NORTHEAST BANCORP /ME/
Form 10-K
September 27, 2013
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2013

OR

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

For the transition period from to

Commission file number (1-14588)

NORTHEAST BANCORP

(Exact name of registrant as specified in its charter)

Maine (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)

Registrant s telephone number, including area code:

(207) 786-3245

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

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

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

None

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s voting and non-voting common stock held by non-affiliates, computed by reference to the last reported sales price of the registrant s voting common stock on the NASDAQ Global Market on December 31, 2012 was approximately $65,996,772.

As of September 16, 2013, the registrant had outstanding 9,552,587 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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s proxy statement for the 2013 Annual Meeting of Shareholders to be held on November 21, 2013 are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K. The registrant intends to file such proxy statement with the Securities and Exchange Commission no later than 120 days after the end of its fiscal year ended June 30, 2013.

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A Note About Forward-Looking Statements

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

Such forward-looking statements reflect our current views and expectations based largely on information currently available to our management, and on our current expectations, assumptions, plans, estimates, judgments, and projections about our business and our industry, and they involve inherent risks and uncertainties. Although the Company believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, the Company cannot give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. The Company cautions you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the factors referenced in this report under Item 1A. Risk Factors ; changes in interest rates; competitive pressures from other financial institutions; the effects of a 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 our loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; increasing government regulation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act; the risk that we may not be successful in the implementation of our business strategy; the risk that intangibles recorded in the Company s financial statements will become impaired; and changes in assumptions used in making such forward-looking statements. These forward-looking statements speak only as of the date of this report and the Company does not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

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PART I

Item 1. Business

Overview

Northeast Bancorp (we, our, us, Northeast or the Company), a Maine corporation chartered in April 1987, is a bank holding company registe 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), which has ten banking branches. 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, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total risk-based capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of the Company s loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital. On June 28, 2013, the Federal Reserve approved the amendment of the commitment to hold commercial real estate loans to within 300% of total risk-based capital to exclude owner-occupied commercial real estate loans. All other commitments made to the Federal Reserve in connection with the merger remain unchanged. The Company and the Bank are currently in compliance with all commitments to the Federal Reserve.

As of June 30, 2013, the Company, on a consolidated basis, had total assets of $670.6 million, total deposits of $484.6 million, and stockholders equity of $113.8 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 and originates commercial loans through its Loan Acquisition and Servicing Group. The Company operates the Community Banking Division, with ten full-service branches and six loan production offices, from the Bank s headquarters in Lewiston, Maine. The Company operates ableBanking and the Loan Acquisition and Servicing Group 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. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations for additional information on the sale of insurance assets in

August 2011.

In May of 2012, the Company raised net proceeds of $52.7 million through the sale of shares of its common stock. Refer to Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Capital for additional information on the common stock offering in May 2012.

In 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) and repurchased the warrant for 67,958 shares of common stock issued to the UST in connection with TARP for $95 thousand.

In August of 2013, the Company announced its intention to exit the investment brokerage business. The Company expects that all investment brokerage activities will conclude in the first half of fiscal 2014.

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

Strategy

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

Measured growth of the commercial loan portfolio. The Company s Loan Acquisition and Servicing Group purchases 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. 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. To a lesser extent, this group also originates, on a nationwide basis, commercial real estate and commercial business loans.

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

Continuing our community banking tradition. The Community Banking Division retains a high degree of local autonomy and operational flexibility to better serve its customers. The Community Banking Division s focus on sales and service 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.

Market Area and Competition

Northeast Bancorp is the holding company for Northeast Bank, a full-service bank headquartered in Lewiston, Maine. Northeast Bank offers traditional banking services through its Community Banking Division, which operates ten full-service branches and six loan production offices that serve individuals and businesses located in western and south-central Maine, southern New Hampshire and southeastern Massachusetts. Northeast Bank s Loan Acquisition and Servicing Group purchases and originates commercial loans for the Bank s portfolio. ableBanking, a division of Northeast Bank, offers savings products to consumers online.

The Community Banking Division s primary market area covers the western and south central regions of the State of Maine. We also operate two residential mortgage lending offices in southeastern Massachusetts and one in southern New Hampshire. We encounter significant competition in our Community Banking Division market area in making loans, attracting deposits, and selling other customer products and services. Our Maine-based competitors include savings banks, commercial banks, credit unions, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, and other financial intermediaries operating in Maine. Many of our primary competitors there have substantially greater resources, larger established customer bases, higher lending limits, extensive branch networks, numerous ATMs and greater advertising and marketing budgets. They may also offer services that we do not currently provide.

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

Lending Activities

General

We conduct our loan-related activities through two primary channels: our Community Banking Division and our Loan Acquisition and Servicing Group. Our Community Banking Division originates loans directly to consumers and businesses located in its market area. Our Loan

Acquisition and Servicing Group 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 the Company s originated loan portfolio. To a lesser extent, our Loan Acquisition and Servicing Group also originates commercial real estate and commercial business loans on a nationwide basis. At June 30, 2013, of our total loan portfolio of $435.4 million, $229.7 million, or 52.8%, was originated in the Community Banking Division and $205.7 million, or 47.2%, was purchased or originated by our Loan Acquisition and Servicing Group. Pursuant to commitments made to the Federal Reserve in connection with the merger, the Company is required to limit purchased loans to 40% of total loans. At June 30, 2013, the Company s ratio of purchased loans to total loans was 37.6%.

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

Community Banking Division

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

- *Residential Mortgage Loans*. We originate residential mortgage loans secured by one- to four-family properties throughout Maine, southeastern Massachusetts, and southern New Hampshire. Such loans may be originated for sale in the secondary market or to be held on the Bank s balance sheet. We also offer home equity loans and home equity lines of credit, which are secured by first or second mortgages on one- to four-family owner-occupied properties and which are held on our balance sheet. At June 30, 2013, portfolio residential loans totaled $125.0 million, or 28.7% of total loans. Of the residential loans we held for investment at June 30, 2013, 46.5% were adjustable rate. Included in residential loans are home equity lines of credit and other second mortgage loans aggregating approximately $35.4 million.

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• *Commercial Real Estate Loans*. We originate multi-family and other commercial real estate loans secured by property located primarily in our Community Banking Division s market area. At June 30, 2013, commercial real estate loans outstanding were $78.9 million, or 18.1% of total loans. Although the largest commercial real estate loan originated by our Community Banking Division had a principal balance of $2.1 million at June 30, 2013, the majority of the commercial real estate loans originated by our Community Banking Division had principal balances less than $500 thousand.

• *Commercial Business Loans.* We originate commercial business loans, including term loans, lines of credit and equipment and receivables financing to businesses located primarily in our Community Banking Division s market area. At June 30, 2013, commercial business loans outstanding were $12.4 million, or 2.9% of total loans. At June 30, 2013, there were 164 commercial business loans outstanding with an average principal balance of $77 thousand. The largest of these commercial business loans had a principal balance of $1.2 million at June 30, 2013.

• *Consumer Loans.* We originate, on a direct basis, automobile, boat and recreational vehicle loans. At June 30, 2013, consumer loans outstanding were $13.3 million, or 3.1% of total loans.

• *Construction Loans.* From time to time, we originate residential construction loans to finance the construction of single-family, owner-occupied homes. At June 30, 2013, construction loans outstanding were $42 thousand.

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

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

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

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

Loan Acquisition and Servicing Group

General. Our Loan Acquisition and Servicing Group (the LASG) purchases and originates commercial loans secured by income-producing collateral and on a nationwide basis. Although the Bank s legal lending limit was $19.9 million at June 30, 2013 (equal to 20% of Northeast Bank s capital plus surplus), our credit policy currently requires prior Board approval for the purchase or origination of a loan with an initial investment greater than 10% of the Company s tier one capital, determined on a relationship basis. We focus primarily on loans with balances between $1.0 million and $5.0 million. Loans are sourced on a nationwide basis from banks, insurance companies, investment funds and government agencies, either directly or indirectly through advisors. We seek to build a loan portfolio that is diverse with respect to geography, loan type and collateral type. Of the loans originated or purchased by our Loan Acquisition and Servicing Group that were outstanding as of June 30, 2013, $185.5 million, or 90.2%, consisted of commercial real estate loans. The following table summarizes the LASG loan portfolio as of June 30, 2013.

	Purchased	Originated (Dollars in thousands)	Total
Non-owner occupied commercial real estate	$ 125,506	$ 18,126	$ 143,632
Owner occupied commercial real estate	38,540	3,361	41,901
Commercial business	34	17,242	17,276
1-4 family residential	2,706	150	2,856
Total	$ 166,786	$ 38,879	$ 205,665

Since the inception of the LASG through June 30, 2013, we have purchased loans for an aggregate investment of $223.8 million, of which $121.3 million was purchased during fiscal 2013. We have also originated loans totaling $42.6 million, of which $37.2 million was originated in fiscal 2013. As of June 30, 2013, the unpaid principal balance of loans purchased or originated by the LASG ranged from $1 thousand to $12.0 million, with an average of $741 thousand, and were secured by retail, industrial, mixed use, multi-family and office properties in 39 states.

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The following table shows the LASG loan portfolio by investment size as of June 30, 2013.

Investment Range		Amount (Dollars in thousands)	Percent of Total
$0 - $500	$	34,014	16.54%
$500 - $1,000		29,600	14.39%
$1,000 - $2,000		36,667	17.83%
$2,000 - $3,000		25,487	12.39%
$3,000 - $4,000		23,374	11.37%
Greater than $4,000		56,523	27.48%
	$	205,665	100.00%

The following tables show the LASG loan portfolio by location and type of collateral as of June 30, 2013.

Collateral Type		Amount (Dollars in thousands)	Percent of Total	State		Amount (Dollars in thousands)	Percent of Total
Multifamily	$	37,704	18.33%	CA	$	50,169	24.39%
Office		36,910	17.95%	NY		43,845	21.32%
Hospitality		29,777	14.48%	WI		7,446	3.62%
Retail		29,634	12.95%	NV		6,914	3.36%
Industrial		25,741	12.52%	IL		6,374	3.10%
Mixed use		21,782	10.59%	FL		6,015	2.92%
Securities		12,000	5.83%	LA		5,699	2.77%
Other real estate		5,124	2.49%	MN		5,268	2.56%
All other		6,993	4.86%	All other		73,935	35.96%
	$	205,665	100.00%		$	205,665	100.00%

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

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

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

At June 30, 2013, purchased loans had an unpaid principal balance of $204.3 million and net investment basis of $166.8 million, representing discount across the portfolio of 18.4%.

The following table shows the purchased loan portfolio as of June 30, 2013 by original purchase price.

Investment as a % of Unpaid Principal Balance		**Amount (Dollars in thousands)**	**Percent of Total**
0% - 60%	$	6,938	4.16%
60% - 70%		8,015	4.81%
70% - 80%		30,763	18.44%
80% - 90%		43,318	25.97%
90% - 100%		77,752	46.62%
	$	166,786	100.00%

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

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reserve capacity to sell their unwanted assets. Furthermore, we believe that the continued consolidation of the banking industry will create secondary market activity as acquirers often sell non-strategic borrowing relationships or assets that create excess loan concentrations.

Underwriting of Purchased Loans. We review many loan purchase opportunities and commence underwriting on a relatively small percentage of them. During fiscal 2013, we reviewed approximately 165 transactions representing loans with $1.8 billion in unpaid principal balance. Of those transactions that we reviewed, we placed bids in 39 transactions representing loans with $359 million in unpaid principal balance. Ultimately, we closed 31 transactions in which we acquired $155.2 million in unpaid principal balance for an aggregate purchase price of $121.3 million, or 78.2% of the unpaid principal balance.

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

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

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

- An in-house real estate specialist performs a detailed evaluation of all real estate collateral, including canvassing local market experts, conducting original market research for trends and sale and lease comparables, and creates a written valuation that is based on current data reflecting what we believe are recent trends.

- An environmental assessment is performed on real estate collateral.

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

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

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

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

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

- the collateral securing the loan;
- the geographic location;
- the financial resources of the borrower or guarantors, if any;
- the recourse nature of the loan;
- the age and performance of the loan;
- the length of time during which the loan has performed in accordance with its repayment term;
- the yield expected to be earned; and
- servicing restrictions, if any.

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

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Approvals. All loan purchases must be approved by the Loan Acquisition and Servicing Group Credit Committee. This committee is comprised of members of the executive management team and senior management from the Loan Acquisition and Servicing Group. The committee discusses all loans on an individual basis. Our credit policy currently requires prior Board approval for the purchase of a loan with an initial investment greater than $10% of the Company s tier one capital, determined on a relationship basis.

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

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

We believe that we have a competitive advantage in bidding against many banks that purchase commercial loans in the secondary market because we have a specialized group with experience in purchasing commercial real estate loans. Most banks we compete against are community banks looking to acquire loans in their market; these banks usually have specific criteria for their acquisition activities and do not pursue pools with collateral or geographic diversity. We believe that there are a limited number of banks pursuing a similar, nationwide commercial loan acquisition strategy.

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

Brokerage and Investment Advisory Services

For over fifteen years, the Bank s investment brokerage division, Northeast Financial Services (Northeast Financial), offered an array of investment and financial planning products and services through the Bank s branch network. In August of 2013, the Company announced its intention to exit the investment brokerage business. The Company expects that all investment brokerage activities will conclude in the first half of fiscal 2014.

Investment Activities

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

Sources of Funds

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

Deposits

We offer a full line of deposit products to customers in western and south-central Maine through our ten-branch network. Our deposit products consist of demand deposit, NOW, money market, savings and certificate of deposit accounts. Our customers access their funds through ATMs, Mastercard® Debit Cards, Automated Clearing House funds (electronic transfers) and checks. We also offer telephone banking, Internet banking, Internet bill payment and remote deposit capture services. Interest rates on our deposits are based upon factors that include prevailing loan demand, deposit maturities, alternative costs of funds, interest rates offered by competing financial institutions and other financial service firms, and general economic conditions. At June 30, 2013, we had core deposits of $476.4 million (of which $367.8 million were generated through the Community Banking Division), representing 98.3% of total deposits. We define core deposits as non-maturity deposits and non-brokered insured time deposits.

Our online affinity deposit program, ableBanking, provides an additional channel through which to obtain core deposits to support our growth. ablebanking, which was launched in late fiscal 2012 as a division of Northeast Bank, had $71.8 million in money market and time deposits as of June 30, 2013. We also use deposit listing services to gather deposits from time to time, in support of

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our liquidity and asset/liability management objectives. At June 30, 2013, listing service deposits totaled $36.8 million, most of which were 5-year time deposits.

Borrowings

While we currently consider core deposits (defined as non-maturity deposits and non-brokered insured time deposits) as our primary source of funding to support asset growth, advances from the FHLB and other sources of wholesale funding remain an important part of our liquidity contingency planning. Northeast Bank may borrow up to 50.0% of its total assets from the FHLB, and borrowings are typically collateralized by mortgage loans and securities pledged to the FHLB. At June 30, 2013, we had $20.5 million available immediately and an additional $275.9 million, subject to the purchase of additional FHLB stock and the availability of additional collateral, available from the FHLB. Northeast Bank can also borrow from the Federal Reserve Bank of Boston, with any such borrowing collateralized by consumer loans pledged to the Federal Reserve.

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

Recent Technology and Operational Enhancements

Over the past few years, we have made investments in technology and customer service to develop the infrastructure to support the Loan Acquisition and Servicing Group, ableBanking, and the Community Banking Division. In addition, we invested in new software, hardware, and staffing to support our growing Customer Contact Center in Lewiston, Maine, and to ensure that we will continue to deliver a high level of personal service to our customers as we grow. We expect that future investments in technology, customer service and operational support functions will generally be proportionate to our growth.

Employees

As of June 30, 2013, the Company employed 210 full-time and 17 part-time employees. The Company s employees are not represented by any collective bargaining unit. The Company believes that its relations with its employees are good.

Other Subsidiaries

At June 30, 2013, the Bank had four wholly-owned non-bank subsidiaries:

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

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

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

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

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

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Supervision and Regulation

General

As a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the BHCA), the Company is subject to regulation and supervision by the Federal Reserve. As an FDIC-insured Maine-chartered bank and member of the Federal Reserve System, the Bank is subject to regulation and supervision by the Federal Reserve, the Bureau and the FDIC. This regulatory framework is intended to protect depositors, the federal deposit insurance fund, consumers and the banking system as a whole, and not necessarily investors in the Company. The following discussion is qualified in its entirety by reference to the full text of the statutes, regulations, policies and guidelines described below.

Financial Regulatory Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted on July 21, 2010, comprehensively reformed the regulation of financial institutions, products and services. Among other things, the Dodd-Frank Act:

- grants the Federal Reserve increased supervisory authority and codifies the source of strength doctrine, as discussed in more detail in Source of Strength below;

- provides for new capital standards applicable to the Company, as discussed in more detail in Capital Adequacy and Safety and Soundness Regulatory Capital Requirements below;

- modifies deposit insurance coverage, as discussed in Capital Adequacy and Safety and Soundness Deposit Insurance below;

- bars banking organizations, such as the Company, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances, as discussed in Bank Holding Company Regulation below;

- established new corporate governance and proxy disclosure requirements, as discussed in Corporate Governance and Executive Compensation below;

- established the Bureau of Consumer Financial Protection (the CFPB), as discussed in Consumer Protection Regulation below;

- established new minimum mortgage underwriting standards for residential mortgages, as discussed in Mortgage Reform below;

- authorizes the Federal Reserve to regulate interchange fees for debit card transactions;

- permits the payment of interest on business demand deposit accounts;

- established and empowered the Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities; and

- established the Office of Financial Research, which has the power to require reports from financial services companies such as the Company.

