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, 2023

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.)**
27 Pearl Street, Portland, Maine **(Address of principal executive offices)**	**04101** **(Zip Code)**

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

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

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

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

Indicate by check mark 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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes☒ No ☐

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes ☒ No ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022 was approximately $268,820,023.

As of September 1, 2023, the registrant had outstanding 7,797,218 shares of voting common stock, $1.00 par value per share, and zero shares of non-voting common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2023 Annual Meeting of Shareholders to be held on November 20, 2023 (the "Proxy Statement") 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 the Proxy Statement with the Federal Deposit Insurance Corporation no later than 120 days after the end of its fiscal year ended June 30, 2023.

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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 employment levels, general business and economic conditions on a national basis and in the local markets in which the Bank operates; changes in customer behavior due to changing business and economic conditions (including inflation and concerns about liquidity) or legislative or regulatory initiatives; the possibility that future credits losses are higher than currently expected due to changes in economic assumptions, customer behavior or adverse economic developments; turbulence in the capital and debt markets; changes in interest rates and real estate values; competitive pressures from other financial institutions; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changing government regulation; operational risks including, but not limited to, cybersecurity, fraud, natural disasters, climate change and future pandemics; the risk that the Bank may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Bank's financial statements will become impaired; and 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, net operating earnings per share, operating return on average assets, operating return on average equity, operating efficiency ratio, and operating common dividend payout ratio. These non-GAAP financial measures are utilized for the 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 allow 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 organized in 1872, is a Maine-based full-service financial institution.

As of June 30, 2023, the Bank had total assets of $2.87 billion, total deposits of $1.94 billion, and shareholders' equity of $296.7 million. We gather retail deposits through our seven full-service branches in Maine and through our online deposit program, ableBanking; purchase and originate commercial loans, typically secured by real estate, on a nationwide basis through our National Lending Division; and originate loans through the Community Banking Division and Small Business Administration ("SBA") National 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 National Lending Division's purchased and originated loan business. We purchase primarily commercial real estate loans nationally. We also originate loans nationally, taking advantage of our core expertise in underwriting and servicing national credits.

Continuing our community banking tradition. With a history that dates back to 1872, our Community Banking Division maintains its focus on sales and service, with the goal of attracting and retaining deposits.

Generating deposits to fund our business. We offer a full line of deposit products through our seven-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

National Lending Division activities are nationwide. The National Lending Division 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. We believe that the National Lending Division 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 Community Banking Division's market area is centered in the western and south-central regions of Maine. We encounter significant competition in the Community Banking Division market area in originating loans and attracting deposits. Our competitors include savings banks, commercial banks, credit unions, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, financial technology 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 National Lending Division, the SBA National Division, and the Community Banking Division. The National Lending Division 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 National Lending Division also originates commercial real estate and commercial and industrial loans on a nationwide basis. The SBA National Division originates loans to small businesses to help provide funding opportunities nationally. The Community Banking Division originates loans directly to businesses located in its market area. At June 30, 2023, our total loan portfolio (excluding loans held for sale) was $2.52 billion, of which $2.47 billion, or 97.9%, was purchased or originated by the National Lending Division and $27.5 million, or 1.1%, was originated by the Community Banking Division. $24.9 million, or 1.0%, were originated traditional SBA loans. 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,	
	2023	2022
	(Dollars in thousands)	
Loans, including loans held for sale, beginning of year	$ 1,304,866	$ 1,040,624
Additions:		
National Lending Division purchases and originations:		
Originations	556,991	587,840
Purchases	1,143,786	187,917
Subtotal	1,700,777	775,754
SBA PPP funded originations	-	6,516
SBA Traditional funded originations	15,632	592
Community Bank originations:		
Commercial real estate	102	210
Commercial and industrial	89	137
Consumer	-	-
Subtotal	191	347
Total originations and purchases	1,716,600	783,209
Reductions:		
Sales of SBA PPP loans	-	(6,333)
Sales of residential loans held for sale	-	-
Sales of traditional SBA and other loans	(11,987)	-
Charge-offs	(27)	(421)
Pay-downs and amortization, net	(489,092)	(512,213)
Total reductions	(501,106)	(518,967)
Loans, including loans held for sale, end of year	$ 2,520,360	$ 1,304,866
Annual percentage increase in loans	93.15%	25.39%

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, 2023, the Bank's legal lending limit was $60.9 million.

We typically retain servicing rights for all loans that we originate or purchase.

National Lending Division Purchases and Originations

General. Loans originated or purchased by the National Lending Division were $2.47 billion as of June 30, 2023, which consisted of $1.91 billion of commercial real estate loans, $492.6 million of commercial and industrial loans, and $60.9 million of one- to four-family residential loans. The following table summarizes the National Lending Division loan portfolio as of June 30, 2023:

	Purchased	Originated	Total
		(In thousands)	
Non-owner occupied commercial real estate	$ 1,274,632	$ 365,906	$ 1,640,538
Owner-occupied commercial real estate	177,271	96,588	273,859
Commercial and industrial	20,429	472,210	492,639
1-4 family residential	7,787	53,128	60,915
Total	$ 1,480,119	$ 987,832	$ 2,467,951

Since the inception of the National Lending Division through June 30, 2023, we have purchased loans with an aggregate investment of $2.53 billion, of which $1.14 billion was purchased during fiscal 2023. We have also originated National Lending Division loans totaling $2.76 billion, of which $557.0 million was originated in fiscal 2023. As of June 30, 2023, the unpaid principal balance of loans purchased or originated by the National Lending Division ranged from $1 thousand to $26 million and have an average balance of $658 thousand. The real estate loans were secured principally by retail, industrial, mixed use, hospitality, multi-family and office properties in 44 states.

The following table shows the National Lending Division loan portfolio stratified by book value as of June 30, 2023, excluding deferred fees and costs:

Range	Amount	Percent of Total
(Dollars in thousands)		
$0 - $2,000	$ 720,949	29.21%
$2,000 - $6,000	723,424	29.32%
$6,000 - $10,000	442,425	17.93%
$10,000 - $15,000	251,652	10.20%
Greater than $15,000	329,241	13.34%
Total	$ 2,467,691	100.00%

The following tables show the National Lending Division loan portfolio by location and type of collateral as of June 30, 2023, excluding deferred fees and costs:

Collateral Type	Amount	Percent of Total
	(Dollars in thousands)	
Multi-family	$ 488,536	19.80%
Lender Finance	419,434	17.00%
Retail	401,510	16.27%
Office	282,241	11.44%
Industrial	238,889	9.68%
Other CRE	177,555	7.21%
Mixed Use	163,873	6.65%
Hospitality	142,822	5.79%
All Other	152,831	6.19%
Total	$ 2,467,691	100.00%

State	Amount	Percent of Total
	(Dollars in thousands)	
NY	$ 856,228	34.70%
CA	732,315	29.68%
FL	130,508	5.29%
NJ	116,041	4.70%
WA	81,734	3.31%
TX	73,094	2.96%
SC	39,090	1.58%
Non-real estate	118,646	4.81%
All other states	320,035	12.97%
Total	$ 2,467,691	100.00%

Loan Purchase Strategies. The National Lending Division’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, 2023, purchased loans had an unpaid principal balance of $1.67 billion and a book value of $1.48 billion, representing a total discount of 11.3%.

The following table shows the purchased loan portfolio as of June 30, 2023 by original purchase price percentage:

Initial Investment as a % of Unpaid Principal Balance	Amount	Percent of Total
	(Dollars in thousands)	
0% - 60%	$ 115,688	7.82%
60% - 70%	21,045	1.42%
70% - 80%	151,950	10.27%
80% - 90%	506,963	34.25%
> 90%	684,473	46.24%
Total	$ 1,480,119	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 experienced an active market during 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 National Lending Division Credit Committee.

Collateral Valuation. The estimated value of the real property collateralizing the loan is determined by the National Lending Division'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 National Lending Division typically conduct an in-person site inspection.

We generally view cash flow from operations as the primary source of repayment on purchased loans. The National Lending Division 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 National Lending Division 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 National Lending Division 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 National Lending Division also originates commercial loans on a nationwide basis. Capitalizing on our purchased loan infrastructure, the National Lending 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 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 National Lending Division 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 National Division

General. The SBA National 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.

Secondary Market for SBA Guarantees. We typically sell the SBA-guaranteed portion of our variable-rate originations (generally 75-85% of the principal balance) at a premium in the secondary market. We generally retain a 15-25% unguaranteed interest and the accompanying servicing rights to the entire loan.

Underwriting of SBA National 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 of Directors to ensure that we are following SBA underwriting guidelines.

Loan Servicing. We conduct all loan servicing for SBA National 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 as a result of our ongoing in-house real estate analysis. All asset management activity and analysis is contained within a central database.

Community Banking Division Originations

Loan Portfolio

- *Residential Mortgage Loans.* During the fiscal year ended June 30, 2021, the Bank shuttered its residential mortgage lending division. In order to continue to offer residential mortgage loans to its customers, the Bank entered into an agreement with Fairway Independent Mortgage Corporation, whereby the Bank refers its customers and earns a fee for successful mortgage originations. At June 30, 2023, the Community Banking Division's portfolio residential and home equity loans totaled $18.6 million, or 0.7% of total loans. Of the residential loans we held for investment at June 30, 2023, approximately 34.8% were adjustable rate. Included in residential loans are home equity lines of credit and other second mortgage loans aggregating approximately $1.5 million.

- *Commercial Real Estate Loans.* We originate multi-family and other commercial real estate loans secured by property primarily in Maine. At June 30, 2023, the Community Banking Division's commercial real estate loans outstanding were $7.0 million, or 0.3% of total loans. Although the largest commercial real estate loan originated by the Community Banking Division had a principal balance of $727 thousand at June 30, 2023, the remainder 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, 2023, commercial and industrial loans outstanding were $1.4 million, or 0.1% of total loans. At June 30, 2023, there were 23 commercial and industrial loans outstanding with an average principal balance of $63 thousand. The largest of these commercial and industrial loans had a principal balance of $356 thousand at June 30, 2023.

- *Consumer Loans.* We hold mobile home and overdraft and deposit-secured loans. At June 30, 2023, consumer loans outstanding were $485 thousand, or 0.02% of total loans.

Underwriting of Loans. Our underwriting process for 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 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 seven-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.

Our online deposit program, ableBanking, provides an additional channel through which to obtain core deposits to support our growth. AbleBanking, a division of Northeast Bank, had $29.6 million in money market and time deposits as of June 30, 2023. We also use deposit listing services or brokers to gather deposits in support of our liquidity and asset/liability management objectives from time to time. At June 30, 2023, listing service deposits and brokered deposits totaled $40.4 million and $654.1 million, respectively. .

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, brokered deposits, and other sources of wholesale funding remain an important part of our liquidity position and 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, including commercial real estate, and securities pledged to the FHLBB. At June 30, 2023, we had $318.4 million of available borrowing capacity based on pledged collateral from the FHLBB.

The Bank can also borrow from the Federal Reserve Bank of Boston (the "Federal Reserve"), with any such borrowing collateralized by commercial real estate loans pledged to the Federal Reserve. At June 30, 2023, we had $325.7 million of available borrowing capacity based on pledged collateral from the Federal Reserve.

Employees

As of June 30, 2023, the Bank employed 182 full-time and 17 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, 2023, the Bank had seven wholly owned non-bank subsidiaries, all of which were established to hold commercial real estate acquired as a result of loan workouts:

- 200 Elm Realty, LLC
- 500 Pine Realty, LLC
- 17 Dogwood Realty, LLC
- 1795 Little Diamond Realty, LLC
- 1872 Peaks Realty, LLC
- 1630 Spectacle Realty, LLC
- 1786 Cliff Realty, LLC

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 state-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. In addition, Maine law requires that any person obtain the approval of the Maine Superintendent of Financial Institutions before acquiring control of a Maine financial institution. Similarly, under the Bank Holding Company Act of 1956, as amended, a company may not acquire control of a bank without first having obtained the approval of the Board of Governors of the Federal Reserve System (the "FRB").

Deposit Insurance. Deposit obligations of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") up to $250,000 per depositor for deposits held in the same right and capacity.

Deposit insurance premiums are based on assets. For established small banks, which are generally those banks with less than $10 billion of assets that have been insured for at least five years, each of seven financial ratios and a weighted average of CAMELS composite ratings are multiplied by a corresponding pricing multiplier. The sum of these products is added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). For the years ended June 30, 2023 and 2022, the FDIC insurance assessment expense for the Bank was $1.2 million and $395 thousand, respectively.

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, among other circumstances, 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.

Acquisitions and Branching. Prior approval from the Bureau and the FDIC is required 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. 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 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 well managed, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules, among other things.

Lending Restrictions. Federal and state laws limit 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 purchase or 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. 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 assets may be subject to increased FDIC deposit insurance premium 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 "Economic Growth Act"), which was enacted in 2018, amended the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions.

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 a "satisfactory" 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. Accumulated other comprehensive income ("AOCI") (positive or negative) must be reflected in Tier 1 capital; however, the Bank made a one-time permanent election to continue to exclude AOCI from capital.

Under the FDIC's capital rules, 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, 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.

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 Economic Growth Act directs the federal bank regulatory agencies to establish a community bank leverage ratio ("CBLR") of tangible capital to average total consolidated assets of not less than 8% or more than 10%. Under the final rule issued by federal banking agencies, effective January 1, 2020, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9%, will be eligible to opt into the community bank leverage ratio framework. A community banking organization that elects to use the community bank leverage ratio framework and that maintains a leverage ratio of greater than 9% will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the banking agencies' generally applicable capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of Section 38 of the FDIA. The final rule includes a two-quarter grace period during which a qualifying banking organization that temporarily fails to meet any of the qualifying criteria, including the greater than 9% leverage ratio requirement, generally would still be deemed well-capitalized so long as the banking organization maintains a leverage ratio greater than 8%. At the end of the grace period, the banking organization must meet all qualifying criteria to remain in the community bank leverage ratio framework or otherwise must comply with and report under the generally applicable rule. The Bank has not elected to use the community bank leverage framework.

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

Safety and Soundness Standards. Guidelines adopted by the federal bank regulatory agencies pursuant to the FDIA establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, and compensations 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 restricting asset growth, requiring an institution to increase its ratio of tangible equity to assets or 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 the 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

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 Consumer Financial Protection Bureau ("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, and 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 Economic Growth Act included provisions that ease certain requirements related to mortgage transactions for small institutions 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, an annual disclosure is not required to be provided by a financial institution if the financial institution only discloses information under exceptions from GLBA that do not require an opt-out to be provided and if there has been no change in its privacy policies and procedures since its most recent 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 the information is "reasonably possible." All fifty states, as well as the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands, 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 has developed and implemented 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 amended 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 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 any transactions or series of 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 to acquire a bank or merge banks or effect 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 or other transactions relating to , a sanctioned country, or with certain designated persons and entities; (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 certain 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. Failure to comply with these sanctions could have serious legal and reputational consequences for the Bank.

Available Information

The Bank's Investor Relations information can be obtained through our Internet address, *investor.northeastbank.com/investor-relations*. 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

The possibility of the economy's return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position, and results of operations.

The economy in the United States and globally has experienced volatility in recent years and may continue to experience such volatility for the foreseeable future. There can be no assurance that economic conditions will not worsen. Unfavorable or uncertain economic conditions can be caused by declines in economic growth, business activity, or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, the timing and impact of changing governmental policies, natural disasters, climate change, epidemics, the COVID-19 pandemic and future pandemics, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions could have adverse effects on our business, including the following:

- investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on our stock price and resulting market valuation;
- economic and market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates;
- our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite loans become less predictive of future behaviors;
- we could suffer decreases in demand for loans or other financial products and services or decreased deposits or other investments in accounts with us;
- competition in the financial services industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions or otherwise; and
- the value of loans and other assets or collateral securing loans may decrease.

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 FRB. 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.

Inflationary pressures and rising prices may affect our results of operations and financial condition.

Inflation rose sharply at the end of 2021 and throughout 2022. Inflationary pressures are currently expected to remain elevated throughout 2023. Small to medium-sized businesses may be impacted more during periods of high inflation, as they are not able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, the ability of our business customers to repay their loans may deteriorate, and in some cases this deterioration may occur quickly, which would adversely impact our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to increase, which could adversely affect our results of operations and financial condition.

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non-performance by financial institutions or transactional counterparties, could adversely affect our financial condition and results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. Similarly, on March 12, 2023, Signature Bank was swept into receivership. A statement by the U.S. Department of the Treasury (the "Treasury"), the FRB and the FDIC indicated that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts.

Inflation and rapid increases in interest rates have led to a decline in the trading value of previously issued government securities with interest rates below current market interest rates. Although the Treasury, FDIC and FRB have announced a program to provide up to $25 billion of loans to financial institutions secured by certain of such government securities held by financial institutions to mitigate the risk of potential losses on the sale of such instruments, widespread demands for customer withdrawals or other liquidity needs of financial institutions for immediately liquidity may exceed the capacity of such program. Additionally, there is no guarantee that the Treasury, FDIC and FRB will provide access to uninsured funds in the future in the event of the closure of other banks or financial institutions, or that they would do so in a timely fashion.

Potential losses incurred in connection with possible repurchases and indemnification payments related to PPP loans that we have sold to Loan Source may require us to increase our financial statement reserves in the future.

In June 2020, we entered into a loan purchase and sale agreement with Loan Source under which we sold $457.6 million in PPP loans originated by us to Loan Source. In fiscal 2021, we amended the loan purchase and sale agreement under which we sold an additional $2.87 billion in PPP loans. In connection with those sales, we made certain representations and warranties, which, if breached, may require us to repurchase such loans or indemnify Loan Source for actual losses incurred in respect of such loans. These representations and warranties include representations covering compliance with PPP rules and applicable laws in connection with the origination of the PPP loans. To date, we have not had to repurchase any of these loans, nor have we received any indemnification claims under the loan purchase and sale agreement. However, if we were required to repurchase these loans or if we receive such indemnity claims, we could incur losses in connection with loan repurchases and indemnification claims, and any such losses might exceed our financial statement reserves, requiring us to increase such reserves. In that event, any losses we might have to recognize and any increases we might have to make to our reserves could have a material adverse effect on our business, financial position, liquidity, results of operations or cash flows.

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, 2023, 58.7% 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 National Lending Division 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 National Lending Division 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, 2023, the loans held in our loan portfolio that were originated by third parties had been held by us for approximately 1.3 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, 2023, our commercial real estate mortgage and commercial and industrial loan portfolios comprised 96.8% 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.

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 National Lending Division that are secured by assets located nationwide. Deterioration in the economic conditions, including high unemployment levels, in 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.

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 maintain 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.

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. 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.

The fair value of our investment securities can fluctuate due to factors outside of our control.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions with respect to individual securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect our business, results of operations, financial condition and prospects. The process for determining whether impairment of a security is other than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Significant negative changes to valuations could result in impairments in the value of the Bank's securities portfolio, which could have an adverse effect on the Bank's financial condition or results of operations.

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. Frequently, we compete in the market for talent with entities that are not subject to comprehensive regulation, including with respect to incentive compensation. 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 may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance, and legal reporting systems; internal controls; management review processes; and other mechanisms. In some cases, management of our risks depends upon the use of analytical and/or forecasting models, which, in turn, rely on assumptions and estimates. If the models used to mitigate these risks are inadequate, or the assumption or estimates are inaccurate or otherwise flawed, we may fail to adequately protect against risks and may incur losses. In addition, there may be risks that exist, or that develop in the future, that we have not appropriately anticipated, identified or mitigated, which could lead to unexpected losses and our results of operations or financial condition could be materially adversely affected.

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 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, blizzard, flood, fire or earthquake, 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.

Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. In recent years, governments across the world have entered into international agreements to attempt to reduce global temperatures, in part by limiting greenhouse gas emissions. The U.S. Congress, state legislatures and federal and state regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. These agreements and measures may result in the imposition of taxes and fees, the required purchase of emission credits, and the implementation of significant operational changes, each of which may require us to expend significant capital and incur compliance, operating, maintenance, and remediation costs. Consumers and businesses may also change their behavior on their own as a result of these concerns. The impact on our customers will likely vary depending on their specific attributes, including reliance on, or role in, carbon-intensive activities. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

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.

The proliferation of social media websites utilized by us and other third parties, as well as the personal use of social media by our employees and others, including personal blogs and social network profiles, also may increase the risk that negative, inappropriate or unauthorized information may be posted or released publicly that could harm our reputation or have other negative consequences, including as a result of our employees interacting with our customers in an unauthorized manner in various social media outlets. 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.

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.

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.

Our business may be adversely affected if we fail to adapt our products and services to evolving industry standards and consumer preferences.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. The widespread adoption of new technologies, including cryptocurrencies and payment systems, could require substantial expenditures to modify or adapt our existing products and services. We might not be successful in developing or introducing new or modified products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal customers.

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. If the deposit insurance fund of the FDIC is unable 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 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. For example, the introduction of Accounting Standard Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), as updated, commonly referred to as "CECL," substantially changed how we calculate our allowance for credit losses. Other future changes in accounting standards could materially impact how we report our financial condition, and we cannot predict whether such standards will be adopted or their resultant impact.

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 Regulatory Environment

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 on our operations.

We are subject to extensive federal and state regulation. 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, subject us to additional costs, including costs of compliance; limit the types of financial services and products we may offer; and/or increase the ability of non-banks to offer competing financial services and products. 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."

Regulatory capital requirements force banks to maintain capital as a percentage of their assets, with an emphasis on common equity as opposed to other components of capital. The need to maintain capital and liquidity, and regulatory scrutiny with respect to capital levels, may 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 stringent capital requirements which may adversely impact return on equity, require additional capital raises, or limit the ability to pay dividends or repurchase shares.

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define “capital” for calculating these ratios. The minimum capital requirements are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The regulations also establish a “capital conservation buffer” of 2.5%, which if complied will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 to risk-based assets capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases and paying discretionary bonuses if its capital level falls below the capital conservation buffer amount. The application of these capital requirements could, among other things, require us to maintain higher capital resulting in lower returns on equity, and we may be required to obtain additional capital to comply or result in regulatory actions if we are unable to comply with such requirements.

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 become subject to enforcement actions even though noncompliance was inadvertent or unintentional.

The financial services industry is subject to intense scrutiny from bank supervisors in the examination process and aggressive enforcement of federal and state regulations, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with anti-money laundering, BSA and OFAC regulations, and economic sanctions against certain foreign countries and nationals. Enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. 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. Failure to comply with these and other regulations, and supervisory expectations related thereto, may result in fines, penalties, lawsuits, regulatory sanctions, reputation damage, or restrictions on our business.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

As a participant in the financial services industry, many aspects of our business involve substantial risk of legal liability. From time to time, customers and others make claims and take legal action pertaining to the performance of our responsibilities, such as the recent legal proceeding against the Bank for our overdraft fee practices. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant expenses, diversion of Management's time and attention and financial liability. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. There is no assurance that litigation with private parties will not increase in the future. Actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us.

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 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.

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. We also have an active at-the-market offering, whereby we are authorized to issue up to $50.0

million of common stock, of which $41.6 million remains available to issue at June 30, 2023. 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, 2023, the Bank conducted its business from its headquarters in Portland, Maine, an office in Boston, Massachusetts, and an office in Lewiston, Maine. The Bank also conducts business from its seven full-service bank branches in Maine, including its headquarters. 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 Portland, Maine; Boston, Massachusetts; and Lewiston, Maine offices, the Bank leases three of its other locations. For information regarding the Bank's lease commitments, please refer to "Premises, Equipment and Leases" under Note 4 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". As of the close of business on September 1, 2023, there were approximately 292 registered shareholders of record of voting common stock.

The following table sets forth the high and low closing sale prices of the Bank's common stock, as reported on NASDAQ, and quarterly dividends paid on the Bank's common stock during the periods indicated:

Fiscal year ended June 30, 2023	High	Low	Dividend Paid
Jul 1 – Sep 30	$ 42.72	$ 36.67	$ 0.01
Oct 1 – Dec 31	47.55	37.70	0.01
Jan 1 – Mar 31	47.59	33.66	0.01
Apr 1 – Jun 30	43.03	33.64	0.01

Fiscal year ended June 30, 2022	High	Low	Dividend Paid
Jul 1 – Sep 30	$ 35.26	$ 28.93	$ 0.01
Oct 1 – Dec 31	37.06	32.20	0.01
Jan 1 – Mar 31	38.96	34.11	0.01
Apr 1 – Jun 30	39.51	33.92	0.01

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 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.

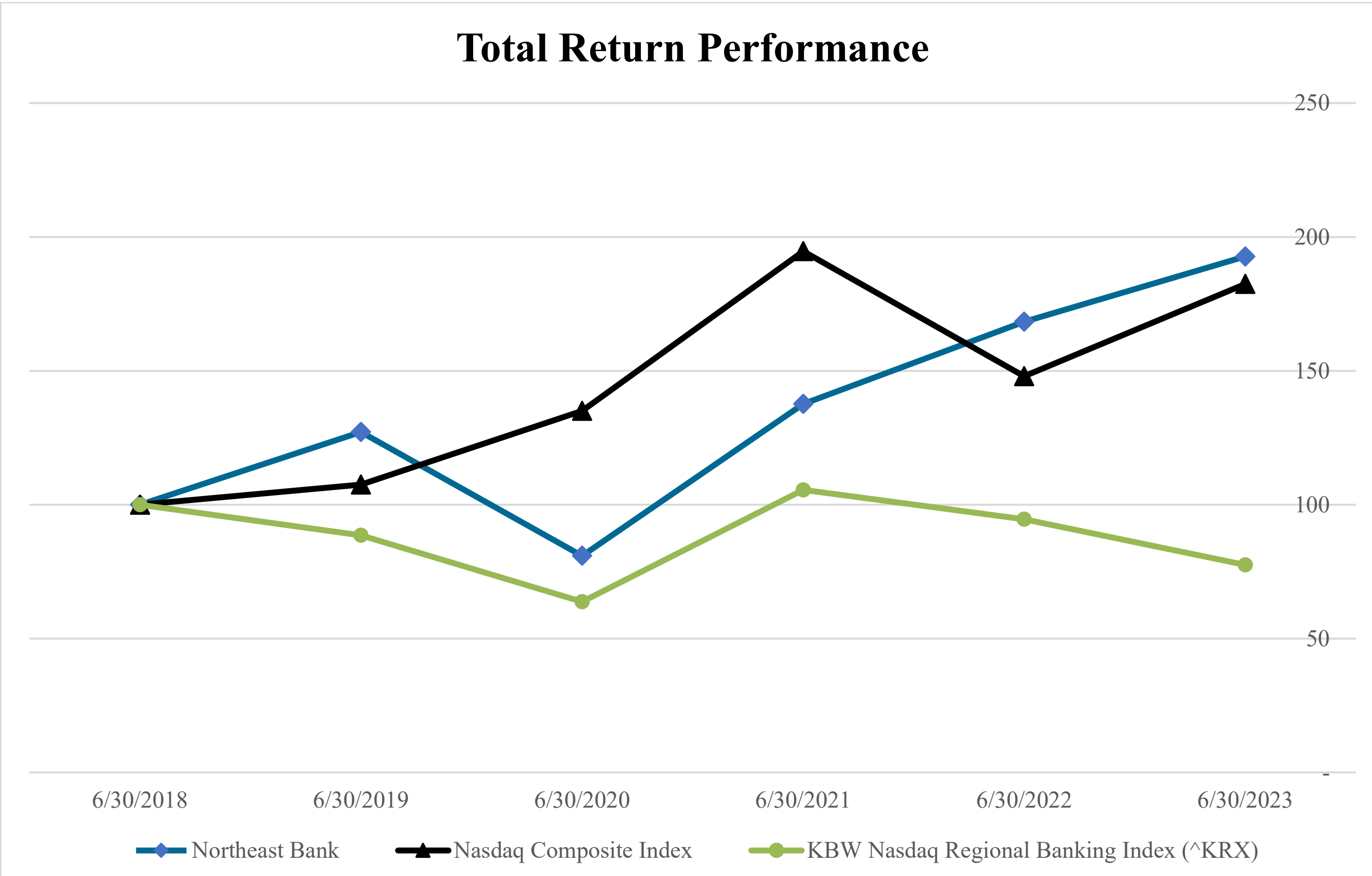
On April 20, 2022, the Board of Directors adopted a share repurchase program to purchase up to $40.0 million of common stock, or up to 1,000,000 shares, representing 13.1% of the Bank's outstanding common stock. This repurchase program may be suspended or terminated at any time without prior notice, and it expired April 13, 2023. The Bank repurchased 338,940 shares at a weighted average price per share of $36.85 through June 30, 2023. The Bank did not repurchase or issue common shares in the fourth quarter of fiscal year 2023.

On December 12, 2022, the Board of Directors approved and initiated an at-the-market offering of up to $50.0 million of common stock, which expires on December 12, 2023. The Bank has issued 193,611 shares at a weighted average net proceeds per share of $41.29 through June 30, 2023. At June 30, 2023, the Bank has $41.6 million left available to issue under the approved at-the-market offering.

During the three months ended June 30, 2023, none of the Bank's directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted, terminated or modified a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K).

Stock Performance Graph

Below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on the Bank's voting common stock, based on the market price of the Bank's voting common stock, with the total return on companies within the NASDAQ Composite Index and companies within the SNL $1B-$5B Bank Index. The calculation of cumulative return assumes a $100 investment in the Bank's common stock, the NASDAQ Composite Index, and the KBW Nasdaq Regional Banking Index on June 30, 2018. It also assumes that all dividends are reinvested during the relevant periods.



Index	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023
Northeast Bank	$ 100.00	$ 127.10	$ 80.88	$ 137.65	$ 168.34	$ 192.72
Nasdaq Composite Index	100.00	107.44	134.98	194.63	148.00	182.39
KBW Nasdaq Regional Banking Index (^KRX)	100.00	88.53	63.74	105.52	94.59	77.49

Item 6. [Reserved]

Not applicable.

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

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 Years Ended June 30,				
	2023	2022	2021	2020	2019
	(Dollars in thousands, except per share data)				
Selected operating data:					
Interest and dividend income	$ 177,171	$ 88,536	$ 78,125	$ 83,684	$ 81,830
Interest expense	58,735	5,112	11,039	18,697	19,509
Net interest income	118,796	83,424	67,086	64,987	62,321
Provision (credit) for loan losses	2,303	(2,462)	(1,396)	4,500	1,309
Noninterest income	5,258	24,445	72,033	13,184	6,116
Reorganization expense	-	-	-	-	8,695
Other noninterest expense	56,536	48,783	39,426	40,393	38,818
Income before income taxes	65,215	61,548	101,089	33,278	19,615
Income tax expense	21,028	19,385	29,586	10,541	5,731
Net income	$ 44,187	$ 42,163	$ 71,503	$ 22,737	$ 13,884
Per share data:					
Earnings per common share:					
Basic	$ 6.02	$ 5.40	$ 8.64	$ 2.57	$ 1.54
Diluted	5.96	5.34	8.55	2.53	1.52
Cash dividends	$ 0.04	$ 0.04	$ 0.04	$ 0.04	$ 0.04
Book value	38.69	33.37	28.51	20.09	16.98
Selected balance sheet data:					
Total assets	$ 2,869,938	$ 1,582,759	$ 2,174,402	$ 1,257,635	$ 1,153,858
Total Loans	2,520,360	1,304,866	1,040,624	971,602	975,060
Deposits	1,937,207	1,287,693	1,862,430	1,012,352	942,371
Borrowings and lease liability	584,533	19,451	36,111	46,876	30,152
Total shareholders' equity	296,663	248,321	232,391	164,739	153,580
Other ratios:					
Return on average assets	1.88%	2.68%	4.53%	1.82%	1.16%
Return on average equity	16.48%	17.40%	37.44%	14.21%	9.42%
Efficiency ratio (1)	46.39%	45.22%	28.34%	51.67%	69.43%
Average equity to average total assets	11.42%	15.42%	12.10%	12.83%	12.31%
Common dividend payout ratio	0.67%	0.75%	0.47%	1.58%	2.63%
Tier 1 leverage capital ratio	10.38%	16.13%	13.63%	13.36%	12.86%
Total capital ratio	12.30%	19.47%	24.29%	19.61%	18.01%

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

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 years ended June 30, 2023 ("fiscal 2023") and 2022 ("fiscal 2022"). 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 2023 include the following:

- Net income for fiscal 2023 was $44.2 million, or $5.96 per diluted common share, compared to $42.2 million, or $5.34 per diluted common share, for fiscal 2022.

- Generated loans of $1.72 billion, primarily under the National Lending Division, which purchased loans totaling $1.14 billion and originated loans totaling $557.0 million, earning average portfolio yields of 7.9% and 8.8%, respectively. The purchased loan yield of 7.9% 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 7.9% for fiscal 2023.

- Recorded correspondent fee income of $2.5 million for fiscal 2023, compared to $22.5 million for fiscal 2022.

	Years Ended June 30,					
	2023			2022		
	Purchased	Originated	Total	Purchased	Originated	Total
	(Dollars in thousands)					
Loans purchased or originated during the period:						
Unpaid principal balance	$ 1,314,783	$ 556,991	$ 1,871,774	$ 199,523	$ 587,840	$ 787,363
Net investment basis	1,143,786	556,991	1,700,777	187,914	587,840	775,754
Loan returns during the period:						
Yield	7.93%	8.84%	8.36%	8.91%	6.73%	7.65%
Total Return on Purchased Loans (1)	7.93%	N/A	7.93%	8.92%	N/A	8.92%
Total loans as of period end:						
Unpaid principal balance	$ 1,667,947	$ 987,832	$ 2,655,779	$ 512,006	$ 759,229	$ 1,271,235
Net investment basis	1,480,119	987,832	2,467,951	477,682	759,229	1,236,911

(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."

Paycheck Protection Program ("PPP"). Through June 30, 2023, the Bank had originated over 34,600 PPP loans totaling $3.33 billion in connection with the PPP, comprised of $0, $6.5 million, and $2.84 billion during the years ended June 30, 2023, 2022, and 2021, respectively. The Bank subsequently sold PPP loans with a total principal balance of $0, $6.3 million, and $2.87 billion, and recorded a net gain of $0, $86 thousand, and $46.7 million on the sales primarily resulting from the recognition of net deferred fees, offset by purchase price discounts, during the years ended June 30, 2023, 2022, and 2021, respectively.

On June 12, 2020, the Bank entered into a correspondent agreement (the "Correspondent Agreement") with Loan Source and ACAP SME, LLC ("ACAP") to act as the correspondent for Loan Source in connection with Loan Source's pledge of PPP loans to the PPP Liquidity Facility ("PPPLF"). The PPP loans to be pledged by Loan Source are required to be PPP loans originated by depository institutions and purchased by Loan Source. ACAP has agreed to act as a loan service provider for Loan Source in connection with the purchased PPP loans. Under the Correspondent Agreement, and with certain exceptions, the Bank will be compensated by Loan Source for acting as correspondent on a per loan basis that varies based on, among other things, the amount of the fee Loan Source receives on the PPP loans it purchases and the terms of such PPP loans. The Bank does not assume any liability for any PPP loans pledged by Loan Source to the PPPLF pursuant to the Correspondent Agreement. Through June 30, 2023, Loan Source purchased $11.24 billion of PPP loans, including $3.33 billion of PPP loans from the Bank, and approximately $7.91 billion of PPP loans from lenders other than the Bank, which generated a correspondent fee for the Bank of $8.9 million, which continues to be recognized over the expected life of the loans. The Bank also receives one half of the net servicing income on the remaining $123.7 million PPP portfolio owned by Loan Source as of June 30, 2023.

Troubled Debt Restructuring ("TDR") Relief. From March 1, 2020 through January 1, 2022, a financial institution could have elected to suspend the requirements under accounting principles generally accepted in the U.S. for loan modifications related to the COVID–19 pandemic that would otherwise be categorized as a TDR. This TDR relief is applicable for the term of the loan modification that occurs during the applicable period for a loan that was not more than 30 days past due as of December 31, 2019. Financial institutions are required to maintain records of the volume of loans involved in modifications to which TDR relief is applicable. Through June 30, 2023, the Bank had granted 317 short-term deferments, none of which were still under deferral as of June 30, 2023. These short-term deferments were not classified as TDR loans and were not reported as past due provided that they are performing in accordance with the modified terms.

Results of Operations for the years ended June 30, 2023 and 2022

General

Net income for the year ended June 30, 2023 was $44.2 million, or $5.96 per diluted common share, compared to $42.2 million, or $5.34 per diluted common share, for the year ended June 30, 2022.

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 $118.8 million for the year ended June 30, 2023, as compared to $83.4 million for the year ended June 30, 2022. The increase was due to increased loan interest income, primarily in the National Lending Division portfolio, partially offset by increased deposit and borrowings interest expense.

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

	Interest Income and Yield on Loans					
	Years Ended June 30,					
	2023			2022		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 30,271	$ 1,915	6.33%	$ 41,009	$ 2,143	5.23%
SBA National	28,138	2,896	10.29%	35,678	2,356	6.60%
SBA PPP	-	-	0.00%	633	17	2.69%
National Lending:						
Originated	922,438	81,534	8.84%	627,786	42,256	6.73%
Purchased	1,040,940	82,549	7.93%	458,036	40,820	8.91%
Total National Lending	1,963,378	164,083	8.36%	1,085,822	83,076	7.65%
Total	$ 2,021,787	$ 168,894	8.35%	$ 1,163,142	$ 87,592	7.53%

The yield on purchased loans is affected by unscheduled loan payoffs, which result in the immediate recognition of the prepaid loans' discount into interest income. The following table details the "total return" on purchased loans, which includes total transactional income of $12.8 million for the year ended June 30, 2023, an increase of $721 thousand from the year ended June 30, 2022. The following table summarizes the total return recognized on the purchased loan portfolio:

	Years Ended June 30,			
	2023		2022	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 69,788	6.70%	$ 28,811	6.29%
Transactional income:				
Gain on real estate owned	-	0.00%	31	0.01%
Accelerated accretion and loan fees	12,761	1.23%	12,009	2.62%
Total transactional income	12,761	1.23%	12,040	2.63%
Total	$ 82,549	7.93%	$ 40,851	8.92%

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

- An increase of $4.8 million in the provision for loan losses, primarily due to loan growth and increases in specific reserves during the year ended June 30, 2023, as compared to decreases in qualitative factors associated with the COVID-19 pandemic, primarily in the SBA portfolio, during the year ended June 30, 2022, as a result of continued improvements and stabilization in the economy, real estate valuations, and loan performance from the COVID-19 pandemic.

- A decrease of $19.2 million in noninterest income, principally due to the following:
  - A decrease in correspondent fee income of $20.0 million from the recognition of correspondent fees and net servicing income due to a decrease in average PPP loans held by Loan Source; partially offset by,
  - A decrease in unrealized loss on equity securities of $303 thousand; and
  - An increase in gain on sale of SBA loans of $576 thousand, due to the sale of $12.0 million in SBA loans during the year ended June 30, 2023 as compared to no sales during the year ended June 30, 2022.

