

NORTHEAST BANCORP /ME/
Form 10-Q
May 15, 2013
[Table of Contents](#)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

Commission File Number: 1-14588

Northeast Bancorp

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization)

01-0425066

(I.R.S. Employer Identification No.)

500 Canal Street, Lewiston, Maine
(Address of Principal executive offices)

04240
(Zip Code)

(207) 786-3245

Registrant's telephone number, including area code

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of April 30, 2013, the registrant had outstanding 9,565,680 shares of voting common stock, \$1.00 par value per share and 880,963 shares of non-voting common stock, \$1.00 par value per share.

Table of Contents

Part I. Financial Information

Item 1.

Financial Statements (unaudited)
Consolidated Balance Sheets
March 31, 2013 and June 30, 2012

Consolidated Statements of Income
Three Months Ended March 31, 2013 and 2012
Nine Months Ended March 31, 2013 and 2012

Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2013 and 2012
Nine Months Ended March 31, 2013 and 2012

Consolidated Statements of Changes in Stockholders' Equity
Nine Months Ended March 31, 2013 and 2012

Consolidated Statements of Cash Flows
Nine Months Ended March 31, 2013 and 2012

Notes to Consolidated Financial Statements

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3.

Quantitative and Qualitative Disclosure about Market Risk

Item 4.

Controls and Procedures

Part II. Other Information

Item 1.

Legal Proceedings

Item 1A.

Risk Factors

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

Item 3.

Defaults Upon Senior Securities

Item 4.

Mine Safety Disclosures

Item 5.

Other Information

Item 6.

Exhibits

Table of Contents

PART 1- FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

NORTHEAST BANCORP AND SUBSIDIARY**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

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

	March 31, 2013	June 30, 2012
Assets		
Cash and due from banks	\$ 2,936	\$ 2,538
Short-term investments	139,633	125,736
Total cash and cash equivalents	142,569	128,274
Available-for-sale securities, at fair value	128,549	133,264
Loans held for sale	7,768	9,882
Loans	380,311	356,254
Less: Allowance for loan losses	1,033	824
Loans, net	379,278	355,430
Premises and equipment, net	10,013	9,205
Real estate owned and other repossessed collateral, net	2,038	834
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	5,121	5,473
Intangible assets, net	3,751	4,487
Bank owned life insurance	14,266	14,295
Other assets	6,224	8,052
Total assets	\$ 699,577	\$ 669,196
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Demand	\$ 46,783	\$ 45,323
Savings and interest checking	89,394	90,204
Money market	83,129	45,024
Time deposits	286,280	241,637
Total deposits	505,586	422,188
Federal Home Loan Bank advances	33,117	43,450
Structured repurchase agreements	25,518	66,183
Short-term borrowings	2,360	1,209
Junior subordinated debentures issued to affiliated trusts	8,227	8,106
Capital lease obligation	1,783	1,911
Other liabilities	7,249	7,010

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Total liabilities	583,840	550,057
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at March 31, 2013; 4,227 shares issued and outstanding at June 30, 2012; liquidation preference of \$1,000 per share	0	4
Voting common stock, \$1.00 par value, 25,000,000 and 13,500,000 shares authorized at March 31, 2013 and June 30, 2012, respectively; 9,565,680 and 9,307,127 issued and outstanding at March 31, 2013 and June 30, 2012, respectively	9,566	9,307
Non-voting common stock, \$1.00 par value, 3,000,000 and 1,500,000 shares authorized at March 31, 2013 and June 30, 2012, respectively; 880,963 and 1,076,314 issued and outstanding at March 31, 2013 and June 30, 2012, respectively	881	1,076
Additional paid-in capital	92,556	96,359
Retained earnings	13,260	12,235
Accumulated other comprehensive (loss) income	(526)	158
Total stockholders' equity	115,737	119,139
Total liabilities and stockholders' equity	\$ 699,577	\$ 669,196

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

Table of Contents**NORTHEAST BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest and dividend income:				
Interest on loans	\$ 9,601	\$ 5,870	\$ 25,209	\$ 16,881
Interest on available-for-sale securities	234	422	929	1,602
Other interest and dividend income	85	60	283	176
Total interest and dividend income	9,920	6,352	26,421	18,659
Interest expense:				
Deposits	1,084	875	3,090	2,548
Federal Home Loan Bank advances	232	256	750	772
Structured repurchase agreements	135	247	515	744
Short-term borrowings	4	7	15	15
Junior subordinated debentures issued to affiliated trusts	190	188	574	556
Obligation under capital lease agreements	22	25	69	76
Total interest expense	1,667	1,598	5,013	4,711
Net interest and dividend income before provision for loan losses				
	8,253	4,754	21,408	13,948
Provision for loan losses	346	100	821	634
Net interest and dividend income after provision for loan losses	7,907	4,654	20,587	13,314
Noninterest income:				
Fees for other services to customers	430	326	1,202	1,036
Net securities gains	0	731	792	1,111
Gain on sales of loans held for sale	625	634	2,295	2,060
Gain on sales of portfolio loans	1,228	219	2,226	422
Gain recognized on real estate owned and other repossessed collateral, net	230	(24)	681	11
Investment commissions	758	720	2,232	2,111
Bank-owned life insurance income	118	124	599	377
Other noninterest income	12	18	68	75
Total noninterest income	3,401	2,748	10,095	7,203
Noninterest expense:				
Salaries and employee benefits	5,262	4,093	13,732	11,539
Occupancy and equipment expense	1,258	970	3,483	2,735
Professional fees	388	539	1,210	1,231
Data processing fees	306	260	858	823
Marketing expense	249	142	688	487
Loan acquisition and collection expense	352	244	1,285	798
FDIC insurance premiums	125	125	364	364
Intangible asset amortization	205	262	735	935
Other noninterest expense	686	598	2,112	1,836

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Total noninterest expense	8,831	7,233	24,467	20,748
Income (loss) from continuing operations before income tax expense (benefit)	2,477	169	6,215	(231)
Income tax expense (benefit)	811	15	2,000	(209)
Net income (loss) from continuing operations	\$ 1,666	\$ 154	\$ 4,215	\$ (22)
Discontinued operations:				
Income from discontinued operations	\$ 0	\$ 0	\$ 0	\$ 186
Gain on sale of discontinued operations	0	22	0	1,551
Income tax expense	0	8	0	600
Net income from discontinued operations	\$ 0	\$ 14	\$ 0	\$ 1,137
Net income	\$ 1,666	\$ 168	\$ 4,215	\$ 1,115
Net income available to common stockholders	\$ 1,666	\$ 70	\$ 3,860	\$ 821
Weighted-average shares outstanding:				
Basic	10,425,576	3,494,498	10,397,280	3,494,498
Diluted	10,425,576	3,512,273	10,397,280	3,494,498
Earnings per common share:				
Basic:				
Income (loss) from continuing operations	\$ 0.16	\$ 0.02	\$ 0.37	\$ (0.09)
Income from discontinued operations	0.00	0.00	0.00	0.32
Net income	\$ 0.16	\$ 0.02	\$ 0.37	\$ 0.23
Diluted:				
Income (loss) from continuing operations	\$ 0.16	\$ 0.02	\$ 0.37	\$ (0.09)
Income from discontinued operations	0.00	0.00	0.00	0.32
Net income	\$ 0.16	\$ 0.02	\$ 0.37	\$ 0.23
Cash dividends declared per common share	\$ 0.09	\$ 0.09	\$ 0.27	\$ 0.27

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

Table of Contents**NORTHEAST BANCORP AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Net income	\$ 1,666	\$ 168	\$ 4,215	\$ 1,115
Other comprehensive (loss) income, before tax:				
Available-for-sale securities:				
Change in net unrealized gain or loss on available-for-sale securities	(164)	(687)	(318)	676
Reclassification adjustment for net gains included in net income	0	(731)	(792)	(1,111)
Total available-for-sale securities	(164)	(1,418)	(1,110)	(435)
Derivatives and hedging activities:				
Change in accumulated loss on effective cash flow hedges	62	12	127	(132)
Reclassification adjustments for net gains included in net income	(17)	(19)	(54)	(62)
Total derivatives and hedging activities	45	(7)	73	(194)
Total other comprehensive loss, before tax	(119)	(1,425)	(1,037)	(629)
Income tax benefit related to other comprehensive loss	(40)	(484)	(353)	(214)
Other comprehensive loss, net of tax	(79)	(941)	(684)	(415)
Comprehensive income (loss)	\$ 1,587	\$ (773)	\$ 3,531	\$ 700

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

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

(Unaudited)

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Income (Loss)	Stockholders Equity
Balance at June 30, 2011	4,227	\$ 4	3,312,173	\$ 3,312	195,351	\$ 195	\$ 49,943	\$ 11,726	\$ (226)	\$ 64,954
Net income	0	0	0	0	0	0	0	1,115	0	1,115
Other comprehensive loss, net of tax	0	0	0	0	0	0	0	0	(415)	(415)
Dividends on preferred stock	0	0	0	0	0	0	0	(159)	0	(159)
Dividends on common stock at \$0.27 per share	0	0	0	0	0	0	0	(946)	0	(946)
Stock-based compensation	0	0	0	0	0	0	321	0	0	321
Accretion of preferred stock	0	0	0	0	0	0	135	(135)	0	0
Balance at March 31, 2012	4,227	\$ 4	3,312,173	\$ 3,312	195,351	\$ 195	\$ 50,399	\$ 11,601	\$ (641)	\$ 64,870
Balance at June 30, 2012	4,227	\$ 4	9,307,127	\$ 9,307	1,076,314	\$ 1,076	\$ 96,359	\$ 12,235	\$ 158	\$ 119,139
Net income	0	0	0	0	0	0	0	4,215	0	4,215
Other comprehensive loss, net of tax	0	0	0	0	0	0	0	0	(684)	(684)
Conversion of non-voting common stock to voting common stock	0	0	195,351	195	(195,351)	(195)	0	0	0	0
Dividends on preferred stock	0	0	0	0	0	0	0	(113)	0	(113)
Dividends on common stock at \$0.27 per share	0	0	0	0	0	0	0	(2,809)	0	(2,809)
Offering costs	0	0	0	0	0	0	(59)	0	0	(59)
Stock-based compensation	0	0	0	0	0	0	374	0	0	374
Issuance of restricted common stock	0	0	63,202	64	0	0	(64)	0	0	0
Redemption of preferred stock and warrants	(4,227)	(4)	0	0	0	0	(4,322)	0	0	(4,326)
Accretion of preferred stock	0	0	0	0	0	0	268	(268)	0	0
Balance at March 31, 2013	0	\$ 0	9,565,680	\$ 9,566	880,963	\$ 881	\$ 92,556	\$ 13,260	\$ (526)	\$ 115,737

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

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

(Unaudited)

(Dollars in thousands)

	Nine Months Ended March 31,	
	2013	2012
Operating activities:		
Net income	\$ 4,215	\$ 1,115
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	821	634
Gain on sale or impairment of real estate owned and other repossessed collateral, net	(681)	(11)
Accretion of fair value adjustments on loans, net	(6,805)	(1,559)
Accretion of fair value adjustments on deposits, net	(758)	(1,001)
Accretion of fair value adjustments on borrowings, net	(877)	(1,621)
Originations of loans held for sale	(106,770)	(93,879)
Net proceeds from sales of loans held for sale	111,179	94,761
Gain on sales of loans held for sale	(2,295)	(2,060)
Gain on sales of portfolio loans	(2,226)	(422)
Amortization of intangible assets	735	1,004
Bank-owned life insurance income, net	(599)	(377)
Depreciation of premises and equipment	1,283	907
Gain on sale of premises and equipment	0	(2)
Net gain on sale of available-for-sale securities	(792)	(1,111)
Stock-based compensation	374	321
Gain on sale of assets of insurance division	0	(1,580)
Amortization of securities, net	1,253	1,239
Changes in other assets and liabilities:		
Other assets	1,828	(513)
Other liabilities	737	(161)
Net cash provided by (used in) operating activities	622	(4,316)
Investing activities:		
Proceeds from sales of available-for-sale securities	159,579	179,045
Purchases of available-for-sale securities	(167,294)	(185,991)
Proceeds from maturities and principal payments on available-for-sale securities	10,858	18,615
Loan purchases	(75,227)	(59,849)
Loan originations and principal collections, net	49,759	22,363
Purchases of premises and equipment	(2,361)	(1,841)
Proceeds from sales of premises and equipment	0	124
Proceeds from sales of portfolio loans	6,749	2,405
Proceeds from sales of repossessed collateral	2,758	661
Proceeds from life insurance benefits	628	0
Proceeds from redemption of regulatory stock	352	287
Proceeds from sale of assets of insurance division	0	9,863
Net cash used in investing activities	(14,199)	(14,318)
Financing activities:		
Net increase in deposits	84,156	3,618
Net increase (decrease) in short-term borrowings	1,151	(679)

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Dividends paid on preferred stock	(113)	(159)
Dividends paid on common stock	(2,809)	(946)
Stock offering costs	(59)	0
Repayment of structured repurchase agreements	(40,000)	0
Repayment of Federal Home Loan Bank advances	(10,000)	0
Repayment of other borrowings	0	(2,129)
Redemption of preferred stock and warrants	4,326	0
Repayment of capital lease obligation	(128)	(122)
Net cash provided by (used in) financing activities	27,872	(417)
Net increase (decrease) in cash and cash equivalents	14,295	(19,051)
Cash and cash equivalents, beginning of period	128,274	83,931
Cash and cash equivalents, end of period	\$ 142,569	\$ 64,880
Supplemental schedule of noncash investing and financing activities:		
Transfers from loans to real estate owned and other repossessed collateral	\$ 4,066	\$ 919
Transfers from real estate owned and other repossessed collateral to loans	1,055	44
Transfers from premises and equipment to real estate owned and other repossessed collateral	270	0

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

Table of Contents

NORTHEAST BANCORP AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

March 31, 2013

1. Basis of Presentation

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Company s financial position at March 31, 2013, the results of operations for the three and nine months ended March 31, 2013 and 2012, comprehensive income for the three and nine months ended March 31, 2013 and 2012, the changes in stockholders equity for the nine months ended March 31, 2013 and 2012, and the cash flows for the nine months ended March 31, 2013 and 2012. Operating results for the nine months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013 (Fiscal 2013). For further information, refer to the audited consolidated financial statements and notes thereto for the fiscal year ended June 30, 2012 (Fiscal 2012) included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11). The update requires entities to disclose information about offsetting and related arrangements of financial instruments and derivative instruments. The amendments require enhanced disclosures by requiring improved information about financial instruments and derivative instruments that are either (i) offset in accordance with current literature or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current literature. ASU 2011-11 is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The objective of this update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The amendments in this update require that all non-owner changes in stockholders equity be presented either in as single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments are effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the consolidated financial statements.