Bank Holding Company Regulation

Unless a bank holding company becomes a financial holding company under the Gramm-Leach-Bliley Act (GLBA) as discussed below, the BHCA prohibits (with the exceptions noted below in this paragraph) a bank holding company from acquiring a direct or indirect interest in or control of more than 5% of the voting shares of any company that is not a bank or a bank holding company. The BHCA requires every bank holding company to obtain the prior approval of the Federal Reserve before it may acquire substantially all of the assets of any bank, or ownership or control of any voting shares of a bank, if, after such acquisition, it would own or control, directly or indirectly, more than 5% of the voting stock of such bank. In addition, the BHCA prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in, and may own shares of companies engaged in certain activities, that the Federal Reserve determines to be so closely related to banking or managing and controlling banks so as to be incident thereto. In making such determinations, the Federal Reserve is required to weigh the expected benefit to the public, including such factors as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests or unsafe or unsound banking practices.

Under GLBA, bank holding companies are permitted to offer their customers virtually any type of service that is financial in nature or incidental thereto, including banking, securities underwriting, insurance (both underwriting and agency), and merchant banking. Under the Dodd-Frank Act, however, a bank holding company and its affiliates are prohibited from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, expect as permitted under certain limited circumstances. In order to engage in financial activities under GLBA, a bank holding company must qualify and register with the Federal Reserve as

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a financial holding company by demonstrating that each of its bank subsidiaries is well capitalized , well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (CRA). Although the Company believes that it meets the qualifications to become a financial holding company under GLBA, it has not elected financial holding company status, but rather to retain its pre-GLBA bank holding company regulatory status for the present time.

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

Dividends

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

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

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

Source of Strength

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

Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in covered transactions with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, covered transactions are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the Federal Reserve, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliated that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, Section 106 of the BHCA provides that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Regulation of the Bank

As a Maine-chartered bank and member of the Federal Reserve System, the Bank is subject to the supervision of and regulation by the BFI and the Federal Reserve. Additionally, the Bank is subject to the regulation and supervision of the FDIC as the Bank s insurer of deposits. This supervision and regulation is for the protection of depositors, the FDIC s Deposit Insurance Fund (DIF), and consumers, and is not for the protection of the Company s shareholders. The prior approval of the Federal Reserve and the BFI is required, among other things, for the Bank to establish or relocate an additional branch office, assume deposits, or engage in any

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merger, consolidation, purchase or sale of all or substantially all of the assets of any bank. Under the Dodd-Frank Act, the Federal Reserve may directly examine the subsidiaries of the Company, including the Bank.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The Federal Reserve has issued risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, the Federal Reserve may from time to time require that a banking organization maintain capital above the minimum levels, due to the banking organization s financial condition or actual or anticipated growth.

Current Federal Reserve risk-based guidelines define a three-tier capital framework. Tier 1 capital for bank holding companies generally consists of the sum of common stockholders equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and, in the case of the latter, to specific limitations on the kind and amount of such securities which may be included as Tier 1 capital and certain additional restrictions described below), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Pursuant to the Dodd-Frank Act, trust preferred securities issued after May 19, 2010, will not count as Tier 1 capital; however, under the Dodd-Frank Act, the Company s currently outstanding trust preferred securities were grandfathered for Tier 1 eligibility. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities; perpetual preferred stock and trust preferred securities, to the extent it is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions, such as investments in unconsolidated banking or finance subsidiaries, represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 risk-based capital ratio is 4% and the minimum total risk-based capital ratio is 8%. As of June 30, 2013, the Company s Tier 1 risk-based capital ratio was 27.29% and its total risk-based capital ratio was 27.54%. The Company is currently considered well capitalized under all regulatory definitions.

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 Company s leverage capital ratio as of June 30, 2013 was 17.78%.

The Federal Reserve s capital adequacy standards also apply to state-chartered banks which 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 (FDIA). 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.

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

The Basel Committee on Banking Supervision has also released new capital requirements, known as Basel III, setting forth higher capital requirements, enhanced risk coverage, a global leverage ratio, provisions for counter-cyclical capital, and liquidity standards. On July 2, 2013, the Federal Reserve, along with the other federal banking agencies, issued a final rule (the Final Capital Rule) implementing the Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act. The majority of the provisions of the Final Capital Rule apply to bank holding companies and banks with consolidated assets of $500 million or more, such as the Company and the Bank. The Final Capital Rule establishes a new capital risk-based capital ratio, a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets to be

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a well capitalized institution, and increase the minimum total Tier 1 capital ratio to be a well capitalized institution from 6.0% to 8.0%. Additionally, the Final Capital Rule requires that an institution establish a capital conservation buffer of common equity Tier 1 capital in an amount above the minimum risk-based capital requirements equal to 2.5% of total risk weight assets. The Final Capital Rule revises certain capital definitions and generally makes the capital requirements more stringent. Further, the Final Capital Rule increases the required capital for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. Under the Final Capital Rule, the Company may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If the Company does not make this election, unrealized gains and losses would be included in the calculation of its regulatory capital.

The Company must comply with the Final Capital Rule beginning on January 1, 2015.

Deposit Insurance. Substantially all of the deposits of the Bank are insured up to applicable limits by the DIF and are subject to deposit insurance assessments to maintain the DIF. The FDIA, as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits of the Bank are insured up to applicable limits by the DIF and are subject to deposit insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory rating (CAMELS rating). CAMELS ratings reflect the applicable bank regulatory agency to applicable limits by the DIF and are subject to deposit, management, earnings, liquidity and sensitivity to risk. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and its applicable assessment rate. Assessment rates range from 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category up to 30 to 45 basis points for banks in the highest risk category.

Pursuant to the Dodd-Frank Act, FDIC deposit insurance has been permanently increased from $100,000 to $250,000 per depositor. On December 31, 2012, unlimited FDIC insurance on noninterest-bearing transaction accounts under the Dodd-Frank Act expired.

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

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

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

Real Estate Lending Standards

The Federal Deposit Insurance Corporation Improvement Act requires the federal bank regulatory agencies to adopt uniform real estate lending standards. The Federal Reserve has adopted regulations, which establish supervisory limitations on loan-to-value (LTV) ratios in real estate loans by state-chartered banks that are members of the Federal Reserve System, such as the Bank. The regulations require banks to establish LTV ratio limitations within or below the prescribed uniform range of supervisory limits.

Activities and Investments of Insured State Banks

The powers of a Maine-chartered bank, such as the Bank, include provisions designed to provide Maine banks with competitive equity to the powers of national banks. GLBA includes a section of the FDIA governing subsidiaries of state banks that engage in activities

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as principal that would only be permissible for a national bank to conduct in a financial subsidiary. This provision permits state banks, to the extent permitted under state law, to engage in certain new activities, which are permissible for subsidiaries of a financial holding company. Further, it expressly preserves the ability of a state bank to retain all existing subsidiaries. Because Maine law explicitly permits banks chartered by the state to engage in all activities permissible for federally-chartered banks, the Bank is permitted to form subsidiaries to engage in the activities authorized by GLBA. In order to form a financial subsidiary, a state bank must be well-capitalized, and the state bank would be subject to certain capital deduction, risk management and affiliate transaction rules.

Consumer Protection Regulation

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

Mortgage Reform

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

Privacy and Customer Information Security

GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose sensitive information has been compromised if unauthorized use of this information is reasonably possible. Most states, including Maine, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Regulatory Enforcement Authority

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

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Community Reinvestment Act

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

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

Branching and Acquisitions

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

Anti-Money Laundering and the Bank Secrecy Act

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

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

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank of Boston (the FHLBB), which is one of the regional Federal Home Loan Banks comprising the Federal Home Loan Bank System. Each Federal Home Loan Bank provides a central credit facility primarily for member institutions. Member institutions are required to acquire and hold shares of capital stock in the FHLBB in an amount at least equal to the sum of 0.35% of the aggregate principal amount of its unpaid residential mortgage loans and similar obligations at the beginning of each year and 4.5% of its advances (borrowings) from the FHLBB. The Bank was in compliance with this requirement with an investment in FHLBB stock as of June 30, 2013 of $4.2 million. The Bank receives dividends on its FHLBB stock. The FHLBB has recently declared dividends equal to an annual yield of approximately the daily average three-month LIBOR yield for the quarter for which the dividend has been declared. Dividend income on FHLBB stock of $20 thousand was recorded during the most recent fiscal year.

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Any advances from the FHLBB must be secured by specified types of collateral, and long-term advances may be used for the purpose of providing funds for residential housing finance, commercial lending and to purchase investments. Long term advances may also be used to help manage interest rate risk for asset and liability management purposes. As of June 30, 2013, the Bank had $27.5 million in outstanding FHLBB advances.

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Item 1A. Risk Factors

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

Risks Associated With Our Business

We may not be successful in the implementation of our business strategy.

Following our merger with FHB Formation LLC in December 2010, we substantially revised our business strategy to include the building of a Loan Acquisition and Servicing Group to grow our loan portfolio and the introduction of an online affinity savings program, known as ableBanking, to grow our core deposits. Our ability to develop and offer new products and services depends, in part, on whether we can hire and retain enough suitably experienced and talented employees, identify suitable loans for purchase at attractive prices, identify enough suitable deposit customers, successfully build the systems and obtain the other resources necessary for creating the new product and service offerings. We may not be able to do so, or, doing so may be more expensive, or take longer, than we expect. Our experience with each of these initiatives is limited.

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

In conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10%, fund 100% of our loans with core deposits, limit purchased loans to 40% of total loans and hold commercial real estate loans to within 300% of total risk-based capital. Core deposits, for purposes of this commitment, are defined as non-brokered non-maturity deposits and non-brokered insured time deposits. At June 30, 2013, the ratio of our purchased loans to total loans was 37.6%. Our ability to purchase loans will be dependent on our ability to grow our originated loan portfolio. To the extent our ability to originate loans is constrained by market forces or for any other reason, our ability to execute our loan acquisition strategy would be similarly constrained.

We may not be able to grow our core deposits through ableBanking, or doing so may be more expensive or take longer than we expect.

Our online affinity deposit program, ableBanking, was launched in the fourth quarter of fiscal 2012 to provide an additional channel through which to obtain core deposits to support our growth. Our strategy with regard to ableBanking, which through June 30, 2013 had generated $71.8 million in deposits, is not yet mature and there can be no assurance that we will be able to continue to grow core deposits through ableBanking at the rate we anticipate, or that in obtaining such deposits, we will not be forced to price products on less advantageous terms to retain or attract clients, which would adversely affect our profitability. One of the commitments that we made in connection with securing the regulatory approvals for our merger with FHB Formation LLC is that we must fund 100% of our loans with core deposits. To the extent that we are unable to grow our core deposits, our ability to achieve loan growth would be constrained.

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

Our success in implementing our business plan, especially our loan purchasing business, is dependent upon our ability to attract and retain highly skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. Since our merger with FHB Formation LLC in December 2010, we have hired ten senior employees to work in our Loan Acquisition and Servicing Group. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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

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

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

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

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

At June 30, 2013, 38% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans. Although the Loan Acquisition and Servicing Group conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the Loan Acquisition and Servicing Group may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our provision for loan losses.

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

At June 30, 2013, the 38% of the loans held in our loan portfolio that were originated by third parties had been held by us for approximately nine months, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our provision for loan losses.

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

At June 30, 2013, our commercial real estate mortgage and commercial business loan portfolios comprised 68% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. Moreover, some of these loans may be secured by assets located outside of the Community Banking Division s primary market area. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

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

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

We are subject to liquidity risk.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources which include Federal Home Loan Bank advances, the Federal Reserve s Borrower-in-Custody program, securities sold under repurchase agreements, federal funds purchased and brokered certificates of deposit less favorable and may

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make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

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

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

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

Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Internal controls may fail or be circumvented.

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

Our historical operating results may be of limited use to you in evaluating our historical performance and predicting our future results.

We applied the acquisition method of accounting, as described in Accounting Standards Codification 805, *Business Combinations*, to the merger of FHB Formation LLC with and into Northeast. As a result of application of the acquisition method of accounting to our balance sheet, our financial statements from the periods prior to December 29, 2010, the date that the merger was consummated, are not directly comparable to the financial statements for periods subsequent to December 29, 2010. The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. In connection with the application of the acquisition method of accounting for the merger, the allowance for loan losses was reduced to zero when the loan portfolio was marked to its then current fair value. In addition, the accretion of fair value adjustments to certain interest-bearing assets and liabilities increased our net income for periods subsequent to the merger. The lack of comparability means that the periods being reported in the fiscal year ended June 30, 2011 in the statements and tables are not the same periods as reported for the fiscal years ended June 30, 2013 and 2012, and, as a result, our historical operating results before December 29, 2010 are of limited relevance in evaluating our historical financial performance subsequent to December 29, 2010 and predicting our future operating results.

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

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

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;

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- collateral for our loans may decline in value, in turn reducing a customer s borrowing power and reducing the value of collateral securing a loan; and

- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

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

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

Risks Associated With the Industry

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

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

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

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

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

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

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

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

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees. The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on us, our customers or the financial industry. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with our banking subsidiaries deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. In addition, the Dodd-Frank Act established the CFPB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs on the Company and its subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages, and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. The CFPB recently issued a final rule that requires creditors, such as our banking subsidiaries, to make a reasonable good faith determination of a consumer s ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations. See Supervision and Regulation The Dodd-Frank Act in Item 1, Business.

We will become subject to more stringent capital requirements.

The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements for insured banks and their holding companies. The federal banking agencies issued a joint final rule, or the Final Capital Rule, that implements the Basel III capital standards and establishes the minimum capital levels required under the Dodd-Frank Act. We must comply with the Final Capital Rule by January 1, 2015. The Final Capital Rule establishes a minimum common equity Tier I capital ratio of 6.5% of risk-weighted assets for a well capitalized institution and increases the minimum Tier I capital ratio for a well capitalized institution from 6.0% to 8.0%. Additionally, the Final Capital Rule requires an institution to maintain a 2.5% common equity Tier I capital conservation buffer over the 6.5% minimum risk-based capital requirement to avoid restrictions on the ability to pay dividends, discretionary bonuses, and engage in share repurchases. The Final Capital Rule permanently grandfathers trust preferred securities issued before May 19, 2010, subject to a limit of 25% of Tier I capital. The

Final Capital Rule increases the required capital for certain categories of assets, including high-volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retains the current capital treatment of residential mortgages. Under the Final Capital Rule, we may make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. If we do not make this election, unrealized gains and losses will be included in the calculation of our regulatory capital. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

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

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

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even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes in accounting standards can materially impact our financial statements.

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

Risks Associated With Our Common Stock

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

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

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

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

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

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

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

As of June 30, 2013, we had outstanding $16.5 million in aggregate principal amount of junior subordinated debt securities issued in connection with the sale of trust preferred securities by affiliates of ours that are statutory business trusts. We have also guaranteed those trust preferred securities. The indenture under which the junior subordinated debt securities were issued, together with the guarantee, prohibits us, subject to limited exceptions, from declaring or paying any dividends or distributions on, or redeeming, repurchasing, acquiring or making any liquidation payments with respect to, any of our capital stock (including the Series A preferred stock and our common stock) at any time when (i) there shall have occurred and be continuing an event of default under the indenture; (ii) we are in default with respect to payment of any obligations under the guarantee; or (iii) we have elected to defer payment of interest on the junior subordinated debt securities. In that regard, we are entitled, at our option but subject to certain conditions, to defer payments of interest on the junior subordinated debt securities from time to time for up to five years.

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

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

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

We are a separate and distinct legal entity from Northeast Bank, and depend on dividends, distributions and other payments from Northeast Bank to fund dividend payments on our common stock and to fund all payments on our other obligations. We and Northeast

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

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

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

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

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

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

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

Our common stock is not insured by any governmental entity.

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

Anti-takeover provisions could negatively impact our shareholders.

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

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2013, the Company conducted its business from its main office in Lewiston, Maine and an office in Boston, Massachusetts. The Company also conducts business from its ten full-service bank branches and six loan production offices located in western and south-central Maine, southern New Hampshire and southeastern Massachusetts.

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

(a) The Company s voting common stock currently trades on the NASDAQ under the symbol NBN. There is no established public trading market for the Company s non-voting common stock. As of the close of business on September 16, 2013, there were approximately 513 registered shareholders of record.

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

Fiscal year ended June 30, 2013	**High**	**Low**	**Div Pd**
Jul 1 Sep 30	$ 9.53	$ 8.40	$ 0.09
Oct 1 Dec 31	9.53	8.93	0.09
Jan 1 Mar 31	10.18	9.08	0.09
Apr 1 Jun 30	10.12	9.23	0.09

Fiscal year ended June 30, 2012	**High**	**Low**	**Div Pd**
Jul 1 Sep 30	$ 14.00	$ 9.45	$ 0.09
Oct 1 Dec 31	14.69	11.18	0.09
Jan 1 Mar 31	14.29	11.60	0.09
Apr 1 Jun 30	11.70	8.00	0.09

On September 16, 2013, the last reported sale price of the Company s voting common stock, as reported on NASDAQ was $10.56. Holders of the Company s voting and non-voting common stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available. The amount and timing of future dividends payable on the Company s voting and non-voting common stock will depend on, among other things, the financial condition of the Company, regulatory considerations, and other factors. The Company is a legal entity separate from the Bank, but its revenues are derived primarily from the Bank. Accordingly, the ability of the Company to pay cash dividends on its stock in the future generally will be dependent upon the earnings of the Bank and the Bank s ability to pay dividends to the Company. The payment of dividends by the Bank will depend on a number of factors, including capital requirements, regulatory limitations, the Bank s results of operations and financial condition, tax considerations, and general economic conditions. National banking laws regulate and restrict the ability of the Bank to pay dividends to the Company. See Item 1. Business Supervision and Regulation.

(b) Not applicable.

(c) Issuer Repurchases of Equity Securities.

None.

