NORTHEAST BANCORP /ME/
Form 10-K
September 30, 2015

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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2015

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number (1-14588)

NORTHEAST BANCORP

(Exact name of registrant as specified in its charter)

Maine	**01-0425066**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 Canal Street, Lewiston, Maine	**04240**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:

(207) 786-3245

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

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

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

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

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

Large Accelerated Filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company ý

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates, computed by reference to the last reported sales price of the registrant's voting common stock on the NASDAQ Global Market on December 31, 2014 was approximately $65,212,768.

As of September 18, 2015, the registrant had outstanding 8,523,666 shares of voting common stock, $1.00 par value per share, and 1,012,717 shares of non-voting common stock, $1.00 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2015 Annual Meeting of Shareholders to be held on November 20, 2015 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file such proxy statement with the Securities and Exchange Commission no later than 120 days after the end of its fiscal year ended June 30, 2015.

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A Note About Forward-Looking Statements

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

Such forward-looking statements reflect our current views and expectations based largely on information currently available to our management, and on our current expectations, assumptions, plans, estimates, judgments, and projections about our business and our industry, and they involve inherent risks and uncertainties. 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 our expectations will in fact occur or that our 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, the factors referenced in this report under Item 1A. "Risk Factors"; changes in interest rates; competitive pressures from other financial institutions; the effects of a deterioration 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 our loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that we may not be successful in the implementation of our business strategy; the risk that intangibles recorded in the Company's financial statements will become impaired; and changes in assumptions used in making such forward-looking statements. These forward-looking statements speak only as of the date of this report and the 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.

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PART I

Item 1. 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") under the Bank Holding Company Act of 1956, as amended. The Company's primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank (the "Bank" or "Northeast Bank"), a Maine state-chartered bank originally organized in 1872.

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

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

As of June 30, 2015, the Company, on a consolidated basis, had total assets of $850.8 million, total deposits of $674.8 million, and stockholders' equity of $112.8 million. The Company gathers retail deposits through the Community Banking Division's ten full-service branches in Maine and through its online deposit program, ableBanking; originates loans through its Community Banking Division; purchases and originates commercial loans on a nationwide basis through its Loan Acquisition and Servicing Group ("LASG"); and originates Small Business Administration ("SBA") loans on a nationwide basis through the Small Business Administration National group ("SBA National").

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

Strategy

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

Measured growth of our national commercial loan portfolio. The Company purchases performing commercial real estate loans, on a nationwide basis, typically at a discount from their outstanding principal balances, producing yields higher than those normally achieved on our originated loan portfolio. These loans are purchased from a variety of sources, including banks, insurance companies, investment funds and government agencies, either directly or indirectly through a broker. We also

originate commercial real estate and commercial business loans on a nationwide basis, including loans partially guaranteed by the SBA.

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

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

Market Area and Competition

Northeast Bancorp is the holding company for Northeast Bank, a full-service bank headquartered in Lewiston, Maine. We offer traditional banking services through the Community Banking Division, which operates ten full-service branches that serve customers located in western and central Maine. From our Maine and Boston locations, we also lend throughout the New England area. The LASG purchases and originates commercial loans on a nationwide basis. SBA National originates SBA loans on a nationwide basis for the Bank's portfolio, and sells the guaranteed portion on certain loans originated. ableBanking, a division of Northeast Bank, offers savings products to consumers online.

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

The LASG has a nationwide scope in its loan purchasing, origination, and servicing activities. It competes with regional banks, national private equity funds, and community banks in its bid to acquire performing commercial loans. SBA National has a national scope in its SBA loan origination activities, and competes with regional banks and community banks in its bid to originate loans. ableBanking also has nationwide scope in its deposit gathering activities and competes with banks and credit unions, as well as other, larger, online direct banks having a national reach.

Lending Activities

General

We conduct our loan-related activities through three primary channels: the Community Banking Division, the LASG, and SBA National. The Community Banking Division originates loans directly to consumers and businesses located in its market area. The LASG purchases primarily performing commercial real estate loans, on a nationwide basis, typically at a discount from their outstanding principal balances, producing yields higher than those normally achieved on the Company's originated loan portfolio. The LASG also originates commercial real estate and commercial business loans on a nationwide basis. Pursuant to commitments made to the Federal Reserve in connection with the merger, the Company is required to limit purchased loans to 40% of total loans. At June 30, 2015, the Company's ratio of purchased loans to total loans, including loans held for sale, was 32.6%. SBA National originates loans to small businesses, primarily through the SBA 7(a) program, which provides

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the partial guarantee of the SBA. At June 30, 2015, of our total loan portfolio of $612.1 million, $220.2 million, or 36.0%, was originated by the Community Banking Division, $380.9 million, or 62.2%, was purchased or originated by the LASG and $11.0 million, or 1.8%, was originated by SBA National, excluding loans held for sale.

The following table sets forth certain information concerning our portfolio loan purchases and originations for the periods indicated:

	Year Ended June 30,	
	2015	2014
	(Dollars in thousands)	
Loans, including loans held for sale, beginning of year	$ 528,361	$ 443,970
Additions:		
LASG Purchases and Originations:		
Originations	130,502	61,665
Purchases	82,654	79,823
Subtotal	213,156	141,488
SBA National Originations:		
Originations	34,544	4,613
Community Bank Originations:		
Residential mortgages held for sale	97,438	91,366
Residential mortgage held to maturity	7,857	45,525
Home equity	1,024	1,498
Commercial real estate	13,580	1,854
Commercial business	6,317	1,256
Consumer	211	191
Subtotal	126,427	141,690
Total originations and purchases	374,127	287,791
Reductions:		
Sales of residential loans held for sale	(106,045)	(88,015)
Sales of portfolio loans	(22,351)	(8,779)
Charge-offs	(238)	(405)
Pay-downs and amortization, net	(152,682)	(106,201)
Total reductions	(281,316)	(203,400)
Loans, including loans held for sale, end of year	$ 621,172	$ 528,361
Annual percentage increase in loans	17.57%	19.01%

We individually underwrite the loans that we originate and all loans that we purchase. Our loan underwriting policies are reviewed and approved annually by our board of directors. Each loan, regardless of whether it is originated or purchased, must meet underwriting criteria set forth in our lending policies and the requirements of applicable federal and state regulators. We typically retain servicing rights for all loans that we originate or purchase, except for residential loans that we originate and sell servicing released in the secondary market.

Community Bank Originations

Originated Loan Portfolio. Our Community Bank originated loan portfolio consists primarily of loans to consumers and businesses in the Community Banking Division's market area.

Residential Mortgage Loans. We originate residential mortgage loans secured by one- to four-family properties throughout Maine, southern New Hampshire, and Massachusetts. Such

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loans may be originated for sale in the secondary market or to be held on the Bank's balance sheet. We also offer home equity loans and home equity lines of credit, which are secured by first or second mortgages on one- to four-family owner-occupied properties and which are held on our balance sheet. At June 30, 2015, portfolio residential loans totaled $130.5 million, or 21.3% of total loans. Of the residential loans we held for investment at June 30, 2015, approximately 51.0% were adjustable rate. Included in residential loans are home equity lines of credit and other second mortgage loans aggregating approximately $24.3 million.

Commercial Real Estate Loans. We originate multi-family and other commercial real estate loans secured by property located primarily in the Community Banking Division's market area. At June 30, 2015, commercial real estate loans outstanding were $70.6 million, or 11.5% of total loans. Although the largest commercial real estate loan originated by the Community Banking Division had a principal balance of $3.2 million at June 30, 2015, the majority of the commercial real estate loans originated by the Community Banking Division had principal balances less than $500 thousand.

Commercial Business Loans. We originate commercial business loans, including term loans, lines of credit and equipment and receivables financing to businesses located primarily in the Community Banking Division's market area. At June 30, 2015, commercial business loans outstanding were $11.9 million, or 1.9% of total loans. At June 30, 2015, there were 122 commercial business loans outstanding with an average principal balance of $97 thousand. The largest of these commercial business loans had a principal balance of $2.7 million at June 30, 2015.

Consumer Loans. We originate, on a direct basis, automobile, boat and recreational vehicle loans. At June 30, 2015, consumer loans outstanding were $7.7 million, or 1.3% of total loans.

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

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

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

Loans of $500 thousand or more (determined on a relationship basis) require approval from the Community Banking Division Credit Committee, which is comprised of senior managers of the Bank. Loans of less than $500 thousand (determined on a relationship basis) require approval from two officers with appropriate lending authority.

SBA National

General. SBA National, launched in November 2014, originates loans to small businesses nationwide, most often through the SBA's 7(a) program, which provides a partial government guarantee. Our loans are typically secured by liens on business assets and mortgages on commercial properties, as well as the SBA guarantees. We seek to build a loan portfolio that is diverse with respect to geography, loan type and collateral type.

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The following table summarizes the SBA National loan portfolio as of June 30, 2015.

	SBA National (Dollars in thousands)
Non-owner occupied commercial real estate	$ 3,865
Owner occupied commercial real estate	4,461
Commercial business	2,637
1 - 4 family residential	
Total	$ 10,963

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

In addition to the loans held in the SBA National loan portfolio, as of June 30, 2015, $1.9 million in the loans held for sale portfolio were attributable to SBA National, which relates to the guaranteed portion of the SBA National loans we expect to sell in the secondary market.

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

Competition for SBA Loans. SBA National competes primarily with community banks and regional banks nationwide. Capitalizing on our LASG origination loan infrastructure, SBA National is in a position to review and act quickly on a variety of lending opportunities. Risk management, approvals, underwriting and other due diligence for these loans is similar to that for the LASG loans. We believe that SBA National has an advantage in originating commercial loans because of its ability to utilize in-house staff to quickly and accurately screen loan opportunities and accelerate the underwriting process.

Underwriting of SBA National Loans. Our loan policies and procedures establish guidelines governing our SBA lending program. Generally, these guidelines address the types of loans that we seek, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. Our policies are reviewed and approved at least annually by our board of directors. We supplement our own supervision of the loan underwriting and approval process with periodic loan audits by internal personnel and outside professionals experienced in loan review.

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

LASG Purchases and Originations

General. The LASG purchases and originates commercial loans secured by income-producing collateral, and on a nationwide basis. Although the Bank's legal lending limit was $22.3 million at

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June 30, 2015, our credit policy currently requires prior Board approval for the purchase or origination of a loan with an initial investment greater than 10% of the Company's Tier 1 capital, determined on a relationship basis. We focus primarily on loans with balances between $1.0 million and $5.0 million. Purchased loans are sourced on a nationwide basis from banks, insurance companies, investment funds and government agencies, either directly or indirectly through advisors. We seek to build a loan portfolio that is diverse with respect to geography, loan type and collateral type. Of the loans originated or purchased by the LASG that were outstanding as of June 30, 2015, $269.8 million, or 70.8%, consisted of commercial real estate loans. The following table summarizes the LASG loan portfolio as of June 30, 2015.

	Purchased	Originated	Total
	(Dollars in thousands)		
Non-owner occupied commercial real estate	$ 128,182	$ 53,051	$ 181,233
Owner occupied commercial real estate	72,069	16,507	88,576
Commercial business	273	108,577	108,850
1 - 4 family residential	2,068	137	2,205
Total	$ 202,592	$ 178,272	$ 380,864

Since the inception of the LASG through June 30, 2015, we have purchased loans for an aggregate investment of $386.3 million, of which $82.7 million was purchased during fiscal 2015. We have also originated loans totaling $235.3 million, of which $130.5 million was originated in fiscal 2015. As of June 30, 2015, the unpaid principal balance of loans purchased or originated by the LASG ranged from $1 thousand to $12.0 million, with an average balance of $892 thousand. Included in the balance are non-real estate secured loans to broker-dealers, which have balances of $12.0 million each. The real estate loans were secured principally by retail, industrial, mixed use, multi-family and office properties in 36 states.

The following table shows the LASG loan portfolio stratified by book value as of June 30, 2015.

Range	Amount	Percent of Total
	(Dollars in thousands)	
$0 - $500	$ 54,930	14.42%
$500 - $1,000	48,480	12.73%
$1,000 - $2,000	69,332	18.20%
$2,000 - $3,000	56,659	14.88%
$3,000 - $4,000	24,857	6.53%
Greater than $4,000	126,606	33.24%
	$ 380,864	100.00%

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The following tables show the LASG loan portfolio by location and type of collateral as of June 30, 2015.

