursue pools with collateral or geographic diversity.

The SBA Division competes primarily with community banks, regional banks, national/global banks, and non-bank licensed lenders on a nationwide basis. Capitalizing on our LASG origination loan infrastructure, the SBA Division is in a position to review and act quickly on a variety of lending opportunities. Risk management, approvals, underwriting and other due diligence for these loans is similar to that for the LASG loans. We believe that the SBA Division has an advantage in originating commercial real estate loans because of its ability to utilize in-house staff to quickly and accurately screen loan opportunities, which accelerates the underwriting process.

The Community Banking Division's market area includes the six New England states, with the majority of its activities centered in the western and south-central regions of the State of Maine. We encounter significant competition in the Community Banking Division market area in originating loans, attracting deposits, and selling other customer products and services. Our competitors include savings banks, commercial banks, credit unions, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, and other financial intermediaries. Many of our primary competitors there have substantially greater resources, larger established customer bases, higher lending limits, extensive branch networks, numerous ATMs and greater advertising and marketing budgets. They may also offer services that we do not currently provide. ableBanking has a nationwide scope in its deposit gathering activities and competes with banks and credit unions, as well as other, larger, online direct banks having a national reach.

Lending Activities

General

We conduct our loan-related activities through three primary channels: the LASG, the SBA Division, and the Community Banking Division. The LASG purchases primarily performing commercial real estate loans, on a nationwide basis, typically at a discount from their unpaid principal balances, producing yields higher than those normally achieved on our originated loan portfolio. The LASG also originates commercial real estate and commercial and industrial loans on a nationwide basis. The SBA Division originates loans to small businesses, primarily through the SBA 7(a) program, which provides the partial guarantee of the SBA. The Community Banking Division originates loans directly to consumers and businesses located in its market area. At June 30, 2019, our total loan portfolio (excluding loans held for sale) was $975.1 million, of which $820.1 million, or 84.1%, was purchased or originated by the LASG, $63.1 million, or 6.5%, was originated by the SBA Division, and $91.9 million, or 9.4%, was originated by the Community Banking Division.

The following table sets forth certain information concerning our portfolio loan purchases and originations for the periods indicated (including loans held for sale):

	Years Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Loans, including loans held for sale, beginning of year	$ 878,957	$ 783,894
Additions:		
LASG purchases and originations:		
Originations	271,179	224,546
Purchases	135,848	124,111
Subtotal	407,027	348,657
SBA Division funded originations	45,763	42,368
Community Bank originations:		
Residential mortgages held for sale	40,714	63,321
Residential mortgages held for investment	-	1,094
Home equity	460	315
Commercial real estate	1,045	209
Commercial and industrial	1,440	1,670
Consumer	101	72
Subtotal	43,760	66,681
Total originations and purchases	496,550	457,706
Reductions:		
Sales of residential loans held for sale	(41,181)	(63,005)
Sales of SBA and portfolio loans	(39,012)	(32,088)
Charge-offs	(510)	(347)
Pay-downs and amortization, net	(315,834)	(267,203)
Total reductions	(396,537)	(362,643)
Loans, including loans held for sale, end of year	$ 978,970	$ 878,957
Annual percentage increase in loans	11.38%	12.13%

We individually underwrite all loans that we originate and purchase. Our loan underwriting policies are reviewed and approved annually by our Board of Directors (the "Board"). Each loan, regardless of whether it is originated or purchased, must meet underwriting criteria set forth in our lending policies and the requirements of applicable federal and state regulations. All loans are subject to approval procedures and amount limitations, and the Board approves loan relationships exceeding certain prescribed dollar limits. We supplement our own supervision of the loan underwriting and approval process with periodic loan audits by internal personnel and outside professionals experienced in loan review. As of June 30, 2019, the Bank's legal lending limit was $35.1 million.

We typically retain servicing rights for all loans that we originate or purchase, except for residential loans that we originate and sell servicing released in the secondary market.

LASG Purchases and Originations

General. Loans originated or purchased by the LASG were $820.1 million as of June 30, 2019, which consisted of $586.1 million of commercial real estate loans, $218.6 million of commercial and industrial loans, and $15.4 million of one- to four-family residential loans. The following table summarizes the LASG loan portfolio as of June 30, 2019:

	Purchased	Originated	Total
		(Dollars in thousands)	
Non-owner occupied commercial real estate	$ 190,110	$ 190,365	$ 380,475
Owner-occupied commercial real estate	126,725	78,946	205,671
Commercial and industrial	628	217,919	218,547
1-4 family residential	9,177	6,183	15,360
Total	$ 326,640	$ 493,413	$ 820,053

Since the inception of the LASG through June 30, 2019, we have purchased loans with an aggregate investment of $858.8 million, of which $135.8 million was purchased during fiscal 2019. We have also originated LASG loans totaling $1.1 billion, of which $271.2 million was originated in fiscal 2019. As of June 30, 2019, the unpaid principal balance of loans purchased or originated by the LASG ranged from $1 thousand to $15 million and have an average balance of $401 thousand. The real estate loans were secured principally by retail, industrial, hospitality, multi-family and office properties in 42 states.

The following table shows the LASG loan portfolio stratified by book value as of June 30, 2019, excluding deferred fees and costs:

Range	Amount	Percent of Total
	(Dollars in thousands)	
$0 - $1,000	$ 209,237	25.55%
$1,00 - $3,000	288,267	35.20%
$3,000 - $6,000	163,617	19.98%
$6,000 - $9,000	101,611	12.40%
Greater than $9,000	56,310	6.87%
Total	$ 819,042	100.00%

The following tables show the LASG loan portfolio by location and type of collateral as of June 30, 2019, excluding deferred fees and costs:

Collateral Type	Amount	Percent of Total
	(Dollars in thousands)	
Portfolio Finance	$ 215,954	26.37%
Retail	107,749	13.16%
Industrial	81,008	9.89%
Office	67,304	8.22%
Multifamily	115,581	14.11%
Hospitality	73,120	8.93%
Other CRE	61,321	7.49%
Mixed Use	48,731	5.95%
All Other	48,274	5.88%
Total	$ 819,042	100.00%

State	Amount	Percent of Total
	(Dollars in thousands)	
NY	$ 170,042	20.76%
CA	150,986	18.43%
TX	41,269	5.04%
FL	39,117	4.78%
NJ	28,442	3.47%
IL	18,416	2.25%
AZ	25,399	3.10%
Non-real estate	175,924	21.48%
All other states	169,447	20.69%
Total	$ 819,042	100.00%

Loan Purchase Strategies. The LASG's loan purchasing strategy involves the acquisition of commercial loans, typically secured by real estate or other business assets located throughout the United States.

We acquire commercial loans typically at a discount to their unpaid principal balances. While we acquire loans on a nationwide basis, we seek to avoid significant concentration in any geographic region or in any one collateral type. We do not seek acquisition opportunities for which the primary collateral is land, construction, or one- to four-family residential property, although in a very limited number of cases, loans secured by such collateral may be included in a pool of otherwise desirable loans. Purchased loans are sourced on a nationwide basis from banks, insurance companies, investment funds and government agencies, either directly or indirectly through advisors.

We focus on servicing released, whole loan or lead participation transactions so that we can control the management of the portfolio through our experienced asset management professionals. Purchased loans can be acquired as a single relationship or combined with other borrowers in a larger pool. Loans are bid to a minimal acceptable yield to maturity based on the overall risk of the loan, including expected repayment terms and the underlying collateral value. Updated loan-to-value ratios and loan terms both influence the amount of discount the Bank requires in determining whether a loan meets the Bank's guidelines. We often achieve actual results in excess of our minimal acceptable yield to maturity when a loan is prepaid.

At June 30, 2019, purchased loans had an unpaid principal balance of $360.5 million and a book value of $326.6 million, representing a total discount of 9.4%.

The following table shows the purchased loan portfolio as of June 30, 2019 by original purchase price percentage:

Initial Investment as a % of Unpaid Principal Balance	Amount	Percent of Total
	(Dollars in thousands)	
0% - 60%	$ 4,033	1.23%
60% - 70%	3,477	1.06%
70% - 80%	16,845	5.16%
80% - 90%	79,054	24.20%
> 90%	223,231	68.35%
Total	$ 326,640	100.00%

Secondary Market for Commercial Loans. Commercial whole loans are typically sold either directly by sellers or through loan sale advisors. Because a central database for commercial whole loan transactions does not exist, we attempt to compile our own statistics by both polling major loan sale advisors to obtain their aggregate trading volume and tracking the deal flow that we see directly via a proprietary database. This data reflects only a portion of the total market, as commercial whole loans that are sold in private direct sales or through other loan sale advisors are not included in our surveys. In recent years, the ratio of performing loans to total loans in the market has increased, in part, because sellers have worked through their most troubled, non-performing loans or are looking to minimize the discount they would receive in a secondary market transaction. While the 2008-2010 economic crisis led to a high level of trading volume, we also expect the market to remain active in times of economic prosperity, as sellers tend to have additional reserve capacity to sell their unwanted assets. Furthermore, we believe that the continued consolidation of the banking industry will create secondary market activity as acquirers often sell non-strategic borrowing relationships or assets that create excess loan concentrations.

Underwriting of Purchased Loans. We review many loan purchase opportunities and commence underwriting on a relatively small percentage of loans. Purchased loans are underwritten by a team of in-house, seasoned analysts before being considered for approval. Prior to commencing underwriting, loans are analyzed for performance characteristics, loan terms, collateral quality, and price expectations. We also consider whether the loans would make our total purchased loan portfolio more or less diverse with respect to geography, loan type and collateral type. The opportunity is underwritten once it has been identified as fitting our investment parameters. While the extent of underwriting may vary based on investment size, procedures generally include the following:

- A loan analyst reviews and analyzes the seller credit file and our own internal and third party research in order to assess credit risk;
- With the assistance of local counsel, where appropriate, an in-house attorney makes a determination regarding the quality of loan documentation and enforceability of loan terms;
- An in-house real estate specialist performs real estate collateral evaluations, which includes conducting original market research for trends and sale and lease comparables, and develops a valuation based on current data reflecting what we believe are recent trends;
- An environmental assessment is performed on real estate collateral where appropriate;
- A property inspection is generally performed on all real estate collateral securing a loan, focusing on several characteristics, including, among other things, the physical quality of the property, current occupancy, general quality and occupancy within the neighborhood, market position and nearby property listings; and
- An underwriting package containing the analysis and results is reviewed and submitted for approval by the LASG Credit Committee.

Collateral Valuation. The estimated value of the real property collateralizing the loan is determined by the LASG's in-house real estate group, which considers, among other factors, the type of property, its condition, location and its highest and best use in its marketplace. An inspection is conducted for the real property securing all loans bid upon. For loans that exceed a certain dollar threshold as prescribed in our credit policy, members of the LASG typically conduct an in-person site inspection.

We generally view cash flow from operations as the primary source of repayment on purchased loans. The LASG analyzes the current and likely future cash flows generated by the collateral to repay the loan. Also considered are minimum debt service coverage ratios, consisting of the ratio of net operating income to total scheduled principal and interest payments. Consideration of the debt service coverage ratio is critical to the pricing and rating of purchased and originated loans, and is analyzed carefully. For purchased loans, care is taken to ensure that, unless significantly offset by other factors in the credit, the purchase price results in an adjusted debt service coverage ratio that is within the Bank’s lending limits. Moreover, if the debt service coverage ratio based on the contractual payments, regardless of the Bank’s exposure, is significantly below 1.0x, then steps are taken to document alternative sources of repayment or develop a realistic plan to ensure continued performance of the loan.

Loan Pricing. In determining the amount that we are willing to bid to acquire individual loans or loan pools, the LASG considers the following:

- Collateral securing the loan;
- Geographic location;
- Financial resources of the borrower or guarantors, if any;
- Recourse nature of the loan;

- Age and performance of the loan;
- Length of time during which the loan has performed in accordance with its repayment term;
- Yield expected to be earned; and
- Servicing restrictions, if any.

In addition to the factors listed above and despite the fact that purchased loans are typically performing loans, the LASG also estimates the amount that we may realize through collection efforts or foreclosure and sale of the collateral, net of expenses, and the length of time and costs required to complete the collection or foreclosure process in the event a loan becomes non-performing or is non-performing at the time of purchase.

Loan Originations. In addition to purchasing loans, the LASG also originates commercial loans on a nationwide basis. Capitalizing on our purchased loan infrastructure, the LASG is in a position to review and act quickly on a variety of lending opportunities. Risk management, approvals, underwriting and other due diligence for these loans is similar to that for purchased loans, other than the appraisal and documentation process, which mirrors the Community Banking Division's practice of employing local attorneys and real estate appraisers to assist in the process. We believe that the LASG has an advantage in originating commercial loans because of its ability to utilize in-house staff to quickly and accurately screen loan opportunities and accelerate the underwriting process.

Loan Servicing. We conduct all loan servicing for purchased and originated loans with an in-house team of experienced asset managers who actively manage the loan portfolio. Asset managers initiate and maintain regular borrower contact, and ensure that the loan credit analysis is accurate. Collateral valuations, property inspections, and other collateral characteristics are updated periodically. All asset management activity and analysis is contained within a central database.

SBA Division

General. The SBA Division originates loans to small businesses nationwide, most often through the SBA's 7(a) program, which provides a partial government guarantee. Our loans are typically secured by liens on business assets and mortgages on commercial properties, and also benefit from SBA guarantees. We seek to build a loan portfolio that is diverse with respect to geography, loan type and collateral type.

The following table summarizes the SBA Division loan portfolio as of June 30, 2019:

	SBA Division
	(Dollars in thousands)
Non-owner occupied commercial real estate	$ 36,048
Owner-occupied commercial real estate	21,218
Commercial and industrial	5,787
Total	$ 63,053

The Bank's SBA loan portfolio includes owner and non-owner-occupied loans as defined under regulatory Call Report instructions. The regulatory Call Report instructions consider the primary source of repayment on the loan for this determination. However, these loans meet the SBA requirements to be considered owner occupied as the owner or controlling entity are actively involved in the daily operations of the underlying core business.

In addition to the loans held in the SBA Division loan portfolio, as of June 30, 2019, $731 thousand in the loans held for sale portfolio were attributable to the SBA Division, consisting of the guaranteed portion of the SBA Division loans are available-for-sale in the secondary market as of this date.

Secondary Market for SBA Guarantees. We typically sell the SBA-guaranteed portion of our variable-rate originations (generally 75% of the principal balance) at a premium in the secondary market. We generally retain a 25% unguaranteed interest and the accompanying servicing rights to the entire loan. We hold most fixed-rate SBA loan originations in portfolio.

Underwriting of SBA Division Loans. Our loan policies and procedures establish guidelines governing our SBA lending program. Generally, these guidelines address the types of loans that we seek, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. Our policies are reviewed and approved at least annually by our Board to ensure that we are following SBA underwriting guidelines.

Loan Servicing. We conduct all loan servicing for SBA Division loans with an in-house team of experienced asset managers who actively manage the loan portfolio. Asset managers initiate and maintain regular borrower contact, and ensure that the loan credit analysis is accurate. Collateral valuations, property inspections, and other collateral characteristics are updated periodically. All asset management activity and analysis is contained within a central database.

Community Banking Division Originations

Loan Portfolio

- *Residential Mortgage Loans.* We originate residential mortgage loans secured by one- to four-family properties primarily in Maine. Such loans may be originated for sale in the secondary market or to be held on the Bank's balance sheet. We also offer home equity loans and home equity lines of credit, which are secured by first or second mortgages on one- to four-family owner-occupied properties and are held on our balance sheet. At June 30, 2019, the Community Banking Division’s portfolio residential and home equity loans totaled $55.9 million, or 5.7% of total loans. Of the residential loans we held for investment at June 30, 2019, approximately 44.2% were adjustable rate. Included in residential loans are home equity lines of credit and other second mortgage loans aggregating approximately $10.5 million.

- *Commercial Real Estate Loans.* We originate multi-family and other commercial real estate loans secured by property primarily in Maine. At June 30, 2019, the Community Banking Division’s commercial real estate loans outstanding were $25.1 million, or 2.6% of total loans. Although the largest commercial real estate loan originated by the Community Banking Division had a principal balance of $1.6 million at June 30, 2019, the majority of the commercial real estate loans originated by the Community Banking Division had principal balances less than $500 thousand.

- *Commercial and industrial Loans.* We originate commercial and industrial loans, including term loans, lines of credit and equipment and receivables financing to businesses located primarily in Maine. At June 30, 2019, commercial and industrial loans outstanding were $8.5 million, or 0.9% of total loans. At June 30, 2019, there were 79 commercial and industrial loans outstanding with an average principal balance of $107 thousand. The largest of these commercial and industrial loans had a principal balance of $1.8 million at June 30, 2019.

- *Consumer Loans.* We originate, on a direct basis, automobile, boat and recreational vehicle loans. At June 30, 2019, consumer loans outstanding were $2.5 million, or 0.3% of total loans.

Underwriting of Loans. Most residential loans, including those held for investment, are originated in accordance with the standards of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Authority, or other third-party correspondent lenders. Our underwriting process for all other loans originated by the Community Banking Division is as follows:

- Most of our Community Banking Division originated loans are sourced through relationships between loan officers and third-party referral sources or current or previous customers.

- After a loan officer has taken basic information from the borrower, the request is submitted to the Community Banking Division's loan production department. The loan production department obtains comprehensive information from the borrower and third parties, and conducts verification and analysis of the borrower information, which is assembled into a single underwriting package that is submitted for final approval.

Investment Activities

Our securities portfolio and short-term investments provide and maintain liquidity, assist in managing the interest rate sensitivity of our balance sheet, and serve as collateral for certain of our obligations. Individual investment decisions are made based on the credit quality of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our asset/liability management objectives.

Sources of Funds

Deposits have traditionally been the primary source of the Bank's funds for lending and other investment purposes. In addition to deposits, the Bank obtains funds from the amortization and prepayment of loans and mortgage-backed securities, the sale, call or maturity of securities, advances from the Federal Home Loan Bank of Boston (the "FHLBB"), other term borrowings and cash flows generated by operations.

Deposits

We offer a full line of deposit products to customers in western and south-central Maine through our ten-branch network. Our deposit products consist of demand deposit, NOW, money market, savings and certificate of deposit accounts. Our customers access their funds through ATMs, MasterCard® Debit Cards, Automated Clearing House funds (electronic transfers) and checks. We also offer telephone banking, online banking and bill payment, mobile banking and remote deposit capture services. Interest rates on our deposits are based upon factors that include prevailing loan demand, deposit maturities, alternative costs of funds, interest rates offered by competing financial institutions and other financial service firms, and general economic conditions. At June 30, 2019, core deposits totaled $941.9 million, representing 99.9% of total deposits. We define core deposits as non-maturity deposits and non-brokered insured time deposits.

Our online deposit program, ableBanking, provides an additional channel through which to obtain core deposits to support our growth. ableBanking, which was launched in late fiscal 2012 as a division of Northeast Bank, had $300.8 million in money market and time deposits as of June 30, 2019. We also use deposit listing services to gather deposits in support of our liquidity and asset/liability management objectives. At June 30, 2019, listing service deposits totaled $221.4 million, bearing a weighted-average remaining term of 0.87 years.