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Item 6. Selected Financial Data

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

[redacted]						
Selected operations data:						
Interest and dividend income	$ 36,543	$ 27,014	$ 13,304	$ 14,378	$ 31,262	$ 33,766
Interest expense	6,596	6,317	3,207	5,877	13,314	16,718
Net interest income	29,947	20,697	10,097	8,501	17,948	17,048
Provision for loan losses	1,122	946	707	912	1,864	2,100
Noninterest income (3)	11,433	8,565	18,982	4,214	5,701	4,640
Net securities gains (losses)	792	1,111	1,200	17	(18)	268
Noninterest expense (4)	34,685	28,230	17,148	9,455	19,473	18,598
Income before income taxes	6,365	1,197	12,424	2,365	2,294	1,258
Income tax expense (benefit)	1,945	181	(83)	698	782	130
Net income from continuing operations	4,420	1,016	12,507	1,667	1,512	1,128
Net income (loss) from discontinued operations		1,147	45	129	207	(169)
Net income	$ 4,420	$ 2,163	$ 12,552	$ 1,796	$ 1,719	$ 959
Net income available to common stockholders	$ 4,065	$ 1,771	$ 12,355	$ 1,677	$ 1,476	$ 825
Consolidated per share data:						
Earnings:						
Basic:						
Continuing operations	$ 0.39	$ 0.15	$ 3.51	$ 0.66	$ 0.55	$ 0.43
Discontinued operations		0.26	0.01	0.06	0.09	(0.07)
Net income	$ 0.39	$ 0.41	$ 3.52	$ 0.72	$ 0.64	$ 0.36
Diluted:						
Continuing operations	$ 0.39	$ 0.15	$ 3.46	$ 0.66	$ 0.54	$ 0.43
Discontinued operations		0.26	0.01	0.05	0.09	(0.07)

Net income	$ 0.39	$ 0.41	$ 3.47	$ 0.71	$ 0.63	$ 0.36
Cash dividends	$ 0.36	$ 0.36	$ 0.18	$ 0.18	$ 0.36	$ 0.36
Book value	10.89	11.07	17.33	19.79	20.08	18.63
Selected balance sheet data:						
Total assets	$ 670,639	$ 669,196	$ 596,393	$ 627,984	$ 622,607	$ 598,148
Loans	435,376	356,254	309,913	367,284	382,309	393,651
Deposits	484,623	422,188	401,118	374,617	384,197	385,386
Borrowings	64,069	120,859	126,706	199,326	183,025	162,389
Total stockholders equity	113,802	119,139	64,954	50,366	50,906	47,317
Other ratios:						
Return on average assets	0.64%	0.36%	4.09%	0.57%	0.28%	0.16%
Return on average equity	3.79%	3.03%	38.23%	7.03%	3.47%	2.14%
Efficiency ratio	82.25%	92.95%	56.63%	74.26%	82.40%	84.71%
Average equity to average total assets	16.93%	11.90%	10.69%	8.18%	8.10%	7.35%
Common dividend payout ratio	92.25%	71.26%	5.02%	25.02%	56.64%	101.14%
Tier 1 leverage capital ratio	17.78%	19.91%	10.35%	N/A	8.40%	8.12%
Total risk-based capital ratio	27.54%	33.34%	18.99%	N/A	14.09%	13.23%

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

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

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

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

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

Northeast Bancorp (the Company) is a Maine corporation and a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956. The Company also is a registered Maine financial institution holding company. The Federal Reserve is the primary regulator of the Company, and the Company is also subject to regulation and examination by the Superintendent of the Maine Bureau of Financial Institutions. The Company s principal asset is the capital stock of Northeast Bank (the Bank), a Maine state-chartered universal bank. Accordingly, the Company s results of operations are primarily dependent on the results of the operations of the Bank.

The Management s Discussion and Analysis of Financial Condition and Results of Operations, which follows, presents a review of the consolidated operating results of the Company for the fiscal year ended June 30, 2013 (fiscal 2013) and the fiscal year ended June 30, 2012 (fiscal 2012). This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Company s Consolidated Financial Statements and related notes and other statistical information included in this report. Certain amounts in the periods prior to fiscal 2013 have been reclassified to conform to the fiscal 2013 presentation.

Overview

Financial Presentation

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

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

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

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

Recognize assets acquired and liabilities assumed: Because neither Northeast Bancorp, the Predecessor Company (the acquired company), nor FHB (the accounting acquirer) exist as separate entities after the Merger, a new basis of accounting at fair value for the Successor Company s assets and liabilities was established in the consolidated financial statements. At the acquisition date, the Successor Company recognized the identifiable assets acquired and the liabilities assumed based on their then fair values in accordance with ASC Topic 820, *Fair Value Measurement* (ASC 820). The Successor Company recognized a bargain purchase gain as the difference between the total purchase price and the net assets acquired.

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

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

Condition	**Ratio at June 30, 2013**
(i) Tier 1 leverage ratio	17.78%
(ii) Total risk-based capital ratio	27.54%
(iii) Ratio of purchased loans to total loans	37.57%
(iv) Ratio of loans to core deposits	92.94%
(v) Ratio of commercial real estate loans to total risk-based capital	159.07%

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

Fiscal 2013 Financial Highlights

The Company s financial and strategic highlights for fiscal 2013 include the following:

- Earned net income of $4.4 million, or $0.39 per diluted share, from continuing operations as compared to $1.0 million, or $0.15 per diluted share, from continuing operations in fiscal 2012.

- Purchased commercial loans totaling $121.3 million, and earned an average yield on the purchased portfolio of 16.0%, a result that includes regularly scheduled interest and accretion, and accelerated accretion and fees recognized on loan payoffs. The Company also monitors the total return on its purchased loan portfolio, a measure that includes gains on sales of purchased loans, as well as interest, scheduled accretion and accelerated accretion and fees. On this basis, the purchased loan portfolio earned a total return of 18.3% for fiscal 2013. An overview of the LASG portfolio for fiscal 2013 follows:

	Purchased	**Originated** (Dollars in thousands)	**Total LASG**
Purchased or originated during the year:			
Unpaid principal balance	$ 155,216	$ 37,181	$ 192,397
Net investment basis	121,336	37,208	158,544

Totals as of year end:			
Unpaid principal balance	$ 204,276	$ 38,846	$ 243,122
Net investment basis	166,786	38,879	205,665
Returns during the year:			
Yield	16.04%	9.34%	15.28%
Total Return (1)	18.33%	9.34%	17.32%

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

- Increased the Company s deposit base by $62.4 million, principally through $69.0 million of net deposits raised through ableBanking, the Bank s online affinity deposit platform.

- Redeemed TARP preferred stock and warrants totaling $4.3 million.

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Results of Operations Continuing Operations

General

Net income from continuing operations for the year ended June 30, 2013 was $4.4 million, a $3.4 million increase over 2012. Items of significance affecting the Company s earnings included:

- An increase in the net interest margin, which grew to 4.62%, compared to 3.69% for the year ended June 30, 2012, principally due to growth in the Company s purchased loan portfolio. The following table summarizes interest income and related yields recognized on the Company s loans.

	Year Ended June 30,					
	2013			2012		
	Average Balance	Interest Income	Yield	Average Balance	Interest Income	Yield
	(Dollars in thousands)					
Community Banking Division	$ 252,199	$ 14,824	5.88%	$ 297,348	$ 18,047	6.07%
LASG:						
Originated	14,906	1,392	9.34%	3,278	308	9.40%
Purchased	117,205	18,801	16.04%	39,022	6,379	16.35%
Total LASG	132,111	20,193	15.28%	42,300	6,687	15.81%
Total	$ 384,310	$ 35,017	9.11%	$ 339,648	$ 24,734	7.28%

The yield on purchased loans was increased by unscheduled loan payoffs, which resulted in immediate recognition of the prepaid loans discount in interest income. The following table details the total return on purchased loans, which includes transactional income of $10.6 million for the year ended June 30, 2013.

	Year Ended June 30,			
	2013		2012	
	Income	Return (1)	Income	Return (1)
	(Dollars in thousands)			
Regularly scheduled interest and accretion	$ 11,038	9.35%	$ 3,762	9.64%
Transactional income:				
Gains on loan sales	2,115	1.79%	868	2.22%
Gain on sale of real estate owned	684	0.58%		0.00%
Other noninterest income	36	0.03%		0.00%
Accelerated accretion and loan fees	7,763	6.58%	2,617	6.71%
Total transactional income	10,598	8.98%	3,485	8.93%
Total	$ 21,636	18.33%	$ 7,247	18.57%

(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.

- Net gains on residential mortgage loan sales of $3.0 million, compared to $2.8 million in fiscal 2012.

- Net gains on portfolio loan sales of $2.3 million, compared to $1.1 million in fiscal 2012.

- An increase of $6.5 million in noninterest expense, principally resulting from increased staffing and infrastructure costs necessary to execute the Company s loan purchasing strategy. Further, during fiscal 2013, the Company incurred $1.4 million of nonrecurring expenses related to severance and the settlement of a previously disclosed lawsuit.

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Net Interest Income

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

	Successor Company (1)					
	Year Ended June 30, 2013			Year Ended June 30, 2012		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities (3)	$ 131,199	$ 1,138	0.87%	$ 138,708	$ 2,019	1.46%
Loans (4) (5)	384,310	35,017	9.11%	339,648	24,734	7.28%
Regulatory stock	5,398	75	1.39%	5,673	72	1.27%
Short-term investments (6)	127,781	313	0.24%	76,217	189	0.25%
Total interest-earning assets	648,688	36,543	5.63%	560,246	27,014	4.82%
Cash and due from banks	3,065			2,910		
Other non-interest earning assets	37,206			36,803		
Total assets	$ 688,959			$ 599,959		
Liabilities & Stockholders Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 55,763	$ 153	0.27%	$ 55,218	$ 213	0.39%
Money market accounts	63,931	337	0.53%	44,692	175	0.39%
Savings accounts	31,939	44	0.14%	32,799	67	0.20%
Time deposits	280,059	3,564	1.27%	223,782	2,971	1.33%
Total interest-bearing deposits	431,692	4,098	0.95%	356,491	3,426	0.96%
Short-term borrowings (7)	1,472	19	1.29%	1,075	21	1.95%
Borrowed funds	75,633	1,710	2.26%	112,812	2,119	1.87%
Junior subordinated debentures	8,185	769	9.40%	8,028	751	9.35%
Total interest-bearing liabilities	516,982	6,596	1.28%	478,406	6,317	1.32%
Interest-bearing liabilities of discontinued operations (8)				271		
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	49,343			45,933		
Other liabilities	5,982			3,932		
Total liabilities	572,307			528,542		
Stockholders equity	116,652			71,417		
Total liabilities and stockholders equity	$ 688,959			$ 599,959		
Net interest income		$ 29,947			$ 20,697	

Interest rate spread	4.36%	3.50%
Net interest margin (9)	4.62%	3.69%

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

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

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

(4) Includes loans held for sale.

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

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

(7) Short term borrowings include securities sold under repurchase agreements and sweep accounts.

(8) The average balance of borrowings associated with discontinued operations has been excluded from interest expense, interest rate spread, and net interest margin.

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

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	Successor Company (1) 184 Days Ended June 30, 2011			Predecessor Company (2) 181 Days Ended December 28, 2010		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Investment securities (3)	$ 143,894	$ 1,642	2.32%	$ 161,894	$ 3,111	3.96%
Loans (4) (5)	337,630	11,544	6.78%	385,286	11,210	5.87%
Regulatory stock	5,550	28	1.00%	5,486	18	0.66%
Short-term investments (6)	75,080	90	0.24%	39,212	39	0.20%
Total interest-earning assets	562,154	13,304	4.71%	591,878	14,378	4.92%
Cash and due from banks	3,432			3,340		
Other non-interest earning assets	43,668			34,724		
Total assets	$ 609,254			$ 629,942		
Liabilities & Stockholders Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 56,386	$ 160	0.56%	$ 53,780	$ 183	0.69%
Money market accounts	52,238	135	0.51%	55,955	213	0.77%
Savings accounts	34,799	67	0.38%	38,303	99	0.52%
Time deposits	207,251	1,303	1.25%	196,318	2,301	2.36%
Total interest-bearing deposits	350,674	1,665	0.94%	344,356	2,796	1.64%
Short-term borrowings (7)	19,764	76	0.76%	53,873	376	1.41%
Borrowed funds	115,798	1,101	1.89%	117,688	2,365	4.05%
Junior subordinated debentures	7,921	365	9.14%	16,496	340	4.16%
Total interest-bearing liabilities	494,157	3,207	1.29%	532,413	5,877	2.23%
Interest-bearing liabilities of discontinued operations (8)	2,134			2,462		
Non-interest bearing liabilities:						
Demand deposits and escrow accounts	43,761			37,941		
Other liabilities	4,075			5,576		
Total liabilities	544,127			578,392		
Stockholders equity	65,127			51,550		
Total liabilities and stockholders equity	$ 609,254			$ 629,942		
Net interest income		$ 10,097			$ 8,501	
Interest rate spread			3.42%			2.69%
Net interest margin (9)			3.58%			2.92%

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

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

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

(4) Includes loans held for sale.

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

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

(7) Short term borrowings include securities sold under repurchase agreements and sweep accounts.

(8) The average balance of borrowings associated with discontinued operations has been excluded from interest expense, interest rate spread, and net interest margin.

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

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

	Year Ended June 30, 2013 Compared to the Year Ended June 30, 2012		
	Change Due to Volume	Change Due to Rate	Total Change
		(Dollars in thousands)	
Interest earning assets:			
Investment securities	$ (104)	$ (777)	$ (881)
Loans	3,529	6,754	10,283
Regulatory stock	(3)	6	3
Short-term investments	128	(4)	124
Total increase in interest income	3,550	5,979	9,529
Interest bearing liabilities:			
Interest bearing deposits	823	(151)	672
Short-term borrowings	6	(8)	(2)
Borrowed funds	(790)	381	(409)
Junior subordinated debentures	14	4	18
Total increase in interest expense	53	226	279
Total increase in net interest and dividend income	$ 3,497	$ 5,753	$ 9,250

A rate/volume comparison of fiscal 2012 and 2011 has not been presented because the successor and predecessor periods in fiscal 2011 are not comparable to fiscal 2012 due to the significant effect of acquisition accounting adjustments.

For the period, the 4.62% net interest margin earned was 93 basis points higher than that earned for the year ended June 30, 2012. The net interest margin improved during fiscal 2013 principally due to increased purchased loan volume, offset in part by a decline in the effect of accretion of Merger-related fair value adjustments and a reduction in the yield earned on investment securities.

The following table summarizes interest income and related yields recognized on the Company s loans.

[redacted]

Community Banking Division	$ 252,199	$ 14,824	5.88%	$ 297,348	$ 18,047	6.07%
LASG:						
Originated	14,906	1,392	9.34%	3,278	308	9.40%
Purchased	117,205	18,801	16.04%	39,022	6,379	16.35%
Total LASG	132,111	20,193	15.28%	42,300	6,687	15.81%

Total	$ 384,310	$ 35,017	9.11%	$ 339,648	$ 24,734	7.28%

The yield on purchased loans was increased by unscheduled loan payoffs, which resulted in immediate recognition of the prepaid loans discount in interest income. The following table details the total return on purchased loans, which includes transactional income of $10.6 million for the year ended June 30, 2013.

Regularly scheduled interest and accretion	$ 11,038	9.35%	$ 3,762	9.64%
Transactional income:				
Gains on loan sales	2,115	1.79%	868	2.22%
Gain on sale of real estate owned	684	0.58%		0.00%
Other noninterest income	36	0.03%		0.00%
Accelerated accretion and loan fees	7,763	6.58%	2,617	6.71%
Total transactional income	10,598	8.98%	3,485	8.93%
Total	$ 21,636	18.33%	$ 7,247	18.57%

(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.

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

[redacted]

Interest-earning assets:						
Investment securities	$ 131,199	$ (3)	0.00%	$ 138,708	$ (100)	-0.07%
Loans	384,310	563	0.15%	339,648	713	0.21%
Other interest-earning assets	133,179		0.00%	81,890		0.00%
Total interest-earning assets	$ 648,688	$ 560	0.09%	$ 560,246	$ 613	0.11%
Interest-bearing liabilities:						
Interest-bearing deposits	431,692	989	0.23%	356,491	1,292	0.36%
Short-term borrowings	1,472		0.00%	1,075		0.00%
Borrowed funds	75,633	1,196	1.58%	112,812	2,299	2.04%
Junior subordinated debentures (1)	8,185	6	0.07%	8,028	(2)	-0.02%
Total interest-bearing liabilities	$ 516,982	$ 1,692	0.42%	$ 478,406	$ 3,589	0.75%
Total effect of noncash accretion on:						
Net interest income		$ 2,751			$ 4,202	
Net interest margin		0.42%			0.75%	

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(1) Includes the effects of hedge amortization.

The Company s total cost of funds improved to 1.16% in fiscal 2013, down from 1.20% in fiscal 2012, principally due to a 1 basis point decrease in the cost of interest-bearing deposits and a $3.4 million increase in average non-interest bearing deposits.

Provision for Loan Losses

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

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

The provision for loan losses for the fiscal year ended June 30, 2013 was $1.1 million.   This compares to a provision for loan losses of $946 thousand for the year ended June 30, 2012. At June 30, 2013 and 2012, the allowance for loan losses stood at $1.1 million and $824 thousand, respectively, and the ratio of allowance for loan losses to total loans was 0.26% and 0.23%, respectively. Net charge-offs for the fiscal year ended June 30, 2013 totaled $803 thousand, representing approximately 0.21% of the Company s average portfolio loan balance during the fiscal year. This compares to $559 thousand, or 0.17%, in fiscal 2012, representing an increase of $242 thousand in fiscal 2013, principally due to one commercial business loan relationship.

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

Noninterest Income

Noninterest income for the fiscal year ended June 30, 2013 totaled $12.2 million, an increase of $2.5 million, or 26.3%, from fiscal 2012. When compared to fiscal 2012, the increase was principally due to the following:

- $2.0 million increase in gains recognized on portfolio loan and real estate owned sales, principally because of purchased loan sales and commercial REO resolutions during fiscal 2013;

- a $248 thousand increase in gains on residential loans originated for sale. During fiscal 2013, the Company expanded mortgage-banking activities into Massachusetts and increased sales volume to $143.2 million from $121.4 million in fiscal 2012;

- a $265 thousand increase in customer fees, due to an increase in commercial loan servicing fees; and

- a $217 thousand increase in BOLI income, due to death benefits received in fiscal 2013.