Collateral Type	Amount	Percent of Total	State	Amount	Percent of Total
	(Dollars in thousands)			(Dollars in thousands)	
Multifamily	$ 57,752	15.16%	CA	$ 66,972	17.58%
Office	44,125	11.59%	NY	66,722	17.52%
Hospitality	50,893	13.36%	NJ	25,060	6.58%
Retail	54,121	14.21%	FL	10,509	2.76%
Industrial	34,225	8.99%	GA	9,065	2.38%
Mixed use	20,758	5.45%	IL	17,348	4.55%
Securities	71,630	18.81%	TX	10,107	2.65%
Other real estate	15,281	4.01%	Non-real estate	92,773	24.36%
All other	32,079	8.42%	All other	82,308	21.61%
	$ 380,864	100.00%		$ 380,864	100.00%

Loan Purchase Strategies. The LASG's loan purchasing strategy involves the acquisition of commercial loans, typically secured by real estate or other business assets located throughout the United States. The LASG includes a team of credit analysts, real estate analysts, servicing specialists and legal counsel with extensive experience in the loan acquisition business.

We acquire performing commercial loans typically at a discount to their unpaid principal balances. While we acquire loans on a nationwide basis, we seek to avoid significant concentration in any geographic region or in any one collateral type. We do not seek acquisition opportunities for which the primary collateral is land, construction, or one- to four-family residential property, although in a very limited number of cases, loans secured by such collateral may be included in a pool of otherwise desirable loans.

We focus on servicing released, whole loan or lead participation transactions so that we can control the management of our portfolio through our experienced asset management professionals. Purchased loans can be acquired as a single relationship or combined with other borrowers in a larger pool. We generally avoid small average balance transactions (i.e. less than $250 thousand) due to the relatively higher operational and opportunity costs of managing and underwriting these assets. Loans are bid to a minimal acceptable yield to maturity based on the overall risk of the loan, including expected repayment terms and the underlying collateral value. Updated loan-to-value ratios and loan terms both influence the amount of discount the Bank requires in determining whether a loan meets the Bank's guidelines. We often achieve actual results in excess of our minimal acceptable yield to maturity when a loan is prepaid.

At June 30, 2015, purchased loans had an unpaid principal balance of $239.9 million and a book value of $202.6 million, representing discount across the portfolio of 15.5%.

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The following table shows the purchased loan portfolio as of June 30, 2015 by original purchase price percentage.

Initial Investment as a % of Unpaid Principal Balance	Amount	Percent of Total
	(Dollars in thousands)	
0% - 60%	$ 4,558	2.25%
60% - 70%	5,102	2.52%
70% - 80%	30,282	14.95%
80% - 90%	68,698	33.91%
90% - 100%	93,952	46.37%
	$ 202,592	100.00%

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

Underwriting of Purchased Loans. We review many loan purchase opportunities and commence underwriting on a relatively small percentage of them. During fiscal 2015, we reviewed approximately 128 transactions representing loans with $1.2 billion in unpaid principal balance. Of those transactions that we reviewed, we placed bids in 40 transactions representing loans with $161.5 million in unpaid principal balance. Ultimately, we closed 22 transactions in which we acquired $93.7 million in unpaid principal balance for an aggregate purchase price of $82.7 million, or 88.2% of the unpaid principal balance.

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

- A loan analyst reviews and analyzes financial statements and third party research, including credit reports and other data with respect to the borrower, guarantors, corporate sponsors and any major tenants, in order to assess credit risk.

- With the assistance of local counsel, where appropriate, an in-house attorney makes a determination regarding the quality of loan documentation and enforceability of loan terms.

- An in-house real estate specialist performs a detailed evaluation of all real estate collateral, including canvassing local market experts, conducting original market research for trends and

sale and lease comparables, and creates a written valuation that is based on current data reflecting what we believe are recent trends.

An environmental assessment is performed on real estate collateral.

A property inspection is performed on all real estate collateral securing a loan, focusing on several characteristics, including, among other things, the physical quality of the property, current occupancy, general quality and occupancy within the neighborhood, market position and nearby property listings.

A detailed underwriting package containing the results of all this analysis and information is assembled and reviewed by a separate credit analyst on our team before being submitted for approval by the LASG Credit Committee.

Collateral Valuation. The estimated value of the real property collateralizing the loan is determined by the LASG's in-house real estate group, which considers, among other factors, the type of property, its condition, location and its highest and best use in its marketplace. An inspection is conducted for the real property securing all loans bid upon, and for all loans that represent an investment in excess of $1.0 million, members of the LASG typically conduct an in-person site inspection.

We generally view cash flow from operations as the primary source of repayment on purchased loans. The LASG analyzes the current and likely future cash flows generated by the collateral to repay the loan. Also considered are minimum debt service coverage ratios, consisting of the ratio of net operating income to total principal and interest payments. For example, our credit policy provides that the debt service coverage ratio for a purchased commercial real estate loan generally should not be less than 120 percent of the monthly principal and interest payments resulting from a re-amortization of the Bank's basis, at a market interest rate.

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

Collateral securing the loan;

Geographic location;

Financial resources of the borrower or guarantors, if any;

Recourse nature of the loan;

Age and performance of the loan;

Length of time during which the loan has performed in accordance with its repayment term;

Yield expected to be earned; and

Servicing restrictions, if any.

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

Approvals. All loan purchases must be approved by the LASG Credit Committee. This committee is comprised of members of the executive management team and senior management from the LASG. Our credit policy currently requires prior Board approval for the purchase of a loan with an initial investment greater than 10% of the Company's Tier 1 capital, determined on a relationship basis.

Competition for Purchased Loans. The LASG competes primarily with community banks, regional banks and private equity funds operating nationwide. We believe that we often have a competitive advantage in bidding against private equity funds on performing loans because those funds generally have higher funding costs and, therefore, higher expectations for return on investment than we do. Furthermore, private equity funds typically do not compete for small balance commercial loans and typically pursue larger, bulk transactions.

Due to improving credit quality over the past several years and the continued low interest rate environment, the supply of loans available for purchase has declined, competition has increased, and spreads have tightened. Despite these trends, we believe that we continue to have a competitive advantage in bidding against other banks because we have a specialized group with experience in purchasing commercial real estate loans. Additionally, most banks we compete against are community banks looking to acquire loans in their market; these banks usually have specific criteria for their acquisition activities and do not pursue pools with collateral or geographic diversity.

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

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

Investment Activities

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

Sources of Funds

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

Deposits

We offer a full line of deposit products to customers in western and south-central Maine through our ten-branch network. Our deposit products consist of demand deposit, NOW, money market, savings and certificate of deposit accounts. Our customers access their funds through ATMs, MasterCard® Debit Cards, Automated Clearing House funds (electronic transfers) and checks. We also offer telephone banking, online banking and bill payment, mobile banking and remote deposit capture

services. Interest rates on our deposits are based upon factors that include prevailing loan demand, deposit maturities, alternative costs of funds, interest rates offered by competing financial institutions and other financial service firms, and general economic conditions. At June 30, 2015, we had core deposits of $674.2 million, representing 99.9% of total deposits. We define core deposits as non-maturity deposits and non-brokered insured time deposits.

Our online deposit program, ableBanking, provides an additional channel through which to obtain core deposits to support our growth. ableBanking, which was launched in late fiscal 2012 as a division of Northeast Bank, had $149.2 million in money market and time deposits as of June 30, 2015. We also use deposit listing services to gather deposits from time to time, in support of our liquidity and asset/liability management objectives. At June 30, 2015, listing service deposits totaled $169.6 million, bearing a weighted average term of 1.49 years.

Borrowings

While we currently consider core deposits (defined as non-maturity deposits and non-brokered insured time deposits) as our primary source of funding to support asset growth, advances from the FHLB and other sources of wholesale funding remain an important part of our liquidity contingency planning. Northeast Bank may borrow up to 50.0% of its total assets from the FHLB, and borrowings are typically collateralized by mortgage loans and securities pledged to the FHLB. At June 30, 2015, we had $45.7 million of available borrowing capacity based on collateral. Northeast Bank can also borrow from the Federal Reserve Bank of Boston, with any such borrowing collateralized by consumer loans pledged to the Federal Reserve.

For the foreseeable future, we expect to rely less on borrowings than other banks of similar size, because of our regulatory commitment to fund 100% of our loans with core deposits, although the availability of FHLB and Federal Reserve Bank of Boston advances and other sources of wholesale funding remain an important part of our liquidity contingency planning.

Recent Technology and Operational Enhancements

Over the past few years, we have made investments in technology and customer service to develop the infrastructure to support the LASG, SBA National Group, ableBanking, and the Community Banking Division. In fiscal 2014, we successfully converted the Bank's core banking system from an "in-house" platform to a service-bureau solution offering enhanced features and capabilities. We expect that future investments in technology, customer service and operational support functions will generally be proportionate to our growth.

Employees

As of June 30, 2015, the Company employed 174 full-time and 17 part-time employees. The Company's employees are not represented by any collective bargaining unit. The Company believes that its relations with its employees are good.

Other Subsidiaries

At June 30, 2015, the Bank had four wholly-owned non-bank subsidiaries:

Northeast Bank Insurance Group, Inc. ("NBIG"). The insurance agency assets of NBIG were sold on September 1, 2011. The entity currently holds the real estate formerly used in its insurance agency business.

200 Elm Realty, LLC, which was established to hold commercial real estate acquired as a result of loan workouts.

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500 Pine Realty, LLC, which was established to hold residential real estate acquired as a result of loan workouts.

17 Dogwood Realty, LLC, which was established to hold commercial real estate acquired as a result of loan workouts.

The Company's wholly-owned subsidiary, ASI Data Services, Inc. ("ASI"), is an inactive corporate subsidiary. ASI initially provided data processing services to the Company and its subsidiaries. The Company's board transferred the assets and operations of ASI to the Bank in 1996.

Supervision and Regulation

General

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. 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. This regulatory framework is intended to protect depositors, the federal deposit insurance fund, consumers and the banking system as a whole, and not necessarily investors in the Company. The following discussion is qualified in its entirety by reference to the full text of the statutes, regulations, policies and guidelines described below.

Bank Holding Company Regulation

Unless a bank holding company becomes a financial holding company under the Gramm-Leach-Bliley Act ("GLBA") as discussed below, the BHCA generally prohibits a bank holding company from acquiring a direct or indirect interest in or control of more than 5% of the voting shares of any company that is not a bank or a bank holding company. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire substantially all of the assets of any bank, or ownership or control of any voting shares of a bank, if, after such acquisition, it would own or control, directly or indirectly, more than 5% of the voting stock of such bank. In addition, the BHCA generally prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in, and may own shares of companies engaged in certain activities, that the Federal Reserve had determined as of November 11, 1999 to be so closely related to banking or managing and controlling banks so as to be incident thereto.

Under GLBA, bank holding companies that qualify and have elected to be treated as financial holding companies are permitted to offer their customers virtually any type of service that is financial in nature or incidental thereto, including banking, securities underwriting, insurance (both underwriting and agency), and merchant banking. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (the "Dodd-Frank Act") however, a bank holding company and its affiliates are prohibited from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. In order to engage in financial activities under GLBA, a bank holding company must qualify and register with the Federal Reserve as a "financial holding company" by demonstrating that the bank holding company and each of its depository institution subsidiaries is "well capitalized" and "well managed." A financial holding company may not engage in new activities not permissible for all bank holding companies or acquire a company engaged in any activity that is not permissible for all bank holding companies if any depository institution subsidiary of the company has received on its most recent examination under the Community Reinvestment Act of 1977 ("CRA") a rating less than "satisfactory." Although the Company believes that it meets the qualifications to become a financial holding company under GLBA,

it has not elected "financial holding company" status, but rather to retain its pre-GLBA bank holding company regulatory status for the present time.

The Company is required by the BHCA to file an annual report and additional reports required with the Federal Reserve. The Federal Reserve also makes periodic inspections of the Company and its subsidiaries.

Dividend Restrictions

The Company is a legal entity separate and distinct from the Bank. The revenue of the Company (on a parent company only basis) is derived primarily from interest and dividends from the Bank. The right of the Company, and consequently the right of shareholders of the Company, to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of the Company in a creditor capacity may be recognized.