- An increase of $7.8 million in noninterest expense, primarily due to the following:
  - An increase in salaries and employee benefits of $4.6 million, primarily due to increases in regular and stock compensation expense and bonus expense;
  - An increase in other noninterest expense of $1.1 million, primarily due to a $474 thousand increase in travel and meals and entertainment expense and a $346 thousand increase in excess deposit insurance expense;
  - An increase in deposit insurance expense of $829 thousand, due to higher average assets and a lower Tier 1 leverage ratio; and
  - An increase in professional fees of $663 thousand, primarily due to increases in legal 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,					
	2023			2022		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 60,760	$ 1,122	1.85%	$ 64,560	$ 316	0.49%
Loans (1) (2)	2,021,787	168,894	8.35%	1,163,142	87,592	7.53%
Federal Home Loan Bank stock	10,600	397	3.75%	1,306	26	1.99%
Short-term investments (3)	171,949	6,758	3.93%	290,167	602	0.21%
Total interest-earning assets	2,265,096	177,171	7.82%	1,519,175	88,536	5.83%
Cash and due from banks	2,525			2,681		
Other non-interest earning assets	78,986			49,503		
Total assets	$ 2,346,607			$ 1,571,359		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 539,022	$ 15,584	2.89%	$ 330,228	$ 960	0.29%
Money market accounts	250,152	4,368	1.75%	265,116	806	0.30%
Savings accounts	113,678	1,178	1.04%	110,145	565	0.51%
Time deposits	703,591	26,946	3.83%	185,347	2,198	1.19%
Total interest-bearing deposits	1,606,443	48,076	2.99%	890,836	4,529	0.51%
Federal Home Loan Bank advances	234,623	10,225	4.36%	15,000	493	3.29%
Capital lease obligations	15,859	74	0.47%	5,228	90	1.72%
Total interest-bearing liabilities	1,856,925	58,375	3.14%	911,064	5,112	0.56%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	208,287			403,760		
Other liabilities	13,337			14,167		
Total liabilities	2,078,549			1,328,991		
Shareholders' equity	268,058			242,368		
Total liabilities and shareholders' equity	$ 2,346,607			$ 1,571,359		
Net interest income		$ 118,796			$ 83,424	
Interest rate spread			4.68%			5.27%
Net interest margin (4)			5.24%			5.49%
Cost of funds (5)			2.83%			0.39%

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

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest-bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) 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, 2023 Compared to the Year Ended June 30, 2022		
	Change Due to Volume	Change Due to Rate	Total Change
		(In thousands)	
Interest earning assets:			
Investment securities	$ (20)	$ 826	$ 806
Loans	70,818	10,484	81,302
FHLBB stock	330	41	371
Short-term investments	(343)	6,499	6,156
Total increase in interest income	70,785	17,850	88,635
Interest-bearing liabilities:			
Interest-bearing deposits	11,901	31,646	43,547
Federal Home Loan Bank advances	9,520	212	9,732
Capital lease obligations	85	(101)	(16)
Total decrease in interest expense	21,506	31,757	53,263
Total increase in net interest and dividend income	$ 49,279	$ (13,907)	$ 35,372

For the year ended June 30, 2023, the $49.3 million volume-related change in net interest income was mainly the result of the increase in average loans, which increased by $858.6 million, partially offset by the increase in average interest-bearing deposits, which increased by $715.6 million, and the increase in FHLB borrowings, which increased by $219.6 million, compared to fiscal 2022. The rate-related increase in fiscal 2023 compared to fiscal 2022 was principally due to an increase in rates on loans and short-term investments, partially offset by an increase in rates offered on deposits. For fiscal 2023, the net interest margin earned of 5.24% was 25 basis points lower than that earned for fiscal 2022, primarily due to higher average balances in loans and deposits, with higher rates paid on deposits, partially offset by higher rates earned on loans and short-term investments.

The Bank's total cost of funds increased to 2.83% in fiscal 2023, from 0.39% in fiscal 2022, due to higher rates offered on the deposit portfolio and higher average balances of interest-bearing deposits.

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 originated loans and for incremental reserves required for purchased loans based on estimates of deteriorated credit quality post-purchase.

The provision (credit) for loan losses for the fiscal year ended June 30, 2023 was a provision of $2.3 million, an increase of $4.8 million from the credit for loan losses of $2.5 million for the year ended June 30, 2022. The increase in the credit for loan losses reflects loan growth and increases in specific reserves during the year ended June 30, 2023, as compared to decreases in qualitative factors associated with the COVID-19 pandemic, primarily in the SBA portfolio, during the year ended June 30, 2022, as a result of continued improvements and stabilization in the economy, real estate valuations, and loan performance from the COVID-19 pandemic. At June 30, 2023 and 2022, the allowance for loan losses was $7.3 million and $5.0 million, respectively, and the ratio of allowance for loan losses to total loans was 0.29% and 0.39%, respectively.

Net charge-offs for fiscal 2023 totaled $27 thousand, representing approximately 0.00% of the Bank's average portfolio loan balance during fiscal 2023. This compares to net recoveries of $177 thousand, or (0.02%), in fiscal 2022, representing an increase of $204 thousand in fiscal 2023.

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

Noninterest Income

Noninterest income for fiscal 2023 totaled $5.3 million, a decrease of $19.2 million, or 78.5%, from fiscal 2022. When compared to fiscal 2022, the decrease was principally due to the following:

- A decrease in correspondent fee income of $20.0 million from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. Under the correspondent arrangement, the Bank earns a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the year ended June 30, 2023 is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 312
Amortization of Purchased Accrued Interest	1,232
Earned Net Servicing Interest	990
Total	$ 2,534

The Bank has $177 thousand of unamortized correspondent fee and purchased accrued interest remaining at June 30, 2023.

The decrease in correspondent fee income was partially offset by:

- An increase in gain on sale of SBA loans of $576 thousand, due to the sale of $12.0 million in SBA loans during the year ended June 30, 2023 as compared to no sales during fiscal 2022.

Noninterest Expense

Noninterest expense for fiscal 2023 totaled $56.5 million, an increase of $7.7 million, or 15.9%, from fiscal 2022. When compared to fiscal 2022, the decrease was principally due to the following:

- An increase in salaries and employee benefits of $4.6 million, primarily due to increases in regular and stock compensation expense and bonus expense;
- An increase in other noninterest expense of $1.1 million, primarily due to a $474 thousand increase in travel and meals and entertainment expense and a $346 thousand increase in excess deposit insurance expense;
- An increase in deposit insurance expense of $829 thousand, due to higher average assets and a lower Tier 1 leverage ratio; and
- An increase in professional fees of $663 thousand, primarily due to increases in legal expense.

Income Taxes

Income tax expense for fiscal 2023 totaled $21.0 million, representing 32.2% of pre-tax income, as compared to $19.4 million, or 31.5% of pre-tax income, in fiscal 2022. The increase in the Bank's effective tax rate was primarily due to changes in state tax apportionment and additional non-deductible expense amounts under Section 162(m) of the Internal Revenue Code.

Results of Operations for the years ended June 30, 2022 and 2021

General

Net income for the year ended June 30, 2022 was $42.2 million, or $5.34 per diluted common share, compared to $71.5 million, or $8.55 per diluted common share, for the year ended June 30, 2021.

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 $83.4 million for the year ended June 30, 2022, as compared to $67.1 million for the year ended June 30, 2021. The increase was primarily due to lower deposit interest expense, partially offset by lower loan interest income, primarily in the National Lending Division originated portfolio, lower interest income on available-for-sale securities, and lower interest and dividend income on short-term investments.

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

	Years Ended June 30,					
	2022			2021		
	Average Balance (1)	Interest Income	Yield	Average Balance (1)	Interest Income	Yield
	(Dollars in thousands)					
Community Banking	$ 41,009	$ 2,143	5.23%	$ 56,711	$ 2,746	4.84%
SBA National	35,678	2,356	6.60%	45,764	2,441	5.33%
National Lending:						
Originated	627,786	42,256	6.73%	469,632	32,560	6.93%
Purchased	458,036	40,820	8.91%	400,141	35,649	8.91%
Total National Lending	1,085,822	83,076	7.65%	869,773	68,209	7.84%
Total excluding SBA PPP	$ 1,162,509	$ 87,575	7.53%	$ 972,248	$ 73,396	7.55%
SBA PPP	$ 633	$ 17	2.69%	$ 166,230	$ 3,522	2.12%
Total including SBA PPP	$ 1,163,142	$ 87,592	7.53%	$ 1,138,478	$ 76,918	6.76%

(1) Includes loans held for sale.

The yield on purchased loans is affected by unscheduled loan payoffs, which result in the 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 $12.0 million for the year ended June 30, 2022, a decrease of $3.9 million from the year ended June 30, 2021. The following table summarizes the total return recognized on the purchased loan portfolio:

	Years Ended June 30,			
	2022		2021	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 28,811	6.29%	$ 27,536	6.88%
Transactional income:				
Gain on real estate owned	31	0.01%	-	0.00%
Accelerated accretion and loan fees	12,009	2.62%	8,113	2.03%
Total transactional income	12,040	2.63%	8,113	2.03%
Total	$ 40,851	8.92%	$ 35,649	8.91%

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

- An increase of $1.1 million in the credit for loan losses, primarily due to more significant decreases in qualitative factors associated with the COVID-19 pandemic, primarily in the SBA portfolio, during the year ended June 30, 2022, as a result of continued improvements and stabilization in the economy, real estate valuations, and loan performance from the COVID-19 pandemic, as compared to smaller decreases in the year ended June 30, 2021. This decrease was partially offset by loan growth during the year ended June 30, 2022, primarily in the originated commercial real estate and commercial and industrial portfolios

- A decrease of $47.6 million in noninterest income, principally due to the following:
  - A decrease in gain on sale of PPP loans of $46.6 million, due to the sale of PPP loans with a total principal balance of $6.3 million in fiscal 2022, as compared to $2.87 billion in fiscal 2021;
  - A decrease in correspondent fee income of $924 thousand from the recognition of correspondent fees and net servicing income due to a decrease in average PPP loans held by Loan Source; and
  - An increase in unrealized loss on equity securities of $407 thousand; partially offset by,
  - A decrease in loss on real estate owned of $628 thousand, due to net gains on the sale of properties in fiscal 2022 as compared to write-downs and losses on the sale of properties in fiscal 2021.

- An increase of $9.4 million in noninterest expense, primarily due to the following:
  - An increase in salaries and employee benefits of $8.7 million, primarily due to decreases in deferred salaries contra-expense related to the origination of PPP loans in fiscal 2021, and increases in regular and stock compensation expense;
  - An increase in other noninterest expense of $641 thousand, primarily due to the quarterly valuation of SBA servicing rights, which resulted in net impairment of $182 thousand in fiscal 2022, as compared to a net recovery of $263 thousand in fiscal 2021, and a $310 thousand increase in travel and meals and entertainment expense; and
  - An increase in marketing expense of $191 thousand, primarily due to increases in website and television advertising; partially offset by,
  - A decrease in occupancy and equipment expense of $267 thousand, primarily due to decreases in depreciation, supplies, and real estate taxes.

Net Interest Income

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

	Years Ended June 30,					
	2022			2021		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Investment securities	$ 64,560	$ 316	0.49%	$ 69,762	$ 754	1.08%
Loans (1) (2)	1,163,142	87,592	7.53%	1,138,478	76,918	6.76%
Federal Home Loan Bank stock	1,306	26	1.99%	1,750	61	3.49%
Short-term investments (3)	290,167	602	0.21%	314,405	392	0.12%
Total interest-earning assets	1,519,175	88,536	5.83%	1,524,395	78,125	5.12%
Cash and due from banks	2,681			2,728		
Other non-interest earning assets	49,503			50,909		
Total assets	$ 1,571,359			$ 1,578,032		
Liabilities & Shareholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 330,228	$ 960	0.29%	$ 167,505	$ 495	0.30%
Money market accounts	265,116	806	0.30%	312,537	1,517	0.49%
Savings accounts	110,145	565	0.51%	39,844	57	0.14%
Time deposits	185,347	2,198	1.19%	424,894	6,798	1.60%
Total interest-bearing deposits	890,836	4,529	0.51%	944,780	8,867	0.94%
Federal Home Loan Bank advances	15,000	493	3.29%	24,072	535	2.22%
PPPLF advances	-	-	0.00%	114,341	400	0.35%
Subordinated debt	-	-	0.00%	14,995	1,126	7.51%
Capital lease obligations	5,228	90	1.72%	5,895	111	1.88%
Total interest-bearing liabilities	911,064	5,112	0.56%	1,104,083	11,039	1.00%
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	403,760			261,322		
Other liabilities	14,167			21,643		
Total liabilities	1,328,991			1,387,048		
Shareholders' equity	242,368			190,984		
Total liabilities and shareholders' equity	$ 1,571,359			$ 1,578,032		
Net interest income		$ 83,424			$ 67,086	
Interest rate spread			5.27%			4.12%
Net interest margin (4)			5.49%			4.40%
Cost of funds (5)			0.39%			0.81%

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

The following table presents the extent to which changes in volume and interest rates of interest earning assets and interest-bearing liabilities have affected the Bank's interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior period rate), (ii) changes attributable to changes in rates (changes in rates multiplied by prior period volume) and (iii) 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, 2022 Compared to the Year Ended June 30, 2021		
	Change Due to Volume	Change Due to Rate	Total Change
		(In thousands)	
Interest earning assets:			
Investment securities	$ (52)	$ (386)	$ (438)
Loans	1,696	8,978	10,674
FHLBB stock	(13)	(22)	(35)
Short-term investments	(32)	242	210
Total decrease in interest income	1,599	8,812	10,411
Interest-bearing liabilities:			
Interest-bearing deposits	(2,664)	(1,674)	(4,338)
Federal Home Loan Bank advances	(244)	202	(42)
Paycheck Protection Program Liquidity Facility advances	(400)	-	(400)
Subordinated debt	(1,126)	-	(1,126)
Capital lease obligations	(12)	(9)	(21)
Total decrease in interest expense	(4,446)	(1,481)	(5,927)
Total increase in net interest and dividend income	$ 6,045	$ 10,293	$ 16,338

For the year ended June 30, 2022, the $6.0 million volume-related change in net interest income was mainly the result of the decrease in average interest-bearing deposits, which decreased by $53.9 million, and the shift in composition of the deposit portfolio, which included a $239.5 million average decrease in time deposits. Additionally, loan balances increased by $24.7 million, on average compared to fiscal 2021, and average balances on both PPPLF and subordinated debt decreased by $114.3 million and $15.0 million, respectively. The rate-related increase in fiscal 2022 compared to fiscal 2021 was principally due to an increase in rates on loans and short-term investments, and a decrease in rates offered on deposits, partially offset by a decrease in rate earned on investment securities. For fiscal 2022, the net interest margin earned of 5.49% was 109 basis points higher than that earned for fiscal 2021, primarily due to higher rates earned on loans and short-term investments, higher average balances in loans, and lower rates offered on deposits, partially offset by lower rates earned on investment securities.

The Bank's total cost of funds decreased to 0.39% in fiscal 2022, from 0.81% in fiscal 2021, due to lower rates offered on the deposit portfolio and higher average balances of non-interest-bearing deposits related to a PPP collection deposit account.

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 originated loans and for incremental reserves required for purchased loans based on estimates of deteriorated credit quality post-purchase.

The provision (credit) for loan losses for the fiscal year ended June 30, 2022 was a credit of $2.5 million, an increase of $1.1 million from the credit for loan losses of $1.4 million for the year ended June 30, 2021. The increase in the credit for loan losses reflects decreases in certain qualitative factors during fiscal 2022, primarily in the SBA portfolio, as a result of continued improvements and stabilization in the economy, real estate valuations, and loan performance from the COVID-19 pandemic. This decrease was partially offset by loan growth during the year ended June 30, 2022, primarily in the originated commercial real estate and commercial and industrial portfolios. At June 30, 2022 and 2021, the allowance for loan losses was $5.0 million and $7.3 million, respectively, and the ratio of allowance for loan losses to total loans was 0.39% and 0.70%, respectively.

Net recoveries for fiscal 2022 totaled $177 thousand, representing approximately -0.02% of the Bank's average portfolio loan balance during the fiscal year. This compares to net charge-offs of $469 thousand, or 0.04%, in fiscal 2021, representing a decrease of $646 thousand in fiscal 2022.

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

Noninterest Income

Noninterest income for fiscal 2022 totaled $24.4 million, a decrease of $47.6 million, or 66.1%, from fiscal 2021. When compared to fiscal 2021, the decrease was principally due to the following:

- A decrease in gain on sale of PPP loans of $46.6 million, due to the sale of PPP loans with a total principal balance of $6.3 million in fiscal 2022, as compared to $2.87 billion in fiscal 2021;
- A decrease in correspondent fee income of $924 thousand from the recognition of correspondent fees and net servicing income as a result of the correspondent arrangement entered into with Loan Source during the quarter ended June 30, 2020. Under the correspondent arrangement, the Bank earns a correspondent fee when Loan Source purchases PPP loans and the Bank subsequently shares in net servicing income on such purchased PPP loans. Correspondent income for the year ended June 30, 2022 is comprised of the following components:

	Income Earned
	(In thousands)
Correspondent Fee	$ 4,329
Amortization of Purchased Accrued Interest	6,549
Earned Net Servicing Interest	11,650
Total	$ 22,528

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

Quarter	PPP Loans Purchased by Loan Source[3]	Correspondent Fee	Purchased Accrued Interest[1]	Total[2]
		(In thousands)		
Q4 FY 2020	$ 1,272,900	$ 2,891	$ 688	$ 3,579
Q1 FY 2021	2,112,100	5,348	2,804	8,152
Q2 FY 2021	1,333,500	495	3,766	4,261
Q3 FY 2021	2,141,900	-	598	598
Q4 FY 2021	4,371,000	171	2,703	2,874
Q1 FY 2022	6,300	-	1	1
Total	$ 11,237,700	$ 8,905	$ 10,560	$ 19,465
Less amounts recognized in Q4 FY 22		(1,067)	(1,451)	(2,518)
Less amounts recognized in previous quarters		(7,342)	(7,883)	(15,225)
Amount remaining to be recognized		$ 496	$ 1,226	$ 1,722

(1) - The Bank's share
(2) - Expected to be recognized into income over life of loans
(3) - Loan Source's ending PPP loan balance was $1.44 billion as of June 30, 2022

- An increase in unrealized loss on equity securities of $407 thousand; partially offset by,
- A decrease in loss on real estate owned of $628 thousand, due to net gains on the sale of properties in fiscal 2022 as compared to write-downs and losses on the sale of properties in fiscal 2021.

Noninterest Expense

Noninterest expense for fiscal 2022 totaled $48.8 million, an increase of $9.4 million, or 23.7%, from fiscal 2021. When compared to fiscal 2021, the decrease was principally due to the following:

- An increase in salaries and employee benefits of $8.7 million, primarily due to decreases in deferred salaries contra-expense related to the origination of PPP loans in fiscal 2021, and increases in regular and stock compensation expense;
- An increase in other noninterest expense of $641 thousand, primarily due to the quarterly valuation of SBA servicing rights, which resulted in net impairment of $182 thousand in fiscal 2022, as compared to a net recovery of $263 thousand in fiscal 2021, and a $310 thousand increase in travel and meals and entertainment expense; and
- An increase in marketing expense of $191 thousand, primarily due to increases in website and television advertising; partially offset by,
- A decrease in occupancy and equipment expense of $267 thousand, primarily due to decreases in depreciation, supplies, and real estate taxes.

Income Taxes

Income tax expense for fiscal 2022 totaled $19.4 million, representing 31.5% of pre-tax income, as compared to $29.6 million, or 29.3% of pre-tax income, in fiscal 2021. The increase in the Bank's effective tax rate was primarily due to changes in state tax apportionment, as the prior year apportionment was significantly impacted by the gain on sale of PPP loans in states with lower tax rates, as well as a one-time income tax accrual adjustment of $290 thousand during the year ended June 30, 2022.

Financial Condition

Overview

The Bank's total assets were $2.87 billion at June 30, 2023, representing an increase of $1.29 billion, or 81.3%, compared to $1.58 billion at June 30, 2022. Significant changes in the Bank's balance sheet components include:

- The loan portfolio increased by $1.22 billion, or 93.2%, compared to June 30, 2022. The increase was principally due to growth in the National Lending Division purchased and originated portfolios, partially offset by decreases in the SBA National and Community Banking Divisions. The National Lending Division purchased loans totaling $1.14 billion and originated loans totaling $557.0 million during fiscal 2023.