Borrowings

While we currently consider core deposits (defined as non-maturity deposits and non-brokered insured time deposits) as our primary source of funding to support asset growth, advances from the FHLBB and other sources of wholesale funding remain an important part of our liquidity contingency planning. Northeast Bank may borrow up to 50% of its total assets from the FHLBB, and borrowings are typically collateralized by mortgage loans and securities pledged to the FHLBB. At June 30, 2019, we had $174.1 million of available borrowing capacity based on pledged collateral.

The availability of FHLBB advances and other sources of wholesale funding remain an important part of our liquidity contingency planning.

Employees

As of June 30, 2019, the Bank employed 167 full-time and 16 part-time employees. The Bank's employees are not represented by any collective bargaining unit. The Bank believes that its relations with its employees are good.

Other Subsidiaries

As of June 30, 2019, the Bank had three wholly-owned non-bank subsidiaries:

- 200 Elm Realty, LLC, which was established to hold commercial real estate acquired as a result of loan workouts.
- 500 Pine Realty, LLC, which was established to hold residential real estate acquired as a result of loan workouts.
- 17 Dogwood Realty, LLC, which was established to hold commercial real estate acquired as a result of loan workouts.

Supervision and Regulation

General

The following discussion addresses elements of the regulatory framework applicable to a bank. This regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance fund, and depositors, rather than the shareholders of a bank such as the Bank. This summary is not a comprehensive analysis of all applicable laws, and is qualified by reference to the applicable statutes and regulations.

Regulation of the Bank

As a Maine-chartered bank, the Bank is subject to supervision, regulation and examination by the Maine Bureau of Financial Institutions (the "Bureau") and the Federal Deposit Insurance Corporation (the "FDIC"). The enforcement powers available to federal and state banking regulators include, among other things, the ability to issue cease and desist or removal orders, to terminate insurance of deposits, to assess civil money penalties, to issue directives to increase capital, to place banks into receivership, and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Limitations on Acquisitions of Bank Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of an insured depository institution unless the FDIC has been notified and has not objected to the transaction.

Deposit Insurance. The deposit obligations of the Bank are insured up to applicable limits by the FDIC's Deposit Insurance Fund ("DIF") and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to $250,000 per depositor for deposits maintained in the same right and capacity at a particular-insured depository institution. On March 15, 2016, the FDIC's Board of Directors approved a final rule to increase the DIF's reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. Small banks, which are generally those banks with under $10 billion in assets, will receive credits to offset the portion of their assessments that help to raise the reserve ratio from 1.15% to 1.35%. After the reserve ratio reaches 1.38%, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment.

Deposit insurance assessments are based on assets. To determine its deposit insurance assessment, the Bank computes the base amount of its average assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. On April 26, 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks, generally those banks with less than $10 billion of assets that have been insured for at least five years. Under the final rule, beginning the first assessment period after June 30, 2016, assessments for established small banks with a CAMELS rating of 1 or 2 will range from 1.5 to 16 basis points, after adjustments, while assessment rates for established small institutions with a CAMELS composite rating of 4 or 5 may range from 11 to 30 basis points, after adjustments. Assessments for established banks with a CAMELS rating of 3 will range from 3 to 30 basis points.

The FDIC has the authority to adjust deposit insurance assessment rates at any time. In addition, under the Federal Deposit Insurance Act (the "FDIA"), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices; is in an unsafe or unsound condition to continue operations; or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. For the year ended June 30, 2019, the FDIC insurance expense for the Bank was $320 thousand.

Acquisitions and Branching. Prior approval from the Bureau and the FDIC is required in order for the Bank to acquire another bank or establish a new branch office. Well-capitalized and well-managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

Activities and Investments of Insured State-Chartered Banks. Section 24 of the FDIA generally limits the types of equity investment an FDIC-insured state-chartered bank, such as the Bank, may make and the kinds of activities in which such a bank may engage, as a principal, to those that are permissible for national banks. Further, the Gramm-Leach-Bliley Act of 1999 ("GLBA") permits national banks and state banks, to the extent permitted under state law, to engage—via financial subsidiaries—in certain activities that are permissible for subsidiaries of a financial holding company. In order to form a financial subsidiary, a state-chartered bank must be well capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and persons or companies that own, control or have power to vote more than 10% of any class of securities of a bank or an affiliate of a bank, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. The terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the bank, approved by a majority of the disinterested directors of the bank.

Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." Depository institutions that have brokered deposits in excess of 10% of total deposits be subject to increased FDIC deposit insurance assessments. However, for institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Growth Act"), which was enacted on May 24, 2018, amends Section 29 of the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions. Specifically, the Growth Act provides that reciprocal deposits received by an agent depository institution that places deposits (other than those obtained by or through a deposit broker) with a deposit placement network are not considered to be funds obtained by or through a deposit broker to the extent the total amount of such reciprocal deposits does not exceed the lesser of $5 billion or 20% of the depository institution's total liabilities. However, a depository institution that is less than well capitalized may not accept or roll over such excluded reciprocal deposits at a rate of interest that is significantly higher than the prevailing rate in its market area or a national rate cap established by the FDIC.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires the FDIC to evaluate the Bank's performance in helping to meet the credit needs of the entire communities it serves, including low- and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. The Bank's most recent performance evaluation from the FDIC was an "outstanding" rating.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The FDIC has issued risk-based and leverage capital rules applicable to an insured depository institution, such as the Bank. These rules are intended to reflect the relationship between the institution's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet, as well as off-balance sheet. The FDIC may from time to time require that an institution maintain capital above the minimum levels discussed below, due to its financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that depository institutions are required to maintain. Common equity Tier 1 capital for banks consists of common shareholders' equity and related surplus. Tier 1 capital for banks generally consists of the sum of common shareholders' equity, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital, less certain required deductions, represents qualifying total capital. Under rules that became effective January 1, 2016, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, the Bank was permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Bank has made this election.

Under the FDIC's capital rules applicable to the Bank, the Bank is required to maintain a minimum common equity Tier 1 capital to risk-weighted assets ratio of 4.5%, a minimum total Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0% and a minimum leverage ratio of 4.0%. Additionally, subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital above the minimum risk-based capital requirements for “adequately capitalized” institutions that is greater than 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

Under the FDIC’s rules, an FDIC supervised institution, such as the Bank, is considered “well capitalized” if it (i) has a total capital ratio of 10.0% or greater; (ii) a Tier 1 capital ratio of 8.0% or greater; (iii) a common equity Tier 1 capital ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

Generally, a bank, upon being notified that it is not adequately capitalized (i.e., that it is “undercapitalized”), becomes subject to the prompt corrective action provisions of Section 38 of the FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that its federal bank regulatory agency, which is the FDIC in the case of the Bank, monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution’s assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is “critically undercapitalized” (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

Section 201 of the Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio of tangible capital to average total consolidated assets of not less than 8% or more than 10%. The legislation provides that a qualifying community bank, which the legislation defines as a depository institution or depository institution holding company with total consolidated assets of less than $10 billion, that exceeds the community bank leverage ratio shall be considered to have met the generally applicable leverage capital requirements and the generally applicable risk-based capital requirements. In addition, a depository institution that exceeds the community bank leverage ratio will be regarded as having met the capital ratio requirements that are required in order to be considered well capitalized under Section 38 of the FDIA. The federal banking agencies may exclude institutions from availing themselves of this relief based on the institution’s risk profile, taking into account off-balance sheet exposures, trading assets and liabilities, total notional derivatives exposures, and such other factors as the federal banking agencies determine appropriate. The federal banking agencies have proposed, but not yet adopted, a community bank leverage ratio of 9%, which means that qualifying institutions with a community bank leverage ratio exceeding 9% would be eligible for the relief provided by Section 201 of the Growth Act. The federal banking agencies have also proposed, but not yet adopted, a rule excluding from this relief institutions with levels of off-balance sheet exposures, trading assets and liabilities, mortgage servicing assets and deferred tax assets exceeding certain levels as well as all advanced approaches banking organizations.

The Bank is currently considered “well capitalized” under all regulatory definitions.

Safety and Soundness Standard. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of FDIA. See *“—Regulatory Capital Requirements”* above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

Restrictions on Bank Dividends. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the Bureau for any dividend that would reduce a bank’s capital below prescribed limits. In addition, the ability of shareholders to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors).

Consumer Protection Regulation

The Bank is subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, Home Ownership Protection Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act"), GLBA, the Truth in Lending Act ("TILA"), CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the Electronic Funds Transfer Act, the Truth-in-Savings Act, the Secure and Fair Enforcement Act, the Expedited Funds Availability Act, and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the Consumer Financial Protection Bureau ("CFPB"), which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan. The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the TILA as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable-rate mortgages. Additionally, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Growth Act included provisions that ease certain requirements related to mortgage transactions for certain small institutions, which are generally those with less than $10 billion in consolidated assets.

Privacy and Customer Information Security. GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an initial and annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information, except as provided in such policies and procedures. However, as a result of amendments made by the Fixing America's Surface Transportation Act, a financial institution is not required to send an annual privacy notice if the institution only discloses nonpublic personal information in accordance with certain exceptions from GLBA that do not require an opt-out to be provided and if the institution has not changed its policies and practices since the most recent privacy disclosure provided to consumers. GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose "sensitive information" has been compromised if unauthorized use of this information has occurred or is "reasonably possible." Most states, including Maine, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve at least $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under the Bank Merger Act to merge banks or affect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target.

OFAC. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons); and (iii) restrictions on transactions with or involving certain persons or entities. Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC.

Available Information

The Bank's Investor Relations information can be obtained through our Internet address, *investor.northeastbank.com*. The Bank makes available on or through its Investor Relations page, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed with, or furnished to, the FDIC as soon as reasonably practicable after such reports have been filed or furnished to the FDIC. The Bank's reports filed with, or furnished to, the FDIC are also available at the FDIC's website at *www.FDIC.gov*. In addition, the Bank makes available, free of charge, its press releases and Code of Ethics through the Bank's Investor Relations page. Information on our website is not incorporated by reference into this document and should not be considered part of this report.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with all other information in this report, including our financial statements and related notes, before investing in our common stock. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occur, our business, financial condition and results of operations could be impaired. In that event, the market price for our common stock could decline and you may lose your investment. Certain statements below are forward-looking statements. See "A Note About Forward-Looking Statements."

Risks Associated With Our Business

A significant portion of loans held in our loan portfolio were originated by third parties, and such loans may not have been subject to the same level of due diligence that the Bank would have conducted had it originated the loans.

At June 30, 2019, 33.5% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that the Bank would have conducted had it originated the loans. Although the LASG conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the LASG may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our allowance for loan losses.

Our experience with loans held in our loan portfolio that were originated by third parties is limited.

At June 30, 2019, the loans held in our loan portfolio that were originated by third parties had been held by us for approximately 2.0 years, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our allowance for loan losses.

Our loan portfolio includes commercial real estate and commercial and industrial loans, which are generally riskier than other types of loans.

At June 30, 2019, our commercial real estate mortgage and commercial and industrial loan portfolios comprised 92.4% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by numerous factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

If our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance, our financial condition and results of operations could be adversely affected.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, we may have to write off the loan in whole or in part. In such situations, we may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan exceeds the fair value of the assets acquired.

We periodically make a determination of an allowance for loan losses based on available information, including, but not limited to, our historical loss experience, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral, expected cash flows from purchased loans, and the level of non-accruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses, but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed those estimated in the determination of our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans we have originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense or we may be held liable to a government entity or to third parties for property damage, personal injury, investigation and cleanup costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could substantially exceed the value of the affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. If we become subject to significant environmental liabilities, our business, financial condition and results of operations could be adversely affected.

The performance of our securities portfolio in difficult market conditions could have adverse effects on our results of operations.

We maintain a diversified securities portfolio, which includes obligations of U.S. government agencies and government-sponsored enterprises, including mortgage-backed securities. Under applicable accounting standards, we are required to review our securities portfolio periodically for the presence of other-than-temporary impairment, taking into consideration current market conditions, the extent and nature of changes in fair value, issuer rating changes and trends, volatility of earnings, current analysts' evaluations, our ability and intent to hold securities until a recovery of fair value, as well as other factors. Adverse developments with respect to one or more of the foregoing factors may require us to deem particular securities to be other-than-temporarily impaired, with the credit related portion of the reduction in the fair value recognized as a charge to the results of operations in the period in which the impairment occurs. Market volatility may make it difficult to value certain securities. Subsequent valuations, in light of factors prevailing at that time, may result in significant changes in the values of these securities in future periods. Any of these factors could require us to recognize further impairments in the value of our securities portfolio, which may have an adverse effect on our results of operations in future periods.

Loss of deposits or a change in deposit mix could increase our cost of funding.

Deposits are a low-cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase if we lose deposits and are forced to replace them with more expensive sources of funding, if clients shift their deposits into higher-cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin, net interest income and net income.

We are subject to liquidity risk.

Liquidity is the ability to meet cash-flow needs on a timely basis by converting assets into cash or cash equivalents and by increasing liabilities at a reasonable cost. Liquidity sources include the amount of unencumbered or "free" investment portfolio securities that we own, borrowings, cash flow from loan and investment principal payments and pre-payments and residential mortgage loan sales. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. We also require funds for dividends to shareholders, repurchases of shares, and for general corporate purposes. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources, which include Federal Home Loan Bank advances, less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We may not be able to attract and retain qualified key employees, which could adversely affect our business prospects, including our competitive position and results of operations.

Our success is dependent upon our ability to attract and retain highly-skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We face continuing and growing security risks to our information base, including the information we maintain relating to our customers.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including financial information regarding customers. Our electronic communications and information systems infrastructure could be susceptible to cyberattacks, hacking, identity theft or terrorist activity. We have implemented and regularly review and update extensive systems of internal controls and procedures as well as corporate governance policies and procedures intended to protect our business operations, including the security and privacy of all confidential customer information. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. No matter how well designed or implemented our controls are, we cannot provide an absolute guarantee to protect our business operations from every type of problem in every situation. A failure or circumvention of these controls could have a material adverse effect on our business operations and financial condition.

We regularly assess and test our security systems and disaster preparedness, including back-up systems, but the risks are substantially escalating. As a result, cybersecurity and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remain a priority. Accordingly, we may be required to expend additional resources to enhance our protective measures or to investigate and remediate any information security vulnerabilities or exposures. Any breach of our system security could result in disruption of our operations, unauthorized access to confidential customer information, significant regulatory costs, litigation exposure and other possible damages, loss or liability. Such costs or losses could exceed the amount of available insurance coverage, if any, and would adversely affect our earnings. Also, any failure to prevent a security breach or to quickly and effectively deal with such a breach could negatively impact customer confidence, damaging our reputation and undermining our ability to attract and keep customers.

We may not be able to successfully implement future information technology system enhancements, which could adversely affect our business operations and profitability.

We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. We may not be able to successfully implement and integrate future system enhancements, which could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We rely on other companies to provide key components of our business infrastructure.

Third-party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third-party vendors could also entail significant delay and expense.

Natural disasters, acts of terrorism and other external events could harm our business.

Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

We are dependent on our reputation as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues, including our ability to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal, reputational, credit, liquidity and market risks inherent in our products, could give rise to reputational risk that could cause harm to us and our business prospects. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Furthermore, any damage to our reputation could affect our ability to retain and develop the business relationships necessary to conduct business, which in turn could negatively impact our financial condition, results of operations, and the market price of our common stock.

Internal controls may fail or be circumvented.

Effective controls over financial reporting are necessary to help ensure reliable financial reporting and prevent fraud. Management is responsible for maintaining an effective system of internal control and assessing system effectiveness. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the system of internal control could have an adverse effect on our business, profitability, financial condition and operations, and could further result in regulatory actions and loss of investor confidence.

Our future growth, if any, may require us to raise additional capital, but that capital may not be available when we need it.

In conjunction with the regulatory approvals received by the Bureau, we committed to maintain a Tier 1 leverage ratio of at least 8.5% and a total capital ratio of at least 13.5%. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to support our operations or our growth. Our ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of our control, and our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on acceptable terms, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, investors' interests could be diluted. Our failure to meet any applicable regulatory guideline related to our lending activities or any capital requirement otherwise imposed upon us or to satisfy any other regulatory requirement could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

Weakness or deterioration in economic conditions, both in our market area and more generally, could adversely affect our financial condition and results of operations.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine. As a result, a significant portion of the Community Banking Division’s earnings are closely tied to the economy of Maine. In addition, our loan portfolio includes commercial loans acquired or originated by the LASG and the SBA Division that are secured by assets located nationwide. Deterioration in the economic conditions of the Community Banking Division's market area in western and south-central Maine, and deterioration of the economy nationally could result in the following consequences:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for our products and services may decline;
- Collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- The net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, estimable, and consistent with applicable accounting guidance. At any given time, we have a variety of legal actions asserted against us in various stages of litigation.

Resolution of a legal action can often take years. We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act. There have also been numerous highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

Risks Associated With the Industry

Competition in the financial services industry is intense and could result in us losing business or experiencing reduced margins.

We compete with community, regional, national and global banks, non-bank licensed lenders and private equity funds in purchasing or originating loans, attracting deposits, and selling other customer products and services. Many of our primary competitors there have substantially greater resources, larger established customer bases, higher lending limits, extensive branch networks, numerous ATMs and greater advertising and marketing budgets. They may also offer services that we do not currently provide. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services, as well as better pricing for those products and services than we can. Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automated transfer and automatic payment systems. Our long-term success depends on the ability of the Bank to compete successfully with other financial institutions in the Bank's service areas.

Changes in interest rates could adversely affect our net interest income and profitability.

The majority of our assets and liabilities are monetary in nature. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The nature and timing of any changes in such policies or general economic conditions and their effect on us cannot be controlled and are extremely difficult to predict. Changes in interest rates can affect our net interest income as well as the value of our assets and liabilities. Net interest income is the difference between (i) interest income on interest-earning assets, such as loans and securities, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in market interest rates, changes in the relationships between short-term and long-term market interest rates, or the yield curve, or changes in the relationships between different interest rate indices can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. This difference could result in an increase in interest expense relative to interest income, and therefore reduce our net interest income. Further, declines in market interest rates may trigger loan prepayments, which in many cases are within our customers' discretion, and which in turn may serve to reduce our net interest income if we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have an adverse impact in our operations.

We are subject to regulation and supervision by the FDIC and the Bureau. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, the level of reserves against deposits and restrictions on dividend payments. The FDIC and the Bureau have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation. These and other restrictions limit the manner in which we and the Bank may conduct business and obtain financing.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. Failure to comply with laws, regulations, or policies could result in enforcement and other legal actions by federal and state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Supervision and Regulation" in Item 1, "Business."

We are subject to capital and liquidity standards that require banks to maintain more and higher quality capital and greater liquidity than has historically been the case.

We became subject to new capital requirements in 2015 that were fully phased-in on January 1, 2019, which will force banks to maintain substantially higher levels of capital as a percentage of their assets, with a greater emphasis on common equity as opposed to other components of capital. The need to maintain more and higher quality capital, as well as greater liquidity, and generally increased regulatory scrutiny with respect to capital levels, may at some point limit our business activities, including lending, and our ability to expand. It could also result in our being required to take steps to increase our regulatory capital and may dilute shareholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The CFPB, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries and certain other persons or entities whose interest in property is blocked by OFAC-administered sanctions. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

The FDIC's assessment rates could adversely affect our financial condition and results of operations.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. As a result of recent economic conditions, the FDIC has decreased deposit insurance assessment rates. If these decreases are insufficient for the deposit insurance fund of the FDIC to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there is an increase in bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes to and replacement of the LIBOR Benchmark Interest Rate may adversely affect our business, financial condition and results of operations.