It is the policy of the Federal Reserve that bank holding companies should pay dividends only out of current earnings and only if, after paying such dividends, the bank holding company would remain adequately capitalized. The Federal Reserve has the authority to prohibit a bank holding company, such as the Company, from paying dividends if it deems such payment to be an unsafe or unsound practice.

The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the Bureau for any dividend that would reduce a bank's capital below prescribed limits.

Source of Strength

Under the Dodd-Frank Act, the Company is required to serve as a source of financial strength for the Bank in the event of the financial distress of the Bank. This provision codifies the longstanding policy of the Federal Reserve. In addition, any capital loans by a bank holding company to any of its bank subsidiaries are subordinate to the payment of deposits and to certain other indebtedness. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include any investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in other covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, "covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any

person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, Section 106 of the Bank Holding Company Act Amendments of 1970 provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Regulation of the Bank

As a Maine-chartered bank, the Bank is subject to the supervision of and regulation by the Bureau and the FDIC, as the Bank's insurer of deposits. This supervision and regulation is for the protection of depositors, the FDIC's Deposit Insurance Fund ("DIF"), and consumers, and is not for the protection of the Company's shareholders. The prior approval of the Bureau and the FDIC is required, among other things, for the Bank to establish or relocate an additional branch office, assume deposits, or engage in any merger, consolidation, purchase or sale of all or substantially all of the assets of any bank. Under the Dodd-Frank Act, the Federal Reserve may directly examine the subsidiaries of the Company, including the Bank.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The Federal Reserve has issued risk-based and leverage capital rules applicable to bank holding companies such as the Company, and the FDIC has issued similar rules that apply to insured state nonmember banks, such as the Bank. These guidelines are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The FRB and the FDIC may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier 1 capital for banks and bank holding companies consists of common stockholders' equity and related surplus. Tier 1 capital for banks and bank holding companies generally consists of the sum of common shareholders' equity, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions represents qualifying total risk-based capital.

Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital, subject to limitations. However, the FRB's capital rule applicable to bank holding companies permanently grandfathers nonqualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier 1 capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier 1 capital; however, the Company was permitted to make a one-time, permanent

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election to continue to exclude accumulated other comprehensive income from capital. In March 2015, the Company made a one time, permanent election to continue to exclude accumulated other comprehensive income from capital.

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.

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

Deposit Insurance. Deposits in the Bank are insured by the FDIC to the maximum extent permitted by law. Pursuant to the Dodd-Frank Act, FDIC deposit insurance has been permanently increased from $100,000 to $250,000 per depositor for deposits maintained by the depositor in the same right and capacity. The FDIA, as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits of the Bank the designated reserve ratio of 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating ("CAMELS rating"). CAMELS ratings reflect the applicable bank regulatory agency to applicable limits by the DIF and are subject to deposit, management, earnings, liquidity and sensitivity to risk. Assessment rates may also vary for certain institutions based on long term debt issuer ratings, secured or brokered deposits. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit

insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and its applicable assessment rate. Assessment rates range from 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category up to 30 to 45 basis points for banks in the highest risk category.

Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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

Depositor Preference. The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Activities and Investments of Insured State Banks

The powers of a Maine-chartered bank, such as the Bank, include provisions designed to provide Maine banks with competitive equity to the powers of national banks. GLBA includes a section of the FDIA governing subsidiaries of state banks that engage in "activities as principal that would only be permissible" for a national bank to conduct in a financial subsidiary. This provision permits state banks, to the extent permitted under state law, to engage in certain new activities, which are permissible for subsidiaries of a financial holding company. Further, it expressly preserves the ability of a state bank to retain all existing subsidiaries. Because Maine law explicitly permits banks chartered by the state to engage in all activities permissible for federally-chartered banks, the Bank is permitted to form subsidiaries to engage in the activities authorized by GLBA. In order to form a financial subsidiary, a

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state bank must be well-capitalized, and the state bank would be subject to certain capital deduction, risk management and affiliate transaction rules.

Consumer Protection Regulation

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

Mortgage Reform

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

Privacy and Customer Information Security

GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose "sensitive information" has been compromised if unauthorized use of this information is "reasonably possible." Most states, including Maine, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of

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data security breaches. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Regulatory Enforcement Authority

The enforcement powers available to the federal banking agencies include, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Under certain circumstances, federal and state law requires public disclosure and reports of certain criminal offenses and also final enforcement actions by the federal banking agencies.

Community Reinvestment Act

Pursuant to the CRA, regulatory authorities review the performance of the Bank in meeting the credit needs of the communities it serves. The applicable regulatory authorities consider compliance with this law in connection with the applications for, among other things, approval for *de novo* branches, branch relocations and acquisitions of banks and bank holding companies. The Bank received a "satisfactory" rating at its CRA examination dated June 10, 2013, its most recent exam.

Failure of an institution to receive at least a "satisfactory" rating could inhibit such institution or its holding company from undertaking certain activities, including engaging in activities permitted for a financial holding company under GLBA, and acquisitions of other financial institutions. The FDIC must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low- and moderate-income neighborhoods. Current CRA regulations for large banks primarily rely on objective criteria of the performance of institutions under three key assessment tests: a lending test, a service test and an investment test. For smaller banks, current CRA regulations primarily evaluate the performance of institutions under two key assessment tests: a lending test and a community development test. The Company is committed to meeting the existing or anticipated credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations.

Branching and Acquisitions

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended ("Riegle-Neal") and the Dodd-Frank Act permit well capitalized and well managed bank holding companies, as determined by the Federal Reserve, to acquire banks in any state subject to certain concentration limits and other conditions. Riegle-Neal also generally authorizes the interstate merger of banks. In addition, among other things, Riegle-Neal and the Dodd-Frank Act permit banks to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches. Bank holding companies and banks are required to obtain prior Federal Reserve approval to acquire more than 5% of a class of voting securities, or substantially all of the assets, of a bank holding company, bank or savings association.

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Anti-Money Laundering and the Bank Secrecy Act

Under the Bank Secrecy Act ("BSA"), a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or affect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target.

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

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of Boston (the "FHLBB"), which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank provides a central credit facility primarily for member institutions. Member institutions are required to acquire and hold shares of capital stock in the FHLBB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year and 4.5% of its advances (borrowings) from the FHLBB. The Bank was in compliance with this requirement with an investment in FHLBB stock as of June 30, 2015 of $4.1 million. The Bank receives dividends on its FHLBB stock. The FHLBB has recently declared dividends equal to an annual yield of approximately the daily average three-month LIBOR yield for the quarter for which the dividend has been declared. Dividend income on FHLBB stock of $67 thousand was recorded during the most recent fiscal year.

Any advances from the FHLBB must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds for residential housing finance, commercial lending and to purchase investments. Long term advances may also be used to help manage interest rate risk for asset and liability management purposes. As of June 30, 2015, the Bank had $30.2 million in outstanding FHLBB advances.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with all other information in this prospectus, including our consolidated financial statements and related notes, before investing in our common stock. Any of the risk factors we describe below could adversely affect our business, financial condition or results of operations. The trading price of our voting common stock could decline if one or more of these risks or uncertainties actually occur, causing you to lose all or part of your investment. Certain statements below are forward-looking statements. See "A Note About Forward-Looking Statements."

Risks Associated With Our Business

We are subject to regulatory conditions that could constrain our ability to grow our business.

In conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10%, fund 100% of our loans with core deposits, limit purchased loans to 40% of total loans and hold non-owner occupied commercial real estate loans to within 300% of total risk-based capital. Core deposits, for purposes of this commitment, are defined as non-brokered non-maturity deposits and non-brokered insured time deposits. At June 30, 2015, the ratio of our purchased loans to total loans was 32.6%. Our ability to purchase loans will be dependent on our ability to grow our originated loan portfolio. To the extent that our ability to originate loans is constrained by market forces or for any other reason, our ability to execute our loan acquisition strategy would be similarly constrained.

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

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

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

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request

that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed those estimated in our determination of our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

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

At June 30, 2015, 32.6% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans. Although the Loan Acquisition and Servicing Group conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the Loan Acquisition and Servicing Group may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our provision for loan losses.

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

At June 30, 2015, the 32.6% of the loans held in our loan portfolio that were originated by third parties had been held by us for approximately 1.6 years, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our provision for loan losses.

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

At June 30, 2015, our commercial real estate mortgage and commercial business loan portfolios comprised 77.1% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. Moreover, some of these loans may be secured by assets located outside of the Community Banking Division's market area. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

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

In the course of business, we may acquire, through foreclosure, properties securing loans we have originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or

impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

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

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

We are subject to liquidity risk.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources which include Federal Home Loan Bank advances, the Federal Reserve's Borrower-in-Custody program, securities sold under repurchase agreements, federal funds purchased and brokered certificates of deposit less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We are subject to security and operational risks relating to our use of technology.

Communication and information systems are critical to the conduct of our business because we use these systems to manage our customer relationships and process accounting and financial reporting information. Although we have established policies and procedures to prevent or limit the impact of system failures, interruptions and security breaches, including cyber security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of our security systems could prevent customers from using our website and our online banking services, both of which involve the transmission of confidential information. Although we rely on security and processing systems to provide the security and authentication necessary to securely transmit data, these precautions may not protect our systems from compromises or breaches of security. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by clients and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or expose us to civil litigation and possible financial liability, including the costs of customer notification and remediation efforts. Any of these occurrences could have an adverse effect on our financial condition and results of operations.

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

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services

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poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

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

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Internal controls may fail or be circumvented.

Effective controls over financial reporting are necessary to help ensure reliable financial reporting and prevent fraud. Management is responsible for maintaining an effective system of internal control and assessing system effectiveness. Our system of internal control is a process designed to provide reasonable, not absolute, assurance that system objectives are being met. Failure or circumvention of the system of internal control could have an adverse effect on our business, profitability, and financial condition, and could further result in regulatory actions and loss of investor confidence.

Difficult economic conditions, both in the Community Banking Division's market area and more generally, could adversely affect our financial condition and results of operations.

Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine. As a result, a significant portion of our earnings are closely tied to the economy of Maine. In addition, our loan portfolio includes commercial loans acquired by the Loan Acquisition and Servicing Group that are secured by assets located nationwide. Deterioration in the economic conditions of the Community Banking Division's market area in Maine, and deterioration of the economy nationally could result in the following consequences:

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

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

As a bank, we are required by regulatory authorities to maintain adequate levels of capital to support our operations. In addition, in conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10% and a total risk-based capital ratio of at least 15%. We may need to raise additional capital to support our operations or our growth, if any. Our ability to raise additional capital will depend, in part, on conditions in the capital markets and our financial performance at that time. Accordingly, we may be unable to raise additional capital, if and when needed, on acceptable terms, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, investors' interests could be diluted. Our failure to meet any applicable regulatory guideline related to our lending activities or any capital requirement otherwise imposed upon us or to satisfy any other regulatory requirement could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

The soundness of other financial institutions could adversely affect us.

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

Risks Associated With the Industry

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

Our future growth and success will depend on our ability to continue to compete effectively in the Community Banking Division's market area, in the markets in which the Loan Acquisition and Servicing Group and the SBA National group operate and in the markets in which ableBanking operates. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct our business. Some of our competitors have significantly greater financial resources and/or face fewer regulatory constraints. As a result of these various sources of competition, we could lose business to competitors or could be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect its profitability.

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

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

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

We are subject to regulation and supervision by the Federal Reserve, and our banking subsidiary, Northeast Bank, is subject to regulation and supervision by the FDIC and the Maine Bureau of Financial Institutions. Federal and state laws and regulations govern numerous matters, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The Federal Reserve, the FDIC and the Maine Bureau of Financial Institutions have the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the Federal Reserve possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we and Northeast Bank may conduct business and obtain financing.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of government intervention in the financial services sector following the 2008 financial crisis. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See "Supervision and Regulation" in Item 1, "Business."

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Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees. The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with our banking subsidiaries' deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. In addition, the Dodd-Frank Act established the CFPB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs on the Company and its subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. See "Supervision and Regulation The Dodd-Frank Act" in Item 1, "Business."

We are subject to more stringent capital requirements.