- Deposits increased by $649.5 million, or 50.4%, from June 30, 2022. The increase was attributable to increases in time deposits of $791.9 million, or 622.0%, and money market deposits of $31.8 million, or 12.9%, partially offset by a decrease in demand deposits of $185.3 million, or 56.3%. The primary reason for the net increase in deposits was due to the increase in brokered time deposits, which increased by $600.4 million compared to June 30, 2022. The use of brokered time deposits is part of the Bank's strategy to fund the loan purchases. The decrease in demand deposits was primarily due to a decrease in The Loan Source's demand deposit account during the year, given the timing of paydowns made on their Paycheck Protection Program Liquidity Facility.

- Shareholders' equity increased by $48.3 million, or 19.5%, from June 30, 2022, primarily due to net income of $44.2 million, the issuance of 194 thousand shares of voting common stock, adding $8.0 million to shareholders' equity, and stock-based compensation of $3.4 million, partially offset by the repurchase of 136 thousand shares of voting common stock at a weighted average price per share of $37.99, which resulted in a $5.2 million decrease to shareholders' equity.

Cash and Cash Equivalents

Cash and short-term investments increased by $25.8 million, or 15.0%, primarily due to net income of $44.2 million, along with a $649.5 million increase in deposits and a $547.6 million increase in borrowings, partially offset by the $1.21 billion increase in loans.

Securities

The securities portfolio totaled $60.2 million and $61.7 million at June 30, 2023 and 2022, respectively. The decrease of $1.5 million was primarily the result of the runoff of the agency mortgage-backed securities held by the Bank.

The Bank's securities 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, 2023		June 30, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
U.S. Government agency securities	$ 51,024	$ 50,249	$ 51,080	$ 50,285
Agency mortgage-backed securities	3,364	3,155	4,775	4,626
Equity investments measured at net asset value	7,541	6,770	7,361	6,798
Total investment securities	$ 61,929	$ 60,174	$ 63,216	$ 61,709

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, 2023. 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	$ 24,603	1.16%	$ 25,646	4.12%	$ -	0.00%
Agency mortgage-backed securities	-	0.00%	3,155	1.57%	-	0.00%
Total available-for-sale debt securities	$ 24,603	1.16%	$ 28,801	3.84%	$ -	0.00%

	After Ten Years		Total	
	Fair Value	Yield	Fair Value	Yield
	(Dollars in thousands)			
U.S. Government agency securities	$ -	0.00%	$ 50,249	2.67%
Agency mortgage-backed securities	-	0.00%	3,155	1.57%
Total available-for-sale debt securities	$ -	0.00%	$ 53,404	2.61%

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

Management reviews the portfolio of securities on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment was recognized during fiscal 2023 or 2022.

Loans

Total loans, including loans held for sale, totaled $2.52 billion at June 30, 2023, compared to $1.30 billion at June 30, 2022. The increase of $1.22 billion, or 93.2%, for fiscal 2023 was principally due to increases in the National Lending Division purchased and originated loan portfolios, partially offset by decreases in the SBA National Division and Community Banking Division portfolios. The National Lending Division purchased loans totaling $1.14 billion and originated loans totaling $557.0 million during fiscal 2023.

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

	June 30, 2023		June 30, 2022	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Commercial real estate	$ 1,940,563	77.00%	$ 882,187	67.61%
Commercial and industrial	499,815	19.83%	352,729	27.03%
Residential real estate	79,497	3.15%	69,209	5.30%
Consumer	485	0.02%	741	0.06%
Total loans	2,520,360	100.00%	1,304,866	100.00%
Less: Allowance for loan losses	7,304		5,028	
Loans, net	$ 2,513,056		$ 1,299,838	

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

	Community Banking Division	National Lending Division	SBA National Division	Total	Percent of Total
			(Dollars in thousands)		
June 30, 2023					
Originated loans:					
Commercial real estate: non-owner occupied	$ 3,607	$ 365,906	$ 8,381	$ 377,894	14.99%
Commercial real estate: owner-occupied	3,418	96,588	10,760	110,766	4.39%
Commercial and industrial	1,444	472,210	5,732	479,386	19.01%
Residential real estate	18,582	53,128	-	71,710	2.85%
Consumer	485	-	-	485	0.02%
Subtotal	27,536	987,832	24,873	1,040,241	41.27%
Purchased loans:					
Commercial real estate: non-owner occupied	-	1,274,632	-	1,274,632	50.57%
Commercial real estate: owner-occupied	-	177,271	-	177,271	7.03%
Commercial and industrial	-	20,429	-	20,429	0.81%
Residential real estate	-	7,787	-	7,787	0.31%
Subtotal	-	1,480,119	-	1,480,119	58.73%
Total	$ 27,536	$ 2,467,951	$ 24,873	$ 2,520,360	100.00%
June 30, 2022					
Originated loans:					
Commercial real estate: non-owner occupied	$ 4,855	$ 307,200	$ 16,390	$ 328,445	25.17%
Commercial real estate: owner-occupied	5,092	64,638	13,921	83,651	6.41%
Commercial and industrial	1,858	348,056	2,735	352,649	27.02%
Residential real estate	22,363	39,335	-	61,698	4.73%
Consumer	741	-	-	741	0.06%
Subtotal	34,909	759,229	33,046	827,184	63.39%
Purchased loans:					
Commercial real estate: non-owner occupied	-	300,220	-	300,220	23.01%
Commercial real estate: owner-occupied	-	169,871	-	169,871	13.02%
Commercial and industrial	-	80	-	80	0.00%
Residential real estate	-	7,511	-	7,511	0.58%
Subtotal	-	477,682	-	477,682	36.61%
Total	$ 34,909	$ 1,236,911	$ 33,046	$ 1,304,866	100.00%

The following table summarizes the scheduled maturity of the Bank's loan portfolio at June 30, 2023. 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 Fifteen Years	After Fifteen Years	Total
			(In thousands)		
Mortgages:					
Residential:					
Originated	$ 29,628	$ 24,919	$ 3,578	$ 13,585	$ 77,710
Purchased	5,358	772	1,117	540	7,787
Commercial:					
Originated	143,720	302,020	2,479	40,441	488,660
Purchased	100,598	414,263	338,165	598,877	1,451,903
Non-mortgage loans:					
Commercial:					
Originated	265,915	191,229	3,957	27,286	479,387
Purchased	17	8,557	11,307	547	20,428
Consumer	53	319	104	9	485
Total loans	$ 536,289	$ 942,079	$ 360,707	$ 681,285	$ 2,520,360

	Loans Due After One Year, by Interest Rate Type		
	Fixed rate	Floating or Adjustable	Total
		(In thousands)	
Mortgages:			
Residential:			
Originated	$ 11,715	$ 30,367	$ 42,082
Purchased	328	2,101	2,429
Commercial:			
Originated	15,222	329,718	344,940
Purchased	445,013	906,292	1,351,305
Non-mortgage loans:			
Commercial:			
Originated	4,511	217,959	222,470
Purchased	271	20,140	20,411
Consumer	432	-	432
Total	$ 477,492	$ 1,506,577	$ 1,984,070

Approximately 77.2% of total loans were variable rate products at June 30, 2023, compared to 76.8% at June 30, 2022.

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, increased by $18.1 million, or 188.8%, compared to June 30, 2022. The increase was primarily due to the new capital lease related to the Bank's new Boston, Massachusetts office space totaling $17.5 million and other additions, partially offset by depreciation.

Real estate owned and other repossessed collateral, net, remained at zero at June 30, 2023 and 2022. 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 bank-owned life insurance ("BOLI") assets increased $442 thousand, or 2.5%, and amounted to $18.4 million and $17.9 million at June 30, 2023 and 2022, respectively. 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, 2023. 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 noninterest income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 6.0% of the Bank's total capital at June 30, 2023.

Loan servicing rights, net totaled $1.5 million and $1.3 million at June 30, 2023 and 2022, respectively. The $245 thousand increase was primarily due to servicing assets acquired during fiscal 2023 and net recoveries booked, partially offset by payoffs and amortization.

FHLBB stock totaled $24.6 million and $1.6 million at June 30, 2023 and 2022, respectively. The $23.0 million increase was the result of the Bank purchasing FHLB stock during fiscal 2023 due to the increase in FHLB borrowings.

Deposits

Total deposits increased $649.5 million to $1.94 billion as of June 30, 2023 from $1.29 billion as of June 30, 2022. The increase was primarily due to an increase in time deposits and money market accounts, partially offset by a decrease in demand accounts.

As of June 30, 2023, $97.2 million, or 5% of the Bank's total deposits, were uninsured. This balance included $44.2 million of interest reserves and restricted deposit accounts.

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:

		Average Balance	Weighted Average Rate	Percent of Total Average Deposits
Year Ended June 30, 2023		(Dollars in thousands)		
Non-interest bearing demand deposits and escrow accounts	$	208,287	0.00%	11.48%
Regular savings		113,678	1.04%	6.26%
NOW accounts		539,022	2.89%	29.70%
Money market accounts		250,152	1.75%	13.78%
Time deposits		703,591	3.83%	38.78%
Total average deposits	$	1,814,730	2.65%	100.00%
Year Ended June 30, 2022				
Non-interest bearing demand deposits and escrow accounts	$	403,760	0.00%	31.19%
Regular savings		110,145	0.51%	8.51%
NOW accounts		330,228	0.29%	25.51%
Money market accounts		265,116	0.30%	20.48%
Time deposits		185,347	1.19%	14.31%
Total average deposits	$	1,294,596	0.35%	100.00%

There were $74.1 million and $19.5 million of time deposits greater than $250 thousand as of June 30, 2023 and 2022, respectively.

The scheduled maturity of deposits greater than $250 thousand is set forth below:

		June 30, 2023
		(In thousands)
3 months or less	$	16,123
Over 3 through 6 months		2,185
Over 6 through 12 months		17,174
Over 12 months		38,576
Total time certificates greater than $250 thousand	$	74,058

Borrowings

FHLBB advances are the Bank's source of funding other than deposits. In fiscal 2023, total borrowings increased by $547.6 million, or 3,650.8%, to $562.6 million, to fund loan growth during the year.

Advances from the FHLBB were $562.6 million and $15.0 million at June 30, 2023 and 2022, respectively. Pledges of residential real estate loans, certain commercial real estate loans, 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, 2023, $53.4 million in securities were pledged as collateral to secure potential FHLBB advances as needed, compared to $54.9 million at June 30, 2022.

The Bank can also borrow from the Federal Reserve Bank of Boston (the "FRBB"), with any such borrowing collateralized by commercial real estate loans pledged to the FRBB. At June 30, 2023, we had $325.7 million of available borrowing capacity based on pledged collateral from the FRBB.

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, 2023, the allowance for loan losses totaled $7.3 million, or 0.29% of total loans, as compared to $5.0 million, or 0.39% of total loans, at June 30, 2022. The year-over-year increase in the Bank's allowance for loan losses was principally the result of loan growth and increases in specific reserves during the year ended June 30, 2023, as compared to decreases in qualitative factors associated with the COVID-19 pandemic, primarily in the SBA portfolio, during the year ended June 30, 2022, as a result of continued improvements and stabilization in the economy, real estate valuations, and loan performance from the COVID-19 pandemic. The following table sets forth activity in the Bank's allowance for loan losses for the periods indicated.

	Years Ended June 30,		
	2023	2022	2021
		(Dollars in thousands)	
Allowance at beginning of period	$ 5,028	$ 7,313	$ 9,178
Loans charged-off during the period:			
Residential real estate	1	52	-
Commercial real estate	113	123	315
Commercial and industrial	242	59	603
Consumer	14	10	21
Total loans charged-off	370	244	939
Recoveries on loans previously charged-off:			
Residential real estate	48	29	3
Commercial real estate	280	150	31
Commercial and industrial	15	238	432
Consumer	-	4	4
Total recoveries	343	421	470
Net loans charged off (recovered)	27	(177)	469
Provision (credit) for loan losses	2,303	(2,462)	(1,396)
Allowance at end of period	$ 7,304	$ 5,028	$ 7,313
Total loans at end of period [(1)]	$ 2,520,360	$ 1,304,866	$ 1,040,624
Average loans outstanding during the period [(1)]	2,021,787	1,163,142	1,132,533
Allowance as a percentage of total loans	0.29%	0.39%	0.70%
Ratio of net charge-offs to average loans outstanding	0.00%	(0.02%)	0.04%
Allowance as a percentage of non-performing loans	46.57%	38.84%	38.99%

The following table sets forth charge-offs and recoveries by loan category for the years indicated:

	For the Year Ended June 30,				
	Total Charge-offs	Total Recoveries	Net Charge-offs (Recoveries)	Average Loans	Ratio of Net Charge-offs to Average Loans
			(Dollars in thousands)		
2023:					
Commercial Real Estate	$ -	$ 66	$ (66)	$ 455,897	(0.01) %
Commercial and Industrial	3	-	3	426,114	0.00 %
SBA	57	2	55	28,138	0.20 %
Residential Real Estate	-	2	(2)	70,032	0.00 %
Consumer	15	-	15	666	2.25 %
Purchased	295	273	22	1,040,940	0.00 %
Total	$ 370	$ 343	$ 27	$ 2,021,787	0.00 %
2022:					
Commercial Real Estate	$ 61	$ 8	$ 53	$ 326,266	0.02 %
Commercial and Industrial	2	1	1	291,609	0.00 %
SBA	24	282	(258)	36,311	(0.71) %
Residential Real Estate	-	29	(29)	50,010	(0.06) %
Consumer	8	4	4	909	0.44 %
Purchased	149	97	52	458,036	0.01 %
Total	$ 244	$ 421	$ (177)	$ 1,163,141	(0.02) %
2021:					
Commercial Real Estate	$ 10	$ 1	$ 9	$ 253,702	0.00 %
Commercial and Industrial	1	-	1	212,180	0.00 %
SBA	721	446	275	211,994	0.13 %
Residential Real Estate	-	3	(3)	58,670	(0.01) %
Consumer	19	3	16	1,352	1.18 %
Purchased	188	17	171	400,141	0.04 %
Total	$ 939	$ 470	$ 469	$ 1,138,039	0.04 %

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.

	As of June 30,					
	2023		2022		2021	
	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	$ 281	3.85%	$ 253	5.03%	$ 234	3.20%
Commercial real estate	4,200	57.50%	3,201	63.66%	5,548	75.86%
Commercial and industrial	2,814	38.53%	1,564	31.11%	1.499	20.50%
Consumer	9	0.12%	10	0.20%	32	0.44%
Unallocated	-	0.00%	-	0.00%	-	0.00%
Total	$ 7,304	100.00%	$ 5,028	100.00%	$ 7,313	100.00%

As of June 30, 2023, past due loans totaled $13.1 million, or 0.52% of total loans, compared to past due loans totaling $7.0 million, or 0.53% of total loans, as of June 30, 2022.

The following table reflects the annual trend of total loans 30 days or more past due, as a percentage of total loans:

	As of June 30,				
	2023	2022	2021	2020	2019
Past due loans to total loans	0.52%	0.53%	1.08%	1.69%	1.50%

Non-performing Assets

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

	As of June 30, 2023	2022	2021
		(Dollars in thousands)	
Nonperforming loans:			
Originated portfolio:			
Residential real estate	$ 280	$ 550	$ 696
Commercial real estate	3,548	5,031	5,756
Commercial and industrial	520	202	286
Consumer	-	11	43
Total originated portfolio	4,348	5,794	6,781
Purchased portfolio:			
Residential real estate	-	71	1,114
Commercial and industrial	778	28	148
Commercial real estate	10,557	7,053	10,715
Total purchased portfolio	11,335	7,152	11,977
Total nonperforming loans	15,683	12,946	18,758
Real estate owned and other repossessed collateral	-	-	1,639
Total nonperforming assets	$ 15,683	$ 12,946	$ 20,397
Nonperforming loans that are current	$ 3,269	$ 6,561	$ 9,990
Non-performing loans to total loans	0.62%	0.99%	1.80%
Non-performing assets to total assets	0.55%	0.82%	0.94%

As of June 30, 2023, nonperforming assets totaled $15.7 million, or 0.55% of total assets, compared to $12.9 million, or 0.82% of total assets, as of June 30, 2022.

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, 2023	June 30, 2022
	(In thousands)	
Nonaccrual	$ 3,033	$ 4,357
Accrual	21,273	23,165
Total TDRs	$ 24,306	$ 27,522

At both June 30, 2023 and 2022, the Bank had no real estate owned and other repossessed collateral. 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. 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.

The Bank continues 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 $15.4 million and $12.0 million of loans rated substandard or worse at June 30, 2023 and 2022, respectively. The following tables present the Bank's loans by risk rating:

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[(1)]	Purchased Portfolio	Total
June 30, 2023			(In thousands)			
Loans rated 1- 6	$ 462,249	$ 466,751	$ 23,500	$ 69,424	$ 1,465,933	$ 2,487,857
Loans rated 7	4,415	6,900	283	2,305	2,773	16,676
Loans rated 8	2,855	3	1,090	-	11,413	15,361
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 469,519	$ 473,654	$ 24,873	$ 71,729	$ 1,480,119	$ 2,519,894

June 30, 2022						
Loans rated 1- 6	$ 373,348	$ 342,986	$ 32,076	$ 41,166	$ 468,264	$ 1,257,840
Loans rated 7	4,131	6,900	456	-	2,266	13,753
Loans rated 8	4,306	28	514	-	7,152	12,000
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 381,785	$ 349,914	$ 33,046	$ 41,166	$ 477,682	$ 1,283,593

(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.

From March 2020 through June 30, 2023, the Bank granted 317 short-term deferments, none of which remained under deferral as of June 30, 2023. These short-term deferments are not classified as troubled debt restructured loans and will not be reported as past due provided that they are performing in accordance with the modified terms.

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 the management of market risk, the ALCO is in charge of 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 the Bank 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, the Bank 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, 2023, 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, 2023, we estimate that our net interest income in the following 12 months would increase by 2.0% if rates increased by 200 basis points and decrease by 0.4% 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, 2023	2.0%	(0.4%)
June 30, 2022	7.6%	(2.8%)

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, 2023 available to meet our short-term funding needs:

	As of June 30, 2023 (In thousands)	
Brokered time deposits	$ 780,826	Subject to policy limitation of 50% of total assets
One-way sweep deposits	-	
Federal Home Loan Bank of Boston	318,366	Unused advance capacity subject to eligible and qualified collateral
Federal Reserve Borrower-in-Custody	325,679	Unused advance capacity subject to eligible and qualified collateral
Other available lines	7,500	
Total unused borrowing capacity	$ 1,432,371	

Retail deposits and other core deposit sources, including deposit listing services, are used by the Bank to manage its overall liquidity position. Additionally, the Bank uses wholesale funding, such as FHLBB advances and brokered deposits, as a source of liquidity, and also has the ability to raise additional amounts, which 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 FHLBB may be required.

At June 30, 2023, the Bank had $1.43 billion 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 49.9% of total assets. The Bank also had $197.9 million of cash and cash equivalents at June 30, 2023.

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 and the FRBB. 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, 2021, total annual interest expense was $1.0 million, and amortization of issuance costs on subordinated notes issued in June 2016 was $110 thousand. There was no interest expense or amortization of issuance costs recognized during the years ended June 30, 2023 and 2022.

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, 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.

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, 2023 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	$ 562,615	$ 311,000	$ -	$ 251,615	$ -
Lease liability	27,503	2,552	5,609	5,162	14,180
Total contractual obligations	$ 590,118	$ 313,552	$ 5,609	$ 256,777	$ 14,180

	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	$ 13,249	$ 13,249	$ -	$ -	$ -
Unused lines of credit	32,883	13,237	11,497	5,900	2,249
Standby letters of credit	-	-	-	-	-
Total commitments	$ 46,132	$ 26,486	$ 11,497	$ 5,900	$ 2,249

Capital

Shareholders' equity was $296.7 million at June 30, 2023, an increase of $48.3 million, or 19.5%, from June 30, 2022. The increase was primarily due to net income of $44.2 million, the issuance of 194 thousand shares of voting common stock, adding $8.0 million to shareholders' equity, and stock-based compensation of $3.4 million, partially offset by the repurchase of 136 thousand shares of voting common stock at a weighted average price per share of $37.99, which resulted in a $5.2 million decrease to shareholders' equity.