In 2017, the United Kingdom's Financial Conduct Authority, or "FCA", a regulator of financial services firms and financial markets in the United Kingdom, stated that it will plan for a phase out of regulatory oversight of LIBOR interest rate indices. The FCA has indicated that they will support the LIBOR indices through 2021 to allow for an orderly transition to alternative reference rates. Other financial services regulators and industry groups, including the International Swaps and Derivatives Association, or "ISDA", are evaluating the possible phase-out of LIBOR and the development of alternate interest rate indices or reference rates. Accordingly, uncertainty as to the nature of such changes may adversely affect the market for or value of LIBOR-based loans, derivatives, investment securities and other financial obligations held by or due to the banks, and could adversely impact our financial condition or results of operations.

Changes in accounting standards can materially impact our financial statements.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board ("FASB") or regulatory authorities change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in our restating prior period financial statements.

Changes in tax laws and regulations and differences in interpretation of tax laws and regulations may adversely impact our financial statements.

Local, state or federal tax authorities may interpret tax laws and regulations differently than we do and challenge tax positions that we have taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have a material adverse effect on our results.

Risks Associated With Our Common Stock

Market volatility has affected and may continue to affect the value of our common stock.

The price of our common stock can fluctuate widely in response to a variety of factors. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly. Some of the factors that could cause fluctuations or declines in the price of our common stock include, but are not limited to, actual or anticipated variations in reported operating results, recommendations by securities analysts, the level of trading activity in our common stock, new services or delivery systems offered by competitors, business combinations involving our competitors, operating and stock price performance of companies that investors deem to be comparable to the Bank, news reports relating to trends or developments in the credit, mortgage and housing markets as well as the financial services industry, and changes in government regulations.

Our common stock trading volume may not provide adequate liquidity for investors.

Our voting common stock is listed on the NASDAQ Global Market. The average daily trading volume for Northeast voting common stock is less than the corresponding trading volume for larger financial institutions. Due to this relatively low trading volume, significant sales of Northeast voting common stock, or the expectation of these sales, may place significant downward pressure on the market price of Northeast voting common stock. No assurance can be given that a more active trading market in our common stock will develop in the foreseeable future or can be maintained. There can also be no assurance that the offering will result in a material increase in the "float" for our common stock, which we define as the aggregate market value of our voting common stock held by shareholders who are not affiliates of Northeast, because our affiliates may purchase shares of voting common stock in the offering.

There is a limited market for and restrictions on the transferability of our non-voting common stock.

Our non-voting common stock is not and will not be listed on any exchange. Additionally, the non-voting common stock can only be transferred in certain limited circumstances set forth in our articles of incorporation. Accordingly, holders of our non-voting common stock may be required to bear the economic consequences of holding such non-voting common stock for an indefinite period of time.

If we defer payments of interest on our outstanding subordinated debt securities or if certain defaults relating to those debt securities occur, we will be prohibited from declaring or paying dividends or distributions on, and from making liquidation payments with respect to, our common stock.

As of June 30, 2019, we had outstanding $15.05 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due in 2026. If we were to be in default with respect to payment of any obligation under the notes, we would be prohibited from declaring or paying any dividends. We would also be prohibited from paying any distributions on, redeeming, purchasing, acquiring, or making a liquidation payment with respect to any of our capital stock, which would likely have a material adverse effect on the market value of our common stock.

We may not be able to pay dividends and, if we pay dividends, we cannot guarantee the amount and frequency of such dividends.

The continued payment of dividends on shares of our common stock will depend upon our debt and equity structure, earnings and financial condition, need for capital in connection with possible future acquisitions, growth and other factors, including economic conditions, regulatory restrictions, and tax considerations. We cannot guarantee that we will pay dividends or, if we pay dividends, the amount and frequency of these dividends.

We may issue additional shares of common or preferred stock in the future, which could dilute a shareholder's ownership of common stock.

Our articles of incorporation authorize our Board, generally without shareholder approval, to, among other things, issue additional shares of common or preferred stock. The issuance of any additional shares of common or preferred stock could be dilutive to a shareholder's ownership of our common stock. To the extent that we issue options or warrants to purchase common stock in the future and the options or warrants are exercised, our shareholders may experience further dilution. Holders of shares of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series. Future offerings could reduce the value of shares of our common stock and dilute a shareholder's interest in the Bank.

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

Anti-takeover provisions could negatively impact our shareholders.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over Northeast. Provisions of Maine law and provisions of our articles of incorporation and by-laws could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. We have a classified Board, meaning that approximately one-third of our directors are elected annually. Additionally, our articles of organization authorize our Board to issue preferred stock without shareholder approval and such preferred stock could be issued as a defensive measure in response to a takeover proposal. Other provisions that could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our shareholders include supermajority voting requirements to remove a director from office without cause; restrictions on shareholders calling a special meeting; a requirement that only directors may fill a Board vacancy; and provisions regarding the timing and content of shareholder proposals and nominations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2019, the Bank conducted its business from its headquarters in Lewiston, Maine, an office in Boston, Massachusetts, and an office in Portland, Maine. The Bank also conducts business from its ten full-service bank branches in Maine. The Bank believes that all of its facilities are well maintained and suitable for the purpose for which they are used.

In addition to its Lewiston, Maine, Boston, Massachusetts and Portland, Maine offices, the Bank leases two of its other locations. For information regarding the Bank's lease commitments, please refer to "Lease Obligations" under Note 14 of the Notes to the Financial Statements in Item 8 of this Annual Report.

Item 3. Legal Proceedings

From time to time, the Bank is subject to certain legal proceedings and claims in the ordinary course of business. Management presently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not be material to the Bank or its financial position. The Bank establishes reserves for specific legal matters when it determines that the likelihood of an unfavorable outcome is probable and the loss is reasonably estimable. Legal proceedings are subject to inherent uncertainties, and unfavorable rulings could occur that could cause the Bank to establish litigation reserves or could have, individually or in the aggregate, a material adverse effect on its business, financial condition, or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Bank's voting common stock currently trades on the NASDAQ under the symbol "NBN." There is no established public trading market for the Bank's non-voting common stock. As of the close of business on September 7, 2019, there were approximately 248 registered shareholders of record.

Holders of the Bank's voting and non-voting common stock are entitled to receive dividends when and if declared by the Board out of funds legally available. The Bank currently pays a quarterly cash dividend in the amount of $0.01 per share of the Bank's voting and non-voting common stock. While the Bank expects comparable cash dividends will be paid in the future, the amount and timing of future dividends will depend on, among other things, the financial condition of the Bank, regulatory considerations, and other factors. See "Item 1. Business—Supervision and Regulation."

The information required with respect to our equity compensation plans shall be included in the Proxy Statement and is incorporated herein by reference.

Item 6. Selected Financial Data

The following table sets forth our selected financial and operating data on a historical basis. The data set forth below does not purport to be complete. It should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the Bank's Financial Statements and related notes, appearing elsewhere herein.

	As of and for the Twelve Months Ended June 30,				
	2019	2018	2017	2016	2015
	(Dollars in thousands, except per share data)				
Selected operating data:					
Interest and dividend income	$ 81,830	$ 65,893	$ 57,921	$ 47,235	$ 44,588
Interest expense	19,509	12,584	10,096	7,855	7,220
Net interest income	62,321	53,309	47,825	39,380	37,368
Provision for loan losses	1,309	1,410	1,594	1,618	717
Noninterest income	6,116	7,028	9,696	7,773	7,089
Reorganization expense	8,695	-	-	-	-
Other noninterest expense	38,818	35,730	35,789	33,812	32,604
Income before income taxes	19,615	23,197	20,138	11,723	11,136
Income tax expense	5,731	7,031	7,779	4,104	3,995
Net income	$ 13,884	$ 16,166	$ 12,359	$ 7,619	$ 7,141
Reconciliation of Net Income (GAAP) to Net Operating Earnings (non-GAAP):					
Reorganization expense, net of tax	6,373	-	-	-	-
Net operating earnings (non-GAAP)	$ 20,257	$ 16,166	$ 12,359	$ 7,619	$ 7,141
Per share data:					
Earnings per common share:					
Basic	$ 1.54	$ 1.81	$ 1.39	$ 0.80	$ 0.72
Diluted	1.52	1.77	1.38	0.80	0.72
Operating earnings per common share(1):					
Basic	$ 2.24	$ 1.81	$ 1.39	$ 0.80	$ 0.72
Diluted	2.20	1.77	1.38	0.80	0.72
Cash dividends	0.04	0.04	0.04	0.04	0.04
Book value	16.98	15.49	13.90	12.51	11.77
Selected balance sheet data:					
Total assets	$ 1,153,858	$ 1,157,736	$ 1,076,874	$ 986,153	$ 850,718
Loans	975,060	871,802	779,195	692,436	612,137
Deposits	942,371	954,940	889,850	800,432	674,759
Borrowings and capital lease obligations	30,152	39,563	44,504	54,534	52,568
Total shareholders' equity	153,580	138,430	122,797	116,591	112,727
Other ratios:					
Return on average assets	1.16%	1.49%	1.22%	0.85%	0.89%
Return on average equity	9.42%	12.47%	10.62%	6.66%	6.35%
Efficiency ratio (2)	69.43%	59.22%	62.22%	71.71%	73.34%
Average equity to average total assets	12.31%	11.94%	11.52%	12.71%	14.00%
Operating return on average assets(1)	1.69%	1.49%	1.22%	0.85%	0.89%
Operating return on average equity(1)	13.74%	12.47%	10.62%	6.66%	6.35%
Operating efficiency ratio(1)(2)	56.72%	59.22%	62.22%	71.71%	73.34%
Common dividend payout ratio	2.63%	2.26%	2.90%	5.00%	5.56%
Operating common dividend payout ratio(1)	1.82%	2.26%	2.90%	5.00%	5.56%
Tier 1 leverage capital ratio	12.86%	13.12%	12.81%	13.27%	14.49%
Total capital ratio	18.01%	19.28%	19.48%	20.39%	20.14%

(1) Operating earnings per common share, operating return on average assets, operating return on average equity, operating efficiency ratio, and operating common dividend payout ratio utilize net operating earnings (non-GAAP).

(2) The efficiency ratio represents noninterest expense divided by the sum of net interest income (before the loan loss provision) plus noninterest income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, presents a review of the operating results of the Bank for the fiscal year ended June 30, 2019 ("fiscal 2019") and the fiscal year ended June 30, 2018 ("fiscal 2018"). This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Bank's Financial Statements and related notes and other statistical information included in this report.

Overview

The Bank's financial and strategic highlights for fiscal 2019 include the following:

- Completed the Reorganization in May 2019, removing the Federal Reserve commitments, which, in turn, will allow the Bank to release excess cash and deposits and save interest expense on cash, as well as interest expense on the Trust Preferred Securities, as they were paid off at the time of Reorganization.

- Net income for the year ended June 30, 2019 was $13.9 million, or $1.54 per diluted common share, compared to $16.2 million, or $1.77 per diluted common share, for the year ended June 30, 2018. However, after excluding the effects of the Reorganization, net operating earnings for the year ended June 30, 2019 were $20.3 million, or $2.20 per diluted common share, compared to $16.2 million, or $1.77 per diluted common share, for the year ended June 30, 2018.

- Generated loans of $498.6 million, growing the portfolio on a net basis by $103.3 million, or 11.8%.

- LASG purchased loans totaling $135.8 million and originated loans totaling $271.2 million, earning average portfolio yields of 10.4% and 7.7%, respectively. The purchased loan yield of 10.4% includes regularly scheduled interest and accretion, and accelerated accretion and fees recognized on loan payoffs. The Bank also monitors the "total return" on its purchased loan portfolio, a measure that includes gains on asset sales, gains on real estate owned, as well as interest, scheduled accretion and accelerated accretion and fees. On this basis, the purchased loan portfolio earned a total return of 10.6% for fiscal 2019.

	LASG Portfolio					
	Year Ended June 30,					
	2019			2018		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 144,372	$ 271,179	$ 415,551	$ 137,249	$ 224,546	$ 361,795
Net investment basis	135,848	271,179	407,027	124,111	224,546	348,657
Loan returns during the period:						
Yield	10.38%	7.67%	8.80%	11.35%	6.80%	8.66%
Total Return on Purchased Loans (1)	10.57%	7.67%	8.88%	11.73%	6.80%	8.82%
Total loans as of period end:						
Unpaid principal balance	$ 360,472	$ 493,413	$ 853,885	$ 326,855	$ 397,363	$ 724,218
Net investment basis	326,640	493,413	820,053	290,972	397,363	688,335

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

- Originated $47.2 million in SBA guaranteed loans in fiscal 2019, and sold $35.5 million of loans, for a gain on sale of $2.6 million.

Results of Operations

General

Net income for the year ended June 30, 2019 decreased by $2.3 million to $13.9 million, or $1.54 per diluted common share, compared to $16.2 million, or $1.77 per diluted common share, for the year ended June 30, 2018.The current year's results included $6.4 million of non-recurring expenses (after tax) related to the Bank's recently completed corporate reorganization. Excluding these non-recurring expenses, the Bank's net operating earnings (non-GAAP) increased $4.1 million to $20.3 million, or $2.20 per diluted common share, for the year ended June 30, 2019, compared to $16.2 million, or $1.77 per diluted common share, for the year ended June 30, 2018. We refer to the results excluding these non-recurring items as "net operating earnings."

Reported net income, non-recurring expenses, and net operating earnings for the years ended June 30, 2019 and 2018, respectively, are set forth below:

Reconciliation of Net Income Available to Common Shareholders (GAAP) to Net Operating Earnings (non-GAAP)[1]

	Year Ended June 30,	
	2019	2018
	(Dollars in thousands, except share and per share data)	
Net income (GAAP)	$ 13,884	$ 16,166
Items excluded from net operating earnings, net of tax:		
Write-off of fair value adjustment on trust preferred securities	5,057	-
Termination of interest rate swaps and caps	793	-
Related legal and professional fees	523	-
Total after-tax items	6,373	-
Net operating earnings (non-GAAP)	$ 20,257	$ 16,166
Weighted average common shares outstanding -diluted	9,156,233	9,129,152
Reported diluted earnings per share (GAAP)	$ 1.52	$ 1.77
Items excluded from net operating earnings[2]	0.68	-
Net operating earnings per share (non-GAAP) -diluted[2]	$ 2.20	$ 1.77

[1] Management believes operating earnings, which exclude non-recurring items related to the Reorganization, provide a more meaningful representation of the Bank's performance.
[2] The calculation of net operating earnings per share (non-GAAP) -diluted includes dilutive shares of 166,466 for the year ended June 30, 2019.

Items of significance affecting the Bank's earnings included:

- An increase in net interest and dividend income before provision for loan losses, which grew to $62.3 million as compared to $53.3 million for the year ended June 30, 2018. The increase was primarily due to higher average balances in the LASG originated portfolio, partially offset by higher rates paid on deposits and higher average balances in the deposit portfolio.

  The following table summarizes interest income and related yields recognized on the Bank's loans:

Interest Income and Yield on Loans

	Year Ended June 30,					
	2019			2018		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 107,685	$ 5,590	5.19%	$ 139,239	$ 6,871	4.93%
SBA	70,016	5,285	7.55%	53,030	3,888	7.33%
LASG:						
Originated	434,570	33,348	7.67%	350,427	23,834	6.80%
Purchased	312,213	32,404	10.38%	242,652	27,553	11.35%
Total LASG	746,783	65,752	8.80%	593,079	51,387	8.66%
Total	$ 924,484	$ 76,627	8.29%	$ 785,348	$ 62,146	7.91%

(1) Includes loans held for sale.

The yield on purchased loans is affected by unscheduled loan payoffs, which result in immediate recognition of the prepaid loans' discount in interest income. The following table details the "total return" on purchased loans, which includes total transactional income of $9.1 million for the year ended June 30, 2019, a decrease of $582 thousand from the year ended June 30, 2018. The following table summarizes the total return recognized on the purchased loan portfolio:

	Total Return on Purchased Loans			
	Year Ended June 30,			
	2019		2018	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 23,849	7.64%	$ 18,752	7.73%
Transactional income:				
Gain on loan sales	582	0.19%	918	0.38%
Gain on sale of real estate owned	-	0.00%	-	0.00%
Other noninterest income	-	0.00%	-	0.00%
Accelerated accretion and loan fees	8,555	2.74%	8,801	3.62%
Total transactional income	9,137	2.93%	9,719	4.00%
Total	$ 32,986	10.57%	$ 28,471	11.73%

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

- A decrease of $912 thousand in noninterest income, principally due to the following:
  - A decrease in gain on sale of SBA loans of $367 thousand, due to lower premiums on SBA loans sold in the year;
  - A decrease in gain on sale of other loans of $336 thousand, due to lower volume of other loans sold; and
  - A decrease in gain on sale of residential loans held for sale of $320 thousand, due to lower volume of residential loans sold and originated in the year; partially offset by
  - An increase in net unrealized gain on equity securities of $151 thousand, due to the gain recognized on the equity security held.

- An increase of $11.8 million in noninterest expense, primarily due to the following:
  - An increase in pre-tax reorganization expense of $8.7 million, which included the write-off of the fair value adjustment recorded as a result of the FHB Formation in 2010 on trust preferred securities of $7.1 million, the loss associated with the termination of related interest rate swaps and caps of $1.1 million and the related legal and other professional costs of $523 thousand;
  - An increase in salaries and employee benefits of $1.8 million, primarily due to an increase in incentive compensation and stock compensation expense, along with lower deferred salary and benefit amounts; and
  - An increase in data processing fees of $1.3 million, primarily due to increased IT outsourcing costs; partially offset by,
  - A decrease in occupancy and equipment of $935 thousand, primarily due to a decrease in equipment repairs and maintenance expense.

Net Interest Income

The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated:

	Year Ended June 30,					
	2019			2018		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 85,232	$ 1,684	1.98%	$ 92,599	$ 1,111	1.20%
Loans (1) (2) (3)	924,484	76,627	8.29%	785,348	62,156	7.91%
Federal Home Loan Bank stock	1,475	95	6.44%	1,803	89	4.94%
Short-term investments (4)	153,609	3,424	2.23%	171,360	2,547	1.49%
Total interest-earning assets	1,164,800	81,830	7.03%	1,051,110	65,903	6.27%
Cash and due from banks	2,542			2,889		
Other non-interest earning assets	30,968			31,550		
Total assets	$ 1,198,310			$ 1,085,549		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 70,822	$ 246	0.35%	$ 70,486	$ 210	0.30%
Money market accounts	344,631	5,383	1.56%	407,680	5,145	1.26%
Savings accounts	35,619	56	0.16%	37,514	57	0.15%
Time deposits	471,777	11,083	2.35%	311,544	4,485	1.44%
Total interest-bearing deposits	922,849	16,768	1.82%	827,224	9,897	1.20%
Federal Home Loan Bank advances	15,000	479	3.19%	16,947	547	3.23%
Subordinated debt	22,885	2,238	9.78%	23,787	2,102	8.84%
Capital lease obligations	455	24	5.27%	730	38	5.21%
Total interest-bearing liabilities	961,189	19,509	2.03%	868,688	12,584	1.45%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	80,848			79,767		
Other liabilities	8,814			7,472		
Total liabilities	1,050,851			955,927		
Shareholders' equity	147,459			129,622		
Total liabilities and shareholders' equity	$ 1,198,310			$ 1,085,549		
Net interest income (5)		$ 62,321			$ 53,319	
Interest rate spread			5.00%			4.82%
Net interest margin (6)			5.35%			5.07%

(1) Interest income and yield are stated on a fully tax-equivalent basis using the statutory tax rate.
(2) Includes loans held for sale.
(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.
(4) Short-term investments include FHLB overnight deposits and other interest-bearing deposits.
(5) Includes tax-exempt interest income of $10 thousand for the year ended June 30, 2018.
(6) Net interest margin is calculated as net interest income divided by total interest-earning assets.

