FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended June 30, 2005

[ ] 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) 777-6411

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

Title of each class:	**Name of each exchange on which registered:**
Common Stock, $1.00 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b of the Exchange Act). Yes__ No X

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. [x]

The aggregate market value of the Registrant's common shares held by non-affiliates, as of September 19, 2005, was approximately $56,076,519 based on the last reported sales price of the Company's common shares on the American Stock Exchange as of the close of business on such date. Although directors and executive officers of the registrant and its subsidiaries were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status. There were 2,524,832 common shares of the registrant outstanding as of September 19, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, in whole or in part, are specifically incorporated by reference in the indicated Part of this Annual Report on Form 10-K:

Document	**Form 10-K Reference Location**
Proxy Statement for the 2005 Annual Meeting of Shareholders	III

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Act of 1934 and is subject to risks, uncertainties, and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See "Item 1. Business -Forward Looking Statements and Risk Factors."

PART I

Item 1. Business

Overview and History

Northeast Bancorp ("us", "our", "we", or the "Company"), a Maine corporation chartered in April 1987, is a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"). Prior to 1996, the Company operated under the name Bethel Bancorp. The Company's primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank (the "Bank" or "Northeast Bank"), which has eleven banking branches. The Bank has an insurance division that offers property and casualty insurance products through the Bank's wholly owned subsidiary, Northeast Bank Insurance Group, Inc. ("NBIG"). NBIG has eight insurance agency offices, three of which are located in our banking branches. In addition, we also offer investment brokerage services, including financial planning products and services, through our office in Falmouth, Maine. Investment brokerage services is a division of the Bank.

Northeast 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. ("Bethel"), is a Maine state-chartered bank and a member of the Federal Reserve System. From 1987 to August 2004, Northeast Bank was a federal savings bank and the Company was a unitary savings and loan holding company registered with the Office of Thrift Supervision ("OTS"). In August 2004 Northeast Bank's charter was converted into a Maine state-chartered universal bank and the Company became a bank holding company under the BHCA. In connection with the conversion of its charter, Northeast Bank applied for and was granted membership in the Federal Reserve System. Accordingly, the Company and Northeast Bank are currently subject to the regulatory oversight of the Federal Reserve Board ("FRB") and the State of Maine Bureau of Financial Institutions.

As of June 30, 2005, the Company, on a consolidated basis, had total assets of approximately $576 million, total deposits of approximately $396 million, and stockholders' equity of approximately $40 million. Unless the context otherwise requires, references herein to the Company include the Company and its subsidiaries on a consolidated basis.

Strategy

Northeast Bancorp through its subsidiary, Northeast Bank and the Bank's subsidiary NBIG, as well as through third party affiliations, provides a broad range of financial services to individuals and companies in western and south-central Maine. Although historically the Bank had been primarily a residential mortgage lender, over the last decade the Bank has expanded its commercial loan business, increased its line of financial products and services, and expanded its market area. Northeast Bank is now a general commercial bank and expects to continue to provide the same corporate and personal banking and other services that it currently provides to its customers. Neither its philosophy nor its business strategy has changed as a result of its conversion from a savings bank to a commercial bank. Management believes that its strategy to continue modest, but profitable growth by increasing our loan and deposit market share in our existing markets in western and south-central Maine, closely manage the yields on earning assets and rates on interest-bearing liabilities, introduce new financial products and services, increase the number of bank services per household, increase non-interest income from expanded trust, investment and insurance brokerage services, and control the growth of non-interest expenses will increase core earnings in the long term by providing stronger interest margins, additional non-interest income, and increased loan volume. We believe that the local character of the Bank's business and its "community bank" management philosophy allows it to compete effectively in its market area.

Our community banking strategy emphasizes the development of long-term full banking relationships with customers at each branch location by providing consistent, high quality service from:

- employees with local decision-making authority;
- employees who are familiar with the customers' needs, their business environment and competitive demands; and
- employees who are able to develop and customize personalized financial solutions that are tailored to the customer's needs.

With the goal of providing a full range of banking and other financial related services to our customers and in an effort to develop strong long-term primary banking relationships with businesses and individuals, we have expanded our commercial banking operations by selectively making commercial loans to small and medium sized companies. In this regard, our business development efforts have been directed towards full service credit packages and financial services, as well as competitively priced mortgage packages. In our effort to attract and maintain strong customer relationships, we also have continually expanded the financial products and services that we make available to our customers. In particular, we have increased the size of our insurance division through acquisition in order to provide a broader array of insurance products to our customers and we have continued to maintain an investment banking services division to provide financial planning products and service to them as well.

The Bank is subject to examination and comprehensive regulation by the Maine Bureau of Financial Institutions (the "Maine Bureau") and the FRB, and its deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the extent permitted by law. The Bank also is a member of the Federal Home Loan Bank ("FHLB") of Boston and the Federal Reserve Bank of Boston.

The principal executive offices of Northeast Bancorp and the Bank are located at 500 Canal Street, Lewiston, Maine, 04240, and their telephone number is (207) 786-3245.

Market Area

The Bank is headquartered in Auburn, Maine with full service branches in Auburn, Augusta, Bethel, Brunswick, Buckfield, Harrison, Lewiston, Lisbon Falls, Mechanic Falls, Portland, and South Paris, Maine. The Bank's investment brokerage division has an office in Falmouth, Maine from which investment, insurance and financial planning products and services are offered. NBIG has offices in Auburn, Anson, Augusta, Bethel, Jackman, Mexico, Rangeley, and South Paris, Maine from where the Bank's insurance division offers casualty and property insurance products. The Company's market area, which covers western and south central regions of the State of Maine, is characterized by a diverse economy that has experienced moderate growth in recent years.

Market for Services

Management believes that the Bank's principal markets are: (i) the residential real estate market within its primary market area; (ii) small-to-medium sized businesses within its primary market area; (iii) the growing consumer loan market, including indirect automobile dealer and recreational vehicle loans; and (iv) the growing consumer demand for a wide range of other consumer-oriented financial services and products such as financial planning services, investments, life insurance, property and casualty insurance, trust services, college loans and other similar products.

Businesses are solicited through the personal efforts of the officers and directors of both Northeast Bancorp and the Bank. We believe that a locally-based independent bank is often perceived by the local business community as possessing a clearer understanding of local commerce and its needs. Consequently, we believe that we are able to make prudent lending decisions quickly and more equitably than our competitors without compromising asset quality or profitability.

Competition

We encounter strong competition in our market area in making loans, attracting deposits, and selling its other customer products and services. The deregulation of the banking industry, the ability to create financial services holding companies to engage in a wide range of financial services other than banking, and the widespread enactment of state laws which permit multi-bank holding companies, as well as the availability of nationwide interstate banking, has created a highly competitive environment for financial services providers. In one or more aspects of our business, we compete with other savings banks, commercial banks, credit unions, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, and other financial intermediaries operating in Maine and elsewhere. Many of our primary competitors, some of which are affiliated with large bank holding companies or other larger financial-based institutions, have substantially greater resources, larger estab lished customer bases, higher lending limits, extensive branch networks, numerous ATMs, greater advertising and marketing budgets, and they may offer services that we do not currently provide.

The principal factors in competing for deposits are convenient office locations, flexible hours, interest rates and services, while those relating to loans are interest rates, the range of lending services offered, and lending fees. Additionally, we believe that an emphasis on personalized financial planning and advice tailored to individual customer needs, together with the local character of the Bank's business and its "community bank" management philosophy will enhance our ability to compete successfully in our market areas. Further, we also offer a wide range of financial services to our customers, including not only basic loan and deposit services, but also investment services, trust services, and insurance products. We believe that our ability to provide such services and advice, and to provide the financial services and products required by our customers, will be an attractive alternative to consumers in our market area.

Lending Activities

General

The primary source of income generated by the Bank is from the interest earned from our loan portfolio. The principal lending activities of the Bank are the origination and purchase of conventional mortgages for the purpose of constructing, financing, or re-financing one-to-four family residential properties and commercial properties. The majority of the properties securing the mortgage loan portfolio are located in the State of Maine. However, in an effort to diversify the geographic scope of the real estate collateral held by it, the Bank does purchase in the secondary market residential mortgage loans collateralized by properties in other states. Interest rates and origination fees charged on loans originated by the Bank are generally competitive with other financial institutions and other mortgage originators in its general market area.

Although residential and commercial real estate lending remains a strong component of the Bank's lending operations, consistent with our business strategy, we also actively seek an increased volume of commercial and consumer loans. Commercial loans are originated for commercial construction, acquisition, remodeling, and general business purposes. In this regard, the Bank, among other things, also originates loans to small businesses in association with the Small Business Administration. Consumer loans include those for the purchase of automobiles, boats, home improvements and personal investments. We also pursue quality indirect lending through local automobile and recreational vehicle dealerships.

Residential Lending

The major component of the Bank's lending activities consists of the origination of single-family residential mortgage loans collateralized by owner-occupied property, most of which is located in its primary service areas. The Bank offers a variety of mortgage loan products. Its originations are generally for adjustable rate mortgages ("ARMs") or fixed rate mortgage loans having terms of 15 years or 30 years amortized on a monthly basis, with principal and interest due each month. The Bank holds in portfolio all adjustable rate mortgage and fixed rate mortgage loans with terms of 15 years or less. Fixed rate loans with terms greater than 15 years are sold into the secondary market. Additionally, the Bank offers home equity loans and home equity lines of credit.

The Bank offers adjustable rate mortgages with rate adjustments tied to the weekly average rate of one, three, and five year U.S. Treasury securities with specified minimum and maximum interest rate adjustments. The interest rates on a majority of these mortgages are adjusted yearly with limitations on upward adjustments of 2% per adjustment period and 6% over the life of the loan. The Bank generally charges a higher interest rate if the property is not owner-occupied. It has been the Bank's experience that the proportions of fixed-rate and adjustable-rate loan originations depend in large part on the level of interest rates. As interest rates fall, there is generally a reduced demand for variable rate mortgages and, as interest rates rise, there is generally an increased demand for variable rate mortgages.

Fixed rate and adjustable rate mortgage loans collateralized by single family residential real estate generally have been originated in amounts of no more than 80% of appraised value. The Bank may, however, lend up to 95% of the value of the property collateralizing the loan, but if such loans are required to be made in excess of 80% of the value of the property, they must be insured by private or federally guaranteed mortgage insurance. In the case of mortgage loans, the Bank will procure mortgagee's title insurance to protect against defects in its lien on the property that may collateralize the loan. The Bank in most cases requires title, fire, and extended casualty insurance to be obtained by the borrower, and, where required by applicable regulations, flood insurance. The Bank maintains its own errors and omissions insurance policy to protect against loss in the event of failure of a mortgagor to pay premiums on fire and other hazard insurance policies.

Although the contractual loan payment period for single-family residential real estate loans is generally for a 15 to 30 year period, such loans often remain outstanding for significantly shorter periods than their contractual terms. In addition, the Bank charges no penalty for prepayment of mortgage loans. Mortgage loans originated by the Bank customarily include a "due on sale" clause giving the Bank the right to declare a loan immediately due and payable in the event, among other matters, that the borrower sells or otherwise disposes of the real property subject to a mortgage. In general, the Bank enforces due on sale clauses. Borrowers are typically permitted to refinance or prepay loans at their option without penalty.

The Bank generally applies the same underwriting criteria to residential mortgage loans whether purchased or originated. In its loan purchases, the Bank generally reserves the right to reject particular loans from a loan package being purchased and does reject loans in a package that do not meet its underwriting criteria. In connection with loan purchases, the Bank receives various representations and warranties from the sellers of the loans regarding the quality and characteristics of the loans. In determining whether to purchase or originate a loan, the Bank assesses both the borrower's ability to repay the loan and the adequacy of the proposed collateral. On originations, the Bank obtains appraisals of the property securing the loan. On purchases, the Bank reviews the appraisal obtained by the loan seller or originator. On purchases and originations, the Bank reviews information concerning the income, financial condition, employment and credit history of the applicant.

We have adopted written, non-discriminatory underwriting standards for use in the underwriting and review of every loan considered for origination or purchase. These underwriting standards are reviewed and approved annually by our board of directors. Our underwriting standards for fixed rate residential mortgage loans generally conform to standards established by Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation (the "FHLMC"). A loan application is obtained or reviewed by the Bank's underwriters to determine the borrower's ability to repay, and confirmation of the more significant information is obtained through the use of credit reports, financial statements, and employment and other verifications.

The Bank generally uses appraisals to determine the value of collateral for all loans it originates. When originating a real estate mortgage loan, the Bank obtains a new appraisal of the property from an independent third party to determine the adequacy of the collateral, and such appraisal is reviewed by one of the underwriters. Otherwise, the collateral value is determined by reference to the documentation contained in the original file.

The Bank also requires that a survey be conducted and title insurance be obtained, insuring the priority of its mortgage lien. Pursuant to its underwriting standards, the Bank generally requires private mortgage insurance policies on newly originated mortgage loans with loan-to-value ratios greater than 80%. All loans are reviewed by the Bank's underwriters to ensure that its guidelines are met or that waivers are obtained in limited situations where offsetting factors exist.

Commercial Real Estate Lending

The Bank originates both multi-family and commercial real estate loans. Multi-family and commercial property loans generally are made in amounts up to 80% of the lesser of the appraised value or purchase price of the property. Although the largest multi-family or commercial loan in our portfolio at June 30, 2005 was approximately $2,597,000 most of these loans have balances under $500,000.

The Bank's permanent commercial real estate loans are secured by improved property such as office buildings, medical facilities, retail centers, warehouses, apartment buildings, condominiums, and other types of buildings, which are located in its primary market area. Multi-family and commercial real estate loans generally have fixed or variable interest rates indexed to FHLB and prime interest rates with notes having terms of 3 - 5 years. Mortgage loan maturities have terms up to 15 years.

Loans secured by multi-family and commercial real estate generally are larger and involve greater risks than one-to-four family residential mortgage loans. Because payments on loans secured by multi-family and commercial properties often are dependent on successful operation or management of the properties, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. We seek to minimize these risks in a variety of ways, including limiting the size of our multi-family and commercial real estate loans and generally restricting such loans to our primary market area. In determining whether to originate multi-family or commercial real estate loans, we also consider such factors as the financial condition of the borrower and the debt service coverage of the property. The Company intends to continue to make multi-family and commercial real estate loans as the market demands and economic conditions permit.

Commercial Lending

The Bank offers a variety of commercial loan services including term loans, lines of credit, equipment, and receivables financing. A broad range of short-to-medium term commercial loans, both collateralized and uncollateralized, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisitions of real estate and improvements), and the purchase of equipment and machinery. Equipment loans are typically originated on both a one year line of credit basis and on a fixed-term basis ranging from one to five years. The purpose of a particular loan generally determines its structure.

The Bank's commercial loans primarily are underwritten in the Company's market areas on the basis of the borrowers' ability to service such debt from income. As a general practice, the Bank takes as collateral a security interest in any available real estate, equipment, or other chattel, although such loans may be made on an uncollateralized basis. Collateralized working capital loans are primarily collateralized by short-term assets whereas term loans are primarily collateralized by long-term assets.

Commercial loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of their business and generally are collateralized by business assets, such as accounts receivable, equipment, and inventory. As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself. Further, the collateral underlying the loans, which may depreciate over time, usually cannot be appraised with as much precision as residential real estate, and may fluctuate in value based on the success of the business.

Consumer Loans

Consumer loans made by the Bank have included automobiles, recreational vehicles, boats, second mortgages, home improvements, mobile home loans, home equity lines of credit, personal (collateralized and uncollateralized), and deposit account collateralized loans. The Bank's consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans which are payable on an installment basis. Most of these loans are for terms of up to 60 months and although generally collateralized by liens on various personal assets of the borrower, they may be originated without collateral. Consumer loans are made at fixed and variable interest rates and may be made based on up to a 5 year amortization schedule.

Consumer loans are attractive to us because they typically have a shorter term and carry higher interest rates than that charged on other types of loans. Consumer loans, however, do pose additional risks of collectability when compared to traditional types of loans granted by banks such as residential mortgage loans. In many instances, the Bank is required to rely on the borrower's ability to repay since the collateral may be of reduced value at the time of collection. Accordingly, the initial determination of the borrower's ability to repay is of primary importance in the underwriting of consumer loans.

Indirect automobile lending consists of automobile loans made by the Bank through the purchase of contracts from automobile dealers. Generally, the Bank will obtain fixed-rate automobile loans indirectly through various automobile dealerships located in its market areas. These automobile dealers are selected by us. Currently most of these loans were originated by 64 dealers located in our market area. Because the collateral is a deteriorating asset, the initial determination of the borrower's ability to pay is of primary importance. The indirect origination of consumer loan products generally requires funding of dealer reserves. These reserves are maintained for the benefit of the dealer who originated such loans, but such funding is subject to performance of certain loan conditions. The dealer is generally responsible to the Bank for the amount of the reserve only if a loan giving rise to the reserve becomes delinquent or the loan has been prepaid. The same process applies to indirect recreation al vehicle lending.

Construction Loans

The Bank originates residential construction loans to finance the construction of single-family dwellings. Most of the residential construction loans are made to individuals who intend to erect owner-occupied housing on a purchased parcel of real estate. The Bank's construction loans to individuals typically range in size from $100,000 to $300,000. Construction loans also are made to contractors to erect single-family dwellings for resale. Construction loans are generally offered on the same basis as other residential real estate loans, except that a larger percentage down payment is typically required.

The Bank also may make residential construction loans to real estate developers for the acquisition, development, and construction of residential subdivisions. The Bank has limited involvement with this type of loan. Such loans may involve additional risk attributable to the fact that funds will be advanced to fund the project under construction, which is of uncertain value prior to completion and because it is relatively difficult to evaluate accurately the total amount of funds required to complete a project.

The Bank finances the construction of individual, owner-occupied houses on the basis of written underwriting and construction loan management guidelines. Construction loans are structured either to be converted to permanent loans with the Bank at the end of the construction phase or to be paid off upon receiving financing from another financial institution. Construction loans on residential properties are generally made in amounts up to 80% of appraised value. Construction loans to developers generally have terms of up to 12 months. Loan proceeds on builders' projects are disbursed in increments as construction progresses and as inspections warrant. The maximum loan amounts for construction loans are based on the lesser of the current appraisal value or the purchase price for the property.

Construction loans are generally considered to involve a higher degree of risk than long-term financing collateralized by improved, occupied real estate. A lender's risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at the completion of construction and estimated cost (including interest) of construction. If the estimate of construction cost proves to be inaccurate, the lender could be required to advance funds beyond the amount originally committed in order to permit completion of the project. If the estimate of anticipated value proves to be inaccurate, the lender may have collateral which has value insufficient to assure full repayment.

Loans collateralized by subdivisions and multi-family residential real estate generally are larger than loans collateralized by single-family, owner-occupied housing and also generally involve a greater degree of risk. Payments on these loans depend to a large degree on the results of operations and management of the properties, and repayment of such loans may be more subject to adverse conditions in the real estate market or the economy.

Loan Origination and Processing

Loan originations are derived from a number of sources. Residential loan originations can be attributed to real estate broker referrals, mortgage loan brokers, direct solicitation by the Bank's loan officers, present depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders. Loan applications, whether originated through the Bank or through mortgage brokers, are underwritten and closed based on the same standards, which generally meet FNMA underwriting guidelines. Consumer and commercial real estate loan originations emanate from many of the same sources. The legal lending limit of the Bank, as of June 30, 2005, was approximately $6.1 million.

The loan underwriting procedures followed by the Bank conform to regulatory specifications and are designed to assess the borrower's ability to make principal and interest payments and the value of any assets or property serving as collateral for the loan. Generally, as part of the process, a bank loan officer meets with each applicant to obtain the appropriate employment and financial information as well as any other required loan information. Upon receipt of the borrower's completed loan application, the Bank then obtains reports with respect to the borrower's credit record, and orders and reviews an appraisal of any collateral for the loan (prepared for the Bank through an independent appraiser). The loan information supplied by the borrower is independently verified. Loan officers or other loan production personnel in a position to directly benefit monetarily through loan solicitation fees from individual loan transactions do not have approval authority. Once a loan application has been completed and all information has been obtained and verified, the loan request is submitted to a final review process. As part of the loan approval process, all customer loan relationships defined under the one obligor concept which creates an internal lending limit exception requires pre-approval by the Bank's loan committee. Recently approved internal relationship limits combined with risk ratings determine whether there is an exception. For example, a customer relationship of $1,500,000 or more with a 3 risk rating requires pre-approval by the Bank's loan committee. This committee is currently comprised of five directors of the Bank and meets on such basis as is deemed necessary to promptly service loan demand. The actions of the Bank's loan committee are presented to the Bank's Board of Directors for ratification. New loan relationships greater than $750,000 are reported to the Bank's loan committee.

Loan applicants are notified promptly of the decision of the Bank by telephone and a letter. If the loan is approved, the commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. Prior to closing any long-term loan, the borrower must provide proof of fire and casualty insurance on the property serving as collateral which insurance must be maintained during the full term of the loan. Title insurance is required on loans collateralized by real property. Interest rates on committed loans are normally locked in at the time of application for a 30 to 45 day period. The commitment issued at the time of approval will be for the time remaining, based on the application date.

Other Subsidiaries

The Company acquired a wholly-owned subsidiary, ASI Data Services, Inc. (ASI) through two stock purchases during 1993-1994. 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 and ASI now is an inactive corporate subsidiary.

NBIG, a Maine Corporation, and a wholly-owned subsidiary of the Bank, was originally formed in 1982 as a vehicle through which the Bank could participate in certain real estate development projects and formerly known as Northeast Financial Services, Inc. ("NFS"). These real estate development projects terminated in fiscal 2005. Subsequent to the acquisition of Solon-Anson Insurance Agency, Inc. ("Solon Anson") by NFS in September, 2004, Solon-Anson was merged into NFS in April, 2005. NFS's name was changed to Northeast Bank Insurance Group, Inc in May 2005. NBIG now supports the Bank's insurance division, which allows the Bank to deliver insurance products to its customers. At June 30, 2005, investment in and loans to its subsidiary constituted 0.22% of the Company's total assets.

Employees

As of June 30, 2005, the Company, the Bank and its subsidiary together employed 179 full-time and 26 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.

SUPERVISION AND REGULATION

The banking industry is extensively regulated under both federal and state law. This regulatory framework is intended primarily to protect depositors and the federal deposit insurance funds, and not for the protection of shareholders. The following discussion summarizes certain aspects of the regulatory framework applicable to the Company and Northeast Bank. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Bank Holding Company Regulation

***General*.** As a bank holding company, registered under the Bank Holding Company Act of 1956 (the "BHCA"), the Company is subject to the regulation and supervision of, and inspection by, the Federal Reserve Board ("FRB"), its primary regulator. The Company also is registered as a Maine financial institution holding company under Maine law and is subject to regulation and examination by the Superintendent of Financial Institutions of the State of Maine

("Superintendent"). The Company is required to file reports with, and provide other information regarding its business operations and those of its subsidiaries to, the FRB and the Superintendent.

The BHCA prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries; unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be properly incident thereto. Generally, permissible activities for bank holding companies include, among other things, factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing services, acting as an agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and conducting certain insurance underwriting activities. The BHCA does not place territorial limits on permissible non-bank activities of bank holding companies. In making determinations of what non-banking activities are permissible, the FRB is required to weigh the expected benefit to the public, such 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 interest, or unsound banking practices. Generally, bank holding companies, such as the Company, are required to obtain prior approval of the FRB to engage in any new activity not previously approved by the FRB. Further, despite prior approval, the FRB reserves the power to order any bank holding company or its subsidiaries to terminate any activity when the FRB has reasonable grounds to believe that continuation of such activity constitutes a serious risk to the financial soundness, safety, or stability of the bank holding company or any of its bank subsidiaries.

Financial Modernization. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act"), which amended the BHCA, significantly relaxed previously existing restrictions on the activities of bank holding companies and their subsidiaries to:

- allow bank holding companies that qualify as "a financial holding company" to engage in a substantially broader range of activities that are financial in nature;
- allow insurers and other financial service companies to acquire banks;
- remove various restrictions that apply to bank holding company ownership of securities firms and mutual fund advisory companies; and
- establish the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

Under the GLB Act, an eligible bank holding company may elect to be a "financial holding company" and thereafter engage in a range of activities that are financial in nature and that were not previously permissible for bank holding companies. These activities, which can be conducted either directly or through a subsidiary, include those that are "financial in nature", such as insurance underwriting, securities underwriting and dealing, and making merchant banking investments in commercial and financial companies. A financial holding company also may engage in any activity that the FRB determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and does not pose a substantial risk to the safety and soundness of an institution or the financial system generally. In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company.

In order for a bank holding company to be eligible for financial holding company status, all of the subsidiary insured depository institutions must be "well-capitalized" and "well-managed" and have at least a satisfactory rating on its most recent Community Reinvestment Act of 1977 ("CRA") review. A bank holding company seeking to become a financial holding company must file a declaration with the FRB that it elects to become a financial holding company. If, after becoming a financial holding company, any of the insured depository institution subsidiaries should fail to continue to meet these requirements, the financial holding company would be prohibited from engaging in activities not permissible for bank holding companies unless it was able to return to compliance within a specified period of time.

Although Northeast Bank, our sole banking subsidiary, meets the capital, management, and CRA requirements, the Company has not made a declaration to elect to become a financial holding company and at this time has no plans to do so.

Banking Acquisitions. The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to (i) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank or bank holding company (unless it already owns a majority of such voting shares), (ii) acquire all or substantially all of the assets of another bank or bank holding company, or (iii) merge or consolidate with any other bank holding company. The FRB will not approve any acquisition, merger, or consolidation that would result in a monopoly, or which would have a substantially anti-competitive effect, unless the anti-competitive impact of the proposed transaction is clearly outweighed by a greater public interest in meeting the convenience and needs of the community to be served. The FRB also is required to consider the financial and managerial resources and future prospects of the holding companies and banks, the projected capital adequacy on a post-acquisition basis, and the acquiring institution's performance under the CRA.

In addition, Maine law requires the prior approval of the Superintendent for (i) the acquisition of more than 5% of the voting shares of a Maine financial institution or any financial institution holding company that controls a Maine financial institution, or (ii) the acquisition by a Maine financial institution holding company of more than 5% of a financial institution or a financial institution holding company domiciled outside the State of Maine.

Interstate Banking and Branching. The Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking and Branching Act") provides that, regardless of any previously applicable state law, bank holding companies which meet specified capital and management adequacy standards, and any state-imposed age requirements, are eligible to acquire banks in states other than their home states unless, as a result of such acquisition, the bank would control more than 10% of the total deposits of insured depository institutions in the United States or more than 30% of such deposits in that state (or other applicable state law limits).

Further, the Interstate Banking and Branching Act authorizes adequately capitalized and managed banks to cross state lines to merge with other banks, subject to certain restrictions, thereby creating interstate branches. A bank also may open new branches in a state in which it does not directly have banking operations if that state has enacted a law permitting de novo branching.

Maine law expressly authorizes interstate banking combinations that are approved by the Superintendent and do not result in deposit concentrations exceeding 30% of the total deposits of the State of Maine (unless such limitation is waived by the Superintendent). Further, interstate branch acquisitions and the establishment of de novo branches also are authorized under Maine law. However, if an out-of-state financial institution seeks to establish or acquire branches in Maine, the laws of the jurisdiction of such financial institution must expressly authorize, under conditions no more restrictive than the State of Maine, the out-of-state financial institution to engage in interstate branch acquisitions or establishment of de novo branches in that state.

*Source of Strength; Safety and Soundness***.** Under FRB policy, the Company is expected to act as a source of financial strength to, and commit resources to support, Northeast Bank. This support may be required at times when, absent such FRB policy, the Company may not be inclined to provide it. In addition, any capital loans by a bank holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. 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 subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance funds in the event the depository institution becomes in danger of default or in default. For example, under the Federal Deposit Insurance Company Improvement Act of 1991 ("FDICIA"), to avoid receivership of an insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" with the terms of any capital restoration plan filed by such subsidiary with its appropriate Federal bank regulatory agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan. See "-- Capital Adequacy Guidelines - Classification of Banking Institutions" and "- Enforcement, Policies and Actions".

In addition, the "cross-guarantee" provisions of the FDICIA require insured depository institutions which are under common control to reimburse the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. Accordingly, the cross-guarantee provisions enable the FDIC to access a bank holding company's healthy members of the FDIC. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the insurance fund. The FDIC's claims are superior to claims of stockholders of the insured depository institution or its holding company but are subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

Under FDICIA, as amended, Federal banking regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines 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, the 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.

Bank Regulation

General. Northeast Bank is a Maine state-chartered banking corporation and a member of the Federal Reserve System and, as such, is subject to the supervision, examination, and regulation by the FRB and the Supervisor.

