



January 27, 2012

Northeast Bancorp Reports Second Quarter Results, Declares Dividend

Lewiston, ME

Northeast Bancorp (“Northeast” or the “Company”) (NASDAQ: NBN), a Maine-based full-service financial services company and parent of Northeast Bank, today reported net income of \$418 thousand, or \$0.09 per diluted common share, for the quarter ended December 31, 2011. For the six months ended December 31, 2011, the Company earned net income of \$947 thousand, or \$0.21 per diluted common share.

The Board of Directors has declared a cash dividend of \$0.09 per share, payable on February 24, 2012 to shareholders of record as of February 10, 2012.

Results for the six months ended December 31, 2011 include net income from discontinued operations of \$1.1 million, which included the gain earned on the sale of the Company’s insurance agency business. As announced in the first quarter of fiscal year 2012, the assets of Northeast’s insurance agency division were acquired by local agencies in two separate transactions. The sale yielded a pre-tax gain of \$1.5 million and served to increase the Company’s tangible capital. At December 31, 2011, the Company’s tangible book value per share was \$16.15, compared to \$13.58 at June 30, 2011.

“We continue to make progress in positioning Northeast for growth and success,” said Richard Wayne, President and Chief Executive Officer of Northeast. “We made significant investments in 2011 in our new loan purchasing business, and in our online affinity deposit program, ableBanking, which we expect to launch this quarter. We are particularly encouraged by the progress of our Loan Acquisition and Servicing Group, which primarily purchases performing commercial real estate loans, on a nationwide basis, at a discount from their outstanding principal balances, producing yields higher than those normally achievable on the Company’s originated loans. During the six month period ending December 31, 2011, we purchased loans totaling \$51.7 million. The purchased loan portfolio produced a yield of 15.8%, including accelerated interest income associated with unscheduled loan payoffs during the six months ended December 31, 2011. There were no purchased loans delinquent at quarter-end.”

Quarterly results included the following items of significance:

1. An improved net interest margin (“NIM”), which increased to 3.53%, compared to 3.09% in the first quarter of fiscal year 2012. Improvement in the NIM is principally the result of growth in the Company’s purchased loan portfolio, which increased to \$51.5 million at December 31, 2011 from \$637 thousand at June 30, 2011. The yield on the purchased loan portfolio was 16.1% and 15.8% for the three and six months ended December 31, 2011, respectively, compared to a yield of 5.9% and 6.1% for the three and six month periods, respectively, on the Company’s originated loan portfolio. The following summarizes interest income and related yields recognized on the Company’s purchased loan and originated loan portfolios for the three and six months ended December 31, 2011.

	Three Months Ended December 31, 2011			Six Months Ended December 31, 2011		
	Average Daily Balance	Interest Income/Expense	Average Yield/Rate	Average Daily Balance	Interest Income/Expense	Average Yield/Rate
Loans - originated \$	309,171	\$ 4,620	5.93%	\$ 309,948	\$ 9,557	6.12%
Loans - purchased	31,001	1,254	16.05%	18,262	1,454	15.79%
Total	\$ 340,172	\$ 5,874	6.85%	\$ 328,210	\$ 11,011	6.66%

(Dollars in thousands)

The yield on purchased loans was increased by unscheduled loans payoffs during the period, which resulted in immediate recognition of the prepaid loans’ discount in interest income. The following table details the components of the yield on purchased loans during the three and six months ended December 31, 2011. “Accelerated accretion” represents the amount of a loan’s discount recognized resulting from an unscheduled payoff or principal payment.

	Three Months Ended December 31, 2011	Six Months Ended December 31, 2011
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	Average Daily Balance	Interest Income/ Expense	Average Yield/ Rate	Average Daily Balance	Interest Income/ Expense	Average Yield/ Rate
	(Dollars in thousands)					
Regularly scheduled interest and accretion	\$ 31,001	\$ 772	9.88%	\$ 18,262	\$ 972	10.56%
Accelerated accretion	31,001	482	6.17%	18,262	482	5.24%
Total	31,001	\$ 1,254	16.05%	18,262	\$ 1,454	15.79%

- The sale of a commercial real estate loan for a gain of \$203 thousand. The loan had been reported as nonperforming in previous quarters.
- A net gain on sale of available-for-sale investment securities of \$433 thousand.
- Increased noninterest expenses, principally resulting from increased marketing expenses and up-front staffing and infrastructure costs for the Company's new loan purchasing and deposit initiatives.

