

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10 - Q

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

For the quarter ended December 31, 1999

or

Transition report pursuant to Section 13 or 15 (d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 1 - 14588

Northeast Bancorp

(Exact name of registrant as specified in its charter)

Maine

01 - 0425066

(State or other jurisdiction of
incorporation or organization)

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

232 Center Street, Auburn, Maine

04210

(Address of principal executive
offices)

(Zip Code)

(207) 777 - 6411

Registrant's telephone number, including area code

Not Applicable

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Former name, former address and former fiscal year, if changed since last report

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 No

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date. Shares outstanding as of
February 1, 2000: 2,742,898 of common stock, \$1.00 par value per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Balance Sheets
(Unaudited)

	December 31, 1999	June 30, 1999
	-----	-----
Assets		
Cash and due from bank	\$ 7,776,735	\$ 4,963,985
Interest bearing deposits	433,929	345,585
Federal Home Loan Bank overnight deposits	3,614,000	6,784,000
Available for sale securities	24,093,686	18,054,317
Federal Home Loan Bank stock	6,184,000	5,680,500
Loans held for sale	118,184	311,600
Loans	364,171,362	318,986,247
Less allowance for loan losses	3,167,000	2,924,000
Net loans	361,004,362	316,062,247
Bank premises and equipment, net	4,769,233	5,037,026
Assets acquired through foreclosure	130,225	193,850
Goodwill (net of accumulated amortization of \$1,799,718 at 12/31/99 and \$1,662,588 at 6/30/99)	1,325,217	1,462,346
Other assets	6,364,148	5,487,449
Total Assets	\$ 415,813,719	\$ 364,382,905
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	\$ 238,727,661	\$ 219,364,035
Securities Sold Under Repurchase Agreements	16,078,044	11,867,839
Advances from Federal Home Loan Bank	123,678,957	103,881,716
Notes payable	0	687,500
Other Liabilities	2,633,145	1,898,700
Total Liabilities	381,117,807	337,699,790
Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Debentures	7,172,998	0
Shareholders' Equity:		
Common stock, \$1.00 par value, 15,000,000 shares authorized. 2,785,815 and 2,768,624 shares issued at 12/31/99 and 06/30/99, respectively. 2,761,944 and 2,768,624		

shares outstanding at 12/31/99 and 6/30/99, respectively.	2,785,815	2,768,624
Additional paid in capital	10,263,734	10,208,299
Retained earnings	15,490,494	14,145,720
Accumulated other comprehensive income (loss)	(827,452)	(439,528)
	<u>27,712,591</u>	<u>26,683,115</u>
Treasury Stock at cost, 23,871 and 0 shares outstanding at 12/31/99 and 6/30/99, respectively.	(189,677)	0
Total Shareholders' Equity	<u>27,522,914</u>	<u>26,683,115</u>
Total Liabilities and Shareholders' Equity	<u>\$ 415,813,719</u>	<u>\$ 364,382,905</u>
	=====	=====

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)

	Three Months Ended December 31,	
	1999	1998
Interest and Dividend Income		
Interest on FHLB overnight deposits	\$ 57,873	\$ 73,860
Interest on loans & loans held for sale	7,444,148	6,179,727
Interest on available for sale securities	347,267	177,051
Dividends on Federal Home Loan Bank stock	101,140	91,635
Other Interest Income	3,741	5,443
Total Interest Income	<u>7,954,169</u>	<u>6,527,716</u>
Interest Expense		
Deposits	2,550,342	2,157,908
Repurchase agreements	168,791	86,531
Trust preferred securities	73,932	0
Other borrowings	1,658,679	1,379,940
Total Interest Expense	<u>4,451,744</u>	<u>3,624,379</u>
Net Interest Income	<u>3,502,425</u>	<u>2,903,337</u>
Provision for loan losses	195,885	164,491
Net Interest Income after Provision for Loan Losses	<u>3,306,540</u>	<u>2,738,846</u>
Other Income		
Service charges	325,051	269,536
Net securities gains	20,697	47,699