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest-bearing liabilities have affected the 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) changes 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.

	Year Ended June 30, 2019 Compared to the Year Ended June 30, 2018		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (94)	$ 667	$ 573
Loans	11,422	3,049	14,471
FHLBB stock	(18)	24	6
Short-term investments	(287)	1,164	877
Total increase in interest income	11,023	4,904	15,927
Interest-bearing liabilities:			
Interest-bearing deposits	1,850	5,021	6,871
Short-term borrowings	(62)	(6)	(68)
Subordinated debt	(82)	218	136
Capital lease obligations	(15)	1	(14)
Total increase in interest expense	1,691	5,234	6,925
Total increase in net interest and dividend income	$ 9,332	$ (330)	$ 9,002

For the year ended June 30, 2019, the $9.3 million volume-related change in net interest income was mainly the result of the significant increase in loans, which grew by $139.1 million on average compared to fiscal 2018. The rate-related change in fiscal 2019 compared to fiscal 2018 was principally due to the increase in rates offered on deposits, offset by the increase in yields on the originated loan portfolio. For fiscal 2019, the net interest margin earned of 5.35% was 28 basis points higher than that earned for fiscal 2018, primarily due to higher average balances and rates in the LASG purchased and originated portfolios, partially offset by higher rates paid on deposits and higher average balances in the deposit portfolio.

The Bank's total cost of funds increased to 1.87% in fiscal 2019, from 1.33% in fiscal 2018, due to higher rates paid on deposits and higher volume in the deposit portfolio.

Provision for Loan Losses

Quarterly, the Bank determines the amount of its allowance for loan losses adequate to provide for losses inherent in the Bank's loan portfolios, with the provision for loan losses determined by the net periodic change in the allowance for loan losses. For acquired loans accounted for under ASC 310-30, Receivables—Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC 310-30"), a provision for loan loss is recorded when estimates of future cash flows decrease due to credit deterioration.

The provision for loan losses has been recorded based on estimates of inherent losses in newly originated loans and for incremental reserves required for pre-merger loans based on estimates of deteriorated credit quality post-merger.

The provision for loan losses for the fiscal year ended June 30, 2019 was $1.3 million, a decrease from the provision for loan losses of $1.4 million for the year ended June 30, 2018. At June 30, 2019 and 2018, the allowance for loan losses was $5.7 million and $4.8 million, respectively, and the ratio of allowance for loan losses to total loans was 0.58% and 0.55%, respectively.

Net charge-offs for fiscal 2019 totaled $414 thousand, representing approximately 0.04% of the Bank's average portfolio loan balance during the fiscal year. This compares to $268 thousand, or 0.04%, in fiscal 2018, representing an increase of $146 thousand in fiscal 2019.

For additional information on the allowance for loan losses, see "Asset Quality."

Noninterest Income

Noninterest income for fiscal 2019 totaled $6.1 million, a decrease of $912 thousand, or 13.0%, from fiscal 2018. When compared to fiscal 2018, the decrease was principally due to the following:

- A decrease in gain on sale of SBA loans of $367 thousand, due to lower premiums on SBA loans sold in the year;
- A decrease in gain on sale of other loans of $336 thousand, due to lower volume of other loans sold; and
- A decrease in gain on sale of residential loans held for sale of $320 thousand, due to lower volume of residential loans sold and originated in the year; partially offset by
- An increase in net unrealized loss on equity securities, due to the gain recognized on the equity security held.

Noninterest Expense

Noninterest expense for fiscal 2019 totaled $47.5 million, an increase of $11.8 million, or 33.0%, from fiscal 2018, primarily due to the Reorganization. When compared to fiscal 2018, the increase was principally due to the following:

- An increase in pre-tax reorganization expense of $8.7 million, which included the write-off of the fair value mark on trust preferred securities of $7.1 million, the loss associated with the termination of related interest rate swaps and caps of $1.1 million and the related legal and other professional costs of $523 thousand;
- An increase in salaries and employee benefits of $1.8 million, primarily due to an increase in incentive compensation; and
- An increase in data processing fees of $1.3 million, primarily due to increased IT outsourcing costs; partially offset by,
- A decrease in occupancy and equipment of $935 thousand, primarily due to a decrease in equipment repairs and maintenance expense.

Income Taxes

Income tax expense for fiscal 2019 totaled $5.7 million, representing 29.2% of pretax income, as compared to $7.0 million, or 30.3% of pretax income, in fiscal 2018. The decrease in the Bank's effective tax rate was principally due to the change in the federal corporate income tax rate as a result of the Tax Cuts and Jobs Act signed into law on December 22, 2017, offset by a decrease in benefits resulting from ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, arising from the exercise of stock options and vesting of restricted stock awards, along with non-deductible expenses incurred in conjunction with the Reorganization.

Financial Condition

Overview

The Bank's total assets were $1.2 billion at June 30, 2019, representing a decrease of $3.8 million, or 0.3%, compared to $1.2 billion at June 30, 2018. Significant changes in the Bank's balance sheet components include:

- Cash and cash equivalents decreased by $100.5 million, or 63.9%, compared to June 30, 2018. The decrease was primarily the result of the Reorganization, which allowed the Bank to release excess cash held to fund loan growth.

- The loan portfolio, excluding loans held for sale, increased by $103.3 million, or 11.8%, compared to June 30, 2018. The increase was principally due to $407.0 million of LASG originations and purchases, partially offset by purchased and originated loan runoff in the portfolio.

- Deposits decreased by $12.6 million, or 1.3%, from June 30, 2018, primarily due to a decrease in money market accounts of $150.1 million, or 35.7%, partially offset by growth in time deposits of $149.5 million, or 42.5%;

- Subordinated debt decreased by $9.1 million, or 38.10% from June 30, 2019, due to the payoff of Trust Preferred Securities in connection with the Reorganization; and

- Shareholders' equity increased by $15.2 million from June 30, 2018, primarily due to earnings of $13.9 million. Additionally, there was stock-based compensation of $1.4 million, other comprehensive income, net of tax, of $443 thousand and $359 thousand in dividends paid on common stock.

Cash and Cash Equivalents

Cash and cash equivalents decreased $100.5 million, or 63.9%, to $56.9 million at June 30, 2019, as compared to $157.4 million at June 30, 2018. This decrease was principally the result of the Reorganization, which allowed the Bank to release excess cash held to fund loan growth. For the year, net loan growth, including loans held for sale, was $100.0 million, offset by a net deposit decrease of $12.6 million.

Investment Securities

The investment securities portfolio totaled $82.7 million and $87.7 million at June 30, 2019 and 2018, respectively. The Bank's investment portfolio was comprised primarily of U.S. Government-sponsored enterprise bonds and mortgage-backed securities guaranteed by government agencies. The composition of the Bank's securities portfolio at the dates indicated follows.

	June 30, 2019		June 30, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 57,008	$ 57,364	$ 57,129	$ 56,887
Agency mortgage-backed securities	18,693	18,410	25,276	24,181
Equity investments measured at net asset value	7,034	6,938	6,866	6,619
Total investment securities	$ 82,735	$ 82,712	$ 89,271	$ 87,687

The table below sets forth certain information regarding the contractual maturities and weighted average yields of the Bank's debt securities portfolio at June 30, 2019. Actual maturities of mortgage-backed securities will differ from contractual maturities due both to scheduled amortization and prepayments.

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years	
	Fair Value	Yield	Fair Value	Yield	Fair Value	Yield
	(Dollars in thousands)					
U.S. Government agency securities	$ 21,085	2.15%	$ 36,279	2.63%	$ -	0.00%
Agency mortgage-backed securities	-	0.00%	5,754	0.96%	12,656	1.43%
Total available-for-sale debt securities	$ 21,085	2.15%	$ 42,033	2.40%	$ 12,656	1.43%

	After Ten Years		Total	
	Fair Value	Yield	Fair Value	Yield
	(Dollars in thousands)			
U.S. Government agency securities	$ -	0.00%	$ 57,364	2.45%
Agency mortgage-backed securities	-	0.00%	18,410	1.28%
Total available-for-sale debt securities	$ -	0.00%	$ 75,774	2.17%

The other investments measured at net asset value have no scheduled maturity date. However, the Bank's investments can be redeemed quarterly and daily at the closing net asset value.

Management reviews the portfolio of investments on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment expense was recognized during fiscal 2019 or fiscal 2018.

Loans

Loans, including loans held for sale, totaled $979.0 million at June 30, 2019, compared to $879.0 million at June 30, 2018. The increase of $100.0 million, or 11.4%, at June 30, 2019 was principally due to net increases of $89.0 million in commercial real estate loans and $44.0 million in commercial and industrial loans, partially offset by a net decrease of $29.0 million in residential real estate loans, $737 thousand in consumer loans and $3.2 million in loans held for sale. During fiscal 2019, the LASG originated $271.2 million in loans and the LASG purchased $135.8 million in loans.

The composition of the Bank's loan portfolio (excluding loans held for sale) at the dates indicated is as follows:

	June 30, 2019		June 30, 2018	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Commercial real estate	$ 668,496	68.56%	$ 579,450	66.47%
Commercial and industrial	232,839	23.88%	188,852	21.66%
Residential real estate	71,218	7.30%	100,256	11.50%
Consumer	2,507	0.26%	3,244	0.37%
Total loans	975,060	100.00%	871,802	100.00%
Less: Allowance for loan losses	5,702		4,807	
Loans, net	$ 969,358		$ 866,995	

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

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

	June 30, 2018				
	Community Banking Division	LASG	SBA Division	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 79,091	$ 7,111	$ 128	$ 86,330	9.90%
Commercial real estate: non-owner occupied	18,698	137,463	29,488	185,649	21.29%
Commercial real estate: owner-occupied	11,351	81,916	24,483	117,750	13.51%
Commercial and industrial	10,927	170,873	6,057	187,857	21.55%
Consumer	3,244	-	-	3,244	0.37%
Subtotal	123,311	397,363	60,156	580,830	66.62%
Purchased loans:					
Residential real estate	-	13,926	-	13,926	1.60%
Commercial real estate: non-owner occupied	-	150,805	-	150,805	17.30%
Commercial real estate: owner-occupied	-	125,246	-	125,246	14.37%
Commercial and industrial	-	995	-	995	0.11%
Subtotal	-	290,972	-	290,972	33.38%
Total	$ 123,311	$ 688,335	$ 60,156	$ 871,802	100.00%

The following table summarizes the scheduled maturity of the Bank's loan portfolio at June 30, 2019. Demand loans, loans having no stated repayment schedule, and overdraft loans are reported as being due in less than one year.

	Scheduled Loan Maturities				
	Within One Year	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
			(Dollars in thousands)		
Mortgages:					
Residential:					
Originated	$ 4,068	$ 5,327	$ 9,284	$ 43,362	$ 62,041
Purchased	1,703	4,127	313	3,034	9,177
Commercial:					
Originated	66,102	155,667	61,617	68,275	351,661
Purchased	50,294	73,637	44,407	148,497	316,835
Non-mortgage loans:					
Commercial:					
Originated	128,046	83,711	7,868	12,585	232,210
Purchased	73	287	251	18	629
Consumer	327	725	1,239	216	2,507
Total loans	$ 250,613	$ 323,481	$ 124,979	$ 275,987	$ 975,060

	Loans Due After One Year, by Interest Rate Type		
	Fixed rate	Floating or Adjustable	Total
		(Dollars in thousands)	
Mortgages:			
Residential:			
Originated	$ 30,932	$ 27,041	$ 57,973
Purchased	2,792	4,682	7,474
Commercial:			
Originated	16,485	269,074	285,559
Purchased	107,249	159,292	266,541
Non-mortgage loans:			
Commercial:			
Originated	2,773	101,391	104,164
Purchased	10	546	556
Consumer	2,180	-	2,180
Total	$ 162,421	$ 562,026	$ 724,447

Approximately 77.4% of total portfolio loans were variable rate products at both June 30, 2019 and 2018.

Certain purchased loans have been identified as having evidence of credit deterioration since their origination, and it is probable that the Bank will not collect all contractually required principal and interest payments. Purchased loans are accounted for using the measurement provisions set forth in ASC 310-30. The nonaccretable difference represents a loan's contractually required payments receivable in excess of the amount of cash flows expected to be collected. Improvements in expected cash flows result in prospective yield adjustments. The effect of a decrease in expected cash flows due to further credit deterioration is recorded through the allowance for loan losses.

Other Assets

Premises and equipment, net, decreased by $1.0 million, or 15.3%, to $5.6 million at June 30, 2019, compared to $6.6 million at June 30, 2018. The decrease was primarily due to depreciation of $1.3 million in the year, partially offset by fixed assets acquired.

Real estate owned and other repossessed collateral, net, decreased by $276 thousand, or 12.4%, to $2.0 million at June 30, 2019, compared to $2.2 million at June 30, 2018. The decrease was primarily due to sales and write-downs in the year. The real estate and personal property collateral for commercial and consumer loans are recorded at fair value less estimated costs to sell upon transfer to acquired assets.

The cash surrender value of the Bank's BOLI assets increased $437 thousand, or 2.6%, to $17.1 million at June 30, 2019, compared to $16.6 million at June 30, 2018. BOLI assets are invested in the general account of three insurance companies and in separate accounts of a fourth insurance company. A general account policy's cash surrender value is supported by the general assets of the insurance company. A separate account policy's cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor's rated these companies A+ or better at June 30, 2019. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates that reset each year, and are subject to minimum guaranteed rates. These increases in cash surrender value are recognized in other income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 9.8% of the Bank's total capital at June 30, 2019.

Loan servicing rights totaled \$2.9 million and \$3.0 million at June 30, 2019 and 2018, respectively. The \$119 thousand decrease was primarily due to the amortization and impairment booked during fiscal 2019, offset by SBA loans sold during the year.

Intangible assets totaled \$434 thousand and \$867 thousand at June 30, 2019 and 2018, respectively. The \$433 thousand decrease was the result of core deposit intangible amortization during fiscal 2019.

FHLBB stock totaled \$1.3 million and \$1.7 million at June 30, 2019 and 2018, respectively. The \$394 thousand decrease was the result of stock bought back by the FHLBB during fiscal 2019.

Deposits

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

Total deposits decreased \$12.6 million to \$942.4 million as of June 30, 2019 from \$954.9 million as of June 30, 2018. The decrease was primarily due to the decrease in money market accounts attracted through ableBanking, partially offset by an increase in time deposits during the year due to rates offered on those deposit products during fiscal 2019.

The following tables set forth certain information relative to the composition of the Bank's average deposit accounts and the weighted average interest rate on each category of deposits for the periods indicated:

	Year Ended June 30, 2019		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)		
Non-interest bearing demand deposits and escrow accounts	\$ 80,848	0.00%	8.06%
Regular savings	35,619	0.16%	3.55%
NOW accounts	70,822	0.35%	7.06%
Money market accounts	344,631	1.56%	34.33%
Time deposits	471,777	2.35%	47.00%
Total average deposits	\$ 1,003,697	1.67%	100.00%

	Year Ended June 30, 2018		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)		
Non-interest bearing demand deposits and escrow accounts	\$ 79,767	0.00%	8.79%
Regular savings	37,514	0.15%	4.14%
NOW accounts	70,486	0.30%	7.77%
Money market accounts	407,680	1.26%	44.95%
Time deposits	311,544	1.44%	34.35%
Total average deposits	\$ 906,991	1.09%	100.00%

There were \$501 thousand of time deposits greater than \$250 thousand as of June 30, 2019. There were no time deposits greater than \$250 thousand as of June 30, 2018.

The scheduled maturity of deposits greater than or equal to \$100 thousand is set forth below:

	June 30, 2019
	(Dollars in thousands)
3 months or less	\$ 75,105
Over 3 through 6 months	90,200
Over 6 through 12 months	103,268
Over 12 months	140,542
Total time certificates greater than or equal to \$100 thousand	\$ 409,115

Borrowings

FHLBB advances and subordinated debt are the Bank's sources of funding other than deposits. In fiscal 2019, total borrowings decreased by \$9.1 million, or 38.1%, to \$29.8 million, primarily due to the payoff of the Trust Preferred Securities in connection with the Reorganization.

Advances from the FHLBB were $15.0 million at both June 30, 2019 and 2018, respectively. Pledges of residential real estate loans, certain commercial real estate loans, investment securities, and certain FHLBB deposits free of liens or pledges are required to secure outstanding advances and available additional borrowing capacity from the FHLBB. At June 30, 2019, $75.8 million in investment securities were pledged as collateral to secure potential FHLBB advances as needed. At June 30, 2018, the Bank had no pledged investment securities.

On June 29, 2016, Northeast Bancorp entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors pursuant to which Northeast Bancorp sold and issued $15.05 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due 2026. As a result of the Reorganization, the subordinated debt was assumed by the Bank.

Immediately prior to the Reorganization, Northeast Bancorp redeemed the Trust Preferred Securities that it held. Northeast Bancorp had junior subordinated debentures issued to affiliated trusts totaling $9.2 million at June 30, 2018.

Asset Quality

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.

At June 30, 2019, the allowance for loan losses totaled $5.7 million, or 0.58% of total loans, as compared to $4.8 million, or 0.55% of total loans, at June 30, 2018. The year over year increase in the Bank's allowance for losses was principally the result of loan growth and the increase of qualitative factors. The following table sets forth activity in the Bank's allowance for loan losses for the periods indicated.

	Year Ended June 30, 2019	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
	(Dollars in thousands)				
Allowance at beginning of period	$ 4,807	$ 3,665	$ 2,350	$ 1,926	$ 1,367
Loans charged-off during the period:					
Residential real estate	249	183	186	134	207
Commercial real estate	-	111	44	988	-
Commercial and industrial	223	-	56	77	3
Consumer	38	53	101	66	28
Total loans charged-off	510	347	387	1,265	238
Recoveries on loans previously charged-off:					
Residential real estate	27	14	33	35	24
Commercial real estate	8	-	21	5	1
Commercial and industrial	34	25	16	14	34
Consumer	27	40	38	17	21
Total recoveries	96	79	108	71	80
Net loans charged off during the period	414	268	279	1,194	158
Provision for loan losses	1,309	1,410	1,594	1,618	717
Allowance at end of period	$ 5,702	$ 4,807	$ 3,665	$ 2,350	$ 1,926
Total loans at end of period [1]	$ 975,060	$ 871,802	$ 779,195	$ 692,436	$ 612,137
Average loans outstanding during the period [1]	922,529	780,854	737,860	659,995	555,073
Allowance as a percentage of total loans	0.58%	0.55%	0.47%	0.34%	0.31%
Ratio of net charge-offs to average loans outstanding	0.04%	0.04%	0.04%	0.18%	0.03%
Allowance as a percentage of non-performing loans	38.61%	40.20%	26.25%	30.02%	18.41%

(1) Amounts and resulting ratios exclude loans held for sale

The following table allocates the allowance for loan losses by loan category and the percent of loans in each category to total loans at the dates indicated below.

