

NORTHEAST BANCORP /ME/

Form 10-Q

November 13, 2015

Table Of Contents

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2015**

**Commission File Number: 1-14588**

**Northeast Bancorp**

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**(Exact name of registrant as specified in its charter)**

|                                                                       |                                             |
|-----------------------------------------------------------------------|---------------------------------------------|
| <b>Maine</b>                                                          | <b>01-0425066</b>                           |
| <b>(State or other jurisdiction of incorporation or organization)</b> | <b>(I.R.S. Employer Identification No.)</b> |

|                                                 |                   |
|-------------------------------------------------|-------------------|
| <b>500 Canal Street, Lewiston, Maine</b>        | <b>04240</b>      |
| <b>(Address of Principal executive offices)</b> | <b>(Zip Code)</b> |

**(207) 786-3245**

**Registrant's telephone number, including area code**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer \_\_ Accelerated filer \_\_ Non-accelerated filer \_\_ Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 8, 2015 the registrant had outstanding 8,559,312 shares of voting common stock, \$1.00 par value per share and 1,022,717 shares of non-voting common stock, \$1.00 par value per share.

Table Of Contents

|                                                                                                                  | <b>Page</b> |
|------------------------------------------------------------------------------------------------------------------|-------------|
| <b>Part I. Financial Information</b>                                                                             |             |
| Item 1. <u>Financial Statements (unaudited)</u>                                                                  | 3           |
| <u>Consolidated Balance Sheets September 30, 2015 and June 30, 2015</u>                                          | 3           |
| <u>Consolidated Statements of Income Three Months Ended September 30, 2015 and 2014</u>                          | 4           |
| <u>Consolidated Statements of Comprehensive Income Three Months Ended September 30, 2015 and 2014</u>            | 5           |
| <u>Consolidated Statements of Changes in Stockholders' Equity Three Months Ended September 30, 2015 and 2014</u> | 6           |
| <u>Consolidated Statements of Cash Flows Three Months Ended September 30, 2015 and 2014</u>                      | 7           |
| <u>Notes to Consolidated Financial Statements</u>                                                                | 8           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>             | 28          |
| Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>                                         | 38          |
| Item 4. <u>Controls and Procedures</u>                                                                           | 38          |
| <b>Part II. Other Information</b>                                                                                |             |
| Item 1. <u>Legal Proceedings</u>                                                                                 | 39          |
| Item 1A. <u>Risk Factors</u>                                                                                     | 39          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                       | 39          |
| Item 3. <u>Defaults Upon Senior Securities</u>                                                                   | 39          |
| Item 4. <u>Mine Safety Disclosures</u>                                                                           | 39          |
| Item 5. <u>Other Information</u>                                                                                 | 39          |
| Item 6. <u>Exhibits</u>                                                                                          | 39          |



Table Of Contents

## PART 1- FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

**NORTHEAST  
BANCORP AND  
SUBSIDIARY  
CONSOLIDATED  
BALANCE  
SHEETS**

(Unaudited)  
(Dollars in  
thousands, except  
share data)

|                                                         | September<br>30, 2015 | June 30,<br>2015 |
|---------------------------------------------------------|-----------------------|------------------|
| Assets                                                  |                       |                  |
| Cash and due from banks                                 | \$ 2,979              | \$ 2,789         |
| Short-term investments                                  | 83,234                | 87,061           |
| Total cash and cash equivalents                         | 86,213                | 89,850           |
| Available-for-sale securities, at fair value            | 101,344               | 101,908          |
| Residential real estate loans held for sale             | 5,366                 | 7,093            |
| SBA loans held for sale                                 | 2,170                 | 1,942            |
| Total loans held for sale                               | 7,536                 | 9,035            |
| Loans                                                   | 625,842               | 612,137          |
| Less: Allowance for loan losses                         | 2,065                 | 1,926            |
| Loans, net                                              | 623,777               | 610,211          |
| Premises and equipment, net                             | 8,460                 | 8,253            |
| Real estate owned and other repossessed collateral, net | 1,279                 | 1,651            |
| Federal Home Loan Bank stock, at cost                   | 4,102                 | 4,102            |
| Intangible assets, net                                  | 2,078                 | 2,209            |
| Bank owned life insurance                               | 15,387                | 15,276           |
| Other assets                                            | 8,073                 | 8,223            |
| Total assets                                            | \$ 858,249            | \$ 850,718       |
| Liabilities and Stockholders' Equity                    |                       |                  |
| Liabilities                                             |                       |                  |

|                                                                                                                                                                                     |            |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Deposits:                                                                                                                                                                           |            |            |
| Demand                                                                                                                                                                              | \$ 62,687  | \$ 60,383  |
| Savings and interest checking                                                                                                                                                       | 106,679    | 100,134    |
| Money market                                                                                                                                                                        | 182,690    | 168,527    |
| Time                                                                                                                                                                                | 341,422    | 345,715    |
| Total deposits                                                                                                                                                                      | 693,478    | 674,759    |
| Federal Home Loan Bank advances                                                                                                                                                     | 30,159     | 30,188     |
| Wholesale repurchase agreements                                                                                                                                                     | -          | 10,037     |
| Short-term borrowings                                                                                                                                                               | 2,479      | 2,349      |
| Junior subordinated debentures issued to affiliated trusts                                                                                                                          | 8,674      | 8,626      |
| Capital lease obligation                                                                                                                                                            | 1,312      | 1,368      |
| Other liabilities                                                                                                                                                                   | 8,443      | 10,664     |
| Total liabilities                                                                                                                                                                   | 744,545    | 737,991    |
| Commitments and contingencies                                                                                                                                                       | -          | -          |
| Stockholders' equity                                                                                                                                                                |            |            |
| Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at September 30, 2015 and June 30, 2015                                            | -          | -          |
| Voting common stock, \$1.00 par value, 25,000,000 shares authorized; 8,569,612 and 8,575,144 shares issued and outstanding at September 30, 2015 and June 30, 2015, respectively    | 8,570      | 8,575      |
| Non-voting common stock, \$1.00 par value, 3,000,000 shares authorized; 1,022,717 and 1,012,739 shares issued and outstanding at September 30, 2015 and June 30, 2015, respectively | 1,023      | 1,013      |
| Additional paid-in capital                                                                                                                                                          | 84,937     | 85,506     |
| Retained earnings                                                                                                                                                                   | 20,693     | 18,921     |
| Accumulated other comprehensive loss                                                                                                                                                | (1,519 )   | (1,288 )   |
| Total stockholders' equity                                                                                                                                                          | 113,704    | 112,727    |
| Total liabilities and stockholders' equity                                                                                                                                          | \$ 858,249 | \$ 850,718 |

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

Table Of Contents

**NORTHEAST  
BANCORP AND  
SUBSIDIARY  
CONSOLIDATED  
STATEMENTS  
OF INCOME**

(Unaudited)  
(Dollars in  
thousands, except  
share data)

|                                                                            | Three Months Ended<br>September 30, |          |
|----------------------------------------------------------------------------|-------------------------------------|----------|
|                                                                            | 2015                                | 2014     |
| Interest and dividend income:                                              |                                     |          |
| Interest and fees on loans                                                 | \$10,790                            | \$10,922 |
| Interest on available-for-sale securities                                  | 228                                 | 244      |
| Other interest and dividend income                                         | 95                                  | 66       |
| Total interest and dividend income                                         | 11,113                              | 11,232   |
| Interest expense:                                                          |                                     |          |
| Deposits                                                                   | 1,365                               | 1,130    |
| Federal Home Loan Bank advances                                            | 260                                 | 323      |
| Wholesale repurchase agreements                                            | 67                                  | 73       |
| Short-term borrowings                                                      | 9                                   | 9        |
| Junior subordinated debentures issued to affiliated trusts                 | 154                                 | 206      |
| Obligation under capital lease agreements                                  | 17                                  | 20       |
| Total interest expense                                                     | 1,872                               | 1,761    |
| Net interest and dividend income before provision for loan losses          | 9,241                               | 9,471    |
| Provision for loan losses                                                  | 169                                 | 320      |
| Net interest and dividend income after provision for loan losses           | 9,072                               | 9,151    |
| Noninterest income:                                                        |                                     |          |
| Fees for other services to customers                                       | 408                                 | 394      |
| Gain on sales of residential loans held for sale                           | 560                                 | 584      |
| Gain on sales of portfolio loans                                           | 675                                 | 80       |
| Loss recognized on real estate owned and other repossessed collateral, net | (59)                                | (23)     |
| Bank-owned life insurance income                                           | 112                                 | 109      |
| Other noninterest income                                                   | 9                                   | 10       |
| Total noninterest income                                                   | 1,705                               | 1,154    |
| Noninterest expense:                                                       |                                     |          |
| Salaries and employee benefits                                             | 4,256                               | 4,533    |
| Occupancy and equipment expense                                            | 1,290                               | 1,202    |
| Professional fees                                                          | 430                                 | 308      |

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|                                                        |           |            |
|--------------------------------------------------------|-----------|------------|
| Data processing fees                                   | 349       | 345        |
| Marketing expense                                      | 70        | 69         |
| Loan acquisition and collection expense                | 451       | 274        |
| FDIC insurance premiums                                | 114       | 124        |
| Intangible asset amortization                          | 131       | 166        |
| Other noninterest expense                              | 719       | 689        |
| Total noninterest expense                              | 7,810     | 7,710      |
| Income before income tax expense                       | 2,967     | 2,595      |
| Income tax expense                                     | 1,100     | 948        |
| Net income                                             | \$1,867   | \$1,647    |
|                                                        |           |            |
| Weighted average shares outstanding during the period: |           |            |
| Basic                                                  | 9,562,812 | 10,180,038 |
| Diluted                                                | 9,562,812 | 10,180,038 |
|                                                        |           |            |
| Earnings per common share:                             |           |            |
| Basic                                                  | \$0.20    | \$0.16     |
| Diluted                                                | 0.20      | 0.16       |
|                                                        |           |            |
| Cash dividends declared per common share               | \$0.01    | \$0.01     |

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

Table Of Contents

**NORTHEAST  
BANCORP AND  
SUBSIDIARY  
CONSOLIDATED  
STATEMENTS OF  
COMPREHENSIVE  
INCOME**

(Unaudited)

(Dollars in thousands)

|                                                                       | Three Months<br>Ended<br>September 30,<br>2015      2014 |         |
|-----------------------------------------------------------------------|----------------------------------------------------------|---------|
| Net income                                                            | \$1,867                                                  | \$1,647 |
| Other comprehensive loss, before tax:                                 |                                                          |         |
| Available-for-sale securities:                                        |                                                          |         |
| Change in net unrealized gain (loss) on available-for-sale securities | 466                                                      | (275 )  |
| Reclassification adjustment for net gains included in net income      | -                                                        | -       |
| Total available-for-sale securities                                   | 466                                                      | (275 )  |
| Derivatives and hedging activities:                                   |                                                          |         |
| Change in accumulated loss on effective cash flow hedges              | (838 )                                                   | (272 )  |
| Reclassification adjustments for net gains included in net income     | -                                                        | (9 )    |
| Total derivatives and hedging activities                              | (838 )                                                   | (281 )  |
| Total other comprehensive loss, before tax                            | (372 )                                                   | (556 )  |
| Income tax benefit related to other comprehensive loss                | (141 )                                                   | (188 )  |
| Other comprehensive loss, net of tax                                  | (231 )                                                   | (368 )  |
| Comprehensive income                                                  | \$1,636                                                  | \$1,279 |

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

Table Of Contents

**NORTHEAST  
BANCORP AND  
SUBSIDIARY  
CONSOLIDATED  
STATEMENTS OF  
CHANGES IN  
STOCKHOLDERS'  
EQUITY**

(Unaudited)

(Dollars in  
thousands, except  
share data)

|                                                              | Preferred Stock |        | Voting Common | Non-voting Common |         | Additional      | Retained | Accumulated              | Total                  |
|--------------------------------------------------------------|-----------------|--------|---------------|-------------------|---------|-----------------|----------|--------------------------|------------------------|
|                                                              | Shares          | Amount | Shares        | Shares            | Amount  | Paid-in Capital | Earnings | Other Comprehensive Loss | Stockholders' Equity   |
| Balance at June 30, 2014                                     | -               | \$ -   | 9,260,331     | \$9,260           | 880,963 | \$881           | \$90,914 | \$12,294                 | \$ (1,283 ) \$ 112,066 |
| Net income                                                   | -               | -      | -             | -                 | -       | -               | 1,647    | -                        | 1,647                  |
| Other comprehensive loss, net of tax                         | -               | -      | -             | -                 | -       | -               | -        | (368 )                   | (368 )                 |
| Common stock repurchased                                     | -               | -      | (14,400 )     | (14 )             | -       | (120 )          | -        | -                        | (134 )                 |
| Conversion of voting common stock to non-voting common stock | -               | -      | -             | -                 | -       | -               | -        | -                        | -                      |
| Dividends on common stock at \$0.01 per share                | -               | -      | -             | -                 | -       | -               | (102 )   | -                        | (102 )                 |
| Stock-based compensation                                     | -               | -      | -             | -                 | -       | 136             | -        | -                        | 136                    |
| Issuance of restricted common stock                          | -               | -      | 128,000       | 128               | -       | (128 )          | -        | -                        | -                      |
| Forfeiture of restricted common stock                        | -               | -      | (6,860 )      | (7 )              | -       | 7               | -        | -                        | -                      |
| Balance at September 30, 2014                                | -               | \$ -   | 9,367,071     | \$9,367           | 880,963 | \$881           | \$90,809 | \$13,839                 | \$ (1,651 ) \$ 113,245 |