As a state-chartered commercial bank, Northeast Bank is subject to the applicable provisions of Maine law and the regulations adopted by the Supervisor. The FRB and the Supervisor will regularly examine the operations of Northeast Bank and are given authority to approve or disapprove mergers, consolidations, the establishment of branches and similar corporate actions. Maine law and the Supervisor regulate (in conjunction with applicable federal laws and regulations), among other things, Northeast Bank's capital, permissible activities, reserves, investments, lending authority, the issuance of securities, payment of dividends, transactions with affiliated parties, and borrowing. The federal and state banking regulations also have the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law.

Transactions with Affiliates. There are various legal restrictions on the extent to which the Company and any non-bank subsidiaries affiliated with Northeast Bank can borrow or otherwise obtain credit from Northeast Bank. Northeast Bank also is subject to certain restrictions on the purchase of, or investments in, the securities of, and purchase of assets from, the Company and of its non-bank subsidiaries, on loans or extensions of credit by a bank to third parties collateralized by the securities or obligations of the Company and any of its non-bank subsidiaries, on the issuance of guaranties, acceptances and letters of credit on behalf of the Company or any of its non-bank subsidiaries. Northeast Bank is subjected to further restrictions on most types of transactions with the Company and its non-bank subsidiaries which require the terms of such transactions to be substantially equivalent to the terms of similar transactions with non-affiliated entities.

Further, the Company and Northeast Bank are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services. For example, Northeast Bank may not generally require a customer to obtain other services from Northeast Bank or the Company, and may not require the customer to promise not to obtain other services from a competitor, as a condition to an extension of credit.

Loans to Insiders. Northeast Bank also is subject to certain restrictions imposed by federal and state banking requiring agencies on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Sections 22(g) and 22(h) of the Federal Reserve Act, as amended, and Regulation O promulgated by the FRB provide that extensions of credit to such insiders (a) must be made on substantially the same terms, including interest rates and collateral as, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for, comparable transactions with persons not covered above and who are not employees, (b) must not involve more than the normal risk of repayment or present other unfavorable features, and (c) may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Northeast Bank's c apital. The regulators do allow small discounts on fees on residential mortgages for directors, officers, and employees. Northeast Bank also is subject to certain lending limits and restrictions on overdrafts to such persons and extensions of credit in excess of certain limits must be approved by the board of directors of Northeast Bank. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on Northeast Bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of Northeast Bank or the imposition of a cease and desist order.

Bank Subsidiaries' Activities. The powers of Maine-chartered banks include provisions designed to provide these banks with competitive equity to the powers of national banks. In addition, the GLB Act permits state banks to engage in activities that are permissible for subsidiaries of Financial Holding Companies to the extent such activities are permitted under applicable state law. The GLB Act also expressly preserves the ability of state banks, such as Northeast Bank, to retain all existing subsidiaries. In order to form a financial subsidiary, a state bank must be "well capitalized." State banks with financial subsidiaries will be subject to certain capital deduction, risk management, and affiliate transaction rules. In this regard, FRB rules provide that state bank subsidiaries that engage only in activities that the bank could engage in directly will not be deemed to be a financial subsidiary.

Dividend Restrictions

The Company is a legal entity separate and distinct from Northeast Bank. The primary source of revenues and funds of the Company, including funds to pay dividends to our shareholders, have been and will likely continue to be from dividends, if any, paid to us by Northeast Bank. There are statutory and regulatory limitations on the payment of dividends by Northeast Bank to the Company as well as by the Company to its shareholders. As to the payment of dividends, Northeast Bank is subject to the laws and regulations of the State of Maine and to the regulations of the FRB.

If, in the opinion of the applicable federal bank regulatory authority, a depository institution or holding company under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution or holding company, could include the payment of dividends), such authority may require, after notice and hearing (except in the case of an emergency proceeding where there is no notice or hearing), that such institution or holding company cease and desist from such practice. The Federal bank regulatory agencies have indicated that paying dividends that deplete a depository institution's or holding company's capital base to an inadequate level would be such an unsafe and unsound banking practice. Moreover, under FDICIA, an insured institution may not pay a dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. See "- Capital Adequacy Guidelines - Prompt Corrective Regulatory Action". Moreover, the FRB and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

At June 30, 2005, under dividend restrictions imposed under federal and state laws, Northeast Bank could declare, without obtaining governmental approvals, aggregate dividends to the Company of approximately $6,807,000.

Capital Adequacy Guidelines

*Minimum Capital Requirements***.** The Company and Northeast Bank are required to comply with capital adequacy standards established by the FRB. There are two basic measures of capital adequacy for bank holding companies that have been promulgated by the FRB: a risk-based measure and a leverage measure.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in credit and market risk profile among banks and bank holding companies, to account for off-balance sheet exposure, and to minimize disincentives for holding liquid assets. Under these standards, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items. In addition, the Federal bank regulatory agencies may from time to time require that a banking organization maintain capital above the minimum limits, whether because of its financial condition or actual or anticipated growth. FRB policy also provides that banking organizations generally, and in particular those that are experiencing internal growth or actively making acquisitions, are expected to maintain capital positions that are substantially in excess of the minimum supervisory levels, without significant reliance on intangible assets.

These risk-based capital standards define a two-tier capital framework. Under these regulations, the minimum ratio of total capital ("Total Capital") to risk-weighted assets (including certain off-balance sheet activities, such as stand-by letters of credit) is 8%. At least one-half of the Total Capital must be "Tier 1 Capital," consisting of common equity, retained earnings or undivided profits, qualifying non-cumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock and minority interests in the equity account of consolidated subsidiaries, less certain goodwill items and other intangible assets (i.e., at least 4% of the risk weighted assets). The remainder ("Tier 2 Capital") may consist of (a) the allowance for credit losses of up to 1.25% of risk-weighted risk assets, (b) preferred stock that does not qualify as Tier 1 Capital, (c) qualifying hybrid capital instruments, (d) perpetual debt, (e) mandatory convertible securities, and (f) subordinated debt and intermediate term-preferred stock up to 50% of Tier 1 Capital. Assets and off-balance sheet items are assigned to one of four categories of risk weights, based primarily on relative credit risk. The minimum guideline for Tier 1 Capital is 4.0%. At June 30, 2005, the Company's consolidated Tier 1 Capital ratio was 11.65% and its Total Capital ratio was 13.54%.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. The guidelines provide for a minimum Tier 1 Capital to average assets (less goodwill and certain other intangible assets) ("Leverage Ratio") of at least 3% plus an additional cushion of 100 to 200 basis points. The Company's Leverage Ratio at June 30, 2005, was 8.85%.

Federal bank regulatory agencies also have adopted regulations which require regulators to take into consideration concentrations of credit risk and 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. Other factors taken into consideration include: interest rate exposure, liquidity, funding and market risk; the quality and level of earnings; the quality of loans and investments; the effectiveness of loan and investment policies; and management's overall ability to monitor and control financial and operated risks, including concentrations of credit and non-traditional activities. This evaluation is made as part of the institution's regular safety and soundness examination. Further, each Federal banking agency prescribes standards for depository institution holding companies relating to internal controls, information systems, loan documentation, credit underwriting, interest rate exposu re, asset growth, compensation, maximum rates of classified assets to capital, minimum earnings sufficient to absorb losses, and other standards as they deem appropriate. In addition, pursuant to the requirements of the FDICIA, Federal bank regulatory agencies all have adopted regulations requiring regulators to consider interest rate risk (when interest rate sensitivity of an institution's assets does not match its liabilities or its off-balance sheet position) in the evaluation of a bank's capital adequacy.

Northeast Bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to the Company. As of June 30, 2005, Northeast Bank was in compliance with applicable minimum capital requirements.

Classification of Banking Institutions. Among other things, the FDICIA provides Federal bank regulatory agencies with broad powers to take "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. The extent of those powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." A depository institution's capital tier will depend upon where its capital levels are in relation to various relevant capital measures, which include a risk-based capital measure and a leverage ratio capital measure, and certain other factors.

The Federal bank regulatory agencies have adapted regulations establishing relevant capital measures and relevant capital levels. Under these regulations, a bank will be considered:

- "Well capitalized" if it has (a) a total risk-based capital ratio of 10% or greater, (b) a Tier 1 risk-based capital ratio of 6% or greater, (c) a leverage ratio of 5% or greater, and (d) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.
- "Adequately capitalized" if it has (a) a total risk-based capital ratio of 8% or greater, (b) a Tier 1 risk-based capital ratio of 4% or greater, and (c) a leverage ratio of 4% or greater (or 3% or greater in the case of a bank with a composite CAMEL rating of 1).
- "Undercapitalized" if it has (a) a total risk-based capital ratio of less than 8%, (b) a Tier 1 risk-based capital ratio of less than 4%, or (c) a leverage ratio of less than 4% (or 3% in the case of a bank with a composite CAMEL rating of 1);
- "Significantly undercapitalized" if the bank has (a) a total risk-based capital ratio of less than 6%, (b) a Tier 1 risk-based capital ratio of less than 3%, or (c) a leverage ratio of less than 3%; and
- "Critically undercapitalized" if the bank has a ratio of tangible equity to total assets equal to or less than 2%.

Under certain circumstances, a depository institution's primary Federal bank regulatory agency may use its authority to reclassify a "well classified" bank as "adequately capitalized" or subject an "adequately capitalized" or "undercapitalized" institution to supervisory actions applicable to the next lower capital category if it determines that the bank is in an unsafe or unsound condition or deems the bank to be engaged in an unsafe or unsound practice and not have corrected the deficiency. The banking agencies are permitted to establish individual minimum capital requirements exceeding the general requirements described above. Generally, failing to maintain the status of a "well capitalized" or "adequately capitalized" depository institution subjects the institution to restrictions and limitations on its business that become progressively more severe as capital levels decrease. At June 30, 2005, Northeast Bank met the definition of a "well capitalized" institution.

Prompt Corrective Regulatory Action. Federal banking regulators are required to take "prompt corrective action" if an insured depository institution fails to satisfy certain minimum capital requirements and other measures deemed appropriate by the federal banking regulators. See "- Capital Adequacy Guidelines" and "- Enforcement Policies and Actions." Failure to meet the capital adequacy guidelines could subject a banking institution to capital raising requirements. A bank is prohibited from making any capital distribution (including the payment of a dividend) or paying a management fee to its holding company if the bank would thereafter be "undercapitalized". Limitations exist for "undercapitalized" depository institutions regarding, among other things, asset growth, acquisitions, branching, new lines of business, acceptance of broker deposits and borrowings from the Federal Reserve System. These institutions also are required to submit a capital instruction pl an that includes a guarantee from the institution's holding company. See "-- Bank Holding Company Regulation - Source of Strength; Safety and Soundness". A "significantly undercapitalized" depository institution may be subject to a number of requirements and restrictions, including orders to sell sufficient quantity of voting stock to become "adequately capitalized," requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. The appointment of a receiver or conservator may be required for "critically under capitalized" institutions.

Brokered Deposits

Only a "well capitalized" depository institution may accept brokered deposits without prior regulatory approval. Under implementing regulations, "well capitalized" banks may accept brokered deposits without restriction, "adequately capitalized" banks may accept brokered deposits with a waiver from the FDIC (subject to certain restrictions on payments of rates), while "undercapitalized" banks may not accept brokered deposits. Bank policy limits the use of brokered deposits to 25% of total assets. At June 30, 2005 we had brokered time deposits of $70.4 million.

Enforcement Policies and Actions

The enforcement powers available to Federal banking regulators and the Supervisor over commercial banks and bank holding companies are extensive. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders, to initiate injunctive actions against banking organizations and affiliated parties, and, in extreme cases, to terminate deposit insurance. In general, these enforcement actions may be initiated for violations of laws 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 the Federal bank regulatory agencies. Current law generally requires public disclosure of final enforcement actions.

Community Reinvestment Act

Bank holding companies and their subsidiary banks are subject to the provisions of the CRA and the regulations promulgated thereunder by the appropriate Federal bank regulatory agency. Under the terms of the CRA, Northeast Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires each appropriate Federal bank regulatory agency, in connection with its examination of a subsidiary depository institution, to assess such institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by t hat institution. The CRA also requires all institutions to make public disclosure of their CRA ratings. Further, such assessment also is part of the FRB's consideration of applications to acquire, merge or consolidate with, or assume the liabilities of, another banking institution or its holding company, or to open or relocate a branch office. In the case of a bank holding company applying for approval to acquire a bank or a bank holding company, the FRB will assess the record of each subsidiary bank of the applicant bank holding company in considering the application. Pursuant to current CRA regulations, an institution's CRA rating is based on its actual performance in meeting community needs. In particular, the rating system focuses on three tests: (a) a lending test, which evaluates the institution's record of making loans in its service areas; (b) an investment test, which evaluates the institution's record of investing community development projects, affordable housing, and programs benefiting low o r moderate income individuals and businesses; and (c) a service test, which evaluates the institution's delivery of services through its branches, ATMs, and other offices. The current CRA regulations also clarify how an institution's CRA performance will be considered in the application process. Northeast Bank received a "satisfactory" CRA rating in its most recent examination.

Customer Protection

Northeast Bank also is subject to various consumer laws and regulations intended to protect customers in transactions with depository institutions, as well as other laws and regulations affecting customers of financial institutions generally. The banking regulatory authorities have increased their attention in recent years to compliance with consumer protection laws and their implementing regulations. Examination and enforcement have become more intense in nature, and insured institutions have been advised to monitor carefully compliance with such laws and regulations. In addition to CRA, Northeast Bank is subject to many other federal consumer protection statutes and regulations, some of which are discussed below.

Equal Credit Opportunity Act. The Equal Credit Opportunity Act generally prohibits discrimination in any credit transaction, whether for consumer or business purposes, on the basis of race, color, religion, national origin, sex, marital status, age (except in limited circumstances), receipt of income from public assistance programs, or good faith exercise of any rights under the Consumer Credit Protection Act.

Truth in Lending Act. The Truth in Lending Act ("TILA") is designed to ensure that credit terms are disclosed in a meaningful way so that consumers may compare credit terms more readily and knowledgeably. As a result of TILA, all creditors must use the same credit terminology to express rates and payments, including the annual percentage rate, the finance charge, the amount financed, the total of payments and the payment schedule, among other things.

Fair Housing Act. The Fair Housing Act ("FHA") regulates many practices, and makes it unlawful for any lender to discriminate in its housing-related lending activities against any person because of race, color, religion, national origin, sex, handicap or familial status. A number of lending practices have been found by the courts to be illegal under the FHA, including some practices that are not specifically mentioned in the FHA.

Home Mortgage Disclosure Act. The Home Mortgage Disclosure Act ("HMDA") grew out of public concern over credit shortages in certain urban neighborhoods and provides public information that is intended to help to show whether financial institutions are serving the housing credit needs of the neighborhoods and communities in which they are located. The HMDA also includes a "fair lending" aspect that requires the collection and disclosure of data about applicant and borrower characteristics as a way of identifying possible discriminatory lending patterns and enforcing anti-discrimination statutes. Beginning with data reported for 2004, the amount of information that financial institutions collect and disclose concerning applicants and borrowers has expanded, which is expected to increase the attention that HMDA data receives from state and federal banking supervisory authorities, community-oriented organizations and the general public.

Real Estate Settlement Procedures Act. The Real Estate Settlement Procedures ACT ("RESPA") requires lenders to provide borrowers with disclosures regarding the nature and cost of real estate settlements. RESPA also prohibits certain abusive practices, such as kickbacks and fee-splitting without providing settlement services.

Penalties under the above laws may include fines, reimbursements and other penalties. Due to heightened regulatory concern related to compliance with these laws generally, the Company and Northeast Bank may incur additional compliance costs or be required to expend additional funds for investments in its local community.

FDIC Insurance Premiums

Northeast Bank is required to pay semiannual FDIC deposit insurance assessments. Under the FDIC's risk-based insurance system, insured institutions are currently assessed premiums based on the institution's capital position and other supervisory factors. Each financial institution is assigned to one of three capital groups - well capitalized, adequately capitalized or undercapitalized - and further assigned to one of three subgroups - within a capital group, on the basis of supervisory evaluations by the institution's primary federal and, if applicable, state supervisors and other information relevant to the institution's financial condition and the risk posed to the applicable FDIC deposit insurance fund. The actual assessment rate applicable to a particular institution (and any applicable refund) will, therefore, depend in part upon the risk assessment classification so assigned to the institution by the FDIC.

Gramm-Leach-Bliley Act

The GLB Act, enacted in 1999, amended and repealed portions of the Glass-Steagall Act and other federal laws restricting the ability of bank holding companies, securities firms, and insurance companies to affiliate with each other and enter into new lines of business. The GLB Act established a comprehensive framework to permit financial companies to expand their activities, including through affiliations, and to modify the federal regulatory structure governing some financial services activities. The increased authority of financial firms to broaden the type of financial services that they may offer to customers and to affiliates with other types of financial service companies may lead to further consolidation in the financial services industry. However, it also may lead to additional competition in these markets in which we operate by allowing new entrants into various segments of those markets that were not the traditional competitors in the segments. Furthermore, the authority granted by the GLB Ac t may encourage the growth of larger competitors.

With respect to bank securities activities, the GLB Act repeals the exemption from the definition of "broker" previously afforded to banks and replaces it with a set of limited exemptions that permits certain activities which have been performed historically by banks to continue. Further, the GLB Act amends the securities laws to include banks with the general definition of dealer.

In addition, the GLB Act imposes regulations on financial institution with respect to customer privacy. The GLB generally prohibits disclosure of customer information to non-affiliated third parties unless the customer had been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to provide written disclosure of their privacy policies to customers at the time the banking relationship is formed and annually thereafter. Financial institutions, however, are required to comply with state law if it is more protective of customer privacy than the GLB Act. The privacy provisions became effective in July 2001.

The GLB Act contains a variety of other provisions including a prohibition against ATM surcharges unless the customer has first been provided notice of the imposition and amount of the fee. The GLB Act reduces the frequency of CRA examinations for smaller institutions and imposes certain reporting requirements on depository institutions that make payment to non-governmental entities in connection with the CRA.

Anti-Money Laundering and Anti-Terrorism Legislation

Congress enacted the Bank Secrecy Act of 1970 (the "BSA") to require financial institutions, including the Company and Northeast Bank, to maintain certain records and to report certain transactions to prevent such institutions from being used to hide money derived from criminal activity and tax evasion. The BSA establishes, among other things, (a) record keeping requirements to assist government enforcement agencies in tracing financial transactions and flow of funds; (b) reporting requirements for Suspicious Activity Reports and Currency Transaction Reports to assist government enforcement agencies in detecting patterns of criminal activity; (c) enforcement provisions authorizing criminal and civil penalties for illegal activities and violations of the BSA and its implementing regulations; and (d) safe harbor provisions that protect financial institutions from civil liability for the cooperative efforts.

The USA Patriot Act of 2001 (the "USA Patriot Act") is intended to strengthen the ability of U.S. law enforcement agencies and the intelligence communities to work cohesively to combat terrorism on a variety of fronts. The USA Patriot Act amended the BSA and incorporates anti-terrorist financing provisions into the requirements of the BSA and its implementing regulations. Under the USA Patriot Act, FDIC insured banks and commercial banks are required to increase their due diligence efforts for correspondent accounts and private banking customers. The USA Patriot Act requires banks to engage in additional record keeping or reporting, requiring identification of owners of accounts, or of the customers of foreign banks with accounts, and restricting or prohibiting certain correspondent accounts. Among other things, the USA Patriot Act requires all financial institutions, including the Company and Northeast Bank to institute and maintain a risk-based anti-money laundering compliance program that includes a customer identification program, provides for information sharing with law enforcement and between certain financial institutions by means of an exemption from the privacy provision of the GLB Act, prohibits U.S. banks and broker-dealers from maintaining accounts with foreign "shell" banks, establishes due diligence and enhanced due diligence requirements for certain foreign correspondent banking and foreign private banking accounts and imposes additional record keeping requirements for certain correspondent banking arrangements. The USA Patriot Act also grants broad authority to the Secretary of the Treasury to take actions to combat money laundering, and federal bank regulators are required to evaluate the effectiveness of an applicant in combating money laundering in determining whether to approve any application submitted by a financial institution. The Company and Northeast Bank have adopted policies, procedures, and controls to comply with the BSA and the USA Patriot Act, and t hey engage in very few transactions of any kind with foreign financial institutions or foreign persons.

The Department of the Treasury's Office of Foreign Asset Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, financial institutions, including the Company and Northeast Bank, must scrutinize transactions to ensure that they do not represent obligations of, or ownership interests in, entities owned or controlled by sanctioned targets. In addition, the Company and Northeast Bank restrict transactions with certain targeted countries except as permitted by OFAC.

Check 21

On October 28, 2003, President Bush signed into law the Check Clearing for the 21st Century Act, also known as Check 21. This law, which was effective on October 28, 2004, gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. Some of the major provisions include:

- allowing check truncation without making it mandatory;
- demanding that every financial institution communicate to accountholders in writing a description of its substitute check processing program and their rights under the law;
- legalizing substitutions for and replacements of paper checks without agreement from consumers;
- retaining in place the previously mandated electronic collection and return of checks between financial institutions only when individuals agreements are in place;
- requiring that when accountholders request verification, financial institutions produce the original check (or copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and
- requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred.

This legislation will likely affect bank capital spending as many financial institutions assess whether technological or operational changes are necessary to stay competitive and take advantage of the opportunities presented by Check 21.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") implemented a broad range of corporate governance and accounting measures, executive compensation limitations, and enhanced and timely disclosure obligations for corporate information, all of which are designed to ensure that the stockholders of corporate America are treated fairly and have full and accurate information about the public companies in which they invest. All public companies, including companies that file periodic reports with the SEC are affected by the Sarbanes-Oxley Act.

Specifically, the Sarbanes-Oxley Act and various regulations promulgated therefrom, established among other things:

- the creation of an independent accounting oversight board to oversee the audit of public companies and auditors who perform such audits;
- auditor independence provisions which restrict non-audit services that independent accountants may provide to their audit clients ;
- additional responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting entity;
- a prohibition on personal loans to directors and officers, except certain loans made by financial institutions on non-preferential terms and in compliance with other bank regulatory requirements;
- additional corporate governance and responsibility measures which (a) require the chief executive officer and chief financial officer to certify financial statements and to forfeit salary and bonuses in certain situations, and (b) protect whistleblowers and informants;
- enhance independence and expertise requirements of members of an audit committee;
- expansion of the audit committee's authority and responsibility by requiring that the audit committee (a) have direct control of the outside auditor, (b) be able to hire and fire the auditor, and (c) approve all non-audit services;
- mandatory disclosure by analysts of potential conflicts of interest; and
- enhanced penalties for fraud and other violations.

The American Stock Exchange also has adopted corporate governance rules that have been approved by the SEC. These changes are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors. The Company has taken steps to comply with the provisions of the Sarbanes-Oxley Act and the regulations adopted thereunder. The Sarbanes-Oxley Act is expected to increase the administrative costs and burdens of doing business for public companies.

Monetary Policy and Economic Control

The commercial banking business is affected not only by legislation, regulatory policies, and general economic conditions, but also by the monetary policy of the FRB. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks' deposit and assets of foreign branches and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the FRB. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of these agencies are influenced by various factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and in the fiscal policies of the United States Government. Future monetary policies and the effect of such policies on the future business and earnings of Northeast Bank cannot be predicted.

Industry Restructuring

For well over a decade, the banking industry has been undergoing a restructuring process which is anticipated to continue. The restructuring has been caused by product and technological innovations in the financial services industry, deregulation of interest rates, and increased competition from foreign and nontraditional banking competitors, and has been characterized principally by the gradual erosion of geographic barrier to intrastate and interstate banking and the gradual expansion of investment and lending authorities for bank institutions.

Members of Congress and the administration may consider additional legislation designed to institute reforms to promote the viability of the industry. Such legislation could revise the federal regulatory structure for insured depository institutions; others could affect the nature of products, services, and activities that bank holding companies and their subsidiaries may offer or engage in, and the types of entities that may control depository institutions. There can be no assurance as to whether or in what form any such future legislation might be enacted, or what impact such legislation might have upon the Company or Northeast Bank.

STATISTICAL DISCLOSURE

The additional statistical information contained in Item 8(b) of this Form 10-K, "Financial Statements and Supplementary Data" as it relates to the disclosures required by Industry Guide 3 under the Securities Exchange Act of 1934, as amended, is incorporated herein by reference.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Annual Report on Form 10-K (including the Exhibits hereto) contains certain "forward-looking statements" within the meaning of federal securities law Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as statements relating to our financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss reserve adequacy, simulation of changes in interest rates, capital spending and finance sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe ", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or 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 communication 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 we believe 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, we can not give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. We caution you that actual results could differ materially from those expressed or implied by such forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive p roducts and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity. Accordingly, investors and others are cautioned not to place undue reliance on such forward-looking statements.

Potential risks, uncertainties, and other factors which could cause the Company's financial performance or results of operations to differ materially from current expectations or such forward-looking statements include, but are not limited to:

a) general economic conditions, either nationally or in the markets where the Company or its subsidiaries offer their financial products or services, may be less favorable than expected, resulting in, among other things, a deterioration of credit quality or in a decreased demand for our products or services;

b) A significant increase in competitive pressures in the banking and financial services industry increasing significantly and, more particularly, a significant increase in competition in the Company's market areas as described under "Business -- Market for Services and Competition";

c) changes in the interest rate environment which could reduce our margins and increase defaults in our loan portfolio, including those described under "Management's Discussion and Analysis of Results of Operations and Financial Condition --Risk Management", and also may have a negative impact on the Company's interest rate exchange agreement;

d) the adequacy of the allowance for loan losses and the Bank's asset quality, including those matters described in "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Results of Operations".

e) changes in political conditions or changes occurring in the legislative or regulatory environment that adversely affects the businesses in which we are engaged, including the impact of any changes in laws and regulations relating to banking, securities, taxes, and insurance;

f) changes in technology;

g) the ability to increase market share and to control expenses, and changes in consumer spending, borrowing, and saving habits;

h) changes in trade, tax, monetary, or fiscal policies, including the interest rate policies of the FRB;

i) money market and monetary fluctuations, and changes in inflation or in the securities markets;

j) future acquisitions and the integration of acquired businesses and assets;

k) changes in the Company's organizational structure and in its compensation and benefit plans, including those necessitated by pressures in the labor market for attracting and retaining qualified personnel;

l) the effect of changes in accounting policies and practices, as may be adopted by regulatory agencies as well as the Financial Accounting Standards Board;

m) unanticipated litigation, regulatory, or other judicial proceedings;

n) the success of the Company at managing the risks involved in the foregoing;

o)

other one-time events, risks and uncertainties detailed from time to time in the filings of the Company with the Securities and Exchange Commission.

All written or oral forward-looking statements that are made or attributable to us are expressly qualified in their entirety by this cautionary notice. Such forward-looking statements speak only to the date that such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

The Company's results are strongly influenced by general economic conditions in its market areas in the western, central, and mid-coastal regions of the State of Maine. Deterioration in these conditions could have a material adverse effect on the quality of the Bank's loan portfolio and the demand for its products and services. In particular, changes in the real estate or service industries, or a slow-down in population growth may adversely impact the Company's performance. See "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition."

All forward-looking statements presume a continuation of the existing regulatory environment and monetary policy. The banking industry is subject to extensive state and federal regulation, and significant new laws or regulations, or changes in or repeals of existing laws or regulations may cause results of the Company to differ materially. Further federal monetary policy, particularly as implemented by the FRB, significantly affect credit conditions for the Bank and its customers. Such changes could adversely impact the Company's financial results. In addition, the newly enacted Sarbanes-Oxley Act of 2002 and the numerous rulemaking initiatives adopted or proposed in connection therewith or in reaction thereto has significantly increased the regulatory burdens of publicly held corporations. Accordingly, the cost of compliance with, and the personnel necessary to satisfy the obligations imposed by, these regulatory initiatives may divert resources from our core business operations and may adversely af fect our profitability. See "Item 1. Business Supervision and Regulation."

A significant source of risks arise from the possibility that losses will be sustained because borrowers, guarantors, and related parties fail to perform in accordance with the terms of their loans. The Bank has adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that management believe are appropriate to minimize the risks in assessing the likelihood of nonperformance, tracking loan performance, and diversifying the Bank's loan portfolio. However, such policies may not prevent unexpected losses that could adversely affect the Company's results and the allowance for loan losses may not be adequate in all instances. See "Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition - Results of Operations,"" - Financial Condition," and" - Risk Management." Further, certain types of lending relationships carry greater risks of nonperformance and collectability, such as commerci al and consumer loans. For a discussion of the risks associated with such lending relationships, see "Item 1. Business -- Lending Activities."