	June 30, 2019		June 30, 2018		June 30, 2017		June 30, 2016		June 30, 2015	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in thousands)									
Residential real estate	$ 381	6.68%	$ 610	12.69%	$ 478	12.98%	$ 663	16.46%	$ 741	21.67%
Commercial real estate	4,120	72.25%	3,136	65.24%	2,549	63.91%	1,328	61.60%	976	56.96%
Commercial and industrial	1,151	20.19%	1,022	21.26%	585	22.54%	297	21.08%	118	20.12%
Consumer	50	0.88%	39	0.81%	53	0.57%	62	0.86%	35	1.25%
Unallocated	-	0.00%	-	0.00%	-	0.00%	-	0.00%	56	0.00%
Total	$ 5,702	100.00%	$ 4,807	100.00%	$ 3,665	100.00%	$ 2,350	100.00%	$ 1,926	100.00%

The following table reflects the annual trend of total loans 30 days or more past due, as a percentage of total loans. The increase was primarily due to four originated relationships totaling $4.4 million and four purchased loan relationships totaling $1.8 million that were past due as of June 30, 2019.

	As of June 30,				
	2019	2018	2017	2016	2015
Past due loans to total loans	1.50%	0.89%	1.72%	1.00%	1.08%

Non-performing Assets

The table below sets forth the amounts and categories of the Bank's non-performing assets at the dates indicated:

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
			(Dollars in thousands)		
Nonperforming loans:					
Originated portfolio:					
Residential real estate	$ 2,772	$ 3,212	$ 3,395	$ 2,661	$ 3,032
Commercial real estate	3,892	1,499	413	474	994
Commercial and industrial	1,284	1,368	2,600	17	2
Consumer	148	134	103	163	190
Total originated portfolio	8,096	6,213	6,511	3,315	4,218
Purchased portfolio:					
Residential real estate	631	202	1,056	1,125	-
Commercial and industrial	497	363	32	-	-
Commercial real estate	5,543	5,180	6,364	3,387	6,532
Total purchased portfolio	6,671	5,745	7,452	4,512	6,532
Total nonperforming loans	14,767	11,958	13,963	7,827	10,750
Real estate owned and other repossessed collateral	1,957	2,233	826	1,652	1,651
Total nonperforming assets	$ 16,724	$ 14,191	$ 14,789	$ 9,479	$ 12,401
Nonperforming loans that are current	$ 3,544	$ 4,897	$ 4,321	$ 2,271	$ 484
Non-performing loans to total loans	1.51%	1.37%	1.79%	1.13%	1.76%
Non-performing assets to total assets	1.45%	1.23%	1.37%	0.96%	1.46%

At June 30, 2019, the Bank had $16.7 million of nonperforming assets, or 1.45% of total assets, compared to $14.2 million of nonperforming assets, or 1.23% of total assets at June 30, 2018. The increase was primarily due to the addition of an originated relationship of $1.0 million, which was placed on nonaccrual during the year ended June 30, 2019.

Troubled debt restructurings ("TDRs") represent loans for which concessions (such as extension of repayment terms or reductions of interest rates to below market rates) are granted due to a borrower's financial condition. Such concessions may include reductions of interest rates to below-market terms and/or extension of repayment terms. The balances and payment status of TDRs are as follows:

	June 30, 2019	June 30, 2018
	(Dollars in thousands)	
Nonaccrual	$ 3,846	$ 3,543
Accrual	16,905	11,915
Total TDRs	$ 20,751	$ 15,458

At June 30, 2019, the Bank had real estate owned and other repossessed collateral of $2.0 million, compared to $2.2 million at June 30, 2018. The decrease was primarily due to sales and write-downs in the year. The real estate and personal property collateral for commercial and consumer loans are written down to fair value less estimated costs to sell upon transfer to acquired assets. Revenues and expenses are recognized in the period when received or incurred on other real estate and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

We continue to focus on asset quality and allocate significant resources to credit policy, loan review, asset management, collection, and workout functions. Despite this ongoing effort, there can be no assurance that adverse changes in the real estate markets and economic conditions will not result in higher non-performing assets levels in the future and negatively impact our results of operations through higher provision for loan losses, net loan charge-offs, decreased accrual of income and increased noninterest expenses.

Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under a ten-point rating system. These ratings are guidelines in assessing the risk of a particular loan. The Bank had $12.7 million and $10.1 million of loans rated substandard or worse at June 30, 2019 and 2018, respectively, an increase primarily attributable to downgrades in the commercial real estate, SBA, and purchased portfolios during the year. The following tables present the Bank's loans by risk rating:

	June 30, 2019					
	Commercial Real Estate	Commercial and Industrial	SBA	Residential[1]	Purchased Portfolio	Total
	(Dollars in thousands)					
Loans rated 1- 6	$ 290,530	$ 219,262	$ 56,076	$ 10,805	$ 315,767	$ 892,440
Loans rated 7	597	6,902	5,186	36	4,001	16,722
Loans rated 8	3,268	260	1,791	485	6.872	12,676
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 294,395	$ 226,424	$ 63,053	$ 11,326	$ 326,640	$ 921,838

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

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

Risk Management

Management and the Board of the Bank recognize that taking and managing risk is fundamental to the business of banking. Through the development, implementation and monitoring of its policies with respect to risk management, the Bank strives to measure, evaluate and control the risks it faces. The Board and management understand that an effective risk management system is critical to the Bank's safety and soundness. Chief among the risks faced by us are credit risk, market risk (including interest rate risk), liquidity risk, and operational (transaction) risk.

Credit Risk

The Bank considers credit risk to be the most significant risk that it faces, in that it has the greatest potential to affect the financial condition and operating results of the Bank. Credit risk is managed through a combination of policies and limits established by the Board, the monitoring of compliance with these policies and limits, and the periodic evaluation of loans in the portfolio, including those with problem characteristics. The Bank also utilizes the services of independent third parties to provide loan review services, which consist of a variety of monitoring techniques after a loan is purchased or originated.

In general, the Bank's policies establish limits on the maximum amount of credit that may be granted to a single borrower (including affiliates), the aggregate amount of loans outstanding by type in relation to total assets and capital, and concentrations of loans by size, property type, and geography. Underwriting criteria, such as collateral and debt service coverage ratios and approval limits are also specified in loan policies. The Bank's policies also address the performance of periodic credit reviews, the risk rating of loans, when loans should be placed on non-performing status and factors that should be considered in establishing the Bank's allowance for loan losses. For additional information, refer to "Asset Quality" above and Item 1, "Business—Lending Activities."

Market Risk

Market risk is the risk of loss due to adverse changes in market prices and rates, and typically encompasses exposures such as sensitivity to changes in market interest rates, foreign currency exchange rates, and commodity prices. The Bank has no exposure to foreign currency exchange or commodity price movements. Because net interest income is our primary source of revenue, interest rate risk is a significant market risk to which the Bank is exposed.

Interest rate risk can be defined as the exposure of future net interest income to adverse movements in interest rates. Net interest income is affected by changes in interest rates as well as by fluctuations in the level, mix and duration of the Bank's assets and liabilities. Over and above the influence that interest rates have on net interest income, changes in rates also affect the volume of lending activity, the ability of borrowers to repay loans, the volume of loan prepayments, the flow and mix of deposits, and the market value of the Bank's assets and liabilities.

The Bank's management has established an Asset Liability Management Committee ("ALCO"), which is responsible for managing the Bank's interest rate risk in accordance with policies and limits approved by the Board. With regard to management of market risk, the ALCO is charged with managing the Bank's mix of assets and funding sources to produce results that are consistent with the Bank's liquidity, capital adequacy, growth, and profitability goals.

Exposure to interest rate risk is managed by Northeast through periodic evaluations of the current interest rate risk inherent in its rate-sensitive assets and liabilities, coupled with determinations of the level of risk considered appropriate given the Bank's capital and liquidity requirements, business strategy, and performance objectives. Through such management, Northeast seeks to mitigate the potential volatility in its net interest income due to changes in interest rates in a manner consistent with the risk appetite established by the Board.

The ALCO's primary tool for measuring, evaluating, and managing interest rate risk is income simulation analysis. Income simulation analysis measures the interest rate risk inherent in the Bank's balance sheet at a given point in time by showing the effect of interest rate shifts on net interest income over defined time horizons. These simulations take into account the specific repricing, maturity, prepayment and call options of financial instruments that vary under different interest rate scenarios. The ALCO reviews simulation results to determine whether the exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. The Bank considers a variety of specified rate scenarios, including instantaneous rate shocks, against static (or flat) rates when measuring interest rate risk, and evaluates results over two consecutive twelve-month periods. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" scenario, where interest rates remain stable over the measured time horizon(s). As of June 30, 2019, the income simulation analysis (as noted in the table below) for the first twelve-month period indicated that exposure to changing interest rates fell within the Bank's policy levels of tolerance.

While the ALCO reviews simulation assumptions to ensure they are reasonable, and back-tests simulation results on a periodic basis as a monitoring tool, income simulation analysis may not always prove to be an accurate indicator of the Bank's interest rate risk or future earnings. There are inherent shortcomings in income simulation, given the number and variety of assumptions that must be made to perform it. For example, the projected level of future market interest rates and the shape of future interest rate yield curves have a major impact on income simulation results. Many assumptions concerning the repricing of financial instruments, the degree to which non-maturity deposits react to changes in market rates, and the expected prepayment rates on loans, mortgage-backed securities, and callable debt securities are also inherently uncertain. In addition, as income simulation analysis assumes that the Bank's balance sheet will remain static over the simulation horizon, the results do not reflect the Bank's expectations for future balance sheet growth, nor changes in business strategy that the Bank could implement in response to rate shifts to mitigate its loss exposures. As such, although the analysis described above provides an indication of the Bank's sensitivity to interest rate changes at a point in time, these estimates are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on the Bank's net interest income and will differ from actual results.

Assuming a 200 basis point increase and 100 basis point decrease in interest rates starting on June 30, 2019, we estimate that our net interest income in the following 12 months would increase by 3.4% if rates increased by 200 basis points and decrease by 1.1% if rates declined by 100 basis points. These results indicate a modest level of asset sensitivity in our balance sheet. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

	Up 200 Basis Points	Down 100 Basis Points
June 30, 2019	3.4%	-1.1%
June 30, 2018	2.7%	-1.1%

Liquidity Risk

Liquidity risk is defined as the risk associated with an organization's ability to meet current and future financial obligations of a short-term nature. The Bank uses its liquidity on a regular basis to fund existing and future loan commitments, to pay interest on deposits and on borrowings, to fund maturing certificates of deposit and borrowings, to fund other deposit withdrawals, to invest in other interest-earning assets, to make dividend payments to shareholders, and to meet operating expenses. The Bank's primary sources of liquidity consist of deposit inflows, FHLBB advances, and the amortization, prepayment and maturities of loans and securities. While scheduled payments from the amortization and maturities of loans and securities are relatively predictable sources of funds, deposit flows and loan and investment prepayments can be greatly influenced by general interest rates, economic conditions and competition. In addition to these regular sources of funds, the Bank may choose to sell portfolio loans and securities to meet liquidity demands.

We monitor and forecast our liquidity position. There are several interdependent methods used by us for this purpose, including daily review of Federal Funds positions, monthly review of balance sheet changes, monthly review of liquidity ratios, quarterly review of liquidity forecasts and periodic review of contingent funding plans. Using these methods, the Bank actively manages its liquidity position under the direction of the ALCO.

The following is a summary of the unused borrowing capacity of the Bank at June 30, 2019 available to meet our short-term funding needs:

	As of June 30, 2019	
	(Dollars in thousands)	
Brokered time deposits	$ 287,964	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	174,100	Unused advance capacity subject to eligible and qualified collateral
Other available lines	17,500	
Total unused borrowing capacity	$ 479,564	

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 in the Federal Home Loan Bank of Boston may be required.

At June 30, 2019, the Bank had $484.9 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 42.0% of total assets. The Bank also had $56.9 million of cash and cash equivalents at June 30, 2019.

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

For the year ended June 30, 2019, total annual interest expense on subordinated notes issued in June 2016 was $1.0 million.

Operational Risk

Operational risk, which we define as the risk of loss from failed internal processes, people and systems, and external events, is inherent in all of our business activities. The principal ways in which we manage operational risk include the establishment of departmental and business-specific policies and procedures, internal controls and monitoring requirements. Some specific examples include our information security program, business continuity planning and testing, our vendor management program, reconciliation processes, our enterprise risk assessment process, and new product and/or system introduction processes. Periodic internal audits provide an important independent check on adherence to policies, procedures and controls designed to mitigate risk exposure.

To address these risks, management has a Senior Management Risk and Compliance Committee (“SMRCC”), whose responsibility is to proactively identify, accurately measure, and adequately monitor and control the risks assumed by the Bank in its various products and lines of business to ensure safe and sound operations and that the risks assumed by the Bank are consistent with the risk appetite established by the Board.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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 and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized on the balance sheet. The contract or notional amounts of these instruments reflect the extent of the Bank's involvement 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, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. 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 committed amounts do not necessarily represent future cash requirements. To control the credit risk associated with entering into commitments and issuing letters of credit, the Bank uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Unused lines of credit and commitments to extend credit typically result in loans with a market interest rate.

A summary of the amounts of the Bank’s contractual obligations and other commitments with off-balance sheet risk as of June 30, 2019 follows:

	Payments Due - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Contractual obligations:					
Federal Home Loan Bank advances	$ 15,000	$ 15,000	$ -	$ -	$ -
Subordinated debt	15,050	-	15,050	-	-
Capital lease obligation	331	306	25	-	-
Total debt obligations	30,381	15,306	15,075	-	-
Operating lease obligations	6,011	1,254	2,485	1,296	976
Total contractual obligations	$ 36,392	$ 16,560	$ 17,560	$ 1,296	$ 976

	Amount of Commitment Expiring - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(In thousands)		
Commitments with off-balance sheet risk:					
Commitments to extend credit	$ 11,991	$ 11,991	$ -	$ -	$ -
Unused lines of credit	21,488	11,542	4,862	1,130	3,954
Standby letters of credit	2,383	2,383	-	-	-
Total commitments	$ 35,862	$ 25,916	$ 4,862	$ 1,130	$ 3,954

Capital

Shareholders’ equity was $153.6 million at June 30, 2019, an increase of $15.2 million from June 30, 2018. The increase was primarily due to earnings of $13.9 million, which included the effects of the Reorganization. Additionally, there was stock-based compensation of $1.4 million, an increase in accumulated other comprehensive income of $623 thousand and $359 thousand in dividends paid on common stock.

See Note 9 of the Notes to the Financial Statements for information on the Bank's capital ratios. Regulatory capital ratios for the Bank currently exceed all applicable requirements, including the commitments made to the Bureau to maintain minimum Tier 1 leverage and total capital ratios of 8.5% and 13.5%, respectively.

Impact of Inflation

The financial statements and related notes have been presented in terms of historic dollars without considering changes in the relative purchasing power of money over time due to inflation. Unlike industrial companies, nearly all of the assets and virtually all of the liabilities of the Bank are monetary in nature. As a result, interest rates have a more significant impact on the Bank's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

Impact of New Accounting Standards

Note 1 of the Notes to the Financial Statement includes the FASB issued statements and interpretations affecting the Bank.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and that could potentially result in materially different results under different assumptions and conditions. The Bank considers the following to be its critical accounting policies:

Allowance for Loan Losses

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

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

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

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

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

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

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.

There were no significant changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2019 or 2018.

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

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the 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.

Purchased Loans

Loans that the Bank purchases are initially recorded at fair value with no carryover of the related allowance for loan and lease losses. Determining the fair value of the purchased loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest. The Bank continues to evaluate the reasonableness of expectations for the timing and the amount of cash to be collected. Subsequent decreases in expected cash flows may result in changes in the amortization or accretion of fair market value adjustments, and in some cases may result in a loan being considered impaired.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management” for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Northeast Bank

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Northeast Bank (the Bank) as of June 30, 2019 and 2018, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended June 30, 2019, and the related notes to the financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Bank's internal control over financial reporting as of June 30, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated September 13, 2019 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Corporate Reorganization

As described in Note 1 to the financial statements, the entity completed a corporate reorganization on May 15, 2019, eliminating its bank holding company.

Basis for Opinion

These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on the Bank’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Bank’s auditor since 2015.

Boston, Massachusetts
September 13, 2019

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

	June 30, 2019	June 30, 2018
Assets		
Cash and due from banks	$ 2,482	$ 3,889
Short-term investments	54,425	153,513
Total cash and cash equivalents	56,907	157,402
Available-for-sale securities, at fair value	75,774	81,068
Equity securities, at fair value	6,938	6,619
Total investment securities	82,712	87,687
Residential real estate loans held for sale	3,179	3,405
SBA loans held for sale	731	3,750
Total loans held for sale	3,910	7,155
Loans		
Commercial real estate	668,496	579,450
Commercial and industrial	232,839	188,852
Residential real estate	71,218	100,256
Consumer	2,507	3,244
Total loans	975,060	871,802
Less: Allowance for loan losses	5,702	4,807
Loans, net	969,358	866,995
Premises and equipment, net	5,582	6,591
Real estate owned and other repossessed collateral, net	1,957	2,233
Federal Home Loan Bank stock, at cost	1,258	1,652
Intangible assets, net	434	867
Loan servicing rights, net	2,851	2,970
Bank-owned life insurance	17,057	16,620
Other assets	11,832	7,564
Total assets	$ 1,153,858	$ 1,157,736
Liabilities and Shareholders' Equity		
Deposits		
Demand	$ 68,782	$ 72,272
Savings and interest checking	101,061	109,637
Money market	270,835	420,886
Time	501,693	352,145
Total deposits	942,371	954,940
Federal Home Loan Bank advances	15,000	15,000
Subordinated debt	14,829	23,958
Capital lease obligation	323	605
Other liabilities	27,755	24,803
Total liabilities	1,000,278	1,019,306
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2019 and 2018	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 8,997,326 and 8,056,527 shares issued and outstanding at June 30, 2019 and 2018, respectively	8,997	8,057
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; 44,783 and 882,314 shares issued and outstanding at June 30, 2019 and 2018, respectively	45	882
Additional paid-in capital	78,095	77,016
Retained earnings	67,581	54,236
Accumulated other comprehensive loss	(1,138)	(1,761)
Total shareholders' equity	153,580	138,430
Total liabilities and shareholders' equity	$ 1,153,858	$ 1,157,736

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

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

	Years Ended June 30, 2019	Years Ended June 30, 2018
Interest and dividend income:		
Interest and fees on loans	$ 76,627	$ 62,146
Interest on investment securities	1,684	1,111
Other interest and dividend income	3,519	2,636
Total interest and dividend income	81,830	65,893
Interest expense:		
Deposits	16,768	9,897
Federal Home Loan Bank advances	479	547
Subordinated debt	2,238	2,102
Obligation under capital lease agreements	24	38
Total interest expense	19,509	12,584
Net interest and dividend income before provision for loan losses	62,321	53,309
Provision for loan losses	1,309	1,410
Net interest and dividend income after provision for loan losses	61,012	51,899
Noninterest income:		
Fees for other services to customers	1,769	1,822
Gain on sales of SBA loans	2,588	2,955
Gain on sales of residential loans held for sale	611	931
Gain on sale of other loans	582	918
Net unrealized gain on equity securities	151	-
Loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	(104)	(123)
Bank-owned life insurance income	437	441
Other noninterest income	82	84
Total noninterest income	6,116	7,028
Noninterest expense:		
Salaries and employee benefits	23,323	21,565
Occupancy and equipment expense	3,650	4,585
Professional fees	1,402	1,749
Data processing fees	3,769	2,447
Marketing expense	580	472
Loan acquisition and collection expense	1,913	1,354
FDIC insurance premiums	320	317
Intangible asset amortization	433	433
Reorganization expense	8,695	-
Other noninterest expense	3,428	2,808
Total noninterest expense	47,513	35,730
Income before income tax expense	19,615	23,197
Income tax expense	5,731	7,031
Net income	$ 13,884	$ 16,166
Weighted-average common shares outstanding:		
Basic	9,032,530	8,906,710
Diluted	9,156,233	9,129,152
Earnings per common share:		
Basic	$ 1.54	$ 1.81
Diluted	1.52	1.77
Cash dividends declared per common share	$ 0.04	$ 0.04