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|                                                              |   |      |           |         |           |         |          |          |             |            |
|--------------------------------------------------------------|---|------|-----------|---------|-----------|---------|----------|----------|-------------|------------|
| Balance at June 30, 2015                                     | - | \$ - | 8,575,144 | \$8,575 | 1,012,739 | \$1,013 | \$85,506 | \$18,921 | \$ (1,288 ) | \$ 112,727 |
| Net income                                                   | - | -    | -         | -       | -         | -       | -        | 1,867    | -           | 1,867      |
| Other comprehensive loss, net of tax                         | - | -    | -         | -       | -         | -       | -        | -        | (231 )      | (231 )     |
| Common stock repurchased                                     | - | -    | (52,500 ) | (53 )   | -         | -       | (495 )   | -        | -           | (548 )     |
| Conversion of voting common stock to non-voting common stock | - | -    | (9,978 )  | (10 )   | 9,978     | 10      | -        | -        | -           | -          |
| Dividends on common stock at \$0.01 per share                | - | -    | -         | -       | -         | -       | -        | (95 )    | -           | (95 )      |
| Stock-based compensation                                     | - | -    | -         | -       | -         | -       | (16 )    | -        | -           | (16 )      |
| Issuance of restricted common stock                          | - | -    | 97,500    | 98      | -         | -       | (98 )    | -        | -           | -          |
| Forfeiture of restricted common stock                        | - | -    | (40,554 ) | (40 )   | -         | -       | 40       | -        | -           | -          |
| Balance at September 30, 2015                                | - | \$ - | 8,569,612 | \$8,570 | 1,022,717 | \$1,023 | \$84,937 | \$20,693 | \$ (1,519 ) | \$ 113,704 |

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

Table Of Contents**NORTHEAST BANCORP AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Dollars in thousands)

|                                                                                               | Three Months<br>Ended September<br>30, |          |
|-----------------------------------------------------------------------------------------------|----------------------------------------|----------|
|                                                                                               | 2015                                   | 2014     |
| Operating activities:                                                                         |                                        |          |
| Net income                                                                                    | \$1,867                                | \$1,647  |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities:   |                                        |          |
| Provision for loan losses                                                                     | 169                                    | 320      |
| Loss (gain) on sale and impairment of real estate owned and other repossessed collateral, net | 53                                     | (5 )     |
| Accretion of fair value adjustments on loans, net                                             | (2,248 )                               | (3,097 ) |
| Accretion of fair value adjustments on deposits, net                                          | (3 )                                   | (64 )    |
| Accretion of fair value adjustments on borrowings, net                                        | (18 )                                  | (47 )    |
| Originations of residential loans held for sale                                               | (26,877)                               | (27,676) |
| Net proceeds from sales of residential loans held for sale                                    | 29,164                                 | 31,136   |
| Gain on sales of residential loans held for sale, net                                         | (560 )                                 | (584 )   |
| Gain on sales of portfolio loans, net                                                         | (675 )                                 | (80 )    |
| Amortization of intangible assets                                                             | 131                                    | 166      |
| Bank-owned life insurance income, net                                                         | (112 )                                 | (109 )   |
| Depreciation of premises and equipment                                                        | 405                                    | 432      |
| Loss on sale and disposal of premises and equipment, net                                      | 6                                      | 28       |
| Stock-based compensation                                                                      | (16 )                                  | 136      |
| Amortization of available-for-sale securities, net                                            | 222                                    | 262      |
| Changes in other assets and liabilities:                                                      |                                        |          |
| Other assets                                                                                  | 521                                    | (367 )   |
| Other liabilities                                                                             | (3,059 )                               | (1,284 ) |
| Net cash (used in) provided by operating activities                                           | (1,030 )                               | 814      |
| Investing activities:                                                                         |                                        |          |
| Purchases of available-for-sale securities                                                    | (5,000 )                               | -        |
| Proceeds from maturities and principal payments on available-for-sale securities              | 5,808                                  | 2,994    |
| Loan purchases                                                                                | (23,458)                               | (13,167) |
| Proceeds from sales of portfolio loans                                                        | 6,154                                  | 793      |
| Loan originations, principal collections, and purchased loan paydowns, net                    | 5,712                                  | (10,213) |
| Purchases and disposals of premises and equipment, net                                        | (618 )                                 | (105 )   |
| Proceeds from sales of real estate owned and other repossessed collateral                     | 642                                    | 88       |
| Net cash used in investing activities                                                         | (10,760)                               | (19,610) |
| Financing activities:                                                                         |                                        |          |
| Net increase in deposits                                                                      | 18,722                                 | 19,530   |
| Net increase in short-term borrowings                                                         | 130                                    | 820      |

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|                                                                            |          |          |
|----------------------------------------------------------------------------|----------|----------|
| Repurchase of common stock                                                 | (548 )   | (134 )   |
| Dividends paid on common stock                                             | (95 )    | (102 )   |
| Repayment of wholesale repurchase agreements                               | (10,000) | -        |
| Repayment of capital lease obligation                                      | (56 )    | (47 )    |
| Net cash provided by financing activities                                  | 8,153    | 20,067   |
| Net (decrease) increase in cash and cash equivalents                       | (3,637 ) | 1,271    |
| Cash and cash equivalents, beginning of period                             | 89,850   | 82,259   |
| Cash and cash equivalents, end of period                                   | \$86,213 | \$83,530 |
| Supplemental schedule of noncash investing and financing activities:       |          |          |
| Transfers from loans to real estate owned and other repossessed collateral | \$323    | \$209    |

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

Table Of Contents

**NORTHEAST BANCORP AND SUBSIDIARY**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2015**

**1. Basis of Presentation**

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position, results of operations, and cash flows for the interim periods presented. These financial statements and notes should be read in conjunction with the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2015 (“Fiscal 2015”) included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

**2. Recent Accounting Pronouncements**

In January 2014, the FASB issued ASU No. 2014-01, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects* (“ASU 2014-01”). The amendments in ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and should be applied retrospectively to all periods presented. Early adoption is permitted. The Company adopted the standard in the current period. See Part I. Item I. “Notes to Unaudited Consolidated Financial Statements – Note 6: Investments in Qualified Affordable Housing Projects” for further discussion and related effect.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual periods beginning after December 15, 2016 and is not expected to have a significant impact on the Company’s financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (“ASU 2014-11”). ASU 2014-11 requires that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, ASU 2014-11 requires separate accounting for repurchase financings, which entails the transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. ASU 2014-11 requires entities to disclose certain information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements. In addition, ASU 2014-11 requires disclosures related to collateral, remaining contractual tenor and of the potential risks associated with repurchase agreements, securities lending transactions and repurchase-to-maturity transactions. ASU 2014-11 was effective July 1, 2015 and did not have a significant impact on the Company’s financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure* (“ASU 2014-14”). ASU 2014-14 affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD), and the U.S. Department of Veterans Affairs (VA). The update requires that, upon foreclosure, a guaranteed mortgage loan be derecognized and a separate other receivable be recognized when specific criteria are met. ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on the Company’s financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (“ASU 2015-07”). The amendment affects reporting entities that elect to measure the fair value of an investment using the net asset value per share as a practical expedient. The Company adopted the standard in the current period. See Part I. Item I. “Notes to Unaudited Consolidated Financial Statements – Note 11: Fair Value Measurements” for further discussion and related effect.

Table Of Contents**3. Securities Available-for-Sale**

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

|                                               | September 30, 2015     |            |            |             |
|-----------------------------------------------|------------------------|------------|------------|-------------|
|                                               | Amortized              | Gross      | Gross      | Fair        |
|                                               | Cost                   | Unrealized | Unrealized | Value       |
|                                               | (Dollars in thousands) |            |            |             |
| U.S. Government agency securities             | \$45,134               | \$ 34      | \$ (1      | ) \$45,167  |
| Agency mortgage-backed securities             | 51,562                 | 21         | (438       | ) 51,145    |
| Other investments measured at net asset value | 5,018                  | 14         | -          | 5,032       |
|                                               | \$101,714              | \$ 69      | \$ (439    | ) \$101,344 |

|                                               | June 30, 2015          |            |            |             |
|-----------------------------------------------|------------------------|------------|------------|-------------|
|                                               | Amortized              | Gross      | Gross      | Fair        |
|                                               | Cost                   | Unrealized | Unrealized | Value       |
|                                               | (Dollars in thousands) |            |            |             |
| U.S. Government agency securities             | \$48,191               | \$ 40      | \$ (1      | ) \$48,230  |
| Agency mortgage-backed securities             | 54,553                 | 2          | (877       | ) 53,678    |
| Other investments measured at net asset value | -                      | -          | -          | -           |
|                                               | \$102,744              | \$ 42      | \$ (878    | ) \$101,908 |

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. There were no securities sold during the three months ended September 30, 2015 or 2014. At September 30, 2015, investment securities with a fair value of approximately \$3.0 million were pledged as collateral to secure outstanding borrowings.

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

| September 30, 2015  |            |                     |            |       |            |
|---------------------|------------|---------------------|------------|-------|------------|
| Less than 12 Months |            | More than 12 Months |            | Total |            |
| Fair                | Unrealized | Fair                | Unrealized | Fair  | Unrealized |

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|                                   | Value                  | Losses   | Value    | Losses    | Value    | Losses    |
|-----------------------------------|------------------------|----------|----------|-----------|----------|-----------|
|                                   | (Dollars in thousands) |          |          |           |          |           |
| U.S. Government agency securities | \$2,997                | \$ (1 )  | \$-      | \$ -      | \$2,997  | \$ (1 )   |
| Agency mortgage-backed securities | 7,871                  | (34 )    | 39,617   | (404 )    | 47,488   | (438 )    |
|                                   | \$10,868               | \$ (35 ) | \$39,617 | \$ (404 ) | \$50,485 | \$ (439 ) |

June 30, 2015

|                                   | Less than 12 Months    |                   | More than 12 Months |                   | Total      |                   |
|-----------------------------------|------------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                   | Fair Value             | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
|                                   | (Dollars in thousands) |                   |                     |                   |            |                   |
| U.S. Government agency securities | \$2,999                | \$ (1 )           | \$-                 | \$ -              | \$2,999    | \$ (1 )           |
| Agency mortgage-backed securities | 10,295                 | (106 )            | 41,349              | (771 )            | 51,644     | (877 )            |
|                                   | \$13,294               | \$ (107 )         | \$41,349            | \$ (771 )         | \$54,643   | \$ (878 )         |

There were no other-than-temporary impairment losses on securities during the three months ended September 30, 2015 or 2014.

At September 30, 2015, the Company had sixteen securities in a continuous loss position for greater than twelve months. At September 30, 2015, all of the Company's available-for-sale securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Company's available-for-sale securities at September 30, 2015 is attributable to changes in interest rates.

Management of the Company, in addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. At September 30, 2015, it is more likely than not that the Company will not sell or be required to sell the investment securities before recovery of its amortized cost. As such, management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at September 30, 2015.

The investment measured at net asset value is a fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies. The underlying composition of the fund is primarily government agencies or other investment-grade investments. The effective duration of the investments is 4.32 years.

Table Of Contents

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of September 30, 2015. 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<br>Cost<br>(Dollars in<br>thousands) | Fair<br>Value |
|----------------------------------------|------------------------------------------------|---------------|
| Due within one year                    | \$33,077                                       | \$33,095      |
| Due after one year through five years  | 12,058                                         | 12,072        |
| Due after five years through ten years | 24,618                                         | 24,516        |
| Due after ten years                    | 26,943                                         | 26,629        |
| Total                                  | \$96,696                                       | \$96,312      |

Table Of Contents

**4. Loans, Allowance for Loan Losses and Credit Quality**

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

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

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

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a troubled debt restructuring (“TDR”), and therefore by definition is an impaired loan. Concessionary modifications may include adjustments to interest rates, extensions of maturity, and other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. For loans accounted for under ASC 310-30, the Company evaluates whether it has granted a concession by comparing the restructured debt terms to the expected cash flows at acquisition plus any additional cash flows expected to be collected arising from changes in estimate after acquisition. As a result, if an ASC 310-30 loan is modified to be consistent with, or better than, the Company’s expectations at acquisition, the loan would not qualify as a TDR. Nonaccrual loans that are restructured generally remain on nonaccrual status for a minimum period of six months to

demonstrate that the borrower can meet the restructured terms. If the restructured loan is on accrual status prior to being modified, it is reviewed to determine if the modified loan should remain on accrual status. If the borrower's ability to meet the revised payment schedule is not reasonably assured, the loan is classified as a nonaccrual loan. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

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

|                         | September 30, 2015     |           |           | June 30, 2015 |           |           |
|-------------------------|------------------------|-----------|-----------|---------------|-----------|-----------|
|                         | Originated             | Purchased | Total     | Originated    | Purchased | Total     |
|                         | (Dollars in thousands) |           |           |               |           |           |
| Residential real estate | \$102,570              | \$3,214   | \$105,784 | \$106,275     | \$2,068   | \$108,343 |
| Home equity             | 22,480                 | -         | 22,480    | 24,326        | -         | 24,326    |
| Commercial real estate  | 152,873                | 210,727   | 363,600   | 148,425       | 200,251   | 348,676   |
| Commercial business     | 126,476                | 258       | 126,734   | 122,860       | 273       | 123,133   |
| Consumer                | 7,244                  | -         | 7,244     | 7,659         | -         | 7,659     |
| Total loans             | \$411,643              | \$214,199 | \$625,842 | \$409,545     | \$202,592 | \$612,137 |