Net gain on trading securities	0	5,120
Other	267,960	519,115
Total Other Income	613,708	841,470
Other Expenses		
Salaries and employee benefits	1,287,104	1,191,497
Net occupancy expense	221,494	219,399
Equipment expense	227,410	210,958
Goodwill amortization	68,564	74,094
Other	813,136	789,131
Total Other Expenses	2,617,708	2,485,079
Income Before Income Taxes	1,302,540	1,095,237
Income tax expense	465,796	394,669
Net Income	\$ 836,744	\$ 700,568
Earnings Per Common Share		
Basic	\$ 0.30	\$ 0.26
Diluted	\$ 0.30	\$ 0.25

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)

	Six Months Ended December 31,	
	1999	1998
Interest and Dividend Income		
Interest on FHLB overnight deposits	\$ 122,664	\$ 190,094
Interest on loans & loans held for sale	14,455,123	12,488,988
Interest on available for sale securities	640,390	371,438
Dividends on Federal Home Loan Bank stock	195,410	181,838
Other Interest Income	9,352	10,515
Total Interest Income	15,422,939	13,242,873
Interest Expense		
Deposits	4,886,065	4,287,652
Repurchase agreements	294,998	139,276
Trust preferred securities	73,932	0
Other borrowings	3,175,027	2,817,018
Total Interest Expense	8,430,022	7,243,946
Net Interest Income	6,992,917	5,998,927

Provision for loan losses	491,114	369,421
Net Interest Income after Provision for Loan Losses	6,501,803	5,629,506
Other Income		
Service charges	590,232	522,921
Net securities gains	25,861	58,490
Net gain on trading securities	0	10,732
Other	624,939	670,997
Total Other Income	1,241,032	1,263,140
Other Expenses		
Salaries and employee benefits	2,590,896	2,388,228
Net occupancy expense	448,943	354,309
Equipment expense	460,588	392,963
Goodwill amortization	137,129	148,187
Other	1,567,698	1,519,199
Total Other Expenses	5,205,254	4,802,886
Income Before Income Taxes	2,537,581	2,089,760
Income tax expense	899,116	753,155
Net Income	\$ 1,638,465	\$ 1,336,605
	=====	=====
Earnings Per Common Share		
Basic	\$ 0.59	\$ 0.49
Diluted	\$ 0.59	\$ 0.48

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
Six Months Ended December 31, 1999 and 1998
(Unaudited)

	Common Preferred Stock	Additional Stock at \$1.00 Par	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at June 30, 1998	999,988	2,614,285	9,258,107	12,331,595	(64,448)	--	25,139,527
Net income for six months							

ended December 31, 1998	--	--	--	1,336,605	--	--	1,336,605
Other comprehensive income, net of tax:							
Adjustment of valuation reserve for securities available for sale	--	--	--	--	(13,355)	--	(13,355)
Comprehensive income	--	--	--	--	--	--	1,323,250
Cash dividends declared on common stock	--	--	--	(277,364)	--	--	(277,364)
Cash dividends declared on preferred stock	--	--	--	(25,667)	--	--	(25,667)
Preferred Stock Converted to Common Stock	(999,988)	136,362	863,626	--	--	--	0
Common stock issued in connection with employee benefit and stock option plans	--	4,429	35,081	--	--	--	39,510
Balance December 31, 1998	\$ 0	\$2,755,076	\$10,156,814	\$ 13,365,169	\$ (77,803)	\$ 0	\$ 26,199,256
	=====	=====	=====	=====	=====	=====	=====
Balance at June 30, 1999	--	2,768,624	10,208,299	14,145,720	(439,528)	--	26,683,115
Net income for six months ended December 31, 1999	--	--	--	1,638,465	--	--	1,638,465
Other comprehensive income, net of tax:							
Adjustment of valuation reserve for securities available for sale	--	--	--	--	(387,924)	--	(387,924)
Comprehensive income	--	--	--	--	--	--	1,250,541
Cash dividends declared on common stock	--	--	--	(293,691)	--	--	(293,691)
Common stock issued in connection with employee benefit and option plans	--	17,191	55,435	--	--	5,446	78,072
Treasury stock purchased	--	--	--	--	--	(195,123)	(195,123)

Balance December 31, 1999	\$	0	\$2,785,815	\$10,263,734	\$ 15,490,494	\$ (827,452)	\$ (189,677)	\$ 27,522,914
		=====	=====	=====	=====	=====	=====	=====

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Cash Flow
(Unaudited)