Item 2. <u>Properties</u>

The principal executive and administrative offices of the Company and the Bank were relocated to 500 Canal Street, Lewiston, Maine ("Headquarters Building") from 158 Court Street, Auburn, Maine in August, 2005. The Bank entered into a 15 year lease with respect to the Headquarters Building and moved our principal executive and administrative offices to this four story building located in downtown Lewiston in August 2005. We lease the entire building, a total of 27,000 square feet. For the first ten years of the lease the annual expense is $264,000. In addition to executive and administrative offices, this building also houses our operations, loan processing and underwriting, loan servicing, accounting, human resources, and commercial lending departments. We also opened a 500 square foot branch office in this building and completed the relocation of the above offices and departments in August 2005.

In addition to the branch office located in our Headquarters Building, we have 11 additional banking branches located in the State of Maine, as set forth below.

Branch Locations	Ownership
232 Center Street, Auburn	Lease (1)
235 Western Avenue, Augusta	Fee Simple
11 Main Street, Bethel	Fee Simple
168 Maine Street, Brunswick	Fee Simple
2 Depot Street, Buckfield	Fee Simple
46 Main Street, Harrison	Fee Simple
882 Lisbon Street, Lewiston	Lease (2)
698 Lisbon Road, Lisbon Falls	Fee Simple
26 Pleasant Street, Mechanic Falls	Fee Simple
77 Middle Street, Portland	Lease (3)
235 Main Street, South Paris	Lease (4)
Insurance Agency Locations	
59 Main Street, Anson	Lease (5)
350 Minot Avenue, Auburn	Lease (5)
235 Western Avenue, Augusta*	Fee Simple
11 Main Street, Bethel*	Fee Simple
346 Main Street, Jackman	Lease (5)
89 Main Street, Mexico	Lease (5)
2568 Main Street, Rangeley	Lease (5)
235 Main Street, South Paris*	Lease (4)

*Each of these insurance agency locations are situated in an existing bank branch location at the address indicated.

(1) Lease term is ten years and expires February 1, 2007
(2) Lease term is 15 years and expires January 14, 2014.
(3) Lease term is five years and expires September 30, 2007.
(4) Lease term is ten years and expires June 1, 2007.
(5) Lease term is one year and automatically renews in September each year.

The Bank's investment division leases space in 202 US Route One, Falmouth, Maine which has a term of five years and expires August 31, 2007.

In addition, the Bank has leased land in Windham, Maine for a future branch location. The lease term is 50 years and expires August 1, 2054.

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Company is a party or any of its property is the subject. There are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of banking, to which the Bank is a party or of which any of the Bank's property is the subject. There are no material pending legal proceedings to which any director, officer or affiliate of the Company, any owner of record beneficially of more than five percent of the common stock of the Company, or any associate of any such director, officer, affiliate of the Company or any security holder is a party adverse to the Company or has a material interest adverse to the Company or the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the Company's securities-holders during the fourth quarter of the fiscal year ended June 30, 2005.

Item 4A. Executive Officers of the Registrant

Pursuant to the Instructions of Form 10-K and Item 401(b) of Regulation S-K, the name, age, and position of each executive officer of the Company and the Bank are set forth below along with such officer's business experience during the past five years. Officers are elected annually by the respective Boards of Directors of the Company and the Bank to hold office until the earlier of their death, resignation, or removal.

Name	Age	Position with Company and/or Bank
James D. Delamater	54	President and Chief Executive Officer (1)
Philip C. Jackson	61	Senior Vice President of Bank Trust Operations
Gary Berlucchi	59	Senior Vice President of Bank - Operations
Pender J. Lazenby	55	Chief Risk Officer
Marcel Blais	46	Chief Operating Officer
Robert S. Johnson	53	Chief Financial Officer (1)
Suzanne Carney	38	Clerk

(1) Each of these individuals serves both the Company and the Bank in the same capacities as indicated above.

James D. Delamater has been President, Chief Executive Officer, and a director of the Company and the Bank since 1987.

Philip C. Jackson has been a director of the Company and the Bank since 1987. Mr. Jackson also has served as the Senior Vice President of the Bank's Trust Operations since 1997. From 1991 to 1994, Mr. Jackson served as President of Bethel Savings, the predecessor to the Bank.

Gary Berlucchi has been the Senior Vice President of the Bank - Operations since January 1999. From 1972 to 1995, Mr. Berlucchi was a Vice President of Casco Northern Bank, N.A., in operations and credit policy. Previous to joining Northeast Bank, Mr. Berlucchi was self-employed as a financial consultant.

Marcel Blais has been Chief Operating Officer since September 2005. He is responsible for retail banking and commercial lending for the Bank. He joined the Company in 1997 and served as Senior Vice President - - Retail Banking from 1998 until September 2005. Prior to joining the Company he served as Vice President of Atlantic Bank from 1995 to 1997, and as Vice President - - Branch Manager of Casco Bank from 1977 until 1995.

Robert S. Johnson has been the Chief Financial Officer of the bank since December 2001. Prior to joining the company he served as Mortgage Controller of Banknorth Group from 1998 to 1999 and as President and Chief Financial Officer of Pepperell Bank & Trust from 1999 to 2001.

Pender J. Lazenby has been a director of the Company and the Bank since 2003. Mr. Lazenby has also served as the Senior Vice President Chief Risk Officer since February 2005 and prior to joining the Company served in a variety of positions with Fleet Boston and Bank Boston prior to its acquisition in 1999.

Suzanne Carney has been Clerk of the Bank since March 1999 and has been with the company since 1994 in the Accounting Division.

There is no family relationship between any of the directors or executive officers of the Company.

PART II

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

The Common Stock of Northeast Bancorp trades on the American Stock Exchange ("AMEX") under the symbol "NBN". As of the close of business on September 19, 2005, there were approximately 2,524,832, shares of common stock outstanding held by approximately 468 stockholders of record.

The following table sets forth the high and low closing sales prices of the Company's Common Stock as reported on AMEX, and dividends paid during each quarter for periods indicated.

2005 - 2006	High	Low	Div Pd
Jul 1- Sep 19	22.50	19.85	.090
2004 - 2005	**High**	**Low**	**Div Pd**
Jul 1- Sep 30	19.39	18.65	.090
Oct 1 - Dec 31	23.00	18.50	.090
Jan 1 - Mar 31	23.00	19.94	.090
Apr 1 - Jun 30	22.00	19.45	.090
2003 - 2004	**High**	**Low**	**Div Pd**
Jul 1- Sep 30	18.20	16.30	.080
Oct 1 - Dec 31	20.25	16.60	.090
Jan 1 - Mar 31	20.00	18.10	.090
Apr 1 - Jun 30	19.48	19.00	.090

On September 19, 2005, the last reported sale price of the Company's Common stock as quoted on AMEX was $22.21. Holders of the Company's 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 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 the 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".

Stock repurchases under the 2004 Stock Repurchase Plan for the year ended June 30, 2005 totaled 36,500 shares at an average price per share of $19.15.

The following table provides the information on any purchase made by or on behalf of the Company of shares of Northeast Bancorp common stock during the indicated periods.

Issuer Purchases of Equity Securities

Period (1)	Total Number Of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(2)	Maximum Number of Shares that May Yet be Purchased Under The Program (3)
April 1 - April 30	6,500	$19.82	6,500	144,700
May 1 - May 31	--	--	--	144,700
June 1 - June 30	--	--	--	144,700

(1) Based on trade date, not settlement date.
(2) Represents shares purchased in open-market transactions pursuant to the Company's 2004 Stock Repurchase Plan.
(3) On January 30, 2004, the Company announced that its Board of Directors of the Company approved the 2004 Stock Repurchase Plan pursuant to which the Company is authorized to repurchase in open-market transactions up to 200,000 shares from time to time until the plan expires. The 2004 Stock Repurchase Plan was extended by the board of directors for twelve months to expire on December 31, 2005.

During the fiscal year ended June 30, 2005, we also acquired shares of our common stock outside of the 2004 Stock Repurchase Plan. In August, September, and December, 2004, directors of the Company tendered 1,579 shares, 2,735 shares, and 2,795 shares, respectively, to pay the option exercise price for common stock acquired upon the exercise of options held by them. A total of 7,109 shares were tendered at an average price per share of $20.35.

Item 6. Selected Financial Data

	At or for the Year Ended June 30,				
	2005	2004	2003	2002	2001
	(Dollars in thousands except for Per Share Data)				
Selected operations data:					
Interest income	$ 32,159	$ 27,660	$ 28,586	$ 31,664	$ 35,800
Interest expense	13,967	12,079	13,769	16,998	21,754
Net interest income	18,192	15,581	14,817	14,666	14,046
Provision for loan losses	1,302	962	1,091	842	781
Other operating income (1)	5,598	5,134	4,614	3,675	2,934
Net securities gains	68	201	922	547	148
Other operating expenses (2)	16,684	14,799	13,530	12,146	10,975
Income before income taxes	5,872	5,155	5,732	5,900	5,372
Income tax expense	1,853	1,643	1,877	2,047	1,888
Net income	$ 4,019	$ 3,512	$ 3,855	$ 3,853	$ 3,484
Consolidated per share data:					
Net income:					
Basic	$ 1.60	$ 1.38	$ 1.46	$ 1.48	$ 1.32
Diluted	$ 1.57	$ 1.35	$ 1.44	$ 1.44	$ 1.30
Cash dividends	$ 0.36	$ 0.35	$ 0.32	$ 0.25	$ 0.25
Selected balance sheet data:					
Total assets	$ 575,900	$ 538,754	$ 467,684	$ 442,216	$ 431,298
Loans receivable	461,052	432,594	378,987	374,634	380,483
Deposits	396,219	377,820	318,743	303,198	274,136
Borrowings	102,914	96,558	93,769	93,130	115,222
Total stockholders' equity	39,870	36,453	36,499	34,731	30,445
Other ratios:					
Return on average assets	0.71%	0.71%	0.86%	0.88%	0.80%
Return on average equity	10.39%	9.50%	10.58%	11.73%	11.65%
Average equity to average total assets	6.86%	7.51%	8.11%	7.51%	6.84%
Common dividend payout ratio	22.93%	25.93%	22.22%	17.36%	19.23%

(1) Includes fees for deposit, investment brokerage, insurance commissions, and trust services to customers and gains on the

sale of loans.
(2) Includes salaries, employee benefits, occupancy, equipment and other expenses.

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

The Management's Discussion and Analysis of Results of Operations and Financial Condition which follows presents a review of the consolidated operating results of Northeast Bancorp, Inc. (the "Company") for the fiscal years ended June 30, 2005, 2004 and 2003. 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 years prior to 2005 have been reclassified to conform to the 2005 presentation.

A NOTE ABOUT FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of federal securities law Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as statements relating to our financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss reserve adequacy, simulation of changes in interest rates, capital spending and finance sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or 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 we believe 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, we can not give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. We caution you that actual results could differ materially from those expressed or implied by such forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity. Accordingly, investors and others are cautioned not to place undue reliance on such forward-looking statements. For a more complete discussion of certain risks and uncertainties affecting the Company, please see "Item 1. Business - Forward-Looking Statements and Risk Factors" set forth in our Form 10-K. These forward-looking statements speak only as of the date of this report 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 report or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

The Notes to the Consolidated Financial Statements contain a summary of Northeast Bancorp's significant accounting policies. The level of the allowance for loan losses is important to the portrayal of the Company's results of operations and financial condition. The determination of what the loan loss allowance should be requires management to make subjective or difficult judgments, some of which may relate to matters that are inherently uncertain. Actual results may differ materially from these estimates and assumptions. See Note 1 to the Consolidated Financial Statements.

Allowance for Loan Loss

The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings, and the loss recovery rates, among other things, are considered in making this evaluation, as are the size and diversity of individual large credits. Changes in these estimates could have a direct impact on the provision and could result in a change in the allowance. The larger the provision for loan loss, the greater the negative impact on our net income. Larger balance, non-homogeneous loans representing significant individual credit exposures are evaluated based upon the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. The allowance for loan losses attributed to these loans is established through a process that includes estimates of historical and projected default rates and loss severities; internal risk ratings; and geographic, industry, and other environmental factors. Management also considers overall portfolio indicators, including trends in internally risk-rated loans, classified loans, nonaccrual loans, and historical and forecasted write-offs; and a review of industry, geographic, and portfolio concentrations, including current developments. In addition, management considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria, and loan workout procedures. Each portfolio of smaller balance, homogeneous loans, including residential real estate and consumer loans, is collectively evaluated for impairment. The allowance for loan losses is established via a process that includes historical delinquency and credit loss experience, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators including historical credit losses; delinquent, non-performing and classified loans; trends in volumes; terms of loans; an evaluation of overall credit quality and the credit process, including lending policies and procedures; and economic factors.

For a further description of our estimation process in determining the allowance for loan losses, see "Asset Quality" below.

GENERAL

Northeast Bancorp (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. We conduct business from our headquarters in Lewiston, Maine and, as of June 30, 2005, from 12 banking offices and 8 insurance agency offices all located in western and south-central Maine. At June 30, 2005, we had consolidated assets of $575.9 million and consolidated stockholders' equity of $39.9 million.

Northeast Bancorp's principal asset is all the capital stock of Northeast Bank (the "Bank"), a Maine state-chartered universal bank. Accordingly, Northeast Bancorp's results of operations are primarily dependent on the results of the operations of the Bank. The Bank has eleven branch offices. The Bank's investment brokerage division has an office in Falmouth, Maine from which investment, insurance and financial planning products and services are offered. The Bank's wholly owned subsidiary Northeast Bank Insurance Group, Inc. has eight insurance agency offices offering personal and commercial property and casualty insurance products. Three of insurance agency's offices operate in our Augusta, Bethel, and South Paris, Maine branches.

On August 29, 2004, the Bank converted its charter to a state bank, and became a member of the Federal Reserve Bank of Boston ("FRB"). As a result, the Bank is no longer a federal savings and loan association subject to regulation by the Office of Thrift Supervision, but instead is subject to the joint regulatory oversight by the FRB and the State of Maine Bureau of Financial Institutions. The name of the Company's wholly-owned subsidiary was changed to Northeast Bank.

Business Strategy

The principal business of the Bank consists of attracting deposits from the general public and applying those funds to originate or acquire residential mortgage loans, commercial loans, commercial real estate loans, and a variety of consumer loans. The Bank sells residential mortgage loans into the secondary market. The Bank also invests in mortgage-backed securities and securities issued by United States Government sponsored enterprises. The Bank emphasizes the growth of noninterest sources of income from trust management, financial planning, and investment and insurance brokerage. The Bank's profitability depends primarily on net interest income, which is the difference between interest income earned from interest-earning assets (i.e. loans and investments) and interest expense incurred on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative balances of interest-earning assets and interest-bearing liabilities, and the rates paid on these balances.

Our goal is to continue modest, but profitable growth by increasing our loan and deposit market share in our existing markets in western and south-central Maine, closely manage the yields on earning assets and rates on interest-bearing liabilities, introduce new financial products and services, increase the number of bank services per household, increase non-interest income from expanded trust, investment and insurance brokerage services, and control the growth of non-interest expenses. It also is part of our business strategy to make targeted acquisitions in our current market areas from time to time when opportunities present themselves. As part of our growth strategy, we expanded our insurance brokerage division by acquiring the Solon-Anson Insurance Agency, Inc. headquartered in Rangeley, Maine on September 29, 2004. This acquisition increased our customer base by approximately 21,000 households. The planned branch in Windham, Maine has been deferred until 2006.

The Company's profitability is affected by the Bank's interest rate spread, which is the difference between the average yield earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities. It is also affected by the level of the provision for loan losses, non-interest income and expenses of Northeast Bancorp and the Bank, and the effective tax rate. Non-interest income consists primarily of loan and deposit service fees; trust, investment brokerage and insurance brokerage fees; and gains on the sales of loans and investments. Noninterest expenses consist of compensation and benefits, occupancy related expenses, deposit insurance premiums paid to the FDIC, and other operating expenses which include advertising, computer services, supplies, telecommunication and postage expenses.

Economic Conditions

We believe that our market area has generally witnessed economic growth from 2004 through 2005. The economy and real estate markets in our market areas will continue to be significant determinants of the quality of our assets in future periods and our results of operations, liquidity, and financial condition. We believe future economic activity will significantly depend on consumer confidence, consumer spending and business expenditures for new capital equipment, all of which are tied to strong employment.

EXECUTIVE SUMMARY

The following were significant factors comparing our results for fiscal 2005 to fiscal 2004:

- The net interest margin increased by 6 basis points in fiscal 2005 versus fiscal 2004 due primarily to an asset sensitive balance sheet (more interest-bearing assets repriced than interest-bearing liabilities) which benefited from eight changes in the prime interest rate. We continued to originate more loans with variable interest rates than fixed interest rates;
- The net interest income also improved from the $68.8 million growth in average interest-bearing temporary investments, securities, and loans. Record levels of commercial real estate and consumer loans were originated in fiscal 2005. US Government sponsored enterprise and mortgage-backed securities were also purchased increasing interest-bearing assets; and
- We acquired the Solon-Anson Insurance Agency, Inc. in September 2004 adding $1.2 million of insurance commission revenue annually to noninterest income.

Our financial condition and liquidity remain strong, and are supported by the following in fiscal 2005:

- We increased customer deposits during fiscal 2005 reducing utilization of brokered certificates of deposit. Total liquidity at June 30, 2005 was $122.6 million, exceeding policy minimums;
- The Company and Bank are "well capitalized" under regulatory definitions;
- Junior subordinated debentures totaling $10 million were issued in fiscal 2005 and part of the proceeds were used to redeem 9.60% junior subordinated debentures on the December 24, 2004 call date;
- Stock repurchases under the 2004 Stock Repurchase Plan totaled 36,500 shares at an average per share price of $19.15 in fiscal 2005;
- We focus on the return on average equity ("ROAE"), return on average assets ("ROAA") and the efficiency ratio in evaluating our results of operations. The ROAE increased to 10.39% in fiscal 2005 from 9.50% in fiscal 2004, The ROAA of 0.71% remained unchanged from fiscal 2004. The efficiency ratio of 69.9% for fiscal 2005 improved from 70.8% for fiscal 2004; and
- Net income was a record of $4,018,634.

ACQUISITION

On September 29, 2004, the Bank's wholly owned subsidiary, Northeast Bank Insurance Group, Inc. ("NBIG") (formerly Northeast Financial Services, Inc. ("NFS")), acquired 100% of the outstanding stock of Solon-Anson Insurance Agency, Inc. ("Solon-Anson"), headquartered in Rangeley, Maine. This acquisition is part of the Company's plans to expand its sources of fee income. In connection with the acquisition, NBIG entered into certain compensation arrangements with the sellers, Craig and Sharon Sargent. NBIG purchased an annuity for $900,000 to provide deferred compensation payments to the sellers. The annuity remains an asset of the Company and is included in other assets in the consolidated statements of financial condition. These payments are contingent on the sellers meeting the conditions of their respective employment contracts, and are subject to a vesting schedule over the term of each employment contract. The acquisition of Solon-Anson used purchase accounting and resulted in a customer list intangible asset of $2,081,500, which will be amortized over twelve years. No goodwill was recognized. The following is a summary of the assets and liabilities acquired and allocation of the purchase price.

Purchase Price:	
Cash Paid	$ 993,469
Debt Assumed	683,104
Other Liabilities	457,620
Total	$ 2,134,193
	=======

Allocation:	
Customer List	$ 2,081,500
Office Equipment	50,831
Other Assets	1,862
Total	$ 2,134,193
	=======

The results of operations of Solon-Anson have been included in the consolidated financial statements of the Company since the acquisition date. There is no pro-forma disclosure included because Solon-Anson was not considered a significant acquisition. This transaction added six insurance offices located in Anson, Auburn, Augusta, Mexico, Rangeley, and South Paris, Maine and 21,000 customers.

Solon-Anson merged with NFS, with NFS being the surviving company, effective April 1, 2005. This had no impact on the financial position or results of operations of the Company. On May 2, 2005, NFS's name was changed to Northeast Bank Insurance Group, Inc.

RESULTS OF OPERATIONS

Comparison of Fiscal Years Ended June 30, 2005 and 2004

Overview

For the fiscal year ended June 30, 2005 (" fiscal 2005"), we reported net income of $4,018,634, or $1.57 per diluted share as compared to $3,512,179, or $1.35 per diluted share, for the fiscal year ended June 30, 2004 ("fiscal 2004"), an increase of 14%. This increase was attributable to increased net interest income and noninterest income, partially offset by increased provision for loan losses and noninterest expense. The return on average assets was 0.71% in fiscal 2005 and fiscal 2004. The return on average assets was unchanged due to total average assets increasing by $71.1 million, or 14%, compared to fiscal 2004. The return on average equity was 10.39% in fiscal 2005 and 9.50% in fiscal 2004. The increase in our return on average equity was due to increased net income for those periods while average equity increased 5%.

Net interest income increased 17% during fiscal 2005. The increase in our net interest income was primarily due to an increase in our average earning assets. The growth in average earning assets increased approximately $68.8 million as compared to the average earning assets in fiscal 2004. Of the increase in average earning assets, average loans accounted for $56.3 million. We experienced a reversal from the prolonged period of declining interest rates to increasing interest rates during fiscal 2005 due to the increase in short-term interest rates imposed by the Open Market Committee of the Federal Reserve Bank. Net interest margin, the ratio of net interest income to average earning assets, likewise increased by 6 basis points to 3.41% in fiscal 2005 from 3.35% in fiscal 2004. Net interest spread, the difference between the yield on earning assets and the cost of funds, increased by 7 basis points to 3.14% in fiscal 2005 from 3.07% in fiscal 2004. The asset sensitive profile of our statement of financial condition, where the yields on assets reprice faster than the cost of funds, contributed to this increase in net interest margin and net interest spread. Noninterest income increased 6% during fiscal 2005 primarily from increased insurance commission revenue. This increase was partially offset from lower net securities gains, lower gains on sales of residential real estate loans and lower investment commission revenue. The provision for loan losses increased 35% primarily from higher net charge-offs during fiscal 2005. Noninterest expense increased 13% during fiscal 2005, which is primarily due to increases in salaries and employee benefits expense, occupancy and equipment expense associated with the acquisition of the Solon-Anson Insurance Agency Inc, loss recognized with the redemption of the 9.60% trust preferred securities, and other-than-temporary write-downs on securities.

Net Interest Income

Net interest income increased by $2,611,329, or 17%, during fiscal 2005 primarily from increased average earning assets. Average earning assets increased $68.8 million during fiscal 2005, and was comprised of average interest-bearing deposits in the Federal Home Loan Bank of Boston and stock in the Federal Reserve Bank of Boston increasing $1.2 million (primarily from overnight deposits and federal funds sold), average investment securities increasing $11.3 million, and average loans increasing $56.3 million. The increase in average investment securities was due to purchase of government sponsored enterprise and mortgage-backed securities to pledge as eligible collateral for FHLB advances and securities sold under agreements to repurchase. The increase in average loans resulted from growth in all loan portfolios, but was primarily due to residential real estate, commercial real estate, and consumer loans originated during fiscal 2005. Average interest-bearing deposits increased by $55.0 million, or 18%, during fiscal 2005 primarily from time deposits and brokered time deposits. Average time deposits increased by $20.2 million. Average brokered time deposits increased by $30.6 million to fund increases in loans and investment security purchases. Average repurchase agreements increased during fiscal 2005 by $5.5 million, or 22%. Average borrowings increased due to new issues of junior subordinated debentures. The yield on earning assets increased 7 basis points to 6.02% in fiscal 2005. The cost of funds increased 1 basis point due to the decline in the costs junior subordinated debentures refinanced in fiscal 2005. Table 1 provided in Item 8 of this Form 10-K shows the average balances, yields and rates of assets, liabilities, and net worth of the Company for the past three years. The table below shows the changes from 2004 to 2005 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended
June 30, 2005 versus June 30, 2004

	Difference Due to		
	Volume	Rate	Total
Investments	$ 454,580	$ 187,521	$ 642,101

Loans, net	3,615,023	187,689	3,802,712
FHLB deposits & other	6,976	47,607	54,583
Total interest-earning assets	4,076,579	422,817	4,499,396
Deposits	1,564,836	493,697	2,058,533
Repurchase agreements	67,784	56,011	123,795
Borrowings	231,005	(525,266)	(294,261)
Total interest-bearing liabilities	1,863,625	24,442	1,888,067
Net interest income	$ 2,212,954	$ 398,375	$ 2,611,329

Rate/volume amounts are spread proportionately between Volume and Rate. Borrowings in the table above include junior subordinated debentures and FHLB advances.

Provision for Loan Losses

The provision for loan losses in fiscal 2005 was $1,301,600, an increase of $339,662, or 35%, compared to fiscal 2004. This increase in the provision for loan losses reflects increased net loan charge-offs, higher loan delinquency, higher nonperforming loans, higher classified loans for fiscal 2005, and an increase in loans. Net charge-offs were $774,600 in fiscal 2005 compared to $400,938 in fiscal 2004. This $373,662 increase, or 93%, was due to increased gross charge-offs of commercial and consumer loans. Net charge-offs to average loans outstanding was 0.17% in fiscal 2005 compared to 0.10% in fiscal 2004.

The allowance for loan losses at June 30, 2005 was $5,104,000 as compared to $4,577,000 at June 30, 2004, an increase of $527,000, or 12%. The allowance to total portfolio loans was 1.11% at June 30, 2005 compared to 1.06% at June 30, 2004. The ratio of the allowance for loan losses to nonperforming loans was 301% at June 30, 2005 and 273% at June 30, 2004, reflecting an increase in the allowance for loan loss. Total nonperforming loans increased 1% from the prior year, which was due to nonperforming residential loans contractually past due 90 days or more. Nonperforming loans were 0.37% of total loans at June 30, 2005 as compared to 0.39% at June 30, 2004. This decrease in nonperforming loans as a percentage of total loans was primarily due to an increase in total loans outstanding at June 30, 2005. For additional information on the allowance for loan losses, see "Critical Accounting Policies" above, and see "Asset Quality" below for additional discussion on loans.

Noninterest Income

Noninterest income for the fiscal years ended June 30, 2005 and 2004 was $5,666,131 and $5,335,653, respectively, an increase of $330,478, or 6% in fiscal 2005. Most of this increase was due to the increase in insurance commission revenue partially offset by a decrease in net securities gains, gains on sales of loans, insurance commissions and BOLI income.

Fees for other services to customers of $1,067,116 increased $91,230 or 9% during fiscal 2005. This increase was due to higher transaction service fees, overdraft fees, ATM and debit card fee revenue as compared to fiscal 2004.

Net securities gains of $67,940 decreased $132,875 or 66% during fiscal 2005. The volume of securities sold in fiscal 2005 decreased from fiscal 2004. Gains from the sale of equity and bond securities are subject to market and economic conditions and there can be no assurance that gains reported in prior periods will be achieved in the future. Other-than-temporary write-downs on equity securities of $27,849 and $171,312 during fiscal 2005 and 2004, respectively, were included in noninterest expense.

Gains on the sales of loans of $233,027 decreased $449,768 or 66% during fiscal 2005. This decrease was primarily due to lower sales volume of residential real estate loans, a decrease of $19 million to $11 million in fiscal 2005 compared to $30 million in fiscal 2004. Sold loan volume was impacted by a decrease in residential real estate loan origination volume due to increasing interest rates and a shift in loans with variable interest rates during fiscal 2005, and by management's decision to hold in portfolio all new 15 year fixed rate loans. Residential real estate loans were sold to reduce our exposure to interest rate risk.

Investment commission revenue of $1,454,863 decreased $58,938 or 4% during fiscal 2005. This decrease was primarily to lower sales for the year.

Insurance commissions of $1,404,035 increased $1,018,717 or 264% during the fiscal year 2005 due to the acquisition of the Solon Anson Insurance Agency. This acquisition added six agency locations for the sale of personal and commercial property and casualty insurance policies compared to one agency in fiscal 2004.

BOLI income of $330,700 decreased $48,935 or 13% during fiscal 2005. This decrease was due to a decrease in the average interest yield to 4.26% in fiscal 2005 from 4.94% in fiscal 2004. The additions to cash surrender value are based on this average interest yield. They are reset quarterly for one policy and annually for a second to a yield determined by the life insurance companies. Each policy is subject to minimum interest rates.

Other income of $492,724 decreased $82,319 or 14% during fiscal 2005. This decrease was primarily from not repeating a $264,395 gain realized from the sale of deposits of the former Richmond Maine branch partially offset by a gain of $59,719 on the sale of the Richmond branch building, increase in trust fees of $69,233, real estate operations improved by $25,433, and the appreciation of a deferred compensation annuity of $38,076.