Noninterest Expense

Noninterest expense for the fiscal year ended June 30, 2013 totaled $34.7 million, an increase of $6.5 million, or 22.9%, from fiscal 2012. When compared to fiscal 2012, the increase was principally due to the following:

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- an increase of $3.6 million in salaries and benefits, reflecting increased staffing associated with the LASG and operational areas supporting the LASG, residential lending, and ableBanking. The Company s employees, on a full-time equivalent basis, totaled 219 at June 30, 2013, compared to 203 at June 30, 2012. The Company also incurred approximately $388 thousand of severance expense in fiscal 2013 associated with the departure of a senior manager and the Bank s decision to exit the investment brokerage business;

- an increase of $940 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 $358 thousand in marketing expense, principally due to promotional efforts for ableBanking and residential mortgage lending;

- an increase of $660 thousand in loan acquisition and collection expense, principally due an increase of $19.6 million in loan acquisitions in fiscal 2013, as well as the overall size of the purchased loan portfolio which increased by $82.3 million;

- the settlement of a lawsuit in the amount of $1.0 million. The summons and complaint was filed in August of 2011, in connection with a dispute regarding certain deposit account activity occurring in 2005 and 2006.

Income Taxes

Income tax expense for the fiscal year ended June 30, 2013 totaled $1.9 million, representing 30.6% of pretax income. The Company s effective tax rate differed from its statutory federal rate because of affordable housing tax credits totaling $117 thousand and non-taxable BOLI income of $718 thousand.

Income tax expense for the fiscal year ended June 30, 2012 totaled $181 thousand, representing 15.1% of pretax income. The effective tax rate for the period reflects the level of pretax income in relation to nontaxable income, principally BOLI income totaling $501 thousand, and low-income housing tax credits totaling $118 thousand.

Results of Operations Discontinued Operations

Overview

In the first quarter of fiscal 2012, the Company sold intangible assets (principally customer lists) and certain fixed assets of Northeast Bank Insurance Group (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.

Net income from discontinued operations for the fiscal year ended June 30, 2012 was $1.1 million, or $0.26 per diluted share, which includes a pre-tax gain on the sale of NBIG intangibles and certain fixed assets, net of expenses, of $1.6 million. The Company also recorded pre-tax income associated with operations of $186 thousand prior to the asset sale. Income tax expense associated with discontinued operations for the year ended June 30, 2012 was $605 thousand, or 34.5% of pre-tax income.

Financial Condition

Overview

The Company s total assets grew to $670.6 million at June 30, 2013, representing an increase of $1.4 million, or 0.2%, compared to $669.2 million at June 30, 2012. Significant changes in the Company s balance sheet components include:

- loan growth of $79.1 million, or 22.2%, principally due to net growth of $116.1 million in commercial loans purchased or originated by the Bank s LASG, offset by net amortization and payoffs of $37.0 million in the Community Banking Division loan portfolio;

- deposit growth $62.4 million, or 14.8%, primarily due to a $69.0 million increase in deposits raised through ableBanking, the Bank s online affinity deposit platform;

- a $56.8 million decrease in borrowings, to the result of maturing wholesale repurchase agreements and FHLB advances, and

- a $5.3 million, or 4.5%, decrease in stockholders equity, primarily due to the redemption of TARP preferred stock and warrants totaling $4.3 million.

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Cash and Cash Equivalents

Cash and cash equivalents decreased $62.3 million, or 48.6%, to $65.9 million at June 30, 2013 as compared to $128.3 million at June 30, 2012. This decrease occurred as cash was used to fund loan growth.

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Investments Securities

The available-for-sale securities portfolio totaled $121.6 million and $133.3 million at June 30, 2013 and 2012, respectively. The year over year decrease of $11.7 million, or 8.8%, was primarily due to principal amortization of mortgage-backed securities during the year. Mortgage-backed securities and U.S. Government-sponsored enterprise bonds totaling $53.5 million were pledged for outstanding borrowings at June 30, 2013.

At June 30, 2013, the Company s investment portfolio was comprised entirely of U.S. Government-sponsored enterprise bonds and mortgage-backed securities guaranteed by government agencies. Generally, funds retained by the Company as a result of increases in deposits or decreases in loans, to the extent not immediately deployed by the Bank, are invested in securities held in its investment portfolio, which serves as a source of liquidity for the Company. The composition of the Company s securities portfolio at the dates indicated follows.

	June 30, 2013		June 30, 2012		June 30, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(Dollars in thousands)			
U.S. Government agency securities	$ 45,289	$ 45,333	$ 45,824	$ 45,808	$ 48,827	$ 48,737
Agency mortgage-backed securities	78,944	76,264	86,816	87,456	99,637	99,558
Trust preferred securities					466	451
Equity securities					193	216
	$ 124,233	$ 121,597	$ 132,640	$ 133,264	$ 149,123	$ 148,962

The table below sets forth certain information regarding the contractual maturities and weighted average yields of the Company s securities portfolio at June 30, 2013. Actual maturities of mortgage-backed securities will differ from contractual maturities due both to scheduled amortization and prepayments.

	Within One Year		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
					(Dollars in thousands)					
U.S. Government agency securities	$ 45,332	0.35%	$		$		$		$ 45,332	0.35%
Agency mortgage-backed securities					40,622	0.86%	35,643	1.27%	76,265	1.05%
	$ 45,332	0.35%	$		$ 40,622	0.86%	$ 35,643	1.27%	$ 121,597	0.79%

Management reviews the portfolio of investments on an ongoing basis to determine if there have been any other-than-temporary declines in value. No other-than-temporary impairment expense was recognized during fiscal 2013 or fiscal 2012.

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Loans

Loans, including loans held-for-sale, totaled $444.0 million at June 30, 2013, compared to $366.1 million at June 30, 2012. The increase of $77.9 million, or 21.3%, at June 30, 2013, was principally due to net increases of $83.7 million and $10.1 million in commercial real estate and commercial business loans, respectively, offset by decreases in all other categories. During fiscal 2013, the LASG purchased $121.3 million in loans, consisting principally of commercial real estate loans.

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

	Successor Company						Predecessor Company			
	June 30, 2013		June 30, 2012		June 30, 2011		June 30, 2010		June 30, 2009	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
					(Dollars in thousands)					
Residential real estate	$ 127,829	29.36%	$ 137,571	38.61%	$ 145,477	46.94%	$ 155,613	40.70%	$ 138,900	35.29%
Commercial real estate	264,448	60.74%	180,735	50.74%	117,761	38.00%	121,175	31.70%	120,730	30.67%
Construction	42	0.01%	1,187	0.33%	2,015	0.65%	5,525	1.45%	6,384	1.62%
Commercial business	29,720	6.83%	19,612	5.51%	22,225	7.17%	30,214	7.90%	29,211	7.42%
Consumer and other	13,337	3.06%	17,149	4.81%	22,435	7.24%	69,782	18.25%	98,426	25.00%
Total loans	435,376	100.0%	356,254	100.0%	309,913	100.0%	382,309	100.0%	393,651	100.0%
Less: Allowance for loan losses	1,143		824		437		5,806		5,764	
Loans, net	$ 434,233		$ 355,430		$ 309,476		$ 376,503		$ 387,887	

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

	June 30, 2013				June 30, 2012			
	Community Banking Division	LASG	Total	Percent of Total	Community Banking Division	LASG	Total	Percent of Total
				(Dollars in thousands)				
Originated loans:								
Residential real estate	$ 89,584	$ 150	$ 89,734	20.61%	$ 90,793	$ 151	$ 90,944	25.53%
Home equity	35,389		35,389	8.13%	42,696		42,696	11.98%
Commercial real estate	78,915	21,487	100,402	23.06%	97,146	3,050	100,196	28.12%
Construction	42		42	0.01%	1,187		1,187	0.33%
Commercial business	12,444	17,242	29,686	6.82%	17,732	1,880	19,612	5.51%
Consumer	13,337		13,337	3.06%	17,149		17,149	4.81%
Subtotal	229,711	38,879	268,590	61.69%	266,703	5,081	271,784	76.28%
Purchased loans:								
Residential real estate		2,706	2,706	0.62%		3,931	3,931	1.10%

Commercial business		34	34	0.01%				
Commercial real estate		164,046	164,046	37.68%		80,539	80,539	22.62%
Subtotal		166,786	166,786	38.31%		84,470	84,470	23.72%
Total	$ 229,711	$ 205,665	$ 435,376	100.00%	$ 266,703	$ 89,551	$ 356,254	100.00%

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The following table summarizes the scheduled maturity of the Company s loan portfolio at June 30, 2013. Demand loans, loans having no stated repayment schedule, and overdraft loans are reported as being due in less than one year.

	Scheduled Loan Maturities				
	Within One Year	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years	Total
Mortgages:					
Residential:					
Originated	$ 4,802	$ 13,483	$ 21,989	$ 84,849	$ 125,123
Purchased	565	2,057		84	2,706
Commercial:					
Originated	4,745	26,251	15,937	53,469	100,402
Purchased	12,822	76,624	17,882	60,718	164,046
Construction	42				42
Non-mortgage loans:					
Commercial:					
Originated	18,224	9,083	1,937	442	29,686
Purchased		34			34
Consumer and other	427	2,310	5,030	5,570	13,337
Total loans	$ 41,627	$ 129,842	$ 62,775	$ 205,132	$ 435,376

	Loans Due After One Year, by Interest Rate Type		
	Predetermined rate	Floating or Adjustable (Dollars in thousands)	Total
Mortgages:			
Residential:			
Originated	$ 54,617	$ 65,704	$ 120,321
Purchased	83	2,058	2,141
Commercial:			
Originated	73,346	22,311	95,657
Purchased	56,704	94,520	151,224
Construction			
Non-mortgage loans:			
Commercial:			
Originated	3,955	7,507	11,462
Purchased	5	29	34
Consumer and other	37	12,873	12,910
Total	$ 188,747	$ 205,002	$ 393,749

Of total portfolio loans at June 30, 2013, approximately 46.5% were variable rate products, compared to 56.3% at June 30, 2012. This decrease in the percentage of variable rate products resulted principally from an increase in fixed-rate commercial loans.

Certain purchased loans have been identified as having evidence of credit deterioration since their origination, and it is probable that the Company will not collect all contractually required principal and interest payments. Purchased credit-impaired loans are accounted for using the measurement provisions set forth in ASC 310-30. A nonaccretable difference has been established in accounting for PCI loans to absorb losses of principal and interest. Losses absorbed by the nonaccretable difference do not affect the income statement or the allowance for loan losses.

Other Assets

The cash surrender value of the Company s BOLI assets increased $90 thousand, or 0.6%, to $14.4 million at June 30, 2013, compared to $14.3 million at June 30, 2012. BOLI assets are invested in the general account of three insurance companies and in separate accounts of a fourth insurance company. A general account policy s cash surrender value is supported by the general assets of the insurance company. A separate account policy s cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor s rated these companies A+ or better at June 30, 2013. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates that reset each year, and are subject to minimum guaranteed rates. These increases in cash surrender value are recognized in other income and are not subject to income taxes. Management considers BOLI an illiquid asset. BOLI represented 11.8% of the Company s total risk-based capital at June 30, 2013.

Intangible assets totaled $3.5 million and $4.5 million at June 30, 2013 and June 30, 2012, respectively. The $943 thousand decrease was the result of core deposit intangible amortization during fiscal 2013.

Deposits

The Company s principal source of funding is its core deposit accounts. At June 30, 2013, core deposits, which the Company defines as non-maturity accounts and certificates of deposit with balances less than $250 thousand, represented 98.3% of total deposits.

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Total deposits increased $62.4 million to $484.6 million as of June 30, 2013 from $422.2 million as of June 30, 2012. The overall increase was achieved through the Bank s online affinity deposit program, which grew CD and money market deposit balances by a total of $69.0 million during fiscal 2013.

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

	Successor Company							
	Year Ended June 30, 2013				Year Ended June 30, 2012			
	Average Balance		Weighted Average Rate	Percent of Total Average Deposits	Average Balance		Weighted Average Rate	Percent of Total Average Deposits
	(Dollars in thousands)							
Non-interest bearing demand deposits and escrow accounts	$	49,343	0.00%	10.26%	$	45,933	0.00%	11.41%
Regular savings		31,939	0.14%	6.64%		32,799	0.20%	8.15%
NOW accounts		55,763	0.27%	11.59%		55,218	0.39%	13.72%
Money market accounts		63,931	0.53%	13.29%		44,692	0.39%	11.11%
Time deposits		280,059	1.27%	58.22%		223,782	1.33%	55.61%
Total average deposits	$	481,035	0.85%	100.00%	$	402,424	0.85%	100.00%

[redacted]

Non-interest bearing demand deposits and escrow accounts	$	43,761	0.00%	11.10%	$	37,941	0.00%	9.92%
[redacted]								
NOW accounts		56,386	0.56%	14.30%		53,780	0.69%	14.07%
[redacted]								
Time deposits		207,251	1.25%	52.54%		196,318	2.36%	51.35%
[redacted]								

As of June 30, 2013, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100 thousand was approximately $163.4 million. The scheduled maturity of these deposits is set forth below (dollars in thousands).

3 months or less	$	27,694
Over 3 through 6 months		35,931
Over 6 through 12 months		14,545

Over 12 months		85,269
Total time certificates $100 and over	$	163,439

Borrowings

Short-term borrowings, FHLB advances, Federal Reserve Discount Window Borrower-in-custody advances, wholesale repurchase agreements and junior subordinated debentures have been the Company s sources of funding other than deposits. In fiscal 2013, total borrowings decreased by $56.8 million, or 47.0%, to $64.0 million.

Advances from the FHLB were $28.0 million and $43.5 million at June 30, 2013 and June 30, 2012, respectively, a decrease of $15.4 million, or 35.5%. At June 30, 2013, the Company had pledged investment securities having a fair value of $27.3 million for outstanding FHLB borrowings. In addition, pledges of residential real estate loans, certain commercial real estate loans and certain FHLB deposits free of liens or pledges are required to secure outstanding advances and available additional borrowing capacity from the FHLB. Wholesale repurchase agreements were $25.4 million and $66.2 million at June 30, 2013 and 2012, respectively. At June 30, 2013, the Company had pledged investment securities having a fair value of $27.0 million and cash of $3.2 million for outstanding wholesale repurchase agreements.

Short-term borrowings, consisting of sweep accounts and repurchase agreements, were $625 thousand and $1.2 million at June 30, 2013 and 2012, respectively. At June 30, 2013, sweep accounts were secured by $2.0 million of letters of credit issued by the FHLB and investment securities with a fair value of $3.0 million.

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

[redacted]				
Balance at period end	$ 625	0.00%	$ 1,209	2.00%
[redacted]				
Maximum outstanding at any period	2,707		1,836	

	Successor Company 184 Days Ended June 30, 2011		Predecessor Company 181 Days Ended December 28, 2010	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)			
Balance at period end	$ 2,515	1.52%	$ 62,737	1.13%
Average outstanding during period	19,764	0.76%	53,873	1.41%
Maximum outstanding at any period	62,034		62,737	

There were no balances outstanding at June 30, 2013 and 2012, respectively, for advances under the Federal Reserve Discount Window Borrower-in-custody program. The available credit under the program was $80 thousand and $369 thousand at June 30, 2013 and June 30, 2012, respectively.

The Company had junior subordinated debentures issued to affiliated trusts totaling $8.3 million and $8.1 million at June 30, 2013 and 2012, respectively. See Capital below for more information on our junior subordinated debentures and affiliated trusts.

Asset Quality

Allowance for Loan Losses

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

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

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As of June 30, 2013, the allowance for loan losses totaled $1.1 million, or 0.26% of total loans, as compared to $824 thousand, or 0.23% of total loans, at June 30, 2012. The year over year increase in the Company s allowance for losses was principally the result of loan originations and an increase in troubled debt restructurings. The following table sets forth activity in Company s allowance for loan losses for the periods indicated.