See Note 7 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.

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 and Estimates

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.

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. 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.

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

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.

During the year ended June 30, 2022, the Bank migrated the loss data used in calculating the general component of the allowance for loan losses for the SBA segment from 100% external to 100% internal data, blending by an additional 25% of internal data in each of the four quarters of fiscal 2022, to utilize 100% internal data at June 30, 2022. Other than this change, 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, 2023 or 2022.

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, 2023 and 2022, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended June 30, 2023, and the related notes to 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, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, 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, 2023, 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 8, 2023, expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

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 audit 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses

As described in Note 1 and Note 3 of the financial statements, the Bank’s allowance for loan losses totaled $7.3 million as of June 30, 2023. The allowance for loan losses for originated loans consists of two components: the specific reserve for loans individually evaluated and deemed impaired of $383 thousand and the general reserve for larger groups of homogeneous loans collectively evaluated for impairment of $5.5 million. The allowance for loan losses for purchased loans consists of $1.4 million. The collectively evaluated component of the allowance for loan losses for originated loans, or general reserve, is based on historical loss experience adjusted for qualitative factors by loan segment. As described in Note 1 of the financial statements, the qualitative factors used by the Bank include considerations such as the levels and trends in delinquencies and non-performing loans; trends in the volume and nature of loans; trends in credit terms and policies; trends in portfolio concentration; national and local economic trends and conditions; effects of changes or trends in internal risk ratings; and other effects resulting from trends in the valuation of underlying collateral. The evaluation and measurement of these qualitative factors requires management to apply a significant amount of judgment and involves assumptions that are sensitive to change.

We identified the qualitative reserve for originated loans collectively evaluated in the allowance for loan losses as a critical audit matter because auditing the underlying qualitative factors involved a high degree of auditor judgment given the high degree of subjectivity exercised by management in developing the qualitative factors.

Our audit procedures related to management's evaluation and establishment of the qualitative reserve for originated loans collectively evaluated in the allowance for loan losses included the following, among others:

- We obtained an understanding of the relevant controls related to the qualitative factors used in the general reserve for originated loans collectively evaluated in the allowance for loan losses and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors.
- We tested management's process and significant judgments in the evaluation and establishment of the qualitative factors used in the general reserve for originated loans collectively evaluated in the allowance for loan losses, which included:
  - Validating the source of information used by management by comparing to the relevant internal or external information from which it was derived, as well as testing the completeness and accuracy of the source data used by management.
  - Evaluating the reasonableness of management's judgments related to the qualitative factors and the correlation to potential losses by evaluating the adjustments in terms of magnitude and directional consistency based on the data utilized in the determination of the qualitative factors.

Purchased Loans
As described in Note 3 of the financial statements, during the year ended June 30, 2023, the Bank purchased loans totaling $1.3 billion of unpaid principal balance at a total discount of $171.0 million for a cost of $1.1 billion. As described in Note 1 of the financial statements, 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. 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 (the 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." The evaluation and measurement to determine this bifurcation of discount between the accretable yield and nonaccretable difference requires management to apply judgment and estimates on the expected cash flow assumptions for the repayment of principal and interest and are sensitive to change.

We identified the establishment and measurement of the discount between accretable yield and nonaccretable difference for purchased loans as a critical audit matter because auditing the underlying judgments and estimates related to the cash flows involved a high degree of auditor judgment given the high degree of judgment exercised by management in developing the repayment assumptions.

Our audit procedures related to management's evaluation and measurement of the purchased loan cash flow models used when bifurcating the discount between accretable yield and nonaccretable difference included the following, among others:

- We obtained an understanding of the relevant controls related to purchased loans, specifically related to the cash flow models used when bifurcating the discount between accretable yield and nonaccretable difference, and tested such controls for design and operating effectiveness, including controls over management's review and approval of such cash flow models.
- We tested management's process and significant judgments in the evaluation and measurement of the cash flow models used when bifurcating the discount between accretable yield and nonaccretable difference, which included:
  - Validating the internal and external information used by management by obtaining the Bank's source information and assessing the appropriateness of the cash flow models, as well as testing the completeness and accuracy of the information used by management.
  - Evaluating the reasonableness of management's judgments and estimates related to the cash flow models used when bifurcating the discount between accretable yield and nonaccretable difference based on the information utilized.

/s/ RSM US LLP

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

Boston, Massachusetts
September 8, 2023

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

	June 30, 2023	June 30, 2022
Assets		
Cash and due from banks	$ 2,515	$ 2,095
Short-term investments	195,394	169,984
Total cash and cash equivalents	197,909	172,079
Available-for-sale debt securities, at fair value	53,404	54,911
Equity securities, at fair value	6,770	6,798
Total securities	60,174	61,709
Loans:		
Commercial real estate	1,940,563	882,187
Commercial and industrial	499,815	352,729
Residential real estate	79,497	69,209
Consumer	485	741
Total loans	2,520,360	1,304,866
Less: Allowance for loan losses	7,304	5,028
Loans, net	2,513,056	1,299,838
Premises and equipment, net	27,737	9,606
Federal Home Loan Bank stock, at cost	24,644	1,610
Loan servicing rights, net	1,530	1,285
Bank-owned life insurance	18,364	17,922
Other assets	26,524	18,710
Total assets	$ 2,869,938	$ 1,582,759
Liabilities and Shareholders' Equity		
Deposits:		
Demand	$ 143,738	$ 329,007
Savings and interest checking	596,347	585,274
Money market	277,939	246,095
Time	919,183	127,317
Total deposits	1,937,207	1,287,693
Short-term Federal Home Loan Bank advances	311,000	15,000
Long-term Federal Home Loan Bank advances	251,615	-
Lease liability	21,918	4,451
Other liabilities	51,535	27,294
Total liabilities	2,573,275	1,334,438
Commitments and contingencies (Note 13)		
Shareholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2023 and 2022	-	-
Voting common stock, $1.00 par value, 25,000,000 shares authorized; 7,668,650 and 7,442,103 shares issued and outstanding at June 30, 2023 and 2022, respectively	7,669	7,442
Non-voting common stock, $1.00 par value, 3,000,000 shares authorized; No shares issued and outstanding at June 30, 2023 and 2022	-	-
Additional paid-in capital	42,840	38,749
Retained earnings	246,872	202,980
Accumulated other comprehensive loss	(718)	(850)
Total shareholders' equity	296,663	248,321
Total liabilities and shareholders' equity	$ 2,869,938	$ 1,582,759

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, 2023	2022	2021
Interest and dividend income:			
Interest and fees on loans	$ 168,894	$ 87,592	$ 76,918
Interest on available-for-sale securities	1,122	316	754
Other interest and dividend income	7,155	628	453
Total interest and dividend income	177,171	88,536	78,125
Interest expense:			
Deposits	48,076	4,529	8,867
Federal Home Loan Bank advances	10,225	493	535
Paycheck Protection Program Liquidity Facility	-	-	400
Subordinated debt	-	-	1,126
Obligation under lease agreements	74	90	111
Total interest expense	58,375	5,112	11,039
Net interest and dividend income before provision (credit) for loan losses	118,796	83,424	67,086
Provision (credit) for loan losses	2,303	(2,462)	(1,396)
Net interest and dividend income after provision (credit) for loan losses	116,493	85,886	68,482
Noninterest income:			
Fees for other services to customers	1,589	1,646	1,869
Gain on sales of PPP loans	-	86	46,701
Gain on sales of SBA loans	576	-	-
Gain on sales of residential loans held for sale	-	-	107
Net unrealized gain (loss) on equity securities	(208)	(511)	(104)
Gain (loss) on real estate owned, other repossessed collateral and premises and equipment, net	(73)	155	(473)
Correspondent fee income	2,534	22,528	23,452
Bank-owned life insurance income	443	424	424
Other noninterest income	301	117	57
Total noninterest income	5,258	24,445	72,033
Noninterest expense:			
Salaries and employee benefits	35,721	31,138	22,430
Occupancy and equipment expense	4,214	3,558	3,825
Professional fees	2,554	1,891	1,930
Data processing fees	4,995	4,544	4,468
Marketing expense	922	733	542
Loan acquisition and collection expense	2,514	3,202	3,267
FDIC insurance premiums	1,224	395	283
Other noninterest expense	4,392	3,322	2,681
Total noninterest expense	56,569	48,783	39,426
Income before income tax expense	65,215	61,548	101,089
Income tax expense	21,028	19,385	29,586
Net income	$ 44,187	$ 42,163	$ 71,503
Weighted-average shares outstanding:			
Basic	7,345,253	7,806,626	8,275,577
Diluted	7,413,932	7,902,610	8,360,355
Earnings per common share:			
Basic	$ 6.02	$ 5.40	$ 8.64
Diluted	5.96	5.34	8.55
Cash dividends declared per common share	$ 0.04	$ 0.04	$ 0.04

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

NORTHEAST BANK
STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Years Ended June 30, 2023	2022	2021
Net income	$ 44,187	$ 42,163	$ 71,503
Other comprehensive income, before tax:			
Change in net unrealized gain or loss on available-for-sale securities	(40)	(1,183)	(589)
Change in accumulated loss on effective cash flow hedges	221	1,813	1,153
Total other comprehensive income, before tax	181	630	564
Income tax expense related to other comprehensive income	49	168	154
Other comprehensive income, net of tax	132	462	410
Comprehensive income	$ 44,319	$ 42,625	$ 71,913

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

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at June 30, 2020	-	$ -	8,153,841	$ 8,154	44,783	$ 45	$ 68,302	$ 89,960	$ (1,722)	$ 164,739
Net income	-	-	-	-	-	-	-	71,503	-	71,503
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	410	410
Conversion of non-voting common stock to voting common stock	-	-	44,783	45	(44,783)	(45)	-	-	-	-
Common stock repurchased	-	-	(194,317)	(194)	-	-	(5,549)	-	-	(5,743)
Dividends on common stock at $0.04 per share	-	-	-	-	-	-	-	(331)	-	(331)
Stock-based compensation	-	-	-	-	-	-	978	-	-	978
Cancellations and forfeiture of restricted common stock	-	-	(6,838)	(7)	-	-	(123)	-	-	(130)
Stock options exercised, net	-	-	153,011	153	-	-	812	-	-	965
Balance at June 30, 2021	-	-	8,150,480	8,154	-	-	64,420	161,132	(1,312)	232,391
Net income	-	-	-	-	-	-	-	42,163	-	42,163
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	462	462
Common stock repurchased	-	-	(820,696)	(821)	-	-	(27,159)	-	-	(27,980)
Dividends on common stock at $0.04 per share	-	-	-	-	-	-	-	(315)	-	(315)
Stock-based compensation	-	-	-	-	-	-	1,869	-	-	1,869
Issuance of restricted common stock	-	-	136,575	136	-	-	(136)	-	-	-
Cancellations and forfeiture of restricted common stock	-	-	(29,674)	(30)	-	-	(189)	-	-	(219)
Stock options exercised, net	-	-	5,420	6	-	-	(56)	-	-	(50)
Balance at June 30, 2022	-	-	7,442,103	7,442	-	-	38,749	202,980	(850)	248,321
Net income	-	-	-	-	-	-	-	44,187	-	44,187
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-	132	132
Common stock issued, net of issuance costs	-	-	193,611	194	-	-	7,801	-	-	7,995
Common stock repurchased	-	-	(135,883)	(136)	-	-	(5,027)	-	-	(5,163)
Dividends on common stock at $0.04 per share	-	-	-	-	-	-	-	(295)	-	(295)
Stock-based compensation	-	-	-	-	-	-	3,426	-	-	3,426
Issuance of restricted common stock	-	-	132,715	133	-	-	(133)	-	-	-
Cancellations and forfeiture of restricted common stock	-	-	(13,436)	(13)	-	-	(438)	-	-	(451)
Stock options exercised, net	-	-	49,540	49	-	-	(1,538)	-	-	(1,489)
Balance at June 30, 2023	-	$ -	7,668,650	$ 7,669	-	$ -	$ 42,840	$ 246,872	$ (718)	$ 296,663

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

NORTHEAST BANK
STATEMENTS OF CASH FLOWS
(In thousands)

	Years Ended June 30, 2023	2022	2021
Operating activities:			
Net income	$ 44,187	$ 42,163	$ 71,503
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	2,303	(2,462)	(1,396)
(Gain) loss recognized on real estate owned and other repossessed collateral and premises and equipment, net	73	(155)	473
Net unrealized loss on equity securities	208	511	104
Accretion of fair value adjustments on loans, net	(9,998)	(11,378)	(10,717)
Amortization of subordinated debt issuance costs	-	-	110
Originations of loans held for sale	(11,987)	(6,333)	(2,872,780)
Net proceeds from sales of loans held for sale	13,202	6,232	2,866,973
Gain on sales of residential loans held for sale, net	-	-	(107)
Gain on sales of SBA and other loans held for sale, net	(576)	-	-
Gain on sales of PPP loans, net	-	(86)	(46,701)
Net decrease in loan servicing rights	(245)	776	52
Bank-owned life insurance income, net	(443)	(424)	(424)
Depreciation of premises and equipment	3,212	2,603	2,600
Deferred income tax expense (benefit)	(4,720)	819	(713)
Stock-based compensation	3,426	1,869	978
Amortization of investment securities, net	146	474	401
Changes in other assets and liabilities:			
Other assets	(3,142)	10,249	(12,973)
Other liabilities	24,462	(14,361)	10,956
Net cash provided by operating activities	60,108	30,497	8,339
Investing activities:			
Purchases of investment securities	(26,049)	(16,925)	(42,817)
Proceeds from maturities and principal payments on securities	27,190	20,015	46,912
Loan purchases	(1,143,786)	(187,914)	(169,489)
Loan originations, principal collections, and purchased loan paydowns, net	(62,736)	(64,639)	191,778
Purchases and disposals of premises and equipment, net	(2,464)	(1,056)	(1,264)
Proceeds from sales of real estate owned and other repossessed collateral	61	1,972	2,160
Net (purchases) redemptions of Federal Home Loan Bank stock	(23,034)	(401)	181
Net cash provided by (used in) investing activities	(1,230,458)	(248,948)	27,461
Financing activities:			
Net change in deposits	649,514	(574,737)	850,078
Proceeds from short-term Federal Home Loan Bank advances, net	296,000	-	-
Proceeds from long-term Federal Home Loan Bank advances	260,000	-	-
Paydowns on long-term Federal Home Loan Bank advances	(8,385)	-	-
Dividends paid on common stock	(295)	(315)	(331)
Issuances of common stock	7,995	-	-
Repurchases of common stock	(5,163)	(27,980)	(5,743)
Advances (repayments) under Paycheck Protection Program Liquidity Facility, net	-	-	12,440
Repayment of subordinated debt	-	(15,050)	-
Repayment of lease liability	(1,546)	(1,610)	(1,365)
Cancellations for tax withholdings on restricted common stock	(451)	(219)	(130)
Stock options exercised, net	(1,489)	(50)	965
Net cash provided by (used in) financing activities	1,196,180	(619,961)	831,034
Net change in cash and cash equivalents	25,830	(838,412)	866,834
Cash and cash equivalents, beginning of year	172,079	1,010,491	143,657
Cash and cash equivalents, end of year	$ 197,909	$ 172,079	$ 1,010,491
Supplemental schedule of cash flow information:			
Interest paid	$ 46,459	$ 5,726	$ 11,337
Income taxes paid, net	28,252	17,993	32,462
Supplemental schedule of noncash investing and financing activities:			
Transfers from loans to real estate owned and other repossessed collateral, net	$ -	$ 53	$ 1,005
Transfers from fixed assets to real estate owned and other repossessed collateral, net	90	118	-
Capitalization of lease liability	19,013	-	2,930

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.

Business

The Bank is a Maine state-chartered bank. The Bank is subject to supervision and regulation by Maine Bureau of Financial Institutions (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. These reclassifications did not impact previously reported net income or shareholders' equity.

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 ongoing 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 National Lending 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, 2023 and 2022, such reserve balances totaled $100 thousand and $2.6 million, respectively.

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 an investment in the stock of the Federal Home Loan Bank of Boston ("FHLBB"). No readily-available market exists for this stock, and it has no quoted market value. 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, 2023, no impairment has been recognized.

Loans Held for Sale and Loan Servicing

Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value with any losses recognized in non-interest income. U.S. Small Business Administration (“SBA”) 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.

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 troubled debt restructuring ("TDR"), and therefore, by definition, is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Bank evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Bank's expectations at acquisition, the modified loan would 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, purchased and SBA 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 the National Lending Division. Loans acquired by the National Lending Division are, with limited exceptions, performing loans at the date of purchase. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of nonowner-occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type. Loans in this segment are evaluated for impairment under ASC 310-30. The Bank reviews expected cash flows from purchased loans on a quarterly basis. The effect of a decline in expected cash flows subsequent to the acquisition of the loan is recognized through a specific allocation in the allowance for loan losses.

SBA: Loans in this segment are comprised of both commercial real estate and commercial and industrial loans to small businesses, underwritten and originated by the Bank. 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 year ended June 30, 2023. During the year ended June 30, 2022, the Bank migrated from using external peer group data as the basis for the Bank’s historical loss factor to utilizing the Bank’s internal historical loss data for its SBA allowance segment. There were no additional changes in the Bank’s policies or methodology pertaining to the general component of the allowance for loan losses during the year ended June 30, 2022.

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. Right of use assets are included in premises and equipment and amortized over the lease term or estimated useful life, whichever is shorter. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized.

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.

Correspondent Fee Income

The Bank receives correspondent fee income from a third party in connection with a loan correspondent agreement entered into in June 2020. As a result of this agreement, when the third party purchases PPP loans at a discount, the Bank shares in the resulting discount from those purchases in exchange for access to the Bank's correspondent relationship with the Board of Governors of the Federal Reserve System. During the year ended June 30, 2021, the Bank received $6.0 million in correspondent fees. The Bank did not receive any correspondent fees during the years ended June 30, 2023 and 2022. These fees are deferred, along with those received in prior periods, and are included in other liabilities on the balance sheet and the recognition of the income is included in correspondent fee income in the income statement. The Bank recognizes the correspondent fees in income over the expected lives of the related loans. For the years ended June 30, 2023, 2022 and 2021, the Bank recognized $312 thousand, $4.3 million and $4.1 million, respectively, in correspondent fee income.

In addition to the correspondent fee described above, the Bank also shares in the net servicing income on purchased PPP loans, comprised of the amortization of purchased accrued interest and the earned net servicing interest on the portfolio over time. As of June 30, 2023, the Bank estimated the net servicing income earned based on the existing PPP portfolio and information provided by the third party. The Bank recorded a receivable of $2.0 million, included in other assets on the balance sheet, and the recognition of the income is included in correspondent fee income in the income statement. The Bank will continue to recognize the net servicing income over the expected lives of the related loans (primarily two years). During the years ended June 30, 2023, 2022, and 2021, the Bank recognized $2.2 million, $18.2 million, and $19.4 million, respectively, in net servicing income. The timing and amount of this net servicing income is subject to change, depending on several factors, primarily the balance and amount of time that the loans are outstanding, including when and if the SBA approves the forgiveness of individual loans. Until the loans are forgiven or repaid, the loans will continue to accrue interest, and the Bank will continue to update its estimated net servicing income in future quarters.

Revenue Recognition

While the majority of the Bank's revenue is generated from contracts with customers, our primary sources of revenue, interest and dividend income (primarily loan interest income), are outside of the scope of ASC 606, "Revenue from Contracts with Customers," and are accounted for under other ASC topics. The core principles of this standard require an entity to recognize revenue to depict the transfer of goods and services to customers as performance obligations are satisfied.

The primary areas of income within the scope of ASC 606, deposit and interchange fees and correspondent fee income, are components of noninterest income in the Bank's Statements of Income and are discussed below.