	Six Months Ended December 31,	
	1999	1998
Cash provided by (used in) operating activities	\$ 1,990,699	\$ (338,406)
Cash flows from investing activities:		
FHLB stock purchased	(503,500)	--
Available for sale securities purchased	(8,172,527)	(8,699,888)
Available for sale securities matured	1,483,317	2,387,746
Available for sale securities sold	93,056	6,537,024
New loans, net of repayments & charge offs	(44,304,671)	(2,090,976)
Net capital expenditures	(144,084)	(672,016)
Assets acquired through foreclosure sold	276,324	299,163
Real estate held for investment sold	14,967	50,000
Net cash used in investing activities	(51,257,118)	(2,188,947)
Cash flows from financing activities:		
Net change in deposits	19,363,626	17,906,866
Net change in repurchase agreements	4,210,205	4,073,125
Dividends paid	(293,691)	(303,031)
Proceeds from stock issuance	78,072	39,510
Treasury Stock purchased	(195,123)	0
Net increase (decrease) in advances from Federal Home Loan Bank of Boston	19,797,241	(12,330,408)
Proceeds from issuance of guaranteed preferred beneficial interests in the Company's junior subordinated debentures	7,172,998	0
Payments for debt issued costs	(448,315)	0
Net change in notes payable	(687,500)	(152,778)
Net cash provided by financing activities	48,997,513	9,233,284
Net (decrease) increase in cash and cash equivalents	(268,906)	6,705,931
Cash and cash equivalents, beginning of period	12,093,570	12,151,966

Cash and cash equivalents, end of period	\$ 11,824,664	\$ 18,857,897
	=====	=====

Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits.

Supplemental schedule of noncash activities:

Net change in valuation for unrealized market value adjustments on available for sale securities	(387,924)	(13,355)
Net transfer from Loans to Other Real Estate Owned	0	153,657

Supplemental disclosure of cash paid during the period for:

Income taxes paid, net of refunds	844,000	856,000
Interest paid	8,228,312	7,298,563

NORTHEAST BANCORP AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 1999

1. Basis of Presentation

The accompanying unaudited condensed and consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended December 31, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2000. For further information, refer to the audited consolidated financial statements and footnotes thereto for the fiscal year ended June 30, 1999 included in the Company's Annual Report on Form 10-K.

2. Guaranteed Preferred Beneficial Interests in the Company's Junior

Subordinated Debentures

NBN Capital Trust ("NBNT"), a Delaware statutory trust, was created on October 4, 1999. The NBNT exists for the exclusive purpose of (i) issuing and selling Common Securities and Preferred Securities of NBNT (together the "Trust Securities"), (ii) using the proceeds of the sale of Trust Securities to acquire 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") issued by the Company, and (iii) engaging only in those other activities necessary, convenient, or incidental thereto (such as registering the transfer of the Trust Securities). Accordingly the Junior Subordinated Debentures will be the sole assets of the NBNT. The preferred securities accrue and pay distributions quarterly at an annual rate of 9.60% of the stated liquidation amount of \$7.00 per preferred security. The Company has fully and unconditionally guaranteed all of the obligations of NBNT. The

guaranty covers the quarterly distributions and payment on liquidation or redemption of the preferred securities, but only to the extent of funds held by NBNCT. The preferred securities are mandatorily redeemable upon the maturity of the Junior Subordinated Debentures on December 31, 2029 or upon earlier redemption as provided in the Indenture. The Company has the right to redeem the Junior Subordinated Debentures, in whole or in part on or after December 31, 2004 at a redemption price specified in the Indenture plus any accrued but unpaid interest to the redemption date. The Company owns all of the Common Securities of NBNCT, the only voting security, and as a result it is a subsidiary of the Company.

3. Securities

Securities available for sale at cost and approximate market values are summarized below.