	Successor Company			Predecessor Company		
	Year Ended June 30, 2013	Year Ended June 30, 2012	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010	Year Ended June 30, 2010	Year Ended June 30, 2009
	(Dollars in thousands)					
Allowance at beginning of period	$ 824	$ 437	$	$ 5,806	$ 5,764	$ 5,656
Loans charged-off during the period:						
Residential real estate	369	248	42	61	237	271
Commercial real estate	135	26	27	281	412	257
Commercial business	203	17	21	145	509	285
Consumer and other	148	352	216	372	827	1,401
Total loans charged-off	855	643	306	859	1,985	2,214
Recoveries on loans previously charged-off:						
Residential real estate	6	3		53	34	3
Commercial real estate	10		8	4	12	49
Commercial business	7	44	2	26	23	77
Consumer and other	29	37	26	25	94	93
Total recoveries	52	84	36	108	163	222
Net loans charged off during the period	803	559	270	751	1,822	1,992
Provision for loan losses	1,122	946	707	912	1,864	2,100
Allowance at end of period	$ 1,143	$ 824	$ 437	$ 5,967	$ 5,806	$ 5,764
Total loans at end of period (1)	$ 435,376	$ 356,254	$ 309,913	$ 367,284	$ 382,309	$ 393,651
Average loans outstanding during the period (1)	376,660	333,053	332,684	375,878	388,700	404,124
Allowance as a percentage of total loans	0.26%	0.23%	0.14%	1.62%	1.52%	1.46%
Ratio of net charge-offs to average loans outstanding	0.21%	0.17%	0.08%	0.20%	0.47%	0.49%
Allowance as a percentage of non-performing loans	23.54%	13.48%	5.49%	67.49%	65.67%	58.26%

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

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

	Successor Company						Predecessor Company			
	June 30, 2013		June 30, 2012		June 30, 2011		June 30, 2010		June 30, 2009	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans

(Dollars in thousands)

Residential real estate	$ 594	29.36%	$ 214	38.61%	$ 34	46.94%	$ 1,564	40.70%	$ 1,083	35.29%
Commercial real estate	249	60.75%	93	51.07%	147	38.65%	1,462	33.15%	1,819	32.29%
Commercial business	70	6.83%	292	5.51%	238	7.17%	1,051	7.90%	819	7.42%
Consumer and other	189	3.06%	225	4.81%	18	7.24%	1,462	18.25%	2,043	25.00%
Unallocated	41	0.00%		0.00%		0.00%	267	0.00%		0.00%
Total	$ 1,143	100.00%	$ 824	100.00%	$ 437	100.00%	$ 5,806	100.00%	$ 5,764	100.00%

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

	Successor Company			Predecessor Company	
	2013	2012	2011	2010	2009
Past due loans to total loans	1.68%	1.95%	2.41%	2.84%	3.42%

Non-performing Assets

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

	Successor Company			Predecessor Company	
	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009
			(Dollars in thousands)		
Nonperforming loans:					
Originated portfolio:					
Residential real estate	$ 2,346	$ 3,090	$ 2,195	$ 2,687	$ 1,542
Commercial real estate	473	417	3,601	3,270	4,100
Construction			121	445	273
Home equity	334	220	205	302	78
Commercial business	110	1,008	559	1,743	3,327
Consumer	136	324	527	394	574
Total originated portfolio	3,399	5,059	7,208	8,841	9,894
Purchased portfolio:					
Residential real estate					
Commercial real estate	1,457	1,055			
Commercial business					
Total purchased portfolio	1,457	1,055			
Total nonperforming loans	4,856	6,114	7,208	8,841	9,894
Real estate owned and other repossessed collateral	2,134	834	690	1,292	673
Total nonperforming assets	$ 6,990	$ 6,948	$ 7,898	$ 10,133	$ 10,567
Nonperforming loans that are current	$ 887	$ 377	$ 3,067	$ 3,199	$ 3,352
Non-performing loans to total loans	1.12%	1.72%	2.33%	2.31%	2.51%
Non-performing assets to total assets	1.04%	1.04%	1.32%	1.63%	1.77%

At June 30, 2013, the Company had $4.9 million of nonperforming loans, or 1.1% of total loans, compared to $6.1 million, or 1.7% of total loans, as of June 30, 2012. While total nonperforming loans decreased, overall nonperforming assets remained flat with fiscal 2012 due to an increase in real estate owned.

TDRs represent performing loans for which concessions (such as extension of repayment terms or reductions of interest rates to below market rates) are granted due to a borrower s financial condition. Such concessions may include reductions of interest rates to below-market terms and/or extension of repayment terms. TDRs increased $2.4 million during fiscal 2013, of which, $1.1 million related to loans discharged in bankruptcy in prior years. Under recent regulatory guidance, these loans are required to be classified as TDRs and are considered collateral dependent impaired loans. The balances and payment status of TDRs follow:

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Nonaccrual	$ 1,110	$ 139
Accrual	2,632	1,165
Total TDRs	$ 3,742	$ 1,304

At June 30, 2013, the Company had real estate owned and other repossessed collateral amounting to $2.1 million, compared to $834 thousand at June 30, 2012, an increase of $1.3 million. The real estate and personal property collateral for commercial and consumer loans are written down to fair value upon transfer to acquired assets. Revenues and expenses are recognized in the period when received or incurred on other real estate and in substance foreclosures. Gains and losses on disposition are recognized in noninterest income.

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

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Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under a ten-point rating system. These ratings are guidelines in assessing the risk of a particular loan. The Company had $2.9 million and $2.5 million of commercial loans rated substandard or worse at June 30, 2013 and June 30, 2012, respectively.

	June 30, 2013			
	Originated Portfolio			
	Commercial Real Estate	Construction	Commercial and Industrial	Purchased Portfolio
	(Dollars in thousands)			
Loans rated 1- 6	$ 95,834	$ 42	$ 29,340	$ 161,965
Loans rated 7	3,537		82	3,226
Loans rated 8	1,031		264	1,595
Loans rated 9				
Loans rated 10				
	$ 100,402	$ 42	$ 29,686	$ 166,786

	June 30, 2012			
	Originated Portfolio			
	Commercial Real Estate	Construction	Commercial and Industrial	Purchased Portfolio
	(Dollars in thousands)			
Loans rated 1- 6	$ 96,963	$ 1,187	$ 18,223	$ 83,415
Loans rated 7	1,886		250	1,055
Loans rated 8	1,347		1,139	
Loans rated 9				
Loans rated 10				
	$ 100,196	$ 1,187	$ 19,612	$ 84,470

Risk Management

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

Credit Risk

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

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

Market Risk

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

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

The Company s management has established an Asset Liability Management Committee (ALCO), which is responsible for managing the Company s interest rate risk in accordance with policies and limits approved by the Board of Directors. With regard to

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management of market risk, the ALCO is charged with managing the Company s mix of assets and funding sources to produce results that are consistent with the Company s liquidity, capital adequacy, growth, and profitability goals.

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

The ALCO s primary tool for measuring, evaluating, and managing interest rate risk is income simulation analysis. Income simulation analysis measures the interest rate risk inherent in the Company s balance sheet at a given point in time by showing the effect of interest rate shifts on net interest income over defined time horizons. These simulations take into account the specific repricing, maturity, prepayment and call options of financial instruments that vary under different interest rate scenarios. The ALCO reviews simulation results to determine whether the exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. The Company considers a variety of specified rate scenarios, including instantaneous rate shocks, against static (or flat) rates when measuring interest rate risk, and evaluates results over two consecutive twelve-month periods. All changes are measured in comparison to the projected net interest income that would result from an unchanged scenario, where interest rates remain stable over the measured time horizon(s). As of June 30, 2013, the income simulation analysis (as noted in the table below) for the first twelve-month period indicated that exposure to changing interest rates fell within the Company s policy levels of tolerance.

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

Assuming a 200 basis point increase and 100 basis point decrease in interest rates starting on June 30, 2013, we estimate that our net interest income in the following 12 months would decrease by 0.92% if rates increased by 200 basis points and decrease by 0.78% if rates declined by 100 basis points. These results indicate a modest level of liability sensitivity in our balance sheet in a rising rate environment and a modest level of asset sensitivity in a declining rate environment, the latter result principally due to our assumption that most non-maturity deposits are at or near their effective interest rate floors. A liability-sensitive position would generally imply a negative impact on net interest income in periods of rising rates and a positive impact in periods of falling rates. An asset-sensitive position indicates that there are more rate-sensitive assets than rate-sensitive liabilities repricing or maturing within specific time horizons, which would generally imply a favorable impact on net interest income in periods of rising interest rates and a negative impact in periods of falling rates.

	Up 200 Basis Points	**Down 100 Basis Points**
June 30, 2013	-0.92%	-0.78%
June 30, 2012	3.19%	-0.18%

Liquidity Risk

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

We monitor and forecast our liquidity position. There are several interdependent methods used by us for this purpose, including daily review of Federal Funds positions, monthly review of balance sheet changes, monthly review of liquidity ratios, quarterly review of

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liquidity forecasts and periodic review of contingent funding plans. Using these methods, the Company actively manages its liquidity position under the direction of the ALCO, which meets weekly.

The following is a summary of the unused borrowing capacity of the Company at June 30, 2013 available to meet our short-term funding needs (dollars in thousands):

Brokered time deposits	$	167,660	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston		20,473	Unused advance capacity subject to eligible and qualified collateral
Federal Discount Window Borrower-in-Custody		80	Unused credit line subject to the pledge of indirect auto loans
Total unused borrowing capacity		188,213	
Unencumbered investment securities		68,142	
Total sources of liquidity	$	256,355	

Retail deposits and other core deposit sources including deposit listing services are used by the Bank to manage its overall liquidity position. While we currently do not seek wholesale funding such as FHLB advances and brokered deposits, the ability to raise them remains an important part of our liquidity contingency planning. While we closely monitor and forecast our liquidity position, it is affected by asset growth, deposit withdrawals and meeting other contractual obligations and commitments. The accuracy of our forecast assumptions may increase or decrease our overall available liquidity. To utilize the FHLB advance capacity, the purchase of additional capital stock in the Federal Home Loan Bank of Boston may be required. At June 30, 2013, the Bank had $256.4 million of immediately accessible off-balance sheet liquidity, defined as cash that the Bank reasonably believes could be raised within 7 days through collateralized borrowings or brokered deposits. This position represented 38% of total assets. Further, at June 30, 2013, the Company had $65.9 million of cash and cash equivalents. This level of balance sheet liquidity is intended, in part, for future purchases of commercial real estate loans.

On a parent company only basis, commitments and debt service requirements at June 30, 2013 consisted of junior subordinated debentures issued to NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV with a principal balance of $16.5 million. See Note 18 of the Notes to the Consolidated Financial Statements for carrying values, maturity dates and the use of purchased interest rate caps and swaps to hedge the interest expense in periods of rising interest rates. Based on the interest rates at June 30, 2013, the annual aggregate payments to meet the debt service of the junior subordinated debentures is approximately $401 thousand. Including the impact of the interest rate swap associated with NBN Capital Trust IV subordinated debentures, annual payments are expected to total $653 thousand.

The principal sources of funds for the Company to meet parent-only obligations are dividends from the Bank, which are subject to regulatory limitations, and borrowings from public and private sources. For information on the restrictions on the payment of dividends by Northeast Bank, see Note 9 of the Notes to the Company s Consolidated Financial Statements in this Annual Report.

Operational Risk

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

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

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

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

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

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

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A summary of the amounts of the Company s contractual obligations, and other commitments with off-balance sheet risk, both at June 30, 2013, follows:

	Payments Due - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(Dollars in thousands)				
Contractual obligations:					
FHLB advances	$ 27,500	$	$ 12,500	$ 15,000	$
Wholesale repurchase agreements	25,000	15,000	10,000		
Junior subordinated debentures	16,496				16,496
Capital lease obligation	2,080	264	567	612	637
Short-term borrowings	625	625			
Total debt obligations	71,701	15,889	23,067	15,612	17,133
Operating lease obligations	9,541	1,120	2,248	1,894	4,279
Total contractual obligations	$ 81,242	$ 17,009	$ 25,315	$ 17,506	$ 21,412

	Amount of Commitment Expiring - By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
	(Dollars in thousands)				
Commitments with off-balance sheet risk:					
Commitments to extend credit	$ 44,157	$ 26,341	$ 4,409	$ 2,332	$ 11,075
Standby letters of credit	420	420			
Total commitments	$ 44,577	$ 26,761	$ 4,409	$ 2,332	$ 11,075

Capital

Stockholders equity totaled $113.8 million and $119.1 million at June 30, 2013 and 2012, respectively, a decrease of $5.3 million, or 4.5%. The decrease in stockholders equity was principally due to the redemption of all shares of preferred stock and common stock warrants issued to the U.S. Department of the Treasury (the UST) under the Troubled Asset Relief Program (TARP). The Company paid $4.3 million in December 2012 to redeem the preferred stock and warrants.

In May of 2012, the Company raised net proceeds of $52.7 million through the sale of 6.9 million shares of common stock, resulting in total outstanding common shares of approximately 10.4 million.

See Note 9 of the Notes to the Consolidated Financial Statements for information on capital ratios. Regulatory capital ratios for the Company and the Bank currently exceed all applicable requirements, including the commitments made to the Federal Reserve and the Bureau in connection with the Merger to maintain minimum Tier 1 leverage and total risk-based capital ratios of 10% and 15%, respectively.

Impact of Inflation

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

Impact of New Accounting Standards

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

Critical Accounting Policies

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

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

The 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

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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

The Board of Directors and

Stockholders of Northeast Bancorp

We have audited the accompanying consolidated balance sheet of Northeast Bancorp and subsidiary as of June 30, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and subsidiary at June 30, 2013 and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

September 27, 2013

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To the Board of Directors

Northeast Bancorp

Lewiston, Maine

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of Northeast Bancorp and Subsidiary as of June 30, 2012 and the related consolidated statements of income, comprehensive income, changes in stockholders equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and Subsidiary as of June 30, 2012, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
September 10, 2012

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

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

	June 30, 2013	June 30, 2012
Assets		
Cash and due from banks	$ 3,238	$ 2,538
Short-term investments	62,696	125,736
Total cash and cash equivalents	65,934	128,274
Available-for-sale securities, at fair value	121,597	133,264
Loans held for sale	8,594	9,882
Loans	435,376	356,254
Less: Allowance for loan losses	1,143	824
Loans, net	434,233	355,430
Premises and equipment, net	10,075	9,205
Real estate owned and other possessed collateral, net	2,134	834
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	5,721	5,473
Intangible assets, net	3,544	4,487
Bank owned life insurance	14,385	14,295
Other assets	4,422	8,052
Total assets	$ 670,639	$ 669,196
Liabilities and Stockholders Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 46,425	$ 45,323
Interest bearing	438,198	376,865
Total deposits	484,623	422,188
Federal Home Loan Bank advances	28,040	43,450
Wholesale repurchase agreements	25,397	66,183
Short-term borrowings	625	1,209
Junior subordinated debentures issued to affiliated trusts	8,268	8,106
Capital lease obligation	1,739	1,911
Other liabilities	8,145	7,010
Total liabilities	556,837	550,057
Commitments and contingencies		
Stockholders equity		
Preferred stock, $1.00 par value, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2013; 4,227 shares issued and outstanding at June 30, 2012; liquidation preference of $1,000 per share		4
Voting common stock, $1.00 par value, 25,000,000 and 13,500,000 shares authorized at June 30, 2013 and 2012, respectively; 9,565,680 and 9,307,127 issued and outstanding at June 30, 2013 and 2012, respectively	9,566	9,307
Non-voting common stock, $1.00 par value, 3,000,000 and 1,500,000 shares authorized at June 30, 2013 and 2012, respectively; 880,963 and 1,076,314 issued and outstanding at June 30, 2013 and 2012, respectively	881	1,076

Additional paid-in capital		92,745		96,359
Retained earnings		12,524		12,235
Accumulated other comprehensive (loss) income		(1,914)		158
Total stockholders equity		113,802		119,139
Total liabilities and stockholders equity	$	670,639	$	669,196

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended June 30, 2013	2012
Interest and dividend income:		
Interest on loans	$ 35,017	$ 24,734
Interest and dividends on available-for-sale securities	1,138	2,019
Other interest and dividend income	388	261
Total interest and dividend income	36,543	27,014
Interest expense:		
Deposits	4,098	3,426
Federal Home Loan Bank advances	967	1,028
Wholesale repurchase agreements	651	991
Short-term borrowings	19	21
Junior subordinated debentures issued to affiliated trusts	769	751
Obligation under capital lease agreement	92	100
Total interest expense	6,596	6,317
Net interest and dividend income before provision for loan losses	29,947	20,697
Provision for loan losses	1,122	946
Net interest and dividend income after provision for loan losses	28,825	19,751
Noninterest income:		
Fees for other services to customers	1,648	1,383
Net securities gains	792	1,111
Gain on sales of loans held for sale	3,009	2,761
Gain on sales of portfolio loans	2,311	1,071
Gain (loss) recognized on real estate owned and other repossessed collateral, net	746	(5)
Investment commissions	2,919	2,782
Bank-owned life insurance income	718	501
Other noninterest income	82	72
Total noninterest income	12,225	9,676
Noninterest expense:		
Salaries and employee benefits	19,218	15,634
Occupancy and equipment expense	4,766	3,826
Professional fees	1,634	1,708
Data processing fees	1,141	1,088
Marketing expense	1,049	691
Loan acquisition and collection expense	1,766	1,106
FDIC insurance premiums	454	482
Intangible asset amortization	943	1,198
Legal settlement expense	980	
Other noninterest expense	2,734	2,497
Total noninterest expense	34,685	28,230
Income from continuing operations before income tax expense	6,365	1,197
Income tax expense	1,945	181
Net income from continuing operations	$ 4,420	$ 1,016

Income from discontinued operations	$		$	186
Gain on sale of discontinued operations				1,566
Income tax expense				605
Net income from discontinued operations				1,147
Net income	$	4,420	$	2,163
Net income available to common stockholders	$	4,065	$	1,771
Weighted-average shares outstanding:				
Basic		10,409,588		4,277,777
Diluted		10,409,588		4,291,352
Earnings per common share:				
Basic:				
Income from continuing operations	$	0.39	$	0.15
Income from discontinued operations				0.26
Net income	$	0.39	$	0.41
Diluted:				
Income from continuing operations	$	0.39	$	0.15
Income from discontinued operations				0.26
Net income	$	0.39	$	0.41
Cash dividends declared per common share:	$	0.36	$	0.36

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

	Year Ended June 30, 2013	2012
Net income	$ 4,420	$ 2,163
Other comprehensive (loss) income, before tax:		
Available-for-sale securities:		
Change in net unrealized gain or loss on available-for-sale securities	(2,469)	1,896
Reclassification adjustment for net gains included in net income	(792)	(1,111)
Total available-for-sale securities	(3,261)	785
Derivatives and hedging activities:		
Change in accumulated loss on effective cash flow hedges	192	(122)
Reclassification adjustments for net gains included in net income	(70)	(80)
Total derivatives and hedging activities	122	(202)
Total other comprehensive (loss) income, before tax	(3,139)	583
Income tax (benefit) expense related to other comprehensive (loss) income	(1,067)	199
Other comprehensive (loss) income, net of tax	(2,072)	384
Comprehensive income	$ 2,348	$ 2,547