Table Of ContentsPast Due and Nonaccrual Loans

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

| September 30, 2015         |               |               |                                                     |                                               |                      |                  |                |                          |
|----------------------------|---------------|---------------|-----------------------------------------------------|-----------------------------------------------|----------------------|------------------|----------------|--------------------------|
|                            | 30-59<br>Days | 60-89<br>Days | Past Due<br>90 Days<br>or<br>More-Still<br>Accruing | Past Due<br>90 Days or<br>More-<br>Nonaccrual | Total<br>Past<br>Due | Total<br>Current | Total<br>Loans | Non-<br>Accrual<br>Loans |
| (Dollars in thousands)     |               |               |                                                     |                                               |                      |                  |                |                          |
| Originated portfolio:      |               |               |                                                     |                                               |                      |                  |                |                          |
| Residential real estate    | \$ 176        | \$ 950        | \$ -                                                | \$ 1,658                                      | \$ 2,784             | \$ 99,786        | \$ 102,570     | \$ 3,165                 |
| Home equity                | -             | -             | -                                                   | 20                                            | 20                   | 22,460           | 22,480         | 20                       |
| Commercial real estate     | 219           | 173           | -                                                   | 402                                           | 794                  | 152,079          | 152,873        | 529                      |
| Commercial business        | 22            | -             | -                                                   | 2                                             | 24                   | 126,452          | 126,476        | 2                        |
| Consumer                   | 198           | 41            | -                                                   | 50                                            | 289                  | 6,955            | 7,244          | 153                      |
| Total originated portfolio | 615           | 1,164         | -                                                   | 2,132                                         | 3,911                | 407,732          | 411,643        | 3,869                    |
| Purchased portfolio:       |               |               |                                                     |                                               |                      |                  |                |                          |
| Residential real estate    | -             | -             | -                                                   | -                                             | -                    | 3,214            | 3,214          | -                        |
| Commercial business        | -             | -             | -                                                   | -                                             | -                    | 258              | 258            | -                        |
| Commercial real estate     | 1,009         | 1,110         | -                                                   | 2,407                                         | 4,526                | 206,201          | 210,727        | 6,939                    |
| Total purchased portfolio  | 1,009         | 1,110         | -                                                   | 2,407                                         | 4,526                | 209,673          | 214,199        | 6,939                    |
| Total loans                | \$ 1,624      | \$ 2,274      | \$ -                                                | \$ 4,539                                      | \$ 8,437             | \$ 617,405       | \$ 625,842     | \$ 10,808                |

| June 30, 2015              |               |               |                                                     |                                               |                      |                  |                |                          |
|----------------------------|---------------|---------------|-----------------------------------------------------|-----------------------------------------------|----------------------|------------------|----------------|--------------------------|
|                            | 30-59<br>Days | 60-89<br>Days | Past Due<br>90 Days<br>or<br>More-Still<br>Accruing | Past Due<br>90 Days or<br>More-<br>Nonaccrual | Total<br>Past<br>Due | Total<br>Current | Total<br>Loans | Non-<br>Accrual<br>Loans |
| (Dollars in thousands)     |               |               |                                                     |                                               |                      |                  |                |                          |
| Originated portfolio:      |               |               |                                                     |                                               |                      |                  |                |                          |
| Residential real estate    | \$ 239        | \$ 973        | \$ -                                                | \$ 1,393                                      | \$ 2,605             | \$ 103,670       | \$ 106,275     | \$ 3,021                 |
| Home equity                | 9             | -             | -                                                   | 11                                            | 20                   | 24,306           | 24,326         | 11                       |
| Commercial real estate     | 300           | -             | -                                                   | 704                                           | 1,004                | 147,421          | 148,425        | 994                      |
| Commercial business        | -             | -             | -                                                   | 2                                             | 2                    | 122,858          | 122,860        | 2                        |
| Consumer                   | 105           | 29            | -                                                   | 56                                            | 190                  | 7,469            | 7,659          | 190                      |
| Total originated portfolio | 653           | 1,002         | -                                                   | 2,166                                         | 3,821                | 405,724          | 409,545        | 4,218                    |
| Purchased portfolio:       |               |               |                                                     |                                               |                      |                  |                |                          |
| Residential real estate    | -             | -             | -                                                   | -                                             | -                    | 2,068            | 2,068          | -                        |

|                           |       |         |    |          |         |           |           |          |
|---------------------------|-------|---------|----|----------|---------|-----------|-----------|----------|
| Commercial business       | -     | -       | -  | -        | -       | 273       | 273       | -        |
| Commercial real estate    | 86    | 299     | -  | 2,410    | 2,795   | 197,456   | 200,251   | 6,532    |
| Total purchased portfolio | 86    | 299     | -  | 2,410    | 2,795   | 199,797   | 202,592   | 6,532    |
| Total loans               | \$739 | \$1,301 | \$ | \$ 4,576 | \$6,616 | \$605,521 | \$612,137 | \$10,750 |

Allowance for Loan Losses and Impaired Loans

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

The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the 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: commercial real estate, commercial business, consumer, residential real estate, and purchased loans. Risk characteristics relevant to each portfolio segment are as follows:

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

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

Table Of Contents

Commercial business: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. 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 Bank's Loan Acquisition and Servicing Group ("LASG"). Loans acquired by the LASG are, with limited exceptions, performing loans at the date of purchase. Loans in this segment acquired with specific material credit deterioration since origination are identified as purchased credit-impaired. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of non-owner occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type. Loans in this segment are evaluated for impairment under ASC 310-30. The Company reviews expected cash flows from purchased loans on a quarterly basis. The effect of a decline in expected cash flows subsequent to the acquisition of the loan is recognized through a specific allocation in the allowance for loan losses.

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

Levels and trends in delinquencies and nonperforming 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

Other effects resulting from trends in the valuation of underlying collateral

The allocated component of the allowance for loan losses relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for commercial business and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. Large groups of smaller-balance homogeneous loans, such as consumer and residential real estate loans are collectively evaluated for impairment based on the group's historical loss experience adjusted for qualitative factors. Accordingly, the Company does not separately identify individual consumer and residential loans for individual impairment and disclosure. However, all TDRs are individually reviewed for impairment.

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

Table Of Contents

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

| Three Months Ended September 30, 2015 |             |             |            |          |           |             |         |
|---------------------------------------|-------------|-------------|------------|----------|-----------|-------------|---------|
|                                       | Residential | Commercial  | Commercial |          |           |             |         |
|                                       | Real Estate | Real Estate | Business   | Consumer | Purchased | Unallocated | Total   |
| (Dollars in thousands)                |             |             |            |          |           |             |         |
| Beginning balance                     | \$741       | \$ 694      | \$ 117     | \$ 35    | \$ 283    | \$ 56       | \$1,926 |
| Provision                             | (21 )       | 62          | 16         | 31       | 81        | -           | 169     |
| Recoveries                            | 12          | 5           | 1          | 2        | -         | -           | 20      |
| Charge-offs                           | -           | (28 )       | -          | (22 )    | -         | -           | (50 )   |
| Ending balance                        | \$732       | \$ 733      | \$ 134     | \$ 46    | \$ 364    | \$ 56       | \$2,065 |

| Three Months Ended September 30, 2014 |             |             |            |          |           |             |         |
|---------------------------------------|-------------|-------------|------------|----------|-----------|-------------|---------|
|                                       | Residential | Commercial  | Commercial |          |           |             |         |
|                                       | Real Estate | Real Estate | Business   | Consumer | Purchased | Unallocated | Total   |
| (Dollars in thousands)                |             |             |            |          |           |             |         |
| Beginning balance                     | \$580       | \$ 358      | \$ 48      | \$ 79    | \$ 267    | \$ 35       | \$1,367 |
| Provision                             | 358         | (18 )       | 1          | (35 )    | 4         | 10          | 320     |
| Recoveries                            | 5           | -           | -          | 10       | -         | -           | 15      |
| Charge-offs                           | (160)       | -           | -          | (3 )     | -         | -           | (163 )  |
| Ending balance                        | \$783       | \$ 340      | \$ 49      | \$ 51    | \$ 271    | \$ 45       | \$1,539 |

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

| September 30, 2015         |             |             |            |          |           |             |         |
|----------------------------|-------------|-------------|------------|----------|-----------|-------------|---------|
|                            | Residential | Commercial  | Commercial |          |           |             |         |
|                            | Real Estate | Real Estate | Business   | Consumer | Purchased | Unallocated | Total   |
| (Dollars in thousands)     |             |             |            |          |           |             |         |
| Allowance for loan losses: |             |             |            |          |           |             |         |
| Individually evaluated     | \$415       | \$ 21       | \$ -       | \$ -     | \$ -      | \$ -        | \$436   |
| Collectively evaluated     | 317         | 712         | 134        | 46       | -         | 56          | 1,265   |
| ASC 310-30                 | -           | -           | -          | -        | 364       | -           | 364     |
| Total                      | \$732       | \$ 733      | \$ 134     | \$ 46    | \$364     | \$ 56       | \$2,065 |

## Loans:

|                        |           |            |            |          |           |      |           |
|------------------------|-----------|------------|------------|----------|-----------|------|-----------|
| Individually evaluated | \$5,071   | \$ 1,866   | \$ 2       | \$ 375   | \$ -      | \$ - | \$7,314   |
| Collectively evaluated | 119,979   | 151,007    | 126,474    | 6,869    | -         | -    | 404,329   |
| ASC 310-30             | -         | -          | -          | -        | 214,199   | -    | 214,199   |
| Total                  | \$125,050 | \$ 152,873 | \$ 126,476 | \$ 7,244 | \$214,199 | \$ - | \$625,842 |

June 30, 2015

Residential Commercial Commercial

|             |             |          |          |           |             |       |
|-------------|-------------|----------|----------|-----------|-------------|-------|
| Real Estate | Real Estate | Business | Consumer | Purchased | Unallocated | Total |
|-------------|-------------|----------|----------|-----------|-------------|-------|

(Dollars in thousands)

## Allowance for loan losses:

|                        |       |        |        |       |       |       |         |
|------------------------|-------|--------|--------|-------|-------|-------|---------|
| Individually evaluated | \$435 | \$ 21  | \$ -   | \$ -  | \$ -  | \$ -  | \$456   |
| Collectively evaluated | 306   | 673    | 117    | 35    | -     | 56    | 1,187   |
| ASC 310-30             | -     | -      | -      | -     | 283   | -     | 283     |
| Total                  | \$741 | \$ 694 | \$ 117 | \$ 35 | \$283 | \$ 56 | \$1,926 |

## Loans:

|                        |           |            |            |          |           |      |           |
|------------------------|-----------|------------|------------|----------|-----------|------|-----------|
| Individually evaluated | \$4,095   | \$ 2,381   | \$ 2       | \$ 253   | \$ -      | \$ - | \$6,731   |
| Collectively evaluated | 126,506   | 146,044    | 122,858    | 7,406    | -         | -    | 402,814   |
| ASC 310-30             | -         | -          | -          | -        | 202,592   | -    | 202,592   |
| Total                  | \$130,601 | \$ 148,425 | \$ 122,860 | \$ 7,659 | \$202,592 | \$ - | \$612,137 |

Table Of Contents

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

|                                               | September 30, 2015     |           |           | June 30, 2015 |           |           |
|-----------------------------------------------|------------------------|-----------|-----------|---------------|-----------|-----------|
|                                               | Unpaid                 |           |           | Unpaid        |           |           |
|                                               | Recorded               | Principal | Related   | Recorded      | Principal | Related   |
|                                               | Investmen              | Balance   | Allowance | Investmen     | Balance   | Allowance |
|                                               | (Dollars in thousands) |           |           |               |           |           |
| Impaired loans without a valuation allowance: |                        |           |           |               |           |           |
| Originated:                                   |                        |           |           |               |           |           |
| Residential real estate                       | \$3,063                | \$3,244   | \$ -      | \$1,975       | \$2,076   | \$ -      |
| Consumer                                      | 328                    | 361       | -         | 253           | 262       | -         |
| Commercial real estate                        | 895                    | 894       | -         | 1,505         | 1,510     | -         |
| Commercial business                           | 2                      | 2         | -         | 2             | 2         | -         |
| Purchased:                                    |                        |           |           |               |           |           |
| Commercial real estate                        | 8,012                  | 10,163    | -         | 7,673         | 9,606     | -         |
| Total                                         | 12,300                 | 14,664    | -         | 11,408        | 13,456    | -         |
| Impaired loans with a valuation allowance:    |                        |           |           |               |           |           |
| Originated:                                   |                        |           |           |               |           |           |
| Residential real estate                       | 2,008                  | 1,948     | 415       | 2,120         | 2,060     | 435       |
| Consumer                                      | 47                     | 53        | -         | -             | -         | -         |
| Commercial real estate                        | 971                    | 965       | 21        | 876           | 870       | 21        |
| Commercial business                           | -                      | -         | -         | -             | -         | -         |
| Purchased:                                    |                        |           |           |               |           |           |
| Commercial real estate                        | 2,745                  | 3,635     | 309       | 1,208         | 1,644     | 260       |
| Total                                         | 5,771                  | 6,601     | 745       | 4,204         | 4,574     | 716       |
| Total impaired loans                          | \$18,071               | \$21,265  | \$ 745    | \$15,612      | \$18,030  | \$ 716    |

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

|                                               | Three Months Ended September 30, |            |           |            |
|-----------------------------------------------|----------------------------------|------------|-----------|------------|
|                                               | 2015                             |            | 2014      |            |
|                                               | Average                          | Interest   | Average   | Interest   |
|                                               | Recorded                         | Income     | Recorded  | Income     |
|                                               | Investmen                        | Recognized | Investmen | Recognized |
|                                               | (Dollars in thousands)           |            |           |            |
| Impaired loans without a valuation allowance: |                                  |            |           |            |
| Originated:                                   |                                  |            |           |            |
| Residential real estate                       | \$2,520                          | \$ 39      | \$1,201   | \$ 17      |
| Consumer                                      | 290                              | 5          | 196       | 3          |

|                        |        |    |       |     |
|------------------------|--------|----|-------|-----|
| Commercial real estate | 1,200  | 7  | 1,088 | 7   |
| Commercial business    | 2      | -  | -     | 1   |
| Purchased:             |        |    |       |     |
| Commercial real estate | 7,842  | 14 | 3,938 | 75  |
| Total                  | 11,854 | 65 | 6,423 | 103 |

## Impaired loans with a valuation allowance:

## Originated:

|                         |       |    |       |    |
|-------------------------|-------|----|-------|----|
| Residential real estate | 2,064 | 23 | 1,707 | 28 |
| Consumer                | 23    | 1  | 35    | 1  |
| Commercial real estate  | 924   | 12 | 1,334 | 20 |
| Commercial business     | -     | -  | -     | -  |

## Purchased:

|                        |          |        |          |        |
|------------------------|----------|--------|----------|--------|
| Commercial real estate | 1,976    | 36     | 1,573    | 3      |
| Total                  | 4,987    | 72     | 4,649    | 52     |
| Total impaired loans   | \$16,841 | \$ 137 | \$11,072 | \$ 155 |

Credit Quality

The Company utilizes a ten-point internal loan rating system for commercial real estate, construction, commercial business, 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.