	December 31, 1999		June 30, 1999	
	Cost	Market Value	Cost	Market Value
Debt securities issued by the U.S. Treasury and other U.S. Government corporations and agencies	\$ 595,182	\$ 592,885	\$ 596,626	\$ 598,445
Corporate bonds	201,393	195,441	201,916	199,527
Mortgage-backed securities	23,158,682	22,127,821	16,653,302	16,027,028
Equity securities	1,392,144	1,177,539	1,268,424	1,229,317
	<u>\$25,347,401</u>	<u>\$24,093,686</u>	<u>\$18,720,268</u>	<u>\$18,054,317</u>
	=====	=====	=====	=====
	December 31, 1999		June 30, 1999	
	Cost	Market Value	Cost	Market Value
Due in one year or less	\$ 495,182	\$ 495,182	\$ 496,626	\$ 497,820
Due after one year through five years	201,393	195,441	301,916	300,152
Due after five years through ten years	100,000	97,703	--	--
Mortgage-backed securities (including securities with interest rates ranging from 5.15% to 9.0% maturing September 2003 to November 2029)	23,158,682	22,127,821	16,653,302	16,027,028
Equity securities	1,392,144	1,177,539	1,268,424	1,229,317
	<u>\$25,347,401</u>	<u>\$24,093,686</u>	<u>\$18,720,268</u>	<u>\$18,054,317</u>
	=====	=====	=====	=====

4. Allowance for Loan Losses

The following is an analysis of transactions in the allowance for loan losses:

	Six Months Ended December 31,	
	1999	1998
Balance at beginning of year	\$ 2,924,000	\$ 2,978,000
Add provision charged to operations	491,114	369,421
Recoveries on loans previously charged off	103,484	63,954
	<u>3,518,598</u>	<u>3,411,375</u>
Less loans charged off	351,598	542,375
Balance at end of period	<u>\$ 3,167,000</u>	<u>\$ 2,869,000</u>

5. Advances from Federal Home Loan Bank

A summary of borrowings from the Federal Home Loan Bank is as follows:

December 31, 1999		
Principal Amounts	Interest Rates	Maturity Dates
\$ 84,000,000	4.49% - 6.78%	2000
3,761,031	5.38% - 6.49%	2001
7,385,660	5.97% - 6.30%	2002
5,739,305	5.69% - 6.67%	2003
1,792,961	5.55%	2004
9,000,000	5.25% - 6.65%	2005
12,000,000	5.40% - 5.68%	2008
<u>\$ 123,678,957</u>		
=====		
June 30, 1999		
Principal Amounts	Interest Rates	Maturity Dates
\$ 42,000,000	4.64% - 6.27%	2000
3,148,288	4.98% - 6.40%	2001
2,815,780	5.38% - 6.49%	2002
9,515,546	5.69% - 6.64%	2003
3,402,102	5.55% - 6.67%	2004
9,000,000	5.25% - 6.65%	2005

34,000,000	4.89% - 5.68%	2008
<hr/>		
\$ 103,881,716		
<hr/>		
=====		

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

Description of Operations

Northeast Bancorp (the "Company"), is a unitary savings and loan holding company registered with the Office of Thrift Supervision ("OTS") its primary regulator. The Company's principal asset is its wholly-owned banking subsidiary, Northeast Bank, FSB (the "Bank"), which has branches located in Auburn, Augusta, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond, Lewiston, and Lisbon Falls, Maine. The Bank also maintains a facility on Fundy Road in Falmouth, Maine, from which loan applications are accepted and investment, insurance and financial planning products services are offered. Although the Bank's deposits are primarily insured through the Bank Insurance Fund ("BIF"), deposits at the Brunswick branch, which represent approximately 22% of the Bank's total deposits at December 31, 1999 are SAIF-insured.

Northeast Bancorp through its subsidiary, Northeast Bank and the Bank's subsidiary Northeast Financial Services, Inc., provide a broad range of financial services to individuals and companies in western, midcoast and south-central Maine. Substantially all income and services are derived from banking products and services in Maine.

This Management's Discussion and Analysis of Financial Condition and Results of Operations presents a review of the material changes in the financial condition of the Company from June 30, 1999 to December 31, 1999, and the results of operations for the three and six months ended December 31, 1999 and 1998. This discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company. Accordingly, this section should be read in conjunction with the consolidated financial statements and the related notes and other statistical information contained herein.

Certain statements contained herein are not based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial condition and future prospects, loan loss reserve adequacy, simulation of changes in interest rates, prospective results of operations, capital spending and financing sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. 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", or other similar terms or variations on those terms, or future or conditional verbs such as "will", "may", "should", "could", and "would". Such forward-looking statements reflect the current view of management and are based on information currently available to them, and upon current expectations, estimates, and projections regarding the Company and its industry, management's

belief with respect there to, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors. Accordingly, actual results could differ materially from those set forth in 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. For a more complete discussion of such risks, please refer to the Company's Form 10-K for the year ended June 30, 1999 under the section entitled "Business-Forward-Looking Statements".