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

NORTHEAST BANK
STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended June 30,	
	2019	2018
Net income	$ 13,884	$ 16,166
Other comprehensive income, before tax:		
Available-for-sale securities:		
Change in net unrealized loss on available-for-sale securities	1,410	(636)
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	(2,043)	750
Reclassification adjustments included in net income	1,240	106
Total derivatives and hedging activities	(803)	856
Total other comprehensive income, before tax	607	220
Income tax expense related to other comprehensive income	164	66
Other comprehensive income, net of tax	443	154
Comprehensive income	$ 14,327	$ 16,320

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Earnings	Loss	Equity
Balance at June 30, 2017	-	$ -	7,840,460	$ 7,841	991,194	$ 991	$ 77,455	$ 38,142	$ (1,632)	$ 122,797
Net income	-	-	-	-	-	-	-	16,166	-	16,166
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	154	154
Conversion of non-voting common stock to voting common stock	-	-	108,880	109	(108,880)	(109)	-	-	-	-
Dividends on common stock at $0.04 per share	-	-	-	-	-	-	-	(355)	-	(355)
Stock-based compensation	-	-	-	-	-	-	870	-	-	870
Issuance of restricted common stock	-	-	22,000	22	-	-	(22)	-	-	-
Cancellations and forfeiture of restricted common stock	-	-	(40,003)	(40)	-	-	(69)	-	-	(109)
Stock options exercised, net	-	-	125,190	125	-	-	(1,218)	-	-	(1,093)
Adjustment for adoption of ASU 2018-02	-	-	-	-	-	-	-	283	(283)	-
Balance at June 30, 2018	-	-	8,056,527	8,057	882,314	882	77,016	54,236	(1,761)	138,430
Net income	-	-	-	-	-	-	-	13,884	-	13,884
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	443	443
Conversion of non-voting common stock to voting common stock	-	-	837,531	837	(837,531)	(837)	-	-	-	-
Dividends on common stock at $0.04 per share	-	-	-	-	-	-	-	(359)	-	(359)
Stock-based compensation	-	-	-	-	-	-	1,366	-	-	1,366
Issuance of restricted common stock	-	-	116,925	117	-	-	(117)	-	-	-
Cancellations and forfeiture of restricted common stock	-	-	(18,500)	(19)	-	-	(119)	-	-	(138)
Stock options exercised, net	-	-	4,843	5	-	-	(51)	-	-	(46)
Adjustment for adoption of ASU 2016-01	-	-	-	-	-	-	-	(180)	180	-
Balance at June 30, 2019	-	$ -	8,997,326	$ 8,997	44,783	$ 45	$ 78,095	$ 67,581	$ (1,138)	$ 153,580

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

NORTHEAST BANK
STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended June 30, 2019	Years Ended June 30, 2018
Operating activities:		
Net income	$ 13,884	$ 16,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,309	1,410
Loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	104	123
Net unrealized gain on equity securities	(151)	-
Accretion of fair value adjustments on loans, net	(8,826)	(8,694)
Accretion of fair value adjustments on borrowings, net	207	217
Amortization of subordinated debt issuance costs	7,160	110
Originations of loans held for sale	(76,038)	(91,975)
Net proceeds from sales of loans held for sale	84,035	99,112
Gain on sales of residential loans held for sale, net	(611)	(931)
Gain on sales of SBA and other loans held for sale, net	(3,170)	(3,873)
Net increase (decrease) in loan servicing rights	119	(124)
Amortization of intangible assets	433	433
Bank-owned life insurance income, net	(437)	(441)
Depreciation of premises and equipment	1,324	1,300
Deferred income tax expense (benefit)	(3,734)	498
Stock-based compensation	1,366	870
Amortization of investment securities, net	349	802
Changes in other assets and liabilities:		
Other assets	(522)	(1,331)
Other liabilities	1,973	5,782
Net cash provided by operating activities	18,774	19,454
Investing activities:		
Purchases of investment securities	(32,974)	(26,174)
Proceeds from maturities and principal payments on investment securities	39,161	33,742
Loan purchases	(135,848)	(124,111)
Loan originations, principal collections, and purchased loan paydowns, net	39,430	32,372
Purchases and disposals of premises and equipment, net	(297)	(981)
Proceeds from sales of real estate owned and other repossessed collateral	755	1,266
Redemption of Federal Home Loan Bank stock	394	286
Net cash used in investing activities	(89,379)	(83,600)
Financing activities:		
Net change in deposits	(12,569)	65,090
Dividends paid on common stock	(359)	(355)
Repayment of FHLBB borrowings	-	(5,000)
Repayment of trust preferred securities	(16,496)	-
Repayment of capital lease obligation	(282)	(268)
Repurchases for tax withholdings on restricted common stock	(138)	(109)
Stock options exercised, net	(46)	(1,093)
Net cash (used in) provided by financing activities	(29,890)	58,265
Net decrease in cash and cash equivalents	(100,495)	(5,881)
Cash and cash equivalents, beginning of year	157,402	163,283
Cash and cash equivalents, end of year	$ 56,907	$ 157,402
Supplemental schedule of cash flow information:		
Interest paid	$ 19,094	$ 12,171
Income taxes paid, net	4,409	5,341
Supplemental schedule of noncash investing and financing activities:		
Transfers from loans to real estate owned and other repossessed collateral, net	$ 601	$ 2,769

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

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bank (the "Bank") conform to accounting principles generally accepted in the United States of America ("US GAAP") and conform to practices within the financial services industry.

Corporate Reorganization

On May 15, 2019, as the result of a corporate reorganization designed to eliminate its bank holding company structure, Northeast Bancorp (the "Company"), a Maine corporation, merged with and into its wholly-owned subsidiary, the Bank, a Maine state-chartered bank, with the Bank continuing as the surviving corporation (the "Reorganization"). Unless the context otherwise requires, references in this Annual Report on Form 10-K to "Company," "we," "us" and "our" for periods prior to May 15, 2019, refer to Northeast Bancorp, which was the holding company and the registrant prior to the Reorganization, and, for periods after the Reorganization, to the Bank.

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

Business

The Bank is a Maine state-chartered bank. The Bank is subject to supervision and regulation by applicable state and federal banking agencies, including the Bureau and the FDIC. The Bank faces competition from banks and other financial institutions. The Bank provides a full range of banking services to individual and corporate customers throughout south-central and western Maine and conducts loan purchasing and origination activities nationwide.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the current year's presentation.

Use of Estimates

The financial statements have been prepared in conformity with US GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, the determination of fair values in conjunction with the application of loan acquisition accounting, and the on-going evaluation of assets for potential impairment.

Concentrations of Credit Risk

Most of the Community Banking Division's business activity is with customers located within the State of Maine. However, the business activities of the Bank's LASG and the SBA Division are diversified across the country. In all regions, the Bank's focus is to originate and purchase commercial real estate and commercial and industrial loans. Repayment of loans is expected from cash flows of the borrower. Losses on secured loans are limited by the value of the collateral upon default of the borrowers. The Bank does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of presentation in the statements of cash flows, cash and cash equivalents consist of cash and due from banks and short-term investments. The Bank is required to maintain a certain reserve balance in the form of cash or deposits with other financial institutions. At June 30, 2019 and 2018, such reserve balances totaled $2.3 million and $1.5 million, respectively.

Investment Securities

Securities for which the Bank has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Those securities held for indefinite periods of time, but not necessarily to maturity are classified as available-for-sale. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability, liquidity, or capital management strategies and may be sold in response to changes in interest rates, maturities, asset/liability mix, liquidity needs, regulatory capital needs or other business factors. Debt securities available-for-sale are carried at estimated fair value with unrealized gains and losses reported on an after-tax basis in shareholders' equity as accumulated other comprehensive income or loss. Equity investments measured at net asset value are carried at estimated fair value with changes in unrealized gains and losses recorded in noninterest income in the statements of income.

Interest and dividends on securities are recorded on the accrual method. Premiums and discounts on securities are amortized or accreted into interest income by the level-yield method over the remaining period to contractual maturity, adjusted for the effect of actual prepayments in the case of mortgage-backed securities. These estimates of prepayment assumptions are made based upon the actual performance of the underlying security, current interest rates, the general market consensus regarding changes in mortgage interest rates, the contractual repayment terms of the underlying loans, the priority rights of the investors to the cash flows from the mortgage securities and other economic conditions. When differences arise between anticipated prepayments and actual prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. Unamortized premium or discount is adjusted to the amount that would have existed had the new effective yield been applied since purchase, with a corresponding charge or credit to interest income.

Security transactions are recorded on the trade date. Realized gains and losses are determined using the specific identification method and are recorded in noninterest income.

Management evaluates securities for other-than-temporary impairment on a periodic basis. Factors considered in determining whether an impairment is other than temporary include: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Bank to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. If the Bank intends to sell an impaired security, the Bank records an other-than-temporary loss in an amount equal to the entire difference between the fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but the Bank does not intend to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income.

Federal Home Loan Bank Stock

During the periods presented, the Bank has owned investments in the stock of the Federal Home Loan Bank of Boston ("FHLBB"). No readily-available market exists for these stocks, and they have no quoted market values. The Bank, as a member of the FHLBB, is required to maintain investments in the capital stock of the FHLBB equal to their membership base investments plus an activity-based investment determined according to the Bank's level of outstanding FHLBB advances. The Bank reviews its investments in FHLBB stock periodically to determine if other-than-temporary impairment exists. The Bank reviews recent public filings, rating agency analysis and other factors, when making the determination. As of June 30, 2019, no impairment has been recognized.

Loans Held for Sale and Loan Servicing

Residential real estate mortgage loans are designated as held for sale or held to maturity based on intent, which is determined when loans are underwritten. Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value. The SBA Division loans are designated as held for sale based on intent to sell, which is determined on a quarterly basis. The guaranteed portions of the loans are transferred to held for sale and are carried at the lower of cost or fair value. Realized gains and losses on sales of residential loans are determined using the specific identification method, and realized gains and losses on sales of SBA loans are determined using the allocation of participating interests sold and retained. Direct loan origination costs and fees related to loans held for sale are deferred upon origination and are recognized as an adjustment to the gain or loss on the date of sale.

In connection with the mortgage loans to be held for sale, the Bank often offers interest rate lock commitments to prospective borrowers. The Bank manages this interest rate risk by entering into offsetting forward sale agreements with third party investors for certain funded loans and loan commitments. The Bank uses "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. The gross effect of the derivative loan commitments and forward sale agreements is nominal at each date presented.

In its SBA Division activities, the Bank recognizes the SBA servicing rights as separate assets, which is classified as servicing rights, net, on the balance sheet. The Bank capitalizes SBA servicing rights at the net present value of the fee income and servicing cost spread upon the sale of the related loans. The Bank uses the amortization method to subsequently measure servicing assets. The SBA servicing rights are amortized over the estimated weighted average life of the loans. The Bank's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted quarterly and as necessary to reflect current circumstances. The Bank evaluates the estimated life and fair value of its servicing portfolio based on data that is disaggregated to reflect note rate, type, and term on the underlying loans. The Bank performs an assessment of capitalized SBA servicing rights for impairment based on the current fair value of those rights. Fair value of the servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, prepayment speeds and default rates and losses. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

Loans

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, any unamortized discount or premium 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 significantly impaired. Loans accounted for under ASC 310-30 are placed on nonaccrual when it is not possible to reach a reasonable expectation of the timing and amount of cash flows to be collected on the loan. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest income on loans. Interest on nonaccrual loans is accounted for on a cash-basis or using the cost-recovery method when collectability is doubtful. A loan is returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a reasonable period of time.

In cases where a borrower experiences financial difficulties and the Bank makes certain concessionary modifications to contractual terms, the loan is classified as a 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 generally 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.

Allowance for Loan Losses

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

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

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

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

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

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

SBA: Loans in this segment are comprised of both commercial real estate and commercial and industrial loans to small businesses, underwritten and originated by the Bank's 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.

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 and non-performing loans;
- 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.

There were no significant changes in the Bank's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2019 or 2018.

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

For all portfolio segments, except loans accounted for under ASC 310-30, a loan is considered impaired when, based on current information and events, it is probable that the 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets or the respective lease terms. Premises and equipment under capital leases are amortized over the estimated useful lives of the assets or the respective lease terms, whichever is shorter. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized.

Intangible Assets

Identifiable intangible assets subject to amortization are amortized over the estimated lives of the intangibles using a method that approximates the amount of economic benefits that are realized by the Bank. Identifiable intangible assets are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Real Estate Owned and Other Repossessed Collateral

Assets in control of the Bank or acquired through foreclosure or repossession are held for sale and are initially recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated cost to sell) of the foreclosed asset is charged to the allowance for loan losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance or through a direct write-off. Subsequent increases in the fair value may only be recorded to the extent of any previously recognized valuation allowance. Rental revenue received and gains and losses recognized on foreclosed assets is included in other noninterest income, whereas operating expenses and changes in the valuation allowance relating to foreclosed assets are included in other noninterest expense.

Impairment of Long-Lived Assets

The Bank reviews long-lived assets, including premises and equipment, for impairment whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Bank performs undiscounted cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Bank-Owned Life Insurance

Increases in the cash surrender value of bank-owned life insurance policies, as well as death benefits received net of any cash surrender value, are recorded in noninterest income, and are not subject to income taxes. The cash surrender values of the policies not previously endorsed to participants are recorded as assets of the Bank. Any amounts owed to participants relating to these policies are recorded as liabilities of the Bank. The Bank reviews the financial strength of the insurance carriers prior to the purchase of life insurance policies and no less than annually thereafter.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. Accordingly, changes resulting from the Tax Cuts and Jobs Act (the “Act”) enacted on December 22, 2017 were recognized in the financial statements as of and for the year ended June 30, 2018. The Bank's policy is to recognize interest and penalties assessed on uncertain tax positions in income tax expense. See Note 11 to the financial statements. The Bank exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. Additionally, see Note 11 for detail regarding reserves for uncertain tax positions as of June 30, 2019 and 2018.

Effective July 1, 2017, with the application of ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, the Bank no longer records the excess tax benefits or deficiencies related to share-based compensation in additional paid-in capital. Instead, excess tax benefits or deficiencies are recorded in the income statement as part of the income tax expense on a prospective basis. For interim reporting purposes, the excess tax benefits or deficiencies are recorded as discrete items in the period in which they arise. Excess tax benefits are now presented as an operating activity in the statement of cash flows. In addition, under the new guidance, when calculating incremental shares for earnings per share, entities exclude from assumed proceeds excess tax benefits that previously would have been recorded in additional paid-in capital. The total income tax benefit recorded in income tax expense relating to excess tax benefits on stock-based compensation for the year ended June 30, 2019 and 2018 was $214 thousand and $1.3 million, respectively.

Stock-Based Compensation

The Bank's stock-based compensation plans provide for awards of stock options, restricted stock and other stock-based compensation to directors, officers and employees. The cost of employee services received in exchange for awards of equity instruments is based on the grant-date fair value of those awards. Compensation cost is recognized over the requisite service period as a component of compensation expense. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Bank uses the Black-Scholes model to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale, unrealized losses related to factors other than credit on debt securities, unrealized gains and losses on cash flow hedges and deferred gains on hedge accounting transactions.

Earnings Per Share

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance-based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding (inclusive of participating securities). Diluted earnings per share have been calculated in a manner similar to that of basic earnings per share, except that the weighted-average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares (such as those resulting from the exercise of stock options or the attainment of performance measures) were issued during the period, computed using the treasury stock method.

Derivatives

Derivative instruments are carried at fair value in the Bank's financial statements. The accounting for changes in the fair value of a derivative instrument is determined by whether it has been designated and qualifies as part of a hedging relationship, and further, by the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Bank designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income, net of related tax, and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item (i.e., the ineffective portion), if any, is recognized in current earnings during the period. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. At the inception of a hedge, the Bank documents certain items, including but not limited to the following: the relationship between hedging instruments and hedged items, Bank risk management objectives, hedging strategies, and the evaluation of hedge transaction effectiveness. Documentation includes linking all derivatives designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions.

Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate. For derivative instruments not designated as hedging instruments, the gain or loss on the derivative is recognized in current earnings during the period of change.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets. There are no agreements to repurchase before their maturity.

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Bank sells financial assets in the normal course of business, the majority of which are related to the SBA-guaranteed portion of loans, as well as residential mortgage loan sales through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Bank considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Bank's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Bank sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received, and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Bank are carried at the lower of cost or fair value.

Advertising Costs

Advertising costs are expensed as incurred.

Segment Reporting

All of the Bank's operations are considered by management to be one operating segment.

Recent Accounting Pronouncements

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. A practicability exception will be available for equity investments that do not have readily determinable fair values; however, the exception requires the Bank to adjust the carrying amount for impairment and observable price changes in orderly transactions for the identical or a similar investment of the same issuer. This guidance also changes certain disclosure requirements and other aspects of current GAAP. The Bank adopted this guidance during the three months ended September 30, 2018. This adoption resulted in a reclassification of $180 thousand from accumulated other comprehensive loss to retained earnings in the financial statements, with no net effect on shareholders' equity. In addition, the disclosure of the fair value of "Loans, net" in "Notes to Financial Statements – Note 17: Fair Value Measurements" is calculated based on an exit pricing strategy versus an entry pricing strategy.

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

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

In April and May 2019, the FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments ("ASU 2019-04") and ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief ("ASU 2019-05"), respectively. These updates clarify the guidance in ASU 2016-13 which introduced Topic 326. ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement. ASU 2019-05 provides entities that have certain instruments within the scope of subtopic 326-20 with an option to irrevocably elect the fair value option. These ASUs will be effective for fiscal years beginning after December 15, 2019. Early adoption is available as of the fiscal year beginning after December 15, 2018. The Bank does not plan on adopting early and is still assessing the potential disclosure impact for these amendments and will adopt in conjunction with ASU 2016-13.

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

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) ("ASU 2017-12"). This guidance permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk, and improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. The amendments in this guidance are effective for public business entities for fiscal years beginning after

December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Bank's financial statements.

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

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

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

2. **Investment Securities**

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

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

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

At June 30, 2019, the Bank held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10% of shareholders' equity.

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the years ending June 30, 2019 or 2018. At June 30, 2019, $75.8 million in investment securities were pledged as collateral to secure potential FHLBB advances. At June 30, 2018, the Bank had no pledged investment securities.

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

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

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

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

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

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

The investments measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade investments, or the guaranteed portion of SBA 7(a) loans, as applicable. As of June 30, 2019, the effective duration of the fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies is 4.09 years.