Deposit and interchange fees are comprised of deposit account related charges and income generated from electronic payment interchanges. Deposit account charges consist of certain transactional analysis fees net of earning balance credits, monthly account service fees, and transactional fees such as overdraft fees. Analysis and monthly account services fees are recognized over the period the service is performed. For transactional fees, the performance obligation and the revenue are recognized at a point of time and payment is typically received as the service is rendered. Interchange income is generated primarily from retail debit card transactions processed through the card payment network. The performance obligation and the revenue are recognized when the service is performed.

Correspondent fee income is comprised of the recognition of correspondent fees received, the recognition of purchased accrued interest, and net servicing income, based on the average balance of remaining loans being serviced, as discussed above. The performance obligation and the revenue are recognized over time as the service is performed.

The following noninterest income components are not subject to ASC 606: income on BOLI, net gains/losses on equity securities, and net gains on sales of loans, and are covered under other ASC topics. The remaining revenue items in noninterest income are not material.

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. The Bank's policy is to recognize interest and penalties assessed on uncertain tax positions in income tax expense (See Note 9). The Bank exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. Additionally, see Note 9 for detail regarding reserves for uncertain tax positions as of June 30, 2023 and 2022.

Excess tax benefits or deficiencies in relation to stock-based compensation 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 presented as an operating activity in the statement of cash flows. In addition, 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 years ended June 30, 2023, 2022 and 2021 was $1.2 million, $221 thousand and $558 thousand, 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 market price of the Bank's common stock at the date of grant 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 June 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326) ("ASU 2016-13"), commonly referred to as "CECL", to require timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

The Bank will adopt ASU 2016-13, as amended, effective July 1, 2023, using a modified retrospective approach and will record a cumulative-effect adjustment to retained earnings. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. CECL also applies to certain off-balance sheet credit exposures, such as loan commitments, standby letters of credit, financial guarantees and other similar investments. In addition, ASU 2016-13 made changes to the accounting for available-for-sale ("AFS") debt securities as a company will no longer immediately write-down a security for any impairment deemed to be a credit loss. Instead, a company will be required to present credit losses on AFS debt securities as an allowance on investments if it does not intend to sell the impaired security or it is not more-likely-than-not required to sell the impaired security before recovery of its amortized cost basis.

The Bank assembled a cross-functional project team that met regularly to address the additional data requirements, to determine the approach for implementation and to identify new internal controls over enhanced accounting processes for estimating the allowance for credit losses ("ACL") under the CECL methodology. This included assessing the adequacy of existing loan and loss data, as well as assessing models for default and loss estimates. The Bank is currently working to finalize its internal CECL policy and internal control framework.

The Bank has substantially completed the development of its process for estimation of the allowance for credit losses and off-balance sheet exposures (i.e., ACL). To estimate the allowance for credit losses, the Bank will primarily utilize an open-pool methodology, which takes a snapshot of a loan portfolio at a point in time in history and tracks that loan portfolio's performance in the subsequent periods until its ultimate disposition and layers on the impact of reasonable and supportable forecasted economic conditions. To estimate the off-balance sheet credit exposures, which are primarily unfunded loan commitments, the Bank will apply certain assumptions, including, but not limited to, a funding assumption and expected loss rate.

Under CECL, the Bank also includes estimated losses on its purchased loans by determining the amount of purchased discount the Bank does not expect to collect over the life of the purchased loans and that amount becomes part of the ACL on the date of adoption and increases the carrying balance of the loans accordingly. As of July 1, 2023, the Bank estimates that $16.9 million of its purchased loan discount will not be collected over the life of the purchased loans.

The Bank has performed a parallel calculation as of June 30, 2023, comparing the allowance for loan losses calculated under current accounting guidance, commonly referred to as the "Incurred Model," to the ACL calculated under CECL. Upon adoption of CECL in the first quarter of fiscal 2024, the Bank anticipates that the allowance for loan losses under the Incurred Model will change by an approximate range of a $1.0 million decrease to a $1.0 million increase, with a resulting change to retained earnings and to the deferred tax asset.

In March 2020, the FASB issued ASU 2020-03, Codification Improvements to Financial Instruments ("ASU 2020-03"). This guidance provides updates on a wide variety of Topics in the Codification, including updates to the interaction of Topic 842 and Topic 326, and the interaction of Topic 326 and Subtopic 860-20. This ASU will be effective under the same effective dates as ASU 2016-13.

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

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326) ("ASU 2022-02"). This guidance provides updates on Troubled Debt Restructurings ("TDRs") by Creditors and Vintage Disclosures. The amendments in this Update eliminate the accounting guidance for TDRs, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. This ASU will be effective under the same effective dates as ASU 2016-13.

Subsequent Events

The Bank has evaluated the impact of events that have occurred subsequent to June 30, 2023 through the date the financial statements were available to be filed with the FDIC. Based on this evaluation, the Bank has determined none of these events were required to be recognized in the financial statements and related notes.

2. Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2023				
U.S. Government agency securities	$ 51,024	$ -	$ (775)	$ 50,249
Agency mortgage-backed securities	3,364	-	(209)	3,155
Equity investments measured at net asset value	7,541	-	(771)	6,770
Total securities	$ 61,929	$ -	$ (1,755)	$ 60,174
June 30, 2022				
U.S. Government agency securities	$ 51,080	$ -	$ (795)	$ 50,285
Agency mortgage-backed securities	4,775	-	(149)	4,626
Equity investments measured at net asset value	7,361	-	(563)	6,798
Total securities	$ 63,216	$ -	$ (1,507)	$ 61,709

At June 30, 2023, 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 ended June 30, 2023, 2022 or 2021. At June 30, 2023, securities with a fair value of $53.4 million were pledged as collateral to secure potential FHLBB advances, compared to $54.9 million at June 30, 2022.

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

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
June 30, 2023						
U.S. Government agency securities	$ 25,646	$ (402)	$ 24,603	$ (373)	$ 50,249	$ (775)
Agency mortgage-backed securities	-	-	3,155	(209)	3,155	(209)
Equity investments measured at net asset value	-	-	5,041	(771)	5,041	(771)
Total investment securities	$ 25,646	$ (402)	$ 32,799	$ (1,353)	$ 58,445	$ (1,755)
June 30, 2022						
U.S. Government agency securities	$ 36,516	$ (449)	$ 13,769	$ (346)	$ 50,285	$ (795)
Agency mortgage-backed securities	4,626	(149)	-	-	4,626	(149)
Equity investments measured at net asset value	-	-	5,142	(563)	5,142	(563)
Total investment securities	$ 41,142	$ (598)	$ 18,911	$ (909)	$ 60,053	$ (1,507)

There were no other-than-temporary impairment losses on securities during the years ended June 30, 2023, 2022 and 2021.

At June 30, 2023, all of the Bank's securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The change in fair value of the Bank's securities at June 30, 2023 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 securities 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, 2023, the Bank did not intend to sell and it is not more likely than not that the Bank will be required to sell the securities before recovery of its amortized cost. As such, management does not believe any of the Bank's securities are other-than-temporarily impaired at June 30, 2023.

The securities measured at net asset value include a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies, as well as a fund that primarily invests in the federally guaranteed portion of SBA 7(a) loans that adjust quarterly or monthly and are indexed to the Prime Rate. The underlying composition of these funds is primarily government agencies, other investment-grade securities, or the guaranteed portion of SBA 7(a) loans, as applicable. As of June 30, 2023, 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 4.66 years.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of June 30, 2023. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 24,976	$ 24,603
Due after one year through five years	26,048	25,645
Due after five years through ten years	-	-
Due after ten years	-	-
Total U.S. Government agency securities	51,024	50,248
Agency mortgage-backed securities	3,364	3,155
Total available-for-sale debt securities	$ 54,388	$ 53,403

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, 2023			June 30, 2022		
	Originated	Purchased	Total	Originated	Purchased	Total
			(In thousands)			
Commercial real estate	$ 469,519	$ 1,451,903	$ 1,921,422	$ 381,785	$ 470,091	$ 851,876
Commercial and industrial	473,654	20,429	494,083	349,914	80	349,994
SBA	24,873	-	24,873	33,046	-	33,046
Residential real estate	71,710	7,787	79,497	61,698	7,511	69,209
Consumer	485	-	485	741	-	741
Total loans	$ 1,040,241	$ 1,480,119	$ 2,520,360	$ 827,184	$ 477,682	$ 1,304,866

Total loans include deferred loan origination fees, net, of $369 thousand and $598 thousand as of June 30, 2023 and 2022, respectively.

Loans pledged as collateral with the FHLBB for outstanding borrowings totaled $1.27 billion and $282.2 million, and provided additional borrowing capacity which totaled $318.4 million and $150.4 million, at June 30, 2023 and 2022, respectively.

The Bank sold no National Lending Division purchased loans during the years ended June 30, 2023, 2022, and 2021.

PPP loans

The Bank did not originate or sell any PPP loans during the year ended June 30, 2023. During the years ended June 30, 2022 and 2021, the Bank participated in the PPP and originated $6.5 million and $2.84 billion of loans in connection with the PPP, respectively. The Bank subsequently sold PPP loans with a total principal balance of $6.3 million and $2.87 billion, recording a net gain of $86 thousand and $46.7 million on the sales primarily resulting from the recognition of net deferred fees, offset by purchase price discounts, during the years ended June 30, 2022 and 2021, respectively. The Bank had no PPP loans held for sale at June 30, 2023 or 2022.

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.

There were no loans outstanding to directors, officers, principal shareholders and their associates as of June 30, 2023 and 2022.

Past Due and Nonaccrual Loans

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

	30-59 Days	60-89 Days	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans
				(In thousands)			
June 30, 2023							
Originated portfolio:							
Commercial real estate	$ 20	$ -	$ 1,280	$ 1,300	$ 468,219	$ 469,519	$ 2,807
Commercial and industrial	-	-	3	3	473,651	473,654	3
SBA	22	323	656	1,001	23,872	24,873	1,258
Residential real estate	54	4	149	207	71,503	71,710	280
Consumer	-	-	-	9	485	485	-
Total originated portfolio	96	327	2,088	2,511	1,037,730	1,040,241	4,348
Purchased portfolio:							
Commercial real estate	3,178	1,001	5,683	9,682	1,442,041	1,451,903	10,557
Commercial and industrial	-	145	542	687	19,742	20,429	778
Residential real estate	-	-	-	-	7,787	7,787	-
Total purchased portfolio	3,178	1,146	6,225	10,549	1,469,570	1,480,119	11,335
Total loans	$ 3,274	$ 1,473	$ 8,313	$ 13,060	$ 2,507,300	$ 2,520,360	$ 15,683
June 30, 2022							
Originated portfolio:							
Commercial real estate	$ -	$ -	$ 1,221	$ 1,221	$ 380,564	$ 381,785	$ 4,573
Commercial and industrial	-	-	5	5	349,909	349,914	26
SBA	148	39	589	776	32,270	33,046	634
Residential real estate	36	106	221	363	61,335	61,698	550
Consumer	1	-	8	9	732	741	11
Total originated portfolio	185	145	2,044	2,374	824,810	827,184	5,794
Purchased portfolio:							
Commercial real estate	650	33	3,846	4,529	465,562	470,091	7,053
Commercial and industrial	-	-	-		80	80	28
Residential real estate	-	-	71	71	7,440	7,511	71
Total purchased portfolio	650	33	3,917	4,600	473,082	477,682	7,152
Total loans	$ 835	$ 178	$ 5,961	$ 6,974	$ 1,297,892	$ 1,304,866	$ 12,946

There were no loans 90 days or more past due and still accruing at June 30, 2023 or 2022.

Allowance for Loan Losses and Impaired Loans

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
Balance as of June 30, 2020	$ 2,077	$ 957	$ 4,977	$ 449	$ 29	$ 689	$ 9,178
Provision	254	239	(1,584)	(218)	19	(106)	(1,396)
Recoveries	1	-	446	3	3	17	470
Charge-offs	(10)	(1)	(721)	-	(19)	(188)	(939)
Balance as of June 30, 2021	2,322	1,195	3,118	234	32	412	7,313
Provision	226	279	(2,927)	(10)	(18)	(12)	(2,462)
Recoveries	8	1	282	29	4	97	421
Charge-offs	(61)	(2)	(24)	-	(8)	(149)	(244)
Balance as of June 30, 2022	2,495	1,473	449	253	10	348	5,028
Provision	849	434	(100)	26	14	1,080	2,303
Recoveries	66	-	2	2	-	273	343
Charge-offs	-	(3)	(57)	-	(15)	(295)	(370)
Balance as of June 30, 2023	$ 3,410	$ 1,904	$ 294	$ 281	$ 9	$ 1,406	$ 7,304

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential Real Estate	Consumer	Purchased	Total
				(In thousands)			
June 30, 2023							
Allowance for loan losses:							
Individually evaluated	$ 195	$ 152	$ 2	$ 34	$ -	$ -	$ 383
Collectively evaluated	3,215	1,752	292	247	9	-	5,515
ASC 310-30	-	-	-	-	-	1,406	1,406
Total	$ 3,410	$ 1,904	$ 294	$ 281	$ 9	$ 1,406	$ 7,304
Loans:							
Individually evaluated	$ 10,079	$ 6,903	$ 1,379	$ 1,320	$ 13	$ 17,262	$ 36,956
Collectively evaluated	459,440	466,751	23,494	70,390	472	-	1,020,547
ASC 310-30	-	-	-	-	-	1,462,857	1,462,857
Total	$ 469,519	$ 473,654	$ 24,873	$ 71,710	$ 485	$ 1,480,119	$ 2,520,360
June 30, 2022							
Allowance for loan losses:							
Individually evaluated	$ -	$ 187	$ 4	$ 42	$ 1	$ -	$ 234
Collectively evaluated	2,495	1,286	445	211	9	-	4,446
ASC 310-30	-	-	-	-	-	348	348
Total	$ 2,495	$ 1,473	$ 449	$ 253	$ 10	$ 348	$ 5,028
Loans:							
Individually evaluated	$ 11,853	$ 6,926	$ 1,040	$ 1,718	$ 35	$ 14,539	$ 36,111
Collectively evaluated	369,932	342,988	32,006	59,980	706	-	805,612
ASC 310-30	-	-	-	-	-	463,143	463,143
Total	$ 381,785	$ 349,914	$ 33,046	$ 61,698	$ 741	$ 477,682	$ 1,304,866

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, 2023			June 30, 2022		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
			(In thousands)			
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 6,127	$ 6,127	$ -	$ 11,853	$ 11,853	$ -
Commercial and industrial	3	3	-	26	26	-
SBA	947	947	-	916	916	-
Residential real estate	887	887	-	1,101	1,101	-
Consumer	13	13	-	34	34	-
Purchased:						
Commercial real estate	9,459	12,440	-	9,938	14,454	-
Commercial and industrial	-	169	-	-	-	-
Residential real estate	827	848	-	897	944	-
Total	18,263	21,434	-	24,765	29,328	-
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	3,952	3,952	195	-	-	-
Commercial and industrial	6,900	6,900	152	6,900	6,900	187
SBA	432	432	2	124	124	4
Residential real estate	433	433	34	617	617	42
Consumer	-	-	-	1	1	1
Purchased:						
Commercial real estate	6,198	7,107	697	3,676	4,479	320
Commercial and industrial	778	1,071	709	28	73	28
Residential real estate	-	-	-	-	-	-
Total	18,693	19,895	1,789	11,346	12,194	582
Total impaired loans	$ 36,956	$ 41,329	$ 1,789	$ 36,111	$ 41,522	$ 582

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

	Years Ended June 30,					
	2023		2022		2021	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Commercial real estate	$ 7,518	$ 386	$ 9,601	$ 251	$ 4,344	$ 616
Commercial and industrial	8	-	12	-	1,731	60
SBA	822	11	1,028	23	1,641	-
Residential Real Estate	1,039	32	1,204	15	2,949	122
Consumer	24	3	36	1	47	10
Purchased:						
Commercial real estate	11,269	206	13,145	224	4,960	204
Commercial and industrial	54	-	5	-	66	-
Residential real estate	869	-	1,354	-	2,075	34
Total	21,603	638	26,385	514	27,813	1,046
Impaired loans with a valuation allowance:						
Originated:						
Commercial real estate	3,010	234	3,768	205	3,815	160
Commercial and industrial	6,900	173	7,294	154	5,338	143
SBA	319	-	189	9	2,544	-
Residential Real Estate	502	39	694	47	1,383	76
Consumer	-	-	12	-	23	4
Purchased:						
Commercial real estate	4,052	157	2,611	77	3,934	119
Commercial and industrial	341	15	49	-	160	-
Residential real estate	-	-	-	-	-	22
Total	15,124	618	14,617	492	17,143	524
Total impaired loans	$ 36,727	$ 1,256	$ 41,002	$ 1,006	$ 44,956	$ 1,570

Credit Quality

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

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

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

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

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

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

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

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

	Commercial Real Estate	Commercial and Industrial	SBA	Residential[1]	Purchased Portfolio	Total
				(In thousands)		
June 30, 2023						
Loans rated 1- 6	$ 462,249	$ 466,751	$ 23,500	$ 69,424	$ 1,465,933	$ 2,487,857
Loans rated 7	4,415	6,900	283	2,305	2,773	16,676
Loans rated 8	2,855	3	1,090	-	11,413	15,361
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 469,519	$ 473,654	$ 24,873	$ 71,729	$ 1,480,119	$ 2,519,894
June 30, 2022						
Loans rated 1- 6	$ 373,348	$ 342,986	$ 32,076	$ 41,166	$ 468,264	$ 1,257,840
Loans rated 7	4,131	6,900	456	-	2,266	13,753
Loans rated 8	4,306	28	514	-	7,152	12,000
Loans rated 9	-	-	-	-	-	-
Loans rated 10	-	-	-	-	-	-
Total	$ 381,785	$ 349,914	$ 33,046	$ 41,166	$ 477,682	$ 1,283,593

(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,			
	2023		2022	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	-	$ -	3	$ 1,472
Rate and maturity	4	244	7	4,674
Principal deferment	28	5,456	6	1,353
Total	32	$ 5,700	16	$ 7,499

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

	Years Ended June 30,					
	2023			2022		
	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:						
Commercial real estate	3	$ 5,117	$ 5,117	1	$ 1,349	$ 1,486
Commercial and industrial	0	-	-	1	407	407
Residential real estate	2	72	72	2	68	71
Consumer	-	-	-	-	-	-
Total originated portfolio	5	5,189	5,189	4	1,824	1,964
Purchased portfolio:						
Commercial real estate	5	224	260	12	5,468	5,535
Commercial and industrial	22	251	251	-	-	-
Total purchased portfolio	27	475	511	12	5,468	5,535
Total	32	$ 5,664	$ 5,700	16	$ 7,292	$ 7,499

As of June 30, 2023, 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, 2023 and 2022.

ASC 310-30 Loans

During the years ended June 30, 2023 and 2022, the Bank purchased loans with an unpaid principal balance of $1.31 billion and $199.5 million for a discount of $171.0 million and $11.6 million, resulting in a fair value of loans acquired of $1.14 billion and $187.9 million, respectively. 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,			
	2023		2022	
	(In thousands)			
Contractually required payments receivable	$	1,973,970	$	238,827
Nonaccretable difference		(21,819)		(6,305)
Cash flows expected to be collected		1,952,151		232,522
Accretable yield		(808,365)		(44,608)
Fair value of loans acquired	$	1,143,786	$	187,914

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,			
	2023		2022	
	(In thousands)			
Loans acquired during the period	$	1,359	$	1,065
Loans at end of period		10,511		6,435

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

	Years Ended June 30,			
	2023		2022	
	(In thousands)			
Beginning balance	$	132,700	$	137,987
Acquisitions		808,365		44,608
Accretion		(68,530)		(28,080)
Reclassifications from nonaccretable difference to accretable yield		16,466		8,411
Disposals and other changes		(22,740)		(30,226)
Ending balance	$	866,261	$	132,700

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

	June 30, 2023		June 30, 2022	
	(In thousands)			
Unpaid principal balance	$	1,660,147	$	501,989
Carrying amount		1,473,405		469,578

4. **Premises, Equipment and Leases**

Premises, equipment and leases consist of the following:

	June 30, 2023		June 30, 2022		Estimated Useful Life
	(In thousands)				(In years)
Land	$	712	$	747	n/a
Buildings		1,773		1,898	39
Right-of-use assets		23,426		8,483	Term of lease
Leasehold and building improvements		5,886		4,209	5-39 (or term of lease, if shorter)
Furniture, fixtures and equipment		12,494		12,419	3-7
Total		44,291		27,756	
Less accumulated depreciation		16,554		18,150	
Net premises and equipment	$	27,737	$	9,606	

Depreciation and amortization of premises and equipment included in occupancy and equipment expense was $3.2 million, $2.6 million, and $2.6 million for the years ended June 30, 2023, 2022, and 2021, respectively.