Total assets declined by \$1.8 million or 0.3% to \$594.6 million at December 31, 2011, compared to total assets of \$596.4 million at June 30, 2011. The principal components of the change in the balance sheet during the six months ended December 31, 2011 were as follows:

- A \$35.1 million, or 15.0%, decrease in cash and investments, principally as a result of growth in loans during the period. Cash and securities, net of holdings pledged as collateral for borrowed funds, represent 21.0% of total assets at quarter-end, a level of balance sheet liquidity that is intended in part for future purchases of commercial loans.
- Loan growth of \$37.1 million or 12.0%, principally due to growth of \$50.8 million in loans purchased by the Company's Loan Acquisition and Servicing Group, offset in part by amortization and payoffs from the originated loan portfolio of \$13.7 million;
- A \$4.2 million, or 3.0%, reduction in borrowed funds, resulting primarily from the \$2.1 million repayment of insurance agency debt in connection with the insurance transaction;
- An \$8.1 million, or 6.2%, decrease in intangible assets, resulting primarily from the insurance agency transaction.

Non-performing assets were essentially unchanged at \$7.7 million or 1.3% of total assets at December 31, 2011, compared to \$7.9 million or 1.3% of total assets at June 30, 2011.

At December 31, 2011, the Company's tier 1 leverage ratio was 11.9%, an increase from 10.3% at June 30, 2011 and the total risk-based capital ratio was 19.3%, an increase from 19.0% at June 30, 2011.

About Northeast Bancorp

Northeast Bancorp (NASDAQ: NBN) is the holding company for Northeast Bank, a full service bank headquartered in Lewiston, Maine. Northeast Bank derives its income from a combination of traditional banking services as well as from its Loan Acquisition and Servicing Group, which purchases performing commercial loans for the Bank's portfolio. ableBanking, a division of Northeast Bank, launching in 2012 will offer savings products to consumers online, through affinity partnerships with non-profit organizations. Northeast Bank operates ten bank branches, three investment centers and four loan production offices that serve seven counties in Maine and two in New Hampshire. Information regarding Northeast Bank can be found on its website at www.northeastbank.com.

On December 29, 2010, FHB Formation LLC ("FHB") merged with and into Northeast, with Northeast as the surviving company. The Company applied the acquisition method of accounting, as described in Accounting Standards Codification 805, *Business Combinations*, to this transaction, which represents an acquisition by FHB of Northeast, with Northeast as the surviving company. As a result, 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, the Company has placed a heavy black line between the Successor Company and Predecessor Company columns in its consolidated financial statements and, where applicable, in this discussion.

Non-GAAP Financial Measure

In addition to results presented in accordance with generally accepted accounting principles ("GAAP"), this press release contains certain non-GAAP financial measures. Northeast's management believes that the supplemental non-GAAP information, which consists of tangible book value, is utilized by regulators and market analysts to evaluate a company's

financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

Statements in this press release that are not historical facts are 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, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although Northeast 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, and other factors. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Company's control. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other 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 of 2010; the risk that goodwill and intangibles recorded in the Company's financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K and updated by the Company's Quarterly Reports on Form 10-Q; and other filings submitted to the Securities and Exchange Commission. These statements speak only as of the date of this release and we do 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 communication or to reflect the occurrence of unanticipated events.

IMPORTANT NOTE: Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA, SIPC, and a Registered Investment Adviser. Securities are not FDIC insured, not bank obligations or otherwise bank guaranteed and may lose value. Northeast Financial is located at 202 Rte. 1, Suite 206, Falmouth, ME 04105.

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