Financial Condition

Total consolidated assets were \$415,813,719 on December 31, 1999, which represents an increase of \$51,430,814 from June 30, 1999. The increase in assets is primarily due to loan growth. Loan volume during the six month period has been enhanced due to increased generation of consumer loans through the Bank's participation in indirect automobile loans and mobile home loans as well as increased volume in residential and commercial loans. The increase in loans has been funded with increased deposits, repurchase agreements, and Federal Home Loan Bank ("FHLB") borrowings. In this regard, total net loans and securities increased by \$44,942,115 and \$6,039,369, respectively, from June 30, 1999 to December 31, 1999, while cash equivalents decreased by \$268,906 during the same period. Total deposits and repurchase agreements increased by \$23,573,831 from June 30, 1999 to December 31, 1999. FHLB borrowings also increased by \$19,797,241 during the same period.

At December 31, 1999, the carrying value of securities available for sale by the Company was \$24,093,686, which is \$1,253,715 less than the cost of the underlying securities. The increase of \$6,039,639 in the cost of securities available for sale, from June 30, 1999 to December 31, 1999, was due to the Company purchasing mortgage-backed securities, taking advantage of the higher yields on these investments during the current increasing rate environment. The difference between the carrying value and the cost of the securities was primarily attributable to the decline in the market value of mortgage-backed securities due to rising interest rates. The net unrealized loss on mortgage-backed securities was \$1,030,861 at December 31, 1999. Substantially all of the mortgage-backed securities are high grade government backed securities. As in any long term earning asset in which the earning rate is fixed, the market value of mortgage-backed securities will fluctuate based on changes in market interest rates from the time of purchase. Since these mortgage-backed securities are backed by the U.S. Government, there is virtually no risk of loss of principal. Management believes that the yields currently received on this portfolio are satisfactory and intends to hold these securities for the foreseeable future. Management attributes the reduction of \$214,605 in the market value of equity securities to the decline on the market value of the Company's investments in preferred equity securities. Management reviews the portfolio of investments on an ongoing basis to determine if there has been an other-than-temporary decline in value. Some of the considerations management makes in the determination are market valuations of particular securities and economic analysis of the securities' sustainable market values based on the

underlying companies' profitability.

FHLB stock increased by \$503,500 from June 30, 1999 to December 31, 1999, due to the increase in FHLB borrowings. The FHLB requires institutions to hold a certain level of FHLB stock based on advances outstanding.

Total loans increased by \$45,185,115 for the six months ended December 31, 1999. From June 30, 1999 to December 31, 1999, the loan portfolio increased by \$12,396,532 in real estate mortgage loans, \$28,208,225 in consumer and other loans, and by \$4,580,358 in commercial loans. The increase in consumer loans was primarily due to the increased volume in indirect automobile loans and mobile home loans. The loan portfolio contains elements of credit and interest rate risk. The Bank primarily lends within its local market areas, which management believes helps them to better evaluate credit risk. The Bank's local market, as well as the secondary market, continues to be very competitive for loan origination volume. The local competitive environment and customer response to favorable secondary market rates have affected the Bank's ability to increase the loan portfolio. The Bank has supplemented its loan portfolio by purchasing mortgage loans locally and from other states. In December, 1999 the Bank purchased approximately \$3,200,000 of 1-4 family mortgages. The purchase consisted of 1-4 family adjustable rate mortgages secured by property located in the State of Tennessee. As the Bank expands its purchase of loans in other states, management researches the strength of the economy in the respective state and underwrites every loan before purchase. These steps are taken to better evaluate and minimize the credit risk of out-of-state purchases. Also, in an effort to increase loan volume, the Bank's offering rates for its loan products have been reduced to compete in the various markets. The Bank has experienced margin compression due to decreased loan rates and anticipates that the margin compression will continue for the foreseeable future until loan volume increases in the current rising interest rate environment.

At December 31, 1999, residential real estate mortgages consisting of owner-occupied residential loans made up 53% of the total loan portfolio, of which 38% of the residential loans are variable rate products, as compared to 60% and 48%, respectively, at December 31, 1998. Although the Bank has purchased fixed rate loans, it is management's intent, where market opportunities arise, to increase the volume in variable rate residential loans to reduce the interest rate risk in this area.