Table Of Contents

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

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

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

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

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

|                  | September 30, 2015     |            |                            |            |           |
|------------------|------------------------|------------|----------------------------|------------|-----------|
|                  | Originated Portfolio   |            |                            | Purchased  |           |
|                  | Commercial             | Commercial |                            |            |           |
|                  | Real Estate            | Business   | Residential <sup>(1)</sup> | Portfolio  | Total     |
|                  | (Dollars in thousands) |            |                            |            |           |
| Loans rated 1- 6 | \$148,790              | \$ 126,452 | \$ 7,583                   | \$ 200,745 | \$483,570 |
| Loans rated 7    | 3,045                  | 24         | 627                        | 5,189      | 8,885     |
| Loans rated 8    | 1,038                  | -          | 610                        | 8,265      | 9,913     |
| Loans rated 9    | -                      | -          | 23                         | -          | 23        |
| Loans rated 10   | -                      | -          | -                          | -          | -         |
|                  | \$152,873              | \$ 126,476 | \$ 8,843                   | \$ 214,199 | \$502,391 |

| June 30, 2015        |            |  |           |  |
|----------------------|------------|--|-----------|--|
| Originated Portfolio |            |  |           |  |
| Commercial           | Commercial |  | Purchased |  |

|                  | Real<br>Estate         | Business   | Residential <sup>(1)</sup> | Portfolio  | Total     |
|------------------|------------------------|------------|----------------------------|------------|-----------|
|                  | (Dollars in thousands) |            |                            |            |           |
| Loans rated 1- 6 | \$142,321              | \$ 122,829 | \$ 8,049                   | \$ 190,193 | \$463,392 |
| Loans rated 7    | 4,417                  | 31         | 634                        | 5,628      | 10,710    |
| Loans rated 8    | 1,687                  | -          | 429                        | 6,771      | 8,887     |
| Loans rated 9    | -                      | -          | 23                         | -          | 23        |
| Loans rated 10   | -                      | -          | -                          | -          | -         |
|                  | \$148,425              | \$ 122,860 | \$ 9,135                   | \$ 202,592 | \$483,012 |

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

The payment status and loan-to-value ratio are the primary credit quality indicators used for residential mortgage loans and home equity loans. Consumer loans that become 90 days or more past due, or are placed on nonaccrual regardless of past due status, are reviewed on an individual basis for impairment by assessing the net realizable value of underlying collateral and the economic condition of the borrower.

#### Troubled Debt Restructurings

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

|                          | Three Months Ended September<br>30, |            |              |            |
|--------------------------|-------------------------------------|------------|--------------|------------|
|                          | 2015                                |            | 2014         |            |
|                          | Number<br>of                        | Recorded   | Number<br>of | Recorded   |
|                          | Contracts                           | Investment | Contracts    | Investment |
|                          | (Dollars in thousands)              |            |              |            |
| Extended maturity        | -                                   | \$ -       | 2            | \$ 234     |
| Adjusted interest rate   | -                                   | -          | -            | -          |
| Rate and maturity        | -                                   | -          | 4            | 246        |
| Principal deferment      | -                                   | -          | 1            | 461        |
| Court ordered concession | -                                   | -          | 4            | 85         |
|                          | -                                   | \$ -       | 11           | \$ 1,026   |

# Table Of Contents

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

|                            | Three Months Ended September 30,<br>2015 |                        | 2014                                   |                        |          |
|----------------------------|------------------------------------------|------------------------|----------------------------------------|------------------------|----------|
|                            | Recorded<br>Number<br>of<br>Investment   | Recorded<br>Investment | Recorded<br>Number<br>of<br>Investment | Recorded<br>Investment |          |
|                            | Pre-Modification                         | Post-Modification      | Pre-Modification                       | Post-Modification      |          |
|                            | (Dollars in thousands)                   |                        |                                        |                        |          |
| Originated portfolio:      |                                          |                        |                                        |                        |          |
| Residential real estate    | - \$                                     | - \$                   | 9                                      | \$ 823                 | \$ 823   |
| Home equity                | -                                        | -                      | -                                      | -                      | -        |
| Commercial real estate     | -                                        | -                      | 1                                      | 200                    | 200      |
| Commercial business        | -                                        | -                      | -                                      | -                      | -        |
| Consumer                   | -                                        | -                      | 1                                      | 3                      | 3        |
| Total originated portfolio | -                                        | -                      | 11                                     | 1,026                  | 1,026    |
| Purchased portfolio:       |                                          |                        |                                        |                        |          |
| Residential real estate    | -                                        | -                      | -                                      | -                      | -        |
| Commercial real estate     | -                                        | -                      | -                                      | -                      | -        |
| Total purchased portfolio  | -                                        | -                      | -                                      | -                      | -        |
| Total                      | - \$                                     | - \$                   | 11                                     | \$ 1,026               | \$ 1,026 |

The Company considers TDRs past due 90 days or more to be in payment default. One loan modified in a TDR in the last twelve months defaulted during the three months ended September 30, 2015; the recorded investment of such loans was \$50 thousand. As of September 30, 2015, there were no further commitments to lend associated with loans modified in a TDR.

## ASC 310-30 Loans

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

|                                       |                                       |
|---------------------------------------|---------------------------------------|
| Three<br>Months<br>Ended<br>September | Three<br>Months<br>Ended<br>September |
|---------------------------------------|---------------------------------------|

|                                            | 30,<br>2015               | 30, 2014  |
|--------------------------------------------|---------------------------|-----------|
|                                            | (Dollars in<br>thousands) |           |
| Contractually required payments receivable | \$31,276                  | \$ 21,108 |
| Nonaccretable difference                   | (291 )                    | (304 )    |
| Cash flows expected to be collected        | 30,985                    | 20,804    |
| Accretable yield                           | (7,527 )                  | (7,960 )  |
| Fair value of loans acquired               | \$23,458                  | \$ 12,844 |

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

|                                  |                                                                                                        |
|----------------------------------|--------------------------------------------------------------------------------------------------------|
|                                  | As of and<br>for the<br>Three<br>Months<br>Ended<br>September<br>30, 2015<br>(Dollars in<br>thousands) |
| Loans acquired during the period | \$ -                                                                                                   |
| Loans at end of period           | 6,826                                                                                                  |

Table Of Contents

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

|                                                                      | Three<br>Months<br>Ended<br>September<br>30, 2015 | Three<br>Months<br>Ended<br>September<br>30, 2014 |
|----------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------|
|                                                                      | (Dollars in thousands)                            |                                                   |
| Beginning balance                                                    | \$ 111,449                                        | \$ 109,040                                        |
| Acquisitions                                                         | 7,527                                             | 7,960                                             |
| Accretion                                                            | (3,755 )                                          | (4,443 )                                          |
| Reclassifications from non-accretable difference to accretable yield | 277                                               | 10                                                |
| Disposals and other changes                                          | (5,883 )                                          | (4,215 )                                          |
| Ending balance                                                       | \$ 109,615                                        | \$ 108,352                                        |

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

|                          | September<br>30, 2015     | June 30,<br>2015 |
|--------------------------|---------------------------|------------------|
|                          | (Dollars in<br>thousands) |                  |
| Unpaid principal balance | \$ 244,468                | \$ 235,716       |
| Carrying amount          | 210,285                   | 199,113          |

Table Of Contents

**5. Transfers and Servicing of Financial Assets**

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

Capitalized servicing rights as of September 30, 2015 totaled \$1.3 million, compared to \$1.1 million as of June 30, 2015.

Mortgage loans sold in the quarter ended September 30, 2015 totaled \$28.9 million, compared to \$30.8 million in the quarter ended September 30, 2014. Mortgage loans serviced for others totaled \$104.3 million at September 30, 2015 and \$108.4 million at June 30, 2015. SBA loans sold during the quarter ended September 30, 2015 totaled \$5.5 million, compared to \$687 thousand in the quarter ended September 30, 2014. SBA loans serviced for others totaled \$56.9 million at September 30, 2015 and \$53.5 million at June 30, 2015.

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

Contractually specified servicing fees were \$149 thousand and \$125 thousand for the quarters ended September 30, 2015 and 2014, respectively, and were included as a component of loan related fees within non-interest income.

The significant assumptions used in the valuation for mortgage servicing rights as of September 30, 2015 included a weighted average discount rate of 7.0% and a weighted average prepayment speed assumption of 12.7%. For the SBA servicing rights, the significant assumptions used in the valuation included a pre-payment speed assumption of 7.1% and discount rates ranging from 4.4% to 6.0%.

**6. Investments in Qualified Affordable Housing Projects**

On July 1, 2015, the Company adopted ASU 2014-01, *Accounting for Investments in Qualified Affordable Housing Projects*, which required retrospective application. Under the proportional amortization method in ASU 2014-01, the

initial costs of investment in qualified affordable housing projects are amortized in proportion to tax credits and other tax benefits received, and are recognized as a component of the provision for income taxes in the consolidated statements of income. Prior to the implementation of ASU 2014-01, the Company's investments in qualified affordable housing projects were amortized and included as a component of non-interest income in the consolidated statements of income. Further information regarding the Company's investments in affordable housing projects follows:

|                                                                     | September<br>30,<br>2015  | September<br>30,<br>2015 |
|---------------------------------------------------------------------|---------------------------|--------------------------|
|                                                                     | (Dollars in<br>thousands) |                          |
| Investments in affordable housing projects included in other assets | \$474                     | \$508                    |

Included in the effective tax rate for the quarter ended September 30, 2015 and 2014 is the effect of the following:

|                                                        | Three<br>Months<br>Ended<br>September<br>30,<br>2015 | Three<br>Months<br>Ended<br>September<br>30, 2014 |
|--------------------------------------------------------|------------------------------------------------------|---------------------------------------------------|
|                                                        | (Dollars in<br>thousands)                            |                                                   |
| Investment amortization included in income tax expense | \$92                                                 | \$ 92                                             |
| Tax credit recognized as income tax benefit            | 118                                                  | 118                                               |

ASU 2014-01 was applied retrospectively to all periods presented. The cumulative effect on retained earnings and other assets was \$112 thousand at July 1, 2015.

Table Of Contents**7. Earnings Per Share (EPS)**

EPS is computed by dividing net income allocated to common shareholders by the weighted average common shares outstanding (including participating securities). The Company's only participating securities are unvested restricted stock awards that contain non-forfeitable rights to dividends. The following table shows the weighted average number of shares outstanding for the periods indicated. Shares issuable relative to stock options granted have been reflected as an increase in the shares outstanding used to calculate diluted EPS, after applying the treasury stock method. The number of shares outstanding for basic and diluted EPS is presented as follows:

|                                                                 | Three months Ended<br>September 30,<br>2015          2014<br>(Dollars in thousands,<br>except share<br>and per share data) |            |
|-----------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|------------|
| Net income                                                      | 1,867                                                                                                                      | 1,647      |
| Preferred stock dividends or accretion                          | -                                                                                                                          | -          |
| Net income available to common shareholders                     | \$ 1,867                                                                                                                   | \$ 1,647   |
| Weighted average shares used in calculation of basic EPS        | 9,562,812                                                                                                                  | 10,180,038 |
| Incremental shares from assumed exercise of dilutive securities | -                                                                                                                          | -          |
| Weighted average shares used in calculation of diluted EPS      | 9,562,812                                                                                                                  | 10,180,038 |
| Earnings per common share:                                      |                                                                                                                            |            |
| Basic                                                           | \$0.20                                                                                                                     | \$0.16     |
| Diluted                                                         | 0.20                                                                                                                       | 0.16       |

For the three months ended September 30, 2015, the following stock options were excluded from the calculation of diluted EPS due to the exercise price of these options exceeding the average market price of the Company's common stock for the period. These options, which were not dilutive at that date, may potentially dilute EPS in the future.

|               | Three Months Ended<br>September 30,<br>2015          2014 |           |
|---------------|-----------------------------------------------------------|-----------|
| Stock options | 980,269                                                   | 1,082,121 |



Table Of Contents

**8. Derivatives and Hedging Activities**

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

The Company currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At September 30, 2015, the Company had posted cash collateral totaling \$1.8 million with dealer banks related to derivative instruments in a net liability position.

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

*Risk Management Policies – Derivative Instruments*

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

*Interest Rate Risk Management – Cash Flow Hedging Instruments*

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

interest payments and, therefore, generally hedges a portion of its variable-rate interest payments.

Information pertaining to outstanding interest rate caps and swap agreements used to hedge variable rate debt is as follows.