Noninterest Expense

Noninterest expense for fiscal years ended June 30, 2005 and 2004 was $16,684,174 and $14,799,072, respectively, an increase of $1,885,102 or 13%. The increase in fiscal 2005 was primarily from an increase in salaries and employee benefits and other expense. Our efficiency ratio decreased slightly to 69.9% during fiscal 2005 from 70.8% in fiscal 2004.

Salaries and employee benefits expense of $9,554,317 increased $1,269,889 or 15% during the fiscal year 2005. This increase includes the salary and benefits for the 18 positions from the Solon-Anson acquisition. Total full-time equivalents were 193 compared to 186 at June 30, 2005 and 2004, respectively.

Occupancy expense of $1,418,696 increased $192,916 or 16% during the fiscal year 2005. This increase was primarily due to the six leased locations of Solon-Anson Insurance Agency. Agency offices in Augusta and South Paris were relocated to existing branch locations in the fourth quarter of fiscal 2005 to reduce future lease expense. In addition, the corporate headquarters building at 158 Court Street in Auburn was sold and leased back for twelve months pending the completion of our new corporate headquarters in Lewiston, Maine. The lease of the former corporate headquarters totaled $66,000 for fiscal 2005. We completed our move to the new building in August, 2005.

Equipment expense of $1,110,108 increased $159,641 or 17% during the 2005 fiscal year. As with salaries and occupancy expense, equipment expense increased from the Solon-Anson Insurance Agency acquisition. Computer and software depreciation and related maintenance expense from technology investments accounts for the increase in fiscal 2005. It was partially offset by the recovery of personal property taxes of $36,923 under the State of Maine Revenue Department's Business Equipment Property Tax Reimbursement program (BETR).

Other expense of $4,351,352 increased $267,908 or 7% during fiscal 2005. This increase was due in part to the $396,425 loss recognized from the redemption of the 9.60% trust preferred stock issuance. The loss was from the write-off of unamortized deferred issuance cost. Other-than-temporary write downs on equity and non-marketable securities were $27,849 and $96,931, respectively, in fiscal 2005, an aggregate decrease of $388,076 compared to fiscal 2004. These other-than-temporary write downs resulted from the periodic analysis by management of impaired securities whereby management determined that recovery of cost was unlikely within a reasonable period of time for certain equity and non-marketable securities. Professional fees increased $223,137 compared to fiscal 2004 from additional consulting services for the documentation and testing of our financial reporting controls and efficiency study consulting services. Computer services increased from item processing charges and the full year impact of our out-sourced data center supporting internet banking.

Taxes

The Company's effective tax rate was 31.5% and 31.9% for the fiscal years ended June 30, 2005 and 2004, respectively. See the Note 13 in the Consolidated Financial Statements for additional information.

Comprehensive Income

The Company's comprehensive income was $4,745,415 and $2,024,042 during 2005 and 2004, respectively. Comprehensive income differed from our net income in 2005 and 2004 due to the change in the fair value of available for sale securities, net of income tax. In fiscal 2005, there was a net increase in fair value of $726,781 to a net unrealized loss on investments available for sale, net of income tax. There was a decrease in fair value in fiscal 2004 of $1,488,137. See the Consolidated Statements of Changes in Shareholders' Equity and Note 17 in the Consolidated Financial Statements for additional information.

Comparison of Fiscal Years Ended June 30, 2004 and 2003

For the fiscal year ended June 30, 2004 (" fiscal 2004"), we reported net income of $3,512,179, or $1.35 per diluted share as compared to $3,855,318, or $1.44 per diluted share, for the fiscal year ended June 30, 2003 ("fiscal 2003"), a decrease of 9%. This decrease was attributable to decreased noninterest income and increased noninterest expense, partially offset by increased net interest income and decreased provision for loan losses. The return on average assets was 0.71% in fiscal 2004 and 0.86% in fiscal 2003. The return on average equity was 9.50% in fiscal 2004 and 10.58% in fiscal 2003. The decrease in our return on average assets and our return on average equity was due to decreased net income for those periods while average assets and average equity increased. Total average assets increased $43.5 million, or 10%, compared to fiscal 2003.

Net interest income increased 5% during fiscal 2004. The increase in our net interest income was due to an increase in our earning assets. Net interest margin, the ratio of net interest income to average earning assets, declined by 14 basis points to 3.35% in fiscal 2004 from 3.49% in fiscal 2003. Net interest spread, the difference between the yield on earning assets and the cost of funds, decreased by 5 basis points to 3.07% in fiscal 2004 from 3.12% in fiscal 2003. This decrease was attributable to the decrease in average yields on earning assets, which was partially offset by a decrease in rates paid on interest-bearing deposits and borrowings reducing our cost of funds. The asset sensitive profile of our statement of financial condition, where the yields on assets reprice faster than the cost of funds, contributed to this decrease in net interest margin and net interest spread. We experienced a prolonged period of declining interest rates during fiscal 2004 from the decisions of the Open Market Committee of the Federal Reserve Board to reduce short-term interest rates. The growth in average earning assets of approximately $40.7 million as compared to the average earning assets in fiscal 2003 increased net interest revenue. Of the increase in average earning assets, average investment securities accounted for $33 million. Noninterest income decreased 4% during fiscal 2004. This decrease was primarily due to lower net securities gains, and lower gains on sales of residential real estate loans. The provision for loan losses decreased 12% primarily from lower net charge-offs during fiscal 2004. Noninterest expense increased 9% during fiscal 2004. This increase was primarily due to increases in salaries and employee benefits expense, marketing expense, and other-than-temporary write-downs on securities.

Net Interest Income

Net interest income increased by $763,771 or 5% during fiscal 2004 primarily due to increased average earning assets. Average earning assets increased $40.7 million during fiscal 2004, comprised of average loans increasing approximately $10.4 million, or 3%, and average investment securities increasing $33 million, or 131%, as compared to fiscal 2003. Average short-term investments decreased $2.7 million compared to the same period. The increase in average loans was primarily due to commercial real estate, commercial loans, and consumer loans originated during fiscal 2004. The increase in average investment securities was due to purchase of government agency and mortgage-backed securities to pledge as eligible collateral for FHLB advances and securities sold under agreement to repurchase. Average interest-bearing deposits increased by $22.9 million, or 8%, during fiscal 2004 primarily from savings accounts and brokered time deposits. Average brokered time deposits increased by $33.6 million to fund investment security purchases. Average repurchase agreements increased during fiscal 2004 by $15.3 million, or 16%. Average borrowings increased due to new issues of junior subordinated debentures. The yield on earning assets decreased 79 basis points to 5.95% in fiscal 2004. The cost of funds decreased 74 basis points due to the overall decline in the costs of NOW, money market and savings accounts combined with a reduction in interest rates paid on FHLB advances and junior subordinated debentures. Item 8 Table 1 shows the average balances, yields and rates of assets, liabilities, and net worth of the Company for the past three years. The table below shows the changes from 2003 to 2004 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended
June 30, 2004 versus June 30, 2003

	Difference Due to		
	Volume	Rate	Total
Investments	$ 1,252,047	$ (324,006)	$ 928,041
Loans, net	716,565	(2,522,245)	(1,805,680)
FHLB deposits & other	(24,590)	(24,064)	(48,654)

Total interest-earning asset	1,944,022	(2,870,315)	(926,293)
Deposits	831,033	(2,454,108)	(1,623,075)
Repurchase agreements	169,964	13,212	183,176
Borrowings	36,075	(286,240)	(250,165)
Total interest-bearing liabilities	1,037,072	(2,727,136)	(1,690,064)
Net interest income	$ 906,950	$ (143,179)	$ 763,771

Rate/volume amounts are spread proportionately between Volume and Rate. Borrowings in the table above include junior subordinated debentures and FHLB advances.

Provision for Loan Losses

The provision for loan losses in fiscal 2004 was $961,938, a decrease of $128,849, or 12%, compared to fiscal 2003. This decrease in the provision for loan losses reflects the lower net loan charge-offs, lower loan delinquency, lower nonperforming loans and lower classified loans for fiscal 2004, partially offset by the increase in loans. Net charge-offs were $400,938 in fiscal 2004 compared to $570,787 in fiscal 2003. This $169,849 decrease, or 30%, was due to decreased gross charge-offs of commercial and consumer loans. Net charge-offs to average loans outstanding was 0.10% in fiscal 2004 compared to 0.15% in fiscal 2003.

The allowance for loan losses at June 30, 2004 was $4,577,000 as compared to $4,016,000 at June 30, 2003, an increase of $561,000, or 14%. The allowance to total portfolio loans was 1.06% at June 30, 2004 compared to 1.06% at June 30, 2003. The ratio of the allowance for loan losses to nonperforming loans was 273% at June 30, 2004 and 220% at June 30, 2003, reflecting an increase in the allowance for loan losses and a decrease in nonperforming loans. Nonperforming loans were 0.39% of total loans at June 30, 2004 as compared to 0.49% at June 30, 2003. The decrease in nonperforming loans was primarily due to a decrease in nonperforming residential real estate and commercial real estate loans contractually past due 90 days or more. Total nonperforming loans decreased 8% from the prior year.

For additional information on the allowance for loan losses, see Critical Accounting Policies above.

Noninterest Income

Noninterest income for the fiscal years ended June 30, 2004 and 2003 was $5,335,653 and $5,535,944, respectively, a decrease of $200,291, or 4% in fiscal 2004. Most of this decrease was due to the decrease in net securities gains and gains on sales of loans partially off set by increases in investment and insurance commissions and BOLI income.

Fees and service charges on loans of $613,420 increased $15,726 or 3% during fiscal 2004. This increase was attributed to an increase in letter of credit fees, prepayment penalties, and forbearance fees and late charges collected on commercial and commercial real estate loans.

Fees for other services to customers of $975,886 increased $106,142 or 12% during fiscal 2004. This increase was due to higher transaction account service fees, overdraft fees, ATM and debit card fee revenue as compared to fiscal 2003.

Net securities gains of $200,815 decreased $721,319 or 78% during fiscal 2004. Gains realized in fiscal 2003 primarily from the sale of mortgage backed securities were not repeated in fiscal 2004. Gains from the sale of equity and bond securities are subject to market and economic conditions and there can be no assurance that gains reported in prior periods will be achieved in the future. Other-than-temporary write-downs on equity securities of $171,312 and $66,832 during fiscal 2004 and 2003, respectively, were included in noninterest expense.

Gains on the sales of loans of $682,795 decreased $366,848 or 35% during fiscal 2004. This decrease was primarily due to lower sales volume of residential real estate loans, a decrease of $15.7 million to $30.1 million in fiscal 2004 compared to $45.8 million in fiscal 2003. Sold loan volume was impacted by a decrease in residential real estate loan volume due to increasing interest rate during fiscal 2004, and by management's decision to hold in portfolio all new 15 year fixed rate loans. Residential real estate loans were sold to reduce our exposure to interest rate risk. The proceeds from loans held for sale was the primary source of improved net cash provided by operating activities for fiscal 2004 compared to fiscal 2003 as shown on the Consolidated Statements of Cash Flow.

Investment and insurance commissions of $1,899,119 increased $423,139 or 29% during the fiscal year 2004. This increase was due to increased commissions earned from the third party sale of mutual funds, annuities, stocks, bonds, life insurance, and property and casualty insurance. The staff was expanded in fiscal 2004 by adding two commissioned brokers.

BOLI income of $379,635 increased $69,855 or 23% during fiscal 2004. This increase was due to twelve months of increased cash surrender value recognized in fiscal 2004 versus nine months recognized in fiscal 2003. The additions to cash surrender value are based on an average interest yield of 4.94% for the policy year ending September 30, 2004. The interest rates on the policies are reset annually to an amount determined by the life insurance companies. Each policy is subject to minimum interest rates.

Other income of $575,043 increased $263,403 or 85% during fiscal 2004. This increase was primarily from a $264,395 gain realized from the sale of the Richmond branch deposits.

Noninterest Expense

Noninterest expense for fiscal years ended June 30, 2004 and 2003 was $14,799,072 and $13,529,779, respectively, an increase of $1,269,293 or 9%. The increase in fiscal 2004 was primarily from an increase in salaries and employee benefits, net occupancy expense, equipment expense, and other expense. Our efficiency ratio increased to 70.8% during fiscal 2004 from 66.5% in fiscal 2003.

Salaries and employee benefits expense of $8,284,428 increased $682,899 or 9% during the 2004 fiscal year. This increase includes the salary and benefits for the full year impact of 15 positions added in fiscal 2003 and, in fiscal 2004, two additional staff for commercial lending to support increased loan volume, and three staff additions for the investment and insurance division to support increased sales volume. The sale of the Richmond branch eliminated two staff positions. Total full-time equivalents were 186 at June 30, 2004.

Occupancy expense of $1,225,780 increased $26,278 or 2% during the 2004 fiscal year. This increase was primarily due to the full year impact of the leased space in Falmouth for the investment brokerage division and the commercial banking center in Portland which opened in fiscal 2003. There was no new leased space in fiscal 2004.

Equipment expense of $950,467 increased $41,371 or 5% during the 2004 fiscal year. Software depreciation and related maintenance expense from technology investments accounts for the increase in fiscal 2004. It was partially offset by the recovery of personal property taxes of $32,672 under the State of Maine Revenue Department's Business Equipment Property Tax Reimbursement program (BETR).

Intangible assets amortization of $254,953 decreased $10,919 or 4% during the 2004 fiscal year. This decrease was due to fully amortizing in fiscal 2004 the core deposit intangible created from former Key Branches purchased in 1999.

Other expense of $4,083,444 increased $529,664 or 15% during fiscal 2004. The increase was primarily due to other-than-temporary write downs on equity and non-marketable securities of $171,312 and $341,544, respectively, in fiscal 2004, an aggregate increase of $263,358 over fiscal 2003. These other-than-temporary write downs resulted from the periodic analysis by management of impaired securities and determined that recovery of cost was unlikely within a reasonable period of time for certain equity and non-marketable securities. Advertising and item processing charges included in computer services and processing costs also contributed to the increase in fiscal 2004.

Taxes

The Company's effective tax rate was 31.9% and 32.7% for the fiscal years ended June 30, 2004 and 2003, respectively. The decrease is primarily attributable to non-taxable BOLI income.

Comprehensive Income

The Company's comprehensive income was $2,024,042 and $3,768,325 during 2004 and 2003, respectively. Comprehensive income differed from our net income in 2004 and 2003 due to the change in the fair value of available for sale securities, net of income tax. In fiscal 2004, there was a net decrease in fair value of $1,488,137 to a net unrealized loss on investments available for sale, net of income tax. There was also a decrease in fair value in fiscal 2003 of $86,993. See the Consolidated Statements of Changes in Shareholders' Equity and Note 17 in the Consolidated Financial Statements for additional information.

FINANCIAL CONDITION

The Company's total assets increased $37,146,432, or 7%, to $575,900,332 at June 30, 2005 compared to $538,753,900 at June 30, 2004. This increase was due to residential real estate, commercial loans, and consumer loan growth; excess funds temporarily invested in Federal Home Loan Bank overnight deposits; and the purchase of securities classified as available for sale. The increase in loans and securities was funded primarily with consumer and business certificates of deposit, securities sold under repurchase agreements, Federal Home Loan Bank term advances, and the issuance of junior subordinated debentures. Stockholders' Equity totaled $39,869,573 and $36,453,020 at June 30, 2005 and 2004, respectively, an increase of $3,416,553. Stockholders' equity was impacted by net income of $4,018,634, proceeds from the exercise of previously granted stock options of $423,285, and the change in net unrealized losses on available for sale securities of $726,781. These increases were partially offset by the payment of cash dividends of $910,220, and share repurchases of $843,502.

Cash and Cash Equivalents

Average cash and cash equivalents (cash and due from bank and short-term investments) increased $1,162,533 to $15,946,151 in fiscal 2005 as compared to $14,783,618 in fiscal 2004. This increase was due to excess funding temporarily invested in FHLB overnight deposits and federal funds sold.

Investments Securities and Other Earning Assets

The average balance of the available for sale securities portfolio was $69,451,314 and $58,128,954 for fiscal 2005 and fiscal 2004, respectively. This increase of $11,322,360, or 19%, provided additional collateral for FHLB advances and securities sold under agreements to repurchase. The portfolio is comprised of U.S. Government sponsored enterprises and mortgage-backed securities, and equity and bank-issued trust preferred securities, with most of our investment portfolio consisting of federal agency mortgage-backed securities and short-term U.S. Government sponsored enterprise bonds. See Item 8 Tables 2 and 3 for a detail of available for sale securities and investment maturities, respectively.

All of the Company's securities are classified as available for sale and are carried at fair value at $74,345,938 and $67,471,144 as of June 30, 2005 and 2004, respectively. These securities had net unrealized losses after taxes of $670,187 at June 30, 2005 and $1,396,968 at June 30, 2004. See Note 2 to the Consolidated Financial Statements. These unrealized losses do not impact net income or regulatory capital but are recorded as an adjustment to stockholders' equity, net of related deferred income taxes, and is a component of comprehensive income contained in the Consolidated Statements of Changes in Stockholders' Equity.

Loans

The average balance for loans, including loans held for sale, was $453,379,411 in fiscal 2005 compared to $397,044,651 in fiscal 2004. This increase of $56,334,760, or 14%, in our average balance of loans at June 30, 2005, was attributable to increases in residential real estate, commercial real estate, commercial, construction, and consumer loans. See Item 8 Tables 4 and 5 for additional information on the composition of the loan portfolio.

Residential real estate loans averaged $146,977,479 in fiscal 2005 as compared to $129,351,716 in fiscal 2004. This increase of $17,625,763, or 14%, was attributable to an increase in adjustable rate residential real estate loans, closed-end home equity loans, and home equity lines of credit. We continued to sell most of the 30 year fixed rate residential real estate loans originated by us into the secondary market. Residential real estate loans were 32% of the total loan portfolio at June 30, 2005 and 2004, respectively. Of residential real estate loans at June 30, 2005, approximately 42% were variable rate products as compared to 37% at June 30, 2004. The increase in the percentage of variable rate product resulted from holding new variable rate loans in portfolio while selling fixed rate product into the secondary market. As interest rates increase, we expect variable rate residential real estate loans to increase allowing the asset sensitivity of the statement of financial condition to be maintained.

Commercial real estate loans averaged $125,914,966 in fiscal 2005 and $110,849,396 in fiscal 2004. This increase of $15,056,570 or 14% reflects our focus to primarily lend to small businesses within our market areas. This portfolio consists of loans secured primarily by income-producing commercial real estate and multifamily residential real estate. Commercial real estate loans were 27% and 30% of the total loan portfolio at June 30, 2005 and 2004, respectively. Approximately 97% of the commercial real estate loans were variable rate product, minimizing the interest rate risk for this portfolio. At June 30, 2004, approximately 95% of this portfolio consisted of variable rate product.

Construction loans averaged $10,638,635 in fiscal 2005 and $7,600,972 in fiscal 2004. This increase of $3,037,663, or 40%, was primarily in commercial construction loans. Construction loans were 3% and 2% of the total loan portfolio at June 30, 2005 and 2004, respectively. Most construction loans are subject to interest rates based on the prime rate, contractual maturities under 12 months, and disbursements made on construction as completed and verified by inspection. Approximately 56% of the construction loans were variable rate product.

Commercial loans averaged $70,744,229 in fiscal 2005 and $64,535,753 in fiscal 2004. This increase of $6,208,476, or 10%, reflects additional opportunities with small businesses in our market areas. Commercial loans were 15% of total loans at June 30, 2005 and 2004, respectively. Variable rate products comprised 58% and 57% of this loan portfolio at June 30, 2005 and 2004, respectively. The commercial loan credit risk exposure is highly dependent on the cash flow of the customer's business. The Company mitigates credit risk by strictly adhering to our underwriting and credit policies.

Consumer and other loans averaged $96,589,511 in fiscal 2005 and $82,192,141 in fiscal 2004. This increase of $14,397,370, or 18%, is attributable to new indirect auto and recreational vehicle loans. Consumer and other loans comprise 23% and 21% of total loans at June 30, 2005 and 2004, respectively. Consumer, including indirect auto and recreational vehicle, and other loans are mostly fixed rate products. At June 30, 2005 and 2004, we held $34,872,792 and $29,139,156 of indirect auto loans, respectively. Indirect auto, indirect RV and mobile home loans together comprise approximately 93% of total consumer and other loans, a slight decrease from 94% in 2004. The detail of consumer loans at June 30, 2005 and 2004 appears in the following table. The Company underwrites all automobile dealer finance, recreational vehicle and mobile home loans to protect credit quality. The Company pays a nominal one-time origination fee on these loans. The fees are deferred and amortized over the contractual life of the loan as a yield adjustment. Management attempts to mitigate credit and interest rate risk by keeping the products offered short-term, earning a rate of return commensurate with the risk, and lending to individuals in the Company's known market areas.

Consumer Loans

	June 30, 2005		June 30, 2004	
Indirect Auto	$ 34,872,792	34%	$ 29,139,156	32%
Indirect RV	30,235,107	29%	20,528,706	22%
Indirect Mobile Home	32,749,004	32%	36,136,351	40%
Subtotal Indirect	97,856,903	95%	85,804,213	94%
Other	5,007,999	5%	5,629,761	6%
Total	$ 102,864,902	100%	$ 91,433,974	100%
	==========	====	===========	=====

BOLI was invested in the general account of two quality insurance companies. There was additional purchase of approximately $500,000 with a third insurance company and invested in separate accounts. Standard and Poor's rated these companies AA+ or better at June 30, 2005. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates reset each year, subject to minimum interest rates. The increases in cash surrender value offset all or a portion of the increase in employee benefit costs. The increase in cash surrender value was recognized in other income and was not subject to income taxes. Borrowing on or surrendering the policy may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 19.04% of capital plus the allowance for loan losses at June 30, 2005.

Deposits

Average demand deposit accounts were $37,841,020 at June 30, 2005 as compared to $33,790,649 at June 30, in 2004. The increase of $4,050,371, or 12%, is consistent with our focus of increasing consumer and commercial core deposits.

Average interest-bearing deposits increased by $55,035,970, or 18%, during fiscal 2005 to $355,524,867. This increase was primarily due to increasing consumer and business time deposits and brokered time deposits used to fund security purchases and net loan originations. The average time deposit balances increased $20,220,888 to $155,761,171 and average brokered time deposit balances increased $30,577,554 to $87,851,294 in fiscal 2005 from $57,273,740 in fiscal 2004. Excluding brokered time deposits, average interest-bearing deposits increased $24,458,416, or 10%. Average NOW accounts increased $2,346,751, or 4%, during fiscal 2004 to $65,760,901. The average interest rate paid on NOW accounts increased from 1.03% in fiscal 2004 to 1.23% in fiscal 2005. Average money market accounts increased $1,195,733, or 8%, to $17,095,895. The average interest rate paid on money market accounts increased from 1.13% in fiscal 2004 to 1.25% in fiscal 2005. Average savings accounts increased $695,044, or 2%, to $29,055,606 during fiscal 2005. The average interest rate paid on savings accounts decreased from 0.86% in fiscal 2004 to 0.79% in fiscal 2005. The average interest rate paid on certificates of deposits increased from 2.85% in fiscal 2004 to 3.03% in fiscal 2005. See Item 8 Table 10 for the scheduled maturities of time deposits of $100,000 or more.

Brokered time deposits are used by us as part of our overall funding strategy and as an alternative to customer time deposits, FHLB advances, and junior subordinated debentures to fund the growth of our earning assets. These deposits are limited by policy to 25% of total assets. We use four national brokerage firms to source time deposits, which are obtained through agents of the brokerage company soliciting customers from throughout the United States. The terms of these brokered time deposits allow for termination prior to maturity only in the case of the depositor's death, have maturities generally beyond one year, individual brokered time deposit maturities do not exceed $5 million in any one month and have interest rates equal to or slightly above comparable FHLB advances. At June 30, 2005, outstanding brokered time deposits of $70,424,426 as a percentage of total assets was 12% compared to18% at June 30, 2004. The average interest rate paid on brokered time deposits increased from 2.88% in fiscal 2004 to 2.94% in fiscal 2005. Generally, interest rates paid on brokered time deposits exceed rates paid on FHLB advances, but the incremental interest expenses did not have a material impact on the results of operations for fiscal 2005.

Other Funding Sources

Securities sold under repurchase agreements, Federal Home Loan Bank of Boston (FHLB) advances, and junior subordinated debentures are the Company's sources of funding other than deposits.

Average securities sold under repurchase agreements during fiscal 2004 were $30,572,443, compared to $25,052,387 during fiscal 2004. This increase was primarily due to increasing the number of customers in fiscal 2005. This liability was collateralized by U.S. government sponsored enterprise and federal agency mortgage-backed securities. See Note 9 to the Consolidated Financial Statements.

Average FHLB advances for fiscal 2005 were $82,233,871, compared to $82,793,991 in fiscal 2004. The decrease of $560,120, or 1%, was attributed to repayment of FHLB advances at maturity using funds from deposits. These advances had an average cost of 4.67% during fiscal 2005 compared to 5.18% during fiscal 2004. At June 30, 2005 and 2004, FHLB advances were $86,197,602 and $82,977,634, respectively. The Company had unused advance capacity with the FHLB of $22,557,000 at June 30, 2005. Management intends to increase available FHLB advance capacity by continuing to add qualifying securities. See Note 8 to the Consolidated Financial Statements.

The Bank has a secured line of credit under the Borrower in Custody program through the Fed Discount Window. Under the terms of this credit line, the Bank has pledged its indirect auto loans and the line bears an interest rate equal to the then current federal funds rate plus 1.00%. At June 30, 2005, the credit availability under the Borrower in Custody program was $26,511,000. There were no borrowings outstanding under this credit line at June 30, 2005.

The following is a summary of the unused borrowing capacity of the Bank at June 30, 2005 and available to meet our short-term funding needs:

Brokered time deposit	$ 73,551,000	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	$ 22,557,000	Unused advance capacity subject to eligible and qualified collateral
Fed Discount Window Borrower-in-Custody	$ 26,511,000	Unused credit line subject to the pledge of indirect auto loans
Total Unused Borrowing Capacity	$ 122,619,000	

We had outstanding $16,496,000 and $13,580,849 at June 30, 2005 and 2004, respectively, of junior subordinated debentures issued by us to affiliated trusts. See "Capital" for more information on junior subordinated debentures and affiliated trusts.

ASSET QUALITY

We monitor our asset quality with lending and credit policies which require the regular review of our loan portfolio. We maintain an internal rating system which provides a process to regularly monitor the credit quality of our loan portfolio.

At June 30, 2005 and 2004, the allowance for loan losses was $5,104,000 and $4,577,000, respectively. The increase in the allowance for loan losses was attributed to the increasing mix of commercial real estate, commercial and consumer indirect loans, all with a higher risk profile, in the Bank's loan portfolio.

The allowance for loan losses as a percentage of total loans was 1.11% and 1.06% at June 30, 2005 and 2004, respectively.

Classified loans, exclusive of non-performing loans, that could potentially become non-performing due to delinquencies or marginal cash flows were $1,950,000 and $400,000 at June 30, 2005 and 2004, respectively. The increase at June 30, 2005 was due to eleven loans. The collateral securing these loans appears sufficient to avoid recognizing any significant credit losses.

The following table reflects the annual trend of total delinquencies 30 days or more past due, including loans on non-accrual status, which are not delinquent, as a percentage of total loans:

06/30/05	06/30/04	06/30/03	06/30/02
0.96%	0.66%	1.09%	1.03%

Non-performing Assets

Non-performing assets consist of non-performing loans, other real estate owned and repossessed assets. Total non-performing assets as a percentage of total assets were 0.31% at June 30, 2005 and 0.32% at June 30, 2004. See Item 8 Table 8 for a summary of non-performing assets for the last five years.

Total non-performing loans were $1,698,000 and $1,677,000 at June 30, 2005 and 2004, respectively. The increase of $21,000, or 1%, was attributable primarily to residential real estate loans. Non-performing loans as a percentage of total loans were 0.37% and 0.39% at June 30, 2005 and 2004, respectively. The allowance for loan losses was equal to 301% and 273% of total non-performing loans at June 30, 2005 and 2004, respectively. The following table represents the non-performing loans as of June 30, 2005 and 2004.

Description	June 30, 2005	June 30, 2004
Residential real estate	$ 515,000	$ 214,000
Commercial real estate	867,000	920,000
Commercial loans	256,000	442,000
Consumer and other	60,000	101,000
Total non-performing	$ 1,698,000	$ 1,677,000

At June 30, 2005, non-performing loans included $1,087,000 of loans that are current and paying as agreed, but which the Bank maintains as non-performing until the borrower has demonstrated a sustainable period of performance. Excluding these loans, the total delinquencies 30 days and more past due as a percentage of total assets would be 0.72% and 0.31% for June 30, 2005 and 2004, respectively.