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

	Preferred Stock		Voting Common Stock		Non-voting Common Stock		Additional	Retained	Accumulated Other Comprehensive	Total Stockholders
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Paid-in Capital**	**Earnings**	**Income (Loss)**	**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								2,163		2,163
Other comprehensive income, net of tax									384	384
Issuance of common stock			5,994,954	5,995	880,963	881	45,791			52,667
Dividends on preferred stock								(212)		(212)
Dividends on common stock at $0.36 per share								(1,262)		(1,262)
Stock-based compensation							445			445
Accretion of preferred stock							180	(180)		
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								4,420		4,420
Other comprehensive income, net of tax									(2,072)	(2,072)
Conversion of non-voting common stock to voting common stock			195,351	195	(195,351)	(195)				
Stock offering costs							(59)			(59)
Issuance of restricted common stock			63,202	64			(64)			
Dividends on preferred stock								(113)		(113)
Dividends on common stock at $0.36 per share								(3,750)		(3,750)
Stock-based compensation							563			563
Redemption of preferred stock and warrants	(4,227)	(4)					(4,322)			(4,326)
Accretion of preferred stock							268	(268)		
Balance at June 30, 2013		$	9,565,680	$ 9,566	880,963	$ 881	$ 92,745	$ 12,524	$ (1,914)	$ 113,802

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

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NORTHEAST BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended June 30, 2013	2012
Operating activities:		
Net income	$ 4,420	$ 2,163
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,122	946
(Gain) loss on sale or impairment of repossessed collateral, net	(746)	5
Accretion of loans, net	(9,926)	(3,642)
Accretion of deposits, net	(989)	(1,292)
Accretion of borrowings, net	(1,034)	(2,151)
Originations of loans held for sale	(141,870)	(126,130)
Net proceeds from sales of loans held for sale	146,167	124,185
Gain on sales of loans held for sale	(3,009)	(2,761)
Gain on sales of portfolio loans	(2,311)	(1,071)
Amortization of intangible assets	943	1,266
Bank-owned life insurance income, net	(718)	(501)
Depreciation of premises and equipment	1,745	1,299
Loss on disposition of premises and equipment	12	4
Net gain on sale of available-for-sale securities	(792)	(1,111)
Deferred income tax (benefit) provision	(428)	1,827
Stock-based compensation	563	445
Gain on sale of assets of insurance division		(1,566)
Amortization of securities, net	1,710	1,671
Changes in other assets and liabilities:		
Other assets	3,630	(1,253)
Other liabilities	2,834	693
Net cash provided by (used in) operating activities	1,323	(6,974)
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	15,203	22,869
Loan purchases	(121,336)	(101,779)
Loan originations and principal collections, net	42,217	50,333
Purchases of premises and equipment	(2,897)	(2,565)
Proceeds from sales of premises and equipment		163
Proceeds from sales of portfolio loans	7,140	8,284
Proceeds from sales of real estate owned and other repossessed collateral	3,925	826
Proceeds from life insurance benefits	628	
(Purchase) redemption of regulatory stock, net	(248)	287
Proceeds from sale of assets of insurance division		9,889
Net cash used in investing activities	(63,083)	(18,639)
Financing activities:		
Net increase in deposits	63,424	22,362
Net decrease short-term borrowings	(584)	(1,306)
Dividends paid on preferred stock	(113)	(212)
Dividends paid on common stock	(3,750)	(1,262)

Net proceeds from issuance of common stock		(59)		52,667
Repayment of FHLB borrowings and wholesale repurchase agreements		(55,000)		
Repayment of other borrowings				(2,129)
Redemption of preferred stock and warrants		(4,326)		
Repayment of capital lease obligation		(172)		(164)
Net cash (used in) provided by financing activities		(580)		69,956
Net (decrease) increase in cash and cash equivalents		(62,340)		44,343
Cash and cash equivalents, beginning of year		128,274		83,931
Cash and cash equivalents, end of year	$	65,934	$	128,274
Supplemental schedule of cash flow information:				
Interest paid	$	8,751	$	9,774
Income taxes paid, net		954		321
Supplemental schedule of noncash investing and financing activities:				
Transfers from loans to real estate owned and other repossessed collateral	$	5,264	$	1,019
Transfers from real estate owned to loans		1,055		44

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bancorp and Subsidiary (Company or Northeast) conform to accounting principles generally accepted in the United States of America (GAAP) and conform to practices within the financial services industry.

Business

The Company is a Maine corporation and a bank holding company registered with the Federal Reserve Bank of Boston (FRB) under the Bank Holding Company Act of 1956. The Company provides a full range of banking services to individual and corporate customers throughout south-central and western Maine and conducts loan purchasing activities nationwide through its wholly-owned subsidiary, Northeast Bank (the Bank), a Maine state-chartered universal bank and a member of the Federal Reserve Bank of Boston. As a result, the Bank is subject to the joint regulatory oversight by the FRB and the State of Maine Bureau of Financial Institutions. The Bank is also subject to the regulations of the Federal Deposit Insurance Corporation (FDIC). The Bank faces competition from banks and other financial institutions.

Business Combination Accounting

On December 29, 2010, the Company merged with FHB Formation LLC (the Merger). The Company applied the acquisition method of accounting to this business combination, which represented an acquisition by FHB Formation LLC (FHB) of Northeast, with Northeast as the surviving company. Under the acquisition method, the acquiring entity in a business combination recognizes the assets acquired and liabilities assumed at their acquisition date fair values. Management utilizes valuation techniques appropriate for the asset or liability being measured in determining these fair values. Any excess of the purchase price over amounts allocated to assets acquired, including identifiable intangible assets, and liabilities assumed is recorded as goodwill. In the Merger, amounts allocated to assets acquired and liabilities assumed were greater than the purchase price, which resulted in the recognition of a bargain purchase gain. Acquisition-related costs were expensed as incurred.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, and its wholly-owned subsidiary, Northeast Bank (including the Bank s wholly-owned subsidiaries). All significant intercompany transactions and balances have been eliminated in consolidation.

NBN Capital Trust II, NBN Capital Trust III and NBN Capital Trust IV are considered affiliates and are deconsolidated pursuant to criteria established by Accounting Standards Codification (ASC) 810, *Consolidation* (ASC 810). The investments in these affiliates were $496 thousand in aggregate and are included in other assets.

Reclassifications

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

Use of Estimates

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

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

Concentrations of Credit Risk

Most of the Company s business activity is with customers located within the State of Maine. However, the Company s loan purchasing activities are diversified across the country. In all regions, the Company has emphasized the origination and purchase of commercial real estate loans. Repayment of loans is expected to come from cash flows of the borrower. Losses on secured loans are limited by the value of the collateral upon default of the borrowers. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of presentation in the consolidated statements of cash flow, cash and cash equivalents consist of cash and due from banks and short-term investments. The Company is required to maintain a certain reserve balance in the form of cash or deposits with other financial institutions. At June 30, 2013 and 2012, such reserve balances totaled $5.3 million and $3.8 million, respectively.

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Investment Securities

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

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

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

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

Federal Home Loan Bank and Federal Reserve Bank Stock

The Company owns investments in the stock of the FRB and the Federal Home Loan Bank of Boston (FHLBB). No ready market exists for these stocks, and they have no quoted market values. FRB stock is redeemable at par; therefore, fair value equals cost. The Bank, as a member of the FHLBB, is required to maintain investments in the capital stock of the FHLBB equal to their membership base investments plus an activity-based investment determined according to the Bank s level of outstanding FHLBB advances. The Company reviews its investments in FHLBB and FRB stock periodically to determine if other-than-temporary impairment exists. The Company reviews recent public filings, rating agency analysis and other factors, when making the determination.

Loans Held for Sale and Loan Servicing

Residential real estate mortgage loans are designated as held for sale based on intent, which is determined when loans are underwritten. Loans originated and held for sale in the secondary market are carried at the lower of cost or fair value. Realized gains and losses on sales of loans are determined using the specific identification method. Direct loan originations costs and fees related to loans held for sale are deferred upon origination and are recognized on the date of sale.

In its mortgage banking activities, the Company sells loans both on a servicing released and servicing retained basis. The Company recognizes as separate assets the rights to service mortgage loans for others, and performs an assessment of capitalized mortgage servicing rights for impairment based on the current fair value of those rights. The Company capitalizes mortgage servicing rights at their allocated cost (based on the relative fair values of the rights and the related loans) upon the sale of the related loans. Mortgage servicing rights are amortized over the estimated weighted average life of the loans. The Company s assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to reflect current circumstances. The Company evaluates the estimated life and fair value of its servicing portfolio based on data that is disaggregated to reflect note rate, type, and term on the underlying loans.

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

Loans

Loans are carried at the principal amounts outstanding, or amortized acquired fair value in the case of acquired loans, adjusted by partial charge-offs and net of deferred loan costs or fees. Loan fees and certain direct origination costs are deferred and amortized into interest income over the expected term of the loan using the level-yield method. When a loan is paid off, 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. With limited exceptions, loans classified as TDRs remain classified as such until the loan is paid off.

Allowance for Loan Losses

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

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

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

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

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

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

Purchased: Loans in this segment are 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 significant changes in the Company s policies or methodology pertaining to the general component of the allowance for loan losses during the years ended June 30, 2013 or 2012.

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.

Premises and Equipment

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

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Intangible Assets

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

Real Estate Owned and Other Repossessed Collateral

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

Impairment of Long-Lived Assets

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

Bank Owned Life Insurance

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

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company s policy is to recognize interest and penalties assessed on tax positions in income tax expense.

Advertising Expense

Advertising costs are expensed as incurred.

Stock-Based Compensation

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

Discontinued Operations

During the first quarter of fiscal 2012, substantially all of the assets of the Company s insurance division, Northeast Bank Insurance Group, Inc. (NBIG) were sold in two separate transactions. The results of NBIG are classified as discontinued operations in the statements of income for each period presented. The Company has eliminated all intercompany transactions related to discontinued operations for each period presented.

Comprehensive Income

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

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Earnings Per Share

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

Derivatives

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

Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is sold, (3) a derivative is de-designated as a hedge, because it is unlikely that a forecasted transaction will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

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.

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

2. Available-for-sale Securities

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

	June 30, 2013		June 30, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
U.S. Government agency securities	$ 45,289	$ 45,333	$ 45,824	$ 45,808
Agency mortgage-backed securities	78,944	76,264	86,816	87,456
	$ 124,233	$ 121,597	$ 132,640	$ 133,264

At June 30, 2013, the Company held no securities of any single issuer (excluding the U. S. Government and federal agencies) with a book value that exceeded 10 percent of stockholders equity.

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

	June 30, 2013		June 30, 2012	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
	(Dollars in thousands)			
U.S. Government agency securities	$ 44	$	$ 5	$ (21)
Agency mortgage-backed securities		(2,680)	640	
	$ 44	$ (2,680)	$ 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.

	Year Ended June 30,	
	2013	2012
	(Dollars in thousands)	
Gross realized gains	$ 831	$ 1,178
Gross realized losses	(39)	(67)
Net security gains	$ 792	$ 1,111

At June 30, 2013, investment securities with a fair value of approximately $53.5 million were pledged as collateral to secure outstanding wholesale repurchase agreements and FHLB advances.

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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.

	June 30, 2013											
	Less than 12 Months				More than 12 Months				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
	(Dollars in thousands)											
U.S. Government agency securities	$		$		$		$		$		$	
Agency mortgage-backed securities		76,264		(2,680)						76,264		(2,680)
	$	76,264	$	(2,680)	$		$		$	76,264	$	(2,680)

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

There were no other-than-temporary impairment losses on securities during the year ended June 30, 2013 and 2012.

At June 30, 2013, the Company did not have any securities in a continuous loss position for greater than twelve months. At June 30, 2013, all of the Company s available-for-sale securities were issued or guaranteed by either government agencies or government-sponsored enterprises. The decline in fair value of the Company s available-for-sale securities at June 30, 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 June 30, 2013.

The amortized cost and fair values of available-for-sale debt securities by contractual maturity are shown below as of June 30, 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	$	45,288	$	45,332
Due after one year through five years				
Due after five years through ten years		41,845		40,622
Due after ten years		37,100		35,643
	$	124,233	$	121,597

3. Loans, Allowance for Loan Losses and Credit Quality

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

	June 30, 2013			June 30, 2012		
	Originated	Purchased (Dollars in thousands)	Total	Originated	Purchased (Dollars in thousands)	Total
Residential real estate	$ 89,734	$ 2,706	$ 92,440	$ 90,944	$ 3,931	$ 94,875
Home equity	35,389		35,389	42,696		42,696
Commercial real estate	100,402	164,046	264,448	100,196	80,539	180,735
Construction	42		42	1,187		1,187
Commercial business	29,686	34	29,720	19,612		19,612
Consumer	13,337		13,337	17,149		17,149
Total loans	$ 268,590	$ 166,786	$ 435,376	$ 271,784	$ 84,470	$ 356,254

Loans pledged as collateral with the FHLB for borrowings totaled $56.7 and $67.9 at June 30, 2013 and 2012, respectively.

Loans serviced for others totaled $97.1 million and $33.8 million at June 30, 2013 and 2012, respectively.

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Activity in the allowance for loan losses follows:

	Year ended June 30, 2013						
	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 214	$ 93	$ 292	$ 225	$	$	$ 824
Provision	743	158	(26)	83	123	41	1,122
Recoveries	6	10	7	29			52
Charge-offs	(369)	(88)	(203)	(148)	(47)		(855)
Ending balance	$ 594	$ 173	$ 70	$ 189	$ 76	$ 41	$ 1,143

	Year ended June 30, 2012						
	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Beginning balance	$ 34	$ 147	$ 238	$ 18	$	$	$ 437
Provision	425	(28)	27	522			946
Recoveries	3		44	37			84
Charge-offs	(248)	(26)	(17)	(352)			(643)
Ending balance	$ 214	$ 93	$ 292	$ 225	$	$	824

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

	June 30, 2013						
	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	Purchased	Unallocated	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Individually evaluated	$ 235	$ 85	$ 63	$ 23	$ 65	$	$ 471
Collectively evaluated	359	88	7	166		41	661
ASC 310-30					11		11
Total	$ 594	$ 173	$ 70	$ 189	$ 76	$ 41	$ 1,143
Loans:							
Individually evaluated	$ 2,626	$ 1,558	$ 110	$ 149	$ 1,129	$	$ 5,572
Collectively evaluated	122,497	98,886	29,576	13,188			264,147
ASC 310-30					165,657		165,657
Total	$ 125,123	$ 100,444	$ 29,686	$ 13,337	$ 166,786	$	$ 435,376

	June 30, 2012						
	Residential Real Estate	Commercial Real Estate	Commercial & Industrial	Consumer	Purchased	Unallocated	Total

						(Dollars in thousands)								
Allowance for loan losses:														
Individually evaluated	$	3	$	41	$	284	$		$		$		$	328
Collectively evaluated		211		52		8		225						496
ASC 310-30														
Total	$	214	$	93	$	292	$	225	$		$		$	824
Loans:														
Individually evaluated	$	399	$	2,057	$	1,127	$		$	1,055	$		$	4,638
Collectively evaluated		133,241		99,326		18,485		17,149						268,201
ASC 310-30										83,415				83,415
Total	$	133,640	$	101,383	$	19,612	$	17,149	$	84,470	$		$	356,254

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The following table sets forth information regarding impaired loans. The recorded investment in impaired loans includes discounts or premiums from acquisition through purchase or merger. Interest income recognized includes interest received or accrued based on loan principal and contractual interest rates.

	At June 30, 2013			For the Year Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			(Dollars in thousands)	
Impaired loans without a valuation allowance:					
Originated:					
Residential real estate	$ 1,158	$ 1,225	$	$ 891	$ 42
Consumer	88	93		59	4
Commercial real estate	434	479		1,183	70
Commercial business	47	101		144	3
Purchased:					
Commercial real estate	928	1,279		397	18
Residential real estate					
Total	2,655	3,177		2,674	137
Impaired loans with a valuation allowance:					
Originated:					
Residential real estate	1,468	1,420	235	1,045	75
Consumer	61	61	23	55	4
Commercial real estate	1,124	1,131	85	750	32
Commercial business	63	98	63	189	
Purchased:					
Commercial real estate	201	276	65	40	3
Residential real estate					
Total	2,917	2,986	471	2,079	114
Total impaired loans	$ 5,572	$ 6,163	$ 471	$ 4,753	$ 251

	At June 30, 2012			For the Year Ended June 30, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			(Dollars in thousands)	
Impaired loans without a valuation allowance:					
Originated:					
Residential real estate	$ 293	$ 483	$	$ 235	$ 21
Consumer					
Commercial real estate	1,482	1,738		1,119	99
Commercial business	377	692		520	15
Purchased:					
Commercial real estate	1,055	1,462		211	
Residential real estate					
Total	3,207	4,375		2,085	135
Impaired loans with a valuation allowance:					
Originated:					

Residential real estate	106	103	3	73	
Consumer					
Commercial real estate	575	565	41	647	27
Commercial business	750	817	284	732	
Purchased:					
Commercial real estate					
Residential real estate					
Total	1,431	1,485	328	1,452	27
Total impaired loans	$ 4,638	$ 5,860	$ 328	$ 3,537	$ 162

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

	June 30, 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	$ 278	$ 408	$	$ 1,965	$ 2,651	$ 87,083	$ 89,734	$ 2,346
Home equity	53	47		253	353	35,036	35,389	334
Commercial real estate	91	326		98	515	99,887	100,402	473
Construction						42	42	
Commercial business				44	44	29,642	29,686	110
Consumer	193	77		117	387	12,950	13,337	136
Total originated portfolio	615	858		2,477	3,950	264,640	268,590	3,399
Purchased portfolio:								
Residential real estate						2,706	2,706	
Commercial business						34	34	
Commercial real estate		2,210		1,135	3,345	160,701	164,046	1,457
Total purchased portfolio		2,210		1,135	3,345	163,441	166,786	1,457
Total loans	$ 615	$ 3,068	$	$ 3,612	$ 7,295	$ 428,081	$ 435,376	$ 4,856

	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	$	$ 2,907	$ 3,351	$ 87,593	$ 90,944	$ 3,090
Home equity	16	160		136	312	42,384	42,696	220
Commercial real estate		208		417	625	99,571	100,196	417
Construction						1,187	1,187	
Commercial business		107		901	1,008	18,604	19,612	1,008
Consumer	259	137		206	602	16,547	17,149	324
Total originated portfolio	536	795		4,567	5,898	265,886	271,784	5,059
Purchased portfolio:								
Residential real estate						3,931	3,931	
Commercial real estate				1,055	1,055	79,484	80,539	1,055
Total purchased portfolio				1,055	1,055	83,415	84,470	1,055
Total loans	$ 536	$ 795	$	$ 5,622	$ 6,953	$ 349,301	$ 356,254	$ 6,114

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The following tables present a summary of purchased credit-impaired loans acquired by the LASG:

	PCI Loans Acquired Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Contractually required payments receivable	$ 62,182	$ 35,455
Nonaccretable difference	(12,942)	(8,765)
Cash flows expected to be collected	49,240	26,690
Accretable yield	(19,280)	(8,589)
Fair value of loans acquired	$ 29,960	$ 18,101

	PCI Loans: Activity in Accretable Yield Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Beginning balance	$ 7,169	$
Accretion	(5,278)	(1,912)
Acquisitions	19,280	8,589
Reclassifications from nonaccretable difference	1,257	1,156
Other changes	(5,984)	(664)
End balance	$ 16,444	$ 7,169

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

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Unpaid principal balance	$ 48,340	$ 21,359
Carrying amount	$ 30,775	$ 13,866

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

	Year Ended June 30, 2013 Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification	2012 Number of Contracts	Recorded Investment Pre-Modification	Recorded Investment Post-Modification
			(Dollars in thousands)			
Originated portfolio:						
Residential real estate	12	$ 1,113	$ 1,113	1	$ 139	$ 139
Home equity	4	158	158	1	20	20
Commercial real estate	1	103	50	1	184	184
Commercial business						
Consumer	6	16	16			
	23	1,390	1,337	3	343	343

Total originated portfolio									
Purchased portfolio:									
Residential real estate									
Commercial real estate	2		207		280				
Total purchased portfolio	2		207		280				
Total	25	$	1,597	$	1,617	3	$	343	$ 343

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.