September 30, 2015

| Notional Amount             | Inception Date | Termination Date | Index       | Receive Rate | Pay Rate | Strike Rate | Unrealized Loss | Fair Value  | Balance Sheet Location |
|-----------------------------|----------------|------------------|-------------|--------------|----------|-------------|-----------------|-------------|------------------------|
| (Dollars in thousands)      |                |                  |             |              |          |             |                 |             |                        |
| <i>Interest rate swaps:</i> |                |                  |             |              |          |             |                 |             |                        |
| \$ 5,000                    | July 2013      | July 2033        | 3 Mo. LIBOR | 0.33 %       | 3.38 %   | n/a         | (801 )          | (801 )      | Other Liabilities      |
| 5,000                       | July 2013      | July 2028        | 3 Mo. LIBOR | 0.33 %       | 3.23 %   | n/a         | (624 )          | (624 )      | Other Liabilities      |
| 5,000                       | July 2013      | July 2023        | 3 Mo. LIBOR | 0.33 %       | 2.77 %   | n/a         | (377 )          | (377 )      | Other Liabilities      |
| <i>Interest rate caps:</i>  |                |                  |             |              |          |             |                 |             |                        |
| 6,000                       | October 2014   | September 2019   | 3 Mo. LIBOR | n/a          | n/a      | 2.50 %      | (141 )          | 35          | Other Assets           |
| 10,000                      | March 2015     | February 2020    | 3 Mo. LIBOR | n/a          | n/a      | 2.50 %      | (136 )          | 80          | Other Assets           |
| \$ 31,000                   |                |                  |             |              |          |             | \$ (2,079 )     | \$ (1,687 ) |                        |

June 30, 2015

| Notional Amount             | Inception Date | Termination Date | Index       | Receive Rate | Pay Rate | Strike Rate | Unrealized Loss | Fair Value | Balance Sheet Location |
|-----------------------------|----------------|------------------|-------------|--------------|----------|-------------|-----------------|------------|------------------------|
| (Dollars in thousands)      |                |                  |             |              |          |             |                 |            |                        |
| <i>Interest rate swaps:</i> |                |                  |             |              |          |             |                 |            |                        |
| \$ 5,000                    | July 2013      | July 2033        | 3 Mo. LIBOR | 0.28 %       | 3.38 %   | n/a         | \$ (472 )       | \$ (472 )  | Other Liabilities      |
| 5,000                       | July 2013      | July 2028        | 3 Mo. LIBOR | 0.28 %       | 3.23 %   | n/a         | \$ (368 )       | \$ (368 )  | Other Liabilities      |
| 5,000                       | July 2013      | July 2023        | 3 Mo. LIBOR | 0.28 %       | 2.77 %   | n/a         | \$ (208 )       | \$ (208 )  | Other Liabilities      |
| <i>Interest rate caps:</i>  |                |                  |             |              |          |             |                 |            |                        |
| 6,000                       | October 2014   | September 2019   | 3 Mo. LIBOR | n/a          | n/a      | 2.50 %      | (114 )          | 63         | Other Assets           |
| 10,000                      | March 2015     | February 2020    | 3 Mo. LIBOR | n/a          | n/a      | 2.50 %      | (80 )           | 136        | Other Assets           |
| \$ 31,000                   |                |                  |             |              |          |             | \$ (1,242 )     | \$ (849 )  |                        |

During the three months ended September 30, 2015 and 2014, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging

instruments of the variability of cash flows associated with variable rate debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the debt affects earnings. Risk management results for the three months ended September 30, 2015 and 2014 related to the balance sheet hedging of variable rate debt indicates that the hedges were effective.

Table Of Contents**9. Other Comprehensive Income**

The components of other comprehensive loss follow.

|                                                                        | Three Months Ended September 30, |                             |                     | 2014              |                             |                     |
|------------------------------------------------------------------------|----------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|                                                                        | Pre-tax<br>Amount                | Tax<br>Expense<br>(Benefit) | After-tax<br>Amount | Pre-tax<br>Amount | Tax<br>Expense<br>(Benefit) | After-tax<br>Amount |
|                                                                        | (Dollars in thousands)           |                             |                     |                   |                             |                     |
| Change in net unrealized gain or loss on available-for-sale securities | \$ 466                           | \$ 178                      | \$ 288              | \$(275)           | \$ (93 )                    | \$ (182 )           |
| Reclassification adjustment for net gains included in net income       | -                                | -                           | -                   | -                 | -                           | -                   |
| Total available-for-sale securities                                    | 466                              | 178                         | 288                 | (275)             | (93 )                       | (182 )              |
| Change in accumulated loss on effective cash flow hedges               | (838)                            | (319 )                      | (519 )              | (272)             | (92 )                       | (180 )              |
| Reclassification adjustment for net gains included in net income       | -                                | -                           | -                   | (9 )              | (3 )                        | (6 )                |
| Total derivatives and hedging activities                               | (838)                            | (319 )                      | (519 )              | (281)             | (95 )                       | (186 )              |
| Total other comprehensive loss                                         | \$(372)                          | \$ (141 )                   | \$ (231 )           | \$(556)           | \$ (188 )                   | \$ (368 )           |

Accumulated other comprehensive loss is comprised of the following.

|                                                  | September<br>30,<br>2015 | June<br>30,<br>2015 |
|--------------------------------------------------|--------------------------|---------------------|
|                                                  | (Dollars in thousands)   |                     |
| Unrealized loss on available-for-sale securities | \$(370 )                 | \$(836 )            |
| Tax effect                                       | 140                      | 318                 |
| Net-of-tax amount                                | (230 )                   | (518 )              |
| Unrealized loss on cash flow hedges              | (2,080)                  | (1,242)             |
| Tax effect                                       | 791                      | 472                 |
| Net-of-tax amount                                | (1,289)                  | (770 )              |
| Accumulated other comprehensive loss             | \$(1,519)                | \$(1,288)           |



Table Of Contents**10. Commitments and Contingencies**Commitments

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

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

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

|                                            | September<br>30,<br>2015  | June 30,<br>2015 |
|--------------------------------------------|---------------------------|------------------|
|                                            | (Dollars in<br>thousands) |                  |
| Commitments to grant loans                 | \$24,954                  | \$24,966         |
| Unfunded commitments under lines of credit | 39,509                    | 39,414           |
| Standby letters of credit                  | 60                        | 60               |
| Commitment to fund investment              | 2,500                     | -                |

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

\$37 thousand recorded in other liabilities at both September 30, 2015 and June 30, 2015.

The Company committed \$2.5 million to a fund that acquires CRA qualified investments in loans for the Company's portfolio. The fund manager will call the funds from the Company when an investment is successfully acquired. Through the quarter ended September 30, 2015, the fund has not called any funds from the Company.

Contingencies

The Company and its subsidiary are parties to litigation and claims arising in the normal course of business. Management believes that the liabilities, if any, arising from such litigation and claims will not be material to the Company's consolidated financial position or results of operations.

Table Of Contents

**11. Fair Value Measurements**

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

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

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

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

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

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

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

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

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

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

Certain investments are measured at fair value using the net asset value per share as a practical expedient. The fund seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies. The Company's investments can be redeemed daily at the closing net asset value per share. In accordance with ASU 2015-07, these investments have not been included in the fair value hierarchy.

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

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

Table Of Contents

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

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

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

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

*Fair Value of other Financial Instruments:*

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

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

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

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

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

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

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

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

Table Of Contents

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

|                                                              | September 30, 2015     |            |          |            |
|--------------------------------------------------------------|------------------------|------------|----------|------------|
|                                                              | Total                  | Level<br>1 | Level 2  | Level<br>3 |
|                                                              | (Dollars in thousands) |            |          |            |
| <u>Assets</u>                                                |                        |            |          |            |
| Securities available-for-sale:                               |                        |            |          |            |
| U.S. Government agency securities                            | \$45,167               | \$ -       | \$45,167 | \$ -       |
| Agency mortgage-backed securities                            | 51,145                 | -          | 51,145   | -          |
| Other investments measured at net asset value <sup>(1)</sup> | 5,032                  | -          | -        | -          |
| Other assets – interest rate caps                            | 115                    | -          | 115      | -          |
| <u>Liabilities</u>                                           |                        |            |          |            |
| Other liabilities – interest rate swaps                      | \$1,802                | \$ -       | \$1,802  | \$ -       |

|                                                              | June 30, 2015          |            |          |            |
|--------------------------------------------------------------|------------------------|------------|----------|------------|
|                                                              | Total                  | Level<br>1 | Level 2  | Level<br>3 |
|                                                              | (Dollars in thousands) |            |          |            |
| <u>Assets</u>                                                |                        |            |          |            |
| Securities available-for-sale:                               |                        |            |          |            |
| U.S. Government agency securities                            | \$48,230               | \$ -       | \$48,230 | \$ -       |
| Agency mortgage-backed securities                            | 53,678                 | -          | 53,678   | -          |
| Other investments measured at net asset value <sup>(1)</sup> | -                      | -          | -        | -          |
| Other assets – interest rate caps                            | 199                    | -          | 199      | -          |
| <u>Liabilities</u>                                           |                        |            |          |            |
| Other liabilities – interest rate swap                       | \$1,048                | \$ -       | \$1,048  | \$ -       |

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

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

|                                     | September 30, 2015     |            |         |            |
|-------------------------------------|------------------------|------------|---------|------------|
|                                     | Total                  | Level<br>1 | Level 2 | Level<br>3 |
|                                     | (Dollars in thousands) |            |         |            |
| Collateral dependent impaired loans | \$987                  | \$ -       | \$ -    | \$987      |

|                                                    |       |   |   |       |
|----------------------------------------------------|-------|---|---|-------|
| Real estate owned and other repossessed collateral | 1,279 | - | - | 1,279 |
| Loan servicing rights                              | 1,310 | - | - | 1,310 |

| June 30, 2015                                      |         |         |         |       |
|----------------------------------------------------|---------|---------|---------|-------|
| Total                                              | Level 1 | Level 2 | Level 3 |       |
| (Dollars in thousands)                             |         |         |         |       |
| Collateral dependent impaired loans                | \$932   | \$ -    | \$ -    | \$932 |
| Real estate owned and other repossessed collateral | 1,651   | -       | -       | 1,651 |
| Loan servicing rights                              | 1,123   | -       | -       | 1,123 |

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

| Fair Value                                         |                    |                    |                                        |
|----------------------------------------------------|--------------------|--------------------|----------------------------------------|
| September 30, 2015                                 |                    |                    |                                        |
|                                                    | September 30, 2015 | September 30, 2015 | Valuation Technique                    |
| (Dollars in thousands)                             |                    |                    |                                        |
| Collateral dependent impaired loans                | \$987              | \$932              | Appraisal of collateral <sup>(1)</sup> |
| Real estate owned and other repossessed collateral | 1,279              | 1,651              | Appraisal of collateral <sup>(1)</sup> |
| Loan servicing rights                              | 1,385              | 1,123              | Discounted cash flow <sup>(2)</sup>    |

(1) Fair value is generally determined through independent appraisals of the underlying collateral. The Company may also use another available source of collateral assessment to determine a reasonable estimate of the fair value of the collateral. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments was 5% to 60%.

(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 7.06% to 12.71%. For discount rates, the range was 4.36% to 7.00%.

Table Of Contents

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

|                                                              | Carrying<br>Amount     | Fair Value Measurements at September<br>30, 2015 |          |         |         |
|--------------------------------------------------------------|------------------------|--------------------------------------------------|----------|---------|---------|
|                                                              |                        | Total                                            | Level 1  | Level 2 | Level 3 |
|                                                              | (Dollars in thousands) |                                                  |          |         |         |
| <u>Financial assets:</u>                                     |                        |                                                  |          |         |         |
| Cash and cash equivalents                                    | \$86,213               | \$86,213                                         | \$86,213 | \$-     | \$-     |
| Available-for-sale securities                                | 96,312                 | 96,312                                           | -        | 96,312  | -       |
| Other investments measured at net asset value <sup>(1)</sup> | 5,032                  | 5,032                                            | -        | -       | -       |
| Federal Home Loan Bank stock                                 | 4,102                  | 4,102                                            | -        | 4,102   | -       |
| Loans held for sale                                          | 7,536                  | 7,536                                            | -        | 7,536   | -       |
| Loans, net                                                   | 623,777                | 625,655                                          | -        | -       | 625,655 |
| Accrued interest receivable                                  | 1,361                  | 1,361                                            | -        | 1,361   | -       |
| Interest rate caps                                           | 115                    | 115                                              | -        | 115     | -       |

Financial liabilities:

|                          |         |         |   |         |       |
|--------------------------|---------|---------|---|---------|-------|
| Deposits                 | 693,478 | 693,873 | - | 693,873 | -     |
| FHLB advances            | 30,159  | 30,768  | - | 30,768  | -     |
| Short-term borrowings    | 2,479   | 2,479   | - | 2,479   | -     |
| Capital lease obligation | 1,312   | 1,415   | - | 1,415   | -     |
| Subordinated debentures  | 8,674   | 8,992   | - | -       | 8,992 |
| Interest rate swaps      | 1,802   | 1,802   | - | 1,802   | -     |

|                        | Carrying<br>Amount | Fair Value Measurements at June 30, 2015 |         |         |         |
|------------------------|--------------------|------------------------------------------|---------|---------|---------|
|                        |                    | Total                                    | Level 1 | Level 2 | Level 3 |
| (Dollars in thousands) |                    |                                          |         |         |         |

Financial assets:

|                                                              |          |          |          |         |         |
|--------------------------------------------------------------|----------|----------|----------|---------|---------|
| Cash and cash equivalents                                    | \$89,850 | \$89,850 | \$89,850 | \$-     | \$-     |
| Available-for-sale securities                                | 101,908  | 101,908  | -        | 101,908 | -       |
| Other investments measured at net asset value <sup>(1)</sup> | -        | -        | -        | -       | -       |
| Federal Home Loan Bank stock                                 | 4,102    | 4,102    | -        | 4,102   | -       |
| Loans held for sale                                          | 9,035    | 9,035    | -        | 9,035   | -       |
| Loans, net                                                   | 610,211  | 613,896  | -        | -       | 613,896 |
| Accrued interest receivable                                  | 1,335    | 1,335    | -        | 1,335   | -       |
| Interest rate caps                                           | 199      | 199      | -        | 199     | -       |

Financial liabilities:

|                                 |         |         |   |         |       |
|---------------------------------|---------|---------|---|---------|-------|
| Deposits                        | 674,759 | 675,285 | - | 675,285 | -     |
| FHLB advances                   | 30,188  | 30,867  | - | 30,867  | -     |
| Wholesale repurchase agreements | 10,037  | 10,098  | - | 10,098  | -     |
| Short-term borrowings           | 2,349   | 2,349   | - | 2,349   | -     |
| Capital lease obligation        | 1,368   | 1,448   | - | 1,448   | -     |
| Subordinated debentures         | 8,626   | 8,471   | - | -       | 8,471 |

|                     |       |       |   |       |   |
|---------------------|-------|-------|---|-------|---|
| Interest rate swaps | 1,048 | 1,048 | - | 1,048 | - |
|---------------------|-------|-------|---|-------|---|

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

Table Of Contents

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in Northeast Bancorp's Annual Report on Form 10-K for the fiscal year ended June 30, 2015, filed with the Securities and Exchange Commission.