We continue to focus on asset quality issues and allocate significant resources to credit policy and loan review. The collection, workout and asset management functions focus on the reduction of non-performing assets. Despite this ongoing effort on asset quality, 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 operations through higher provision for loan losses, net loan charge-offs, decreased accrual of income and increased noninterest expenses.

Residential real estate, commercial real estate, commercial, and consumer and other loans are generally placed on nonaccrual when reaching 90 days past due or, in the case of loans secured by real estate, in process of foreclosure. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 90 days past due. Based on our judgment, we may place on nonaccrual status loans which are currently less than 90 days past due or performing in accordance with their terms but are likely to present future principal and/or interest repayment problems thus classified as non-performing.

Net charge-offs were $774,600 during 2005 compared to $400,938 in 2004. Net charge-offs as a percentage of average loans outstanding were 0.17% and 0.10% in 2005 and 2004, respectively. The increase of $373,662 was due to higher gross charge-offs in commercial loans. See Item 8 Table 6 for more information concerning charge-offs and recoveries for the last five years.

Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under an eight point risk rating system. These ratings are guidelines in assessing the risk of a particular loan. We had classified commercial real estate and commercial loans totaling $6,708,000 and $3,137,000 at June 30, 2005 and 2004, respectively as substandard or lower on our risk rating system. This increase was primarily due to nine commercial customer relationships ranging from $175,000 to $1,400,000, experiencing weaknesses in the underlying businesses. No significant credit losses are expected from the loans in these relationships. At June 30, 2005, this amount includes $1,123,000 of non-performing commercial real estate and commercial loans. The remaining $5,585,000 of commercial real estate and commercial loans classified as substandard at June 30, 2005 evidence one or more weaknesses or potential weaknesses and may become non-performing loans in future periods.

Management actively monitors the Bank's asset quality to evaluate the adequacy of the allowance for loan losses and, when appropriate, to charge-off loans against the allowance for loan losses, provide specific loss allowances when necessary, and change the level of the loan loss allowance. The process of evaluating the allowance involves a high degree of management judgment. The methods employed to evaluate the allowance for loan losses are quantitative in nature and consider such factors as the loan mix, the level of non-performing loans, delinquency trends, past charge-off history, loan reviews and classifications, collateral, and the current economic climate. The liquidation value of collateral for each classified commercial real estate or commercial loan is considered in the evaluation of the allowance for loan loss.

Management believes that the allowance for loan losses is adequate considering the level of risk in the loan portfolio. While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Company will not have to increase its allowance for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors. Regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. These agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. No such adjustments were proposed by the Federal Reserve Bank of Boston or the Maine Bureau of Financial Institutions based on their 2004 examination.

At June 30, 2005, the Company had acquired assets of $88,646 compared to $38,583 at June 30, 2004. The increase of $50,063 was due to an increase in repossessed vehicles and insubstance foreclosures. The Bank has an allowance for losses on acquired assets. It was established to provide for declines in market values and estimated selling costs. The Company provided for the allowance through a charge against earnings of $20,000 and $32,000 for the years ending June 30, 2005 and 2004, respectively. See Note 5 of the Consolidated Financial Statements for additional information. Management periodically receives independent appraisals on acquired assets. As a result of this review of the independent appraisals and the acquired assets portfolio, the Company believes the allowance for losses on acquired assets is adequate to state acquired assets at lower of cost or fair value less estimated selling costs.

RISK MANAGEMENT

Asset-Liability Management

The Company's success is largely dependent upon its ability to manage interest rate risk. Interest rate risk can be defined as the exposure of the Company's net interest income to adverse movements in interest rates. Although the Company regularly manages other risks, such as credit and liquidity risk, in the normal course of its business, management considers interest rate risk to be its most significant market risk and could potentially have the most material effect on the Company's financial condition and results of operations. The Company does not believe that it is exposed to significant market risk from trading activities because these assets are not material.

Asset-liability management is governed by policies reviewed and approved annually by the Board. The Board delegates responsibility for asset-liability management to the Asset Liability Management Committee (ALCO) which is comprised of members of senior management who set the strategic directives that guide the day-to-day asset-liability management activities. ALCO reviews and approves all major risk, liquidity and capital management programs, except for pricing which is a subcommittee of ALCO members.

The Company continues to minimize the volatility of its net interest income by managing the relationship of interest-rate sensitive assets to interest-rate sensitive liabilities. To accomplish this, management undertakes steps to increase the percentage of variable rate assets, as a percentage of its total earning assets. The focus has been to originate variable rate commercial and commercial real estate loans, which reprice or mature more quickly than similar fixed-rate loans. Variable rate and 15 year fixed rate residential real estate loans are originated for the loan portfolio. Fixed rate, 30 year residential real estate loans are originated for sale to the secondary market. Consumer loans, including indirect auto and recreational vehicle loans, are primarily originated with fixed rates. The Company's adjustable-rate loans are primarily tied to published indices, such as the Wall Street Journal prime rate and one-year U.S. Treasury Bills. Management considers the Bank's assets and liabilities well matched. The balance sheet is slightly asset sensitive.

The overall objective of interest rate risk management is to deliver consistent net interest income growth over a range of possible interest rate environments. We focus on interest rates, careful review of the cash flows of loans and deposits and other modeling assumptions, and asset liability strategies to help attain our goals and objectives.

Another objective of interest rate risk management is to control our estimated exposure to interest rate risk within limits established by the asset/liability committee and approved by our Board. These limits reflect our tolerance for interest rate risk over a wide range of both short-term and long-term measurements. We also evaluate the liquidation or run-off measures of assets and liabilities on our balance sheet and stress test measures. Stress testing show the impact of very extreme but lower probability events. The combination of these measures gives management a comprehensive view of the possible risk to future earnings. We attempt to control interest rate risk by identifying and quantifying these risks.

Net interest income is our largest source of revenue. Net interest income sensitivity is our primary short-term measurement used to assess the interest rate risk of our on-going business. We believe that net interest income sensitivity gives us the best perspective on how day-to-day decisions affect our interest rate risk profile. We subject estimated net interest income over a 12 month period to various rate movement using a simulation model for various specified interest rate scenarios. Simulations are run quarterly and include scenarios where market rates are shocked up and down. Our base simulation assumes that rates do not change for the next 12 months. The sensitivity measurement is calculated as a percentage variance of the net interest income simulations to the base simulation results. The results are compared to policy guidelines and are disclosed in the following table.

Assuming a 200 basis point increase and decrease in interest rates starting on June 30, 2005, we estimate that our net interest income in the following 12 months would increase by 1.91% if rates went up 200 basis points and decrease by 2.02% if rates went down 200 basis points. This demonstrates the asset sensitivity of our balance sheet where the simulated increase in interest income would be greater than the increase in interest expense because our adjustable rate interest-earning assets reprice more quickly than the repricing of our interest-bearing liabilities. In falling rates, the adjustable rate interest earning assets reprice downward more quickly than the repricing of our interest-bearing liabilities. Also shown in the table are the results assuming a 200 basis increase in interest rates and a 100 basis points decrease in interest rates starting June 30, 2004. The 100 basis points decrease scenario in fiscal 2004 was due to the limited capacity to reduce rates on interest-bearing non-maturing deposits (NOW, money market accounts, and savings accounts) at June 30, 2004. Since that date the federal funds rate has increased 200 basis points to 3.25% at June 30, 2005 and rates of interest-bearing non-maturing deposits have also increased. We estimate that our net interest income in the 12 months following June 30, 2004 would increase by 3.20% if rates went up 200 basis points and decrease by 1.43% if rates went down 100 basis points.

	Up 200 Basis Points	Down 200 Basis Points
June 30, 2005	1.91%	-2.02%

	Up 200 Basis Points	Down 100 Basis Points
June 30, 2004	3.20%	-1.43%

We have replaced the Market Risk table with the results of simulation model management utilized to manage interest rate risk. The use of simulation models to test net interest income in a variety of interest rate scenarios is consistent with the interest rate risk management practices of other financial institutions. The use of the simulation model takes into account the expected cash flows from contractual principal and interest payments on investments and loans, and prepayments of loans. It also takes into account the scheduled pricing of variable rate interest-earning assets. Interest rates on interest-bearing, non-maturing deposits are assumed to reprice during the first year of the simulation projections. The result is a measure that is more useful to the reader.

LIQUIDITY

On a parent Company only basis, our commitments and debt service requirements at June 30, 2005 consisted of junior subordinated notes issued to NBN Capital Trust II and NBN Capital Trust III totaling $6,000,000 due March 30, 2034 and junior subordinated debentures issued to NBN Capital Trust IV totaling $10,000,000 due February 23, 2035. NBN Capital Trust II issued $3,000,000 of junior subordinated notes with a variable interest rate based on three month LIBOR plus 2.80% and reprices quarterly. The interest rate was 6.29% at June 30, 2005. NBN Capital Trust III also issued $3,000,000 of junior subordinated notes with a fixed interest rate of 6.50% until March 30, 2009, when the interest rate will become variable based on three month LIBOR. NBN Capital Trust IV issued $10,000,000 of junior subordinated debentures with a fixed interest rate of 5.88% until February 23, 2010, when the interest rate will become variable based on three month LIBOR. In 1999, the Company formed NBN Capital Trust (our initial trust preferred offering) pursuant to which we raised approximately $7,394,849 from the issuance of 9.60% junior subordinated debt. The Company had the right to redeem the junior subordinated debentures issued to NBN Capital Trust and exercised that right on December 31, 2004. On that date NBN Capital Trust paid the liquidation amount of $7.00 per preferred security plus accrued interest based upon an annual interest rate of 9.60%, or a total of $7,345,150. The proceeds from the sale of trust preferred stock by NBN Capital Trust IV were used in part for this redemption. Proceeds in excess of the redemption were used to fund the growth in earning assets. NBN Capital Trust II and III have a similar call option on March 30, 2009 and NBN Capital Trust IV has a call option on February 23, 2010. See Note 19 to the Consolidated Financial Statements. Based on the interest rates at June 30, 2005, the annual aggregate payments to meet the debt service of the junior subordinated debentures is approximately $1,002,000.

Affiliated Trusts	Trust Preferred Securities	Common Securities	Junior Subordinated Debentures	Interest Rate	Maturity Date
NBN Capital Trust II	$ 3,000,000	$ 93,000	$ 3,093,000	6.29%	March 30, 2034
NBN Capital Trust III	3,000,000	93,000	3,093,000	6.50%	March 30, 2034
NBN Capital Trust IV	10,000,000	310,000	10,310,000	5.88%	February 23, 2035
Total	$ 16,000,000	$ 496,000	$ 16,496,000	6.07%	

The principal sources of funds for us to meet parent-only obligations are dividends from our banking subsidiary, which are subject to regulatory limitations and borrowings from public and private sources. For information on the restrictions on the payment of dividends by our banking subsidiary, see Note 10 to the Consolidated Financial Statements.

For our banking subsidiary, liquidity represents the ability to fund asset growth, accommodate deposit withdrawals and meet other contractual obligations and commitments. Liquidity risk is the danger that a bank cannot meet anticipated or unexpected funding requirements or can meet them only at excessive cost. Liquidity is measured by the ability to raise cash when needed at a reasonable cost. Many factors affect a bank's ability to meet liquidity needs, including variation in the markets served, its asset-liability mix, its reputation and credit standing in the market and general economic conditions.

In addition to traditional deposits, the Bank has other liquidity sources, including the proceeds from maturing securities and loans, the sale of securities, asset securitizations and borrowed funds such as FHLB advances and brokered time deposits. We monitor and forecast our liquidity position. There are several interdependent methods used by us for this purpose, including daily review of federal funds positions, monthly review of balance sheet changes, monthly review of liquidity ratios, quarterly review of liquidity forecasts and periodic review of contingent funding plans.

At June 30, 2005, our banking subsidiary had $122.6 million of immediately accessible liquidity, defined as cash that could be raised within 7 days through collateralized borrowings, brokered deposits or security sales. This represented 21% of total assets, compared to a policy minimum of 10%.

OFF-BALANCE SHEET ARRANGEMENTS & 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. 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. The Company evaluates each customer's creditworthiness 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.

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. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party.

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

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

A summary of the amounts of the Company's (a) contractual obligations, and (b) other commitments with off-balance sheet risk, both at June 30, 2005, follows:

		Payments Due by Period			
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
FHLB advances	$ 86,197,602	$ 48,500,000	$ 30,697,602	$ -	$ 7,000,000
Junior subordinated debentures	16,496,000	-	-	16,496,000	-
	220,105	103,440	116,665		

Other borrowings	220,105	105,440	110,665	-	-
Total long-term debt	102,913,707	48,603,440	30,814,267	16,496,000	7,000,000
Operating lease obligations	3,152,774	551,147	611,324	152,633	1,837,670
Total contractual obligations	$ 106,066,481	$ 49,154,587	$ 31,425,591	$ 16,648,633	$ 8,837,670

		Amount of Commitment Expiration - Per Period			
		Less Than	1-3	4-5	After 5
Commitments with off-balance sheet risk	Total	1 Year	Years	Years	Years
Commitments to extend credit (1)(3)	$ 15,861,000	$ 15,861,000	$ -	$ -	$ -
Commitments related to loans held for sale(2)	2,197,000	2,197,000	-	-	-
Unused lines of credit (3)(4)	46,863,000	25,897,000	2,268,000	1,500,000	17,198,000
Standby letters of credit (5)	3,332,000	3,332,000	-	-	-
	$ 68,253,000	$ 47,287,000	$ 2,268,000	$ 1,500,000	$ 17,198,000

(1) Represents commitments outstanding for residential real estate, commercial real estate, and commercial loans.
(2) Commitments of residential real estate loans that will be held for sale.
(3) Loan commitments and unused lines of credit for commercial and construction loans expire or are subject to renewal in twelve months or less.
(4) Represents unused lines of credit from commercial, construction, and home equity loans.
(5) Standby letters of credit generally expire in twelve months.

The Bank has written options limited to those residential real estate loans designated for sale in the secondary market and subject to a rate lock. These rate-locked loan commitments are used for trading activities, not as a hedge. The fair value of the outstanding written options at June 30, 2005 was $4,520.

CAPITAL

At June 30, 2005 and 2004, stockholders' equity totaled $39,869,573 and $36,453,020 respectively, or 6.92% and 6.77% of total assets, respectively. In addition, we had on June 30, 2005 and 2004, $16,496,000 and $13,580,849, respectively, of junior subordinated debentures which mature in 2034 and 2036 and qualify as Tier 1 Capital. See Note 19 to the Consolidated Financial Statements. The changes in stockholders' equity include net income for the year ended June 30, 2005 of $4,018,634 and stock issued for $423,285 from the exercise of stock options, and net unrealized loss on available for sales securities of $726,781which were partially offset by dividend payments of $910,220, and stock repurchases of $843,502, representing 43,609 shares with an average cost of $19.34 per share. See Note 10 to the Consolidated Financial Statements for additional information on capital ratios.

The 2004 Stock Repurchase Plan was approved by the Board of Directors on January 16, 2004. It was extended by the Board of Directors on December 17, 2004 and will terminate on December 31, 2005. The repurchase program may be discontinued by Northeast Bancorp at any time. Under the 2004 Stock Repurchase Plan, the Company may purchase up to 200,000 shares of its common stock from time to time in the open market at prevailing prices. Common stock repurchased pursuant to the plan is classified as authorized but un-issued shares of common stock available for future issuance as determined by the Board of Directors. From time to time, the Company believes that the current market price for its common stock is inadequate and does not reflect the full value of its common stock and at such times purchases its common stock in the market. Total stock repurchases under the 2004 Plan in fiscal 2005 were 36,500 shares for $698,812 at an average price of $19.15 per share. The remaining repurchase capacity of the 2004 Plan is 144,700 shares. Since inception, total stock repurchases under the 2004 plan were 55,300 shares for $1,061,842 through June 30, 2005. Management believes that these and future purchases have not and will not have a significant impact on the Company's liquidity. The repurchases had a positive effect on diluted earnings per share during 2005 and 2004, by reducing the number of common stock shares outstanding.

In addition to the purchases under the 2004 Stock Repurchase Plan, there were 7,109 shares acquired by the Company from common shares owned and tendered by directors of the Company in the first and second quarters of the fiscal year ended June 30, 2005 to pay the option exercise price for common shares acquired upon exercise of options. The average price of these shares was $20.35.

The combined shares purchased during the year ended June 30, 2005 through the 2004 Stock Repurchase Plan and the Company director's stock option exercise was 43,609 shares for $843,502.

Regulatory capital guidelines require the Bank to maintain certain capital ratios. The Bank's Tier 1 Capital was $47,131,000 or 8.20% of total assets at June 30, 2005 compared to $42,505,000 or 7.88% of total assets at June 30, 2004. We are also required to maintain capital ratios based on the level of assets, as adjusted to reflect their perceived level of risk. Our regulatory capital ratios currently exceed all applicable requirements. See Note 10 on the Consolidated Financial Statements.

The Maine Business Corporation Act eliminated the concept of treasury stock effective July 1, 2003. The Act treats the shares acquired by the Company as authorized but unissued shares. All stock held by the Company as treasury stock has been reclassified as authorized but unissued stock in accordance with the Act.

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, substantially 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

The Financial Accounting Standards Board (FASB) and the SEC issued the following statements and interpretations affecting the Company:

FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" ("VIE") ("FIN46R") establishes the criteria used to identify VIE's and to determine whether or not to consolidate a VIE. VIEs are those entities in which the total equity investment at risk does not provide the holders of that investment with the characteristics of a controlling financial interest. Pursuant to the criteria established by FIN 46 in 2004, we deconsolidated three affiliated trusts which had been formed for the purposes of issuing capital securities to unaffiliated parties and investing the proceeds in junior subordinated debentures issued by us. Our investment in these affiliated trusts totaled $496,000 at June 30, 2005 which funds were also used by the trusts to invest in junior subordinated debentures issued by us. The results of the deconsolidation and the accounting for these entities was to recognize our equity investments in these entities of $496,000 as other assets and to increase long-term debt by the same amount. The adoption of FIN 46R did not have a material impact on our financial condition, results of operations, earnings per share, or cash flows.

The Company's junior subordinated debentures are included in its Tier 1 capital for regulatory purposes. On May 6, 2004, the Federal Reserve Board issued a proposed regulation which proposed to permit banking holding companies to continue to include junior subordinated debt in Tier 1 capital subject to stricter quantitative and qualitative standards.

FASB issued FASB Statement No. 123 (Revised 2004), "Share-Based Payments" ("FAS 123R") which requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, including employee stock option plans. Current disclosure provisions under FAS 123 are still applicable. In addition to stock options awards granted after July 1, 2005, compensation expense on unvested equity-based awards that were granted prior to the effective date must be recognized in the income statement. FAS123R is effective for the interim and annual periods beginning after June 15, 2005. The adoption of FAS123R is not expected to have a material impact on our financial condition, results of operations, earnings per share or cash flows.

In December 2003, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 03-3. SOP 03-3 requires loans acquired through a transfer, such as a business combination, where there are differences in expected cash flows and contractual cash flows due in part to credit quality, to be recognized at their fair value. This SOP provides that the original excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment of yield, loss accrual or valuation allowance. Any future excess of cash flows over the original expected cash flows is to be recognized as an adjustment of future yield. Future decreases in actual cash flow compared to the original expected cash flow is recognized as a valuation allowance and expensed immediately. Valuation allowances cannot be created or "carried over" in the initial accounting for loans acquired. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The adoption of SOP 03-3 is not expected to have a material impact on our financial condition, results of operations, earnings per share or cash flows.

In March, 2004, the Securities and Exchange Commission Staff issued Staff Accounting Bulletin No. 105 ("SAB 105"), Application of Accounting Principles to Loan Commitments," which provided guidance on accounting for loan commitments at fair value that meet the definition of a derivative. SAB 105 is effective for commitment entered into after March 31, 2004. The guidance clarifies that expected future cash flows related to the servicing of the loan may be recognized only when the servicing asset has been contractually separated from the underlying loan by sale with service retained. SAB 105 did not have a material impact on our financial condition, results of operations, earnings per share or cash flows.

The Emerging Issue Task Force reached a consensus on EITF 03-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF 03-1 provided application guidance to assess whether there has been any event or economic circumstance to indicate that a security is impaired on an other-than-temporary basis. Factors to consider include the length of time the security has had a market value less than the cost basis, the intent and ability of the company to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry and for debt securities, external credit rating and recent downgrades. Securities on which there is an unrealized loss that is deemed to be other-than-temporary are written down to fair value with the write-off recorded as a realized loss.

In December, 2004, the FASB announced that it will reconsider in its entirety all guidance on disclosing, measuring and recognized other-than-temporary impairments of debt and equity securities. Until new guidance is issued, companies must continue to comply with the disclosures of EITF 03-1 and all relevant measurement and recognition requirement in other accounting literature. Companies evaluating whether impairment is other-than-temporary under existing requirements should continue to consider the length of time a security has been impaired, the severity of the impairment and the financial condition and near-term prospects of the issuer of the security.

In October, 2004, the EITF issued EITF 04-1 "Accounting for Preexisting Relationships between the Parties to a Business Combination." The Task Force determined that a business combination between two parties that have a preexisting relationship is a multiple-element transaction with one element being the business combination and the other element being the settlement of the preexisting relationship. This guidance is applicable to business combination consummated and goodwill impairment test performed in reporting periods beginning after October 31, 2004. The application of this EITF did not have a material impact on our financial condition, results of operations, earnings per share or cash flows.

Item 7 A. Quantitative and Qualitative Disclosure about Market Risk

See Item 7 of our Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Risk Management" and accompanying table set forth therein for quantitative and qualitative disclosures about market risk.

Item 8. Financial Statements and Supplementary Data

a. Financial Statements Required by Regulation S-X

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northeast Bancorp and Subsidiaries
Auburn, Maine

We have audited the consolidated statements of financial condition of Northeast Bancorp and Subsidiaries (the Company) as of June 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Bancorp and Subsidiaries as of June 30, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Newman & Noyes
Baker Newman & Noyes
Limited Liability Company

Portland, Maine
August 11, 2005

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2005 and 2004

ASSETS

	2005	2004
Cash and due from banks	$ 9,254,312	$ 13,955,361
Interest-bearing deposits	1,063,923	692,424
Federal Home Loan Bank overnight deposits	3,555,000	-
Total cash and cash equivalents	13,873,235	14,647,785
Available for sale securities, at market value (notes 2, 8 and 9)	74,345,938	67,471,144
Loans held for sale	318,850	545,722
Loans receivable (notes 3 and 8):		
Mortgage loans:		
Residential real estate	148,840,093	138,031,157
Construction	17,446,722	12,170,836
Commercial real estate	125,898,821	127,865,964
Total mortgage loans	292,185,636	278,067,957
Commercial loans	68,715,530	64,303,515
Consumer and other loans	102,864,902	91,433,974
	463,766,068	433,805,446
Undisbursed portion of construction loans	(5,245,369)	(3,803,448)
Net deferred loan origination costs	2,531,689	2,592,350
	461,052,388	432,594,348
Less allowance for loan losses (note 3)	5,104,000	4,577,000
Net loans	455,948,388	428,017,348
Premises and equipment - net (note 4)	4,507,114	4,353,208
Acquired assets - net (note 5)	88,646	38,583
Accrued interest receivable - loans	2,039,682	1,725,894
Accrued interest receivable - investments	515,207	467,275
Federal Home Loan Bank stock, at cost (note 8)	6,644,500	6,644,500
Federal Reserve Bank stock, at cost	405,500	-
Goodwill	407,897	407,897
Intangible assets, net of accumulated amortization of $2,125,536 in 2005 and $1,875,835 in 2004 (note 6)	2,160,693	328,893
Bank owned life insurance (BOLI)	8,563,475	7,759,944
Other assets (notes 6 and 13)	6,081,207	6,345,707
Total assets	$575,900,332	$538,753,900
	=======	=======

LIABILITIES AND STOCKHOLDERS' EQUITY

	2005	2004
Liabilities:		
Deposits (note 7):		
Demand	$ 39,854,720	$ 37,799,644
NOW	64,386,939	64,317,533
Money market	17,142,325	17,553,102
Regular savings	29,807,392	28,804,916
Brokered time deposits	70,424,426	96,713,190
Certificates of deposit under $100,000	124,301,081	99,747,279
Certificates of deposit $100,000 or more	50,301,839	32,884,065
Total deposits	396,218,722	377,819,729
FHLB advances (note 8)	86,197,602	82,977,634
Securities sold under repurchase agreements (note 9)	33,379,412	24,884,869
Junior subordinated debentures issued to affiliated trusts (note 19)	16,496,000	13,580,849
Other liabilities	3,739,023	3,037,799
Total liabilities	536,030,759	502,300,880
Commitments and contingent liabilities (notes 13, 14 and 15)		

Stockholders' equity (notes 2, 10, 11, 13 and 14):		
Preferred stock, cumulative, $1 stated value, 1,000,000 shares authorized and none issued and outstanding	-	-
Common stock, at stated value, 15,000,000 shares authorized; 2,519,832 and 2,525,416 shares outstanding at June 30, 2005 and 2004, respectively	2,519,832	2,525,416
Additional paid-in capital	6,530,836	6,943,894
Retained earnings	31,489,092	28,380,678
Accumulated other comprehensive loss	(670,187)	(1,396,968)
Total stockholders' equity	39,869,573	36,453,020
Total liabilities and stockholders' equity	$575,900,332	$538,753,900

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2003
Interest and dividend income:			
Interest on loans	$ 29,104,032	$ 25,301,320	$ 27,107,000
Interest on Federal Home Loan Bank overnight deposits	52,912	16,696	61,104
Interest and dividends on available for sale securities	2,715,236	2,163,955	1,183,020
Dividends on Federal Home Loan Bank stock	264,777	173,957	226,850
Other interest and dividend income	22,025	3,658	7,905
Total interest and dividend income	32,158,982	27,659,586	28,585,879
Interest expense:			
Deposits (note 7)	8,624,798	6,566,265	8,189,340
Repurchase agreements	403,539	279,744	96,568
FHLB advances	3,850,815	4,290,459	4,776,856
Junior subordinated debentures (trust preferred securities)	1,087,696	942,313	706,081
Total interest expense	13,966,848	12,078,781	13,768,845
Net interest income before provision for loan losses	18,192,134	15,580,805	14,817,034
Provision for loan losses (note 3)	1,301,600	961,938	1,090,787
Net interest income after provision for loan losses	16,890,534	14,618,867	13,726,247
Noninterest income:			
Fees and service charges on loans	615,810	613,420	597,694
Fees for other services to customers	1,067,116	975,886	869,744
Net securities gains (note 2)	67,940	200,815	922,134
Gain (loss) on trading activities	(83)	8,940	(671)
Gain on sales of loans	233,027	682,795	1,049,643
Investment and insurance commissions	2,858,897	1,899,119	1,475,980
BOLI income	330,700	379,635	309,780
Other income (note 7)	492,724	575,043	311,640
Total noninterest income	5,666,131	5,335,653	5,535,944
Noninterest expense:			
Salaries and employee benefits (note 14)	$ 9,554,317	$ 8,284,428	$ 7,601,529
Occupancy expense	1,418,696	1,225,780	1,199,502
Equipment expense	1,110,108	950,467	909,096
Intangible assets amortization	249,701	254,953	265,872
Other (notes 2 and 12)	4,351,352	4,083,444	3,553,780

Total noninterest expense	16,684,174	14,799,072	13,529,779
Income before income taxes	5,872,491	5,155,448	5,732,412
Income tax expense (note 13)	1,853,857	1,643,269	1,877,094
Net income	$ 4,018,634	$ 3,512,179	$ 3,855,318
	======	======	======
Earnings per common share (notes 11 and 14):			
Basic	$ 1.60	$ 1.38	$ 1.46
Diluted	$ 1.57	$ 1.35	$ 1.44

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
Years Ended June 30, 2005, 2004 and 2003

	Common Stock	Additional Paid-in Capital
Balance at June 30, 2002	$ 2,786,095	$ 10,374,285
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized losses on investments available for sale, net of reclassification adjustment (note 17)	-	-
Total comprehensive income	-	-
Treasury stock purchased, 73,385 shares	-	-
Stock options exercised	-	7,407
Dividends on common stock at $0.32 per share	-	-
Balance at June 30, 2003	2,786,095	10,381,692
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized losses on investments available for sale, net of reclassification adjustment (note 17)	-	-
Total comprehensive income	-	-
Reclassification of treasury stock (note 1)	(260,679)	(2,255,661)
Purchase of 88,286 shares of Company stock	-	(1,535,235)
Stock options exercised	-	353,098
Dividends on common stock at $0.35 per share	-	-
Balance at June 30, 2004	2,525,416	6,943,894
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized losses on investments available for sale, net of reclassification adjustment (note 17)	-	-
Total comprehensive income	-	-
Purchase of 43,609 shares of Company stock	(43,609)	(799,893)
Stock options exercised	37,875	385,410
Stock grant	150	1,425
Dividends on common stock at $0.36 per share	-	-
Balance at June 30, 2005	$ 2,519,832	$ 6,530,836
	======	======

See accompanying notes.

Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total

$ 22,748,760	$ 178,162	$ (1,356,511)	$ 34,730,791
3,855,318	-	-	3,855,318
-	(86,993)	-	(86,993)
-	-	-	3,768,325
-	-	(1,180,522)	(1,180,522)
-	-	20,693	28,100
(847,246)	-	-	(847,246)
25,756,832	91,169	(2,516,340)	36,499,448
3,512,179	-	-	3,512,179
-	(1,488,137)	-	(1,488,137)
-	-	-	2,024,042
-	-	2,516,340	-
-	-	-	(1,535,235)
-	-	-	353,098
(888,333)	-	-	(888,333)
28,380,678	(1,396,968)	-	36,453,020
4,018,634	-	-	4,018,634
-	726,781	-	726,781
-	-	-	4,745,415
-	-	-	(843,502)
-	-	-	423,285
-	-	-	1,575
(910,220)	-	-	(910,220)
$ 31,489,092	$ (670,187)	$ -	$ 39,869,573
=======	=======	=======	=======

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 4,018,634	$ 3,512,179	$ 3,855,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,301,600	961,938	1,090,787
Provision for losses on acquired assets	20,000	32,000	56,000
Write-down of available for sale securities	27,849	171,312	66,832
Write-down of non-marketable securities	96,931	341,544	182,666
Deferred income tax (benefit) expense	(197,522)	(294,737)	(34,667)
BOLI income	(330,700)	(379,635)	(309,780)
Depreciation of premises and equipment	711,339	625,602	588,877
Amortization of intangible assets	249,701	254,953	265,872
Net gain on sale of available for sale securities	(67,940)	(200,815)	(922,134)
Net gain on sales of loans	(233,027)	(682,795)	(1,049,643)
Net gain on the sale of fixed assets	(59,719)	-	-
Gain on sale of deposits	-	(264,395)	-
Originations of loans held for sale	(11,730,861)	(27,134,263)	(49,127,483)
Proceeds from sale of loans held for sale	11,777,575	30,114,874	45,894,661
Other	(293,675)	442,996	252,642
Change in other assets and liabilities:			
Interest receivable	(361,720)	(260,581)	296,305
Other assets and liabilities	729,272	(35,425)	(85,879)
Net cash provided by operating activities	5,657,737	7,204,752	1,020,374
Cash flows from investing activities:			

Federal reserve stock purchased	(405,500)	-	-
Proceeds from the sale of available for sale securities	1,126,131	14,204,637	26,171,196
Purchases of available for sale securities	(22,862,781)	(47,429,152)	(42,689,054)
Proceeds from maturities and principal payments on available for sale securities	15,859,638	8,160,266	4,836,934
Proceeds from sale of portfolio loans	-	-	366,438
Net increase in loans	(29,089,041)	(53,960,186)	(4,884,056)
Purchases of premises and equipment	(1,241,683)	(1,105,164)	(531,194)
Proceeds from sale of premises and equipment	481,794	15,153	141,757
Proceeds from sale of acquired assets	497,507	434,339	1,331,101
Other	(75,492)	-	-
Purchase of retirement annuity	(900,000)	-	-
Purchase of BOLI	(529,184)	-	(7,120,041)
Cash paid in connection with acquisition of Solon-Anson Insurance Agency (note 6)	(993,469)	-	-
Net cash used by investing activities	(38,132,080)	(79,680,107)	(22,376,919)
Cash flows from financing activities:			
Net increase in deposits	$ 18,398,993	$ 64,580,608	$ 15,545,302
Cash paid on sale of deposits	-	(5,239,432)	-
Advances from the Federal Home Loan Bank	33,000,000	17,500,000	9,000,000
Repayment of advances from the Federal Home Loan Bank	(24,403,032)	(23,449,936)	(8,406,038)
Net advances (repayments) on Federal Home Loan Bank overnight advances	(5,377,000)	2,332,000	45,000
Net increase in repurchase agreements	8,494,543	8,782,451	7,230,776
Dividends paid	(910,220)	(888,333)	(847,246)
Company stock purchased	(698,812)	(1,535,235)	(1,180,522)
Issuance of common stock	280,170	353,098	28,100
Debt issuance costs paid	-	(120,000)	-
Proceeds from issuance of junior subordinated debentures	10,310,000	6,000,000	-
Repayment of junior subordinated debentures	(7,394,849)	-	-
Net cash provided by financing activities	31,699,793	68,315,221	21,415,372
Net (decrease) increase in cash and cash equivalents	(774,550)	(4,160,134)	58,827
Cash and cash equivalents, beginning of year	14,647,785	18,807,919	18,749,092
Cash and cash equivalents, end of year	$ 13,873,235	$ 14,647,785	$ 18,807,919
	======	======	======
Supplemental schedule of cash flow information:			
Interest paid	$ 13,214,688	$ 11,830,290	$ 13,827,252
Income taxes paid	2,017,222	1,799,868	1,943,800
Supplemental schedule of noncash investing and financing activities:			
Transfer from loans to acquired assets	$ 570,339	$ 408,166	$ 897,215
Deconsolidation of NBN Capital Trusts, increase in other assets and junior subordinated debentures issued to affiliated trusts	-	407,851	-
Stock tendered in cashless stock option exercise	144,690	-	-
Change in valuation allowance for unrealized losses (gains) on available for sale securities, net of tax	(726,781)	1,488,137	86,993
Net change in deferred taxes for unrealized losses (gains) on available for sale securities	(374,404)	766,616	44,815

See note 6 for non-cash activities related to acquisition.

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005, 2004 and 2003

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bancorp and Subsidiaries (the Company) conform to accounting principles generally accepted in the United States of America and general practice within the banking industry.

Business

Northeast Bancorp (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 through its wholly-owned subsidiary, Northeast Bank (the Bank), a Maine state-chartered universal bank. Effective August, 2004, the Bank converted its charter to a state bank, and became a member of the Federal Reserve Bank of Boston. As a result, the Bank is no longer a federal savings and loan association subject to regulation by the Office of Thrift Supervision, but instead is subject to the joint regulatory oversight by the FRB and the State of Maine Bureau of Financial Institutions. The Bank's name was changed to Northeast Bank at conversion from Northeast Bank, FSB. The Bank is also subject to the regulations of the Federal Deposit Insurance Corporation (FDIC). The Bank faces vigorous competition from banks and other financial institutions.

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 subsidiary, Northeast Bank Insurance Group, Inc.). All significant intercompany transactions and balances have been eliminated in consolidation.

In December 2003, the Financial Accounting Standards Board (FASB) issued a revised FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46R") which, in part, specifically addresses limited purpose trusts formed to issue trust preferred securities. FIN 46R establishes the criteria used to identify variable interest entities and to determine whether or not to consolidate a variable interest entity. In fiscal 2004, pursuant to the criteria established by FIN 46R, the Company deconsolidated three trusts which the Company had formed for the purposes of issuing trust preferred securities to unaffiliated parties and investing the proceeds from the sale thereof and the common securities of the trusts in junior subordinated debentures issued by the Company. The affiliated trusts are NBN Capital Trust, NBN Capital Trust II and NBN Capital Trust III. The result of the deconsolidation and the accounting for these entities was to recognize investments in these entities of approximately $408,000 in the aggregate in other assets and to report the amount of junior subordinated debentures issued by the Company to such entities, rather than the related trust preferred securities, in the consolidated statement of financial condition which resulted in a $408,000 increase in this liability. The adoption of FIN 46R did not have an impact on the Company's financial condition, results of operations, earnings per share or cash flows.

NBN Capital Trust, NBN Capital Trust II and NBN Capital Trust III are considered affiliates. Prior to the adoption of FIN 46R in 2004, these trusts were included in consolidation and were considered subsidiaries. NBN Capital Trust was the only such entity in existence at June 30, 2003. NBN Capital Trust II and NBN Capital Trust III were formed in December 2003. (See note 19)

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. 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 and a determination as to whether declines in the fair values below cost of investments is other-than-temporary.

In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties. A substantial portion of the Company's loans are secured by real estate in the State of Maine. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in Maine.

In connection with the determination of whether fair value declines of investments are other-than-temporary, management investigates the underlying cause for the declines, the near term prospects for recovery and the Company's intent and ability to hold the investments.

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, Federal Home Loan Bank overnight deposits, federal funds sold and interest bearing deposits. The Company is required to maintain a certain reserve balance in the form of cash or deposits with the Federal Reserve Bank. At June 30, 2005, the reserve balance was approximately $2,950,000.

Available for Sale Securities

Marketable equity securities, and debt securities which may be sold prior to maturity, are classified as available for sale and are carried at market value. Market value is determined based on bid prices published in financial newspapers or bid quotations received from securities dealers. Changes in market value, net of applicable income taxes, are reported as a separate component of stockholders' equity. When a decline in market value of a security is considered other-than-temporary, the loss is charged to other expense in the consolidated statements of income and is treated as a write-down of the security's cost. Realized gains and losses on the sale of securities are recognized on the trade date using the specific identification method.

Non-marketable Investment Securities

The Company has a limited number of investments in enterprises that are not actively traded on a public exchange. These investments are carried at cost less other-than-temporary declines in fair value below cost. These investments represent an ownership interest of less than 5% of the enterprise and the Company does not exercise significant influence over these entities. When a decline in fair value below cost of a non-marketable security is considered other-than-temporary, the loss is charged to other expense in the consolidated statements of income and is treated as a write-down of the security's basis. Fair values of non-marketable securities are based on discounted cash flows calculations prepared by management. The cash flows are estimates based on a combination of the anticipated return of capital projected from investment managers and the operating results of the underlying investments reported on a quarterly or more frequent basis to management. The fair values are calculated annually, sooner if the operating results or other financial information indicates impairment has occurred. Based on management's assessment, there has been a decline in value below cost on certain non-marketable investments. Accordingly, the Company recorded write-downs of non-marketable securities of $96,931, $341,544 and $182,666 in 2005, 2004 and 2003, respectively. These investments are included in other assets in the consolidated statements of financial condition. The amount of such investments was approximately $667,000 at June 30, 2005 and $678,000 at June 30, 2004.

Federal Home Loan Bank and Federal Reserve Bank Stock

Federal Home Loan Bank stock and Federal Reserve Bank stock are carried at cost. Each is a restricted investment.

Loans Held for Sale and Mortgage Banking Activities

Loans originated for sale are specifically identified and carried at the lower of aggregate cost or fair value, estimated based on bid quotations from loan dealers. The carrying value of loans held for sale approximates the fair value at June 30, 2005 and 2004. Realized gains and losses on sale of loans are determined using the specific identification method and are reflected as gains on sale of loans in the consolidated statements of income.

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.

The Company's mortgage servicing rights asset at June 30, 2005 and 2004 was approximately $368,000 and $544,000, respectively, and is included in other assets in the consolidated statements of financial condition. The fair value of mortgage servicing rights approximates carrying value. 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 which is disaggregated to reflect note rate, type and term on the underlying loans.

Loans

Loans are carried at the principal amounts outstanding plus net premiums paid and net deferred loan origination costs. Loan origination fees and certain direct loan origination costs are deferred and recognized in interest income as an adjustment to the loan yield over the life of the related loans. Loan premiums paid to acquire loans are recognized as a reduction of interest income over the estimated life of the loans. 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 collectibility of interest or principal of the loan has been significantly impaired. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months. Loans are classified as impaired when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and collateral value.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

The allowance for loan losses represents management's estimate of probable losses inherent in the loan portfolio. This evaluation process is subject to numerous estimates and judgments. The frequency of default, risk ratings and the loss recovery rates, among other things, are considered in making this evaluation, as are the size and diversity of individual large credits. Larger balance, non-homogeneous loans representing significant individual credit exposures are evaluated based upon the borrower's overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, if appropriate, the realizable value of any collateral. The allowance for loan losses attributed to these loans is established through a process that includes estimates of historical and projected default rates and loss severities; internal risk ratings; and geographic, industry, and other environmental factors. Management also considers overall portfolio indicators, including trends in internally risk-rated loans, classified loans, nonaccrual loans and historical and forecasted write-offs; and a review of industry, geographic, and portfolio concentrations, including current developments. In addition, management considers the current business strategy and credit process, including credit limit setting and compliance, credit approvals, loan underwriting criteria, and loan workout procedures. Each portfolio of smaller balance, homogeneous loans, including residential real estate and consumer loans, is collectively evaluated for impairment. The allowance for loan losses for these loans is established via a process that includes historical delinquency and credit loss experience, together with analyses that reflect current trends and conditions. Management also considers overall portfolio indicators including historical credit losses; delinquent, non-performing and classified loans; trends in volumes; terms of loans; an evaluation of overall credit quality and the credit process, including lending policies and procedures; and economic factors. Changes in these estimates could have a direct impact on the provision and could result in a change in the allowance.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers might necessitate future additions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line and accelerated methods over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized.

Long-Lived Assets

Long-lived assets are evaluated periodically for impairment. An assessment of recoverability is performed prior to any write-down of the asset. If circumstances suggest that their value may be impaired, then an expense would be charged in the then current period.

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.

Acquired Assets

Acquired assets are carried at the lower of cost or fair value of the collateral less estimated selling expenses.

Goodwill and Intangible Assets

Goodwill arising from the acquisition of a bank in prior years is deemed to have an indefinite useful life. The Company ceased amortization of goodwill on July 1, 2001, with the adoption of Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*. Intangible assets include a noncompete agreement and customer lists which are being amortized on a straight-line basis over the estimated lives of the asset ranging from five to twelve years. Goodwill and intangible assets are reviewed annually for possible impairment, and if the assets are deemed impaired, an expense would be charged in the then current period. The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows: 2006 - $302,000; 2007 - $281,000; 2008 - $252,000; 2009 - $234,000; and 2010 - $208,000.

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs were approximately $336,000, $358,000 and $233,000 for the years ended June 30, 2005, 2004 and 2003, respectively.

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in note 14. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans have an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

	Years Ended June 30,		
	2005	2004	2003
Net income, as reported	$ 4,018,634	$ 3,512,179	$ 3,855,318
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,513	-	-
Pro forma net income	$ 4,017,121	$ 3,512,179	$ 3,855,318
Earnings per share:			
Basic - as reported	1.60	1.38	1.46
Basic - pro forma	1.59	1.38	1.46
Diluted - as reported	1.57	1.35	1.44
Diluted - pro forma	1.57	1.35	1.44

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option- pricing model with the following weighted-average assumptions:

	2005	2004	2003
Dividend yield	2.8%	-	-
Expected volatility	24.3%	-	-
Risk-free interest rates	4.5%	-	-
Expected lives	8 years	-	-

There were no stock options granted in 2004 and 2003. The Company's stock options immediately vest upon being granted.

In December 2004, the FASB issued Revised Statement of Financial Accounting Standards No. 123, *Share-Based Payments ("FAS 123R")*, revising FASB Statement No. 123. FAS 123R eliminates the ability to account for stock-based compensation transactions using APB Option No. 25 and generally requires the Company to recognize compensation costs for stock-based payments using the fair-value based method. Implementation of the provisions of FAS 123R is effective for the Company beginning July 1, 2005. Since all options currently outstanding are fully vested, the impact of adoption of FAS 123R will be dependent on the amount and extent of future options granted.

Bank-Owned Life Insurance

Bank-owned life insurance ("BOLI") represents life insurance on the lives of certain employees. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in other noninterest income, and are not subject to income taxes. The cash value is included in assets. The Company reviews the financial strength of the insurance carriers prior to the purchase of BOLI and annually thereafter.

Comprehensive Income

Accumulated other comprehensive income or loss consists solely of unrealized gains or losses on investment securities available for sale net of related income taxes.

Derivatives

The Company accounts for derivatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, which requires the Company to recognize all derivatives on the statement of financial condition at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

The Company has only limited involvement with derivative financial instruments and they are used for trading and hedging purposes. The derivative financial instruments used by the Company are covered call and put contracts on its equity securities portfolio and certain residential mortgage loan commitments for resale into the secondary market. The total value of securities under call and put contracts and commitments to originate residential mortgage loans for resale at June 30, 2005, 2004 and 2003 which are not used as a hedge, but are classified as trading, is immaterial to the Company's financial position, liquidity, or results of operations.

In April 2003, the FASB issued SFAS No. 149, *Amendment to Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, resulting in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and should be applied prospectively. The adoption of this standard on July 1, 2003 did not have a material impact on the Company's financial condition, results of operations, earnings per share or cash flows.

Trust Assets

Assets of the Company's trust department are not included in these consolidated financial statements because they are not assets of the Company. As of June 30, 2005, total assets held in trust for customers, for which the Company has fiduciary responsibility, amounted to approximately $69,899,000.

Treasury Stock

On July 1, 2003, the Maine Business Corporation Act became effective. This Act eliminated the concept of treasury stock, instead providing that shares of its stock acquired by the Company simply constitute authorized but unissued shares. Accordingly, all stock held by the Company as treasury stock has been reclassified as authorized but unissued stock in accordance with the Act.

2. Available for Sale Securities

A summary of the cost and approximate market values of available for sale securities at June 30, 2005 and 2004 follows:

	2005		2004	
	Cost	Market Value	Cost	Market Value
Debt securities issued by U.S. Government-sponsored enterprises	$ 26,271,307	$ 25,762,186	$ 25,687,976	$ 24,745,788
Mortgage-backed securities	46,647,228	46,153,494	41,761,820	40,587,389
Corporate bond	500,000	493,085	-	-
Equity securities	1,942,837	1,937,173	2,137,967	2,137,967
	$ 75,361,372	$ 74,345,938	$ 69,587,763	$ 67,471,144

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

	2005		2004	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
Debt securities issued by U. S. Government-sponsored enterprises	$ 7,891	$ 517,012	$ 2,565	$ 944,753
Mortgage-backed securities	48,517	542,251	29,062	1,203,493
Corporate bond	-	6,915	-	-
Equity securities	34,668	40,332	-	-
	$ 91,076	$ 1,106,510	$ 31,627	$ 2,148,246

At June 30, 2005, mortgage-backed and U. S. Government-sponsored enterprise securities with a market value of approximately $72,409,000 were pledged as collateral to secure outstanding repurchase agreements, FHLB advances and other purposes.

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, at June 30, 2005.

	Less than 12 Months		More than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government-sponsored enterprises	$ 9,597,766	$ 70,143	$15,756,908	$ 446,869	$25,354,674	$ 517,012
Corporate bond	493,085	6,915	-	-	493,085	6,915
Mortgage-backed securities	26,299,153	134,058	12,974,563	408,193	39,273,716	542,251
Equity securities	594,302	40,332	-	-	594,302	40,332

$36,984,306	$ 251,448	$28,731,471	$ 855,062	$65,715,777	$1,106,510
=======	======	=======	======	=======	======

Unrealized losses within U.S. Government-sponsored enterprises of $517,012 consist of thirteen individual debt securities issued by the FHLB, FHLMC and FNMA of which eight securities have had continuous losses for more than one year. Unrealized losses within the mortgage-backed securities category of $542,251 consist of fifteen individual debt securities, of which thirteen securities have had continuous losses for more than one year. The primary cause for unrealized losses within the above investment categories is the impact movements in market interest rates have had in comparison to the underlying yields on these securities, and normal market fluctuations. Unrealized losses on equity securities consist of forty-six equity securities that have been in a loss position for less than one year.

The following summarizes the Company's gross unrealized losses and market values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2004.

	Less than 12 Months		More than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Government-sponsored enterprises	$20,983,958	$ 692,101	$ 3,259,570	$ 252,652	$24,243,528	$ 944,753
Mortgage-backed securities	37,849,893	1,085,780	2,032,827	117,713	39,882,720	1,203,493
	$58,833,851	$1,777,881	$5,292,397	$370,365	$64,126,248	$2,148,246
	=======	=======	=======	=======	=======	======

Unrealized losses within U.S. Government-sponsored enterprises of $944,753 consist of eleven individual debt securities issued by the FHLB, FHLMC and FNMA of which two securities have had continuous losses for more than one year. Unrealized losses within the mortgage-backed securities category of $1,203,493 consist of thirteen individual debt securities issued by U.S. Government-sponsored enterprises, of which one security has had continuous losses for more than one year. The primary cause for unrealized losses within the above investment categories is the impact movements in market interest rates have had in comparison to the underlying yields on these securities.

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, 2005 or 2004.

Included in accumulated other comprehensive loss as an adjustment to stockholders' equity are the following:

	2005	2004
Net unrealized losses	$ (1,015,434)	$ (2,116,619)
Deferred tax effect	345,247	719,651
Accumulated other comprehensive loss	$ (670,187)	$ (1,396,968)
	=======	=======

The cost and market values of available for sale securities at June 30, 2005, by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost	Market Value
Due after one year through five years	$ 22,392,126	$ 21,926,260
Due after five years through ten years	2,988,653	2,978,520
Due after ten years	1,390,528	1,350,491
	26,771,307	26,255,271
Mortgage-backed securities (consisting of securities with interest rates ranging from 4.0% to 6.375% maturing November 2007 to September 2032)	46,647,228	46,153,494
Equity securities	1,942,837	1,937,173
	$ 75,361,372	$ 74,345,938
	=======	=======

Realized gains and losses on sales of available for sale securities for the year ended June 30, 2005, were $72,238 and $4,298, respectively, for the year ended June 30, 2004, were $215,572 and $14,757, respectively, and for the year ended June 30, 2003, were $923,051 and $917, respectively.

Based on management's assessment of available for sale securities, there has been more than a temporary decline in market value of equity securities. During the years ended June 30, 2005, 2004 and 2003, write-downs of available for sale securities were $27,849, $171,312 and $66,832, respectively, and are included in other expense in the consolidated statements of income.

3. Loans Receivable

The Company's lending activities are predominantly conducted in south-central and western Maine. However, the Company occasionally purchases residential mortgage loans in the open market out of this geographical area when management believes this is prudent. The Company grants single-family and multi-family residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the Company grants loans for the construction of residential homes, multi-family properties, commercial real estate properties and for land development. The majority of loans granted by the Company are collateralized by real estate. The ability and willingness of residential and commercial real estate, commercial and construction loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate sector in the borrowers' geographic area and/or the general economy. Also, the Company participates in indirect lending arrangements for automobile, equipment, mobile home and recreational vehicle loans. The Company's indirect lending activities are conducted throughout the State of Maine, but are concentrated in south-central and western Maine.

In the ordinary course of business, the Company has loan transactions with its officers, directors and their associates and affiliated companies ("related parties") at substantially the same terms as those prevailing at the time for comparable transactions with others. Such loans amounted to $3,309,289 and $2,418,630 at June 30, 2005 and 2004, respectively. In 2005, new loans and advances granted to related parties totaled $2,056,722 and payments and reductions amounted to $1,166,063. In 2004, new loans and advances totaled $6,133,463 and payments and reductions amounted to $7,954,687

Included in the loan portfolio are unamortized premiums on purchased loans of approximately $132,000 and $167,000 at June 30, 2005 and 2004, respectively.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	2005	2004	2003
Balance at beginning of year	$ 4,577,000	$ 4,016,000	$ 3,496,000
Provision charged to operating expenses	1,301,600	961,938	1,090,787
Loans charged off	(935,285)	(736,706)	(971,383)
Recoveries on loans previously charged off	160,685	335,768	400,596
Net loans charged off	(774,600)	(400,938)	(570,787)
Balance at end of year	$ 5,104,000	$ 4,577,000	$ 4,016,000

Commercial and commercial real estate loans with balances greater than $25,000 are considered impaired when it is probable that the Company will not collect all amounts due in accordance with the contractual terms of the loan. Loans that are returned to accrual status are no longer considered to be impaired. Certain loans are exempt from individual impairment evaluation, including large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, such as consumer and residential mortgage loans and commercial loans with balances less than $25,000.

The allowance for loan losses includes impairment reserves related to loans that are identified as impaired, which are based on discounted cash flows using the loan's effective interest rate, the fair value of the collateral for collateral-dependent loans, or the observable market price of the impaired loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Loans that experience insignificant payment delays (less than 60 days) or insignificant shortfalls in payment amounts (less than 10%) generally are not classified as impaired. Restructured loans are reported as impaired in the year of restructuring. Thereafter, such loans may be removed from the impaired loan disclosure if the loans were paying a market rate of interest at the time of restructuring and are performing in accordance with their renegotiated terms.

The Company recognizes interest on impaired loans on a cash basis when the ability to collect the principal balance is not in doubt; otherwise, cash received is applied to the principal balance of the loan.

The following table summarizes information about impaired loans at or for the years ended:

	2005	2004	2003
Impaired loans	$ 2,190,143	$ 2,050,454	$ 1,165,132
Impaired loans with related allowances	810,543	928,211	573,068
Allowances on impaired loans	118,778	170,000	320,000
Average balance of impaired loans during the year	1,760,925	899,853	1,189,177
Interest recognized on impaired loans	85,900	-	23,775

Loans on nonaccrual status, including certain impaired loans described above, at June 30, 2005 and 2004, totaled approximately $1,698,000 and $1,677,000, respectively. Interest income that would have been recorded under the original terms of such loans, net of interest income actually recognized for the years ended June 30, 2005, 2004 and 2003, totaled approximately $35,000, $65,000 and $65,000, respectively. The Company has no material outstanding commitments to lend additional funds to customers whose loans have been placed on nonaccrual status or the terms of which have been modified.

The Company was servicing, for others, loans of approximately $61,320,000, $69,462,000 and $49,174,000 at June 30, 2005, 2004 and 2003, respectively.

4. **Premises and Equipment**

Premises and equipment at June 30, 2005 and 2004, are summarized as follows:

	2005	2004
Land	$ 875,096	$ 982,914
Buildings	1,913,105	2,161,691
Leasehold and building improvements	1,674,504	1,588,525
Furniture, fixtures and equipment	5,244,651	4,690,068
	9,707,356	9,423,198
	[illegible]	[illegible]

Less accumulated depreciation	5,200,242	5,069,990
Net premises and equipment	$ 4,507,114	$ 4,353,208
	======	======

Depreciation of premises and equipment, included in occupancy and equipment expense, was $711,339, $625,602 and $588,877 for the years ended June 30, 2005, 2004 and 2003, respectively.

5. Acquired Assets

The following table summarizes the composition of acquired assets at June 30:

	2005	2004
Real estate properties acquired in settlement of loans and other acquired assets	$ 109,312	$ 51,590
Less allowance for losses	20,666	13,007
	$ 88,646	$ 38,583
	====	====

Activity in the allowance for losses on acquired assets was as follows:

	2005	2004	2003
Balance at beginning of year	$ 13,007	$ 10,659	$ 16,448
Provision for losses on acquired assets	20,000	32,000	56,000
Write-downs	(12,341)	(29,652)	(61,789)
Balance at end of year	$ 20,666	$ 13,007	$ 10,659
	====	====	====

6. Acquisition of Insurance Agencies

On September 29, 2004, the Bank's wholly owned subsidiary, Northeast Financial Services, Inc ("NFS"), acquired 100% of the outstanding stock of Solon-Anson Insurance Agency, Inc. ("Solon-Anson"), headquartered in Rangeley, Maine. See the details of the purchase price below. In connection with the acquisition, NFS entered into certain compensation arrangements with the sellers. NFS purchased an annuity for $900,000 to provide deferred compensation payments to the former owners, Craig and Sharon Sargent. The annuity remains an asset of the Company and is included in other assets in the consolidated statement of financial position. These payments are contingent on meeting the conditions of their respective employment contracts, and are subject to a vesting schedule over the term of each employment contract. The acquisition of Solon-Anson Insurance Agency used purchase accounting and resulted in a customer list intangible asset of $2,081,500, which will be amortized over twelve years. No goodwill was recognized. The results of operations of Solon-Anson have been included in the consolidated financial statements of the Company since the acquisition date. There is no pro-forma disclosure included because Solon-Anson was not considered a significant acquisition. The following is a summary of the assets and liabilities acquired and allocation of the purchase price.

Purchase price:	
Cash paid	$ 993,469
Debt assumed	683,104
Other liabilities	457,620
Total	$ 2,134,193
	======
Allocation:	
Customer list	$ 2,081,500
Office equipment	50,831
Other assets	1,862
Total	$ 2,134,193
	======

This transaction added six insurance offices located in Anson, Auburn, Augusta, Mexico, Rangeley, and South Paris, Maine and 21,000 customers. This acquisition is part of the Company's plans to enhance sources of fee income.

Solon-Anson merged with NFS, with NFS being the surviving company, effective April 1, 2005. This had no impact on the financial position or results of operations of the Company. On May 2, 2005, NFS changed its name to Northeast Bank Insurance Group, Inc.