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

	Year Ended June 30,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
Extended maturity	4	$ 180	1	$ 20
Adjusted interest rate	5	240		
Rate and maturity	6	736	1	184
Principal deferment	2	72	1	139
Protective advance	1	201		
Court ordered concession	4	184		
Other	3	4		
	25	$ 1,617	3	$ 343

There were no defaults of loans previously modified in a TDR during the years ended June 30, 2013 or 2012.

As of June 30, 2013, there were no further commitments to lend associated with loans modified in a TDR.

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

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Nonaccrual	$ 1,110	$ 139
Accrual	2,632	1,165
Total TDRs	$ 3,742	$ 1,304

Credit Quality Indicators

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.

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

[redacted]

Loans rated 1- 6	$ 95,834	$ 42	$ 29,340	$ 161,965
[redacted]				
Loans rated 8	1,031		264	1,595
[redacted]				
Loans rated 10				
[redacted]				

	June 30, 2012			
	Originated Portfolio			
	Commercial Real Estate	Construction	Commercial and Industrial	Purchased Portfolio
	(Dollars in thousands)			
Loans rated 1- 6	$ 96,963	$ 1,187	$ 18,223	$ 83,415
Loans rated 7	1,886		250	1,055
Loans rated 8	1,347		1,139	
Loans rated 9				
Loans rated 10				
	$ 100,196	$ 1,187	$ 19,612	$ 84,470

4. Premises and Equipment

Premises and equipment consists of the following:

	June 30, 2013	June 30, 2012	Estimated Useful Life
[redacted]			
Land	$ 940	$ 1,210	n/a
Buildings	2,120	2,120	39
Assets recorded under capital lease	1,850	1,850	Term of lease
Leasehold and building improvements	2,310	940	5-39 (or term of lease, if shorter)
Furniture, fixtures and equipment	6,295	4,909	3-7
	13,515	11,029	
Less accumulated depreciation	3,440	1,824	
Net premises and equipment	$ 10,075	$ 9,205	

Depreciation and amortization of premises and equipment included in occupancy and equipment expense was $1.7 million for the year ended June 30, 2013 and $1.3 million for the year ended June 30, 2012.

5. Intangible Assets

At June 30, 2013 and 2012, intangible assets consisted of a core deposit intangible. During the year ended June 30, 2012, intangible assets consisting of customer lists and non-compete agreements were included in the sale of the assets of the Company s insurance division. The Company s core deposit intangible is being amortized on an accelerated basis over 9.5 years.

The changes in the carrying amount of intangible assets follow:

	Identifiable Intangibles		
	Core Deposit Intangible	Other Intangibles	Total Identifiable Intangibles
Balance, June 30, 2011	$ 5,685	$ 7,448	$ 13,133
Amortization	(1,198)	(68)	(1,266)
Assets sold or disposed		(7,380)	(7,380)
Balance, June 30, 2012	4,487		4,487
Amortization	(943)		(943)
Assets sold or disposed			
Balance, June 30, 2013	$ 3,544	$	$ 3,544

The components of identifiable intangible assets follow at June 30:

	2013	2012
	(Dollars in thousands)	
Core Deposit Intangible:		
Gross carrying amount	$ 6,348	$ 6,348
Accumulated amortization	(2,804)	(1,861)
	$ 3,544	$ 4,487

Estimated annual amortization expense associated with intangible assets follows for the fiscal years ending June 30 (dollars in thousands):

2014	$ 746
2015	589
2016	477
2017	432
2018	433
Thereafter	867
	$ 3,544

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6. Deposits

The composition of deposits at June 30 follows:

	2013	2012
	(Dollars in thousands)	
Demand	$ 46,425	$ 45,323
NOW	57,334	57,477
Money market	84,416	45,024
Regular savings	33,636	32,727
Time certificates of less than $100	99,373	100,292
Other time certificates	163,439	141,345
	$ 484,623	$ 422,188

The scheduled maturities of time certificates at June 30, 2013 by fiscal year follow (dollars in thousands):

2014	$ 103,557
2015	59,172
2016	48,218
2017	15,139
2018	32,586
Thereafter	4,140
	$ 262,812

7. Borrowings

Federal Home Loan Bank

A summary of fixed-rate long term advances from the Federal Home Loan Bank of Boston as of June 30 follows:

Maturity By Fiscal Year	Unpaid Principal Balance 2013	Unpaid Principal Balance 2012	Carrying Amount 2013	Carrying Amount 2012	Weighted Average Cost 2013	Weighted Average Cost 2012
		(Dollars in thousands)				
2013	$	$ 15,000	$	$ 15,194	%	1.46%
2014						
2015	12,500	12,500	12,626	12,728	2.08	2.30
2016						
2017	10,000	10,000	10,296	10,382	3.28	3.48

2018	5,000	5,000	5,118	5,146	3.68	3.84
	$ 27,500	$ 42,500	$ 28,040	$ 43,450	2.81	2.47

At June 30, 2013, FHLB advances with unpaid principal of $10.0 million were subject to call provisions and may be called prior to the stated maturity.

Certain mortgage loans, free of liens, pledges and encumbrances and certain investment securities maintained at the FHLB not otherwise pledged have been pledged under a blanket agreement to secure these advances. The Company is required to own stock in the Federal Home Loan Bank of Boston in order to borrow from the FHLB.

As of June 30, 2013, the Company had a $2.1 million line of credit arrangement with the FHLB which was fully available. Also at June 30, 2013, the Company had approximately $44.0 million of additional capacity to borrow from the FHLB.

Wholesale Repurchase Agreements

A summary of wholesale repurchase agreements as of June 30 follows:

Maturity By Fiscal Year	**Unpaid Principal Balance**		**Carrying Amount**		**Weighted Average Cost**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	(Dollars in thousands)					
2013	$	$ 40,000	$	$ 40,302	%	1.22%
2014	15,000	15,000	15,035	15,358	0.80	1.64
2015						
2016	10,000	10,000	10,362	10,523	2.74	2.74
	$ 25,000	$ 65,000	$ 25,397	$ 66,183	1.59	1.56

At June 30, 2013, $10.0 million of wholesale repurchase agreements maturing in fiscal 2016 are callable on a quarterly basis.

The Company is subject to margin calls on each transaction to maintain the necessary collateral in the form of cash or other mortgage-backed securities during the borrowing term.

Capital Lease Obligation

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

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The future minimum lease payments over the remaining term of the lease and the outstanding capital lease obligation at June 30, 2013 are as follows for years ending June 30 (dollars in thousands):

2014	$	264
2015		264
2016		303
2017		306
2018		306
2019 and thereafter		637
		2,080
Imputed interest		(341)
Capital lease obligation	$	1,739

Short-Term Borrowings

Short-term borrowings are sweep accounts, which are a demand account product that moves balances in excess of an agreed upon target amount from a demand deposit account into an interest-bearing account overnight. The sweep account is collateralized with a letter of credit issued by the FHLBB. The Company ceased offering securities sold under agreements to repurchase in fiscal 2011. The weighted average interest rate on short-term borrowings was 0.00% and 2.00% at June 30, 2013 and 2012, respectively.

8. Junior Subordinated Debentures Issued to Affiliated Trusts

NBN Capital Trust II and NBN Capital Trust III were created in December 2003. NBN Capital Trust IV was created in December 2004. Each such trust is a Delaware statutory trust (together, the Private Trusts). The exclusive purpose of the Private Trusts was (i) issuing and selling common securities and preferred securities in a private placement offering (the Private Trust Securities), (ii) using the proceeds of the sale of the Private Trust Securities to acquire Junior Subordinated Deferrable Interest Notes (Junior Subordinated Debentures); and (iii) engaging only in those other activities necessary, convenient or incidental thereto. Accordingly, the Junior Subordinated Debentures are the sole assets of each of the Private Trusts.

The following table summarizes the Junior Subordinated Debentures issued by the Company to each affiliated trust and the Private Trust Securities issued by each affiliated trust at June 30, 2013. Amounts include the junior subordinated debentures acquired by the affiliated trusts from the Company with the capital contributed by the Company in exchange for the common securities of such trust, which were $93 thousand each for NBN Capital Trust II and III and $310 thousand for NBN Capital Trust IV. The trust preferred securities (the Preferred Securities) were sold in two separate private placement offerings. The Company has the right to redeem the Junior Subordinated Debentures, in whole or in part, on or after March 30, 2009, for NBN Capital Trust II and III, and on or after February 23, 2010, for NBN Capital Trust IV, at the redemption price specified in the associated Indenture, plus accrued but unpaid interest to the redemption date.

Maturity	Unpaid Principal Balance		Carrying Amount	
Date	2013	2012	2013	2012
	(Dollars in thousands)			

NBN Capital Trust II	March 30, 2034	$	3,093	$	3,093	$	1,775	$	1,747
NBN Capital Trust III	March 30, 2034		3,093		3,093		1,775		1,747
NBN Capital Trust IV	February 23, 2035		10,310		10,310		4,718		4,612
		$	16,496	$	16,496	$	8,268	$	8,106

NBN Capital Trust II and III pay a variable rate based on three month LIBOR plus 2.80%, and NBN Capital Trust IV pays a variable rate based on three month LIBOR plus 1.89%. Accordingly, the Preferred Securities of the Private Trusts currently pay quarterly distributions at an annual rate of 3.26% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust II and III and an annual rate of 2.36% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust IV. The Company has fully and unconditionally guaranteed all of the obligations of each trust. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the Private Trust Securities, but only to the extent of funds held by the trusts.

The Junior Subordinated Debentures each have variable rates indexed to three-month LIBOR. During the fiscal year ended June 30, 2010, the Company purchased two interest rate caps and an interest rate swap to hedge the interest rate risk on notional amounts of $6 million and $10 million, respectively, of the Company s Junior Subordinated Debentures. Each was a cash flow hedge to manage the risk to net interest income in a period of rising rates.

The interest rate caps hedge the junior subordinated debt resulting from the issuance of trust preferred securities by our affiliates NBN Capital Trust II and NBN Capital Trust III. The notional amount of $3 million for each interest rate cap represents the outstanding junior subordinated debt from each trust. The strike rate is 2.505%. The Company will recognize higher interest expense on the junior subordinated debt for the first 200 basis points increase in three-month LIBOR. Once the three-month LIBOR rate exceeds 2.505% on a quarterly reset date, there will be a payment by the counterparty to the Company at the following quarter end. The effective date of the purchased interest rate caps was September 30, 2009 and mature five years thereafer.

The interest rate swap hedges the junior subordinated debt resulting from the issuance of trust preferred stock by our affiliate NBN Capital Trust IV. The notional amount of $10 million represents the outstanding junior subordinated debt from this trust. Under the

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terms of the interest rate swap, the Company pays a fixed rate of 4.69% quarterly for a period of five years from the effective date of February 23, 2010. The Company receives quarterly interest payments of three month LIBOR plus 1.89% over the same term.

9. Capital and Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company s and the Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The prompt corrective action regulations define specific capital categories based on an institution s capital ratios. The capital categories, in declining order, are well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

As of June 30, 2013 and 2012, the most recent notification from the Company s and the Bank s regulator categorized the Company and the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution s regulatory designation as well-capitalized under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2013 and 2012, the Company s and the Bank s ratios exceeded the regulatory requirements. Management believes that the Company and the Bank met all capital adequacy requirements to which they were subject as of June 30, 2013 and 2012. 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)			
June 30, 2013:						
Total capital to risk weighted assets:						
Company	$ 122,291	27.54%	$ 35,520	≥8.0%	$ N/A	N/A
Bank	99,527	22.30%	35,709	≥8.0%	44,637	≥10.0%
Tier 1 capital to risk weighted assets:						
Company	121,148	27.29%	17,760	≥4.0%	N/A	N/A

Bank		95,485	21.39%		17,855	≥4.0%		26,782	≥6.0%
Tier 1 capital to average assets:									
Company		121,148	17.78%		27,255	≥4.0%		N/A	N/A
Bank		95,485	14.08%		27,121	≥4.0%		33,902	≥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%

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Parent if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under FRB rules.

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

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10. Earnings Per Common Share

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:

	Year ended June 30,			
	2013		2012	
	(Dollars in thousands, except share and per share data)			
Net income from continuing operations	$	4,420	$	1,016
Preferred stock dividends and accretion		(355)		(392)
Net income from continuing operations available to common shareholders	$	4,065	$	624
Weighted average shares used in calculation of basic earnings per share		10,409,588		4,277,777
Incremental shares from assumed exercise of dilutive securities				13,575
Weighted average shares used in calculation of diluted earnings per share		10,409,588		4,291,352
Earnings per common share:				
Income from continuing operations	$	0.39	$	0.15
Income from discontinued operations				0.26
Earnings per common share	$	0.39	$	0.41
Diluted earnings per common share:				
Income from continuing operations	$	0.39	$	0.15
Income from discontinued operations				0.26
Diluted earnings per common share	$	0.39	$	0.41

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

	Year ended June 30,	
	2013	2012
Stock options	963,549	796,049
Warrants	31,365	
	994,914	796,049

11. Income Taxes

The current and deferred components of income tax expense from continuing operations follows:

	Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Current provision (benefit)		
Federal	$ 2,179	$ (1,033)
State	194	71
Total current provision (benefit)	2,373	(962)
Deferred (benefit) provision		
Federal	(428)	1,143
Total deferred (benefit) provision	(428)	1,143
Total tax provision	$ 1,945	$ 181

The reconciliation between the statutory federal income tax rate of 34% and the effective tax rate on income from continuing operations follows:

	Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Expected income tax expense at federal tax rate	$ 2,164	$ 407
State tax, net of federal tax benefit	128	47
Non-taxable BOLI income	(244)	(170)
Low-income housing tax credit	(118)	(118)
Other	15	15
Total tax provision	$ 1,945	$ 181

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

	2013	2012
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	$ 378	$ 280
Loan basis differential	931	629
Time deposit basis differential	252	589
Derivative basis differential	89	146
Capital lease	127	120
Deferred compensation	138	213
Stock-based compensation	584	418
Unrealized loss on derivatives	89	130
Unrealized loss on available for sale securities	896	
Interest on nonperforming loans	266	212
Limited partnerships	123	97
Other	232	205
Total deferred tax asset	4,105	3,039
Deferred tax liabilities		
Goodwill and other intangible assets	(1,205)	(1,526)
Prepaid expenses	(56)	(268)
Premises and equipment	(761)	(801)
Borrowings basis differential	(2,479)	(2,127)
Unrealized gain on available for sale securities		(212)
Other	(63)	(59)
Total deferred tax liability	(4,564)	(4,993)
Net deferred tax liability	$ (459)	$ (1,954)

The net deferred tax liability was included in other liabilities in the accompanying balance sheet as of June 30, 2013 and 2012.

At June 30, 2013, the Company has determined that a valuation allowance is not required for any of its deferred tax assets since it is more likely than not that these assets will be realized.

For federal tax purposes, the Company has a $2.0 million reserve for loan losses which remains subject to recapture. If any portion of the reserve is used for purposes other than to absorb the losses for which it was established, approximately 150% of the amount actually used (limited to the amount of the reserve) would be subject to taxation in the year in which used. As the Company intends to use the reserve only to absorb loan losses, no provision has been made for potential liability that would result if 100% of the reserve were recaptured.

It is the Company s policy to provide for uncertain tax positions and the related interest and penalties based upon management s assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of June 30, 2013 and 2012, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the fiscal 2010 tax return and forward.

12. Employee Benefit Plans

401(k) Plan

The Company offers a contributory 401(k) plan that is available to all full-time salaried and hourly-paid employees who have attained age 18, and completed 90 days of employment. Employees may contribute up to 100% of their base compensation, subject to IRS limitations. The Company will match 50% of each employee s contribution up to the first 6% contributed. For the years ended June 30, 2013 and 2012, the Company contributed $350 thousand and $308 thousand, respectively.

Deferred Compensation

The Company has individual deferred compensation agreements with five senior officers. The Company recognized deferred compensation expense of $160 thousand and $159 thousand for the years ended June 30, 2013 and 2012, respectively. At June 30, 2013 and 2012, the Company s deferred compensation liability was $405 thousand and $245 thousand, respectively.