**A Note about Forward Looking Statements**

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to the Company's financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss allowance adequacy, simulation of changes in interest rates, capital spending and finance sources and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximate", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would". Although the Company believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Company cannot give you any assurance that its expectations will, in fact, occur or that its estimates or assumptions will be correct. The Company cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of continuing weakness in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay the Company's loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that the Company may not be successful in the implementation of its business strategy; the risk of compromises or breaches of the company's security systems; the risk that intangibles recorded in the Company's financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 as updated in the Company's Quarterly Reports on Form 10-Q and other filings submitted to the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this report and the Company does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

**Description of Business and Strategy**

Business Overview

Northeast Bancorp (“we,” “our,” “us,” “Northeast” or the “Company”), incorporated under Maine law in 1987, is a bank holding company registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”). As a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “BHCA”), the Company is subject to regulation and supervision by the Federal Reserve. The Company’s primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank (the “Bank” or “Northeast Bank”), a Maine state-chartered bank originally organized in 1872. As a Federal Deposit Insurance Corporation (“FDIC”) insured Maine-chartered bank, the Bank is subject to regulation and supervision by the Maine Bureau of Financial Institutions (the “Bureau”) and the FDIC.

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

Table Of Contents

In connection with the transaction, as part of the regulatory approval process, the Company and the Bank made certain commitments to the Federal Reserve, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total risk-based capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of the Company's loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital. On June 28, 2013, the Federal Reserve approved the amendment to exclude owner-occupied commercial real estate loans from the commitment to hold commercial real estate loans to within 300% of total risk-based capital. All other commitments made to the Federal Reserve in connection with the merger remain unchanged. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve. The Company's compliance ratios at September 30, 2015 follow:

| Condition                                                                    | Ratios as of September 30, 2015 |   |
|------------------------------------------------------------------------------|---------------------------------|---|
| (i) Tier 1 leverage capital ratio                                            | 14.23                           | % |
| (ii) Total capital ratio                                                     | 20.03                           | % |
| (iii) Ratio of purchased loans to total loans, including loans held for sale | 33.82                           | % |
| (iv) Ratio of loans to core deposits (1)                                     | 91.04                           | % |
| (v) Ratio of commercial real estate loans to total risk-based capital (2)    | 195.50                          | % |

(1) Core deposits include all non-maturity deposits and maturity deposits less than \$250 thousand

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

As of September 30, 2015, the Company, on a consolidated basis, had total assets of \$858.2 million, total deposits of \$693.5 million, and shareholders' equity of \$113.7 million. The Company gathers retail deposits through its banking offices in Maine and the Bank's online affinity deposit program, ableBanking; originates loans through the Bank's Community Banking Division; originates Small Business Administration ("SBA") loans through the Bank's SBA National group ("SBA National"); and purchases and originates commercial loans through the Bank's Loan Acquisition and Servicing Group ("LASG"). The Community Banking Division, with ten full-service branches and two loan production offices, operates from the Bank's headquarters in Lewiston, Maine. LASG, ableBanking, and SBA National operate from the Company's offices in Boston, Massachusetts.

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

Strategy

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

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

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

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

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

**Critical Accounting Policies**

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in Form 10-K for the year ended June 30, 2015 to gain a better understanding of how Northeast's financial performance is measured and reported. There has been no material change in critical accounting policies during the three months ended September 30, 2015.

## Table Of Contents

### **Overview**

Net income was \$1.9 million, or \$0.20 per diluted common share, for the quarter ended September 30, 2015, compared to \$1.6 million, or \$0.16 per diluted common share, for the quarter ended September 30, 2014.

Net interest and dividend income before provision for loan losses decreased by \$230 thousand, or 2.4%, for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014. The decrease is primarily due to lower interest income in the purchased loan portfolio, mainly due to a decline in yield to 12.1% in the current quarter from 12.8% earned in the quarter ended September 30, 2014.

Noninterest income increased by \$551 thousand for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014, principally due to an increase in gains realized on sale of portfolio loans. The recent quarter includes gains realized on sale of SBA loans of \$675 thousand, compared to an \$80 thousand gain on sale of commercial loans in the quarter ended September 30, 2014.

Noninterest expense increased by \$100 thousand for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014, principally due to the following:

- An increase of \$177 thousand in loan acquisition and collections expense related to the collections of two loans;
- An increase of \$122 thousand in professional fees related to IT consulting;
- An increase of \$88 thousand in occupancy and equipment expense, due to increases in rent and IT-related equipment expense; and
- A decrease of \$277 thousand in salaries and employee benefits, principally due to the current quarter benefit recognized upon the forfeiture of stock awards and a decrease in incentive compensation. This decrease is partially offset by an increase in employee head count.

### **Financial Condition**

#### Overview

At September 30, 2015, total assets were \$858.2 million, an increase of \$7.5 million, or 0.9%, compared to June 30, 2015. The principal components of the change in the balance sheet follow.

The loan portfolio – excluding loans held for sale – grew by \$13.7 million, or 2.2%, compared to June 30, 2015, principally on the strength of \$13.0 million of net growth in commercial loans purchased or originated by the Bank’s Loan Acquisition and Servicing Group (“LASG”) and net growth of \$4.1 million in commercial originations by the Bank’s Community Banking Division. This net growth was offset by a \$5.8 million decrease in the Community Banking Division's residential and consumer loan portfolio.

Loans generated by the LASG totaled \$34.4 million for the quarter ended September 30, 2015. The growth in LASG loans consisted of \$23.5 million of purchased loans, at an average price of 99.5%, and \$10.9 million of originated loans. SBA loans closed during the quarter totaled \$10.6 million, of which \$7.3 million were funded and \$5.5 million were sold in the secondary market. Residential and consumer loan production sold in the secondary market totaled \$28.9 million for the quarter.

As noted above in “*Description of Business Strategy-Business Overview*,” the Company made certain commitments to the Board of Governors of the Federal Reserve System in connection with the merger of FHB Formation LLC with and into the Company in December 2010. The Company’s loan purchase and commercial real estate loan availability under these conditions follow.

| Basis for Regulatory Condition | Condition                                                                                       | Availability at September 30, 2015 (Dollars in millions) |
|--------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Total Loans                    | Purchased loans may not exceed 40% of total loans                                               | \$ 65.3                                                  |
| Regulatory Capital             | Non-owner occupied commercial real estate loans may not exceed 300% of total risk-based capital | \$ 130.5                                                 |

Table Of Contents

An overview of the LASG portfolio follows:

| LASG Portfolio<br>Three Months Ended September 30,<br>2015                                     |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
|------------------------------------------------------------------------------------------------|--|------------|--|---------------------------------------|--|---------------|--|-----------|--|------------|--|---------------------------------------|--|------------------------|--|
| 2014                                                                                           |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
| Purchased                                                                                      |  | Originated |  | Secured<br>Loans to<br>Broker-Dealers |  | Total<br>LASG |  | Purchased |  | Originated |  | Secured<br>Loans to<br>Broker-Dealers |  | Total<br>LASG          |  |
| (Dollars in thousands)                                                                         |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
| Loans<br>purchased or<br>originated<br>during the<br>period:<br>Unpaid<br>principal<br>balance |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
| \$23,583                                                                                       |  | \$ 10,941  |  | \$ -                                  |  | \$34,524      |  | \$16,117  |  | \$ 16,358  |  | \$ 24,000                             |  | \$56,475               |  |
| Net<br>investment<br>basis                                                                     |  | 23,458     |  | 10,944                                |  | -             |  | 34,402    |  | 13,167     |  | 16,353                                |  | 24,000<br>53,520       |  |
| Loan returns<br>during the<br>period:                                                          |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
| Yield                                                                                          |  | 12.07 %    |  | 5.67 %                                |  | 0.50 %        |  | 8.23 %    |  | 12.76 %    |  | 9.88 %                                |  | 0.42 %                 |  |
| Total Return<br>(1)                                                                            |  | 12.11 %    |  | 5.67 %                                |  | 0.50 %        |  | 8.26 %    |  | 12.75 %    |  | 10.53 %                               |  | 0.42 %                 |  |
| Total loans<br>as of period<br>end:                                                            |  |            |  |                                       |  |               |  |           |  |            |  |                                       |  |                        |  |
| Unpaid<br>principal<br>balance                                                                 |  | \$249,229  |  | \$ 119,732                            |  | \$ 60,000     |  | \$428,961 |  | \$244,910  |  | \$ 60,534                             |  | \$ 48,000<br>\$353,444 |  |
| Net<br>investment<br>basis                                                                     |  | \$214,199  |  | \$ 119,670                            |  | \$ 60,005     |  | \$393,874 |  | \$205,928  |  | \$ 60,497                             |  | \$ 48,000<br>\$314,425 |  |

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

Assets

*Cash, Short-term Investments and Securities*

Cash and short-term investments were \$86.2 million as of September 30, 2015, a decrease of \$3.7 million, or 4.1%, from \$89.9 million at June 30, 2015. The decrease is primarily due to loan purchases for the quarter, offset by growth in the Bank's deposit balances.

Available-for-sale securities totaled \$101.3 million as of September 30, 2015 as compared to \$101.9 million as of June 30, 2015, representing a decrease of \$564 thousand or 0.5%. Included in available-for-sale securities are securities issued by government agencies and government-sponsored enterprises, as well as an investment of approximately \$5.0 million in a CRA qualified fund that seeks to invest in securities either issued or guaranteed by the U.S. government or its agencies. At September 30, 2015, securities with a fair value of \$3.0 million were pledged for outstanding borrowings.

*Loans*

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

|                                            | September 30, 2015               |           |                 |           | Percent     |
|--------------------------------------------|----------------------------------|-----------|-----------------|-----------|-------------|
|                                            | Community<br>Banking<br>Division | LASG      | SBA<br>National | Total     | of<br>Total |
|                                            | (Dollars in thousands)           |           |                 |           |             |
| Originated loans:                          |                                  |           |                 |           |             |
| Residential real estate                    | \$102,434                        | \$-       | \$136           | \$102,570 | 16.39 %     |
| Home equity                                | 22,480                           | -         | -               | 22,480    | 3.59 %      |
| Commercial real estate: non-owner occupied | 49,930                           | 52,976    | 668             | 103,574   | 16.55 %     |
| Commercial real estate: owner occupied     | 23,003                           | 15,091    | 11,205          | 49,299    | 7.88 %      |
| Commercial business                        | 11,559                           | 111,607   | 3,310           | 126,476   | 20.21 %     |
| Consumer                                   | 7,244                            | -         | -               | 7,244     | 1.16 %      |
| Subtotal                                   | 216,650                          | 179,674   | 15,319          | 411,643   | 65.77 %     |
| Purchased loans:                           |                                  |           |                 |           |             |
| Residential real estate                    | -                                | 3,214     | -               | 3,214     | 0.51 %      |
| Commercial business                        | -                                | 258       | -               | 258       | 0.04 %      |
| Commercial real estate: non-owner occupied | -                                | 140,709   | -               | 140,709   | 22.48 %     |
| Commercial real estate: owner occupied     | -                                | 70,018    | -               | 70,018    | 11.19 %     |
| Subtotal                                   | -                                | 214,199   | -               | 214,199   | 34.23 %     |
| Total                                      | \$216,650                        | \$393,873 | \$15,319        | \$625,842 | 100.00 %    |



Table Of Contents

|                                            | June 30, 2015          |            |           |            | Percent |   |
|--------------------------------------------|------------------------|------------|-----------|------------|---------|---|
|                                            | Community              | LASG       | SBA       | Total      | of      |   |
|                                            | Banking                |            | National  |            | Total   |   |
|                                            | Division               |            |           |            |         |   |
|                                            | (Dollars in thousands) |            |           |            |         |   |
| Originated loans:                          |                        |            |           |            |         |   |
| Residential real estate                    | \$ 106,138             | \$ 137     | \$ -      | \$ 106,275 | 17.36   | % |
| Home equity                                | 24,326                 | -          | -         | 24,326     | 3.97    | % |
| Commercial real estate: non-owner occupied | 48,933                 | 53,051     | 3,865     | 105,849    | 17.29   | % |
| Commercial real estate: owner occupied     | 21,657                 | 16,507     | 4,461     | 42,576     | 6.96    | % |
| Commercial business                        | 11,597                 | 108,577    | 2,637     | 122,860    | 20.06   | % |
| Consumer                                   | 7,659                  | -          | -         | 7,659      | 1.25    | % |
| Subtotal                                   | 220,310                | 178,272    | 10,963    | 409,545    | 66.90   | % |
| Purchased loans:                           |                        |            |           |            |         |   |
| Residential real estate                    | -                      | 2,068      | -         | 2,068      | 0.34    | % |
| Commercial business                        | -                      | 273        | -         | 273        | 0.04    | % |
| Commercial real estate: non-owner occupied | -                      | 128,182    | -         | 128,182    | 20.94   | % |
| Commercial real estate: owner occupied     | -                      | 72,069     | -         | 72,069     | 11.77   | % |
| Subtotal                                   | -                      | 202,592    | -         | 202,592    | 33.10   | % |
| Total                                      | \$ 220,310             | \$ 380,864 | \$ 10,963 | \$ 612,137 | 100.00  | % |