The federal banking agencies issued a joint final rule, or the "Final Capital Rule," that implemented the Basel III capital standards and established the minimum capital levels required under the Dodd-Frank Act. As of January 1, 2015, we became required to comply with the Final Capital Rule. The Final Capital Rule established a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a "well capitalized" institution and increased the minimum Tier I capital ratio for a "well capitalized" institution from 6.0% to 8.0%. Additionally, subject to a transition period, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The Final Capital Rule increased the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retained the current capital treatment of residential mortgages. Under the Final Capital Rule, we made a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital in March 2015. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

The FDIC insures deposits at FDIC-insured depository institutions, such as Northeast Bank, up to applicable limits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased deposit insurance assessment rates. If these increases are insufficient for the deposit insurance fund of the FDIC to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC

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insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes in accounting standards can materially impact our financial statements.

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

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

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

Risks Associated With Our Common Stock

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

The performance of our common stock has been and may continue to be affected by many factors, including volatility in the credit, mortgage and housing markets, and the markets with respect to financial institutions generally. Government action and changes in government regulations, such as the Dodd-Frank Act, may affect the value of our common stock. More general market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or interest rate changes could also cause the value of our common stock to decrease regardless of our operating results.

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

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

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

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

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

As of June 30, 2015, we had outstanding $16.5 million in aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by affiliates of ours that are statutory business trusts. We have also guaranteed those trust preferred securities. The indenture under which the junior subordinated debt securities were issued, together with the guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the Series A preferred stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture; (ii) we are in default with respect to payment of any obligations under the guarantee; or (iii) we have elected to defer payment of interest on the junior subordinated debt securities. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities from time to time for up to five years.

Events of default under the indenture generally consist of our failure to pay interest on the junior subordinated debt securities under certain circumstances, our failure to pay any principal of or premium on such junior subordinated debt securities when due, our failure to comply with certain covenants under the indenture, and certain events of bankruptcy, insolvency or liquidation relating to us.

As a result of these provisions, if we were to elect to defer payments of interest on the junior subordinated debt securities, or if any of the other events described in clause (i) or (ii) of the first paragraph of this risk factor were to occur, we would be prohibited from declaring or paying any dividends on the Series A preferred stock and our common stock, from redeeming, repurchasing or otherwise acquiring any of the Series A preferred stock or our common stock, and from making any payments to holders of the Series A preferred stock or our common stock in the event of our liquidation, which would likely have a material adverse effect on the market value of our common stock.

We are dependent upon our subsidiaries for dividends, distributions and other payments.

We are a separate and distinct legal entity from Northeast Bank, and depend on dividends, distributions and other payments from Northeast Bank to fund dividend payments on our common stock and to fund all payments on our other obligations. We and Northeast Bank are subject to laws that authorize regulatory authorities to block or reduce the flow of funds from Northeast Bank to us. Regulatory action of that kind could impede access to the funds that Northeast needs in order to make payments on its obligations or dividend payments. In addition, if Northeast Bank does not maintain sufficient capital levels or its earnings are not sufficient to make dividend payments to us, we may not be able to make dividend payments to our common and preferred shareholders. Further, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of Northeast Bank's creditors.

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

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

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

Our articles of incorporation authorize our board of directors, generally without shareholder approval, to, among other things, issue additional shares of common or preferred stock. The issuance of any additional shares of common or preferred stock could be dilutive to a shareholder's ownership of our common stock. To the extent that we issue options or warrants to purchase common stock in the future and the options or warrants are exercised, our shareholders may experience further dilution. Holders of shares of our common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, shareholders may not be permitted to invest in future issuances of Northeast common or preferred stock. We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. Accordingly, regulatory requirements and/or deterioration in our asset quality may require us to sell common stock to raise capital under circumstances and at prices that result in substantial dilution.

We may issue debt and equity securities that are senior to our common stock as to distributions and in liquidation, which could negatively affect the value of our common stock.

In the future, we may increase our capital resources by entering into debt or debt-like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of its debt or preferred securities would receive a distribution of our available assets before distributions to the holders of Northeast common stock. Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of our future offerings and debt financings. Future offerings could reduce the value of shares of our common stock and dilute a shareholder's interest in Northeast.

Our common stock is not insured by any governmental entity.

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

Anti-takeover provisions could negatively impact our shareholders.

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

requirement that only directors may fill a board vacancy; and provisions regarding the timing and content of shareholder proposals and nominations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2015, the Company conducted its business from its main office in Lewiston, Maine and an office in Boston, Massachusetts. The Company also conducts business from its ten full-service bank branches and six loan production offices located in western and south-central Maine and southern New Hampshire.

In addition to its Lewiston, Maine, and Boston, Massachusetts, offices, the Company leases eleven of its other locations. For information regarding the Company's lease commitments, please refer to "Lease Obligations" under Note 15 of the Notes to the Consolidated Financial Statements in Item 8 of this Annual Report.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

(a) The Company's voting common stock currently trades on the NASDAQ under the symbol "NBN." There is no established public trading market for the Company's non-voting common stock. As of the close of business on September 18, 2015, there were approximately 368 registered shareholders of record.

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

Fiscal year ended June 30, 2015	High	Low	Dividend Paid
Jul 1 - Sep 30	$ 9.60	$ 9.19	$ 0.01
Oct 1 - Dec 31	9.68	8.79	0.01
Jan 1 - Mar 31	9.73	8.92	0.01
Apr 1 - Jun 30	10.25	9.14	0.01

Fiscal year ended June 30, 2014	High	Low	Dividend Paid
Jul 1 - Sep 30	$ 10.79	$ 9.53	$ 0.09
Oct 1 - Dec 31	10.23	9.37	0.09
Jan 1 - Mar 31	9.74	9.16	0.09
Apr 1 - Jun 30	10.00	9.30	0.01

On September 18, 2015, the last reported sale price of the Company's voting common stock, as reported on NASDAQ was $10.50. Holders of the Company's voting and non-voting common stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available. The amount and timing of future dividends payable on the Company's voting and non-voting common stock will depend on, among other things, the financial condition of the Company, regulatory considerations, and other factors. The Company is a legal entity separate from the Bank, but its revenues are derived primarily from the Bank. Accordingly, the ability of the Company to pay cash dividends on its stock in the future generally will be dependent upon the earnings of the Bank and the Bank's ability to pay dividends to the Company. The payment of dividends by the Bank will depend on a number of factors, including capital requirements, regulatory limitations, the Bank's results of operations and financial condition, tax considerations, and general economic conditions. National banking laws regulate and restrict the ability of the Bank to pay dividends to the Company. See "Item 1. Business Supervision and Regulation."

Information regarding securities authorized for issuance under our equity compensation plans will be included in the Proxy Statement relating to our 2015 Annual Meeting of Shareholders and is incorporated herein by reference.

(b) Not applicable.

(c) 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. Such purchases will be made in open market or in privately negotiated transactions from time to time and in such amounts as market conditions warrant. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The stock

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repurchase program may be suspended or terminated at any time without prior notice, and will expire on April 23, 2016.

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. Such purchases will be made in open market or in privately negotiated transactions from time to time and in such amounts as market conditions warrant. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, market conditions, and other corporate liquidity requirements and priorities. The stock repurchase program may be suspended or terminated at any time without prior notice, and will expire on April 30, 2017.

(d) The following table sets forth information with respect to purchases made by us of our common stock during the year ended June 30, 2015.

Period	Total Number of Shares Purchased(1)	Weighted Average Price Per share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares that May Yet Be Purchased Under the Program(2)
Jul. 1 - Jul. 31	2,100	$ 9.23	293,300	576,700
Aug. 1 - Aug. 31	12,300	9.34	305,600	564,400
Sep. 1 - Sep. 30			305,600	564,400
Oct. 1 - Oct. 31	1,800	9.03	307,400	562,600
Nov. 1 - Nov. 30	36,900	9.05	344,300	525,700
Dec. 1 - Dec. 31	395,586	9.14	739,886	130,114
Jan. 1 - Jan. 31	10,150	9.27	750,036	119,964
Feb. 1 - Feb. 28	11,500	9.25	761,536	108,464
Mar. 1 - Mar. 31	9,600	9.29	771,136	98,864
Apr. 1 - Apr. 30	13,400	9.37	784,536	585,464
May 1 - May 31	37,930	9.76	822,466	547,534
Jun. 1 - Jun. 30	179,396	9.91	1,001,862	368,138

(1) Based on trade date, not settlement date

(2) 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. On that date, 86,664 shares remained available for repurchase under the existing program, prior to the 500,000 share increase in the repurchase plan. The amended stock repurchase program will expire on April 30, 2017.

Item 6. Selected Financial Data

The following table sets forth our selected financial and operating data on a historical basis. The data set forth below does not purport to be complete. It should be read in conjunction with, and is

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qualified in its entirety by, the more detailed information, including the Company's Consolidated Financial Statements and related notes, appearing elsewhere herein.

	Successor Company(1)					Predecessor Company(2)
	Twelve Months Ended June 30, 2015	Twelve Months Ended June 30, 2014	Twelve Months Ended June 30, 2013	Twelve Months Ended June 30, 2012	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010
	(Dollars in thousands, except per share data)					
Selected operations data:						
Interest and dividend income	$ 44,588	$ 38,371	$ 36,543	$ 27,014	$ 13,304	$ 14,378
Interest expense	7,220	6,653	6,596	6,317	3,207	5,877
Net interest income	37,368	31,718	29,947	20,697	10,097	8,501
Provision for loan losses	717	531	1,122	946	707	912
Noninterest income(3)	7,089	4,869	8,514	5,782	17,569	3,034
Net securities gains (losses)			792	1,111	1,200	17
Noninterest expense(4)	32,604	31,777	31,955	25,680	15,807	8,429
Income before income taxes	11,136	4,279	6,176	964	12,352	2,211
Income tax expense (benefit)	3,995	1,579	1,881	102	(108)	646
Net income from continuing operations	7,141	2,700	4,295	862	12,460	1,565
Net income (loss) from discontinued operations		(8)	125	1,301	92	231
Net income	$ 7,141	$ 2,692	$ 4,420	$ 2,163	$ 12,552	$ 1,796
Consolidated per share data:						
Earnings:						
Basic:						
Continuing operations	$ 0.72	$ 0.26	$ 0.38	$ 0.11	$ 3.49	$ 0.62
Discontinued operations	0.00	0.00	0.01	0.30	0.03	0.10
Net income	$ 0.72	$ 0.26	$ 0.39	$ 0.41	$ 3.52	$ 0.72
Diluted:						
Continuing operations	$ 0.72	$ 0.26	$ 0.38	$ 0.11	$ 3.44	$ 0.61
Discontinued operations	0.00	0.00	0.01	0.30	0.03	0.10
Net income	$ 0.72	$ 0.26	$ 0.39	$ 0.41	$ 3.47	$ 0.71
Cash dividends	$ 0.04	$ 0.28	$ 0.36	$ 0.36	$ 0.18	$ 0.18
Book value	11.77	11.05	10.89	11.07	17.33	19.79
Selected balance sheet data:						
Total assets	$ 850,830	$ 761,931	$ 670,639	$ 669,196	$ 596,393	$ 627,984
Loans	612,137	516,416	435,376	356,254	309,913	367,284
Deposits	674,759	574,329	484,623	422,188	401,118	374,617
Borrowings	52,568	66,005	64,069	120,859	126,706	199,326
Total stockholders' equity	112,839	112,066	113,802	119,139	64,954	50,366
Other ratios:						
Return on average assets	0.89%	0.37%	0.64%	0.36%	4.09%	0.57%
Return on average equity	6.35%	2.39%	3.79%	3.03%	38.23%	7.03%
Efficiency ratio	73.34%	86.85%	81.41%	93.08%	54.76%	72.97%
Average equity to average total assets	14.00%	15.38%	16.93%	11.90%	10.69%	8.18%

Common dividend payout ratio	5.56%	107.69%	92.25%	71.26%	5.02%	25.02%
Tier 1 leverage capital ratio	14.42%	15.90%	17.78%	19.91%	10.35%	N/A
Total risk-based capital ratio	20.04%	23.69%	27.54%	33.34%	18.99%	N/A

(1) "Successor Company" means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010.

(2) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010.

(3) Includes primarily fees for deposits, investment brokerage services to customers through the second quarter of fiscal 2014, and gains on the sale of loans. In the 184 days ended June 30, 2011, the total further includes a bargain purchase gain $15.4 million.

(4) Includes salaries, employee benefits, occupancy and equipment, and other expenses. In the 184 days ended June 30, 2011, the total includes merger expenses totaling $3.2 million.