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments in this update defer those changes in ASU 2011-05 that relate to the presentation of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this update. The amendments are effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the consolidated financial statements.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* (ASU 2013-01). The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The new standards are effective for annual periods beginning January 1, 2013 and for interim periods within those annual periods. Retrospective application is required. The Company does not anticipate that the adoption of this guidance will have a material impact on the consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income* (ASU 2013-02). This ASU requires entities to (1) present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period and (2) cross-reference to other disclosures currently required under GAAP for other reclassification items (that are not required under GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account instead of directly to income or expense. The new standards are effective for reporting periods

Table of Contents

beginning after December 15, 2012. The adoption of ASU No. 2013-02 did not have a material impact on the Company's financial statements.

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

Securities available-for-sale at amortized cost and approximate fair values are summarized below:

	March 31, 2013		June 30, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	\$ 45,422	\$ 45,482	\$ 45,824	\$ 45,808
Agency mortgage-backed securities	83,613	83,067	86,816	87,456
	\$ 129,035	\$ 128,549	\$ 132,640	\$ 133,264

The gross unrealized gains and unrealized losses on available-for-sale securities are as follows:

	March 31, 2013		June 30, 2012	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
	(Dollars in thousands)			
U.S. Government agency securities	\$ 60	\$ 0	\$ 5	\$ 21
Agency mortgage-backed securities	42	588	640	0
	\$ 102	\$ 588	\$ 645	\$ 21

When securities are sold, the adjusted cost of the specific security sold is used to compute the gain or loss on sale. The following table summarizes realized gains and losses on available-for-sale securities.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Gross realized gains	\$ 0	\$ 731	\$ 831	\$ 1,180
Gross realized losses	0	0	(39)	(69)
Net security gains	\$ 0	\$ 731	\$ 792	\$ 1,111

At March 31, 2013, investment securities with a fair value of approximately \$50.2 million were pledged as collateral to secure outstanding borrowings.

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

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

	Less than 12 Months		March 31, 2013 More than 12 Months		Fair Value	Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
U.S. Government agency securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Agency mortgage-backed securities	64,958	588	0	0	64,958	588	588
	\$ 64,958	\$ 588	\$ 0	\$ 0	\$ 64,958	\$ 588	\$ 588

	Less than 12 Months		June 30, 2012 More than 12 Months		Fair Value	Total	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
U.S. Government agency securities	\$ 36,585	\$ 21	\$ 0	\$ 0	\$ 36,585	\$ 21	\$ 21
Agency mortgage-backed securities	0	0	0	0	0	0	0
	\$ 36,585	\$ 21	\$ 0	\$ 0	\$ 36,585	\$ 21	\$ 21

There were no other-than-temporary impairment losses on securities during the three and nine months ended March 31, 2013 or 2012.

At March 31, 2013, the Company did not have any securities in a continuous loss position for greater than twelve months. At March 31, 2013, all of the Company's available-for-sale securities were issued or guaranteed by either government agencies or government-

Table of Contents

sponsored enterprises. The decline in fair value of the Company's available-for-sale securities at March 31, 2013 is attributable to changes in interest rates.

Management of the Company, in addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. Management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at March 31, 2013.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of March 31, 2013. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost		Fair Value
	(Dollars in thousands)		
Due within one year	\$ 42,354	\$	42,410
Due after one year through five years	3,068		3,072
Due after five years through ten years	44,641		44,579
Due after ten years	38,972		38,488
	\$ 129,035	\$	128,549

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

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

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

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

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

The composition of the Company's loan portfolio follows.

	Originated	March 31, 2013 Purchased	Total	Originated	June 30, 2012 Purchased	Total
	(Dollars in thousands)					
Residential real estate	\$ 82,208	\$ 4,238	\$ 86,446	\$ 90,944	\$ 3,931	\$ 94,875

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Home equity	37,848	0	37,848	42,696	0	42,696
Commercial real estate	97,176	126,264	223,440	100,196	80,539	180,735
Construction	42	0	42	1,187	0	1,187
Commercial business	18,460	0	18,460	19,612	0	19,612
Consumer	14,075	0	14,075	17,149	0	17,149
Total loans	\$ 249,809	\$ 130,502	\$ 380,311	\$ 271,784	\$ 84,470	\$ 356,254

Table of Contents

Purchased credit impaired (PCI) loans include those loans acquired with specific evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable. The Company does not characterize purchased loans with no or insignificant credit impairment as PCI loans. The following table presents a summary of PCI loans purchased by the LASG during the nine months ended March 31, 2013 and 2012.

	PCI Loans Acquired Nine Months Ended March 31,	
	2013	2012
	(Dollars in thousands)	
Contractually required payments receivable	\$ 48,954	\$ 13,943
Nonaccretable difference	(11,186)	(4,011)
Cash flows expected to be collected	37,768	9,932
Accretable yield	(15,595)	(3,427)
Fair value of loans acquired	\$ 22,173	\$ 6,505

	PCI Loans: Activity in Accretable Yield Nine Months Ended March 31,	
	2013	2012
	(Dollars in thousands)	
Beginning balance	\$ 7,169	\$ 0
Accretion	(4,629)	(778)
Acquisitions	15,595	3,427
Reclassifications from nonaccretable difference	1,111	310
Disposals and transfers	(3,557)	(614)
Other changes	23	0
End balance	\$ 15,712	\$ 2,345

The following table provides information related to the unpaid principal balance and carrying amounts of PCI loans.

	March 31, 2013	June 30, 2012
	(Dollars in thousands)	
Unpaid principal balance	\$ 41,777	\$ 21,359
Carrying amount	\$ 25,174	\$ 13,866

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. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses consists of general, specific, and unallocated reserves and reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a consistent and systematic process and methodology to evaluate the 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.

Table of Contents

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 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. Loans in this segment are evaluated for impairment under ASC 310-30. The Company reviews expected cash flows from purchased loans on a quarterly basis. The effect of a decline in expected cash flows subsequent to the acquisition of the loan is recognized through a specific allocation in the allowance for loan losses.

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

- Levels and trends in delinquencies

- Trends in the volume and nature of loans

- Trends in credit terms and policies, including underwriting standards, procedures and practices, and the experience and ability of lending management and staff

- Trends in portfolio concentration

- National and local economic trends and conditions.

- Effects of changes or trends in internal risk ratings

- Other effects resulting from trends in the valuation of underlying collateral

There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during the three and nine months ended March 31, 2013.

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 loans modified in troubled debt restructurings are individually reviewed for impairment.

For all portfolio segments, except 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 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. Loan impairment of purchased loans is measured based on the decrease in expected cash flows from those estimated at acquisition, excluding changes due to decreases in interest rate indices, 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.

Table of Contents

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

	Three Months Ended March 31, 2013						Total
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased (1)		
	(Dollars in thousands)						
Beginning balance	\$ 492	\$ 102	\$ 47	\$ 234	\$ 0	\$ 875	
Provision (benefit)	186	117	0	(4)	47	346	
Recoveries	2	5	0	5	0	12	
Charge-offs	(102)	(43)	0	(8)	(47)	(200)	
Ending balance	\$ 578	\$ 181	\$ 47	\$ 227	\$ 0	\$ 1,033	

	Three Months Ended March 31, 2012						Total
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased (1)		
	(Dollars in thousands)						
Beginning balance	\$ 125	\$ 147	\$ 231	\$ 234	\$ 0	\$ 737	
Provision (benefit)	20	(11)	17	74	0	100	
Recoveries	1	0	2	4	0	7	
Charge-offs	(20)	0	0	(76)	0	(96)	
Ending balance	\$ 126	\$ 136	\$ 250	\$ 236	\$ 0	\$ 748	

(1) Purchased loans include commercial real estate, commercial business, and commercial loans secured by residential real estate loans. The Company separately analyzes all loans purchased by the LASG from other segments in determining the allowance for loan losses under ASC 310-30.

	Nine Months Ended March 31, 2013						Total
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased (1)		
	(Dollars in thousands)						
Beginning balance	\$ 214	\$ 93	\$ 292	\$ 225	\$ 0	\$ 824	
Provision (benefit)	598	126	(42)	92	47	821	
Recoveries	3	5	0	12	0	20	
Charge-offs	(237)	(43)	(203)	(102)	(47)	(632)	
Ending balance	\$ 578	\$ 181	\$ 47	\$ 227	\$ 0	\$ 1,033	

	Nine Months Ended March 31, 2012						Total
	Residential Real Estate	Commercial Real Estate	Commercial Business	Consumer	Purchased (1)		
	(Dollars in thousands)						
Beginning balance	\$ 34	\$ 147	\$ 238	\$ 18	\$ 0	\$ 437	
Provision (benefit)	171	13	(17)	467	0	634	
Recoveries	2	0	37	30	0	69	
Charge-offs	(81)	(24)	(8)	(279)	0	(392)	
Ending balance	\$ 126	\$ 136	\$ 250	\$ 236	\$ 0	\$ 748	

(1) Purchased loans include commercial real estate, commercial business, and commercial loans secured by residential real estate loans. The Company separately analyzes all loans purchased by the LASG from other segments in determining the allowance for loan losses under

ASC 310-30.

Table of Contents

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

	Residential Real Estate	Commercial Real Estate	March 31, 2013 Commercial Business (Dollars in thousands)	Consumer	Total
Allowance for loan losses:					
Individually evaluated	\$ 301	\$ 119	\$ 43	\$ 28	\$ 491
Collectively evaluated	277	61	4	200	542
Purchased (1)	0	0	0	0	0
Total	\$ 578	\$ 180	\$ 47	\$ 228	\$ 1,033
Loans:					
Individually evaluated	\$ 2,495	\$ 2,192	\$ 103	\$ 150	\$ 4,940
Collectively evaluated	117,561	95,026	18,357	13,925	244,869
Purchased (1)	4,238	126,264	0	0	130,502
Total	\$ 124,294	\$ 223,482	\$ 18,460	\$ 14,075	\$ 380,311

	Residential Real Estate	Commercial Real Estate	June 30, 2012 Commercial Business (Dollars in thousands)	Consumer	Total
Allowance for loan losses:					
Individually evaluated	\$ 3	\$ 41	\$ 284	\$ 0	\$ 328
Collectively evaluated	211	52	8	225	496
Purchased(1)	0	0	0	0	0
Total	\$ 214	\$ 93	\$ 292	\$ 225	\$ 824
Loans:					
Individually evaluated	\$ 399	\$ 3,112	\$ 1,127	\$ 0	\$ 4,638
Collectively evaluated	133,241	99,326	18,485	17,149	268,201
Purchased(1)	3,931	79,484	0	0	83,415
Total	\$ 137,571	\$ 181,922	\$ 19,612	\$ 17,149	\$ 356,254

(1) Loans in this category are evaluated for impairment under ASC 310-30. Post acquisition, the effect of a decline in expected cash flows is recorded through the allowance for loan losses as a specific allocation.

Table of Contents

The following tables set forth information regarding impaired loans. Interest income recognized includes interest received or accrued based on loan principal and contractual interest rates. Loans accounted for under ASC 310-30 that have performed based on cash flow and accretable yield expectations determined at date of acquisition are not considered impaired assets and have been excluded from the tables below.