*Classification of Assets*

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

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

Other nonperforming assets include other real estate owned (“OREO”) and other personal property securing loans repossessed by the Bank. The real estate and personal property collateral for commercial and consumer loans is written down to its estimated realizable value upon repossession. Revenues and expenses are recognized in the period when received or incurred on OREO and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

The following table details the Company's nonperforming assets and other credit quality indicators as of September 30, 2015 and June 30, 2015. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

| Non-Performing Assets at<br>September 30, 2015     |            |           |          |
|----------------------------------------------------|------------|-----------|----------|
|                                                    | Originated | Purchased | Total    |
| (Dollars in thousands)                             |            |           |          |
| Loans:                                             |            |           |          |
| Residential real estate                            | \$3,165    | \$ -      | \$3,165  |
| Home equity                                        | 20         | -         | 20       |
| Commercial real estate                             | 529        | 6,939     | 7,468    |
| Commercial business                                | 2          | -         | 2        |
| Consumer                                           | 153        | -         | 153      |
| Subtotal                                           | 3,869      | 6,939     | 10,808   |
| Real estate owned and other repossessed collateral | 1,279      | -         | 1,279    |
| Total                                              | \$5,148    | \$ 6,939  | \$12,087 |
| Ratio of nonperforming loans to total loans        |            | 1.73      | %        |
| Ratio of nonperforming assets to total assets      |            | 1.41      | %        |
| Ratio of loans past due to total loans             |            | 1.35      | %        |
| Nonperforming loans that are current               |            | \$5,221   |          |
| Commercial loans risk rated substandard or worse   |            | \$9,936   |          |
| Troubled debt restructurings:                      |            |           |          |
| On accrual status                                  |            | \$6,816   |          |
| On nonaccrual status                               |            | \$1,443   |          |

Table Of Contents

| Non-Performing Assets at<br>June 30, 2015          |            |           |          |
|----------------------------------------------------|------------|-----------|----------|
|                                                    | Originated | Purchased | Total    |
| (Dollars in thousands)                             |            |           |          |
| Loans:                                             |            |           |          |
| Residential real estate                            | \$3,021    | \$ -      | \$3,021  |
| Home equity                                        | 11         | -         | 11       |
| Commercial real estate                             | 994        | 6,532     | 7,526    |
| Commercial business                                | 2          | -         | 2        |
| Consumer                                           | 190        | -         | 190      |
| Subtotal                                           | 4,218      | 6,532     | 10,750   |
| Real estate owned and other repossessed collateral | 1,651      | -         | 1,651    |
| Total                                              | \$5,869    | \$ 6,532  | \$12,401 |
| Ratio of nonperforming loans to total loans        |            | 1.76      | %        |
| Ratio of nonperforming assets to total assets      |            | 1.46      | %        |
| Ratio of loans past due to total loans             |            | 1.08      | %        |
| Nonperforming loans that are current               |            | \$5,357   |          |
| Commercial loans risk rated substandard or worse   |            | \$8,910   |          |
| Troubled debt restructurings:                      |            |           |          |
| On accrual status                                  |            | \$6,365   |          |
| Nonaccrual status                                  |            | \$2,131   |          |

At September 30, 2015, nonperforming assets totaled \$12.1 million, or 1.4% of total assets, as compared to \$12.4 million, or 1.5% of total assets, at June 30, 2015.

*Allowance for Loan Losses*

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

The Company's allowance for loan losses was \$2.1 million as of September 30, 2015, which represents an increase of \$139 thousand from \$1.9 million as of June 30, 2015. The increase during the period was principally due to increased volume of newly originated loans.

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

|                                                        | September<br>30, 2015 |   | June<br>30,<br>2015 |   | September<br>30, 2014 |   |
|--------------------------------------------------------|-----------------------|---|---------------------|---|-----------------------|---|
| Allowance for loan losses to nonperforming loans       | 19.11                 | % | 17.92               | % | 21.12                 | % |
| Allowance for loan losses to total loans               | 0.33                  | % | 0.31                | % | 0.28                  | % |
| Last twelve months of net-charge offs to average loans | 0.03                  | % | 0.03                | % | 0.09                  | % |

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

#### *Other Assets*

The cash surrender value of the Company's bank-owned life insurance ("BOLI") assets increased \$111 thousand, or 0.7% to \$15.4 million at September 30, 2015, compared to \$15.3 million at June 30, 2015. Increases in cash surrender value are recognized in other income and are not subject to income taxes. Borrowing on, or surrendering a policy, may subject the Company to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 12.5% of the Company's total risk-based capital at September 30, 2015.

Intangible assets totaled \$2.1 million and \$2.2 million at September 30, 2015 and June 30, 2015, respectively. The \$131 thousand decrease was the result of core deposit intangible asset amortization during the period.

Table Of Contents*Deposits, Borrowed Funds, Capital Resources and Liquidity**Deposits*

The Company's principal source of funding is its core deposit accounts. At September 30, 2015, non-maturity accounts, and certificates of deposit with balances less than \$250 thousand represented 100% of total deposits.

Total deposits increased \$18.7 million to \$693.5 million as of September 30, 2015 from \$674.8 million as of June 30, 2015. The increase, which funded growth in the Company's loan portfolio, was centered mainly in money market accounts attracted through the Bank's community bank division. The composition of total deposits at September 30, 2015 and June 30, 2015 follows.

|                                             | September 30,<br>2015  |                        | June 30, 2015 |                        |
|---------------------------------------------|------------------------|------------------------|---------------|------------------------|
|                                             | Amount                 | Percent<br>of<br>Total | Amount        | Percent<br>of<br>Total |
|                                             | (Dollars in thousands) |                        |               |                        |
| Demand deposits                             | \$62,687               | 9.04 %                 | \$60,383      | 8.95 %                 |
| NOW accounts                                | 71,767                 | 10.35 %                | 64,289        | 9.53 %                 |
| Regular and other savings                   | 34,912                 | 5.03 %                 | 35,845        | 5.31 %                 |
| Money market deposits                       | 182,690                | 26.34 %                | 168,527       | 24.98 %                |
| Total non-certificate accounts              | 352,056                | 50.77 %                | 329,044       | 48.76 %                |
| Term certificates less than \$250 thousand  | 341,422                | 49.23 %                | 345,146       | 51.15 %                |
| Term certificates of \$250 thousand or more | -                      | 0.00 %                 | 569           | 0.08 %                 |
| Total certificate accounts                  | 341,422                | 49.23 %                | 345,715       | 51.24 %                |
| Total deposits                              | \$693,478              | 100.00 %               | \$674,759     | 100.00 %               |

*Borrowed Funds*

Advances from the FHLB were \$30.2 million at both September 30, 2015 and June 30, 2015, respectively. At September 30, 2015, the Company had pledged investment securities with a fair value of \$3.0 million, as well as certain residential real estate loans, commercial real estate loans, and FHLB deposits free of liens or pledges to secure outstanding advances and available additional borrowing capacity.

During the quarter ended September 30, 2015, the Company's wholesale repurchase agreements paid off at maturity, representing a \$10.0 million decrease from June 30, 2015.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were \$2.5 million and \$2.3 million as of September 30, 2015 and June 30, 2015, respectively.

### *Liquidity*

The following table is a summary of unused borrowing capacity of the Company at September 30, 2015, in addition to traditional retail deposit products (dollars in thousands):

|                                  |           |                                                                      |
|----------------------------------|-----------|----------------------------------------------------------------------|
| Brokered time deposits           | \$214,562 | Subject to policy limitation of 25% of total assets                  |
| Federal Home Loan Bank of Boston | 45,030    | Unused advance capacity subject to eligible and qualified collateral |
| Federal Discount Window          | 2,124     | Unused credit line subject to the pledge of loans                    |
| Borrower-in-Custody              | 17,500    |                                                                      |
| Other available lines            | 279,216   |                                                                      |
| Total unused borrowing capacity  |           |                                                                      |

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

At September 30, 2015, the Company had \$377.6 million of immediately accessible liquidity, defined as cash that the Bank reasonably believes could be raised within 7 days through collateralized borrowings, brokered deposits or security sales. This position represented 44.0% of total assets. The Company also had \$86.2 million of cash and cash equivalents at September 30, 2015.

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 FHLB. Management does not believe that the terms and conditions that will be present at the renewal of these funding sources will significantly impact the Company's operations, due to its management of the maturities of its assets and liabilities.

*Capital*

The carrying amount and unpaid principal balance of junior subordinated debentures totaled \$8.7 million and \$16.5 million, respectively, as of September 30, 2015. This debt represents qualifying Tier 1 capital for the Company, up to a maximum of 25% of total Tier 1 capital. At September 30, 2015, the carrying amounts of the junior subordinated notes, net of the Company's \$496 thousand investment in the affiliated trusts, qualified as Tier 1 capital.

Table Of Contents

At September 30, 2015, shareholders' equity was \$113.7 million, an increase of \$977 thousand, or 0.9% from June 30, 2015. Book value per outstanding common share was \$11.85 at September 30, 2015 and \$11.76 at June 30, 2015. Tier 1 capital to total average assets of the Company was 14.23% as of September 30, 2015 and 14.49% at June 30, 2015.

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

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

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

|                                                       | Actual                 |        | Minimum Capital |       | Minimum To Be Well Capitalized Under Prompt Correction Action Provisions |       |
|-------------------------------------------------------|------------------------|--------|-----------------|-------|--------------------------------------------------------------------------|-------|
|                                                       |                        |        | Requirements    |       |                                                                          |       |
|                                                       | Amount                 | Ratio  | Amount          | Ratio | Amount                                                                   | Ratio |
|                                                       | (Dollars in thousands) |        |                 |       |                                                                          |       |
| September 30, 2015:                                   |                        |        |                 |       |                                                                          |       |
| Common equity tier 1 capital to risk weighted assets: |                        |        |                 |       |                                                                          |       |
| Company                                               | \$122,789              | 19.69% | \$28,063        | >4.5% | N/A                                                                      | N/A   |
| Bank                                                  | 110,172                | 17.63% | 28,115          | >4.5% | 40,610                                                                   | >6.5% |

## Total capital to risk weighted assets:

|         |         |         |        |       |        |        |
|---------|---------|---------|--------|-------|--------|--------|
| Company | 124,891 | 20.03 % | 49,889 | >8.0% | N/A    | N/A    |
| Bank    | 113,409 | 18.15 % | 49,982 | >8.0% | 62,447 | >10.0% |

## Tier 1 capital to risk weighted assets:

|         |         |         |        |       |        |       |
|---------|---------|---------|--------|-------|--------|-------|
| Company | 122,789 | 19.69 % | 24,945 | >4.0% | N/A    | N/A   |
| Bank    | 110,172 | 17.63 % | 24,991 | >4.0% | 37,486 | >6.0% |

## Tier 1 capital to average assets:

|         |         |         |        |       |        |       |
|---------|---------|---------|--------|-------|--------|-------|
| Company | 122,789 | 14.23 % | 34,511 | >4.0% | N/A    | N/A   |
| Bank    | 110,172 | 12.79 % | 34,467 | >4.0% | 43,084 | >5.0% |

June 30, 2015:

## Common equity tier 1 capital to risk weighted assets:

|         |            |         |           |       |        |       |
|---------|------------|---------|-----------|-------|--------|-------|
| Company | \$ 121,224 | 19.82 % | \$ 27,523 | >4.5% | N/A    | N/A   |
| Bank    | 107,477    | 17.55 % | 27,558    | >4.5% | 39,806 | >6.5% |

## Total capital to risk weighted assets:

|         |         |         |        |       |        |        |
|---------|---------|---------|--------|-------|--------|--------|
| Company | 123,187 | 20.14 % | 48,932 | >8.0% | N/A    | N/A    |
| Bank    | 111,228 | 18.16 % | 48,999 | >8.0% | 61,249 | >10.0% |

## Tier 1 capital to risk weighted assets:

|         |         |         |        |       |        |       |
|---------|---------|---------|--------|-------|--------|-------|
| Company | 121,224 | 19.82 % | 24,465 | >4.0% | N/A    | N/A   |
| Bank    | 107,477 | 17.55 % | 24,496 | >4.0% | 36,744 | >6.0% |

## Tier 1 capital to average assets:

|         |         |         |        |       |        |       |
|---------|---------|---------|--------|-------|--------|-------|
| Company | 121,224 | 14.49 % | 33,464 | >4.0% | N/A    | N/A   |
| Bank    | 107,477 | 12.86 % | 33,421 | >4.0% | 41,776 | >5.0% |

### Off-balance Sheet Financial Instruments

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

Table Of Contents

See Part I. Item I. “Notes to Unaudited Consolidated Financial Statements – Note 10: Commitments and Contingencies” for further discussion.

Results of Operations*General*

Net income increased by \$220 thousand to \$1.9 million for the quarter ended September 30, 2015, compared to \$1.6 million for the quarter ended September 30, 2014. When compared to the prior year, increases in net income for the three months ended September 30, 2015 resulted principally from higher noninterest income, as well as a slight increase in transactional income recognized on purchased loans.