The Bank leases six 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 $2.0 million, $1.6 million, and $1.6 million for the years ended June 30, 2023, 2022, and 2021, respectively.

The weighted average remaining lease term for operating leases at June 30, 2023 was 10.9 years and the weighted average discount rate was 4.59%.

Approximate future minimum lease payments over the remaining terms of the Bank's leases at June 30, 2023 are as follows:

Fiscal year		Minimum lease payments
		(In thousands)
2024	$	2,552
2025		2,793
2026		2,816
2027		2,560
2028		2,602
Thereafter		14,180
Total lease payments	$	27,503
Less: imputed interest		5,585
Total lease liability	$	21,918

5. Deposits

The composition of deposits is as follows:

		June 30, 2023		June 30, 2022
		(In thousands)		
Demand	$	143,738	$	329,007
NOW		518,528		445,237
Money market		277,939		246,095
Regular savings		77,819		140,037
Time certificates		919,183		127,317
Total deposits	$	1,937,207	$	1,287,693

There were $74.1 million and $19.5 million of time certificates greater than $250 thousand as of June 30, 2023 and 2022, respectively.

The scheduled maturities of time certificates by fiscal year at June 30, 2023 are as follows (excluding brokered certificate of deposit fees):

Fiscal Year		(In thousands)
2024	$	895,520
2025		16,272
2026		4,444
2027		1,206
2028		1,741
Total	$	919,183

6. Borrowings

Short-term Federal Home Loan Bank Advances

At June 30, 2023, the Bank had $311.0 million in short-term FHLBB advances maturing on July 5, 2023 at a weighted average rate of 5.26%. At June 30, 2022, the Bank had $15.0 million in short-term FHLBB advances maturing on July 5, 2022 at a weighted average rate of 0.87%.

Long-term Federal Home Loan Bank Advances

At June 30, 2023, the Bank had two long-term FHLBB advances totaling $251.6 million. There were no long-term FHLBB advances outstanding at June 30, 2022. The advances consist of one fixed-rate advance for $15.0 million, which matures on June 21, 2027 and one amortizing advance with a balance of $236.6 million, which matures on January 3, 2028. The weighted average interest rate on long-term FHLBB advances was 4.12% as of June 30, 2023.

At June 30, 2023, 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, 2023, the Bank had approximately $318.4 million of additional capacity to borrow from the FHLBB, compared to $150.4 million as of June 30, 2022.

Federal Reserve Bank of Boston Borrower-in-Custody

The Bank has a borrower-in-custody collateral arrangement with the Federal Reserve Bank of Boston for usage of the discount window. The terms of the agreement call for the pledging of certain assets of the Bank under the agreement. At June 30, 2023, there were no borrowings outstanding under this agreement. At June 30, 2023, the Bank had approximately $325.7 million of capacity to borrower from the Federal Reserve Borrower-in-Custody, compared to $0 as of June 30, 2022.

Capital Leases

During the year ended June 30, 2023, the Bank capitalized a lease for its corporate space located in Boston, Massachusetts. As a result of this new lease, the Bank capitalized $17.5 million during the year. The new lease has a 12-year term and includes a rent-free period. The Bank utilized a discount rate of 5.10%, which approximates the borrowing rate for an FHLBB advance for a similar term.

7. 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022. The Bank's regulatory capital ratios are set forth below as of June 30, 2023 and 2022.

	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, 2023							
Common equity tier 1 capital to risk-weighted assets	$ 296,830	12.00%	$ 111,311	≥4.5%	$ 160,782	≥6.5%	7.0%
Total capital to risk-weighted assets	304,210	12.30%	197,886	≥8.0%	247,358	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	296,830	12.00%	148,415	≥6.0%	197,886	≥8.0%	8.5%
Tier 1 capital to average assets	296,830	10.38%	114,375	≥4.0%	142,969	≥5.0%	4.0%
June 30, 2022							
Common equity tier 1 capital to risk-weighted assets	$ 249,149	19.08%	$ 58,772	≥4.5%	$ 84,893	≥6.5%	7.0%
Total capital to risk-weighted assets	254,248	19.47%	104,483	≥8.0%	130,604	≥10.0%	10.5%
Tier 1 capital to risk-weighted assets	249,149	19.08%	78,362	≥6.0%	104,483	≥8.0%	8.5%
Tier 1 capital to average assets	249,149	16.13%	61,772	≥4.0%	77,215	≥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.

8. 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, 2023	2022	2021
	(In thousands, except share and per share data)		
Net income	$ 44,187	$ 42,163	$ 71,503
Average number of common shares outstanding	7,541,219	7,905,996	8,275,577
Less: average unvested non-participating restricted stock awards	(195,966)	(99,370)	-
Weighted average shares used in calculation of basic EPS	7,345,253	7,806,626	8,275,577
Effect of dilutive stock options	18,591	80,075	84,778
Effect of dilutive unvested restricted stock awards	50,088	15,909	-
Weighted average shares used in calculation of diluted earnings per share	7,413,932	7,902,610	8,360,355
Earnings per common share:	$ 6.02	$ 5.40	$ 8.64
Diluted earnings per common share:	5.96	5.34	8.55

No stock options were excluded from the calculation of diluted EPS due to the exercise price for the years ended June 30, 2023, 2022 and 2021.

9. Income Taxes

The components of current and deferred income tax expense are as follows:

	Years Ended June 30, 2023	2022	2021
	(In thousands)		
Current provision			
Federal	$ 14,935	$ 10,887	$ 19,742
State	10,813	7,679	10,557
Total current provision	25,748	18,566	30,299
Deferred benefit			
Federal	(2,683)	1,158	(540)
State	(2,037)	(339)	(173)
Total deferred benefit	(4,720)	819	(713)
Total tax provision	$ 21,028	$ 19,385	$ 29,586

The reconciliation between the statutory federal income tax rate of 21% and the effective tax rate on income follows:

	Years Ended June 30, 2023	2022	2021
	(In thousands)		
Expected income tax expense at federal tax rate	$ 13,695	$ 12,925	$ 21,229
State tax, net of federal tax benefit	6,933	5,799	8,204
Non-taxable BOLI income	(93)	(89)	(89)
Stock compensation excess tax federal benefits	(687)	(151)	(364)
162(m) disallowance	1,130	442	269
Other	50	459	337
Total income tax expense	$ 21,028	$ 19,385	$ 29,586

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, 2023	June 30, 2022
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 2,291	$ 1,578
Loan basis differential	1,476	1,298
Capital lease	6,874	1,397
Compensation and benefits	1,915	2,555
Stock-based compensation	1,395	1,361
Unrealized loss on investment securities	266	255
Unrealized loss on derivatives	-	60
Interest on nonperforming loans	3,245	2,653
Correspondent and net deferred loan fees on PPP loans	32	130
Accrued interest payable	3,796	-
Other	283	117
Gross deferred tax asset	21,573	11,404
Less: valuation allowance	-	-
Total deferred tax assets	21,573	11,404
Deferred tax liabilities		
Prepaid expenses	240	202
Premises and equipment	7,590	2,207
Other	480	403
Total deferred tax liability	8,310	2,812
Net deferred tax asset	$ 13,263	$ 8,592

The net deferred tax asset was included in other assets on the accompanying balance sheets as of June 30, 2023 and 2022.

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, 2023 will be realized, based upon the ability to generate future taxable income as well as the availability of current and historical taxable income.

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 Bank had no uncertain tax positions for the years ended June 30, 2023, 2022 or 2021.

The Bank is currently open to audit under the statute of limitations by the IRS and state taxing authorities for the fiscal 2020 tax return and forward.

10. **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 upon the first pay cycle of the month following start 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, 2023, 2022, and 2021, the Bank contributed $469 thousand, $455 thousand, and $365 thousand, respectively.

Deferred Compensation

The Bank has individual deferred compensation agreements with five former senior officers. The Bank recognized deferred compensation expense of $26 thousand, $27 thousand, and $28 thousand for the years ended June 30, 2023, 2022, and 2021, respectively. At June 30, 2023 and 2022 the Bank's deferred compensation liability was $439 thousand and $459 thousand, respectively.

11. Stock-Based Compensation

A summary of stock option activity for the year ended June 30, 2023 follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	108,281	$ 9.38
Granted	-	-
Exercised	(108,281)	9.38
Forfeited	-	-
Outstanding at end of year	-	$ 0.00

	Shares	Weighted Average Grant Date Fair Value
Exercisable, beginning of year	108,281	$ 1.79
Vested	-	-
Exercised	(108,281)	1.79
Forfeited or expired	-	-
Exercisable, end of year	-	$ 0.00

All remaining stock options were fully vested and exercised during the year ended June 30, 2023. There were no options granted during the years ended June 30, 2023 or 2022.

A summary of restricted stock activity for the year ended June 30, 2023 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of period	202,778	$ 29.24
Granted	132,715	40.50
Vested	(63,511)	28.25
Cancelled to cover taxes	(10,936)	27.36
Forfeited	(2,500)	40.50
Unvested at end of period	258,546	35.24

Stock-based compensation expense totaled $3.4 million, $1.9 million, and $978 thousand for the years ended June 30, 2023, 2022 and 2021, respectively. The tax benefit related to stock-based compensation expense totaled $411 thousand, $589 thousand, and $286 thousand for the years ended June 30, 2023, 2022 and 2021, respectively. The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Years Ending June 30,					
	2024	2025	2026	2027	2028	Total
	(In thousands)					
Restricted stock	$ 3,211	$ 1,914	$ 252	$ -	$ -	$ 5,377

12. 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, 2023	June 30, 2022
	(In thousands)	
Commitments to originate loans	$ 13,249	$ 9,398
Unused lines of credit	32,883	30,495
Standby letters of credit	-	-

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the 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 $76 thousand and $71 thousand as of June 30, 2023 and 2022, respectively.

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, 2023 and 2022, the maximum potential amount of the Bank's obligation was $0, 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.

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.

13. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) follow:

	Years Ended June 30, 2023			2022		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
	(In thousands)					
Change in net unrealized gain (loss) on available-for-sale securities	$ (40)	$ (11)	$ (29)	$ (1,183)	$ (320)	$ (863)
Change in accumulated loss on effective cash flow hedges	221	60	161	1,813	488	1,325
Total other comprehensive income	$ 181	$ 49	$ 132	$ 630	$ 168	$ 462

	Year Ended June 30, 2021		
	Pre-tax Amount	Tax Expense (Benefit)	After-tax Amount
Change in net unrealized loss on available-for-sale securities	$ (589)	$ (158)	$ (431)
Change in accumulated loss on effective cash flow hedges	(1,153)	312	841
Total other comprehensive loss	$ 564	$ 154	$ 410

Accumulated other comprehensive loss is comprised of the following components:

	June 30, 2023	June 30, 2022
	(In thousands)	
Unrealized loss on available-for-sale securities	$ (984)	$ (944)
Tax effect	266	255
Net-of-tax amount	(718)	(689)
Unrealized loss on cash flow hedges	-	(221)
Tax effect	-	60
Net-of-tax amount	-	(161)
Accumulated other comprehensive loss	$ (718)	$ (850)

14. Derivatives

The Bank had 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 previously held 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, 2022, the Bank had posted cash collateral totaling $2.5 million with dealer banks related to derivative instruments in a net liability position. The Bank had no cash posted for collateral at June 30, 2023.

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 as of June 30, 2022.

Notional Amount	Inception Date	Termination Date	Index	Receive Rate	Pay Rate	Strike Rate	Unrealized Loss	Fair Value	Balance Sheet Location
				(Dollars in thousands)					
Interest rate swaps on FHLB advances:									
$ 5,000	July 2013	July 2033	3 Mo. LIBOR	2.29%	3.38%	n/a	$ (173)	$ (173)	Other Liabilities
5,000	July 2013	July 2028	3 Mo. LIBOR	2.29%	3.23%	n/a	(69)	(69)	Other Liabilities
5,000	July 2013	July 2023	3 Mo. LIBOR	2.29%	2.77%	n/a	21	21	Other Liabilities
$ 15,000							$ (221)	$ (221)	

During the year ended June 30, 2023, the Bank terminated all of its interest rate swap agreements totaling $15.0 million prior to maturity and recorded a gain on the termination of interest rate swaps of $96 thousand. During the year ended June 30, 2022, no interest rate swap agreements were terminated prior to maturity. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the year ended June 30, 2022 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, 2023, 2022 and 2021, no amounts were recognized in income.

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.

15. 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:

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 securities 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 60 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 securities 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:

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

June 30, 2023	Total	Level 1	Level 2	Level 3
Assets			(In thousands)	
Securities:				
U.S. Government agency securities	$ 50,24 8	$ -	$ 50,248	$ -
Agency mortgage-backed securities	3,155	-	3,155	-
Equity investments measured at net asset value(1)	6,771	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ -	$ -	$ -	$ -
June 30, 2022				
Assets				
Securities:				
U.S. Government agency securities	$ 50,285	$ -	$ 50,285	$ -
Agency mortgage-backed securities	4,626	-	4,626	-
Equity investments measured at net asset value(1)	6,798	-	-	-
Liabilities				
Other liabilities – interest rate swaps	$ 221	$ -	$ 221	$ -

(1) Certain securities that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amount presented in the table is intended to permit reconciliation of the fair value amount to the financial statements.

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

	Total	Level 1	Level 2	Level 3
June 30, 2023		(In thousands)		
Collateral dependent impaired loans	$ 3,201	$ -	$ -	$ 3,201
Real estate owned and other repossessed collateral	-	-	-	-
Loan servicing rights	1,530	-	-	1,530
June 30, 2022				
Collateral dependent impaired loans	$ 632	$ -	$ -	$ 632
Real estate owned and other repossessed collateral	-	-	-	-
Loan servicing rights	1,285	-	-	1,285

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, 2023	June 30, 2022	Valuation Technique
	(In thousands)		
Collateral dependent impaired loans	$ 3,201	$ 632	Appraisal of collateral(1)
Loan servicing rights	1,530	1,285	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 83%.
(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 0.0% to 33.8% and the weighted average prepayment assumption used was 19.1%. For discount rates, the range was 4.5% to 27.0% and the weighted average discount rate used was 21.3%.

The table below summarizes the total gains (losses) on assets measured at fair value on a non-recurring basis for the years ended June 30, 2023, 2022 and 2021.

	Years Ended June 30, 2023	2022	2021
		(In thousands)	
Collateral dependent impaired loans	$ (408)	$ (13)	$ 49
Real estate owned and other repossessed collateral	-	-	(180)
Loan servicing rights	285	(182)	263
Total	$ (123)	$ (195)	$ 132

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

	Carrying Amount	Total	Level 1	Level 2	Level 3
			(In thousands)		
June 30, 2023					
Financial assets:					
Cash and cash equivalents	$ 195,394	$ 193,394	$ 193,394	$ -	$ -
Securities	53,403	53,403	-	53,403	-
Equity securities measured at net asset value[(1)]	6,771	6,771	-	-	-
Federal Home Loan Bank stock	24,644	24,644	-	24,644	-
Loans, net	2,513,056	2,540,240	-	-	2,540,240
Accrued interest receivable	6,638	6,638	-	6,638	-
Financial liabilities:					
Deposits	1,937,207	1,931,648	-	1,931,648	-
Federal Home Loan Bank advances	562,615	559,324	-	559,324	-
Capital lease obligation	21,918	21,965	-	21,965	-
Accrued interest payable	12,104	12,104	-	12,104	-
June 30, 2022					
Financial assets:					
Cash and cash equivalents	$ 169,984	$ 169,984	$ 169,984	$ -	$ -
Securities	54,911	54,911	-	54,911	-
Equity securities measured at net asset value[(1)]	6,798	6,798	-	-	-
Federal Home Loan Bank stock	1,610	1,610	-	1,610	-
Loans, net	1,298,838	1,298,177	-	-	1,298,177
Accrued interest receivable	3,585	3,585	-	3,585	-
Financial liabilities:					
Deposits	1,287,693	1,285,403	-	1,285,403	-
Federal Home Loan Bank advances	15,000	14,998	-	14,998	-
Capital lease obligation	4,451	4,218	-	4,218	-
Interest rate swaps	221	221	-	221	-

(1) Certain securities 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, 2023, 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, 2023 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.

RSM US LLP, an independent registered public accounting firm that audited the financial statements of the Bank included in this annual report, has issued an audit opinion on the effectiveness of the Bank's internal control over financial reporting as of June 30, 2023. The report, which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of June 30, 2023, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

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, 2023, 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, 2023, 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, 2023 and 2022, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended June 30, 2023, of the Bank and our report dated September 8, 2023, 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's 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 8, 2023

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, 2023 and 2022

Statements of Income for the years ended June 30, 2023, 2022, and 2021

Statements of Comprehensive Income for the years ended June 30, 2023, 2022, and 2021

Statements of Changes in Shareholders' Equity for the years ended June 30, 2023, 2022, and 2021

Statements of Cash Flows for the years ended June 30, 2023, 2022, and 2021

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 FDIC on May 15, 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 FDIC on May 15, 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 FDIC on May 15, 2019).
4.1 Description of Registrant's Securities. (incorporated by reference to Exhibit 4.1 of the Current Report on Form 10-K filed with the FDIC on September 11, 2020).
10.1+ Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (1).
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) (1).
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) (1).
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 (1).
10.4+ Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Richard Wayne (3).
10.5+ Form of Indemnification Agreement, dated as of December 29, 2010, by and between Northeast Bancorp and each of the members of the Board (2).
10.6+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Richard Wayne (2).
10.7 Paycheck Protection Program Liquidity Facility Correspondent Agreement, dated June 12, 2020, by and among Northeast Bank, The Loan Source, Inc. and ACAP SME, LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on June 17, 2020).
10.8 Loan Purchase and Sale Agreement, dated June 18, 2020, by and between Northeast Bank and The Loan Source, Inc. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the FDIC on June 25, 2020).
10.90 First Amendment to Paycheck Protection Program Liquidity Facility Correspondent Agreement, dated March 2, 2021, by and among Northeast Bank, The Loan Source, Inc. and ACAP SME, LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 3, 2021).
10.10 Loan Purchase and Sale Agreement, dated March 2, 2021, by and between Northeast Bank and The Loan Source, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on March 4, 2021).
10.11 Marketing Services Agreement, dated August 6, 2021, by and between Northeast Bank, United Operations, LLC and American Loan Funding Company LLC (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).

10.12 Master Loan Participation Agreement, dated August 6, 2021, by and between Northeast Bank and American Loan Funding Company LLC (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).
10.13 Lender Service Provider Agreement, dated August 6, 2021, by and between Northeast Bank and United Operations, LLC (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the FDIC on August 11, 2021).
10.14+ Northeast Bank 2021 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the FDIC on May 7, 2021).
10.15+ Form of Restricted Stock Award Agreement under the Northeast Bank 2021 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.15 of the Form 10-K filed with the FDIC on September 9, 2022).
10.16+ Form of Performance Restricted Stock Award Agreement under the Northeast Bank 2021 Stock Option and Incentive Plan (incorporated by reference to Exhibit 10.16 of the Form 10-K filed with the FDIC on September 9, 2022).
10.17+ Form of Restricted Stock Award Agreement under the Northeast Bank 2021 Stock Option and Incentive Plan, as amended August 23, 2022*
10.18+ Form of Performance Restricted Stock Award Agreement under the Northeast Bank 2021 Stock Option and Incentive Plan, as amended August 23, 2022*
10.19 Equity Distribution Agreement, dated December 12, 2022, by and between Northeast Bank and Piper Sandler & Co., incorporated by reference to Exhibit 1.1 of Northeast Bank's Current Report on Form 8-K filed with the Federal Deposit Insurance Corporation on December 12, 2022.
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 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.
(2) 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.
(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 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.