	At March 31, 2013			At June 30, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)					
Impaired loans without a valuation allowance:						
Originated:						
Residential real estate	\$ 1,198	\$ 1,250	\$ 0	\$ 293	\$ 483	\$ 0
Consumer	81	86	0	0	0	0
Commercial real estate	1,429	1,490	0	1,482	1,738	0
Commercial business	60	114	0	377	692	0
Purchased:						
Commercial real estate	0	0	0	1,055	1,462	0
Residential real estate	0	0	0	0	0	0
Total	2,768	2,940	0	3,207	4,375	0
Impaired loans with a valuation allowance:						
Originated:						
Residential real estate	1,297	1,261	301	106	103	3
Consumer	69	72	28	0	0	0
Commercial real estate	763	810	119	575	565	41
Commercial business	43	79	43	750	817	284
Purchased:						
Commercial real estate	0	0	0	0	0	0
Residential real estate	0	0	0	0	0	0
Total	2,172	2,222	491	1,431	1,485	328
Total impaired loans	\$ 4,940	\$ 5,162	\$ 491	\$ 4,638	\$ 5,860	\$ 328

Table of Contents

	Three Months Ended March 31, 2013		Nine Months Ended March 31, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
Impaired loans without a valuation allowance:				
Originated:				
Residential real estate	\$ 1,097	\$ 18	\$ 825	\$ 31
Consumer	82	1	52	3
Commercial real estate	1,375	22	1,370	61
Commercial business	68	0	169	3
Purchased:				
Commercial real estate	0	0	264	0
Residential real estate	0	0	0	0
Total	2,622	41	2,680	98
Impaired loans with a valuation allowance:				
Originated:				
Residential real estate	1,459	19	940	45
Consumer	71	1	54	3
Commercial real estate	762	3	656	16
Commercial business	44	0	221	0
Purchased:				
Commercial real estate	0	0	0	0
Residential real estate	0	0	0	0
Total	2,336	23	1,871	64
Total impaired loans	\$ 4,958	\$ 64	\$ 4,551	\$ 162

	Three Months Ended March 31, 2012		Nine Months Ended March 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
Impaired loans without a valuation allowance:				
Originated:				
Residential real estate	\$ 430	\$ 9	\$ 215	\$ 17
Consumer	11	0	5	0
Commercial real estate	1,540	12	1,028	70
Commercial business	483	2	555	7
Purchased:				
Commercial real estate	0	0	0	0
Residential real estate	0	0	0	0
Total	2,464	23	1,803	94
Impaired loans with a valuation allowance:				
Originated:				
Residential real estate	53	0	63	0
Consumer	0	0	0	0
Commercial real estate	721	16	666	19
Commercial business	664	0	728	0
Purchased:				
Commercial real estate	0	0	0	0
Residential real estate	0	0	0	0
Total	1,438	16	1,457	19
Total impaired loans	\$ 3,902	\$ 39	\$ 3,260	\$ 113

Table of Contents

Credit Quality

The Company utilizes a ten-point internal loan rating system for its purchased loan portfolio and originated commercial real estate, construction and commercial business loans as follows:

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

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

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

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

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

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

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

	March 31, 2013			
	Commercial Real Estate	Originated Portfolio		Purchased Portfolio
		Construction	Commercial Business	
(Dollars in thousands)				
Loans rated 1- 6	\$ 91,313	\$ 42	\$ 18,121	\$ 127,591

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Loans rated 7	4,587	0	87	1,098
Loans rated 8	1,276	0	252	1,813
Loans rated 9	0	0	0	0
Loans rated 10	0	0	0	0
	\$ 97,176	\$ 42	\$ 18,460	\$ 130,502

June 30, 2012

Originated Portfolio

	Commercial Real Estate	Construction	Commercial Business	Purchased Portfolio
	(Dollars in thousands)			
Loans rated 1- 6	\$ 96,963	\$ 1,187	\$ 18,223	\$ 83,415
Loans rated 7	1,886	0	250	1,055
Loans rated 8	1,347	0	1,139	0
Loans rated 9	0	0	0	0
Loans rated 10	0	0	0	0
	\$ 100,196	\$ 1,187	\$ 19,612	\$ 84,470

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Table of Contents

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

	March 31, 2013								
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans	
(Dollars in thousands)									
Originated portfolio:									
Residential real estate	\$ 561	\$ 743	\$ 0	\$ 1,658	\$ 2,962	\$ 79,246	\$ 82,208	\$ 2,296	
Home equity	10	7	0	310	327	37,521	37,848	405	
Commercial real estate	410	364	0	581	1,355	95,821	97,176	631	
Construction	0	0	0	0	0	42	42	0	
Commercial business	0	0	0	44	44	18,416	18,460	103	
Consumer	166	70	0	229	465	13,610	14,075	258	
Total originated portfolio	1,147	1,184	0	2,822	5,153	244,656	249,809	3,693	
Purchased portfolio:									
Residential real estate	0	0	0	0	0	4,238	4,238	0	
Commercial real estate	990	71	0	1,385	2,446	123,818	126,264	1,700	
Total purchased portfolio	990	71	0	1,385	2,446	128,056	130,502	1,700	
Total loans	\$ 2,137	\$ 1,255	\$ 0	\$ 4,207	\$ 7,599	\$ 372,712	\$ 380,311	\$ 5,393	

	June 30, 2012								
	30-59 Days	60-89 Days	Past Due 90 Days or More-Still Accruing	Past Due 90 Days or More-Nonaccrual	Total Past Due	Total Current	Total Loans	Non-Accrual Loans	
(Dollars in thousands)									
Originated portfolio:									
Residential real estate	\$ 261	\$ 183	\$ 0	\$ 2,907	\$ 3,351	\$ 87,593	\$ 90,944	\$ 3,090	
Home equity	16	160	0	136	312	42,384	42,696	220	
Commercial real estate	0	208	0	417	625	99,571	100,196	417	
Construction	0	0	0	0	0	1,187	1,187	0	
Commercial business	0	107	0	901	1,008	18,604	19,612	1,008	
Consumer	259	137	0	206	602	16,547	17,149	324	
Total originated portfolio	536	795	0	4,567	5,898	265,886	271,784	5,059	
Purchased portfolio:									
Residential real estate	0	0	0	0	0	3,931	3,931	0	
Commercial real estate	0	0	0	1,055	1,055	79,484	80,539	1,055	
Total purchased portfolio	0	0	0	1,055	1,055	83,415	84,470	1,055	
Total loans	\$ 536	\$ 795	\$ 0	\$ 5,622	\$ 6,953	\$ 349,301	\$ 356,254	\$ 6,114	

The following table shows loans modified in a TDR for the Fiscal 2013 periods and the change in the recorded investment subsequent to the modifications occurring.

Number of Contracts	Three Months Ended March 31, 2013		Number of Contracts	Nine Months Ended March 31, 2013	
	Recorded Investment Pre-Modification	Recorded Investment Post-Modification		Recorded Investment Pre-Modification	Recorded Investment Post-Modification

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

(Dollars in thousands)

Originated portfolio:										
Residential real estate	5	\$	228	\$	228	9	\$	903	\$	903
Home equity	2		84		84	4		362		362
Commercial real estate										
Construction	1		103		50	1		103		50
Commercial business	0		0		0	0		0		0
Consumer	1		8		8	4		16		16
Total originated portfolio	9		423		370	18		1,384		1,331
Purchased portfolio:										
Residential real estate	0		0		0	0		0		0
Commercial real estate	0		0		0	0		0		0
Total purchased portfolio	0		0		0	0		0		0
Total	9	\$	423	\$	370	18	\$	1,384	\$	1,331

Further, during the first quarter of Fiscal 2013, the Company identified approximately \$1.1 million of residential and consumer loans for which the borrower's obligation had been discharged in bankruptcy in a prior period. Under recent regulatory guidance, these loans are required to be classified as TDRs and are considered collateral dependent impaired loans.

Table of Contents

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

	Three Months Ended March 31, 2013		Nine Months Ended March 31, 2013	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	2	\$ 84	3	\$ 326
Adjusted interest rate	3	84	3	84
Rate and maturity	1	50	8	733
Principal deferment	2	73	2	73
Court ordered concession	1	80	2	116
	9	\$ 371	18	\$ 1,332

The Company considers TDRs past due 90 days or more to be in payment default. One loan modified in a TDR in the last twelve months defaulted during the nine months ended March 31, 2013; the recorded investment of such loan was \$36 thousand. There were no defaults of TDRs modified during the last twelve months during the three months ended March 31, 2013. As of March 31, 2013, there were no further commitments to lend associated with loans modified in a TDR.

The following table shows loans modified in a TDR for the Fiscal 2012 periods and the change in the recorded investment subsequent to the modifications occurring. All concessions given during the period consisted of either rate reductions or maturity extensions, or combinations thereof. There was no forgiveness of principal related to loans modified in a TDR during the period. There were no defaults of loans previously modified in a TDR during the three or nine months ended March 31, 2012.

	Three Months Ended March 31, 2012			Nine Months Ended March 31, 2012		
	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
	(Dollars in thousands)					
Originated portfolio:						
Residential real estate	2	\$ 161	\$ 161	2	\$ 161	\$ 161
Home equity	0	0	0	0	0	0
Commercial real estate	0	0	0	0	0	0
Construction	0	0	0	0	0	0
Commercial business	0	0	0	0	0	0
Consumer	0	0	0	0	0	0
Total originated portfolio	2	161	161	2	161	161
Purchased portfolio:						
Residential real estate	0	0	0	0	0	0
Commercial real estate	0	0	0	0	0	0
Total purchased portfolio	0	0	0	0	0	0
Total	2	\$ 161	\$ 161	2	\$ 161	\$ 161

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

The following table shows the Company's total TDRs as of the dates indicated.

	On Accrual Status	March 31, 2013 On Nonaccrual Status	Total (Dollars in thousands)	On Accrual Status	June 30, 2012 On Nonaccrual Status	Total
Originated portfolio:						
Residential real estate	\$ 1,360	\$ 508	\$ 1,868	\$ 92	\$ 139	\$ 231
Home equity	86	139	225	20	0	20
Commercial real estate	1,077	50	1,127	1,053	0	1,053
Construction	0	0	0	0	0	0
Commercial business	0	0	0	0	0	0
Consumer	113	37	150	0	0	0
Total originated portfolio	2,636	734	3,370	1,165	139	1,304
Purchased portfolio:						
Residential real estate	0	0	0	0	0	0
Commercial real estate	0	0	0	0	0	0
Total purchased portfolio	0	0	0	0	0	0
Total	\$ 2,636	\$ 734	\$ 3,370	\$ 1,165	\$ 139	\$ 1,304

Table of Contents**5. Stock-Based Compensation**

At the 2012 annual meeting of shareholders held on November 28, 2012, the Company's shareholders approved the Northeast Bancorp Amended and Restated 2010 Stock Option and Incentive Plan (the Restated Plan). The Restated Plan amends and restates the Northeast Bancorp 2010 Option and Incentive Plan (the 2010 Plan). The key material differences between the 2010 Plan and the Restated Plan are:

- The maximum number of shares of common stock to be issued under the Restated Plan is increased by 600,000 shares, from 810,054 shares to 1,410,054 shares;
- The method by which shares subject to previously granted awards are added back to the Restated Plan has been revised so that the only shares added back to the Restated Plan are those subject to awards that are forfeited, canceled or otherwise terminated. The following shares shall not be added back to the Restated Plan: (i) shares tendered or held back upon exercise of an option or settlement of an award to cover the exercise price or tax withholding, and (ii) shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right upon exercise thereof.
- Minimum vesting periods are required for grants of restricted stock, restricted stock units and performance share awards; and
- The term of the Restated Plan will now expire on November 28, 2022, while grants of incentive options under the Restated Plan may be made until September 21, 2022.

A summary of stock option activity for the nine months ended March 31, 2013 follows:

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	796,049	\$ 13.98
Granted	395,919	9.38
Exercised	0	0.00
Forfeited	(18,301)	13.40
Outstanding at end of period	1,173,667	12.44
Exercisable	126,714	14.08

The fair value of options granted during the nine months ended March 31, 2013 was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions.

Assumptions:	
Dividend yield	3.86%
Expected life	6.5 years
Expected volatility	30.47%
Risk-free interest rate	1.26%
Weighted average fair value per option	\$ 3.01

Table of Contents

During the quarter ended March 31, 2013, certain provisions of outstanding stock options with market-based conditions were modified. The options, consisting of 237,616 shares, were granted to three executives of the Company in December of 2010 and were to vest in three equal tranches upon the Company's common stock reaching applicable hurdle prices. The applicable hurdle price varies depending on the number of years that have elapsed since the date of grant. With respect to the first tranche, the applicable hurdle price was \$27.86 for the period from December 29, 2010 through December 29, 2015; \$31.34 for the period from December 29, 2015 through December 29, 2016; and \$34.83 for the period from December 29, 2016 through December 29, 2017. With respect to the second tranche, the hurdle price was \$31.34 for the period from December 29, 2010 through December 29, 2016; and \$34.83 for the period from December 29, 2016 through December 29, 2017. With respect to the third tranche, the hurdle price was \$34.83 for the period from December 29, 2010 through December 29, 2017.

The Company's Compensation Committee approved amending the hurdle prices as follows:

With respect to the first tranche, the applicable hurdle price is \$16.43 for the period from December 29, 2010 through December 28, 2015; \$18.58 for the period from December 29, 2015 through December 28, 2016; and \$20.77 for the period from December 29, 2016 through December 28, 2017. With respect to the second tranche, the hurdle price is \$18.58 for the period from December 29, 2010 through December 28, 2016; and \$20.77 for the period from December 29, 2016 through December 28, 2017. With respect to the third tranche, the hurdle price is \$20.77 for the period from December 29, 2010 through December 28, 2017.