7. Deposits

Deposits at June 30 are summarized as follows:

	Weighted Average Rate at June 30, 2005	2005 Amount	2005 Percent	2004 Amount	2004 Percent
Demand	0.00%	$ 39,854,720	10.1%	$ 37,799,644	10.0%

NOW	1.57	64,386,939	16.3	64,317,533	17.0
Money market	1.47	17,142,325	4.3	17,553,102	4.6
Regular savings	0.76	29,807,392	7.5	28,804,916	7.6
Certificates of deposit and brokered time deposits:					
Less than 1.00%	0.75	150,097	0.0	2,110,257	0.6
1.00 - 3.75%	2.92	200,317,648	50.6	184,031,968	48.7
3.76 - 5.75%	4.60	43,973,486	11.1	40,355,901	10.7
5.76 - 7.75%	6.30	586,115	0.1	2,846,408	0.8
	2.64%	$396,218,722	100.0%	$377,819,729	100.0%
	====	=======	=====	========	=====

The scheduled maturities of certificates of deposit and brokered time deposits for the twelve months ended June 30, respectively, are as follows:

	2006	2007	2008	2009	2010	Thereafter
Less than 1.00%	$ 150,097	$ -	$ -	$ -	$ -	$ -
1.00-3.75%	134,247,760	50,513,010	10,034,485	5,522,393	-	-
3.76-5.75%	88,982	15,938,786	5,309,367	7,572,570	14,880,580	183,201
5.76-7.75%	369,750	188,255	-	-	-	28,110
	$134,856,589	$66,640,051	$15,343,852	$13,094,963	$14,880,580	$ 211,311
	========	=======	=======	=======	=======	========

Interest expense on deposits for the years ended June 30, 2005, 2004 and 2003 is summarized as follows:

	2005	2004	2003
NOW	$ 808,762	$ 650,203	$ 958,230
Money market	212,744	179,462	360,632
Regular savings	230,201	244,789	269,458
Certificates of deposit and brokered time deposits	7,373,091	5,491,811	6,601,020
	$ 8,624,798	$ 6,566,265	$ 8,189,340
	======	======	======

In the fourth quarter of fiscal year 2004, the Company sold the deposits of its Richmond, Maine branch and the branch was closed. The deposits sold totaled approximately $5,518,000. The Company recognized a gain on sale of deposits of $264,395 from this transaction, which is included in other income in the 2004 consolidated statement of income.

8. Borrowings

A summary of advances from the Federal Home Loan Bank of Boston are as follows:

June 30, 2005		
Principal Amounts	Interest Rates	Maturity Dates
$ 49,309,004	2.08% - 6.79%	2006
13,831,915	2.22 - 3.57	2007
16,056,683	2.68 - 5.68	2008
7,000,000	4.50 - 4.99	2011
$ 86,197,602		
=======		

June 30, 2004		
Principal Amounts	Interest Rates	Maturity Dates
$ 21,493,278	1.44% - 6.65%	2005
31,500,000	2.08 - 6.79	2006
7,000,000	2.22 - 2.71	2007
15,984,356	2.68 - 5.68	2008
7,000,000	4.50 - 4.99	2011
$ 82,977,634		
=======		

At June 30, 2005, FHLB advances of $22,500,000 are 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 of the Federal Home Loan Bank of Boston in order to borrow from the Federal Home Loan Bank.

As of June 30, 2005, the Company had a $2,103,000 line of credit arrangement with the FHLB which was fully available. Also at June 30, 2005, the Company had approximately $22,557,000 of additional capacity to borrow from the FHLB for long-term advances.

Fed Discount Window Borrower-in-Custody Program

The Bank also has a secured line of credit of $26,511,580 through the Fed Discount Window Borrower-in-Custody program. The Bank pledged $33,139,474 of its indirect auto loan portfolio as collateral for this line of credit. If used, interest is based upon the current federal funds rate plus 1.00%. Northeast Bank used this line of credit for one day in fiscal 2005 and no balances outstanding at June 30, 2005.

9. Securities Sold Under Repurchase Agreements

During 2005 and 2004, the Company sold securities under agreements to repurchase. The weighted average interest rate on repurchase agreements was 1.48% and 1.19% at June 30, 2005 and 2004, respectively. These borrowings, which were scheduled to mature the next business day, were collateralized by mortgage-backed and U.S. Government-sponsored enterprise securities with a market value of $34,816,000 and amortized cost of $35,400,000 at June 30, 2005 and a market value of $26,179,000 and amortized cost of $27,144,000 at June 30, 2004. The average balance of repurchase agreements was $30,572,422 and $25,052,000 during the years ended June 30, 2005 and 2004, respectively. The maximum amount outstanding at any month-end during 2005 and 2004 was $36,506,000 and $31,022,000, respectively. Securities sold under these agreements were under the control of the Company throughout 2005 and 2004.

10. 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 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, 2005 and 2004, the most recent notification from the Company 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 capital as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

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, 2005 and 2004, the Company and the Bank ratios exceeded the regulatory requirements. Management believes that the Company and the Bank meets all capital adequacy requirements to which it is subject as of June 30, 2005 and 2004.

The following tables illustrate the actual and required amounts and ratios for the Company at the dates indicated.

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of June 30, 2005:						
Northeast Bancorp:						
Total capital to risk weighted assets	$59,395	13.54%	≥ $35,082	≥ 8.0%	≥ $43,852	≥ 10.0%
Tier 1 capital to risk weighted assets	$51,085	11.65%	≥ $17,541	≥ 4.0%	≥ $26,311	≥ 6.0%
Tier 1 capital to total average assets	$51,085	8.85%	≥ $23,081	≥ 4.0%	≥ $28,852	≥ 5.0%
As of June 30, 2004:						
Northeast Bancorp:						
Total capital to risk weighted assets	$55,042	13.09%	> $33,638	≥ 8.0%	≥ $42,048	≥ 10.0%
Tier 1 capital to risk weighted assets	$46,167	10.98%	≥ $16,819	≥ 4.0%	≥ $25,229	≥ 6.0%
Tier 1 capital to total average assets	$46,167	9.39%	≥ $19,668	≥ 4.0%	≥ $24,585	≥ 5.0%

The following tables illustrate the actual and required amounts and ratios for the Bank at the dates indicated.

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
As of June 30, 2005:						

As of June 30, 2005:

Northeast Bank:						
Total capital to risk weighted assets	$52,235	11.97%	≥ $34,901	≥ 8.0%	≥ $43,627	≥ 10.0%
Tier 1 capital to risk weighted assets	$47,131	10.80%	≥ $17,451	≥ 4.0%	≥ $26,176	≥ 6.0%
Tier 1 capital to total average assets	$47,131	8.20%	≥ $22,979	≥ 4.0%	≥ $28,724	≥ 5.0%
As of June 30, 2004:						
Northeast Bank:						
Total capital to risk weighted assets	$44,815	10.68%	≥ $33,563	≥ 8.0%	≥ $41,954	≥ 10.0%
Tier 1 capital to risk weighted assets	$42,505	10.13%	≥ $16,781	≥ 4.0%	≥ $25,172	≥ 6.0%
Tier 1 capital to total average assets	$42,505	7.88%	≥ $21,570	≥ 4.0%	≥ $26,962	≥ 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 (approximately $6,807,000 is available at June 30, 2005).

The 2004 Stock Repurchase Plan was approved by the Board of Directors on January 16, 2004. It was extended by the Board of Directors on December 17, 2004 and will terminate on December 31, 2005. The repurchase program may be discontinued by Northeast Bancorp at any time. Under the 2004 Stock Repurchase Plan, the Company may purchase up to 200,000 shares of its common stock from time to time in the open market at prevailing prices. Common stock repurchased pursuant to the plan will be classified as authorized but un-issued shares of common stock available for future issuance as determined by the Board of Directors. From time to time, the Company believes that the current market price for its common stock is inadequate and does not reflect the full value of its common stock and at such times purchases its common stock in the market. Total stock repurchases under the 2004 plan were 55,300 shares for $1,061,842 through June 30, 2005. Total stock repurchases in fiscal 2005 were 36,500 shares for $698,812 at an average price of $19.15 per share. The remaining repurchase capacity of the 2004 Plan is 144,700 shares. As of June 30, 2005, the Company had repurchased $4,193,602 of its common stock. Management believes that these and future purchases have not and will not have a significant impact on the Company's liquidity. The repurchases had a positive effect on diluted earnings per share during 2005 and 2004, by reducing the number of common stock shares outstanding.

There were 7,109 shares acquired by the Company in addition to the 2004 Stock Repurchase Plan from the exercise of stock options paid with stock previously acquired by the option owner, so called cashless stock option exercise. The average price of these shares was $20.35.

The combined shares purchased through the 2004 Stock Repurchase Plan and the cashless stock option exercise was 43,609 shares for $843,502.

11. Earnings Per Common Share

Basic earnings per share (EPS) are computed by dividing net income available to common stockholders by the weighted average number of shares outstanding. The following table shows the weighted average number of shares outstanding for each of the last three years. 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 are presented as follows:

	2005	2004	2003
Average shares outstanding, used in computing Basic EPS	2,518,764	2,543,812	2,644,317
Dilutive effect of stock options	44,781	61,098	41,626
Average equivalent shares outstanding, used in computing Diluted EPS	2,563,545	2,604,910	2,685,943
	======	======	======

12. Other Expenses

Other expenses include the following for the years ended June 30, 2005, 2004 and 2003:

	2005	2004	2003
Professional fees	$ 658,334	$ 435,197	$ 471,898
Advertising expense	336,201	358,352	233,110
Write-down of non-marketable securities	96,931	341,544	182,666
Computer services and processing costs	472,154	330,535	245,441
Real estate owned expenses	8,117	6,079	24,951
Write-down of available for sale securities	27,849	171,312	66,832
Other	2,751,766	2,440,425	2,328,882
	$ 4,351,352	$ 4,083,444	$ 3,553,780
	======	======	======

13. Income Taxes

The current and deferred components of income tax expense (benefit) were as follows for the years ended June 30, 2005, 2004 and 2003:

2005	2004	2003

	2005	2004	2003
Federal:			
Current	$ 1,965,463	$ 1,859,264	$ 1,835,636
Deferred	(197,522)	(294,737)	(34,667)
	1,767,941	1,564,527	1,800,969
State and local - current	85,916	78,742	76,125
	$ 1,853,857	$ 1,643,269	$ 1,877,094
	======	======	======

Total income tax expense is different from the amounts computed by applying the U.S. federal income tax rates in effect to income before income taxes. The reasons for these differences are as follows for the years ended June 30, 2005, 2004 and 2003:

	2005		2004		2003	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Expected income tax expense at federal tax rate	$ 1,996,646	34.0%	$ 1,752,852	34.0%	$ 1,949,020	34.0%
State tax, net of federal tax benefit	56,705	1.0	51,970	1.0	50,242	0.9
Dividend received deduction	(34,310)	(0.6)	(32,916)	(0.6)	(20,364)	(0.4)
Non-taxable BOLI income	(93,278)	(1.6)	(129,076)	(2.5)	(105,325)	(1.8)
Other	(71,906)	(1.3)	439	0.0	3,521	0.0
	$ 1,853,857	31.5%	$ 1,643,269	31.9%	$ 1,877,094	32.7%
	======	====	======	====	======	====

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2005 and 2004, are presented below:

	2005	2004
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 1,735,000	$ 1,498,000
Interest on nonperforming loans	29,000	22,000
Deferred gain on loan sales	12,000	16,000
Difference in tax and financial statement bases of investments	441,000	851,000
Difference in tax and financial statement amortization of goodwill and other intangible assets	297,000	272,000
Other	208,000	178,000
Total deferred tax assets	2,722,000	2,837,000
Deferred tax liabilities:		
Mortgage servicing rights	(136,000)	(200,000)
Premises and equipment	(273,000)	(248,000)
Prepaid expenses	(109,000)	-
Other	-	(8,000)
Total deferred tax liabilities	(518,000)	(456,000)
Net deferred tax assets, included in other assets	$ 2,204,000	$ 2,381,000
	======	======

The Company has sufficient refundable taxes paid in available carryback years to fully realize its recorded deferred tax assets. Accordingly, no valuation allowance has been recorded.

In prior years, the Bank utilized the percentage of income bad debt deduction to calculate its bad debt expense for tax purposes as was then permitted by the Internal Revenue Code. Subsequent tax legislation required the Company to recapture a portion of its tax bad debt reserves. Except as stated below, the unrecaptured base year reserves will not be subject to recapture as long as the Bank continues to carry on the business of banking. However, the balance of the tax bad debt reserves is subject to provisions of present law that require recapture in the case of certain excess distributions to stockholders. For federal income tax purposes, the Company has designated approximately $2,400,000 of net worth as a reserve for tax basis bad debts on loans. No deferred taxes have been provided for base year reserve recapture as management plans to avoid the events that would cause such recapture.

14. Employee Benefit Plans

401(k) Plan

The Company offers a contributory 401(k) plan which is available to all full-time salaried and hourly-paid employees who are regularly scheduled to work 1,000 hours or more in a Plan year, have attained age 21, and after completing 90 days of employment. Employees may contribute between 1% and 15% of their base compensation to which the Company will match 50% up to the first 6% contributed. For the years ended June 30, 2005, 2004 and 2003, the Company contributed $186,649, $165,337 and $150,238, respectively.

The Company also has a profit sharing plan which covers substantially all full-time employees. Contributions and costs are determined as a percent of each covered employee's salary and are at the Board of Directors' discretion. There were no discretionary contributions in 2005, 2004 or 2003.

Stock Option Plans

The Company has adopted Stock Option Plans. Both "incentive stock options" and "nonqualified stock options" may be granted pursuant to the Stock Option Plans. Under the Stock Option Plans, incentive stock options may only be granted to employees of the Company and nonqualified stock options may be granted to employees and directors. All options granted under the Stock Option Plans will be required to have an exercise price per share equal to at least the fair market value per share of common stock on the date the option is granted. Options immediately vest upon being granted. The options are exercisable for a maximum of ten years after the options are granted in the case of all incentive stock options and five years after the grant date for nonqualified stock options.

In accordance with the Stock Option Plans, a total of 383,000 shares of unissued common stock were reserved for granting. Of these shares, 89,000 were designated for the incentive stock option plan, 9,000 for the nonqualified stock plan and the remaining 285,000 for either plan. At June 30, 2005, a total of 178,500 shares remain available to be granted including 7,500 available for the incentive stock option plan, 1,000 for the nonqualified stock plan and 170,000 for either plan.

A summary of the qualified and nonqualified stock option activity for the years ended June 30 follows:

	2005		2004		2003	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	108,875	$ 11.79	146,000	$ 11.26	151,500	$ 11.30
Granted	1,000	12.75	-	-	-	-
Exercised	(37,875)	11.18	(36,625)	9.58	(2,500)	11.25
Expired	(500)	18.50	(500)	18.50	(3,000)	13.15
Outstanding and exercisable at end of year	71,500	$ 12.31	108,875	$ 11.79	146,000	$ 11.26
	====	====	====	====	====	====

The following table summarizes information about stock options outstanding at June 30, 2005:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at June 30, 2005	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$8.00 to $9.00	30,000	4.3	8.45
$10.50	1,000	3.6	10.50
$12.00 to $13.50	24,000	6.1	13.10
$15.00 to $18.50	16,500	2.7	18.31
$8.00 to $18.50	71,500		$12.31
	====		====

15. 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 statements of financial condition. 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:

	2005	2004
Commitments to originate loans:		
Residential real estate mortgages	$ 7,510,000	$ 11,600,000
Residential real estate mortgages held for sale	2,197,000	1,170,000
Commercial real estate mortgages, including multi-family residential real estate	5,684,000	11,146,000
Commercial business loans	2,667,000	1,033,000
	18,058,000	24,949,000
Unused lines of credit	41,618,000	30,453,000
Standby letters of credit	3,332,000	3,959,000
Unadvanced portions of construction loans	5,245,000	3,803,000

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.

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.

Lease Obligations

The Company leases certain properties and equipment used in operations under terms of operating leases which include renewal options. Rental expense under leases approximated $708,000, $505,000 and $473,000 for the years ended June 30, 2005, 2004 and 2003, respectively.

Approximate future minimum lease payments over the remaining terms of leases at June 30, 2005 and those entered into subsequent to June 30, 2005, are as follows:

2006	$ 551,000
2007	468,000
2008	143,000
2009	75,000
2010	77,000
2011 and after	1,838,000
	$ 3,152,000
	======

The Company's lease of a new office building commences August 2005. Since the present value of the minimum lease payments exceeds 90% of the estimated fair value of the building, it will be treated as a capital lease. A capital lease asset and related debt of $2,990,000 was recognized subsequent to June 30, 2005.

Legal Proceedings

The Company and its subsidiaries 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.

16. Condensed Parent Information

Condensed financial statements for Northeast Bancorp at June 30, 2005 and 2004, and for each of the years in the three year period ended June 30, 2005, are presented below.

Balance Sheets	June 30,	
Assets	2005	2004
Cash (primarily deposited with banking subsidiary)	$ 3,279,426	$ 5,646,368
Available for sale securities	667,214	-
Investment in banking subsidiary	48,676,098	41,495,928
Investment in common securities of affiliated trusts	496,000	407,851
Goodwill, net	407,897	407,897
Other assets	2,913,218	2,076,719
Total assets	$ 56,439,853	$ 50,034,763
	=======	=======
Liabilities and Stockholders' Equity		
Junior Subordinated Debentures issued to affiliated trusts	$ 16,496,000	$ 13,580,849
Other liabilities	74,280	894
	16,570,280	13,581,743
Stockholders' equity	39,869,573	36,453,020
Total liabilities and stockholders' equity	$ 56,439,853	$ 50,034,763
	=======	=======

Statements of Income	Years Ended June 30,		
	2005	2004	2003
Income:			
Dividends from banking subsidiary	$ 300,000	$ 2,350,000	$ 2,525,000
Other income	175,715	26,534	21,756
Total income	475,715	2,376,534	2,546,756

Expenses:			
Interest on Junior Subordinated Debentures paid to affiliated trusts	1,087,696	942,313	727,379
General and administrative expenses	610,330	91,930	77,652
Total expenses	1,698,026	1,034,243	805,031
Income (loss) before income tax benefit and equity in undistributed net income of subsidiaries	(1,222,311)	1,342,291	1,741,725
Income tax expense (benefit)	602,665	(267,830)	(269,622)
Income (loss) before equity in undistributed net income of subsidiaries	(619,646)	1,610,121	2,011,347
Equity in undistributed net income of subsidiaries	4,638,280	1,902,058	1,843,971
Net income	$ 4,018,634	$ 3,512,179	$ 3,855,318
	======	======	======

Statements of Cash Flows	Years Ended June 30, 2005	2004	2003
Cash flows from operating activities:			
Net income	$ 4,018,634	$ 3,512,179	$ 3,855,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization	47,170	60,174	17,474
Undistributed earnings of subsidiaries	(4,638,280)	(1,902,058)	(1,843,971)
Write down on available for sale securities	27,849	-	-
Net gain on available for sale securities	(64,174)	-	-
Other	7,783	-	-
(Increase) decrease in other assets	(883,669)	(268,736)	(260,163)
(Decrease) increase in other liabilities	73,386	(432)	11
Net cash (used) provided by operating activities	(1,411,301)	1,401,127	1,768,669
Cash flows from investing activities:			
Purchase of common securities of affiliated trusts	(310,000)	(186,000)	-
Increase in investment of bank subsidiary	(1,800,000)	-	-
Proceeds from the sale of securities of affiliated trusts	221,851	-	-
Available for sale securities transferred from the bank	(669,045)	-	-
Purchase of available for sale securities	(733,351)	-	-
Sales of available for sale securities	748,615	-	-
Net cash used by investing activities	(2,541,930)	(186,000)	-
Cash flows from financing activities:			
Issuance of common stock	280,170	353,098	28,100
Repayment of junior subordinate debentures	(7,394,849)	-	-
Company stock purchased	(698,812)	(1,535,235)	(1,180,522)
Dividends paid to stockholders	(910,220)	(888,333)	(847,246)
Payments for debt issuance costs	-	(120,000)	-
Proceeds from issuance of junior subordinated debentures to affiliated trusts	10,310,000	6,186,000	-
Net cash provided (used) by financing activities	1,586,289	3,995,530	(1,999,668)
Net increase (decrease) in cash	(2,366,942)	5,210,657	(230,999)
Cash, beginning of year	5,646,368	435,711	666,710
Cash, end of year	$ 3,279,426	$ 5,646,368	$ 435,711
	======	======	======
Supplemental schedule of cash flow information:			
Interest paid	$ 1,087,696	$ 942,313	$ 727,379

17. Other Comprehensive Income

The components of other comprehensive income for the years ended June 30, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Unrealized (losses) gains arising during the period, net of tax effect of $(339,093) in 2005, $756,585 in 2004 and $245,988 in 2003	$ 658,431	$(1,468,665)	$ 477,506
Reclassification adjustment for gains on investments, net of write-downs, included in net income, net of tax effect of $35,311 in 2005, $10,031 in 2004 and $290,803 in 2003	(68,350)	19,472	564,499
Other comprehensive income	$ 726,781	$(1,488,137)	$ (86,993)
	=====	=======	=====

18. Segment Reporting

Northeast Bancorp through its banking subsidiary, Northeast Bank and its subsidiary, Northeast Bank Insurance Group, Inc., provides a broad range of financial services to individuals and companies in western and south-central Maine. These services include lending, demand, savings and time deposits, cash management, investment, insurance and trust services. While the Company's senior management team monitors the operations of the subsidiaries, the subsidiaries are primarily organized to operate in the banking industry. Substantially all income and services are derived from banking products and services in Maine. Accordingly, the Company's subsidiaries are considered by management to be aggregated in one reportable operating segment.

19. Junior Subordinated Debentures

NBN Capital Trust II and III were created in December 2003 and NBN Capital Trust IV was created 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, (ii) using the proceeds of the sale of the Private Trust Securities to acquire Junior Subordinated Deferrable Interest Notes ("Junior Subordinated Notes"); and (iii) engaging only in those other activities necessary, convenient, or incidental thereto. Accordingly the Junior Subordinated Notes 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 trust preferred and common securities issued by each affiliated trust. Amounts include junior subordinated debentures acquired by the affiliated trusts from us with the capital contributed by us in exchange for the common securities of such trust. The trust 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 Indenture plus any accrued but unpaid interest to the redemption date.

Affiliated Trusts	Trust Preferred Securities	Common Securities	Junior Subordinated Debentures	Interest Rate	Maturity Date
NBN Capital Trust II	$ 3,000,000	$ 93,000	$ 3,093,000	6.29%	March 30, 2034
NBN Capital Trust III	3,000,000	93,000	3,093,000	6.50%	March 30, 2034
NBN Capital Trust IV	10,000,000	310,000	10,310,000	5.88%	February 23, 2035
Total	$ 16,000,000	$ 496,000	$ 16,496,000	6.07%	
	======	=====	======	====	

NBN Capital Trust II pays a variable rate based on three month LIBOR, NBN Capital Trust III pays a 6.50% fixed rate until March 30, 2009 when the rate changes to a variable rate based on three month LIBOR, and NBN Capital Trust IV pays a 5.88% fixed rate until February 23, 2010 when the rate changes to a variable rate based on three month LIBOR. Accordingly, the Preferred Securities of the Private Trusts currently pay quarterly distributions at an annual rate of 6.29% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust II, an annual rate of 6.50% for the stated liquidation amount of $1,000 per Preferred Security for NBN Capital Trust III and an annual rate of 5.88% 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 Preferred Securities, but only to the extent of funds held by the trusts.

20. Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for the Company's significant 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.

Available for Sale Securities - The fair value of available for sale securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers.

Federal Home Loan Bank and Federal Reserve Bank Stock - These financial instruments do not have a market nor is it practical to estimate the fair value without incurring excessive costs.

Loans and Loans Held for Sale - 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.

Fair value for significant nonperforming loans is based on estimated cash flows and is discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are judgmentally determined using available market information and historical information.

Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented would be indicative of the value negotiated in an actual 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 ninety days. Therefore this financial instrument has been adjusted for estimated credit loss.

Bank Owned Life Insurance (BOLI) - The fair value of this financial instrument approximates its book value due to the nature of the asset. The book value is calculated by considering the amount paid in, the earnings on those amounts and the cost of insurance through year end.

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 was considered, the fair value of the Company's net assets could increase.

Borrowed Funds and Repurchase Agreements - The fair value of the Company's borrowings with the Federal Home Loan Bank 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 repurchase agreements approximates the carrying value, as these financial instruments have a short maturity.

Junior Subordinated Debentures - The fair value of the Company's Junior Subordinated Debentures is estimated based on published sources.

Commitments to Originate Loans - The Company has not estimated the fair value of commitments to originate loans due to their short term nature and their relative immateriality.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment and intangible assets, including the customer base. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The following table presents the estimated fair value of the Company's significant financial instruments at June 30, 2005 and 2004:

	June 30, 2005		June 30, 2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	$ 13,873	$ 13,873	$ 14,648	$ 14,648
Available for sale securities	74,346	74,346	67,471	67,471
Regulatory stock	7,050	7,050	6,645	6,645
Loans held for sale	319	319	546	557
Loans	455,948	464,567	428,017	430,666
Interest receivable	2,555	2,555	2,193	2,193
BOLI	8,563	8,563	7,760	7,760
Financial liabilities:				
Deposits (with no stated maturity)	151,191	151,191	148,475	148,475
Time deposits	245,028	244,458	229,345	229,525
Borrowed funds	86,418	86,957	82,978	82,922
Repurchase agreements	33,379	33,379	24,885	24,885
Junior Subordinated Debentures	16,496	16,496	13,581	13,739

Item 8.b. Statistical Disclosures Required by Industry Guide 3

Table 1
Northeast Bancorp Consolidated
Distribution of Assets, Liabilities and Net Worth (in thousands)
Interest Rates and Interest Differential
Years Ended June 30, 2005, 2004 and 2003

	June 30, 2005			June 30, 2004			June 30, 2003		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Rate	Average Daily Balance	Interest Income/ Expense	Average Yield/ Rate	Average Daily Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:									

Interest earning-assets:									
Investment securities (1)	$ 69,451	$ 2,715	3.91%	$ 58,130	$ 2,165	3.72%	$ 25,133	$ 1,183	4.71%
Loans (2)(3)(4)	453,379	29,104	6.42%	397,045	25,301	6.37%	386,607	27,107	7.01%
Regulatory stock	6,982	265	3.80%	6,645	174	2.62%	6,645	227	3.42%
Short-term investments (5)	3,998	75	1.88%	3,133	20	0.64%	5,822	69	1.19%
Total interest-earning assets/interest income/average rates earned	533,810	32,159	6.02%	464,953	27,660	5.95%	424,207	28,586	6.74%
Non-interest earning assets:									
Cash & due from banks	11,948			11,651			10,840		
Bank premises and equipment, net	4,230			4,251			4,158		
Other assets (6)	18,512			16,020			13,597		
Allowance for loan losses	(4,862)			(4,322)			(3,795)		
Total non-interest earning assets	29,828			27,600			24,800		
Total assets	$563,638			$492,553			$449,007		
	=====			=====			=====		
Liabilities & net worth:									
Interest-bearing liabilities:									
Now	$ 65,761	$ 809	1.23%	$ 63,414	$ 650	1.03%	$ 64,372	$ 958	1.49%
Money market	17,096	213	1.25%	15,900	179	1.13%	21,902	361	1.65%
Savings	29,056	230	0.79%	28,361	245	0.86%	23,253	269	1.16%
Time	243,612	7,373	3.03%	192,814	5,492	2.85%	168,108	6,601	3.93%
Total interest-bearing deposits	355,525	8,625	2.43%	300,489	6,566	2.19%	277,635	8,189	2.95%
Repurchase agreements	30,572	403	1.32%	25,052	280	1.12%	9,710	97	1.00%
Borrowed funds	82,542	3,851	4.67%	82,794	4,291	5.18%	85,647	4,777	5.58%
Junior subordinated debentures	15,248	1,088	7.14%	10,640	942	8.85%	7,173	706	9.84%
Total interest-bearing liabilities/ interest expense/average rates paid	483,887	13,967	2.89%	418,975	12,079	2.88%	380,165	13,769	3.62%
Total non-interest bearing liabilities:									
Demand deposits and escrow accounts	37,841			33,791			29,699		
Other liabilities	3,237			2,810			2,718		
Total liabilities	524,965			455,576			412,582		
Stockholders' equity	38,673			36,977			36,425		
Total liabilities and stockholders' equity	$563,638			$492,553			$449,007		
	=====			=====			=====		
Net interest income		$ 18,192			$ 15,581			$ 14,817	
		====			====			====	
Interest rate spread			3.13%			3.07%			3.12%
Net yield on interest earning assets (7)			3.41%			3.35%			3.49%

(1) Taxable. The yield information does not give effect to changes in fair value that are reflected as a component of stockholders equity.
(2) Non-accruing loans are included in computation of average balance, but unpaid interest on nonperforming loans has not been included for purposes of determining interest income.
(3) Interest income on loans includes amortization of net deferred costs of $902 in 2005, $869 in 2004, and $905 in 2003.
(4) Includes Loans Held for Sale.
(5) Short term investments include FHLB overnight deposits and other interest-bearing deposits.
(6) Other assets includes BOLI of $7,975 which contributed $331 to fee revenue.
(7) The net yield on average earning assets is net interest income divided by average interest-earning assets.