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

Northeast Bancorp (the "Company") is a Maine corporation and a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956. The Company also is a registered Maine financial institution holding company, and is subject to regulation by both the Maine Bureau of Financial Institutions (the "Bureau") and the Federal Reserve. The Company's principal asset is the capital stock of Northeast Bank (the "Bank"), a Maine state-chartered universal bank, which is regulated by the Federal Deposit Insurance Corporation ("FDIC") and the Bureau. The Company's results of operations are primarily dependent on the results of the operations of the Bank.

The Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, presents a review of the consolidated operating results of the Company for the fiscal year ended June 30, 2015 ("fiscal 2015") and the fiscal year ended June 30, 2014 ("fiscal 2014"). This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Company's Consolidated Financial Statements and related notes and other statistical information included in this report. Certain amounts in the periods prior to fiscal 2015 have been reclassified to conform to the fiscal 2015 presentation.

Overview

Financial Presentation

On December 29, 2010, the merger (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 our 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 (the "Successor Company"). In the application of ASC 805 to this transaction, the following was considered:

Identify the Accounting Acquirer

FHB was identified as the accounting acquirer. FHB, which was incorporated on March 9, 2009, acquired a controlling financial interest of approximately 60% of the Successor Company's total outstanding voting and non-voting common stock in exchange for contributed capital and cash consideration.

In the evaluation and identification of FHB as the accounting acquirer, it was concluded that FHB was a substantive entity involved in significant pre-merger activities, including the following: raising capital; incurring debt; incurring operating expenses; leasing office space; hiring staff to develop the surviving company's business plan; retaining professional services firms; and identifying acquisition targets and negotiating potential transactions, including the Merger.

Determine the Acquisition Date

December 29, 2010, the closing date of the Merger, was the date that FHB gained control of the combined entity.

Recognize assets acquired and liabilities assumed

Because neither Northeast Bancorp, the Predecessor Company (the acquired company), nor FHB (the accounting acquirer) exist as separate entities after the Merger, a new basis of accounting at fair

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value for the Successor Company's assets and liabilities was established in the consolidated financial statements. At the acquisition date, the Successor Company recognized the identifiable assets acquired and the liabilities assumed based on their then fair values in accordance with ASC Topic 820, *Fair Value Measurement* ("ASC 820"). The Successor Company recognized a bargain purchase gain as the difference between the total purchase price and the net assets acquired.

As a result of application of the acquisition method of accounting to Northeast Bancorp after the merger on December 29, 2010, the Company's financial statements from the periods prior to the transaction date are not directly comparable to the financial statements for periods subsequent to the transaction date. To make this distinction, the Company has labeled balances and results of operations prior to the transaction date as "Predecessor Company" and balances and results of operations for periods subsequent to the transaction date as "Successor Company." The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. To denote this lack of comparability, a heavy black line has been placed between the Successor Company and Predecessor Company columns in the discussion herein.

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

Condition		Ratio
(i)	Tier 1 leverage ratio	14.42%
(ii)	Total risk-based capital ratio	20.04%
(iii)	Ratio of purchased loans to total loans	32.61%
(iv)	Ratio of loans to core deposits	91.85%
(v)	Ratio of non-owner occupied commercial real estate loans to total risk-based capital	188.49%

As a result of the sale of the Company's insurance agency business in the first quarter of fiscal 2012 and discontinuation of further significant business activities in the insurance agency segment, the Company has classified the results of its insurance agency division as discontinued operations in the Company's consolidated financial statements and discussion herein.

The Company concluded all investment brokerage activities in the second quarter of fiscal 2014. Accordingly, operations associated with these activities have been classified as discontinued operations in all periods in the Company's consolidated financial statements and discussion herein.

Fiscal 2015 Financial Highlights

The Company's financial and strategic highlights for fiscal 2015 include the following:

- Earned net income of $7.1 million, or $0.72 per diluted share, from continuing operations as compared to $2.7 million, or $0.26 per diluted share, from continuing operations in fiscal 2014.

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LASG purchased loans totaling $82.7 million and originated loans totaling $82.5 million, earning average portfolio yields of 13.0% and 6.4%, respectively. The purchased loan yield of 13.0% includes regularly scheduled interest and accretion, and accelerated accretion and fees recognized on loan payoffs. The Company also monitors the "total return" on its purchased loan portfolio, a measure that includes gains on sales of purchased loans, as well as interest, scheduled accretion and accelerated accretion and fees. On this basis, the purchased loan portfolio earned a total return of 13.3% for fiscal 2015. An overview of the LASG portfolio follows:

	June 30, 2015				June 30, 2014			
	Purchased	Originated	Secured Loans to Broker-Dealers	Total LASG	Purchased	Originated	Secured Loans to Broker-Dealers	Total LASG
	(Dollars in thousands)							
Loans purchased or originated during the period:								
Unpaid principal balance	$ 93,694	$ 82,502	$ 48,000	$ 224,196	$ 91,288	$ 54,225	$ 12,000	$ 157,513
Net investment basis	82,654	82,502	48,000	213,156	79,823	54,225	12,000	146,048
Loan returns during the period:								
Yield	13.00%	6.44%	0.47%	9.73%	11.43%	7.49%	0.61%	9.70%
Total Return(1)	13.33%	6.75%	0.48%	10.02%	11.76%	8.48%	0.61%	10.11%
Total loans as of period end:								
Unpaid principal balance	$ 239,933	$ 118,416	$ 60,000	$ 418,349	$ 242,631	$ 65,558	$ 12,000	$ 320,219
Net investment basis	$ 202,592	$ 118,261	$ 60,011	$ 380,864	$ 203,450	$ 65,561	$ 12,000	$ 281,011

(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.

Increased the Company's core deposit base by $100.4 million, mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division.

Launched the Company's SBA National program in November of 2014, and originated $33.6 million in SBA-guaranteed loans through June 30, 2015.

Results of Operations Continuing Operations

General

Net income for the year ended June 30, 2015 was $7.1 million, a $4.4 million increase from $2.7 million for the year ended June 30, 2014

Items of significance affecting the Company's earnings included:

An increase in net interest and dividend income before provision for loan losses, which grew to $37.4 million compared to $31.7 million for the year ended June 30, 2014, principally due to an 18.5% increase in loans outstanding and an increase in transactional interest income realized

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from the purchased loan portfolio. The following table summarizes interest income and related yields recognized on the Company's loans.

	Year Ended June 30,					
	2015			2014		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking Division	$ 236,128	$ 11,747	4.97%	$ 246,853	$ 12,926	5.24%
LASG:						
Originated	76,448	4,924	6.44%	47,494	3,558	7.49%
Purchased	203,822	26,500	13.00%	178,377	20,388	11.43%
Secured Loans to Broker-Dealers	44,942	212	0.47%	22,389	137	0.61%
Total LASG	325,212	31,636	9.73%	248,260	24,083	9.70%
Total	$ 561,340	$ 43,383	7.73%	$ 495,113	$ 37,009	7.47%

The yield on purchased loans in each period shown was increased by unscheduled loan payoffs, which resulted in immediate recognition of the prepaid loans' discount in interest income. The following table details the "total return" on purchased loans, which includes total transactional income of $9.9 million for the year ended June 30, 2015, an increase of $4.5 million from the year ended June 30, 2014. The following table summarizes the total return recognized on the purchased loan portfolio:

	Year Ended June 30,			
	2015		2014	
	Income	Return(1)	Income	Return(1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 17,327	8.48%	$ 15,682	8.75%
Transactional income:				
Gains on loan sales	190	0.09%	576	0.32%
Gain on sale of real estate owned	607	0.30%	100	0.06%
Other noninterest income	(69)	0.03%	4	0.00%
Accelerated accretion and loan fees	9,173	4.49%	4,706	2.63%
Total transactional income	9,901	4.85%	5,386	3.01%
Total	$ 27,228	13.33%	$ 21,068	11.76%

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

An increase of $2.2 million in noninterest income, principally resulting from an increase of $1.8 million in gains realized on sale of portfolio loans. The year ended June 30, 2015 includes gains realized on sale of SBA loans of $2.6 million.

An increase of $827 thousand in noninterest expense, principally due to an increase in salaries and employee benefits of $1.0 million, the result of increases in employee head count, benefits costs and stock-based compensation expense.

Professional fees also contributed to the overall increase, rising $373 thousand due primarily to fees for temporary consulting services. Offsetting these increases were decreases in occupancy and equipment expense of $509 thousand, the result of a reduction in software maintenance and depreciation expense following the conversion of the Bank's core systems platform to an outsourced model in May 2014.

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Net Interest Income

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

	Year Ended June 30,								
	2015			2014			2013		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Investment securities(1)	$ 108,204	$ 913	0.84%	$ 115,849	$ 1,048	0.90%	$ 131,199	$ 1,138	0.87%
Loans(2)(3)	561,340	43,383	7.73%	495,113	37,009	7.47%	384,310	35,017	9.11%
Regulatory stock	4,102	67	1.63%	5,620	123	2.19%	5,398	75	1.39%
Short-term investments(4)	92,354	225	0.24%	78,838	191	0.24%	127,781	313	0.24%
Total interest-earning assets	766,000	44,588	5.82%	695,420	38,371	5.52%	648,688	36,543	5.63%
Cash and due from banks	2,704			2,876			3,065		
Other non-interest earning assets	33,741			33,958			37,206		
Total assets	$ 802,445			$ 732,254			$ 688,959		
Liabilities & Stockholders' Equity:									
Interest-bearing liabilities:									
NOW accounts	$ 63,181	$ 162	0.26%	$ 61,146	$ 162	0.26%	$ 55,763	$ 153	0.27%
Money market accounts	133,266	1,002	0.75%	85,333	447	0.52%	63,931	337	0.53%
Savings accounts	34,495	46	0.13%	34,391	44	0.13%	31,939	44	0.14%
Time deposits	340,046	3,800	1.12%	314,848	3,470	1.10%	280,059	3,564	1.27%
Total interest-bearing deposits	570,988	5,010	0.88%	495,718	4,123	0.83%	431,692	4,098	0.95%
Short-term borrowings	2,578	29	1.12%	2,230	24	1.08%	1,472	19	1.29%
Borrowed funds	45,661	1,463	3.20%	58,468	1,741	2.98%	75,633	1,710	2.26%
Junior subordinated debentures	8,531	718	8.42%	8,352	765	9.16%	8,185	769	9.40%
Total interest-bearing liabilities	627,758	7,220	1.15%	564,768	6,653	1.18%	516,982	6,596	1.28%
Interest-bearing liabilities of discontinued operations									
Non-interest bearing liabilities:									
Demand deposits and escrow accounts	54,940			50,890			49,343		
Other liabilities	7,370			3,962			5,982		
Total liabilities	690,068			619,620			572,307		
Stockholders' equity	112,377			112,634			116,652		
Total liabilities and stockholders' equity	$ 802,445			$ 732,254			$ 688,959		
Net interest income		$ 37,368			$ 31,718			$ 29,947	

Interest rate spread	4.67%	4.34%	4.36%
Net interest margin(5)	4.88%	4.56%	4.62%

(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 income divided by total interest-earning assets.

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

	Year Ended June 30, 2015 Compared to the Year Ended June 30, 2014		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (67)	$ (68)	$ (135)
Loans	5,084	1,290	6,374
Regulatory stock	(29)	(27)	(56)
Short-term investments	33	1	34
Total increase in interest income	5,021	1,196	6,217
Interest-bearing liabilities:			
Interest-bearing deposits	612	275	887
Short-term borrowings	4	1	5
Borrowed funds	(403)	125	(278)
Junior subordinated debentures	16	(63)	(47)
Total increase in interest expense	229	338	567
Total increase in net interest and dividend income	$ 4,792	$ 858	$ 5,650

	Year Ended June 30, 2014 Compared to the Year Ended June 30, 2013		
	Change Due to Volume	Change Due to Rate	Total Change
	(Dollars in thousands)		
Interest earning assets:			
Investment securities	$ (137)	$ 47	$ (90)
Loans	8,978	(6,986)	1,992
Regulatory stock	3	45	48
Short-term investments	(119)	(3)	(122)
Total increase in interest income	8,725	(6,897)	1,828
Interest bearing liabilities:			
Interest bearing deposits	540	(515)	25
Short-term borrowings	8	(3)	5
Borrowed funds	(439)	470	31
Junior subordinated debentures	16	(20)	(4)
Total increase in interest expense	125	(68)	57
Total increase in net interest and dividend income	$ 8,600	$ (6,829)	$ 1,771

For the year ended June 30, 2015, the $4.8 million volume-related change in net interest income was mainly the result of the increase in loans, which grew by $66.2 million on average compared to

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fiscal 2014. The rate-related change in fiscal 2015 compared to fiscal 2014 was principally due to the purchased loan yield differential, offset in part by a decline in yields on the originated loan portfolios. For fiscal 2015, the 4.88% net interest margin earned was 32 basis points higher than that earned for the year ended June 30, 2014. The net interest margin increased during fiscal 2015 principally due to the increased loan volume and increase in transactional income on purchased loans.