Except as modified by this amendment, all other terms and conditions of each of the outstanding performance-based stock options, including the option exercise price of \$13.93 per share, remain in full force and effect.

The incremental expense resulting from the modification was calculated as the difference between the stock option's fair value immediately before and after the modification using the Hull-White option pricing model and the following weighted-average assumptions:

Assumptions:		
Dividend yield		3.72%
Expected life		7.8 years
Expected volatility		28.45% - 32.84%
Risk-free interest rate		0.07% - 1.54%
Incremental weighted average fair value per option	\$	0.52

The following table summarizes information about stock options outstanding at March 31, 2013.

Options Outstanding				Options Exercisable			
(Dollars in thousands, except per share data)							
Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value	Weighted Average Exercise Price	Number	Weighted Average Remaining Life	Aggregate Intrinsic Value
\$ 9.38	395,919	9.8 years	\$ 24	\$ 9.38	0	9.8 years	\$ 0
12.63	32,500	8.8 years	0	12.63	0	8.8 years	0

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

13.93	583,238	7.8 years	0	13.93	94,312	7.8 years	0
14.52	162,010	7.8 years	0	14.52	32,402	7.8 years	0
12.44	1,173,667	8.5 years	\$ 0	14.08	126,714	7.8 years	\$ 0

A summary of restricted stock activity for the nine months ended March 31, 2013 follows:

	Shares		Weighted Average Grant-Date Fair Value
Unvested at beginning of period	13,026	\$	13.93
Granted	63,202		9.33
Vested	(5,210)		13.93
Forfeited	0		0.00
Unvested at end of period	71,018		9.88

At March 31, 2013, the Company has accrued a liability of \$48 thousand representing the maximum cash payment for performance-based stock appreciation rights (SARs) granted in the fiscal year ended June 30, 2011. The SARs expire in December of 2020.

Table of Contents

The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Fiscal Years Ending June 30,						
	2013 (Q4)	2014	2015	2016	2017	2018	Total
	(Dollars in thousands)						
Stock options	\$ 168	\$ 660	\$ 646	\$ 521	\$ 319	\$ 139	\$ 2,453
Restricted stock	39	154	154	133	118	69	667
	\$ 207	\$ 814	\$ 800	\$ 654	\$ 437	\$ 208	\$ 3,120

6. Discontinued Operations

On August 31, 2011, the Company sold customer lists and certain fixed assets of its wholly-owned subsidiary, Northeast Bank Insurance Group, Inc. (NBIG), to local insurance agencies in two separate transactions. The Varney Agency, Inc. of Bangor, Maine, purchased the assets of nine NBIG offices in Anson, Auburn, Augusta, Bethel, Livermore Falls, Scarborough, South Paris, Thomaston and Turner, Maine. The NBIG office in Berwick, Maine, which operates under the name of Spence & Matthews, was acquired by Bradley Scott, previously a member of NBIG's senior management team. The following is a summary of the sale transactions recorded during the nine months ended March 31, 2012 (dollars in thousands).

Sale proceeds	\$	9,863
Less:		
Customer lists and other intangible assets, net		7,379
Fixed assets, net of accumulated depreciation		165
Severance and other direct expenses		768
Pre-tax gain recognized	\$	1,551

Subsequent to March 31, 2012, the Company recognized additional gain on sale of discontinued operations of \$15 thousand representing contingent proceeds received, net of expenses. The total gain on sale of discontinued operations was \$1.6 million for Fiscal 2012.

Operations associated with NBIG for the periods presented have been classified as discontinued operations in the accompanying consolidated statements of income. The Company has eliminated all intercompany transactions in presenting discontinued operations for each period. In connection with the transaction, the Company repaid borrowings associated with NBIG totaling \$2.1 million.

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

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

	Three months Ended March 31,		Nine months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands, except share and per share data)			
Net income	\$ 1,666	\$ 168	\$ 4,215	\$ 1,115
Preferred stock dividends and accretion	0	(98)	(355)	(294)
Net income available to common shareholders	\$ 1,666	\$ 70	\$ 3,860	\$ 821
Weighted average shares used in calculation of basic EPS	10,425,576	3,494,498	10,397,280	3,494,498
Incremental shares from assumed exercise of dilutive securities	0	17,775	0	0
Weighted average shares used in calculation of diluted EPS	10,425,576	3,512,273	10,397,280	3,494,498
Earnings per common share:				
Income (loss) from continuing operations	\$ 0.16	\$ 0.02	\$ 0.37	\$ (0.09)
Income from discontinued operations	0.00	0.00	0.00	0.32
Earnings per common share	\$ 0.16	\$ 0.02	\$ 0.37	\$ 0.23
Diluted earnings per common share:				
Income (loss) from continuing operations	\$ 0.16	\$ 0.02	\$ 0.37	\$ (0.09)
Income from discontinued operations	0.00	0.00	0.00	0.32
Diluted earnings per common share	\$ 0.16	\$ 0.02	\$ 0.37	\$ 0.23

Average anti-dilutive options and warrants excluded from the calculation of dilutive earnings per share follow.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Stock options	1,074,687	796,049	900,514	796,049
Warrants	0	0	40,775	67,958
	1,074,687	796,049	941,289	864,007

Table of Contents

8. Fair Value Measurements

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

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

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

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

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

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

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

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

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

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

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

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

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

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

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

Fair Value of other Financial Instruments:

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

Table of Contents

FHLB and Federal Reserve stock - The carrying value of FHLB stock and Federal Reserve stock approximates fair value based on redemption provisions of the FHLB and the Federal Reserve.

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

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

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

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

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

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

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

	March 31, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
<u>Assets</u>				
Available-for-sale securities				

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

U.S. Government agency securities	\$	45,482	\$	0	\$	45,482	\$	0
Agency mortgage-backed securities		83,067		0		83,067		0
Other assets - interest rate caps		0		0		0		0
Liabilities								
Other liabilities - interest rate swap	\$	452	\$	0	\$	452	\$	0

	June 30, 2012			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Available-for-sale securities				
U.S. Government agency securities	\$	45,808	\$	0
Agency mortgage-backed securities		87,456		0
Other assets - interest rate caps		1		0
Liabilities				
Other liabilities - interest rate swap	\$	580	\$	0

There were no significant transfers between the three levels of the fair value hierarchy for the three and nine months ended March 31, 2013 or 2012.

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Table of Contents

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

	Total	March 31, 2013		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
Impaired loans	\$ 763	\$ 0	\$ 0	\$ 763
Real estate owned and other repossessed collateral	2,038	0	0	2,038

	Total	June 30, 2012		
		Level 1	Level 2	Level 3
(Dollars in thousands)				
Impaired loans	\$ 1,103	\$ 0	\$ 0	\$ 1,103
Real estate owned and other repossessed collateral	834	0	0	834

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

	Carrying Amount	Total	Fair Value Measurements at March 31, 2013		
			Level 1	Level 2	Level 3
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	\$ 142,569	\$ 142,569	\$ 142,569	\$ 0	\$ 0
Available-for-sale securities	128,549	128,549	0	128,549	0
Regulatory stock	5,121	5,121	0	5,121	0
Loans held for sale	7,768	7,775	0	7,775	0
Loans, net	379,278	405,431	0	0	405,431
Accrued interest receivable	1,971	1,971	0	1,971	0
Interest rate caps	0	0	0	0	0
Financial liabilities:					
Deposits	505,586	483,149	0	483,149	0
FHLB advances	33,117	34,830	0	34,830	0
Structured repurchase agreements	25,518	26,373	0	26,373	0
Short-term borrowings	2,360	2,360	0	2,360	0
Capital lease obligation	1,783	2,032	0	2,032	0
Subordinated debentures	8,227	8,206	0	0	8,206
Interest rate swaps	452	452	0	452	0

	Carrying Amount	Total	Fair Value Measurements at June 30, 2012		
			Level 1	Level 2	Level 3
(Dollars in thousands)					
Financial assets:					
Cash and cash equivalents	\$ 128,274	\$ 128,274	\$ 128,274	\$ 0	\$ 0
Available-for-sale securities	133,264	133,264	0	133,264	0
Regulatory stock	5,473	5,473	0	5,473	0
Loans held for sale	9,882	9,896	0	9,896	0
Loans, net	355,430	374,062	0	0	374,062
Accrued interest receivable	1,840	1,840	0	1,840	0
Interest rate caps	1	1	0	1	0

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

<u>Financial liabilities:</u>					
Deposits	422,188	425,782	0	425,782	0
FHLB advances	43,450	45,747	0	45,747	0
Structured repurchase agreements	66,183	67,314	0	67,314	0
Short-term borrowings	1,209	1,209	0	1,209	0
Capital lease obligation	1,911	2,202	0	2,202	0
Subordinated debentures	8,106	8,597	0	0	8,597
Interest rate swaps	580	580	0	580	0

Table of Contents

9. Derivatives and Hedging Activities

The Company has stand alone derivative financial instruments in the form of interest rate caps that derive their value from a fee paid and are adjusted to fair value based on index and strike rate, and a swap agreement that derives its value from the underlying interest rate. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such differences, which represent the fair value of the derivative instruments, are recognized as derivative assets and derivative liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. The Company deals only with primary dealers. The Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty.

The Company currently holds derivative instruments that contain credit-risk related features that are in a net liability position, which may require that collateral be assigned to dealer banks. At March 31, 2013 and June 30, 2012, the Company had cash totaling \$800 thousand in a margin account with the dealer bank associated with its interest rate swap; no additional collateral was necessary at these dates to immediately settle the interest rate swap.

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

Risk Management Policies Hedging Instruments

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

Interest Rate Risk Management Cash Flow Hedging Instruments

The Company uses long-term variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management entered into interest rate caps whereby the Company receives variable interest payments above a specified interest rate and swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments during the

contract period.

The Company holds two interest rate caps that expire on September 30, 2014. The swap agreement provides for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR) in exchange for making payments at a fixed rate.

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

During the three and nine months ended March 31, 2013 and 2012, no interest rate cap or swap agreements were terminated prior to maturity. Changes in the fair value of interest rate caps and swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings. Risk management results for the three and nine months ended March 31, 2013 and 2012 related to the balance sheet hedging of long-term debt indicates that the hedges were effective.

The table below presents amounts recognized in income related to both hedge ineffectiveness and amounts excluded from effectiveness testing.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Interest income (expense):				
Interest rate caps	\$ (8)	\$ (6)	\$ (22)	\$ (13)
Interest rate swap	25	25	76	75
Total	\$ 17	\$ 19	\$ 54	\$ 62

The Company expects to record interest income of \$100 thousand related to interest rate swap ineffectiveness in the next twelve months. The Company expects to record interest expense of \$37 thousand related to its purchased interest rate caps in the next twelve months.

Table of Contents

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

	March 31, 2013		June 30, 2012	
	Interest Rate Caps	Interest Rate Swap	Interest Rate Caps	Interest Rate Swap
	(Dollars in thousands)			
Notional amount	\$ 6,000	\$ 10,000	\$ 6,000	\$ 10,000
Weighted average pay rate		4.69%		4.69%
Weighted average receive rate		2.27%		2.36%
Strike rate based on three month LIBOR	2.51%		2.51%	
Weighted average maturity in years	1.50	1.92	2.25	2.67
Unrealized loss	\$ 49	\$ 262	\$ 69	\$ 315

The following sets forth the fair values and location of derivatives designated as hedging instruments.

Asset Derivatives	March 31, 2013 (Dollars in thousands)	
	Balance Sheet Location	Fair Value
Interest rate caps	Other assets	\$ 0

Liability Derivatives	March 31, 2013 (Dollars in thousands)	
	Balance Sheet Location	Fair Value
Interest rate swap	Other liabilities	\$ 452

Asset Derivatives	June 30, 2012 (Dollars in thousands)	
	Balance Sheet Location	Fair Value
Interest rate caps	Other assets	\$ 1

Liability Derivatives	June 30, 2012 (Dollars in thousands)	
	Balance Sheet Location	Fair Value
Interest rate swap	Other liabilities	\$ 580

Table of Contents**10. Other Comprehensive Loss**

The components of other comprehensive loss follow.

	Three Months Ended March 31,					
	Pre-tax Amount	2013 Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	2012 Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	\$ (164)	\$ (55)	\$ (109)	\$ (687)	\$ (234)	\$ (453)
Reclassification adjustment for net gains included in net income	0	0	0	(731)	(249)	(482)
Total available-for-sale securities	(164)	(55)	(109)	(1,418)	(483)	(935)
Change in accumulated loss on effective cash flow hedges	62	21	41	12	4	8
Reclassification adjustment for net gains included in net income	(17)	(6)	(11)	(19)	(5)	(14)
Total derivatives and hedging activities	45	15	30	(7)	(1)	(6)
Total other comprehensive loss	\$ (119)	\$ (40)	\$ (79)	\$ (1,425)	\$ (484)	\$ (941)

	Nine Months Ended March 31,					
	Pre-tax Amount	2013 Tax Expense (Benefit)	After-tax Amount	Pre-tax Amount	2012 Tax Expense (Benefit)	After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	\$ (318)	\$ (108)	\$ (210)	\$ 676	\$ 230	\$ 446
Reclassification adjustment for net gains included in net income	(792)	(270)	(522)	(1,111)	(378)	(733)
Total available-for-sale securities	(1,110)	(378)	(732)	(435)	(148)	(287)
Change in accumulated loss on effective cash flow hedges	127	43	84	(132)	(45)	(87)
Reclassification adjustment for net gains included in net income	(54)	(18)	(36)	(62)	(21)	(41)
Total derivatives and hedging activities	73	25	48	(194)	(66)	(128)
Total other comprehensive loss	\$ (1,037)	\$ (353)	\$ (684)	\$ (629)	\$ (214)	\$ (415)

Accumulated other comprehensive (loss) income is comprised of the following.