Table 2
Northeast Bancorp Consolidated
Investment Securities Portfolio
($ in thousands)

	As of June 30,		
	2005	2004	2003
Available for sale (1)			
U.S. Government-sponsored enterprises	$ 25,762	$ 24,746	$ 18,601
Mortgage-backed securities	46,154	40,587	21,630
Other bonds	493	0	0

Equity securities	1,937	2,138	1,498
Total available for sale (2):	$ 74,346	$ 67,471	$ 41,729
	=====	=====	=====

(1)Carried at estimated market value. Northeast Bancorp does not have any securities classified as held to maturity.
(2)Cost of such securities ($ in thousands) was $75,361 as of June 30, 2005, $69,588 as of June 30, 2004, and $41,591 as of June 30, 2003.

Table 3
Northeast Bancorp Consolidated
Investment Maturity
($ in thousands)

	Within One Year		After One Year But Within 5 Years		After Five Years But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Year Ended June 30, 2005										
U. S. Government-sponsored enterprises	$ -	0.00%	$ 21,433	3.40%	$ 2,979	4.85%	$ 1,350	5.23%	$ 25,762	3.66%
Mortgage-backed securities	-	0.00%	1,127	4.38%	31,280	4.20%	13,747	4.70%	46,154	4.36%
Other bonds	-	0.00%	493	4.05%	-	0.00%	-	0.00%	493	4.05%
Equity securities	1,937	7.28%	-	0.00%	-	0.00%	-	0.00%	1,937	7.28%
	$ 1,937	7.28%	$ 23,053	3.37%	$ 34,259	4.26%	$ 15,097	4.75%	$ 74,346	4.19%
	====	===	====	===	====	===	====	===	====	===
Year Ended June 30, 2004										
U. S. Government-sponsored enterprises	$ -	0.00%	$ 15,173	3.13%	$ 8,305	4.54%	$ 1,268	5.16%	$ 24,746	3.71%
Mortgage-backed securities	-	0.00%	6,327	4.50%	23,899	4.15%	10,361	4.97%	40,587	4.42%
Equity securities	2,138	5.93%	-	0.00%	-	0.00%	-	0.00%	2,138	5.93%
	$ 2,138	5.93%	$ 21,500	3.53%	$ 32,204	4.25%	$ 11,629	4.99%	$ 67,471	4.20%
	====	===	====	===	====	===	====	===	====	===

No tax-exempt securities are carried in our investment portfolio.

Table 4

Northeast Bancorp Consolidated
Loan Portfolio
($ in thousands)

	As of					
	June 30, 2005		June 30, 2004		June 30, 2003	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
Loan portfolio:						
Residential real estate	$ 148,840	32.46%	$ 138,031	32.10%	$ 125,437	33.33%
Commercial real estate	125,899	27.46%	127,866	29.74%	97,854	26.00%
Construction	12,201	2.66%	8,367	1.95%	7,201	1.92%
Commercial	68,716	14.99%	64,304	14.95%	67,585	17.96%
Consumer and other	102,865	22.43%	91,434	21.26%	78,235	20.79%
Total loans	458,521	100.00%	430,002	100.00%	376,312	100.00%
Net deferred loan costs	2,531		2,592		2,675	
Less:						
Allowance for loan losses	5,104		4,577		4,016	
Net loans	$ 455,948		$ 428,017		$ 374,971	
	=====		=====		=====	

As of			
June 30, 2002		June 30, 2001	
Amount	Percent of Total Loans	Amount	Percent of Total Loans

Loan portfolio:

Residential real estate	$ 159,567	42.92%	$ 185,985	49.25%
Commercial real estate	80,423	21.63%	68,569	18.16%
Construction	8,958	2.41%	4,878	1.29%
Commercial	48,535	13.06%	45,438	12.03%
Consumer and other	74,268	19.98%	72,778	19.27%
Total loans	371,751	100.00%	377,648	100.00%
Net deferred loan costs	2,883		2,835	
Less:				
Allowance for loan losses	3,496		3,778	
Net loans	$ 371,138		$ 376,705	

Table 5
Northeast Bancorp Consolidated
Maturities and Repricing of Loans ($ in thousands)
As of June 30, 2005

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	$42,869	$22,031	$23,633	$60,307	$148,840
Commercial	71,406	52,028	173	2,292	125,899
Construction	11,195	1,006	0	0	12,201
Non-mortgage loans:					
Commercial	33,390	33,371	1,955	0	68,716
Consumer and other	1,105	36,040	20,531	45,189	102,865
Total loans	$159,965	$144,476	$46,292	$107,788	$458,521

Type of interest rate:

Predetermined rate, maturity greater than 1 year	$ 219,429
Floating or adjustable rate due after one year	79,127
Total due after 1 year:	$ 298,556

Scheduled repayments are reported in the maturity category in which the payment is due. Demand loans and overdrafts are reported in one year or less. Maturities are based upon contract terms.

Table 6
Northeast Bancorp Consolidated
Summary of Loan Losses Experience
($ in thousands)

For Years Ended June 30,	2005	2004	2003	2002	2001
Average net loans outstanding during the period (1)	$452,951	$395,774	$380,948	$370,195	$381,922
Net loans at end of period (1)	$461,052	$432,594	$378,987	$374,634	$380,483
Allowance at beginning of period	$4,577	$4,016	$3,496	$3,778	$3,498
Loans charged-off during the period:					
Residential real estate	67	142	120	69	27
Commercial real estate	7	124	22	413	0

Commercial	389	49	130	200	69
Consumer and other	472	422	699	650	648
Total loans charged-off	935	737	971	1,332	744
Recoveries on loans previously charged-off:					
Residential real estate	0	60	41	8	16
Commercial real estate	10	34	55	39	29
Commercial	41	120	166	60	120
Consumer and other	109	122	138	101	78
Total recoveries	160	336	400	208	243
Net loans charged off during the period	775	401	571	1,124	501
Provision for loan losses	1,302	962	1,091	842	781
Allowance at end of period	$5,104	$4,577	$4,016	$3,496	$3,778
Ratio of net charge-offs to average loans outstanding	0.17%	0.10%	0.15%	0.30%	0.13%
Allowance as a percentage of total loans	1.11%	1.06%	1.06%	0.93%	0.99%
Allowance as a percentage of non-performing and non-accrual loans	300.59%	272.93%	219.57%	298.55%	104.11%

(1)Excludes loans held for sale.

Management believes that the allowance for loan losses is adequate.

For each period indicated, this table summarizes loans outstanding at the end of each period, the average amount of loans outstanding, changes in the allowance for loan losses, and other selected statistics.

Table 7
Northeast Bancorp Consolidated
Allowance for Loan Losses
($ in thousands)

	June 30, 2005		June 30, 2004		June 30, 2003	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Allocation of allowance for loan losses:						
Residential real estate	$ 730	32.46%	$ 636	32.10%	$ 516	33.33%
Commercial real estate	1,670	27.46%	989	29.74%	855	26.00%
Construction	69	2.66%	48	1.95%	7	1.92%
Commercial	753	14.99%	1,374	14.95%	1,640	17.96%
Consumer	1,737	22.43%	1,530	21.26%	998	20.79%
Unallocated	145	0.00%	0	0.00%	0	0.00%
Total	$ 5,104	100.00%	$ 4,577	100.00%	$ 4,016	100.00%

	June 30, 2002		June 30, 2001	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Allocation of allowance for loan losses:				
Residential real estate	$ 387	42.92%	$ 437	49.25%
Commercial real estate	1,122	21.63%	929	18.16%
Construction	55	2.41%	0	1.29%
Commercial	1,021	13.06%	620	12.03%
Consumer	911	19.98%	1,356	19.27%

Unallocated	0	0.00%	436	0.00%
Total	$ 3,496	100.00%	$ 3,778	100.00%
	====	=====	====	=====

This table shows how the allowance for loan losses was allocated for the periods indicated.

The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb possible loan losses based on evaluations of collectibility and prior loss experience. The evaluation takes into consideration such factors as changes in the nature and volume of the portfolio, overall portfolio quality, specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Management also obtains appraisals when considered necessary.

Table 8

Northeast Bancorp Consolidated

Non-performing Loans

($ in thousands)

	For Years Ended June 30,				
	2005	2004	2003	2002	2001
Non-accrual loans:					
Residential real estate	$ 515	$ 214	$ 568	$ 486	$ 577
Commercial real estate	33	47	524	254	1,635
Commercial loans	3	85	28	183	483
Consumer and other	60	101	76	161	390
Total non-accrual loans	611	447	1,196	1,084	3,085
Current non-accrual loans (1)	1,087	1,230	633	87	544
Total non-performing loans	1,698	1,677	1,829	1,171	3,629
Acquired assets	89	39	97	587	385
Total non-performing assets	$ 1,787	$ 1,716	$ 1,926	$ 1,758	$ 4,014
	=====	=====	=====	=====	=====
Non-performing loans to total loans	0.37%	0.39%	0.49%	0.31%	0.96%
Non-performing assets to total assets	0.31%	0.32%	0.41%	0.40%	0.93%

As of June 30, 2005, there were no troubled debt restructured loans.

See additional information concerning non-performing and impaired loans in note 3 of the consolidated financial statements as well as in the Management's Discussion and Analysis.

(1) As of June 30, 2005, comprised of commercial real estate loans of $834 thousand and commercial loans of $253 thousand.

Table 9

Northeast Bancorp Consolidated

Average Deposits ($ in thousands) and Rates

For Years Ended	June 30, 2005			June 30, 2004			June 30, 2003		
	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits
Average deposits:									
Non-interest bearing demand deposits	$ 37,841	0.00%	9.62%	$ 33,791	0.00%	10.11%	$ 29,699	0.00%	9.66%
Regular savings	29,056	0.79%	7.39%	28,361	0.86%	8.48%	23,253	1.16%	7.57%
NOW and money market	82,857	1.23%	21.06%	79,314	1.05%	23.73%	86,274	1.53%	28.07%
Time deposits	243,612	3.03%	61.93%	192,814	2.85%	57.68%	168,108	3.93%	54.70%
Total average deposits	$ 393,366	2.19%	100.00%	$ 334,280	1.97%	100.00%	$ 307,334	2.67%	100.00%
	======	====	=====	======	====	=====	======	====	=====

This table shows the average daily amount of deposits and average rates paid on such deposits for the periods indicated.

Table 10
Northeast Bancorp Consolidated
Maturities of Time Deposits $100,000 & Over
For Year Ended June 30, 2005
($ in thousands)

	Balance
3 months or less	$ 8,857
Over 3 through 6 months	3,024
Over 6 through 12 months	11,484
Over 12 months	26,937
Total time deposits $100,000 & over	$ 50,302

Table 11
Northeast Bancorp Consolidated
Repurchase Agreements
($ in thousands)

	For Years Ended June 30,					
	2005		2004		2003	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	$ 33,379	1.48%	$ 24,885	1.19%	$ 16,102	1.07%
Average outstanding during year	30,572	1.32%	25,052	1.12%	9,710	1.00%
Maximum outstanding at any month end	36,506		31,022		16,102	

These borrowings, which were scheduled to mature within 4 days, were collateralized by securities with the market value of $34,816,000 and amortized cost of $35,400,000 at June 30, 2005, a market value of $26,179,000 and amortized cost of $27,144,000 at June 30, 2004, and a market value of $22,395,000 and amortized cost of $22,225,000 at June 30, 2003. Securities sold under these agreements were under the control of the Company during 2005, 2004 and 2003.

Table 12
Northeast Bancorp Consolidated
FHLB Advances Due in 1 Year or Less
($ in thousands)

	For Years Ended June 30,					
	2005		2004		2003	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	$ 49,309	4.85%	$ 21,493	3.78%	$ 19,733	5.10%
Average outstanding during year	41,339	5.03%	21,214	4.55%	13,037	5.24%
Maximum outstanding at any month end	51,566		29,383		20,068	

This table shows the Federal Home Loan Advances the Company had due to mature in one year or less as of June 30, 2005, 2004 and 2003.

Table 13
Northeast Bancorp Consolidated
Maturities and Repricing of Earning Assets & Interest-bearing Liabilities
For Year Ended of June 30, 2005
($ in thousands)

	Term to Repricing or Maturity				
	Less Than 1 Year	1-5 Years	Over 5 Years	Total	% of Total
Interest earning assets:					

Investment securities	$ 1,937	$ 24,704	$ 47,705	$ 74,346	13.65%
Regulatory stock	-	-	7,050	7,050	1.29%
Short-term investments (1)	4,938	-	-	4,938	0.91%
Mortgage loans:					
Residential real estate:					
Fixed rate loans	194	2,499	83,635	86,328	15.84%
Variable loans	42,675	19,531	306	62,512	11.47%
Commercial real estate	71,407	52,028	2,465	125,900	23.11%
Construction	11,195	1,006	-	12,201	2.24%
Other loans:					
Commercial	33,389	33,371	1,955	68,715	12.61%
Consumer and other	1,105	36,041	65,720	102,866	18.88%
Total loans	159,965	144,476	154,081	458,522	84.15%
Total interest-earning assets	166,840	169,180	208,836	$ 544,856	100.00%
Interest-bearing liabilities:					
Customer deposits:					
NOW accounts	64,387	-	-	64,387	13.07%
Money market accounts	17,142	-	-	17,142	3.48%
Regular savings	29,807	-	-	29,807	6.05%
Certificates of deposit	134,857	109,959	211	245,027	49.74%
Total customer deposits	246,193	109,959	211	356,363	72.34%
Borrowings:					
Repurchase agreements	33,379	-	-	33,379	6.77%
Other borrowings	48,603	30,815	7,000	86,418	17.54%
Junior subordinated debentures	3,093	13,403	-	16,496	3.35%
Total borrowings	85,075	44,218	7,000	136,293	27.66%
Total interest-bearing liabilities	331,268	154,177	7,211	$ 492,656	100.00%
Interest sensitivity gap	(164,428)	15,003	201,625	$ 52,200	
Cumulative gap	(164,428)	(149,425)	52,200	$ 52,200	
Cumulative gap ratio	50.36%	69.22%	110.60%	110.60%	
Cumulative gap as a percentage of total assets	-28.55%	-25.95%	9.06%	9.06%	

(1) Includes FHLB overnight deposits, interest earning deposits and loans held for sale.

This table summarizes the anticipated maturities and repricing of the Company's earning assets and interest-bearing liabilities at June 30, 2005.

The Company's internal asset/liability analysis considers regular savings, NOW and money market accounts core deposits. Due to this consideration, the Company's internal asset/liability model has these core deposits designated in a five year or greater maturity category and not one year or less as the above schedule shows. Because of this difference, the Company does not consider its position to be as negative as presented in the schedule above.

Table 14
Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2005

	1st Qtr Sept. 30 2004	2nd Qtr Dec. 31 2004	3rd Qtr Mar. 31 2005	4th Qtr June 30 2005
Interest income				
Interest on loans	$ 6,830,932	$ 7,199,425	$ 7,428,522	$ 7,645,153
Interest & dividends on investments & available for sale securities	736,969	752,850	707,650	857,481
Total interest and dividend income	7,567,901	7,952,275	8,136,172	8,502,634

Interest expense

Interest on deposits	1,973,528	2,102,444	2,175,502	2,373,324
Interest on repurchase agreements	79,399	101,311	112,369	110,460
Interest on borrowings	957,474	928,893	970,297	994,151
Interest on trust preferred securities	281,151	301,056	249,286	256,203
Total interest expense	3,291,552	3,433,704	3,507,454	3,734,138
Net interest income	4,276,349	4,518,571	4,628,718	4,768,496
Provision for loan losses	300,137	299,984	400,554	300,925
Net interest income after provision for loan losses	3,976,212	4,218,587	4,228,164	4,467,571
Securities transactions	(947)	34,881	32,071	1,852
Other operating income	1,164,886	1,392,970	1,578,503	1,461,915
Other operating expense	3,753,814	4,534,355	4,203,748	4,192,257
Income before income taxes	1,386,337	1,112,083	1,634,990	1,739,081
Income tax expense	430,221	347,201	520,625	555,810
Net income	$ 956,116	$ 764,882	$ 1,114,365	$ 1,183,271
	======	======	======	======
Earnings per share:				
Basic	$ 0.38	$ 0.30	$ 0.44	$ 0.48
Diluted	$ 0.37	$ 0.30	$ 0.44	$ 0.46

Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2004

	1st Qtr Sept. 30 2003	2nd Qtr Dec. 31 2003	3rd Qtr Mar. 31 2004	4th Qtr June 30 2004
Interest income				
Interest on loans	$ 6,205,283	$ 6,287,851	$6,338,030	$ 6,470,156
Interest & dividends on investments & available for sale securities	425,746	584,343	658,132	690,045
Total interest and dividend income	6,631,029	6,872,194	6,996,162	7,160,201
Interest expense				
Interest on deposits	1,613,636	1,562,217	1,631,390	1,759,022
Interest on repurchase agreements	65,988	79,566	65,859	68,331
Interest on borrowings	1,167,169	1,121,860	998,696	1,002,734
Interest on trust preferred securities	176,520	187,245	261,918	316,630
Total interest expense	3,023,313	2,950,888	2,957,863	3,146,717
Net interest income	3,607,716	3,921,306	4,038,299	4,013,484
Provision for loan losses	240,000	240,802	240,256	240,880
Net interest income after provision for loan losses	3,367,716	3,680,504	3,798,043	3,772,604
Securities transactions	50,560	79,295	66,426	13,474
Other operating income	1,447,652	1,167,648	1,237,956	1,272,642
Other operating expense	3,527,891	3,605,424	3,582,953	4,082,804
Income before income taxes	1,338,037	1,322,023	1,519,472	975,916
Income tax expense	421,656	432,005	499,124	290,484
Net income	$ 916,381	$ 890,018	$ 1,020,348	$ 685,432
	======	======	======	======
Earnings per share:				
Basic	$ 0.36	$ 0.35	$ 0.40	$ 0.27
Diluted	$ 0.35	$ 0.34	$ 0.40	$ 0.26

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

Not applicable

Item 9A. **Controls and Procedures**

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 disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report.

We do not expect that our disclosure of 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 system, 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. If and when management learns that any control or procedure is not being properly implemented (a) it immediately reviews its controls and procedures to determine whether they are appropriate to accomplish the control objective and, if necessary, modify and improve its controls and procedures to assure compliance with our control objectives, (b) it takes immediate action to cause its controls and procedures to be strictly adhered to, (c) it immediately informs all relevant personnel throughout our organization, and (d) it implements in its managers' training program specific emphasis on such controls and procedures throughout the Company to assure compliance with such controls and procedures. The development, modification, improvement, implementation and evaluation of our systems of controls and procedures is a continuous project that requires changes and modification to them to remedy deficiencies, to improve training, and to improve implementation in order to assure the achievement of the overall control objectives.

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 disclosure controls and procedures as of the end of the period covered by this report were effective.

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 and material weaknesses.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 of Form 10-K with respect to our directors and executive officers is incorporated by reference from the information contained in the section captioned "Election of Directors" in the Company's definitive Proxy Statement for the 2005 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's 2005 fiscal year (the "2005 Proxy Statement"). Certain information with respect to executive officers is included in Part I, Item 4A of this report. The information required by Item 10 of Form 10-K with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the information contained in the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in 2005 Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference from the information contained in the sections captioned "Election of Directors - Compensation of Directors," "Compensation of Executive Officers," "Report on Executive Compensation" and "Certain Relationships and Related Transactions" in the 2005 Proxy Statement.

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

(a) The information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned "Security Ownership of Management and Certain Beneficial Owners" in the 2005 Proxy Statement

(b) The following table provided information about the Company's Common Stock that may be issued upon the exercise of stock options under all of the registrant's equity compensation plans in effect as of June 30, 2005.

	(a)	(b)	(c)
Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in the first column (a))

Equity compensation Plan approved by Security holders (1)	71,500	$ 12.31	178,500
Equity compensation Plan not approved by Security holders	0	$ 0.00	0

(1) Includes stock options granted or available under the following stockholder approved plans of 2001, 1999, 1992 and 1989 (the "Stock Option Plans").

Our Stock Option Plans provide for a proportionate adjustment to the number of shares reserved for issuance in the event of any stock dividend, stock split, combination, recapitalization, or similar event.

Item 13. **__Certain Relationships and Related Transactions__**

The information required by Item 13 of Form 10-K is incorporated by reference from the information contained in the section captioned "Certain Relationships and Related Transactions" in the 2005 Proxy Statement.

Item 14. **__Principal Accountant Fees and Services__**

The information required by Item 14 of Form 10-K is incorporated herein by reference from the information contained in the section "Relationship with Independent Accountants" in the 2005 Proxy Statement .

PART IV

Item 15. **__Exhibits and Financial Statement Schedules__**

(a) List of Financial Statements Filed as Part of This Report

The following financial statements are submitted herewith in response to Part II Item 8:

Consolidated Statements of Financial Condition as of June 30, 2005 and 2004

Consolidated Statements of Income for the years ended June 30, 2005, 2004 and 2003

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended June 30, 2005, 2004 and 2003

(b) Exhibits

The exhibits listed below are filed herewith or are incorporated herein by reference to other filings.

3.1 Conformed Articles of Incorporation of Northeast Bancorp, incorporated by reference to Exhibit 3.1 to Northeast Bancorp's Registration Statement on Form S-4 (No.333-31797) filed with the Securities and Exchange Commission.

3.2 Bylaws of Northeast Bancorp, incorporated by reference to Exhibit 3.2 to amendment No.1 to Northeast Bancorp's Registration Statement on Form S-4 (No.333-31797) filed with the Securities and Exchange Commission.

4.1 Form of Indenture with respect to Northeast Bancorp's Junior Subordinated Debentures, incorporated by reference to Exhibit 4.1 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

4.2 Form of Junior Subordinated Debentures (included in Exhibit 4.1), incorporated by reference to Exhibit 4.2 to Northeast Bancorp's Registration Statement of Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

4.3 Trust Agreement of NBN Capital Trust (including Certificate of Trust of NBN Capital Trust), incorporated by reference to Exhibit 4.3 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

4.4 Form of Amended and Restated Trust Agreement of NBN Capital Trust, incorporated by reference to Exhibit 4.4 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

4.5 Form of Preferred Securities of NBN Capital Trust (included in Exhibit 4.4), incorporated by reference to Exhibit 4.5 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

4.6 Form of Guarantee Agreement, incorporated by reference to Exhibit 4.6 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.

10.1* 1987 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Bethel Bancorp's Registration Statement on Form S-1 (No. 33-12815), filed with the Securities and Exchange Commission.

10.2* 1989 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp) is incorporated by reference to Exhibit 10.6 to Bethel Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994.

10.3* 1992 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Exhibit 10.7 to Bethel Bancorp's Annual Report on Form 10-K for the year ended June 30, 1992.

10.4* 1999 Stock Option Plan of Northeast Bancorp incorporated by reference to Exhibit 10 to Northeast Bancorp's Quarterly Report on Form 10-Q for quarter ended December 31, 1999.

10.5* 2001 Stock Option Plan of Northeast Bancorp incorporated by reference to Northeast Bancorp's

10.3	2001 Stock Option Plan of Northeast Bancorp incorporated by reference to Northeast Bancorp's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on March 31, 2002.
11	Statement regarding computation of per share earnings is submitted herewith as Exhibit 11.
21	A list of subsidiaries of Northeast Bancorp. **
23	The Consent of Baker Newman & Noyes, Limited Liability Company. **
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). **
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). **
32.1	Certificate of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

*	Management or compensation plan or arrangement required to be filed as an Exhibit pursuant to Item 15(b) of Form 10-K.
**	Exhibit filed herewith

With the exception of the information expressly incorporated herein by reference, the Company's 2005 Proxy Statement for the 2005 Annual Meeting of Shareholders is not to be deemed filed as part of this Annual Report on Form 10-K

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 26, 2005

By: /s/ James D. Delamater
James D. Delamater President

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.

Name	Title	Date
/s/ John B. Bouchard John B. Bouchard	Director	September 21, 2005
/s/ James P. Day James P. Day	Director	September 21, 2005
/s/ James D. Delamater James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 21, 2005
/s/ Ronald J. Goguen Ronald J. Goguen	Director	September 21, 2005
/s/ Philip C. Jackson Philip C. Jackson	Director	September 21, 2005
/s/ Judith W. Kelley Judith W. Kelley	Chairman of the Board	September 21, 2005
/s/ Pender J. Lazenby Pender J. Lazenby	Director	September 21, 2005
/s/ John Rosmarin John Rosmarin	Vice-Chairman of the Board	September 21, 2005
______________ John Schiavi	Director	
/s/ Stephen W. Wight Stephen W. Wight	Director	September 21, 2005
/s/ Dennis A. Wilson Dennis A. Wilson	Director	September 21, 2005
/s/ Robert S. Johnson Robert S. Johnson	Chief Financial Officer (Principal Financial and Accounting Officer)	September 21, 2005

EXHIBIT INDEX

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11	Statement regarding computation of per share earnings is submitted herewith as Exhibit 11.
21	A list of subsidiaries of Northeast Bancorp. **
23.1	The Consent of Baker Newman & Noyes, Limited Liability Company. **
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). **
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)). **
32.1	Certificate of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

*	Management or compensation or plan arrangement required to be filed as an Exhibit pursuant to Item 15 (b) of Form 10-K
**	Exhibit filed herewith

Exhibit 11. Statement Regarding Computation of Per Share Earnings

	Year Ended June 30, 2005	Year Ended June 30, 2004
EQUIVALENT SHARES:		
Weighted average shares outstanding	2,518,764	2,543,812
Total diluted shares	2,563,545	2,604,910
Net income	$ 4,018,634	$ 3,512,179
Basic earnings per share	$ 1.60	$ 1.38
Diluted earnings per share	$ 1.57	$ 1.35

Exhibit 21. Securities of Registrant

Name of Subsidiary	Jurisdiction of Incorporation	Year Acquired of Formed	Percentage of Voting Securities Owned
ASI Data Services Inc	Maine	1993	100%
Northeast Savings Bank, F.S.B. (and its 100% owned subsidiary, Northeast Bank Insurance Group, Inc.)	Maine	1987	100%
NBN Capital Trust	Delaware	1999	100%
NBN Capital Trust II	Delaware	2003	100%
NBN Capital Trust III	Delaware	2003	100%
NBN Capital Trust IV	Delaware	2004	100%

Exhibit 23. Consent of Independent Registered Public Accounting Firm

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northeast Bancorp
Lewiston, Maine

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-85206), (No. 33-32095), (No. 33-58538, (No. 33-32096) and (No. 33-87976) of Northeast Bancorp of our report dated August 11, 2005, with respect to the consolidated financial statements of Northeast Bancorp and Subsidiaries included in the Annual Report on Form 10-K for the year ended June 30, 2005.

Portland, Maine
September 26, 2005

/s/ Baker Newman & Noyes
Baker Newman & Noyes
Limited Liability Company

Exhibit 31.1. Certification of the Chief Executive Officer

Chief Executive Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, James D. Delamater, certify that:

1. I have reviewed this annual report on Form 10-K of Northeast Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 21, 2005

/s/ James D. Delamater
James D. Delamater
Chief Executive Officer

Exhibit 31.2 Certification of the Chief Financial Officer

Chief Financial Officer Certification
Pursuant To Section 302 Of
The Sarbanes-Oxley Act Of 2002

I, Robert S. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of Northeast Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 21, 2005 /s/ Robert S. Johnson
Robert S. Johnson
Chief Financial Officer

Exhibit 32.1. Certificate of the Chief Executive Officer

Certification of the Chief Executive Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Northeast Bancorp. (the "Company") on Form 10-K for the annual period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James D. Delamater, as Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and the periods covered by the Report.

A signed original of this written statement has been provided to Northeast Bancorp and will be retained by Northeast Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

September 21, 2005

/s/ James D. Delamater
James D. Delamater
Chief Executive Officer

Exhibit 32.2 Certificate of the Chief Financial Officer

Certification of the Chief Financial Officer Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Northeast Bancorp. (the "Company") on Form 10-K for the annual period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Johnson, as Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and the periods covered by the Report.

A signed original of this written statement has been provided to Northeast Bancorp and will be retained by Northeast Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.

September 21, 2005

/s/ Robert S. Johnson
Robert S. Johnson
Chief Financial Officer