The following table summarizes the effects of accretion of fair value adjustments on the net interest margin, for the periods indicated:

Accretion (Amortization) of Merger Fair Value Adjustments

	Year Ended June 30,					
	2015			2014		
	Average Balance	Income (Expense)	Effect on Yield / Rate	Average Balance	Income (Expense)	Effect on Yield / Rate
	(Dollars in thousands)					
Interest-earning assets:						
Investment securities	$ 108,204	$	0.00%	$ 115,849	$	0.00%
Loans	561,340	201	0.07%	495,113	174	0.04%
Other interest-earning assets	96,456		0.00%	84,458		0.00%
Total interest-earning assets	$ 766,000	$ 201	0.05%	$ 695,420	$ 174	0.03%
Interest-bearing liabilities:						
Interest-bearing deposits	570,988	171	0.06%	495,718	560	0.11%
Short-term borrowings	2,578		0.00%	2,230		0.00%
Borrowed funds	45,661	136	0.59%	58,468	414	0.71%
Junior subordinated debentures	8,531		0.00%	8,352		0.00%
Total interest-bearing liabilities	$ 627,758	$ 307	0.10%	$ 564,768	$ 974	0.17%
Total effect of noncash accretion on:						
Net interest income		$ 508			$ 1,148	
Net interest margin		0.07%			0.17%	

The Company's total cost of funds improved to 1.06% in fiscal 2015, down from 1.08% in fiscal 2014, principally due to a 3 basis point decrease in the cost of interest-bearing liabilities.

Provision for Loan Losses

Quarterly, the Company determines the amount of its allowance for loan losses adequate to provide for losses inherent in the Company's loan portfolios, with the provision for loan losses determined by the net periodic change in the allowance for loan losses. For acquired loans accounted for under ASC 310-30, a provision for loan loss is recorded when estimates of future cash flows decrease due to credit deterioration.

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

The provision for loan losses for the fiscal year ended June 30, 2015 was $717 thousand. This compares to a provision for loan losses of $531 thousand for the year ended June 30, 2014. At June 30, 2015 and 2014, the allowance for loan losses was $1.9 million and $1.4 million, respectively, and the ratio of allowance for loan losses to total loans was 0.31% and 0.26%, respectively. Net charge-offs for

the fiscal year ended June 30, 2015 totaled $158 thousand, representing approximately 0.03% of the Company's average portfolio loan balance during the fiscal year. This compares to $307 thousand, or 0.06%, in fiscal 2014, representing a decrease of $151 thousand in fiscal 2015, the result of improved net charge-off trends in all loan segments.

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

Noninterest Income

Noninterest income for the fiscal year ended June 30, 2015 totaled $7.1 million, an increase of $2.2 million, or 45.6%, from fiscal 2014. When compared to fiscal 2014, the increase was principally due to the following:

- An increase of $1.8 million in gains realized on sale of portfolio loans. The year ended June 30, 2015 includes gains realized on sale of SBA loans of $2.6 million and gains realized on sale of LASG loans of $200 thousand, compared to a $408 thousand gain on sale of SBA loans and $496 thousand gain on sale of LASG purchased loans in the year ended June 30, 2014;

- A $227 thousand increase in gains on residential loans originated for sale, an increase correlated to the volume of loans originated for portfolio in fiscal 2015; and

- A $365 thousand increase in net gains recognized on Real Estate Owned/Other Assets Acquired ("REO/OAA").

Noninterest Expense

Noninterest expense for the fiscal year ended June 30, 2015 totaled $32.6 million, an increase of $827 thousand, or 2.6%, from fiscal 2014. When compared to fiscal 2014, the changes of significance are:

- An increase of $1.0 million in salaries and employee benefits, principally due to increased employee head count, as well as higher employee benefits and stock-based compensation;

- An increase of $373 thousand in professional fees, due primarily to fees for temporary consulting services;

- A $250 thousand legal settlement recovery that was recognized in the quarter ended September 30, 2013, with no similar recovery in the year ended June 30, 2015;

- A decrease of $509 thousand in occupancy and equipment expense, the result of a reduction in software maintenance and depreciation expense following the conversion of the Bank's core systems platform to an outsourced model in May 2014;

- A decrease of $157 thousand in intangible asset amortization. The company's core deposit intangible is amortized on an accelerated basis, therefore, the expense decreases annually; and

- A decrease of $183 thousand in other noninterest expense, the reduction mainly due to non-recurring core conversion expenses incurred in fiscal 2014.

Income Taxes

Income tax expense for the fiscal year ended June 30, 2015 totaled $4.0 million, representing 35.9% of pretax income, as compared to $1.6 million, or 36.9% of pretax income, in fiscal 2014. The decrease in the Company's effective tax rate was principally due to an increase in

the prior year related to changes in state apportionment.

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Results of Operations Discontinued Operations

Overview

The Company concluded all investment brokerage activities in the second quarter of fiscal 2014. Accordingly, operations associated with these activities have been classified as discontinued operations for all periods shown in the accompanying consolidated statements of income. The Company recorded no net loss from discontinued operations in fiscal 2015, compared to a net loss of $8 thousand in fiscal 2014.

Financial Condition

Overview

The Company's total assets grew to $850.8 million at June 30, 2015, representing an increase of $88.9 million, or 11.7%, compared to $761.9 million at June 30, 2014. Significant changes in the Company's balance sheet components include:

Loans increased by $95.7 million, or 18.5%, compared to June 30, 2014, principally due to net growth of $99.9 million in commercial loans purchased or originated by the LASG, offset by a $4.2 million decrease in loans originated by the Bank's Community Banking Division;

Deposits increased by $100.4 million from June 30, 2014 and borrowings decreased $13.4 million from June 30, 2014. Non-maturity deposits increased by $96.7 million, or 41.6%, for the year while time deposits grew by $3.8 million or 1.1%. The increase was mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division. The decrease in borrowings was primarily due a decrease of $12.6 million in FHLB advances outstanding; and

Stockholders' equity increased by $773 thousand from June 30, 2014, due principally to earnings of $7.1 million, as well as $705 thousand of scheduled amortization of stock-based compensation, offset by $6.7 million in share repurchases (representing 710,662 shares), a decrease in accumulated other comprehensive income of $5 thousand and $402 thousand in dividends paid on common stock.

Cash and Cash Equivalents

Cash and cash equivalents increased $7.6 million, or 9.2%, to $89.9 million at June 30, 2015 as compared to $82.3 million at June 30, 2014. This increase was principally the result of deposit growth of $100.4 million, partially offset by loan growth of $95.7 million.

Investments Securities

The available-for-sale securities portfolio totaled $101.9 million and $113.9 million at June 30, 2015 and 2014, respectively. Mortgage-backed securities and U.S. Government-sponsored enterprise bonds totaling $12.4 million were pledged for outstanding borrowings at June 30, 2015.

At June 30, 2015, the Company's investment portfolio was comprised entirely of U.S. Government-sponsored enterprise bonds and mortgage-backed securities guaranteed by government agencies. Generally, funds retained by the Company as a result of increases in deposits or decreases in loans, to the extent not immediately deployed by the Bank, are invested in securities held in its investment

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portfolio, which serves as a source of liquidity for the Company. The composition of the Company's securities portfolio at the dates indicated follows.

	June 30, 2015		June 30, 2014		June 30, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)					
U.S. Government agency securities	$ 48,191	$ 48,230	$ 48,415	$ 48,418	$ 45,289	$ 45,333
Agency mortgage-backed securities	54,553	53,678	66,744	65,463	78,944	76,264
	$ 102,744	$ 101,908	$ 115,159	$ 113,881	$ 124,233	$ 121,597

The table below sets forth certain information regarding the contractual maturities and weighted average yields of the Company's securities portfolio at June 30, 2015. Actual maturities of mortgage-backed securities will differ from contractual maturities due both to scheduled amortization and prepayments.

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Government agency securities	$ 36,142	0.42%	12,088	0.54%		0.00%		0.00%	48,230	0.45%
Agency mortgage-backed securities		0.00%		0.00%	26,119	0.93%	27,559	1.47%	53,678	1.20%
	$ 36,142	0.42%	$ 12,088	0.54%	$ 26,119	0.93%	$ 27,559	1.47%	$ 101,908	0.85%

Management reviews the portfolio of investments on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment expense was recognized during fiscal 2015 or fiscal 2014.

Loans

Loans, including loans held-for-sale, totaled $621.2 million at June 30, 2015, compared to $528.4 million at June 30, 2014. The increase of $92.8 million, or 17.6%, at June 30, 2015, was principally due to net increases of $32.6 million in commercial real estate and $81.3 in commercial business, offset by a net decreases of $16.0 million in residential loans, $2.2 million in consumer loans and $2.9 million in loans held for sale. During fiscal 2015, the LASG purchased $82.7 million in loans, consisting principally of commercial real estate loans. Additionally, during fiscal 2015, the LASG originated $130.5 million in loans, which included $48.0 million of secured commercial business loans to broker-dealers.

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

	June 30, 2015		June 30, 2014		June 30, 2013		June 30, 2012		June 30, 2011	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Residential real estate	$ 132,669	21.67%	$ 148,634	28.79%	$ 127,829	29.36%	$ 137,571	38.61%	$ 145,477	46.94%
Commercial real estate	348,676	56.96%	316,067	61.20%	264,448	60.74%	180,735	50.74%	117,761	38.00%
Construction		0.00%	31	0.01%	42	0.01%	1,187	0.33%	2,015	0.65%
Commercial business	123,133	20.12%	41,800	8.09%	29,720	6.83%	19,612	5.51%	22,225	7.17%
Consumer and other	7,659	1.25%	9,884	1.91%	13,337	3.06%	17,149	4.81%	22,435	7.24%
Total loans	612,137	100.00%	516,416	100.00%	435,376	100.00%	356,254	100.00%	309,913	100.00%
Less: Allowance for loan losses	1,926		1,367		1,143		824		437	
Loans, net	$ 610,211		$ 515,049		$ 434,233		$ 355,430		$ 309,476	

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

	June 30, 2015				
	Community Banking Division	LASG	SBA National	Total	Percent of Total
	(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	42,625	6.96%
Construction					0.00%
Commercial business	11,597	108,577	2,637	122,811	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%

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	June 30, 2014				
	Community Banking Division	LASG	SBA National	Total	Percent of Total
	(Dollars in thousands)				
Originated loans:					
Residential real estate	$ 116,660	$ 312	$	$ 116,972	22.66%
Home equity	27,975			27,975	5.42%
Commercial real estate: non-owner occupied	46,191	33,969		80,160	15.52%
Commercial real estate: owner occupied	24,319	11,907		36,426	7.05%
Construction	31			31	0.01%
Commercial business	10,145	31,373		41,518	8.04%
Consumer	9,884			9,884	1.91%
Subtotal	235,405	77,561		312,966	60.61%
Purchased loans:					
Residential real estate		3,687		3,687	0.71%
Commercial business		282		282	0.05%
Commercial real estate: non-owner occupied		133,581		133,581	25.87%
Commercial real estate: owner occupied		65,900		65,900	12.76%
Subtotal		203,450		203,450	39.39%
Total	$ 235,405	$ 281,011		$ 516,416	100.00%

The following table summarizes the scheduled maturity of the Company's loan portfolio at June 30, 2015. Demand loans, loans having no stated repayment schedule, and overdraft loans are reported as being due in less than one year.