	March 31, 2013	June 30, 2012
	(Dollars in thousands)	
Unrealized (loss) gain on available-for-sale securities	\$ (486)	\$ 624
Tax effect	165	(212)
Net-of-tax amount	(321)	412
Unrealized loss on cash flow hedges	(311)	(384)
Tax effect	106	130

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Net-of-tax amount		(205)		(254)
Accumulated other comprehensive (loss)				
income	\$	(526)	\$	158

Table of Contents

11. Stockholders Equity

Troubled Asset Relief Capital Purchase Program

During the quarter ended December 31, 2012, the Company paid \$4.2 million to redeem, at par value, all shares of preferred stock issued to the U.S. Department of the Treasury (the UST) under the Troubled Asset Relief Program (TARP). The Company also repurchased the warrant for 67,958 shares of common stock issued to the UST in connection with TARP for \$95 thousand during the quarter ended December 31, 2012.

Authorized Shares

At the 2012 annual meeting of shareholders held on November 28, 2012, the Company s shareholders approved an amendment (the Amendment) to the Company s Amended and Restated Articles of Incorporation, as amended. The Amendment increased (i) the authorized shares of voting common stock, par value \$1.00 per share, from 13,500,000 to 25,000,000 shares, and (ii) the authorized shares of non-voting common stock, par value \$1.00 per share, from 1,500,000 to 3,000,000 shares. As a result, the total number of authorized shares of all classes of stock, including 1,000,000 shares of preferred stock, increased from 16,000,000 to 29,000,000 shares.

Table of Contents**12. Commitments and Contingencies**Commitments

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

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

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

	March 31, 2013		June 30, 2012
	(Dollars in thousands)		
Commitments to originate loans:			
Residential real estate mortgages	\$ 17,414	\$	10,279
Construction loans	0		106
Consumer	0		25
Commercial real estate mortgages	0		361
Commercial business loans	660		1,145
	\$ 18,074	\$	11,916
Unused lines of credit	\$ 31,915	\$	36,276
Standby letters of credit	417		602
Unadvanced portions of construction loans	0		162

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

Contingencies

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

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

In August 2011, the Bank received a summons and complaint in TSM Properties, LLC v. Northeast Bank and Daniel G. Thompson, Docket No. BCD-CV-12-10, State of Maine Superior Court Business and Consumer Docket sitting in Portland, Cumberland County, Maine, in connection with a dispute regarding transfers of money that involves the Bank. Damages sought include \$2.2 million and additional unspecified amounts. The Bank intends to vigorously defend against these claims. While it is not feasible to predict or determine the outcome of these proceedings, the Company believes that a loss resulting from an adverse outcome to this matter is reasonably possible, though the amount of the loss is not determinable at this time. As such, the Company has not established a reserve against potential damages arising from this matter.

Table of Contents

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

The following discussion should be read in conjunction with the consolidated financial statements, notes and tables included in Northeast Bancorp's Annual Report on Form 10-K for the fiscal year ended June 30, 2012, filed with the Securities and Exchange Commission.

A Note about Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to the Company's financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss allowance adequacy, simulation of changes in interest rates, capital spending and finance sources and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as believe, expect, estimate, anticipate, continue, plan, approximately, intend, objective, goal, project, or other similar terms or variations, the future or conditional verbs such as will, may, should, could, and would. Although the Company believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Company cannot give you any assurance that its expectations will, in fact, occur or that its estimates or assumptions will be correct. The Company cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of a continuing 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 the Company's loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; changes in government regulation; the risk that the Company may not be successful in the implementation of its business strategy; the risk that intangibles recorded in the Company's financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 as updated in the Company's Quarterly Reports on Form 10-Q and other filings submitted to the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this report and the Company does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

Description of Business and Strategy

Business Overview

Northeast Bancorp (we, our, us, Northeast or the Company), a Maine corporation chartered in April 1987, is a bank holding company registered with the Board of Governors of the Federal Reserve System (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). The Bank, which was originally organized in 1872 as a Maine-chartered mutual savings bank and was formerly known as Bethel Savings Bank F.S.B., is a Maine state-chartered bank and a member of the Federal Reserve System. As such, the Company and the Bank are currently subject to the regulatory oversight of the Federal Reserve and the State of Maine Bureau of Financial Institutions (the Bureau).

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 and the Bureau, 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. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve and the Bureau.

As of March 31, 2013, the Company, on a consolidated basis, had total assets of \$699.6 million, total deposits of \$505.6 million, and stockholders' equity of \$115.7 million. The Company gathers retail deposits through its Community Banking Division's banking offices in Maine and through its online affinity deposit program, ableBanking; originates loans through its Community Banking Division; and purchases primarily performing commercial real estate loans at a discount and, to a lesser extent, originates commercial loans through the

Table of Contents

Bank's Loan Acquisition and Servicing Group (LASG). The Company operates the Community Banking Division from Lewiston, Maine, which operates ten full-service branches, some with investment centers, and five loan production offices that serve individuals and businesses located in western and south-central Maine, southern New Hampshire, and southeastern Massachusetts. The Company operates ableBanking and the LASG from its offices in Boston, Massachusetts.

In August of 2011, the Company sold the customer lists and certain other assets of its insurance agency division, Northeast Bank Insurance Group (NBIG). The operations of NBIG have been reported as discontinued operations in the consolidated financial statements and in the discussion herein.

In May of 2012, the Company raised net proceeds of \$52.7 million through the sale of shares of its common stock.

During the quarter ended December 31, 2012, the Company redeemed, at par value, all shares of preferred stock issued to the U.S. Department of the Treasury (the UST) under the Troubled Asset Relief Program (TARP). The Company also repurchased the warrant for 67,958 shares of common stock issued to the UST in connection with TARP for \$95 thousand during the quarter ended December 31, 2012.

Unless the context otherwise requires, references herein to the Company include the Company and its subsidiary, the Bank, 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 the purchased loan portfolio. The LASG purchases primarily performing commercial real estate loans, on a nationwide basis, at a discount from their outstanding principal balances, producing yields higher than those normally achieved on our originated loan portfolio. To a lesser extent, the LASG originates commercial loans opportunistically on a nationwide basis.

Loans are purchased on a nationwide basis from a variety of sources, including banks, insurance companies, investment funds and government agencies, either directly or indirectly through a broker. We expect that loans purchased by the LASG will, subject to compliance with applicable regulatory commitments, represent an increasing percentage of our total loan portfolio in the future.

Focus on core deposits. The Bank offers a full line of deposit products to customers in the Community Banking Division's market area through its ten-branch network. In addition, we launched our online affinity deposit program, ableBanking, a division of Northeast Bank, to the public in the quarter ended June 30, 2012. One of the Company's strategic goals is for ableBanking to provide an additional channel through which to raise

core deposits to fund the acquisition of loans by the LASG.

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 is expected to allow us to attract and retain core deposits in support of balance sheet growth, and to continue to generate new loans, particularly through the efforts of the residential mortgage origination team.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. The reader is encouraged to review each of the policies included in Form 10-K for the year ended June 30, 2012 to gain a better understanding of how Northeast's financial performance is measured and reported. There has been no material change in critical accounting policies during the nine months ended March 31, 2013.

Table of Contents

Overview

Net income was \$1.7 million for the quarter ended March 31, 2013, compared to \$168 thousand for the quarter ended March 31, 2012. Net income for the nine months ended March 31, 2013 was \$4.2 million, compared to \$1.1 million for the nine months ended March 31, 2012. Net income for the nine months ended March 31, 2012 included \$1.1 million from discontinued operations.

Net income available to common stockholders was \$1.7 million, or \$0.16 per diluted common share, for the quarter ended March 31, 2013, compared to \$70 thousand, or \$0.02 per diluted common share, for the quarter ended March 31, 2012. Net income available to common stockholders for the nine months ended March 31, 2013 was \$3.9 million, or \$0.37 per diluted common share, compared to \$821 thousand, or \$0.23 per diluted common share, for the nine months ended March 31, 2012. Weighted average shares outstanding increased to 10.4 million shares in each of the current year periods from 3.5 million shares in the Fiscal 2012 periods principally as a result of the Company's public offering of common stock in May 2012.

Net interest and dividend income increased by \$3.5 million, or 73.6%, to \$8.3 million for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012, principally due to growth in the purchased loan portfolio. This result is evident in the net interest margin, which increased to 5.07% for the quarter ended March 31, 2013, compared to 3.44% for the quarter ended March 31, 2012.

Noninterest income increased by \$653 thousand, or 23.8%, to 3.4 million for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012, principally due to gains of \$1.2 million from sales of LASG-purchased loans partially offset by lower security gains of \$731 thousand.

Noninterest expense increased by \$1.6 million, or 22.1%, to \$8.8 million for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012, principally due to an increase of \$1.2 million in employee compensation resulting from higher incentive compensation and staffing levels.

Table of Contents

Financial Condition

Overview

Total assets increased by \$30.4 million, or 4.5%, to \$699.6 million at March 31, 2013, compared to June 30, 2012. The principal components of the change in the balance sheet were as follows:

1. The loan portfolio grew by \$24.1 million, or 6.8%, principally due to net growth of \$58.9 million in commercial loans purchased or originated by the LASG, offset by net amortization and payoffs of \$34.8 million in the Community Banking Division loan portfolio.
2. Deposits increased by \$83.4 million, or 19.8%, due primarily to a \$68.0 million increase in deposits raised through ableBanking. At March 31, 2013, ableBanking deposits stood at \$70.8 million, consisting of \$37.2 million of time deposits and \$33.5 million of money market accounts.
3. Borrowings decreased by \$49.9 million, or 41.2%, as a result of the repayment at maturity of structured repurchase agreements and FHLB advances.
4. Stockholders' equity decreased by \$3.4 million, or 2.9%, primarily due to the redemption of TARP preferred stock and warrants totaling \$4.3 million in the quarter ended December 31, 2012.

Assets

Cash, Short-term Investments and Securities

Cash and short-term investments were \$142.6 million as of March 31, 2013, an increase of \$14.3 million, or 11.1%, from \$128.3 million at June 30, 2012. This increase is principally due to deposit growth of \$83.4 million, offset by the result of the following: (i) net loan growth of \$24.1 million, (ii) net reduction in borrowed funds of \$49.9 million, and (iii) a net reduction in stockholders' equity of \$3.4 million, principally due to the redemption of TARP preferred stock and warrants.

Available-for-sale securities, consisting of securities issued by government agencies and government-sponsored enterprises, totaled \$128.5 million as of March 31, 2013. At March 31, 2013, securities with a fair value of \$50.2 million were pledged for outstanding borrowings.

Loan Portfolio

Total loans, excluding loans held for sale, amounted to \$380.3 million as of March 31, 2013, an increase of \$24.1 million, or 6.8%, from \$356.3 million as of June 30, 2012. The increase consisted of growth in the purchased loan portfolio of \$46.0 million, partially offset by a \$21.9 million decrease in originated loans. The net decrease in originated loans consisted of a \$34.8 million decrease in loans originated by the Community Banking Division and a net increase of \$12.9 million of LASG-originated commercial loans. The decrease in Community Banking Division loans was principally due to net runoff in residential and commercial real estate loan portfolios.

Table of Contents

The composition of the Company's loan portfolio follows.

March 31, 2013						
	Community Banking Division		LASG		Total	Percent of Total
(Dollars in thousands)						
Originated loans:						
Residential real estate	\$ 82,058	\$	150	\$	82,208	21.62%
Home equity	37,848		0		37,848	9.95%
Commercial real estate	84,812		12,364		97,176	25.56%
Construction	42		0		42	0.01%
Commercial business	13,070		5,390		18,460	4.85%
Consumer	14,075		0		14,075	3.70%
Subtotal	231,905		17,904		249,809	65.69%
Purchased loans:						
Residential real estate	0		4,238		4,238	1.11%
Commercial real estate	0		126,264		126,264	33.20%
Subtotal	0		130,502		130,502	34.31%
Total	\$ 231,905	\$	148,406	\$	380,311	100.00%

June 30, 2012						
	Community Banking Division		LASG		Total	Percent of Total
(Dollars in thousands)						
Originated loans:						
Residential real estate	\$ 90,793	\$	151	\$	90,944	25.53%
Home equity	42,696		0		42,696	11.98%
Commercial real estate	97,146		3,050		100,196	28.12%
Construction	1,187		0		1,187	0.33%
Commercial business	17,732		1,880		19,612	5.51%
Consumer	17,149		0		17,149	4.81%
Subtotal	266,703		5,081		271,784	76.28%
Purchased loans:						
Residential real estate	0		3,931		3,931	1.10%
Commercial real estate	0		80,539		80,539	22.62%
Subtotal	0		84,470		84,470	23.72%
Total	\$ 266,703	\$	89,551	\$	356,254	100.00%

Compared to the quarter ended December 31, 2012, the Bank's LASG loan portfolio declined \$1.3 million, reflecting purchases and originations of \$11.3 million and \$2.8 million, respectively, offset by loan payoffs and asset sales totaling \$15.4 million. Loan payoffs and asset sales during the quarter ended March 31, 2013 resulted in \$4.1 million of transactional income, compared to \$1.9 million in the quarter ended December 31, 2012 and \$493 thousand in the quarter ended March 31, 2012.