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13. **Stock-Based Compensation**

At the 2012 annual meeting of shareholders, 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 year ended June 30, 2013 follows:

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

	Shares	Weighted Average Grant Date Fair Value
Exercisable, beginning of year	54,175	$ 3.86
Vested	75,239	3.86
Exercised		
Forfeited or expired	(2,700)	3.85
Exercisable, end of year	126,714	3.86

The fair values of options granted have been estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions.

	Year Ended June 30,	
	2013	2012
Assumptions:		
Dividend yield	3.86%	2.81%
Expected life	6.5 years	6.0 years
Expected volatility	30.47%	33.86%
Risk-free interest rate	1.26%	0.98%
Weighted average fair value per option	$1.79	$4.39

The expected volatility is based on historical volatility. The risk-free interest rate is for periods within the expected life of the awards, and is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on expected exercise experience.

During the year ended June 30, 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 over specified time periods. 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.

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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 June 30, 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	9.58 years	$ 115	$ 9.38		9.58 years	$
12.63	32,500	8.58		12.63		8.58	
13.93	583,238	7.50		13.93	94,312	7.50	
14.52	162,010	7.50		14.52	32,402	7.50	
12.44	1,173,667	8.23	$ 115	12.44	126,714	7.50	$

A summary of restricted stock activity for the year ended June 30, 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		
Unvested at end of period	71,018	9.84

At June 30, 2013 and 2012, 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.

Stock-based compensation totaled $563 thousand for the year ended June 30, 2013 and $445 thousand for the year ended June 30, 2012. The tax benefit related to stock-based compensation expensed totaled $191thousand for the year ended June 30, 2013 and $151 thousand for the year ended June 30, 2012. The estimated amount and timing of future pre-tax stock-based compensation expense to be recognized are as follows.

	Year Ending June 30, (Dollars in thousands)					
	2014	**2015**	**2016**	**2017**	**2018**	**Total**
Stock options	$ 523	$ 549	$ 424	$ 223	$ 83	$ 1,802
Restricted stock	118	118	118	118	69	541
	$ 641	$ 667	$ 542	$ 341	$ 152	$ 2,343

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

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 as of June 30:

	2013	2012
	(Dollars in thousands)	
Commitments to originate loans:		
Residential real estate mortgages	$ 12,445	$ 10,279
Construction loans		106
Consumer		25
Commercial real estate mortgages		361
Commercial business loans	904	1,145
	$ 13,349	$ 11,916
Unused lines of credit	$ 30,809	$ 36,276
Standby letters of credit	420	602
Unadvanced portions of construction loans		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. The Company has recorded an allowance for possible losses on commitments and unfunded loans totaling $10 thousand and $6 thousand recorded in other liabilities at June 30, 2013 and 2012, respectively.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of June 30, 2013 and 2012, the maximum potential amount of the Company s obligation was $420 thousand and $602 thousand, respectively, for financial and standby letters of credit. The Company s outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer s underlying line of credit. If the customer s line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

Lease Obligations

The Company leases certain properties used in operations under terms of operating leases that include renewal options. Rental expense under leases totaled $1.0 million for the year ended June 30, 2013 and $817 thousand for the year ended June 30, 2012.

Approximate future minimum lease payments over the remaining terms of the Company s leases at June 30, 2013 are as follows for fiscal years ending June 30 (dollars in thousands):

2014	$	1,120
2015		1,168
2016		1,080
2017		939
2018		955
2019 and thereafter		4,279
Total	$	9,541

Legal Proceedings

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.

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15. Condensed Parent Information

Condensed financial information for Northeast Bancorp follows:

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Balance Sheets		
Assets:		
Cash	$ 26,366	$ 54,996
Investment in subsidiary	96,294	72,849
Investment in common securities of affiliated trusts	496	496
Other assets	1,445	2,047
Total assets	$ 124,601	$ 130,388
Liabilities and Stockholders Equity:		
Junior subordinated debentures issued to affiliated trusts	$ 8,268	$ 8,106
Other liabilities	2,531	3,143
Total liabilities	10,799	11,249
Stockholders equity	113,802	119,139
Total liabilities and stockholders equity	$ 124,601	$ 130,388

	Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Statements of Income		
Income:		
Dividends from banking subsidiary	$	$ 1,500
Other income	14	26
Total income	14	1,526
Expenses:		
Interest expense	769	751
General and administrative expenses	1,037	993
Total expenses	1,806	1,744
Loss before income tax benefit and equity in undistributed net income of subsidiary	(1,792)	(218)
Income tax benefit	(615)	(589)
(Loss) income before equity in undistributed net income of subsidiary	(1,177)	371
Equity in undistributed net income of subsidiary	5,597	1,792
Net income	$ 4,420	$ 2,163
Net income available to common stockholders	$ 4,065	$ 1,771

	Year Ended June 30, 2013	2012
	(Dollars in thousands)	
Statements of Cash Flow		
Operating activities:		
Net income	$ 4,420	$ 2,163
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		

Amortization of fair value adjustment for borrowings		162		149
Stock-based compensation		563		445
Undistributed earnings of subsidiary		(5,597)		(1,792)
Increase in other assets and liabilities		70		(700)
Net cash (used in) provided by operating activities		(382)		265
Investing activities:				
Increase in investment of bank subsidiary		(20,000)		
Net cash used in investing activities		(20,000)		
Financing activities:				
Proceeds from issuance of common stock		(59)		52,667
Redemption of preferred stock and warrants		(4,326)		
Dividends paid to stockholders		(3,863)		(1,474)
Net cash (used in) provided by financing activities		(8,248)		51,193
Net (decrease) increase in cash		(28,630)		51,458
Cash, beginning of year		54,996		3,538
Cash, end of year	$	26,366	$	54,996

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16. Other Comprehensive Income

The components of other comprehensive (loss) income follow:

	Year Ended June 30, 2013 Pre-tax Amount	2013 Tax Expense (Benefit)	2013 After-tax Amount	2012 Pre-tax Amount	2012 Tax Expense (Benefit)	2012 After-tax Amount
	(Dollars in thousands)					
Change in net unrealized gain or loss on available-for-sale securities	$ (2,469)	$ (840)	$ (1,629)	$ 1,896	$ 645	$ 1,251
Reclassification adjustment for net gains included in net income	(792)	(269)	(523)	(1,111)	(378)	(733)
Total available-for-sale securities	(3,261)	(1,109)	(2,152)	785	267	518
Change in accumulated loss on effective cash flow hedges	192	66	126	(122)	(41)	(81)
Reclassification adjustment for net gains included in net income	(70)	(24)	(46)	(80)	(27)	(53)
Total derivatives and hedging activities	122	42	80	(202)	(68)	(134)
Total other comprehensive (loss) income	$ (3,139)	$ (1,067)	$ (2,072)	$ 583	$ 199	$ 384

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

	June 30, 2013	June 30, 2012
	(Dollars in thousands)	
Unrealized (loss) gain on available-for-sale securities	$ (2,636)	$ 624
Tax effect	896	(212)
Net-of-tax amount	(1,740)	412
Unrealized loss on cash flow hedges	(263)	(384)
Tax effect	89	130
Net-of-tax amount	(174)	(254)
Accumulated other comprehensive (loss) income	$ (1,914)	$ 158

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

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

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

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

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.

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, wholesale repurchase agreements and other borrowings is estimated by discounting the cash flows through maturity based on current rates available to the Company for borrowings with similar maturities.

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

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

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Assets				
Securities available-for-sale:				
U.S. Government agency securities	$ 45,333	$	$ 45,333	$
Agency mortgage-backed securities	76,264		76,264	
Other assets interest rate caps				
Liabilities				
Other liabilities - interest rate swap	$ 389	$	$ 389	$

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

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

	June 30, 2013			
	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)			
Collateral dependent impaired loans	$ 894	$	$	$ 894
Real estate owned and other repossessed collateral	2,134			2,134

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

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

	Carrying Amount	Fair Value Measurements at June 30, 2013 Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 65,934	$ 65,934	$ 65,934	$	$
Available-for-sale securities	121,597	121,597		121,597	
Regulatory stock	5,721	5,721		5,721	
Loans held for sale	8,594	8,602		8,602	
Loans, net	434,233	444,988			444,988
Accrued interest receivable	1,396	1,396		1,396	
Interest rate caps					
Financial liabilities:					
Deposits	484,623	449,857		449,857	
FHLB advances	28,040	29,404		29,404	
Wholesale repurchase agreements	25,397	26,092		26,092	
Short-term borrowings	625	625		625	
Capital lease obligation	1,739	1,926		1,926	
Subordinated debentures	8,268	7,594			7,594
Interest rate swaps	389	389		389	

	Carrying Amount	Fair Value Measurements at June 30, 2012 Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Financial assets:					
Cash and cash equivalents	$ 128,274	$ 128,274	$ 128,274	$	$
Available-for-sale securities	133,264	133,264		133,264	
Regulatory stock	5,473	5,473		5,473	
Loans held for sale	9,882	9,896		9,896	
Loans, net	355,430	374,062			374,062
Accrued interest receivable	1,840	1,840		1,840	
Interest rate caps	1	1		1	
Financial liabilities:					
Deposits	422,188	425,782		425,782	
FHLB advances	43,450	45,747		45,747	
Wholesale repurchase agreements	66,183	67,314		67,314	
Short-term borrowings	1,209	1,209		1,209	
Capital lease obligation	1,911	2,202		2,202	
Subordinated debentures	8,106	8,597			8,597
Interest rate swaps	580	580		580	

18. Derivatives

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 reflected on the Company s balance sheet 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 June 30, 2013 and 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.

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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 years ended June 30, 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 year ended June 30, 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.

	Year ended June 30,	
	2013	**2012**
	(Dollars in thousands)	
Interest income (expense):		
Interest rate caps	$ (30)	$ (20)
Interest rate swap	100	100
Total	$ 70	$ 80

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 $32 thousand related to its purchased interest rate caps in the next twelve months.

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

	June 30, 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		2.25%		2.36%
Strike rate based on three month LIBOR	2.51%		2.51%	
Weighted average maturity in years	1.25	1.67	2.25	2.67
Unrealized loss	$ 40	$ 223	$ 69	$ 315

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

	June 30, 2013 (Dollars in thousands)		
Asset Derivatives	**Balance Sheet Location**		**Fair Value**
Interest rate caps	Other assets	$	

Liability Derivatives	**Balance Sheet Location**		**Fair Value**
Interest rate swap	Other liabilities	$	389

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

Liability Derivatives	**Balance Sheet Location**		**Fair Value**
Interest rate swap	Other liabilities	$	580

19. 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.

20. Discontinued Operations

On August 31, 2011, the Company sold customer lists and certain fixed assets of NBIG to local insurance agencies in two separate transactions. The operations of the Company s wholly-owned subsidiary, Northeast Bank Insurance Group (NBIG), have been reclassified as discontinued operations in the consolidated statements of income for the year ended June 30, 2012, with no effect on previously reported net income or stockholders equity.

The following is a summary of the sale transactions (dollars in thousands).

Sale proceeds	$	9,889
Less:		
Customer lists and other intangible assets, net		7,380
Fixed assets, net of accumulated depreciation		164

Severance and other direct expenses		779
Pre-tax gain recognized	$	1,566

The following summarizes the operations of NBIG.

	Year Ended June 30,			
	2013		2012	
	(Dollars in thousands)			
Interest expense	$		$	14
Noninterest income:				
Insurance commissions				965
Other noninterest income (expense)				(4)
Total noninterest income				961
Noninterest expense:				
Salaries and employee benefits				494
Occupancy and equipment expense				88
Professional fees				16
Data processing fees				38
Intangible assets amortization				68
Other				57
Total noninterest expense				761
Income from discontinued operations				186
Gain on sale of assets				1,566
Income from discontinued operations before income tax expense				1,752
Income tax expense				605
Net income from discontinued operations	$		$	1,147

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21. **Subsequent Events**

The Company has evaluated the impact of events that have occurred subsequent to June 30, 2013 through the date the consolidated financial statements were filed with the United States Securities and Exchange Commission. Based on this evaluation, the Company has determined none of these events were required to be recognized or disclosed in the consolidated financial statements and related notes.

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

None

Item 9A. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2013, the Company s disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in the Company s reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of our fiscal year ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

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

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

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal controls over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to rules of the Securities Exchange Commission that permit the Company to provide only management s report in this annual report.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

The information required by Item 10 is included in the Proxy Statement relating to our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 11 is included in the Proxy Statement relating to our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information required by Item 12 is included in the Proxy Statement relating to our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

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

The information required by Item 13 is included in the Proxy Statement relating to our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is included in the Proxy Statement relating to our 2013 Annual Meeting of Stockholders and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

Consolidated Balance Sheets as of June 30, 2013 and 2012

Consolidated Statements of Income for the years ended June 30, 2013 and 2012

Consolidated Statements of Comprehensive Income for the years ended June 30, 2013 and 2012

Consolidated Statements of Changes in Stockholders Equity for the years ended June 30, 2013 and 2012

Consolidated Statements of Cash Flows for the years ended June 30, 2013 and 2012

Notes to Consolidated Financial Statements

(b) Exhibits

2.1 Agreement and Plan of Merger, dated as of March 30, 2010, by and between Northeast Bancorp and FHB Formation LLC (incorporated by reference to Exhibit 2.1 of Northeast Bancorp s Form 8-K filed with Securities and Exchange Commission on March 31, 2010).
3.1 Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).
3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp s Current Report on Form 8-K filed on March 22, 2011).
3.3 Articles of Amendment to the Amended and Restated Articles of Incorporation of Northeast Bancorp (incorporated by reference to Exhibit 3.1 of Northeast Bancorp s Current Report on Form 8-K filed on November 29, 2012).
3.4 Amended and Restated Bylaws of Northeast Bancorp (incorporated by reference to Exhibit 3.2 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

4.1 Registration Rights Schedule to the Agreement and Plan of Merger, dated as of March 30, 2010, by and between Northeast Bancorp and FHB Formation LLC (incorporated by reference to Amendment No. 1 on Form 10-K/A of Northeast Bancorp filed on March 19, 2012).

10.1+ Form of Indemnification Agreement, dated as of December 29, 2010, by and between Northeast Bancorp and each of the members of the Board (incorporated by reference to Exhibit 10.1 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

10.2+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.2 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

10.3+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.3 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

10.4+ Employment Agreement, dated December 30, 2010, by and between Northeast Bancorp and Heather Campion (incorporated by reference to Exhibit 10.4 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

10.5+ Separation Agreement & General Release, dated August 15, 2013, by and between Northeast Bancorp and Heather Campion (incorporated by reference to Exhibit 10.1 of Northeast Bancorp s Current Report on Form 8-K filed on August 15, 2013).

10.6+ Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.5 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

10.7+ Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Richard Wayne (incorporated by reference to Exhibit 10.1 of Northeast Bancorp s Current Report on Form 8-K filed on March 26, 2013).

10.8+ Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.7 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).

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10.9+	Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Claire Bean (incorporated by reference to Exhibit 10.2 of Northeast Bancorp s Current Report on Form 8-K filed on March 26, 2013).
10.10+	Non-Qualified Time-Based Stock Option Agreement, dated December 29, 2010, by and between Northeast Bancorp and Heather Campion (incorporated by reference to Exhibit 10.8 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).
10.11+	Non-Qualified Performance-Based Stock Option Agreement, dated March 22, 2013, by and between Northeast Bancorp and Heather Campion (incorporated by reference to Exhibit 10.3 of Northeast Bancorp s Current Report on Form 8-K filed on March 26, 2013).
10.12+	Non-Qualified Stock Option Agreement, dated December 30, 2010, by and between Northeast Bancorp and Robert Glauber (incorporated by reference to Exhibit 10.11 of Northeast Bancorp s Current Report on Form 8-K filed on January 5, 2011).
10.13+	Amended and Restated Performance-Based Stock Appreciation Rights Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.1 of Northeast Bancorp s Current Report on Form 8-K filed on March 30, 2011).
10.14+	Non-Qualified Time-Based Stock Option Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.2 of Northeast Bancorp s Current Report on Form 8-K filed on March 30, 2011).
10.15+	Non-Qualified Performance-Based Stock Option Agreement, dated March 24, 2011, by and between Northeast Bancorp and Matthew Botein (incorporated by reference to Exhibit 10.3 of Northeast Bancorp s Current Report on Form 8-K filed on March 30, 2011).
21*	Subsidiaries of Northeast Bancorp
23.1*	Consent of Ernst & Young LLP
23.2*	Consent of Shatswell, MacLeod & Company, P.C.
31.1*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Rule 13a-14(b) Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Certification pursuant to Section 111(b)(4) of the Emergency Economic Stabilization Act of 2008, as amended
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

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* Filed herewith.

** Furnished herewith

+ Management contract or compensatory plan or agreement

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SIGNATURES

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

	NORTHEAST BANCORP	
Date: September 27, 2013	By:	/s/ RICHARD WAYNE **Richard Wayne** **Chief Executive Officer** **(Principal Executive Officer)**

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

Signature	Title	Date
/s/ RICHARD WAYNE **Richard Wayne**	Chief Executive Officer and Director (Principal Executive Officer)	September 27, 2013
/s/ CLAIRE S. BEAN **Claire S. Bean**	Chief Financial Officer and Chief Operating Officer (Principal Financial Officer and Principal Accounting Officer)	September 27, 2013
/s/ ROBERT GLAUBER **Robert Glauber**	Chairman of the Board	September 27, 2013
/s/ MATTHEW BOTEIN **Matthew Botein**	Director	September 27, 2013
/s/ CHERYL DORSEY **Cheryl Dorsey**	Director	September 27, 2013
/s/ PETER MCCLEAN **Peter McClean**	Director	September 27, 2013
/s/ JOHN C. ORESTIS **John C. Orestis**	Director	September 27, 2013
/s/ ADAM SHAPIRO **Adam Shapiro**	Director	September 27, 2013
/s/ DAVID TANNER **David Tanner**	Director	September 27, 2013
/s/ JUDITH E. WALLINGFORD **Judith E. Wallingford**	Director	September 27, 2013