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

	Amortized Cost	Fair Value
	(Dollars in thousands)	
Due within one year	$ 21,061	$ 21,085
Due after one year through five years	35,947	36,279
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	57,008	57,364
Agency mortgage-backed securities	18,693	18,410
Total available-for-sale debt securities	$ 75,701	$ 75,774

3. Loans, Allowance for Loan Losses and Credit Quality

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

	June 30, 2019			June 30, 2018		
	Originated	Purchased	Total	Originated	Purchased	Total
			(Dollars in thousands)			
Commercial real estate	$ 294,395	$ 316,835	$ 611,230	$ 249,428	$ 276,051	$ 525,479
Commercial and industrial	226,424	628	227,052	181,800	995	182,795
SBA	63,053	-	63,053	60,156	-	60,156
Residential real estate	62,041	9,177	71,218	86,202	13,926	100,128
Consumer	2,507	-	2,507	3,244	-	3,244
Total loans	$ 648,420	$ 326,640	$ 975,060	$ 580,830	$ 290,972	$ 871,802

Total loans include deferred loan origination fees, net, of $113 thousand as of June 30, 2019 and deferred loan origination costs, net, of $223 thousand as of June 30, 2018.

Loans pledged as collateral with the FHLBB for outstanding borrowings and additional borrowing capacity totaled $215.8 million and $128.3 million at June 30, 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, the Bank sold three LASG purchased loans with a total principal balance of $4.9 million for a gain of $582 thousand, and four LASG purchased loans with a total principal balance of $2.8 million for a gain of $918 thousand, respectively.

Related Party Loans

Certain of the Bank's related parties are credit customers of the Bank in the ordinary course of business. All loans and commitments included in such transactions are on such terms, including interest rates, repayment terms and collateral, as those prevailing at the time for comparable transactions with persons who are not affiliated with the Bank and do not involve more than a normal risk of collectability or present other features unfavorable to the Bank.

As of June 30, 2019 and 2018, the outstanding loan balances to directors, officers, principal shareholders and their associates were $107 thousand and $129 thousand, respectively. All loans to these related parties were current and accruing at those dates.

Past Due and Nonaccrual Loans

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

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

June 30, 2018	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
	(Dollars in thousands)							
Originated portfolio:								
Commercial real estate	$ 27	$ 210	$ -	$ 98	$ 335	$ 249,093	$ 249,428	$ 1,428
Commercial and industrial	-	-	-	32	32	181,768	181,800	34
SBA	-	-	-	831	831	59,325	60,156	1,405
Residential real estate	493	181	-	1,355	2,029	84,173	86,202	3,212
Consumer	77	82	-	19	178	3,066	3,244	134
Total originated portfolio	597	473	-	2,335	3,405	577,425	580,830	6,213
Purchased portfolio:								
Commercial real estate	659	274	-	3,086	4,019	272,032	276,051	5,180
Commercial and industrial	17	-	-	91	108	887	995	363
Residential real estate	-	-	-	202	202	13,724	13,926	202
Total purchased portfolio	676	274	-	3,379	4,329	286,643	290,972	5,745
Total loans	$ 1,273	$ 747	$ -	$ 5,714	$ 7,734	$ 864,068	$ 871,802	$ 11,958

Allowance for Loan Losses and Impaired Loans

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

Year Ended June 30, 2019 (Dollars in thousands)	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
Beginning balance	$ 605	$ 1,527	$ 508	$ 39	$ 587	$ 1,541	$ 4,807
Provision (credit)	(7)	530	177	22	(59)	646	1,309
Recoveries	27	8	34	27	-	-	96
Charge-offs	(249)	-	(2)	(38)	(8)	(213)	(510)
Ending balance	$ 376	$ 2,065	$ 717	$ 50	$ 520	$ 1,974	$ 5,702

Year Ended June 30, 2018 (Dollars in thousands)	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
Beginning balance	$ 473	$ 1,218	$ 247	$ 53	$ 303	$ 1,371	$ 3,665
Provision (credit)	301	309	236	(1)	395	170	1,410
Recoveries	14	-	25	40	-	-	79
Charge-offs	(183)	-	-	(53)	(111)	-	(347)
Ending balance	$ 605	$ 1,527	$ 508	$ 39	$ 587	$ 1,541	$ 4,807

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

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

June 30, 2018 (Dollars in thousands)	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Purchased	SBA	Total
Allowance for loan losses:							
Individually evaluated	$ 322	$ 139	$ 8	$ 6	$ -	$ 112	$ 587
Collectively evaluated	283	1,388	500	33	-	1,429	3,633
ASC 310-30	-	-	-	-	587	-	587
Total	$ 605	$ 1,527	$ 508	$ 39	$ 587	$ 1,541	$ 4,807
Loans:							
Individually evaluated	$ 5,682	$ 2,687	$ 33	$ 292	$ -	$ 3,170	$ 11,864
Collectively evaluated	80,520	246,741	181,767	2,952	-	56,986	568,966
ASC 310-30	-	-	-	-	290,972	-	290,972
Total	$ 86,202	$ 249,428	$ 181,800	$ 3,244	$ 290,972	$ 60,156	$ 871,802

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

	June 30, 2019			June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 2,643	$ 2,643	$ -	$ 1,445	$ 1,438	$ -
Commercial and industrial	6,909	6,909	-	-	-	-
SBA	3,014	3,001	-	2,597	2,597	-
Residential real estate	3,550	3,550	-	3,162	3,154	-
Consumer	143	143	-	271	296	-
Purchased:						
Commercial real estate	7,892	10,108	-	6,601	9,330	-
Commercial and industrial	297	359	-	108	186	-
Residential real estate	202	217	-	202	217	-
Total	24,650	26,930	-	14,386	17,218	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	1,023	1,023	105	1,242	1,234	139
Commercial and industrial	4	4	4	33	33	8
SBA	334	334	227	573	573	112
Residential real estate	1,380	1,380	128	2,520	2,497	322
Consumer	39	39	33	21	22	6
Purchased:						
Commercial real estate	3,676	4,031	316	4,748	5,362	280
Commercial and industrial	199	244	199	349	407	307
Residential real estate	429	488	5	-	-	-
Total	7,084	7,543	1,017	9,486	10,128	1,174
Total impaired loans	$ 31,734	$ 34,473	$ 1,017	$ 23,872	$ 27,346	$ 1,174

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

	Year Ended June 30,			
	2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
Impaired loans without a valuation allowance:				
Originated:				
Commercial real estate	$ 2,244	$ 1	$ 2,001	$ 176
Commercial and industrial	1,738	59	-	-
SBA	2,261	178	1,957	112
Residential real estate	3,013	37	3,697	94
Consumer	234	2	271	18
Purchased:				
Commercial real estate	7,170	267	8,754	275
Commercial and industrial	139	-	42	-
Residential real estate	202	-	489	-
Total	17,001	544	17,211	675
Impaired loans with a valuation allowance:				
Originated:				
Commercial real estate	1,106	52	1,354	84
Commercial and industrial	1,741	130	31	3
SBA	1,388	-	747	11
Residential real estate	1,855	86	2,120	159
Consumer	35	-	33	2
Purchased:				
Commercial real estate	3,769	163	4,266	186
Commercial and industrial	336	1	251	3
Residential real estate	107	8	66	1
Total	10,337	440	8,868	449
Total impaired loans	$ 27,338	$ 984	$ 26,079	$ 1,124

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.

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

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

(1) Certain of the 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.

	Years Ended June 30,			
	2019		2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	6	$ 925	3	$ 73
Adjusted interest rate	1	6,900	1	15
Rate and maturity	6	431	4	2,302
Principal deferment	1	54	8	3,362
Court ordered concession	-	-	1	94
Total	14	$ 8,310	17	$ 5,846

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

	Years Ended June 30,					
	2019			2018		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	4	$ 224	$ 224	8	$ 707	$ 709
Home equity	-	-	-	-	-	-
Commercial real estate	3	243	243	5	3,303	3,370
Commercial and industrial	1	6,900	6,900	1	655	655
Consumer	-	-	-	-	-	-
Total originated portfolio	8	7,367	7,367	14	4,665	4,734
Purchased portfolio:						
Commercial real estate	3	923	923	2	820	844
Commercial and industrial	3	20	20	1	269	268
Total purchased portfolio	6	943	943	3	1,089	1,112
Total	14	$ 8,310	$ 8,310	17	$ 5,754	$ 5,846

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

The Bank considers TDRs past due 90 days or more to be in payment default. No loans modified in a TDR in the last twelve months defaulted during the years ended June 30, 2019 and 2018.

ASC 310-30 Loans

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

	Years Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Contractually required payments receivable	$ 193,698	$ 179,726
Nonaccretable difference	(1,414)	(4,321)
Cash flows expected to be collected	192,284	175,405
Accretable yield	(56,436)	(51,294)
Fair value of loans acquired	$ 135,848	$ 124,111

Certain of the 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. When acquired these loans are placed on nonaccrual. The carrying amounts of such loans are as follows.

	As of and for the Years Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Loans acquired during the period	$ -	$ 820
Loans at end of period	5,667	5,278

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

	Years Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Beginning balance	$ 138,178	$ 131,197
Acquisitions	56,436	51,294
Accretion	(22,961)	(17,947)
Reclassifications from nonaccretable difference to accretable yield	2,383	5,827
Disposals and other changes	(27,041)	(32,193)
Ending balance	$ 146,995	$ 138,178

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

	June 30, 2019	June 30, 2018
	(Dollars in thousands)	
Unpaid principal balance	$ 352,717	$ 318,876
Carrying amount	318,886	284,317

4. <u>Transfers and Servicing of Financial Assets</u>

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 June 30, 2019 totaled $2.9 million, compared to $3.0 million as of June 30, 2018, and are classified as loan servicing rights, net, on the balance sheet.

Mortgage loans sold in the year ended June 30, 2019 totaled $41.2 million, compared to $63.8 million in the year ended June 30, 2018. Mortgage loans serviced for others totaled $7.1 million at June 30, 2019 and $8.7 million at June 30, 2018. Additionally, the Bank was servicing commercial loans participated out to various other institutions amounting to $22.3 million and $32.2 million at June 30, 2019 and 2018, respectively.

SBA loans sold during the year ended June 30, 2019 totaled $35.5 million, compared to $29.2 million in the year ended June 30, 2018. SBA loans serviced for others totaled $171.9 million at June 30, 2019 and $162.0 million at June 30, 2018.

Mortgage and SBA loans serviced for others are accounted for as sales and therefore are not included on the accompanying balance sheet. 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 $823 thousand and $817 thousand for the years ended June 30, 2019 and 2018, respectively, and were included as a component of fees for other services to customers within noninterest income.

The significant assumptions used in the valuation for loan servicing rights as of June 30, 2019 included a discount rate, ranging from 6.0% to 17.6% and a weighted average prepayment speed assumption of 14.7%.

SBA servicing rights activity was as follows:

	(Dollars in thousands)
Balance, June 30, 2017	$ 2,839
Additions	931
Amortization/Disposals	(769)
Impairment	(31)
Balance, June 30, 2018	$ 2,970
Additions	870
Amortization/Disposals	(859)
Impairment	(130)
Balance, June 30, 2019	$ 2,851

5. Premises and Equipment

Premises and equipment consists of the following:

	June 30, 2019	June 30, 2018	Estimated Useful Life
	(Dollars in thousands)		(In years)
Land	$ 767	$ 767	n/a
Buildings	2,157	1,702	39
Assets recorded under capital lease	1,850	1,850	Term of lease
Leasehold and building improvements	3,681	3,646	5-39 (or term of lease, if shorter)
Furniture, fixtures and equipment	9,024	8,749	3-7
Total	17,479	16,714	
Less accumulated depreciation	11,897	10,123	
Net premises and equipment	$ 5,582	$ 6,591	

Depreciation and amortization of premises and equipment included in occupancy and equipment expense was $1.3 million for both years ended June 30, 2019 and 2018.

6. Deposits

The composition of deposits is as follows:

	June 30, 2019	June 30, 2018
	(Dollars in thousands)	
Demand	$ 68,782	$ 72,272
NOW	66,491	73,347
Money market	270,835	420,886
Regular savings	34,570	36,290
Time certificates	501,693	352,145
Total deposits	$ 942,371	$ 954,940

There were $501 thousand of time deposits greater than $250 thousand as of June 30, 2019. There were no time deposits greater than $250 thousand as of June 30, 2018.

The scheduled maturities of time certificates by fiscal year are as follows:

Fiscal Year	June 30, 2019
	(Dollars in thousands)
2020	$ 318,951
2021	115,315
2022	52,055
2023	10,011
2024	5,361
Thereafter	-
Total	$ 501,693

7. Borrowings

Federal Home Loan Bank Advances

The Bank has one advance from the Federal Home Loan Bank of Boston for $15.0 million, which renews on a quarterly basis. The weighted average interest rate was 2.65% and 2.05% as of June 30, 2019 and 2018, respectively.

At June 30, 2019, no FHLBB advances were subject to call provisions and as such, may not be called prior to the stated maturity.

Certain mortgage loans and available-for-sale securities, free of liens, pledges and encumbrances have been pledged under a blanket agreement to secure these advances. The Bank is required to own stock in the FHLBB in order to borrow from the FHLBB.

At June 30, 2019, the Bank had approximately $174.1 million of additional capacity to borrow from the FHLBB, compared to $48.7 million as of June 30, 2018.

Capital Lease Obligation

In fiscal 2006, the Bank recognized a capital lease obligation for its Lewiston, Maine, headquarters. The present value of the lease payments over fifteen years exceeded 90% of the fair value of the property.

The outstanding capital lease obligations are as follows for years ending June 30:

	Capital Lease Obligation (Dollars in thousands)
2020	$ 306
2021	25
Total	331
Imputed interest	(8)
Capital lease obligation	$ 323

8. Subordinated Debt

Immediately prior to the Reorganization, the Company redeemed its junior subordinated debentures issued in connection with the trust preferred securities issued by affiliated trusts, for $16.5 million. Accordingly, as a result of the redemption, the Bank recognized a charge in the amount of $7.1 million related to the write-off of a fair value adjustment recorded as a result of the FHB Formation in 2010.

On June 29, 2016, the Company entered into a Subordinated Note Purchase Agreement with certain institutional accredited investors (the “Purchasers”) whereby the Company sold and issued $15.05 million in aggregate principal amount of 6.75% fixed-to-floating subordinated notes due 2026 (the “Notes”). In May 2019, in connection with the Reorganization, the Notes were assumed by the Bank. The Notes were issued by the Company to the Purchasers at a price equal to 100% of their face amount. Issuance costs were $552 thousand and have been netted against Subordinated Debt on the balance sheet. These costs are being amortized over five years, which represents the period from issuance to the first redemption date of July 1, 2021. Total amortization expense for both years ended June 30, 2019 and 2018 was $110 thousand, with $221 thousand remaining to be amortized as of June 30, 2019, over the next two years.

The Notes mature on July 1, 2026, with a fixed interest rate of 6.75% payable semiannually in arrears for five years until July 1, 2021. Subsequently, the Bank will be obligated to pay 3-month LIBOR plus 557 basis points quarterly in arrears until either the early redemption date or the maturity date. The Notes are not convertible into or exchangeable for any other securities or assets of the Bank or any of its subsidiaries. The Notes are redeemable by the Bank, in whole or in part, on or after July 1, 2021 and at any time upon the occurrence of certain events. Any redemption by the Bank would be at a redemption price equal to 100% of the outstanding principal amount of the Notes being redeemed, including any accrued and unpaid interest.

9. Capital and Regulatory Matters

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.

The prompt corrective action regulations 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 June 30, 2019 and 2018, the most recent notification from the Bank's regulator categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum Common equity tier 1 capital, total capital, Tier 1 capital and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2019 and 2018, 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 June 30, 2019 and 2018. As a result of the Reorganization, the Bank is the standalone entity, with no Company ratios as of June 30, 2019. The Bank's regulatory capital ratios are set forth below as of June 30, 2019 and 2018, and the Company's ratios are included as of June 30, 2018.

	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)				
June 30, 2019:							
Common equity tier 1 capital to risk weighted assets	$ 154,311	15.89%	$ 43,706	≥4.5%	$ 63,131	≥6.5%	7.0%
Total capital to risk weighted assets	174,894	18.01%	77,699	≥8.0%	97,124	≥10.0%	10.5%
Tier 1 capital to risk weighted assets	154,311	15.89%	58,274	≥6.0%	77,699	≥8.0%	8.5%
Tier 1 capital to average assets	154,311	12.86%	47,979	≥4.0%	569,974	≥5.0%	4.0%
June 30, 2018:							
Common equity tier 1 capital to risk weighted assets:							
Company	$ 139,247	16.02%	$ 39,113	≥4.5%	N/A	N/A	7.0%
Bank	156,856	18.04%	39,120	≥4.5%	$ 56,506	≥6.5%	7.0%
Total capital to risk weighted assets:							
Company	167,567	19.28%	69,535	≥8.0%	N/A	N/A	10.5%
Bank	161,714	18.60%	69,546	≥8.0%	86,933	≥10.0%	10.5%
Tier 1 capital to risk weighted assets:							
Company	147,990	17.03%	52,151	≥6.0%	N/A	N/A	8.5%
Bank	156,856	18.04%	52,160	≥6.0%	69,546	≥8.0%	8.5%
Tier 1 capital to average assets:							
Company	147,990	13.12%	45,102	≥4.0%	N/A	N/A	4.0%
Bank	156,856	13.92%	45,075	≥4.0%	56,344	≥5.0%	4.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the 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. The required amount of the capital conservation buffer was 0.625% on January 1, 2016 and increased by 0.625% each year until it reached 2.5% on January 1, 2019.

10. Earnings Per Common 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:

	Years ended June 30, 2019	2018
	(Dollars in thousands, except share and per share data)	
Net income	$ 13,884	$ 16,166
Weighted average shares used in calculation of basic earnings per share	9,032,530	8,906,710
Incremental shares from assumed exercise of dilutive securities	123,703	222,442
Weighted average shares used in calculation of diluted earnings per share	9,156,233	9,129,152
Earnings per common share:	$ 1.54	$ 1.81
Diluted earnings per common share:	1.52	1.77

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

11. Income Taxes

The components of current and deferred income tax expense follow:

	Years Ended June 30, 2019	2018
	(Dollars in thousands)	
Current provision		
Federal	$ 6,644	$ 4,133
State	2,821	1,606
Total current provision	9,465	5,739
Deferred expense (benefit)		
Federal	(2,710)	1,189
State	(1,024)	103
Total deferred expense (benefit)	(3,734)	1,292
Total tax provision	$ 5,731	$ 7,031

The reconciliation between the statutory federal income tax rate of 21% for the year ended June 30, 2019 and 28% for the year ended June 30, 2018, and the effective tax rate on income follows:

	Years Ended June 30, 2019	2018
	(Dollars in thousands)	
Expected income tax expense at federal tax rate	$ 4,119	$ 6,509
State tax, net of federal tax benefit	1,419	1,231
Non-taxable BOLI income	(92)	(124)
Low-income housing tax credit, net of adoption of ASU 2014-01	(34)	(37)
Tax exempt interest income	-	(5)
Stock compensation excess tax benefits (ASU 2016-09)	(172)	(1,266)
Statutory rate change	-	497
Other	491	226
Total tax expense	$ 5,731	$ 7,031

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30 follows:

	June 30, 2019	June 30, 2018
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 1,553	$ 1,315
Loan basis differential	1,109	931
Capital lease	89	166
Compensation and benefits	1,298	252
Stock-based compensation	948	863
Unrealized loss on derivatives	439	222
Unrealized loss on investment securities	-	428
Interest on nonperforming loans	427	349
Derivative basis differential	-	41
Other	417	408
Gross deferred tax asset	6,280	4,975
Less: valuation allowance	-	-
Total deferred tax assets	6,280	4,975
Deferred tax liabilities		
Intangible assets	118	237
Prepaid expenses	402	433
Premises and equipment	546	707
Borrowings basis differential	-	1,939
Unrealized gain on investment securities	20	-
Other	768	812
Total deferred tax liability	1,854	4,128
Net deferred tax asset	$ 4,426	$ 847

The net deferred tax asset was included in other assets in the accompanying balance sheets as of June 30, 2019 and 2018.