Loan purchases by the LASG are subject to two regulatory conditions, which are summarized below, together with the remaining purchasing capacity available under each of these conditions:

Basis for Regulatory Condition	Condition	Remaining Purchased Loan Capacity at March 31, 2013
---	------------------	--

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

		(Dollars in millions)	
Total Loans	Purchased loans may not exceed 40% of total loans.	\$	41.2
Regulatory Capital	Commercial real estate loans may not exceed 300% of total risk-based capital.	\$	141.7

To increase its capacity under the Total Loans regulatory condition, the Company is currently holding in its portfolio, as necessary and on a duration matched basis, residential fixed and adjustable rate loans that would otherwise be sold in the secondary market. The Company estimates that it will retain in portfolio approximately 75% of its future quarterly residential mortgage production. Total mortgage loan production over the past four quarters has averaged \$36 million.

Table of Contents

An overview of the LASG portfolio follows:

	LASG Portfolio Overview					
	Three Months Ended March 31, 2013			Nine Months Ended March 31, 2013		
	Purchased	Originated	Total LASG	Purchased	Originated	Total LASG
	(Dollars in thousands)					
Purchased or originated during the period:						
Unpaid principal balance	\$ 13,971	\$ 2,800	\$ 16,771	\$ 103,539	\$ 15,625	\$ 119,164
Net investment basis	11,340	2,827	14,167	75,553	15,652	91,205
Totals as of period end:						
Unpaid principal balance				\$ 166,360	\$ 17,871	\$ 184,231
Net investment basis				130,502	17,904	148,406
Returns during the period:						
Yield	17.76%	9.43%	16.84%	15.52%	9.55%	14.89%
Total Return (1)	22.02%	9.43%	20.64%	18.66%	9.55%	17.70%

(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.

Classification of Assets

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

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

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

Table of Contents

The following table details the Company's nonperforming assets and other credit quality indicators as of March 31, 2013 and June 30, 2012. The net increase in nonperforming assets during the nine months ended March 31, 2013 was principally due to a net increase in nonperforming LASG loans of \$645 thousand. Management believes that, based on their carrying amounts, nonperforming assets are well secured based on the estimated fair value of underlying collateral.

Non-Performing Assets at March 31, 2013

	Community Banking Division	LASG (Dollars in thousands)	Total
Loans:			
Residential real estate	\$ 2,296	\$ 0	\$ 2,296
Home equity	405	0	405
Commercial real estate	631	1,700	2,331
Construction	0	0	0
Commercial business	103	0	103
Consumer	258	0	258
Subtotal	3,693	1,700	5,393
Real estate owned and other repossessed collateral	2,038	0	2,038
Total	\$ 5,731	\$ 1,700	\$ 7,431
Ratio of nonperforming loans to total loans			1.42%
Ratio of nonperforming assets to total assets			1.06%
Ratio of loans past due to total loans			2.00%
Nonperforming loans that are current			\$ 604
Commercial loans risk rated substandard or worse			\$ 3,341
Troubled debt restructurings:			
On accrual status			\$ 2,636
On nonaccrual status			\$ 734

Non-Performing Assets at June 30, 2012

	Community Banking Division	LASG (Dollars in thousands)	Total
Loans:			
Residential real estate	\$ 3,090	\$ 0	\$ 3,090
Home equity	220	0	220
Commercial real estate	417	1,055	1,472
Construction	0	0	0
Commercial business	1,008	0	1,008
Consumer	324	0	324
Subtotal	5,059	1,055	6,114
Real estate owned and other repossessed collateral	834	0	834
Total	\$ 5,893	\$ 1,055	\$ 6,948
Ratio of nonperforming loans to total loans			1.72%
Ratio of nonperforming assets to total assets			1.04%
Ratio of loans past due to total loans			1.95%
Nonperforming loans that are current			\$ 377
Commercial loans risk rated substandard or worse			\$ 2,486
Troubled debt restructurings:			
On accrual status			\$ 1,165
Nonaccrual status			\$ 139

Table of Contents*Allowance for Loan Losses*

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

The Company's allowance for loan losses was \$1.0 million as of March 31, 2013, which represents an increase of \$209 thousand from \$824 thousand as of June 30, 2012. The increase during the nine months ended March 31, 2013 was principally due to an increase in specific reserves on TDRs.

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

	March 31, 2013	June 30, 2012	March 31, 2012
Allowance for loan losses to nonperforming loans	19.15%	13.48%	14.44%
Allowance for loan losses to total loans	0.27%	0.23%	0.22%

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

Other Assets

The cash surrender value of the Company's bank-owned life insurance (BOLI) assets decreased \$29 thousand, or 0.2%, to \$14.3 million at March 31, 2013 as compared to June 30, 2012. The decrease during the period represents earnings of \$599 thousand, offset by death benefit proceeds received of \$628 thousand. Increases in cash surrender value are recognized in other income and are not subject to income taxes. Borrowing on or surrendering a policy may subject the Company to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 11.6% of the Company's total risk-based capital at March 31, 2013.

Intangible assets totaled \$3.8 million and \$4.5 million at March 31, 2013 and June 30, 2012, respectively. The \$736 thousand decrease was the result of core deposit intangible asset amortization during the period.

Deposits, Borrowed Funds, Capital Resources and Liquidity

Deposits

The Company's principal source of funding is its core deposit accounts. At March 31, 2013, non-maturity accounts and certificates of deposit with balances less than \$250 thousand represented 98.5% of total deposits.

Total deposits increased \$83.4 million to \$505.6 million as of March 31, 2013 from \$422.2 million as of June 30, 2012. The increase was the result of a \$68.0 million increase in deposits raised through ableBanking, the Bank's online affinity deposit platform. The composition of total deposits at March 31, 2013 and June 30, 2012 follows.

	March 31, 2013		June 30, 2012	
	Amount	% of Total (Dollars in thousands)	Amount	% of Total
Demand deposits	\$ 46,783	9.25%	\$ 45,323	10.74%
NOW accounts	56,754	11.23%	57,477	13.61%
Regular and other savings	32,641	6.46%	32,727	7.75%
Money market deposits	83,128	16.44%	45,024	10.66%
Total non-certificate accounts	219,306	43.38%	180,551	42.76%
Term certificates less than \$250 thousand	278,695	55.12%	232,948	55.18%
Term certificates of \$250 thousand or more	7,585	1.50%	8,689	2.06%
Total certificate accounts	286,280	56.62%	241,637	57.24%
Total deposits	\$ 505,586	100.00%	\$ 422,188	100.00%

Borrowed Funds

Advances from the FHLB were \$33.1 million and \$43.5 million at March 31, 2013 and June 30, 2012, the reduction principally the result of \$10.0 million in maturing advances repaid during the period. At March 31, 2013, the Company had pledged investment securities with a fair value of \$18.3 million, as well as certain residential real estate loans, commercial real estate loans, and FHLB deposits free of liens or pledges to secure outstanding advances and available additional borrowing capacity.

Structured repurchase agreements were \$25.5 million and \$66.2 million at March 31, 2013 and June 30, 2012, respectively. During the nine months ended March 31, 2013, the Company repaid at maturity structured repurchase agreements totaling \$40.0 million. At March

Table of Contents

31, 2013, the Company had pledged investment securities with a fair value of \$28.9 million as collateral for outstanding structured repurchase agreements.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were \$2.4 million and \$1.2 million as of March 31, 2013 and June 30, 2012, respectively. At March 31, 2013, short term borrowings were secured by a letter of credit issued by the FHLB totaling \$2.0 million and an investment security with a fair value of \$3.0 million.

Liquidity

The following table is a summary of the liquidity the Company had the ability to access as of March 31, 2013, in addition to traditional retail deposit products.

Brokered time deposits	\$	174,894	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston		13,100	Subject to eligible and qualified collateral
Federal Reserve Discount Window Borrower-in-Custody		125	Subject to the pledge of indirect auto loans
Total unused borrowing capacity		188,119	
Unencumbered investment securities		78,360	
Total sources of liquidity	\$	266,479	

Retail deposits and other core deposit sources including deposit listing services are used by the Company to manage its overall liquidity position. While the Company currently does not seek wholesale funding such as FHLB advances and brokered deposits, the ability to raise them remains an important part of its liquidity contingency planning. While management closely monitors and forecasts the Company's liquidity position, it is affected by asset growth, deposit withdrawals and other contractual obligations and commitments. The accuracy of management's forecast assumptions may increase or decrease the Company's overall available liquidity.

At March 31, 2013, the Company had \$266.5 million of immediately accessible liquidity, defined as cash that could be raised within seven days through collateralized borrowings, brokered deposits or security sales. This position represented 38.1% of total assets. The Company also had \$142.6 million of cash and cash equivalents at March 31, 2013. This relatively high level of short-term liquidity is intended, in part, for future purchases of commercial loans by the LASG.

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

Capital

The carrying amount and unpaid principal balance of junior subordinated debentures totaled \$8.2 million and \$16.5 million, respectively, as of March 31, 2013. This debt represents qualifying Tier 1 capital for the Company, up to a maximum of 25% of total Tier 1 capital. At March 31, 2013, the carrying amounts of the junior subordinated notes, net of the Company's \$496 thousand investment in the affiliated trusts, qualified as Tier 1 capital.

Total stockholders' equity was \$115.7 million and \$119.1 million at March 31, 2013 and June 30, 2012, respectively. The change reflects net income for the period, repayment of TARP preferred stock and warrants, dividends paid, and other comprehensive loss during the period. Book value per outstanding common share was \$11.08 at March 31, 2013 and \$11.07 at June 30, 2012. Tier 1 capital to total average assets of the Company was 17.41% as of March 31, 2013 and 19.91% at June 30, 2012.

In addition to the risk-based capital requirements, the Federal Reserve requires top-rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Company), the minimum leverage capital ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels.

The Federal Reserve's capital adequacy standards also apply to state-chartered banks that are members of the Federal Reserve System, such as the Bank. Moreover, the Federal Reserve has promulgated corresponding regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act. Under these regulations, a bank is well capitalized if it has: (i) a total risk-based capital ratio of 10.0% or greater; (ii) a Tier 1 risk-based capital ratio of 6.0% or greater; (iii) 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. A bank is adequately capitalized if it has: (1) a total risk-based capital ratio of 8.0% or greater; (2) a Tier 1 risk-based capital ratio of 4.0% or greater; and (3) a leverage capital ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a well capitalized bank.

The Federal Reserve also must take into consideration: (i) concentrations of credit risk; (ii) interest rate risk; and (iii) risks from non-traditional activities, as well as an institution's ability to manage those risks when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. The Bank is currently considered well-capitalized under all regulatory definitions.

Table of Contents

Further, the Bank and the Company are subject to capital commitments with the Federal Reserve and the Bureau that require higher minimum capital ratios. These commitments require that the Company and the Bank (i) maintain a Tier 1 leverage ratio of at least 10%, (ii) maintain a total risk-based capital ratio of at least 15%. The Bank and the Company were in compliance with these commitments at March 31, 2013.

The Company's and the Bank's regulatory capital ratios are set forth below.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Correction Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
March 31, 2013:						
Total capital to risk weighted assets:						
Company	\$ 122,549	30.71%	\$ 31,925	≥8.0%	\$ N/A	N/A
Bank	99,346	24.84%	31,991	≥8.0%	39,989	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	121,516	30.45%	15,963	≥4.0%	N/A	N/A
Bank	95,114	23.78%	15,996	≥4.0%	23,994	≥6.0%
Tier 1 capital to average assets:						
Company	121,516	17.41%	27,914	≥4.0%	N/A	N/A
Bank	95,114	13.71%	27,760	≥4.0%	34,700	≥5.0%
June 30, 2012:						
Total capital to risk weighted assets:						
Company	\$ 124,452	33.34%	\$ 29,863	≥8.0%	\$ N/A	N/A
Bank	75,081	20.14%	29,824	≥8.0%	37,280	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	123,628	33.12%	14,931	≥4.0%	N/A	N/A
Bank	70,414	18.89%	14,910	≥4.0%	22,365	≥6.0%
Tier 1 capital to average assets:						
Company	123,628	19.91%	24,837	≥4.0%	N/A	N/A
Bank	70,414	11.43%	24,642	≥4.0%	30,802	≥5.0%

Off-balance Sheet Financial Instruments

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

See Part I, Item I, Notes to Unaudited Consolidated Financial Statements Note 12: Commitments and Contingencies for further discussion.