	Scheduled Loan Maturities				
	Within One Year	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
	(Dollars in thousands)				
Mortgages:					
Residential:					
Originated	$ 3,914	$ 12,268	$ 13,228	$ 101,190	$ 130,600
Purchased	540	320		1,208	2,068
Commercial:					
Originated	14,349	58,826	27,528	47,722	148,425
Purchased	29,827	59,962	25,588	84,874	200,251
Non-mortgage loans:					
Commercial:					
Originated	65,509	43,198	12,762	1,392	122,861
Purchased	8	245	20		273
Consumer and other	257	1,682	3,504	2,216	7,659
Total loans	$ 114,404	$ 176,501	$ 82,630	$ 238,602	$ 612,137

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	Loans Due After One Year, by Interest Rate Type		
	Predetermined rate	Floating or Adjustable	Total
	(Dollars in thousands)		
Mortgages:			
Residential:			
Originated	$ 62,794	$ 63,892	$ 126,686
Purchased	17	1,511	1,528
Commercial:			
Originated	37,901	96,175	134,076
Purchased	74,743	95,680	170,423
Non-mortgage loans:			
Commercial:			
Originated	28,559	28,793	57,352
Purchased	20	245	265
Consumer and other	7,403		7,403
Total	$ 211,437	$ 286,296	$ 497,733

Approximately 54.4% of total portfolio loans at June 30, 2015, were variable rate products, compared to 51.1% at June 30, 2014.

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

Other Assets

The cash surrender value of the Company's BOLI assets increased $440 thousand, or 3.0%, to $15.3 million at June 30, 2015, compared to $14.8 million at June 30, 2014. BOLI assets are invested in the general account of three insurance companies and in separate accounts of a fourth insurance company. A general account policy's cash surrender value is supported by the general assets of the insurance company. A separate account policy's cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor's rated these companies A+ or better at June 30, 2015. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates that reset each year, and are subject to minimum guaranteed rates. These increases in cash surrender value are recognized in other income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 12.7% of the Company's total risk-based capital at June 30, 2015.

Intangible assets totaled $2.2 million and $2.8 million at June 30, 2015 and June 30, 2014, respectively. The $589 thousand decrease was the result of core deposit intangible amortization during fiscal 2015.

Deposits

The Company's principal source of funding is its core deposit accounts. At June 30, 2015, core deposits, which the Company defines as non-maturity deposits and non-brokered insured time deposits, represented 99.9% of total deposits.

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Total deposits increased $100.4 million to $674.8 million as of June 30, 2015 from $574.3 million as of June 30, 2014. The increase mainly the result of increases in money market accounts attracted through the Bank's online-only ableBanking division.

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

	Year Ended June 30, 2015		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)		
Non-interest bearing demand deposits and escrow accounts	$ 54,940	0.00%	8.78%
Regular savings	34,495	0.13%	5.51%
NOW accounts	63,181	0.26%	10.09%
Money market accounts	133,266	0.75%	21.29%
Time deposits	340,046	1.12%	54.33%
Total average deposits	$ 625,928	0.79%	100.00%

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Average Balance	Weighted Average Rate	Percent of Total Average Deposits	Average Balance	Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)					
Non-interest bearing demand deposits and escrow accounts	$ 50,890	0.00%	9.31%	$ 49,343	0.00%	10.26%
Regular savings	34,391	0.14%	6.29%	31,939	0.14%	6.64%
NOW accounts	61,146	0.26%	11.19%	55,763	0.27%	11.59%
Money market accounts	85,333	0.52%	15.61%	63,931	0.53%	13.29%
Time deposits	314,848	1.10%	57.60%	280,059	1.27%	58.22%
Total average deposits	$ 546,608	0.75%	100.00%	$ 481,035	0.85%	100.00%

As of June 30, 2015, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100 thousand was approximately $262.7 million. The scheduled maturity of these deposits is set forth below:

	June 30, 2015
	(Dollars in thousands)
3 months or less	$ 54,637
Over 3 through 6 months	32,191
Over 6 through 12 months	19,365
Over 12 months	156,549
Total time certificates $100 thousand and over	$ 262,742

Borrowings

Short-term borrowings, FHLB advances, Federal Reserve Discount Window Borrower-in-custody advances, wholesale repurchase agreements and junior subordinated debentures have been the Company's sources of funding other than deposits. In fiscal 2015, total borrowings decreased by $13.2 million, or 20.6%, to $51.2 million.

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Advances from the FHLB were $30.2 million and $42.8 million at June 30, 2015 and June 30, 2014, respectively, a decrease of $12.6 million, or 29.5%. The decrease is due to payoffs of maturing FHLB advances during the year. At June 30, 2015, the Company had pledged investment securities having a fair value of $9.4 million for outstanding FHLB borrowings. In addition, pledges of residential real estate loans, certain commercial real estate loans and certain FHLB deposits free of liens or pledges are required to secure outstanding advances and available additional borrowing capacity from the FHLB. Wholesale repurchase agreements were $10.0 million and $10.2 million at June 30, 2015 and 2014, respectively. At June 30, 2015, the Company had pledged investment securities having a fair value of $3.0 million for outstanding wholesale repurchase agreements.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were $2.3 million and $3.0 million at June 30, 2015 and 2014, respectively. At June 30, 2015, sweep accounts were secured by a $2.7 million of letter of credit issued by the FHLB and an investment security with a fair value of $3.0 million.

The table below sets forth certain information about the Company's short-term borrowings for the periods indicated:

	Year Ended June 30, 2015	
	Amount	Weighted Average Rate
	(Dollars in thousands)	
Balance at period end	$ 2,349	1.91%
Average outstanding during period	2,578	1.91%
Maximum outstanding at any period	4,038	

	Year Ended June 30, 2014		Year Ended June 30, 2013	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Balance at period end	$ 2,984	1.35%	$ 625	0.00%
Average outstanding during period	2,230	1.08%	1,472	1.29%
Maximum outstanding at any period	3,383		2,707	

There were no balances outstanding at June 30, 2015 and 2014, respectively, for advances under the Federal Reserve Discount Window Borrower-in-custody program. The available credit under the program was $2.2 million and $3.1 million at June 30, 2015 and June 30, 2014, respectively, with the decrease in fiscal 2015 attributable to payoffs of consumer loans pledged as collateral.

The Company had junior subordinated debentures issued to affiliated trusts totaling $8.6 million and $8.4 million at June 30, 2015 and 2014, respectively. See "Capital" below for more information on our junior subordinated debentures and affiliated trusts.

Asset Quality

Allowance for Loan Losses

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

The allowance for loan losses for periods subsequent to the Merger reflects the impact of adjusting loans to their then fair values, as well as the elimination of the allowance for loan losses in accordance with the acquisition method of accounting. Subsequent to the Merger, the provision for loan losses has

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been recorded based on estimates of inherent losses in newly originated loans and for incremental reserves required for legacy loans based on estimates of deteriorated credit quality post-Merger.

As of June 30, 2015, the allowance for loan losses totaled $1.9 million, or 0.31% of total loans, as compared to $1.4 million, or 0.26% of total loans, at June 30, 2014. The year over year increase in the Company's allowance for losses was principally the result of loan growth. The following table sets forth activity in Company's allowance for loan losses for the periods indicated.

	Successor Company					Predecessor Company
	Year Ended June 30, 2015	Year Ended June 30, 2014	Year Ended June 30, 2013	Year Ended June 30, 2012	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010
	(Dollars in thousands)					
Allowance at beginning of period	$ 1,367	$ 1,143	$ 824	$ 437	$	$ 5,806
Loans charged-off during the period:						
Residential real estate	207	267	369	248	42	61
Commercial real estate		26	135	26	27	281
Commercial business	3	43	203	17	21	145
Consumer and other	28	69	148	352	216	372
Total loans charged-off	238	405	855	643	306	859
Recoveries on loans previously charged-off:						
Residential real estate	24	63	6	3		53
Commercial real estate	1	2	10		8	4
Commercial business	34	8	7	44	2	26
Consumer and other	21	25	29	37	26	25
Total recoveries	80	98	52	84	36	108
Net loans charged off during the period	158	307	803	559	270	751
Provision for loan losses	717	531	1,122	946	707	912
Allowance at end of period	$ 1,926	$ 1,367	$ 1,143	$ 824	$ 437	$ 5,967
Total loans at end of period(1)	$ 612,137	$ 516,416	$ 435,376	$ 356,254	$ 309,913	$ 367,284
Average loans outstanding during the period(1)	555,073	488,172	376,660	333,053	332,684	375,878
Allowance as a percentage of total loans	0.31%	0.26%	0.26%	0.23%	0.14%	1.62%
Ratio of net charge-offs to average loans outstanding	0.03%	0.06%	0.21%	0.17%	0.08%	0.20%
Allowance as a percentage of non-performing loans	18.41%	18.66%	23.54%	13.48%	5.49%	67.49%

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

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

June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011

	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
					(Dollars in thousands)					
Residential real estate	$ 741	21.67%	$ 580	28.79%	$ 594	29.36%	$ 214	38.61%	$ 34	46.94%
Commercial real estate	977	56.96%	625	61.21%	249	60.75%	93	51.07%	147	38.65%
Commercial business	118	20.12%	48	8.09%	70	6.83%	292	5.51%	238	7.17%
Consumer and other	35	1.25%	79	1.91%	189	3.06%	225	4.81%	18	7.24%
Unallocated	55	0.00%	35	0.00%	41	0.00%		0.00%		0.00%
Total	$ 1,926	100.00%	$ 1,367	100.00%	$ 1,143	100.00%	$ 824	100.00%	$ 437	100.00%

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

	2015	2014	2013	2012	2011
Past due loans to total loans	1.08%	1.14%	1.68%	1.95%	2.41%

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Non-performing Assets

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

	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
	(Dollars in thousands)				
Nonperforming loans:					
Originated portfolio:					
Residential real estate	$ 3,021	$ 1,743	$ 2,346	$ 3,090	$ 2,195
Commercial real estate	994	1,162	473	417	3,601
Construction					121
Home equity	11	160	334	220	205
Commercial business	2	5	110	1,008	559
Consumer	190	139	136	324	527
Total originated portfolio	4,218	3,209	3,399	5,059	7,208
Purchased portfolio:					
Commercial real estate	6,532	4,116	1,457	1,055	
Total purchased portfolio	6,532	4,116	1,457	1,055	
Total nonperforming loans	10,750	7,325	4,856	6,114	7,208
Real estate owned and other repossessed collateral	1,651	1,991	2,134	834	690
Total nonperforming assets	$ 12,401	$ 9,316	$ 6,990	$ 6,948	$ 7,898
Nonperforming loans that are current	$ 5,357	$ 651	$ 887	$ 377	$ 3,067
Non-performing loans to total loans	1.76%	1.42%	1.12%	1.72%	2.33%
Non-performing assets to total assets	1.46%	1.22%	1.04%	1.04%	1.32%

At June 30, 2015, the Company had $12.4 million of nonperforming assets, or 1.5% of total assets, compared to $9.3 million, or 1.2% of total assets, as of June 30, 2014. The increase in nonperforming assets in fiscal 2015 was principally associated with nonaccrual purchased commercial real estate loans.

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

	June 30, 2015	June 30, 2014	June 30, 2013
	(Dollars in thousands)		
Nonaccrual	$ 2,131	$ 2,117	$ 1,110
Accrual	6,365	4,057	2,632
Total TDRs	$ 8,496	$ 6,174	$ 3,742

At June 30, 2015, the Company had real estate owned and other repossessed collateral amounting to $1.7 million, compared to $2.0 million at June 30, 2014, a decrease of $340 thousand. The real estate and personal property collateral for commercial and consumer loans are written

down to fair value upon transfer to acquired assets. Revenues and expenses are recognized in the period when received or incurred on other real estate and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

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

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Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under a ten-point rating system. These ratings are guidelines in assessing the risk of a particular loan. The Company had $8.9 million and $7.4 million of loans rated substandard or worse at June 30, 2015 and June 30, 2014, respectively, an increase attributable to purchased loans. The following tables present the Company's loans by risk rating.

	June 30, 2015				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Pass (1 - 6)	$ 133,465	$ 122,521	$ 8,049	$ 190,193	$ 454,228
Special mention (7)	4,417	31	634	5,628	10,710
Substandard (8)	1,687		429	6,771	8,887
Doubtful (9)			23		23
Loss (10)					
	$ 139,569	$ 122,552	$ 9,135	$ 202,592	$ 473,848

	June 30, 2014				
	Originated Portfolio				
	Commercial Real Estate	Commercial Business	Residential(1)	Purchased Portfolio	Total
	(Dollars in thousands)				
Pass (1 - 6)	$ 110,044	$ 41,271	$ 11,941	$ 189,986	$ 353,242
Special mention (7)	4,880	46	940	8,619	14,485
Substandard (8)	1,693	201	670	4,845	7,409
Doubtful (9)					
Loss (10)					
	$ 116,617	$ 41,518	$ 13,551	$ 203,450	$ 375,136

(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.