The following table details the total return on purchased loans, which includes transactional income of \$2.2 million for the quarter ended September 30, 2015, an increase of \$209 thousand from the quarter ended September 30, 2014.

| Total Return on Purchased Loans            |                        |         |         |         |         |
|--------------------------------------------|------------------------|---------|---------|---------|---------|
| Three Months Ended September               |                        |         |         |         |         |
| 30,                                        |                        |         |         |         |         |
|                                            | 2015                   |         |         | 2014    |         |
|                                            | Income                 | Return  |         | Income  | Return  |
|                                            |                        | (1)     |         |         | (1)     |
|                                            | (Dollars in thousands) |         |         |         |         |
| Regularly scheduled interest and accretion | \$3,887                | 7.70 %  |         | \$4,497 | 8.80 %  |
| Transactional income:                      |                        |         |         |         |         |
| Gain (loss) on loan sales                  | -                      | 0.00 %  | (4 )    | -       | -0.01 % |
| Gain on sale of real estate owned          | 22                     | 0.04 %  | -       | -       | 0.00 %  |
| Other noninterest income                   | -                      | 0.00 %  | -       | -       | 0.00 %  |
| Accelerated accretion and loan fees        | 2,208                  | 4.37 %  | 2,025   | 3.96 %  |         |
| Total transactional income                 | 2,230                  | 4.41 %  | 2,021   | 3.95 %  |         |
| Total                                      | \$6,117                | 12.11 % | \$6,518 | 12.75 % |         |

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

**Net Interest Income**

Net interest and dividend income before provision for loan losses decreased by \$230 thousand, or 2.4%, for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014. The decrease is primarily due to lower interest income in the purchased loan portfolio, mainly due to a decline in yield to 12.1% in the current quarter from 12.8% earned in the quarter ended September 30, 2014.

The various components of transactional income are set forth in the table below entitled “Total Return on Purchased Loans.” When compared to the three months ended September 30, 2014, transactional interest income increased by \$183 thousand. The following table summarizes interest income and related yields recognized on the loan portfolios:

|                                 | Interest Income and Yield on Loans    |                 |         |  |                 |                 |          |
|---------------------------------|---------------------------------------|-----------------|---------|--|-----------------|-----------------|----------|
|                                 | Three Months Ended September 30, 2015 |                 |         |  | 2014            |                 |          |
|                                 | Average Balance                       | Interest Income | Yield   |  | Average Balance | Interest Income | Yield    |
|                                 | (Dollars in thousands)                |                 |         |  |                 |                 |          |
| Community Banking Division      | \$238,873                             | \$2,924         | 4.86 %  |  | \$241,165       | \$3,062         | 5.04 %   |
| LASG:                           |                                       |                 |         |  |                 |                 |          |
| Originated                      | 118,574                               | 1,696           | 5.67 %  |  | 52,430          | 1,306           | 9.88%(1) |
| Purchased                       | 200,385                               | 6,095           | 12.07 % |  | 202,856         | 6,522           | 12.76 %  |
| Secured Loans to Broker-Dealers | 60,007                                | 75              | 0.50 %  |  | 29,905          | 32              | 0.42 %   |
| Total LASG                      | 378,966                               | 7,866           | 8.23 %  |  | 285,191         | 7,860           | 10.93 %  |
| Total                           | \$617,839                             | \$10,790        | 6.93 %  |  | \$526,356       | \$10,922        | 8.23 %   |

The yield for LASG originated loans included \$335 thousand of loan fees in the quarter ended September 30, (1)2014, compared to \$1 thousand of loan fees in the quarter ended September 30, 2015. The yield for LASG originated loans, excluding loan fees, was 7.35% in the quarter ended September 30, 2014.

Table Of Contents

In the quarter ended September 30, 2015, net interest income was negatively affected by a lower level of noncash accretion of fair value adjustments resulting from the 2010 merger than in the quarter ended September 30, 2014. The effect of such accretion will continue to diminish as financial instruments held at the merger mature or prepay.

The Company's interest rate spread and net interest margin decreased by 70 basis points for the quarter ended September 30, 2015 compared to the quarter ended September 30, 2014. The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended September 30, 2015 and 2014.

**NORTHEAST  
BANCORP AND  
SUBSIDIARY  
CONSOLIDATED  
AVERAGE  
BALANCE  
SHEETS AND  
ANNUALIZED  
YIELDS**  
(Unaudited)  
(Dollars in  
thousands)

|                                     | Three Months Ended September 30,<br>2015 |                                |                           | 2014 |                    |                                |                           |
|-------------------------------------|------------------------------------------|--------------------------------|---------------------------|------|--------------------|--------------------------------|---------------------------|
|                                     | Average<br>Balance                       | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |      | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Yield/<br>Rate |
| Assets:                             |                                          |                                |                           |      |                    |                                |                           |
| Interest-earning assets:            |                                          |                                |                           |      |                    |                                |                           |
| Investment securities (1)           | \$102,241                                | \$228                          | 0.88 %                    |      | \$112,250          | \$244                          | 0.86 %                    |
| Loans (2) (3)                       | 617,839                                  | 10,790                         | 6.93 %                    |      | 526,356            | 10,922                         | 8.23 %                    |
| Federal Home Loan Bank stock        | 4,102                                    | 34                             | 3.29 %                    |      | 4,102              | 15                             | 1.45 %                    |
| Short-term investments (4)          | 99,649                                   | 61                             | 0.24 %                    |      | 82,762             | 51                             | 0.24 %                    |
| Total interest-earning assets       | 823,831                                  | 11,113                         | 5.35 %                    |      | 725,470            | 11,232                         | 6.14 %                    |
| Cash and due from banks             | 3,026                                    |                                |                           |      | 2,712              |                                |                           |
| Other non-interest earning assets   | 36,420                                   |                                |                           |      | 34,736             |                                |                           |
| Total assets                        | \$863,277                                |                                |                           |      | \$762,918          |                                |                           |
| Liabilities & Stockholders' Equity: |                                          |                                |                           |      |                    |                                |                           |
| Interest-bearing liabilities:       |                                          |                                |                           |      |                    |                                |                           |
| NOW accounts                        | \$69,619                                 | \$46                           | 0.26 %                    |      | \$63,608           | \$41                           | 0.26 %                    |
| Money market accounts               | 170,566                                  | 353                            | 0.82 %                    |      | 86,294             | 110                            | 0.51 %                    |

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|                                    |         |       |      |   |         |       |      |   |
|------------------------------------|---------|-------|------|---|---------|-------|------|---|
| Savings accounts                   | 36,360  | 12    | 0.13 | % | 34,361  | 11    | 0.13 | % |
| Time deposits                      | 350,867 | 954   | 1.08 | % | 340,368 | 968   | 1.13 | % |
| Total interest-bearing deposits    | 627,412 | 1,365 | 0.86 | % | 524,631 | 1,130 | 0.85 | % |
| Short-term borrowings              | 1,950   | 9     | 1.83 | % | 3,320   | 9     | 1.08 | % |
| Borrowed funds                     | 39,324  | 344   | 3.47 | % | 52,979  | 416   | 3.12 | % |
| Junior subordinated debentures     | 8,650   | 154   | 7.06 | % | 8,461   | 206   | 9.66 | % |
| Total interest-bearing liabilities | 677,336 | 1,872 | 1.10 | % | 589,391 | 1,761 | 1.19 | % |

Non-interest bearing liabilities:

|                                            |           |  |  |  |           |  |  |  |
|--------------------------------------------|-----------|--|--|--|-----------|--|--|--|
| Demand deposits and escrow accounts        | 64,008    |  |  |  | 53,245    |  |  |  |
| Other liabilities                          | 8,763     |  |  |  | 7,891     |  |  |  |
| Total liabilities                          | 750,107   |  |  |  | 650,527   |  |  |  |
| Stockholders' equity                       | 113,170   |  |  |  | 112,391   |  |  |  |
| Total liabilities and stockholders' equity | \$863,277 |  |  |  | \$762,918 |  |  |  |

|                     |  |         |  |  |  |         |  |  |
|---------------------|--|---------|--|--|--|---------|--|--|
| Net interest income |  | \$9,241 |  |  |  | \$9,471 |  |  |
|---------------------|--|---------|--|--|--|---------|--|--|

|                         |  |  |      |   |  |  |      |   |
|-------------------------|--|--|------|---|--|--|------|---|
| Interest rate spread    |  |  | 4.25 | % |  |  | 4.95 | % |
| Net interest margin (5) |  |  | 4.45 | % |  |  | 5.18 | % |

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

(2) Includes loans held for sale.

(3) Nonaccrual loans are included in the computation of average, but unpaid interest has not been included for purposes of determining interest income.

(4) Short term investments include FHLB overnight deposits and other interest-bearing deposits.

(5) Net interest margin is calculated as net interest income divided by total interest-earning assets.

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

Table Of Contents

|                                     | Three Months Ended<br>September, 2015 compared<br>to 2014 |                          |                 |
|-------------------------------------|-----------------------------------------------------------|--------------------------|-----------------|
|                                     | Change<br>Due to<br>Volume                                | Change<br>Due to<br>Rate | Total<br>Change |
| (Dollars in thousands)              |                                                           |                          |                 |
| Interest earning assets:            |                                                           |                          |                 |
| Investment securities               | \$(22 )                                                   | \$6                      | \$ (16 )        |
| Loans                               | 1,741                                                     | (1,873)                  | (132 )          |
| Federal Home Loan Bank stock        | -                                                         | 19                       | 19              |
| Short-term investments              | 10                                                        | -                        | 10              |
| Total interest-earning assets       | 1,729                                                     | (1,848)                  | (119 )          |
| Interest-bearing liabilities:       |                                                           |                          |                 |
| Interest-bearing deposits           | 197                                                       | 38                       | 235             |
| Short-term borrowings               | (5 )                                                      | 5                        | -               |
| Borrowed funds                      | (115 )                                                    | 43                       | (72 )           |
| Junior subordinated debentures      | 5                                                         | (57 )                    | (52 )           |
| Total interest-bearing liabilities  | 82                                                        | 29                       | 111             |
| Total change in net interest income | \$1,647                                                   | \$(1,877)                | \$ (230 )       |

***Provision for Loan Losses***

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

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

The provision for loan losses for the quarter ended September 30, 2015 and 2014 was \$169 thousand and \$320 thousand, respectively. The decrease in the Company's loan loss provision resulted principally from a higher level of allowance built over the year, as well as a decrease in charge-offs.

### ***Noninterest Income***

Noninterest income increased by \$551 thousand for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014, principally due to an increase in gains realized on sale of portfolio loans. The recent quarter includes gains realized on sale of SBA loans of \$675 thousand, compared to an \$80 thousand gain on sale of commercial loans in the quarter ended September 30, 2014.

### ***Noninterest Expense***

Noninterest expense increased by \$100 thousand for the quarter ended September 30, 2015, compared to the quarter ended September 30, 2014, principally due to the following:

An increase of \$177 thousand in loan acquisition and collections expense related to the collections of two loans;  
An increase of \$122 thousand in professional fees related to IT consulting;  
An increase of \$88 thousand in occupancy and equipment expense, due to increases in rent and IT-related equipment expense; and  
A decrease of \$277 thousand in salaries and employee benefits, principally due to the current quarter benefit recognized upon the forfeiture of stock awards and a decrease in incentive compensation. This decrease is partially offset by an increase in employee head count.

### ***Income Taxes***

The Company's effective tax rate for the quarter ended September 30, 2015 was 37.07%, compared to 36.53% for the quarter ended September 30, 2014. The increase in the quarter was primarily due to fluctuations in projected pre-tax income and the adoption of ASU 2014-01.

## **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

Not required for smaller reporting companies.

## **Item 4. Controls and Procedures**

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

Table Of Contents

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

Based on this evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of September 30, 2015.

There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2015 that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

**PART II – OTHER INFORMATION**

**Legal Proceedings**

**Item 1.**

None.

**Risk Factors**

**Item 1A.**

Not required for smaller reporting companies.

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

On April 23, 2014, the Company announced that its Board of Directors authorized the Company to purchase up to 870,000 shares of its common stock, representing 8.3% of the Company's outstanding common shares and approximately \$8.4 million based on the Company's closing stock price on April 22, 2014.

On April 30, 2015, the Board of Directors voted to amend the existing stock repurchase program to authorize the Company to purchase an additional 500,000 shares of its common stock, representing

5.1% of the Company's outstanding common shares or approximately \$4.7 million based on the Company's closing price on April 29, 2015. The amended stock repurchase program will expire on April 30, 2017.

As of September 30, 2015, 1,054,362 shares had been repurchased under this plan at a weighted average price of \$9.52.

The following table sets forth information with respect to purchases made by the Company of its common stock during the three months ended September 30, 2015.

| Period           | Total<br>Number<br>of Shares<br>Purchased<br>(1) | Average<br>Price<br>Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Programs | Maximum<br>Number<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under<br>the<br>Program |
|------------------|--------------------------------------------------|----------------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
|                  |                                                  |                                  |                                                                                              |                                                                                              |
| Jul. 1 –Jul. 31  | 17,300                                           | \$ 10.07                         | 1,019,162                                                                                    | 350,838                                                                                      |
| Aug. 1 – Aug. 31 | 13,900                                           | 10.60                            | 1,033,062                                                                                    | 336,938                                                                                      |
| Sep. 1 – Sep. 30 | 21,300                                           | 10.65                            | 1,054,362                                                                                    | 315,638                                                                                      |

(1) Based on trade date, not settlement date

### Defaults Upon Senior Securities

#### Item 3.

None.

### Mine Safety Disclosures

#### Item 4.

Not applicable.

#### Item 5. Other Information

None.

**Item 6. Exhibits**

39

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Table Of Contents

| <u>Exhibits</u><br><u>No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1                          | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 31.2                          | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 32.1                          | Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 32.2                          | Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 101                           | The following materials from Northeast Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2015 and June 30, 2015; (ii) Consolidated Statements of Income for the three months ended September 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the three months ended September 30, 2015 and 2014; (iv) Consolidated Statements of Changes in Shareholders' Equity for the three months ended September 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the three months ended September 30, 2015 and 2014; and (v) Notes to Unaudited Consolidated Financial Statements. |

\* Filed herewith

\*\* Furnished herewith

Table Of Contents

**SIGNATURES**

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

Date: November 13, 2015      **NORTHEAST BANCORP**

By: /s/ Richard Wayne

Richard Wayne

President and Chief Executive Officer

By: /s/ Brian Shaughnessy

Brian Shaughnessy

Chief Financial Officer

Table Of Contents

**NORTHEAST BANCORP**

**Index to Exhibits**

| <u>Exhibits</u><br><u>No.</u> | <u>Description</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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