Table of ContentsResults of Operations – Continuing Operations*General*

Net income was \$1.7 million for the quarter ended March 31, 2013, compared to \$154 thousand for the quarter ended March 31, 2012. Net income for the nine months ended March 31, 2013 was \$4.2 million, compared to a net loss of \$22 thousand for the nine months ended March 31, 2012.

In both the quarter and nine months ended March 31, 2013, higher average balances in the Company's purchased loan portfolio and transactional income from unscheduled loan payoffs and asset sales contributed significantly to increased net interest income and overall earnings, compared to the same periods in Fiscal 2012. Increases in both net interest income and noninterest income in the current year periods were partially offset by higher levels of noninterest expense, principally due to increased employee headcount, incentive compensation, and other operating expenses associated with implementation of the Company's business strategy over the past twelve months.

The following table details the total return on purchased loans, which includes transactional income of \$4.1 million for the quarter and \$7.8 million for the nine months ended March 31, 2013. This compares to transactional income of \$493 thousand and \$975 for the quarter and nine months ended March 31, 2012, respectively.

	Total Return on Purchased Loans							
	Three Months Ended March 31, 2013		2012		Nine Months Ended March 31, 2013		2012	
	Income	Return (1)	Income	Return (1)	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)							
Regularly scheduled interest and accretion	\$ 3,043	9.40%	\$ 1,298	10.10%	\$ 7,813	9.35%	\$ 2,374	10.78%
Transactional income:								
Gains on loan sales	1,218	3.76%	219	1.70%	2,035	2.44%	219	0.99%
Gain on sale of real estate owned	211	0.65%	0	0.00%	684	0.82%	0	0.00%
Other noninterest income	0	0.00%	0	0.00%	36	0.04%	0	0.00%
Accelerated accretion and loan fees	2,653	8.20%	274	2.13%	5,017	6.01%	756	3.43%
Total transactional income	4,082	12.61%	493	3.83%	7,772	9.30%	975	4.42%
Total	\$ 7,125	22.02%	\$ 1,791	13.94%	\$ 15,585	18.66%	\$ 3,349	15.20%

(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.

Table of Contents**Net Interest Income***Three Months Ended March 31, 2013 and 2012*

Net interest income for the three months ended March 31, 2013 and 2012 was \$8.3 million and \$4.8 million, respectively. The increase of \$3.5 million was largely attributable to growth in the LASG loan portfolio, which earned an average yield of 16.8% for the quarter ended March 31, 2013 on an average outstanding balance of \$146.2 million. The following table summarizes interest income and related yields recognized on the Company's loans.

	Average Balance	2013 Interest Income	Three Months Ended March 31,			2012 Interest Income	Yield
			Yield	Average Balance	(Dollars in thousands)		
Community Banking Division	\$ 244,397	\$ 3,529	5.86%	\$ 293,413	\$ 4,211	5.77%	
LASG:							
Originated	16,167	376	9.43%	3,687	87	9.49%	
Purchased	130,045	5,696	17.76%	51,677	1,572	12.23%	
Total LASG	146,212	6,072	16.84%	55,364	1,659	12.05%	
Total	\$ 390,609	\$ 9,601	9.97%	\$ 348,777	\$ 5,870	6.77%	

In the quarter ended March 31, 2013, net interest income was negatively affected by a lower level of noncash accretion of fair value adjustments resulting from the merger than in the comparable Fiscal 2012 quarter. The effect of such accretion will continue to diminish as financial instruments held at the merger mature or prepay. The following table summarizes the effects of such accretion.

	Average Balance	2013 Income (Expense)	Three Months Ended March 31,			2012 Income (Expense)	Effect on Yield / Rate
			Effect on Yield / Rate	Average Balance	(Dollars in thousands)		
Interest-earning assets:							
Investment securities	\$ 131,006	\$ 0	0.00%	\$ 132,681	\$ (8)	-0.02%	
Loans	390,609	66	0.07%	348,777	8	0.01%	
Other interest-earning assets	138,416	0	0.00%	73,584	0	0.00%	
Total interest-earning assets	\$ 660,031	\$ 66	0.04%	\$ 555,042	\$ 0	0.00%	
Interest-bearing liabilities:							
Interest-bearing deposits	\$ 455,700	\$ 221	0.20%	\$ 357,949	\$ 286	0.32%	
Short-term borrowings	1,889	0	0.00%	1,321	0	0.00%	
Borrowed funds	64,212	216	1.36%	112,468	570	2.04%	
Junior subordinated debentures	8,205	(41)	-2.03%	8,047	(37)	-1.85%	
Total interest-bearing liabilities	\$ 530,006	\$ 396	0.30%	\$ 479,785	\$ 819	0.69%	

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

Total effect of noncash
accretion on:

Net interest income	\$	462	\$	819
Net interest margin		0.28%		0.59%

In the quarter ended March 31, 2013 and 2012, interest expense was \$1.7 million and \$1.6 million, respectively. The increase of \$69 thousand was principally volume related, as total average interest-bearing liabilities increased \$50.2 million offset by a 6 basis point decrease in the cost of such liabilities.

Table of Contents

The Company's interest rate spread and net interest margin increased by 156 basis points and 163 basis points, respectively, for the quarter ended March 31, 2013 compared to the quarter ended March 31, 2012. These increases were principally the result of the aforementioned increase in purchased loans. The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for the three months ended March 31, 2013 and 2012.

	Three Months Ended March 31,					
	Average Balance	2013 Interest Income/Expense	Average Yield/Rate	Average Balance	2012 Interest Income/Expense	Average Yield/Rate
(Dollars in thousands)						
Assets:						
Interest-earning assets:						
Investment securities (1)	\$ 131,006	\$ 234	0.72%	\$ 132,681	\$ 422	1.28%
Loans (2) (3)	390,609	9,601	9.97%	348,777	5,870	6.77%
Regulatory stock	5,391	4	0.30%	5,697	15	1.06%
Short-term investments (4)	133,025	81	0.25%	67,887	45	0.27%
Total interest-earning assets	660,031	9,920	6.10%	555,042	6,352	4.60%
Cash and due from banks	3,184			2,881		
Other non-interest earning assets	36,694			35,651		
Total assets	\$ 699,909			\$ 593,574		
Liabilities & Stockholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	\$ 55,068	\$ 36	0.27%	\$ 54,242	\$ 48	0.36%
Money market accounts	70,613	102	0.59%	43,602	38	0.35%
Savings accounts	32,464	11	0.14%	32,923	12	0.15%
Time deposits	297,555	935	1.27%	227,182	777	1.38%
Total interest-bearing deposits	455,700	1,084	0.96%	357,949	875	0.98%
Short-term borrowings	1,889	4	0.86%	1,321	7	2.13%
Borrowed funds	64,212	389	2.46%	112,468	528	1.89%
Junior subordinated debentures	8,205	190	9.39%	8,047	188	9.40%
Total interest-bearing liabilities	530,006	1,667	1.28%	479,785	1,598	1.34%
Interest-bearing liabilities of discontinued operations (5)	0			0		
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	48,426			44,249		
Other liabilities	5,921			3,972		
Total liabilities	584,353			528,006		
Stockholders' equity	115,556			65,568		
Total liabilities and stockholders' equity	\$ 699,909			\$ 593,574		
Net interest income		\$ 8,253			\$ 4,754	
Interest rate spread			4.82%			3.26%
Net interest margin (6)			5.07%			3.44%

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

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

- (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 FRB reserves, FHLB Ideal Way and other interest-bearing deposits.
- (5) The effect of interest-bearing liabilities associated with discontinued operations has been excluded from the calculation of average rates paid, interest rate spread, and net interest margin.
- (6) Net interest margin is calculated as net interest income divided by total interest-earning assets.

Table of Contents

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.

	Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012		
	Change Due to Volume	Change Due to Rate	Total Change
(Dollars in thousands)			
Interest earning assets:			
Investments securities	\$ (5)	\$ (183)	\$ (188)
Loans	755	2,976	3,731
Regulatory stock	(1)	(10)	(11)
Short-term investments	40	(4)	36
Total increase in interest income	789	2,779	3,568
Interest bearing liabilities:			
Interest bearing deposits	258	(49)	209
Short-term borrowings	2	(5)	(3)
Borrowed funds	(267)	128	(139)
Junior subordinated debentures	2	0	2
Total increase in interest expense	(5)	74	69
Total increase in net interest and dividend income	\$ 794	\$ 2,705	\$ 3,499

Nine Months Ended March 31, 2013 and 2012

Net interest income for the nine months ended March 31, 2013 and 2012 was \$21.4 million and \$13.9 million, respectively. The increase of \$7.5 million was largely attributable to growth in the LASG loan portfolio, which earned an average yield of 14.9% for the nine months ended March 31, 2013 on an average outstanding balance of \$123.1 million. The following table summarizes interest income and related yields recognized on the Company's loans.

	Interest Income and Yield on Loans Nine Months Ended March 31,					
	Average Balance	2013 Interest Income	Yield	Average Balance	2012 Interest Income	Yield
(Dollars in thousands)						
Community Banking Division	\$ 257,760	\$ 11,449	5.92%	\$ 303,064	\$ 13,557	5.95%
LASG:						
Originated	12,974	930	9.55%	2,637	194	9.79%
Purchased	110,151	12,830	15.52%	29,315	3,130	14.21%
Total LASG	123,125	13,760	14.89%	31,952	3,324	13.85%
Total	\$ 380,885	\$ 25,209	8.82%	\$ 335,016	\$ 16,881	6.71%

Table of Contents

In the nine months ended March 31, 2013, net interest income was negatively affected by a lower level of noncash accretion of fair value adjustments resulting from the merger than in the comparable Fiscal 2012 period. The effect of such accretion will continue to diminish as financial instruments held at the merger mature or prepay. The following table summarizes the effects of such accretion.

	Nine Months Ended March 31,					
	Average Balance	2013 Income (Expense)	Effect on Yield / Rate (Dollars in thousands)	Average Balance	2012 Income (Expense)	Effect on Yield / Rate
Interest-earning assets:						
Investment securities	\$ 132,835	\$ (3)	0.00%	\$ 139,834	\$ (91)	-0.09%
Loans	380,885	443	0.15%	335,016	497	0.20%
Other interest-earning assets	136,437	0	0.00%	76,983	0	0.00%
Total interest-earning assets	\$ 650,157	\$ 430	0.09%	\$ 551,833	\$ 406	0.10%
Interest-bearing liabilities:						
Interest-bearing deposits	\$ 427,125	\$ 758	0.24%	\$ 353,727	\$ 1,002	0.38%
Short-term borrowings	1,397	0	0.00%	1,030	0	0.00%
Borrowed funds	81,183	999	1.64%	113,109	1,729	2.03%
Junior subordinated debentures	8,164	(121)	-1.97%	8,009	(109)	-1.81%
Total interest-bearing liabilities	\$ 517,869	\$ 1,636	0.42%	\$ 475,875	\$ 2,622	0.73%
Total effect of noncash accretion on:						
Net interest income		\$ 2,076			\$ 3,028	
Net interest margin		0.43%			0.73%	

In the nine months ended March 31, 2013 and 2012, interest expense was \$5.0 million and \$4.7 million, respectively. The increase of \$302 thousand was principally volume related, as total average interest-bearing liabilities increased \$50.0 million offset by a 3 basis point decrease in the cost of such liabilities.

Table of Contents

The Company's interest rate spread and net interest margin increased by 94 basis points and 103 basis points, respectively, for the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012. The following sets forth the average balance sheets, interest income and interest expense, and average yields and costs for nine months ended March 31, 2013 and 2012.

	Nine Months Ended March 31,					
	Average Balance	2013 Interest Income/Expense	Average Yield/Rate (Dollars in thousands)	Average Balance	2012 Interest Income/Expense	Average Yield/Rate
Assets:						
Interest-earning assets:						
Investment securities (1)	\$ 132,835	\$ 929	0.93%	\$ 139,834	\$ 1,602	1.52%
Loans (2) (3)	380,885	25,209	8.82%	335,016	16,881	6.71%
Regulatory stock	5,446	42	1.03%	5,740	48	1.11%
Short-term investments (4)	130,991	241	0.25%	71,243	128	0.24%
Total interest-earning assets	650,157	26,421	5.41%	551,833	18,659	4.50%
Cash and due from banks	3,094			2,927		
Other non-interest earning assets	37,571			37,143		
Total assets	\$ 690,822			\$ 591,903		
Liabilities & Stockholders' Equity:						
Interest-bearing liabilities:						
NOW accounts	\$ 55,468	\$ 116	0.28%	\$ 55,080	\$ 170	0.41%
Money market accounts	56,739	221	0.52%	44,613	130	0.39%
Savings accounts	31,631	32	0.13%	32,907	56	0.23%
Time deposits	283,287	2,721	1.28%	221,127	2,192	1.32%
Total interest-bearing deposits	427,125	3,090	0.96%	353,727	2,548	0.96%
Short-term borrowings	1,397	15	1.43%	1,030	15	1.94%
Borrowed funds	81,183	1,334	2.19%	113,109	1,592	1.87%
Junior subordinated debentures	8,164	574	9.37%	8,009	556	9.24%
Total interest-bearing liabilities	517,869	5,013	1.29%	475,875	4,711	1.32%
Interest-bearing liabilities of discontinued operations (5)	0			380		
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	50,192			45,771		
Other liabilities	5,636			4,267		
Total liabilities	573,697			526,293		
Stockholders' equity	117,125			65,610		
Total liabilities and stockholders' equity	\$ 690,822			\$ 591,903		
Net interest income		\$ 21,408			\$ 13,948	
Interest rate spread			4.12%			3.18%
Net interest margin (6)			4.39%			3.36%

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

(2) Includes loans held for sale.