Risk Management

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

Credit Risk

The Company considers credit risk to be the most significant risk that it faces, in that it has the greatest potential to affect the financial condition and operating results of the Company. Credit risk is managed through a combination of policies and limits established by the Board, the monitoring of compliance with these policies and limits, and the periodic evaluation of loans in the portfolio, including those with problem characteristics. The Company also utilizes the services of independent

third-parties to provide loan review services, which consist of a variety of monitoring techniques after a loan is purchased or originated.

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

Market Risk

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

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

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

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

The ALCO's primary tool for measuring, evaluating, and managing interest rate risk is income simulation analysis. Income simulation analysis measures the interest rate risk inherent in the Company's balance sheet at a given point in time by showing the effect of interest rate shifts on net interest income over defined time horizons. These simulations take into account the specific repricing, maturity, prepayment and call options of financial instruments that vary under different interest rate scenarios. The ALCO reviews simulation results to determine whether the exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. The Company considers a variety of specified rate scenarios, including instantaneous rate shocks, against static (or flat) rates when measuring interest rate risk, and evaluates results over two consecutive twelve-month periods. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" scenario, where interest rates remain stable over the measured time horizon(s). As of June 30, 2015, the income simulation analysis (as noted in the table below) for the first twelve-month period indicated that exposure to changing interest rates fell within the Company's policy levels of tolerance.

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

Assuming a 200 basis point increase and 100 basis point decrease in interest rates starting on June 30, 2015, we estimate that our net interest income in the following 12 months would increase by 1.3% if rates increased by 200 basis points and decrease by 0.2% if rates declined by 100 basis points. These results indicate a modest level of asset sensitivity in our balance sheet. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates.

	Up 200 Basis Points	**Down 100 Basis Points**
June 30, 2015	1.3%	0.2%
June 30, 2014	0.4%	1.1%
June 30, 2013	0.9%	0.8%

Liquidity Risk

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

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

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The following is a summary of the unused borrowing capacity of the Company at June 30, 2015 available to meet our short-term funding needs (dollars in thousands):

Brokered time deposits	$ 212,708	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	45,691	Unused advance capacity subject to eligible and qualified collateral
Federal Discount Window Borrower-in-Custody	2,200	Unused credit line subject to the pledge of loans
Other available lines	17,500	
Total unused borrowing capacity	278,099	

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 June 30, 2015, the Bank had $350.0 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 41.1% of total assets. Further, at June 30, 2015, the Company had $89.9 million of cash and cash equivalents. This level of balance sheet liquidity is intended, in part, for future purchases of commercial real estate loans.

On a parent company only basis, commitments and debt service requirements at June 30, 2015 consisted of junior subordinated debentures issued to NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV with a principal balance of $16.5 million. See Note 18 of the Notes to the Consolidated Financial Statements for carrying values, maturity dates and the use of purchased interest rate caps and swaps to hedge the interest expense in periods of rising interest rates. Based on the interest rates at June 30, 2015, the annual aggregate payments to meet the debt service of the junior subordinated debentures is approximately $412 thousand. Including the impact of the interest rate swap associated with NBN Capital Trust IV subordinated debentures, annual payments are expected to total $595 thousand.

The principal sources of funds for the Company to meet parent-only obligations are dividends from the Bank, which are subject to regulatory limitations, and borrowings from public and private sources. For information on the restrictions on the payment of dividends by Northeast Bank, see Note 10 of the Notes to the Company's Consolidated Financial Statements in this Annual Report.

Operational Risk

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

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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.

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, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. To control the credit risk associated with entering into commitments and issuing letters of credit, the Company uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities.

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

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

A summary of the amounts of the Company's contractual obligations, and other commitments with off-balance sheet risk, both at June 30, 2015, follows:

		Payments Due-By Period			
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(Dollars in thousands)				
Contractual obligations:					
FHLB advances	$ 30,000	$ 15,000	$ 15,000	$	$
Wholesale repurchase agreements	10,000	10,000			
Junior subordinated debentures	16,496				16,496
Capital lease obligation	1,553	175	459	612	307
Short-term borrowings	1,368	1,368			
Total debt obligations	59,417	26,543	15,459	612	16,803
Operating lease obligations	9,338	1,303	2,175	2,208	3,652
Total contractual obligations	$ 68,755	$ 27,846	$ 17,634	$ 2,820	$ 20,455

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	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
		Amount of Commitment Expiring-By Period			
		(Dollars in thousands)			
Commitments with off-balance sheet risk:					
Commitments to grant loans	$ 24,966	$ 24,966	$	$	$
Unused commitments under lines of credit	39,414	14,890	9,608	9,482	5,434
Standby letters of credit	60	60			
Total commitments	$ 64,440	$ 39,916	$ 9,608	$ 9,482	$ 5,434

Capital

Stockholders' equity was $112.8 million at June 30, 2015, an increase of $773 thousand from June 30, 2014. The increase due principally to earnings of $7.1 million, as well as $705 thousand of scheduled amortization of stock-based compensation, offset by $6.7 million in share repurchases (representing 710,662 shares), a decrease in accumulated other comprehensive income of $5 thousand and $402 thousand in dividends paid on common stock.

See Note 10 of the Notes to the Consolidated Financial Statements for information on the Company's capital ratios. Regulatory capital ratios for the Company and the Bank currently exceed all applicable requirements, including the commitments made to the Federal Reserve and the Bureau in connection with the Merger to maintain minimum Tier 1 leverage and total risk-based capital ratios of 10% and 15%, respectively.

Impact of Inflation

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

Impact of New Accounting Standards

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

Critical Accounting Policies

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. For residential and consumer loans, a charge-off is recorded no later than 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.

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

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

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

Commercial business: Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is expected from the cash flows of the business. Continued weakness in national or regional economic conditions, and a corresponding weakness in consumer or business spending, will have an adverse effect on the credit quality of this segment.

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

Purchased: Loans in this segment are typically secured by commercial real estate, multi-family residential real estate, or business assets and have been acquired by the LASG. Loans acquired by the LASG are, with limited exceptions, performing loans at the date of purchase. Loans in this segment acquired with specific material credit deterioration since origination are identified as purchased credit-impaired. Repayment of loans in this segment is largely dependent on cash flow from the successful operation of the property, in the case of non-owner occupied property, or operating business, in the case of owner-occupied property. Loan performance may be adversely affected by factors affecting the general economy or conditions specific to the real estate market, such as geographic location or property type.

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

- Levels and trends in delinquencies
- Trends in the volume and nature of loans
- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff
- Trends in portfolio concentration

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National and local economic trends and conditions.

Effects of changes or trends in internal risk ratings

Other effects resulting from trends in the valuation of underlying collateral

There were no significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2015 or 2014.

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 estimated 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 the collecting scheduled principal and interest payments when due.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management" and accompanying table set forth therein for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and
Shareholders of Northeast Bancorp

We have audited the accompanying consolidated balance sheets of Northeast Bancorp and subsidiary as of June 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and subsidiary at June 30, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts
September 28, 2015

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

	June 30, 2015	June 30, 2014
Assets		
Cash and due from banks	$ 2,789	$ 3,372
Short-term investments	87,061	78,887
Total cash and cash equivalents	89,850	82,259
Available-for-sale securities, at fair value	101,908	113,881
Loans held for sale	9,035	11,945
Loans	612,137	516,416
Less: Allowance for loan losses	1,926	1,367
Loans, net	610,211	515,049
Premises and equipment, net	8,253	9,135
Real estate owned and other repossessed collateral, net	1,651	1,991
Federal Home Loan Bank stock, at cost	4,102	4,102
Intangible assets, net	2,209	2,798
Bank owned life insurance	15,276	14,836
Other assets	8,335	5,935
Total assets	$ 850,830	$ 761,931

	2015	2014
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Demand	$ 60,383	$ 50,140
Savings and interest checking	100,134	98,340
Money market	168,527	83,901
Time	345,715	341,948
Total deposits	674,759	574,329
Federal Home Loan Bank advances	30,188	42,824
Wholesale repurchase agreements	10,037	10,199
Short-term borrowings	2,349	2,984
Junior subordinated debentures issued to affiliated trusts	8,626	8,440
Capital lease obligation	1,368	1,558
Other liabilities	10,664	9,531
Total liabilities	737,991	649,865
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2015 and June 30, 2014		
	8,575	9,260

Voting common stock, $1.00 par value, 25,000,000 authorized; 8,575,144 and 9,260,331 issued and outstanding at June 30, 2015 and 2014, respectively		
Non-voting common stock, $1.00 par value, 3,000,000 authorized; 1,012,739 and 880,963 shares issued and outstanding at June 30, 2015 and June 30, 2014, respectively	1,013	881
Additional paid-in capital	85,506	90,914
Retained earnings	19,033	12,294
Accumulated other comprehensive loss	(1,288)	(1,283)
Total stockholders' equity	112,839	112,066
Total liabilities and stockholders' equity	$ 850,830	$ 761,931

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except share and per share data)

	Year Ended June 30,	
	2015	**2014**
Interest and dividend income:		
Interest and fees on loans	$ 43,383	$ 37,009
Interest on available-for-sale securities	913	1,048
Other interest and dividend income	292	314
Total interest and dividend income	44,588	38,371
Interest expense:		
Deposits	5,010	4,123
Federal Home Loan Bank advances	1,101	1,301
Wholesale repurchase agreements	288	357
Short-term borrowings	29	24
Junior subordinated debentures issued to affiliated trusts	718	765
Obligation under capital lease agreement	74	83
Total interest expense	7,220	6,653
Net interest and dividend income before provision for loan losses	37,368	31,718
Provision for loan losses	717	531
Net interest and dividend income after provision for loan losses	36,651	31,187
Noninterest income:		
Fees for other services to customers	1,494	1,644
Gain on sales of loans held for sale	1,877	1,650
Gain on sales of portfolio loans	2,821	1,006
Gain recognized on real estate owned and other repossessed collateral, net	428	63
Bank-owned life insurance income	440	451
Other noninterest income	29	55
Total noninterest income	7,089	4,869
Noninterest expense:		
Salaries and employee benefits	18,817	17,786
Occupancy and equipment expense	4,939	5,448
Professional fees	1,658	1,285
Data processing fees	1,355	1,209
Marketing expense	244	311
Loan acquisition and collection expense	1,458	1,539
FDIC insurance premiums	504	480
Intangible asset amortization	589	746
Legal settlement recovery		(250)
Other noninterest expense	3,040	3,223
Total noninterest expense	32,604	31,777
Income from continuing operations before income tax expense	11,136	4,279
Income tax expense	3,995	1,579
Net income from continuing operations	$ 7,141	$ 2,700

Loss from discontinued operations	$		$	(12)
Income tax benefit				(4)
Net loss from discontinued operations				(8)
Net income	$	7,141	$	2,692
Weighted-average shares outstanding:				
Basic		9,980,733		10,404,784
Diluted		9,980,733		10,404,784
Earnings per common share:				
Basic:				
Income from continuing operations	$	0.72	$	0.26
Income from discontinued operations		0.00		0.00
Net income	$	0.72	$	0.26
Diluted:				
Income from continuing operations	$	0.72	$	0.26
Income from discontinued operations		0.00		0.00
Net income	$	0.72	$	0.26
Cash dividends declared per common share:	$	0.04	$	0.28

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Year Ended June 30,	
	2015	**2014**
Net income	$ 7,141	$ 2,692
Other comprehensive income (loss), before tax:		
Available-for-sale securities:		
Change in net unrealized gain or loss on available-for-sale securities	442	1,358
Reclassification adjustment for net gains included in net income		
Total available-for-sale securities	442	1,358
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	(529)	(325)
Reclassification adjustments for net gains included in net income	(49)	(76)
Total derivatives and hedging activities	(578)	(401)
Total other comprehensive income (loss), before tax	(136)	957
Income tax expense (benefit) related to other comprehensive income (loss)	(131)	326
Other comprehensive income (loss), net of tax	(5)	631
Comprehensive income	$ 7,136	$ 3,323

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except share and per share data)

Preferred Stock	Voting Common Stock	Non-voting Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'