Item 16. Form 10-K Summary

Not applicable.

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 8, 2023

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 8, 2023
/s/ JEAN-PIERRE LAPOINTE **Jean-Pierre Lapointe**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	September 8, 2023
/s/ MATTHEW BOTEIN **Matthew Botein**	Chairman of the Board	September 8, 2023
/s/ CHERYL DORSEY **Cheryl Dorsey**	Director	September 8, 2023
/s/ WILLIAM MAYER **William Mayer**	Director	September 8, 2023
/s/ JOHN C. ORESTIS **John C. Orestis**	Director	September 8, 2023
/s/ DAVID TANNER **David Tanner**	Director	September 8, 2023
/s/ JUDITH E. WALLINGFORD **Judith E. Wallingford**	Director	September 8, 2023

Exhibit 10.17

RESTRICTED STOCK AWARD AGREEMENT
UNDER NORTHEAST BANK
2021 STOCK OPTION AND INCENTIVE PLAN

Pursuant to the Northeast Bank 2021 Stock Option and Incentive Plan (the "Plan") as amended through the date hereof, Northeast Bank (the "Bank") hereby grants a Restricted Stock Award (an "Award") to the Grantee. Upon acceptance of this Award, the Grantee shall receive the number of shares of Voting Common Stock of the Bank specified in the Global Shares system, subject to the restrictions and conditions set forth herein and in the Plan. The Bank acknowledges the receipt from the Grantee of consideration with respect to the par value of the Stock in the form of cash, past or future services rendered to the Bank by the Grantee or such other form of consideration as is acceptable to the Administrator.

1. Award. The shares of Restricted Stock awarded hereunder shall be issued and held by the Bank's transfer agent in book entry form, and the Grantee's name shall be entered as the stockholder of record on the books of the Bank. Thereupon, the Grantee shall have all the rights of a stockholder with respect to such shares, including voting and dividend rights, subject, however, to the restrictions and conditions specified in Paragraph 2 below. The Grantee shall accept a copy of this Agreement within the Global Shares system.

2. Restrictions and Conditions.

(a) Any book entries for the shares of Restricted Stock granted herein shall bear an appropriate legend, as determined by the Administrator in its sole discretion, to the effect that such shares are subject to restrictions as set forth herein and in the Plan.

(b) Shares of Restricted Stock granted herein may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of by the Grantee prior to vesting.

(c) If the Grantee's employment with the Bank and its Subsidiaries is voluntarily or involuntarily terminated for any reason prior to vesting of shares of Restricted Stock granted herein, all shares of Restricted Stock shall immediately and automatically be forfeited and returned to the Bank. Notwithstanding the foregoing, if the Grantee's employment with the Bank and its Subsidiaries is terminated due to the Grantee's death or disability prior to the vesting of shares of Restricted Stock granted herein, all restrictions shall lapse and such shares shall automatically become fully vested. The Administrator's determination of the reason for termination of the Grantee's employment shall be conclusive and binding on the Grantee and his or her representatives or legatees.

(d) In the case of a Sale Event (as defined in the Plan) prior to any Vesting Date, this Agreement and the shares of Restricted Stock granted herein shall be treated in accordance with Section 3(c) of the Plan; provided, however, that in connection with a Sale Event in which this Award is assumed or continued by the successor entity in such Sale Event or substituted with a new award of such successor (in accordance with Section 3(c) of the Plan), the shares of Restricted Stock granted herein (or any substitute award) shall be deemed vested in full upon the date on which the Grantee's employment with the Bank and its Subsidiaries or the successor entity terminates if such termination occurs on or following the date of such Sale Event and is either by the Bank (or its successor) without Cause (as defined below) or by the Grantee for Good Reason.

"Cause" means a termination of the Grantee's employment as a result of (i) conduct by the Grantee constituting deliberate dishonesty or gross misconduct in connection with the Grantee's employment; (b) the Grantee's commission of any crime involving moral turpitude or any felony; (c) the Grantee's commitment of any fraud, embezzlement, breach of fiduciary duty or misappropriation of funds against the Bank or its Subsidiaries or successor entity; (d) the Grantee's material violation of any provision of any agreement(s) between the Grantee and the Bank or its Subsidiaries or successor entity relating to noncompetition, nonsolicitation, nondisclosure and/or assignment of inventions; (e) the Grantee's material violation of the Bank's (or a Subsidiary's or successor entity's) written policies or rules material to the Grantee's employment that results in material demonstrable harm to the Bank or its Subsidiaries or successor entity; or (f) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Bank or its Subsidiaries or successor entity to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation. In the event the Grantee is a party to an employment agreement with the Bank or any Subsidiary that contains a different definition of "Cause," the definition set forth in such other agreement shall be applicable to the Grantee for purposes of this Agreement and not this definition.

"Good Reason", means any of the following, without the Grantee's consent, provided the Bank has not cured such matter within 30 days of notice by the Grantee to the Bank and the Grantee provides such notice within 60 days of the first occurrence of such matter: (a) requiring the Grantee's primary work location (excluding business travel) to be more than 50 miles from the corporate offices in Boston, Massachusetts, (b) the material failure of the Bank to pay the compensation in the amounts and manner and at the times set forth in this Agreement, or (c) a material diminution in the Grantee's responsibilities, authority or duties which are materially inconsistent with the Grantee's title without the Grantee's prior consent. In the event the Grantee is a party to an employment agreement with the Bank or any Subsidiary that contains a different definition of "Cause," the definition set forth in such other agreement shall be applicable to the Grantee for purposes of this Agreement and not this definition.

3. Vesting of Restricted Stock. Except as set forth in Paragraph 2, the restrictions and conditions in Paragraph 2 of this Agreement shall lapse on the Vesting Date or Dates specified in the Global Shares vesting schedule applicable to this Award so long as the Grantee remains an employee of the Bank or a Subsidiary on such Dates. If a series of Vesting Dates is specified, then the restrictions and conditions in Paragraph 2 shall lapse only with respect to the number of shares of Restricted Stock specified as vested on such date.

Subsequent to such Vesting Date or Dates, the shares of Stock on which all restrictions and conditions have lapsed shall no longer be deemed Restricted Stock. The Administrator may at any time accelerate the vesting schedule specified in this Paragraph 3.

4. Dividends. Dividends on shares of unvested Restricted Stock shall accrue and shall not be paid to the Grantee unless and until such Restricted Shares vest in accordance with this Agreement. If any Restricted Shares are forfeited hereunder, the Grantee shall have no rights to any such accrued dividends and such accrued dividends shall be forfeited in their entirety.

5. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Award shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

6. Transferability. This Agreement is personal to the Grantee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution.

7. Tax Withholding. The Grantee shall, not later than the date as of which the receipt of this Award becomes a taxable event for Federal income tax purposes, pay to the Bank or make arrangements satisfactory to the Administrator for payment of any Federal, state, and local taxes required by law to be withheld on account of such taxable event. Except in the case where an election is made pursuant to Paragraph 8 below, the Bank shall have the authority to cause the required tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of Stock to be issued or released by the transfer agent a number of shares of Stock with an aggregate Fair Market Value that would satisfy the withholding amount due.

8. Election Under Section 83(b). The Grantee and the Bank hereby agree that the Grantee may, within 30 days following the Grant Date of this Award, file with the Internal Revenue Service and the Bank an election under Section 83(b) of the Internal Revenue Code. In the event the Grantee makes such an election, he or she agrees to provide a copy of the election to the Bank. The Grantee acknowledges that he or she is responsible for obtaining the advice of his or her tax advisors with regard to the Section 83(b) election and that he or she is relying solely on such advisors and not on any statements or representations of the Bank or any of its agents with regard to such election.

9. No Obligation to Continue Employment. Neither the Bank nor any Subsidiary is obligated by or as a result of the Plan or this Agreement to continue the Grantee in employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Bank or any Subsidiary to terminate the employment of the Grantee at any time.

10. Integration. This Agreement constitutes the entire agreement between the parties with respect to this Award and supersedes all prior agreements and discussions between the parties concerning such subject matter.

11. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Bank, its subsidiaries and affiliates and certain agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number,

home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Grantee (i) authorizes the Bank to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Grantee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

12. Notices. Notices hereunder shall be mailed or delivered to the Bank at its principal place of business and shall be mailed or delivered to the Grantee at the address on file with the Bank or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned. Electronic acceptance of this Agreement pursuant to the Bank's instructions to the Grantee (including through an online acceptance process) is acceptable.

PERFORMANCE RESTRICTED STOCK AWARD AGREEMENT UNDER NORTHEAST BANK 2021 STOCK OPTION AND INCENTIVE PLAN

Pursuant to the Northeast Bank 2021 Stock Option and Incentive Plan (the "Plan") as amended through the date hereof, Northeast Bank (the "Bank") hereby grants a Restricted Stock Award (an "Award") to the Grantee. Upon acceptance of this Award, the Grantee shall receive the number of shares of Voting Common Stock of the Bank specified in the Global Shares system, subject to the restrictions and conditions set forth herein and in the Plan. The Bank acknowledges the receipt from the Grantee of consideration with respect to the par value of the Stock in the form of cash, past or future services rendered to the Bank by the Grantee or such other form of consideration as is acceptable to the Administrator.

1. Award. The shares of Restricted Stock awarded hereunder shall be issued and held by the Bank's transfer agent in book entry form, and the Grantee's name shall be entered as the stockholder of record on the books of the Bank. Thereupon, the Grantee shall have all the rights of a stockholder with respect to such shares, including voting and dividend rights, subject, however, to the restrictions and conditions specified in Paragraph 2 below. The Grantee shall accept a copy of this Agreement within the Global Shares system.

2. Restrictions and Conditions.

(a) Any book entries for the shares of Restricted Stock granted herein shall bear an appropriate legend, as determined by the Administrator in its sole discretion, to the effect that such shares are subject to restrictions as set forth herein and in the Plan.

(b) Shares of Restricted Stock granted herein may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of by the Grantee prior to vesting.

(c) Except as described in Exhibit A, if the Grantee's employment with the Bank and its Subsidiaries is voluntarily or involuntarily terminated for any reason prior to vesting of shares of Restricted Stock granted herein, all shares of Restricted Stock shall immediately and automatically be forfeited and returned to the Bank. The Administrator's determination of the reason for termination of the Grantee's employment shall be conclusive and binding on the Grantee and his or her representatives or legatees.

3. Vesting of Restricted Stock. The restrictions and conditions in Paragraph 2 of this Agreement shall lapse based on the Bank's performance during the period set forth on Exhibit A (the "Measurement Period"). The Shares of Restricted Stock shall vest in accordance with Exhibit A.

The number of shares of Restricted Stock set forth above (the "Target Award") represents the number of shares of Restricted Stock that will vest if the Bank achieves the target level of performance, and the actual number of shares of Restricted Stock that may vest could be lower than the Target Award and could be zero. The Grantee shall forfeit any portion of the Target Award that does not vest upon the conclusion of the Measurement Period.

4. Dividends. Dividends on shares of unvested Restricted Stock shall accrue and shall not be paid to the Grantee unless and until such Restricted Shares vest in accordance with this Agreement. If any Restricted Shares are forfeited hereunder, the Grantee shall have no rights to any such accrued dividends and such accrued dividends shall be forfeited in their entirety.

5. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Award shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

6. Transferability. This Agreement is personal to the Grantee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution.

7. Tax Withholding. The Grantee shall, not later than the date as of which the receipt of this Award becomes a taxable event for Federal income tax purposes, pay to the Bank or make arrangements satisfactory to the Administrator for payment of any Federal, state, and local taxes required by law to be withheld on account of such taxable event. Except in the case where an election is made pursuant to Paragraph 8 below, the Bank shall have the authority to cause the required tax withholding obligation to be satisfied, in whole or in part, by withholding from shares of Stock to be issued or released by the transfer agent a number of shares of Stock with an aggregate Fair Market Value that would satisfy the withholding amount due.

8. Election Under Section 83(b). The Grantee and the Bank hereby agree that the Grantee may, within 30 days following the Grant Date of this Award, file with the Internal Revenue Service and the Bank an election under Section 83(b) of the Internal Revenue Code. In the event the Grantee makes such an election, he or she agrees to provide a copy of the election to the Bank. The Grantee acknowledges that he or she is responsible for obtaining the advice of his or her tax advisors with regard to the Section 83(b) election and that he or she is relying solely on such advisors and not on any statements or representations of the Bank or any of its agents with regard to such election.

9. No Obligation to Continue Employment. Neither the Bank nor any Subsidiary is obligated by or as a result of the Plan or this Agreement to continue the Grantee in employment and neither the Plan nor this Agreement shall interfere in any way with the right of the Bank or any Subsidiary to terminate the employment of the Grantee at any time.

10. Integration. This Agreement constitutes the entire agreement between the parties with respect to this Award and supersedes all prior agreements and discussions between the parties concerning such subject matter.

11. Data Privacy Consent. In order to administer the Plan and this Agreement and to implement or structure future equity grants, the Bank, its subsidiaries and affiliates and certain

agents thereof (together, the "Relevant Companies") may process any and all personal or professional data, including but not limited to Social Security or other identification number, home address and telephone number, date of birth and other information that is necessary or desirable for the administration of the Plan and/or this Agreement (the "Relevant Information"). By entering into this Agreement, the Grantee (i) authorizes the Bank to collect, process, register and transfer to the Relevant Companies all Relevant Information; (ii) waives any privacy rights the Grantee may have with respect to the Relevant Information; (iii) authorizes the Relevant Companies to store and transmit such information in electronic form; and (iv) authorizes the transfer of the Relevant Information to any jurisdiction in which the Relevant Companies consider appropriate. The Grantee shall have access to, and the right to change, the Relevant Information. Relevant Information will only be used in accordance with applicable law.

12. Notices. Notices hereunder shall be mailed or delivered to the Bank at its principal place of business and shall be mailed or delivered to the Grantee at the address on file with the Bank or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned. Electronic acceptance of this Agreement pursuant to the Bank's instructions to the Grantee (including through an online acceptance process) is acceptable.

EXHIBIT A

PERFORMANCE TARGETS

In order to vest in any shares of Stock with respect to the Measurement Period, neither the Bank nor any of its subsidiaries may be subject to any Board resolution, memorandum of understanding or consent with any regulatory agency, as determined by the Administrator in its sole discretion (the "Absolute Metric Condition"). To the extent the Administrator determines that the Absolute Metric Condition has been satisfied with respect to the Measurement Period, the Grantee shall vest in the number of shares of Restricted Stock determined as set forth in the table below, based on the Bank's attainment of the return on assets target (the "ROA Target") for the Measurement Period as set forth in the table below.

Measurement Period	**ROA Target**	**Achievement of less than 70% of ROE Target**	**Achievement of 70-79.99% of ROE Target**	**Achievement of 80-89.99% of ROE Target**	**Achievement of 90% or greater of ROE Target**
July 1, 2022 – June 30, 2025	1.8%	0% of Target Award	50% of Target Award	75% of Target Award	100% of Target Award

The number of shares of Stock that shall vest with respect to the Measurement Period shall be determined and communicated to the Grantee by the Administrator as soon as reasonably practicable following the conclusion of the Measurement Period, but in no event, later than 74 days thereafter. The Administrator shall appropriately or proportionately adjust or modify the calculation of the achievement of the ROA Target in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development. The Administrator's decision with respect to the number of shares of Stock that vest shall be conclusive and binding on the Grantee and his or her representatives or legatees. Subsequent to any such vesting date, the shares of Stock on which all restrictions and conditions have lapsed shall no longer be deemed Restricted Stock.

If the Grantee's employment with the Bank and its Subsidiaries is terminated due to the Grantee's death or disability prior to the vesting of any outstanding shares of Restricted Stock granted herein, all restrictions shall lapse and 100% of such shares shall automatically become fully vested without regard to whether the Absolute Metric Condition has been met. In addition, upon a Sale Event in which this Award is assumed, continued or substituted by the acquirer, this Award shall no longer be subject to performance vesting (i.e., achievement of the Absolute Performance Metric and ROA Target), but rather, shall vest in full upon the last day of the Measurement Period, subject to the Grantee's continued employment with the Bank (or its successor) through such date; provided that, if the Grantee's employment is terminated by the Bank (or its successor) without Cause (as defined below) or by the Grantee for Good Reason (as defined below), 100% of the unvested shares of Restricted Stock outstanding under this Award shall be deemed vested in full as of the date of such termination. In the case of a Sale Event in which an acquirer does not assume, continue or substitute this Award and this Award terminates in accordance with Section 3(c) of the Plan, this Award shall vest in full as of the date of such Sale Event.

For purposes of this Agreement, "Cause" means a termination of the Grantee's employment as a result of (i) conduct by the Grantee constituting deliberate dishonesty or gross misconduct in connection with the Grantee's employment; (b) the Grantee's commission of any crime involving moral turpitude or any felony; (c) the Grantee's commitment of any fraud, embezzlement, breach of fiduciary duty or misappropriation of funds against the Bank or its Subsidiaries or successor entity; (d) the Grantee's material violation of any provision of any agreement(s) between the Grantee and the Bank or its Subsidiaries or successor entity relating to noncompetition, nonsolicitation, nondisclosure and/or assignment of inventions; (e) the Grantee's material violation of the Bank's (or a Subsidiary's or successor entity's) written policies or rules material to the Grantee's employment that results in material demonstrable harm to the Bank or its Subsidiaries or successor entity; or (f) failure to cooperate with a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Bank or its Subsidiaries or successor entity to cooperate, or the willful destruction or failure to preserve documents or other materials known to be relevant to such investigation or the inducement of others to fail to cooperate or to produce documents or other materials in connection with such investigation. In the event the Grantee is a party to an employment agreement with the Bank or any Subsidiary that contains a different definition of "Cause," the definition set forth in such other agreement shall be applicable to the Grantee for purposes of this Agreement and not this definition.

For purposes of this Agreement, "Good Reason", means any of the following, without the Grantee's consent, provided the Bank has not cured such matter within 30 days of notice by the Grantee to the Bank and the Grantee provides such notice within 60 days of the first occurrence of such matter: (a) requiring the Grantee's primary work location (excluding business travel) to be more than 50 miles from the corporate offices in Boston, Massachusetts, (b) the material failure of the Bank to pay the compensation in the amounts and manner and at the times set forth in this Agreement, or (c) a material diminution in the Grantee's responsibilities, authority or duties which are materially inconsistent with the Grantee's title without the Grantee's prior consent. In the event the Grantee is a party to an employment agreement with the Bank or any Subsidiary that contains a different definition of "Cause," the definition set forth in such other agreement shall be applicable to the Grantee for purposes of this Agreement and not this definition.

Exhibit 21. Subsidiaries of Registrant

Name of Subsidiary	Jurisdiction of Incorporation	Year Acquired or Formed	Percentage of Voting Securities Owned
Northeast Bank REO LLCs: 200 Elm Realty, LLC; 500 Pine Realty, LLC; 17 Dogwood Realty, LLC	Maine	1987	100%
Northeast Bank REO LLCs: 1795 Little Diamond Realty, LLC; 1872 Peaks Realty, LLC; 1630 Spectacle Realty, LLC; 1786 Cliff Realty, LLC	Maine	2019	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 8, 2023

/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 8, 2023

/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, 2023 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 8, 2023

/s/ Richard Wayne
Richard Wayne
Chief Executive Officer

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