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

- (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) The effect of interest-bearing liabilities associated with discontinued operations has been excluded from the calculation of average rates paid, interest rate spread, and net interest margin.
- (6) Net interest margin is calculated as net interest income divided by total interest-earning assets.

Table of Contents

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.

	Nine Months Ended March 31, 2013 Compared to the Nine Months Ended March 31, 2012		
	Change Due to Volume	Change Due to Rate (Dollars in thousands)	Total Change
Interest earning assets:			
Investments securities	\$ (77)	\$ (596)	\$ (673)
Loans	2,529	5,799	8,328
Regulatory stock	(2)	(4)	(6)
Short-term investments	110	3	113
Total increase in interest income	2,560	5,202	7,762
Interest bearing liabilities:			
Interest bearing deposits	645	(103)	542
Short-term borrowings	4	(4)	0
Borrowed funds	(498)	240	(258)
Junior subordinated debentures	10	8	18
Total increase in interest expense	161	141	302
Total increase in net interest and dividend income	\$ 2,399	\$ 5,061	\$ 7,460

Provision for Loan Losses

Quarterly, the Company determines the amount of the allowance for loan losses that is adequate to provide for losses inherent in the Company's loan portfolios, with the provision for loan losses determined by the net change in the allowance for loan losses. For loans acquired with deteriorated credit quality, a provision for loan losses is recorded when estimates of future cash flows are lower than had been previously expected (i.e., there are reduced expected cash flows as a result of credit deterioration or higher net charge-offs than had been previously expected, requiring additional provision for loan losses). See Part I. Item I. Notes to Unaudited Consolidated Financial Statements Note 4: Loans, Allowance for Loan losses and Credit Quality for further discussion.

The provision for loan losses for periods subsequent to the merger 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.

Three Months Ended March 31, 2013 and 2012

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

The provision for loan losses for the three months ended March 31, 2013 and 2012 was \$346 thousand and \$100 thousand, respectively. The \$246 thousand increase was principally due to higher net charge-offs and specific provisions required on impaired residential loans during the quarter ended March 31, 2013. Net charge-offs were \$188 thousand for the three months ended March 31, 2013, compared to \$89 thousand for the three months ended March 31, 2012, an increase principally due to charge-offs in the Company's residential and commercial real estate portfolios.

Nine Months Ended March 31, 2013 and 2012

The provision for loan losses for the nine months ended March 31, 2013 and 2012 was \$821 thousand and \$634 thousand, respectively. The \$187 thousand increase was principally due to higher net charge-offs and specific provisions required on impaired residential loans during the nine months ended March 31, 2013. Net charge-offs were \$612 thousand for the nine months ended March 31, 2013, compared to \$323 thousand for the nine months ended March 31, 2012, an increase principally due to charge-offs in the Company's residential and commercial business portfolios.

Noninterest Income

Three Months Ended March 31, 2013 and 2012

Noninterest income totaled \$3.4 million for the three months ended March 31, 2013 compared to \$2.7 million for the three months ended March 31, 2012, an increase of \$653 thousand, or 23.8%. The primary components of this change included the following:

- Customer fee income totaled \$430 thousand for the quarter, an increase of \$104 thousand, or 31.9%, compared to the quarter ended March 31, 2012, the result of increased loan servicing fees associated with Fiscal 2013 LASG loan purchases.

Table of Contents

- No securities gains were realized during the quarter ended March 31, 2013, as compared to gains of \$731 thousand realized for the quarter ended March 31, 2012.
- Net gains on the sale of portfolio loans were \$1.2 million for the quarter, an increase of \$1.0 million compared to the quarter ended March 31, 2012, an increase principally resulting from the gain recognized on sale of one LASG purchased loan.
- Net gains recognized on real estate owned and other repossessed collateral were \$230 thousand for the quarter, compared to a net loss of \$24 thousand for the three months ended March 31, 2012, an increase principally resulting from a \$211 thousand gain realized on the sale of real estate previously securing an LASG purchased loan.

Nine Months Ended March 31, 2013 and 2012

Noninterest income totaled \$10.1 million for the nine months ended March 31, 2013 compared to \$7.2 million for the nine months ended March 31, 2012, an increase of \$2.9 million. The primary components of this change included the following:

- Customer fee income totaled \$1.2 million for the quarter, an increase of \$166 thousand, or 16.0%, compared to the nine months ended March 31, 2012, the result of increased loan servicing fees associated with Fiscal 2013 LASG loan purchases.
- Net securities gains totaled \$792 thousand for the nine months ended March 31, 2013, a decrease of \$319 thousand compared to the nine months ended March 31, 2012. Decreases in security gains resulted from the sale of a substantial portion of the Company's available-for-sale investment portfolio during Fiscal 2012. The Company reinvested the sales proceeds in government guaranteed mortgage-backed securities similar in composition to the securities sold, albeit at lower market yields.
- Net gains realized on the sale of residential mortgage loans in the secondary market were \$2.3 million for the nine months ended March 31, 2013, an increase of \$235 thousand, or 11.4%, compared to the nine months ended March 31, 2012.
- Net gains on the sale of portfolio loans were \$2.2 million for the nine months ended March 31, 2013, an increase of \$1.8 million compared to the nine months ended March 31, 2012, an increase principally resulting from \$2.0 million in gains recognized on LASG purchased loan sales.
- Net gains recognized on real estate owned and other repossessed collateral were \$681 thousand for the nine months ended March 31, 2013, compared to net gains of \$11 thousand for the nine months ended March 31, 2012, an increase principally resulting from \$684 thousand realized on the sale of two properties previously securing LASG purchased loans.

- Bank-owned life insurance income totaled \$599 thousand for the nine months ended March 31, 2013, an increase of \$222 thousand compared to the nine months ended March 31, 2012, the result of life insurance death benefits received.

Noninterest Expense

Three Months Ended March 31, 2013 and 2012

Noninterest expense totaled \$8.8 million for the three months ended March 31, 2013, compared to \$7.2 million for the three months ended March 31, 2012, an increase of \$1.6 million, principally due to the following:

- An increase of \$1.2 million in employee compensation, due mainly to \$703 thousand in additional incentive compensation, as well as increases in staffing and the cost of employee benefits programs. Full-time equivalent employees increased by 26 over the past twelve months, as the Company has added staff to several operational areas and the LASG.
- An increase of \$288 thousand in occupancy and equipment expense, principally due to increased rent associated with the relocation of the Company's office in Boston, MA, and depreciation of investments in new technology, principally those associated with ableBanking.
- An increase of \$107 thousand in marketing expense, principally due to promotional incentives associated with ableBanking.
- An increase of \$108 thousand in loan acquisition and collection expense, principally due to an increase in the size of the LASG portfolio, which has grown to \$148.4 million from \$62.3 million at March 31, 2012.

Nine Months Ended March 31, 2013 and 2012

Noninterest expense totaled \$24.5 million for the nine months ended March 31, 2013, compared to \$20.7 million the nine months ended March 31, 2012, an increase of \$3.8 million, principally due to the following:

- An increase of \$2.2 million, or 19.0%, in employee compensation, due mainly to \$502 thousand in additional incentive compensation, as well as the aforementioned increases in staffing and the cost of employee benefits programs.
- An increase of \$748 thousand, or 27.3%, in occupancy and equipment, principally due to increased rent and depreciation of investments in new technology.

- An increase of \$201 thousand, or 41.3%, in marketing expense, principally due to internet advertising and promotional incentives associated with ableBanking.

- An increase of \$487 thousand, or 61.0%, in loan acquisition and collection expense, principally due to an increase in the size of the LASG portfolio, which has grown to \$148.4 million from \$62.3 million at March 31, 2012, and an increase in the volume of loan acquisitions and related due diligence activities.

Table of Contents

- An increase of \$276 thousand, or 15.0%, in other noninterest expense, principally due to increased travel expense and charitable contributions.

Income Taxes

Three Months Ended March 31, 2013 and 2012

The Company's income tax expense was \$811 thousand, or an effective rate of 32.7%, for the quarter ended March 31, 2013, compared to \$15 thousand, or an effective rate of 8.9%, for the quarter ended March 31, 2012. The effective rate for each quarter differs from the Company's statutory rate because of favorable book to tax differences, such as tax credits and tax exempt life insurance income. The increase in the Company's effective tax rate from the quarter ended March 31, 2012 to March 31, 2013 principally resulted from the higher level of pretax income relative to permanent book to tax differences.

Nine Months Ended March 31, 2013 and 2012

The Company's income tax expense was \$2.0 million, or an effective rate of 32.2%, for the nine months ended March 31, 2013, as compared to a tax benefit of \$209 thousand for the nine months ended March 31, 2012. The tax benefit in the 2012 quarter resulted from a pretax loss of \$231 thousand.

Results of Operations – Discontinued Operations

In the quarter ended September 30, 2011, the Company sold intangible assets (principally customer lists) and certain fixed assets of NBIG to local insurance agencies in two separate transactions. The Varney Agency, Inc. of Bangor, Maine, purchased the assets of nine NBIG offices in Anson, Auburn, Augusta, Bethel, Livermore Falls, Scarborough, South Paris, Thomaston and Turner, Maine. The NBIG office in Berwick, Maine, which now operates under the name of Spence & Matthews, was acquired by a member of NBIG's senior management team. In connection with the transaction, the Company also repaid borrowings associated with NBIG totaling \$2.1 million.

The Company no longer conducts any significant operations in the insurance agency business and therefore has classified the operating results of NBIG, and the associated gain on sale of the division, as discontinued operations in the consolidated financial statements. See Part I. Item I.

Notes to Unaudited Consolidated Financial Statements – Note 6: Discontinued Operations for further details.

Net income from discontinued operations for the nine months ended March 31, 2012 was \$1.1 million. Income for the period included a \$1.6 million pre-tax gain on sale of the assets of NBIG, and pre-tax income associated with operations of \$186 thousand. Income taxes associated with discontinued operations totaled \$600 thousand, or an effective rate of 34.5%.

Table of Contents

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

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

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

Based on this evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of March 31, 2013.

There were no changes in the Company's internal controls over financial reporting (as defined in Rule 13a - 15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2013 that have materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, the Company is involved in various threatened and pending legal proceedings.

In August 2011, the Bank received a summons and complaint in TSM Properties, LLC v. Northeast Bank and Daniel G. Thompson, Docket No. BCD-CV-12-10, State of Maine Superior Court Business and Consumer Docket sitting in Portland, Cumberland County, Maine, in connection with a dispute regarding transfers of money that involves the Bank. Damages sought include \$2.2 million and additional unspecified amounts. The Bank intends to vigorously defend against these claims. While it is not feasible to predict or determine the outcome of these proceedings, the Company believes that a loss resulting

Edgar Filing: NORTHEAST BANCORP /ME/ - Form 10-Q

from an adverse outcome to this matter is reasonably possible, though the amount of the loss is not determinable at this time. As such, the Company has not established a reserve against potential damages arising from this matter.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Table of Contents

Exhibits

No.	Description
10.1	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Richard Wayne (incorporated by reference to Exhibit 10.1 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
10.2	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Claire Bean (incorporated by reference to Exhibit 10.2 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
10.3	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Heather Campion (incorporated by reference to Exhibit 10.3 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
101	The following materials from Northeast Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2013 and June 30, 2012; (ii) Consolidated Statements of Income for the three and nine months ended March 31, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2013 and 2012; (iv) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended March 31, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the nine months ended March 31, 2013 and 2012; and (vi) Notes to Unaudited Consolidated Financial Statements. ***

* Filed herewith

** Furnished herewith

*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.

Table of Contents

SIGNATURES

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

Date: May 15, 2013

NORTHEAST BANCORP

By: /s/ Richard Wayne
Richard Wayne
President and CEO

By: /s/ Claire S. Bean
Claire S. Bean
Chief Financial Officer

Table of Contents

NORTHEAST BANCORP

Index to Exhibits

Exhibits

No.	Description
10.1	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Richard Wayne (incorporated by reference to Exhibit 10.1 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
10.2	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Claire Bean (incorporated by reference to Exhibit 10.2 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
10.3	Amended and Restated Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between the Company and Heather Campion (incorporated by reference to Exhibit 10.3 of Northeast Bancorp's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 26, 2013).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). *
32.1	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
32.2	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **
101	The following materials from Northeast Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2013 and June 30, 2012; (ii) Consolidated Statements of Income for the three and nine months ended March 31, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended March 31, 2013 and 2012; (iv) Consolidated Statements of Changes in Shareholders' Equity for the nine months ended March 31, 2013 and 2012; (v) Consolidated Statements of Cash Flows for the nine months ended March 31, 2013 and 2012; and (vi) Notes to Unaudited Consolidated Financial Statements. ***

* Filed herewith

** Furnished herewith

*** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.