At December 31, 1999, 16% of the Bank's total loan portfolio balance is commercial real estate mortgages. Commercial real estate loans have minimal interest rate risk as 86% of the portfolio consists of variable rate products. At December 31, 1998, commercial real estate mortgages made up 18% of the total loan portfolio, of which 88% were variable rate products. The Bank tries to mitigate credit risk by lending in its local market area as well as maintaining a well collateralized position in real estate.

Commercial loans made up 11% of the total loan portfolio, of which 44% are variable rate instruments at December 31, 1999. At December 31, 1998 commercial loans made up 10% of the total loan portfolio, of which 53% were variable rate instruments. The repayment ability of commercial loans is highly dependent on the cash flow of the customer's business. The Bank mitigates losses by strictly adhering to the Company's underwriting and credit policies.

Consumer and other loans made up 20% of the loan portfolio as of December 31, 1999 which compares to 12% at December 31, 1998. Since these loans are

primarily fixed rate products, they have interest rate risk when market rates increase. These loans also have credit risk with minimal security. The increase in consumer loans was primarily due to increased volume in indirect automobile loans and mobile home loans, which together comprise approximately 89% of the total consumer loans. The consumer loan department underwrites all the indirect automobile loans and mobile home loans to mitigate credit risk. The Bank primarily pays a nominal one time origination fee on the loans. The fees are deferred and amortized over the life of the loans as a yield adjustment. Management attempts to mitigate credit and interest rate risk by keeping the products offered short-term, receiving a rate of return commensurate with the risk, and lending to individuals in the Bank's known market areas.

The Bank's allowance for loan losses was \$3,167,000 as of December 31, 1999 as compared to \$2,924,000 as of June 30, 1999, representing 0.87% and 0.92% of total loans, respectively. The Bank had non-performing loans totaling \$1,715,000 and \$1,144,000 at December 31, 1999 and June 30, 1999, respectively, which was 0.47% and 0.36% of total loans, respectively. The increase in the 1-4 family and commercial mortgage non-performing loan balances was due to the increase of two loans in each category. Management anticipates that the increase in non-performing commercial mortgages will be resolved during the current quarter with no anticipated losses. The Bank's allowance for loan losses was equal to 185% and 256% of the total non-performing loans at December 31, 1999 and June 30, 1999, respectively. At December 31, 1999, the Bank had approximately \$372,000 of loans classified substandard, exclusive of the non-performing loans stated above, that could potentially become non-performing due to delinquencies or marginal cash flows. These substandard loans decreased by \$369,000 when compared to the \$741,000 at June 30, 1999.

The following table represents the Bank's non-performing loans as of December 31, 1999 and June 30, 1999, respectively:

Description	December 31, 1999	June 30, 1999
1-4 Family Mortgages	\$ 448,000	\$ 293,000
Commercial Mortgages	1,026,000	654,000
Commercial Loans	147,000	0
Consumer Installment	94,000	197,000
Total non-performing	\$ 1,715,000	\$ 1,144,000

The following table reflects the quarterly trend of total delinquencies 30 days or more past due, including non-performing loans, for the Bank as a percentage of total loans:

12-31-99	09-30-99	06-30-99	03-31-99
1.15%	0.72%	0.76%	1.09%

At December 31, 1999, loans classified as non-performing of \$1,715,000 included approximately \$430,000 of loan balances 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.

The level of the allowance for loan losses as a percentage of total loans has decreased due to the increase of loan volume as well as the level of allowance for loan losses as a percentage of non-performing loans decreased due to the increase in non-performing loans at December 31, 1999, when compared to June 30, 1999. The Company has experienced good growth in the commercial and consumer loan portfolio during the December 31, 1999 quarter, however these type of loans have additional credit risk as compared to real estate mortgage loans. Although these types of loans have increased, the decrease in the allowance for loan losses as a percentage of total loans was supported by management's ongoing analysis of the adequacy of the allowance for loan losses. The increase in the delinquency percentage from September 30, 1999 to December 31, 1999 was due to an increase in the 30 day delinquent category of 1-4 family and commercial mortgages as well as consumer loans. Although delinquencies and non-performing loans increased during the quarter, management does not consider this to be a potential trend at this point in time. Classified loans are also considered in management's analysis of the adequacy of the allowance for loan losses. Based on reviewing the credit risk and collateral of classified loans, management has considered the risks of the classified portfolio and believes the allowance for loan losses is adequate.