On December 22, 2017, the Act became law. The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduced the corporate tax rate from a maximum of 35% to 21%. However, as the Bank is a fiscal year June 30 year end, the blended corporate tax rate for the year ended June 30, 2018 was 28%. The corporate tax rate reduction to 21% was effective July 1, 2018.

In accordance with ASC 740, Income Taxes, deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of the tax benefit depends upon the existence of sufficient taxable income within the carry-back and future periods. The Bank believes that it is more likely than not that the net deferred tax asset as of June 30, 2019 will be realized, based upon the ability to generate future taxable income as well as the availability of current and historical taxable income.

For federal tax purposes, the Bank has a $2.0 million reserve for loan losses which remains subject to recapture. If any portion of the reserve is used for purposes other than to absorb the losses for which it was established, approximately 130% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the year in which used. As the Bank intends to use the reserve only to absorb loan losses, no provision has been made for potential liability that would result if 100% of the reserve were recaptured.

From time to time, the Internal Revenue Service (the "IRS") and state tax authorities may review or challenge specific tax positions taken by the Bank in its ordinary course of business. The Bank accounts for uncertainties in income taxes by reserving for tax positions that may not be upheld under examination. Increases to the Bank's unrealized tax positions occur as a result of accruing for the unrecognized tax benefit as well the accrual of interest and penalties related to prior year positions. Decreases in the Bank's unrealized tax positions occur as a result of the statute of limitation lapsing on prior year positions or settlements relating to outstanding positions. The Bank reserves for uncertain tax positions, as well as related interest and penalties, as a component of income tax expense therefore affecting the effective tax rate. The following is a reconciliation of the beginning and ending amounts of the Bank's uncertain tax positions:

	Tax Position	Interest and Penalties	Total
		(Dollars in thousands)	
Balance at June 30, 2017	$ -	$ -	$ -
Reduction of tax positions for prior years	-	-	-
Increase for prior year tax position	-	-	-
Increase for current year tax position	-	-	-
Balance at June 30, 2018	$ -	$ -	$ -
Reduction of tax positions for prior years	-	-	-
Increase for prior year tax position	34	11	45
Increase for current year tax position	21	7	28
Balance at June 30, 2019	$ 55	$ 18	$ 73

The Bank is currently open to audit under the statute of limitations by the IRS and state taxing authorities for the fiscal 2016 tax return and forward.

12. Employee Benefit Plans

401(k) Plan

The Bank offers a contributory 401(k) plan that is available to all full-time salaried and hourly-paid employees who have attained age 18, and completed 90 days of employment. Employees may contribute up to 100% of their base compensation, subject to IRS limitations. The Bank will match 50% of each employee's contribution up to the first 6% contributed. For the years ended June 30, 2019 and 2018, the Bank contributed $357 thousand and $340 thousand, respectively.

Deferred Compensation

The Bank has individual deferred compensation agreements with five former senior officers. The Bank recognized deferred compensation expense of $30 thousand and $31 thousand for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018 the Bank's deferred compensation liability was $510 thousand and $526 thousand, respectively.

13. Stock-Based Compensation

A summary of stock option activity for the year ended June 30, 2019 follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	436,226	$ 12.46
Granted	-	-
Exercised	(14,789)	9.38
Forfeited	-	-
Outstanding at end of year	421,437	12.57

	Shares	Weighted Average Grant Date Fair Value
Exercisable, beginning of year	436,226	$ 2.89
Vested	-	-
Exercised	(14,789)	1.79
Forfeited or expired	-	-
Exercisable, end of year	421,437	2.93

All stock options were fully vested in the year ended June 30, 2018. There were no options granted in the years ended June 30, 2019 or 2018.

The following table summarizes information about stock options outstanding at June 30, 2019:

Options Outstanding				Options Exercisable			
(Dollars in thousands, except per share data)							
Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value	Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value
$ 9.38	124,818	3.59 years	$ 2,272	$ 9.38	124,818	3.59 years	$ 2,272
12.63	5,000	2.58	75	12.63	5,000	2.58	75
13.93	291,619	1.50	3,980	13.93	291,619	1.50	3,980
12.57	421,437	2.13	$ 6,327	12.57	421,437	2.13	$ 6,327

A summary of restricted stock activity for the year ended June 30, 2019 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	318,334	$ 11.71
Granted	116,925	22.38
Vested	(67,663)	10.04
Forfeited and cancelled	(18,500)	16.00
Unvested at end of period	349,096	15.38

A summary of the vesting schedule for the shares granted in the year ended June 30, 2019 follows:

- 89,925 restricted shares vest in three equal annual installments, commencing on August 14, 2021;
- 25,000 restricted shares are subject to performance-based vesting over a three-year period (the "performance shares"). The performance shares include an absolute metric and a sliding metric within the performance period. The absolute metric requires that the Bank be in compliance with the regulatory commitments made to the Bureau. The sliding metric is based on reaching certain thresholds in regards to the Bank's return on equity ("ROE"). The performance shares shall vest in certain defined increments for such periods if the ROE is at least 70% of such targeted returns. This performance will be measured on both a year-by-year basis for three years, and an average basis over the three-year performance period; and
- 2,000 restricted shares vest in three equal annual installments, commencing on October 1, 2021.

Stock-based compensation totaled $1.4 million and $870 thousand for the years ended June 30, 2019 and 2018, respectively. The tax benefit related to stock-based compensation expensed totaled $399 thousand for the year ended June 30, 2019 and $264 thousand for the year ended June 30, 2018. The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Years Ending June 30,					
	2020	2021	2022	2023	2024	Total
	(Dollars in thousands)					
Restricted stock	$ 1,128	$ 909	$ 559	$ 444	$ 52	$ 3,092

14. Commitments, Contingent Liabilities and Other Off-Balance Sheet Risks

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 and standby letters of credit. 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 contract amounts, which represent credit risk, are as follows:

	June 30,	
	2019	2018
	(Dollars in thousands)	
Commitments to originate loans	$ 11,991	$ 20,431
Unused lines of credit	21,488	29,478
Standby letters of credit	2,383	3,183

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The 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 counterparty. 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 $52 thousand for both June 30, 2019 and 2018.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2019 and 2018, the maximum potential amount of the Bank's obligation was $2.4 million and $3.2 million, respectively, for financial and standby letters of credit. The Bank's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Bank may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Bank may take possession of the collateral, if any, securing the line of credit.

Lease Obligations

The Bank leases certain properties used in operations under terms of various non-cancelable operating leases, most of which include renewal options. The leases contain renewal options and escalation clauses which provide for increased rental expense as these leases expire. Rental expense under leases totaled $1.1 million and $1.2 million for the years ended June 30, 2019 and 2018.

Approximate future minimum lease payments over the remaining terms of the Bank's leases at June 30, 2019 are as follows:

Fiscal year	Minimum lease payments
	(Dollars in thousands)
2020	$ 1,254
2021	1,237
2022	1,248
2023	1,016
2024	280
Thereafter	976
Total	$ 6,011

Legal Proceedings

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

15. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) follows:

	Years Ended June 30,					
	2019			2018		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized loss on available-for-sale securities	$ 1,410	$ 381	$ 1,029	$ (636)	$ (171)	$ (465)
Change in accumulated loss on effective cash flow hedges	(2,043)	(552)	(1,491)	750	203	547
Reclassification adjustment included in net income	1,240	335	905	106	34	72
Total derivatives and hedging activities	(803)	(217)	(586)	856	237	619
Adoption of ASU 2016-01	247	67	180	-	-	-
Adoption of ASU 2018-02	-	-	-	-	283	(283)
Total other comprehensive income (loss)	$ 854	$ 231	$ 623	$ 220	$ 349	$ (129)

Accumulated other comprehensive loss is comprised of the following components:

	June 30, 2019	June 30, 2018
	(Dollars in thousands)	
Unrealized gain (loss) on available-for-sale securities	$ 73	$ (1,584)
Tax effect	(20)	428
Net-of-tax amount	53	(1,156)
Unrealized loss on cash flow hedges	(1,630)	(827)
Tax effect	439	222
Net-of-tax amount	(1,191)	(605)
Accumulated other comprehensive loss	$ (1,138)	$ (1,761)

16. Derivatives

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 June 30, 2019 and 2018, the Bank had posted cash collateral totaling $1.6 million and $800 thousand, respectively, with dealer banks related to derivative instruments in a net liability position.

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

Risk Management Policies—Derivative Instruments

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

Interest Rate Risk Management—Cash Flow Hedging Instruments

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

Information pertaining to outstanding swap agreements is as follows:

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

June 30, 2018									
Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.05%	3.38%	n/a	$ (293)	$ (293)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.05%	3.23%	n/a	(154)	(154)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.05%	2.77%	n/a	15	15	Other Assets
Forward-starting interest rate swaps on Trust Preferred Securities:									
6,000	February 2018	September 2029	3 Mo. LIBOR	5.14%	5.88%	n/a	(81)	(81)	Other Liabilities
10,000	February 2018	February 2030	3 Mo. LIBOR	4.23%	4.98%	n/a	(140)	(140)	Other Liabilities
Interest rate caps:									
6,000	October 2014	September 2019	3 Mo. LIBOR	n/a	n/a	2.50%	(91)	15	Other Assets
10,000	March 2015	February 2020	3 Mo. LIBOR	n/a	n/a	2.50%	(83)	49	Other Assets
$ 47,000							$ (827)	$ (589)	

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 years ended June 30, 2019 and 2018 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

Amounts recognized in income related to amounts excluded from effectiveness testing resulted from amortization of the acquisition price of interest rate caps. For the years ended June 30, 2019 and 2018, amounts recognized in income related to the amortization of the interest rate caps. Additionally, the loss from termination of the interest rate caps and forward-starting interest rate swaps was reclassified into income during the year ended June 30, 2019. The table below presents amounts recognized in income related to interest rate cap amortization, hedge ineffectiveness, the swap and cap termination and amounts excluded from effectiveness testing.

	Years Ended June 30,	
	2019	2018
	(Dollars in thousands)	
Interest expense:		
Interest rate caps	$ (240)	$ (106)
Interest rate swap	(1,000)	-
Total	$ (1,240)	$ (106)

The Bank does not expect to record interest income or interest expense related to interest rate swap or interest rate cap ineffectiveness in the next twelve months.

Reorganization

As a result of the Reorganization in May 2019, the Bank terminated its forward-starting interest swaps on the Trust Preferred Securities and its interest rate caps on the Trust Preferred Securities. As a result, the Bank recorded a $1.1 million loss, which is recorded in the Reorganization expense line in the statement of income.

17. Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value of other Financial Instruments:

Cash and cash equivalents - The fair value of cash, due from banks, interest-bearing deposits and Federal Home Loan Bank of Boston 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, capital lease obligations 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 capital lease obligations 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.

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

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

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

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

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

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

	Fair Value		
	June 30, 2019	June 30, 2018	Valuation Technique
	(Dollars in thousands)		
Collateral dependent impaired loans	$ 1,683	$ 1,917	Appraisal of collateral(1)
Real estate owned and other repossessed collateral	1,957	2,233	Appraisal of collateral(1)
Loan servicing rights	2,851	2,970	Discounted cash flow(2)

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Bank may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 15% to 100%.
(2) Fair value is determined using a discounted cash flow model. The unobservable inputs include anticipated rate of loan prepayments and discount rates. The range of prepayment assumptions used was 10.6% to 14.7%. For discount rates, the range was 6.0% to 17.6%.

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

	Years Ended June 30, 2019	2018
	(Dollars in thousands)	
Collateral dependent impaired loans	$ (247)	$ (519)
Real estate owned and other repossessed collateral	(57)	(135)
Loan servicing rights	(130)	(31)
Total	$ (434)	$ (685)

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

	Carrying Amount	Fair Value Measurements at June 30, 2019 Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 56,907	$ 56,907	$ 56,907	$ -	$ -
Investment securities	75,774	75,774	-	75,774	-
Equity investments measured at net asset value[(1)]	6,938	6,938	-	-	-
Federal Home Loan Bank stock	1,258	1,258	-	1,258	-
Loans held for sale	3,910	3,910	-	3,910	-
Loans, net	975,060	973,018	-	-	973,018
Accrued interest receivable	3,559	3,559	-	3,559	-
Financial liabilities:					
Deposits	942,371	944,278	-	944,278	-
Federal Home Loan Bank advances	15,000	15,000	-	15,000	-
Capital lease obligation	323	327	-	327	-
Subordinated debt	14,829	14,041	-	-	14,041
Interest rate swaps	1,630	1,630	-	1,630	-

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

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

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Bank carried out an evaluation, under the supervision and with the participation of the Bank's management, including the Bank's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Bank's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2019, the Bank's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed in the Bank's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fourth quarter of our fiscal year ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

An evaluation was performed under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal controls and procedures over financial reporting (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report.

Management Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. The standard measures adopted by management in making its evaluation are the measures in *Interest Control—Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission. We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors, and instances of fraud, if any, within the Bank have been or will be detected. The inherent limitations include, among other things, the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls and procedures also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or employee override of the controls and procedures. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls and procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Based on their evaluation of disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded, subject to the limitations described above, that our internal controls and procedures over financial reporting as of the end of the period covered by this report were effective and that there were no material weaknesses.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Northeast Bank

Opinion on the Internal Control Over Financial Reporting

We have audited Northeast Bank's (the Bank) internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets as of June 30, 2019 and 2018, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended June 30, 2019, and the related notes to the financial statements of the Bank and our report dated September 13, 2019 expressed an unqualified opinion.

Basis for Opinion

The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying "Management Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Boston, Massachusetts
September 13, 2019

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls, or in other factors that could significantly affect our internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 12 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 shall be included in the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 shall be included in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

Balance Sheets as of June 30, 2019 and 2018

Statements of Income for the years ended June 30, 2019 and 2018

Statements of Comprehensive Income for the years ended June 30, 2019 and 2018

Statements of Changes in Shareholders' Equity for the years ended June 30, 2019 and 2018

Statements of Cash Flows for the years ended June 30, 2019 and 2018

Notes to Financial Statements

(b) Exhibits

2.1 Agreement and Plan of Merger, dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, filed with the SEC by Northeast Bancorp on January 7, 2019).
3.1 Amended and Restated Articles of Incorporation of Northeast Bank (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed with the SEC by Northeast Bancorp on January 7, 2019).
3.2 Amended and Restated Bylaws of Northeast Bank (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K filed with the SEC by Northeast Bancorp on January 7, 2019).
4.1 Description of Capital Stock of Northeast Bank (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the SEC by Northeast Bancorp on January 7, 2019).
4.2 Form of 6.75% Fixed-to-Floating Subordinated Note due 2026 (1).
10.1+ Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (2).
10.2a+ Form of Restricted Stock Award Agreement under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (issued on or after May 25, 2017) (2).
10.2b+ Form of Restricted Stock Award Agreement under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (issued before May 25, 2017) (2).
10.3+ Form of Non-Qualified Stock Option Agreement for Company Employees under the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (2).
10.4+ Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Richard Wayne (3).
10.5+ Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Richard Wayne (4).
10.6+ Non-Qualified Stock Option Agreement, dated December 30, 2010, by and between Northeast Bancorp and Robert Glauber (3).
10.7+ Form of Indemnification Agreement, dated as of December 29, 2010, by and between Northeast Bancorp and each of the members of the Board (3).
10.8+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Richard Wayne (3).
10.9 Subordinated Note Purchase Agreement, dated June 29, 2016, by and among Northeast Bancorp and the Purchasers identified therein (6).
21 Subsidiaries of Northeast Bank*
31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1 Rule 13a-14(b) Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

* Filed herewith

** Furnished herewith

\+ Management contract or compensatory plan or agreement

(1) Previously filed by Northeast Bancorp, the Bank’s former holding company, with the Securities and Exchange Commission on Northeast Bancorp’s Annual Report on Form 10-K filed on June 29, 2016, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
(2) Previously filed by Northeast Bancorp, the Bank’s former holding company, with the Securities and Exchange Commission on Northeast Bancorp’s Annual Report on Form 10-K filed on September 13, 2017, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
(3) Previously filed by Northeast Bancorp, the Bank’s former holding company, with the Securities and Exchange Commission on Northeast Bancorp’s Current Report on Form 8-K filed on January 5, 2011, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
(4) Previously filed by Northeast Bancorp, the Bank’s former holding company, with the Securities and Exchange Commission on Northeast Bancorp’s Current Report on Form 8-K filed on March 26, 2013, and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.
(5) Previously filed by Northeast Bancorp, the Bank’s former holding company, with the Securities and Exchange Commission on Northeast Bancorp’s Current Report on Form 8-K filed on June 29, 2016), and assumed by the Bank pursuant to the Agreement and Plan of Merger dated as of January 7, 2019, by and between Northeast Bank and Northeast Bancorp.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORTHEAST BANK

Date: September 13, 2019

By: /s/ RICHARD WAYNE

Richard Wayne
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD WAYNE **Richard Wayne**	Chief Executive Officer and Director (Principal Executive Officer)	September 13, 2019
/s/ JEAN-PIERRE LAPOINTE **Jean-Pierre Lapointe**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 13, 2019
/s/ ROBERT GLAUBER **Robert Glauber**	Chairman of the Board	September 13, 2019
/s/ MATTHEW BOTEIN **Matthew Botein**	Director	September 13, 2019
/s/ CHERYL DORSEY **Cheryl Dorsey**	Director	September 13, 2019
/s/ JOHN C. ORESTIS **John C. Orestis**	Director	September 13, 2019
/s/ DAVID TANNER **David Tanner**	Director	September 13, 2019
/s/ JUDITH E. WALLINGFORD **Judith E. Wallingford**	Director	September 13, 2019

Exhibit 21. Subsidiaries of Registrant

Name of Subsidiary	Jurisdiction of Incorporation	Year Acquired or Formed	Percentage of Voting Securities Owned
Northeast Bank (and its REO LLCs: 200 Elm Realty, LLC; 500 Pine Realty, LLC; 17 Dogwood Realty, LLC)	Maine	1987	100%

Exhibit 31.1.

CERTIFICATION

I, Richard Wayne, certify that:

1. I have reviewed this annual report on Form 10-K 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; and

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(s) 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(s) 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.

September 13, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jean-Pierre Lapointe, certify that:

1. I have reviewed this annual report on Form 10-K 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; and

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(s) 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(s) 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.

September 13, 2019

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

Exhibit 32.1

Certification Pursuant to
Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350

In connection with the report of Northeast Bank (the "Bank") on Form 10-K for the annual period ended June 30, 2019 as filed with the Federal Deposit Insurance Corporation on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certify, pursuant to Exchange Act Rule 13a-14(b) and 18 U.S.C. 1350, that to the best of such officer's knowledge:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

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

September 13, 2019

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

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