On a regular and ongoing basis, management evaluates the adequacy of the allowance for loan losses. The process to evaluate the allowance involves a high degree of management judgement. 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.

Management believes that the allowance for loan losses is adequate considering the level of risk in the loan portfolio. While management uses its best judgement in recognizing loan losses in light of available information, there can be no assurance that the Company will not have to increase its provision for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgements about information available to them at the time of their examination. The Bank's most recent examination by the OTS was on November 30, 1998. At the time of the exam the regulators proposed no additions to the allowance for loan losses.

At December 31, 1999, the Bank had a total of \$130,225 in assets acquired through foreclosure as compared to \$193,850 as of June 30, 1999. The reduction in assets acquired through foreclosure was due to a sale of real estate property that was acquired through foreclosure.

Other assets increased by \$876,699 from June 30, 1999 to December 31, 1999. The increase was due to the increase in capitalized loan servicing rights and

the purchase of non-marketable investments as well as the deferred costs associated with the Company's trust preferred security offering.

Other liabilities increased by \$734,445 compared to June 30, 1999, due primarily to increases in accrued expenses and escrow accounts.

Capital Resources and Liquidity

The Bank continues to attract new local deposit relationships. The Bank utilizes, as alternative sources of funds, brokered certificate of deposits ("C.D.s") when national deposit interest rates are less than the interest rates on local market deposits. Brokered C.D.s are also used to supplement the growth in earning assets. Brokered C.D.s carry the same risk as local deposit C.D.s, in that both are interest rate sensitive with respect to the Bank's ability to retain the funds. The Bank also utilizes FHLB advances, as alternative sources of funds, when the interest rates of the advances are less than market deposit interest rates. FHLB advances are also used to fund short-term liquidity demands.

Total deposits were \$238,727,661 and securities sold under repurchase agreements were \$16,078,044 as of December 31, 1999. These amounts represent an increase of \$19,363,626 and \$4,210,205, respectively, compared to June 30, 1999. The increase in deposits was primarily due to the increase in time deposits. The increase in time deposits was attributable to various special offerings as well as normal growth from the branch market areas. The Bank has devoted additional staffing to increase its balances in repurchase agreements. Repurchase agreements enhances the Bank's ability to attain additional municipal and commercial deposits, improving its overall liquidity position in a cost effective manner. Brokered deposits represented \$19,068,780 of the total deposits at December 31, 1999, which increased by \$5,610,523 compared to the \$13,458,257 balance as of June 30, 1999. Cross selling strategies are employed by the Bank to enhance deposit growth. Even though deposit interest rates have remained competitive, the rates of return are potentially higher with other financial instruments such as mutual funds and annuities. Like other companies in the banking industry, the Bank will be challenged to maintain and or increase its core deposits.

Total advances from the FHLB were \$123,678,957 as of December 31, 1999, an increase of \$19,797,241 compared to June 30, 1999. The cash received from the increase in FHLB advances were utilized to fund the Bank's loan growth. The Bank has unused borrowing capacity from the FHLB through its advances program. The Bank's current advance availability, subject to the satisfaction of certain conditions, is approximately \$9,500,000 over and above the December 31, 1999 advances. Mortgages, free of liens, pledges and encumbrances are required to be pledged to secure FHLB advances. The Bank's ability to access principal sources of funds is immediate and with the borrowing capacity at the Federal Home Loan Bank, the normal growth in bank deposits and repurchase agreements and the immediate availability of the Bank's cash equivalents as well as securities available for sale, management believes that the Company's available liquidity resources are sufficient to support the Company's needs.

Total equity of the Company was \$27,522,914 as of December 31, 1999 as compared to \$26,683,115 at June 30, 1999. Book value per common share was \$9.97 as of December 31, 1999 as compared to \$9.64 at June 30, 1999. The total equity to total assets ratio of the Company was 6.62% as of December 31, 1999 and 7.32% at June 30, 1999.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), contains various provisions intended to capitalize BIF and also affects a number of regulatory reforms that impact all insured depository institutions, regardless of the insurance fund in which they participate. Among other things, FDICIA grants the OTS broader regulatory authority to take prompt corrective action against insured institutions that do not meet capital requirements, including placing undercapitalized institutions into conservatorship or receivership. FDICIA also grants the OTS broader regulatory authority to take corrective action against insured institutions that are otherwise operating in an unsafe and unsound manner.

FDICIA defines specific capital categories based on an institution's capital ratios. Although no capital requirements are imposed on the Company, the Bank is subject to such requirements established by the OTS. The OTS has issued regulations requiring a savings institution to maintain a minimum regulatory tangible capital equal to 1.5% of adjusted total assets, core capital of 3.0%, leverage capital of 4.0% and a risk-based capital standard of 8.0%. 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 December 31, 1999, the Bank met the definition of a well capitalized institution. There are no conditions or events since that notification that management believes has changed the institution's category.

At December 31, 1999, the Bank's regulatory capital, which includes capital downstreamed of \$4,000,000 by the parent as a result of a trust preferred security offering as described below, was in compliance with regulatory capital requirements as follows:

	Actual		For Capital Adequacy		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 1999:						
Tier 1 (Core) capital (to risk weighted assets)	\$ 31,212	10.64%	\$ 11,728	4.00%	\$ 17,593	6.00%
Tier 1 (Core) capital (to total assets)	\$ 31,212	7.53%	\$ 16,588	4.00%	\$ 20,734	5.00%
Total Capital (to risk weighted assets)	\$ 33,016	11.26%	\$ 23,457	8.00%	\$ 29,321	10.00%

Management believes that there are adequate funding sources to meet its future

liquidity needs for the foreseeable future. Primary among these funding sources are the repayment of principal and interest on loans, the renewal of time deposits, and the growth in the deposit base. Management does not believe that the terms and conditions that will be present at the renewal of these funding sources will significantly impact the Company's operations, due to its management of the maturities of its assets and liabilities.

During the quarter ended December 31, 1999, the Company also generated additional liquidity and funding through the issuance of certain debt instruments. In this regard, on October 4, 1999, the Company formed NBN Capital Trust, a Delaware statutory trust and a wholly-owned subsidiary of the Company (the "Trust"), for the purpose of (i) issuing and selling in common securities to the Company and its trust preferred securities to the public, and (ii) using the proceeds therefrom to purchase 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") from the Company. Accordingly, the Junior Subordinated Debentures are, and will be, the sole asset of the Trust. In the quarter ended December 31, 1999, the Trust sold \$7,172,998 of its trust preferred securities to the public and \$221,851 of its common securities to the Company. The Trust used the proceeds to purchase \$7,394,849 in principal amount of the Junior Subordinated Debentures issued by the Company. The Company will pay interest on the Junior Subordinated Debentures at a rate of 9.60% to the Trust at the end of each quarter, which is equal to the dividend rate payable to the holders of the Trust's preferred securities. The cost of the issuance of the preferred securities was approximately \$485,000 and is treated as a deferred asset and will be amortized over the life of the securities. Following the offer and sale of the Trust's securities, the Company owned and currently holds all of the outstanding common securities of the Trust, its only voting securities, and as a result the Trust is a subsidiary of the Company. The Company used the net proceeds of the offering, approximately \$6,700,000, for the following purposes: (i) contributed \$4,000,000 as additional capital for the Bank, (ii) allocated \$1,000,000 for the Company's stock buy-back program, (iii) paid off the remaining principal balance of \$535,000 on its note payable, and (iv) retained the remaining \$1,200,000 for general corporate requirements as they may arise from time to time.

The Company downstreamed \$4,000,000 of the funds received from the junior subordinated debentures to the Bank. The funds are allowed under the Office of Thrift Supervision regulations to be used as capital at the Bank. As discussed above, these funds have increased the regulatory capital position at the Bank and is reported in the capital adequacy chart above. The increase in regulatory capital will allow the Bank to fund loan growth for the foreseeable future.

In December 1999, the Board of Directors of Northeast Bancorp approved a plan to repurchase up to \$2,000,000 of its common stock. Under the common stock repurchase plan, Northeast Bancorp may purchase shares of its common stock from time to time in the open market at prevailing prices. Repurchased shares will be held in treasury and may be used in connection with employee benefits and other general corporate purposes. The Company does not believe that the current market price for its common stock adequately reflects full value and believes that the purchase of its common stock from time to time in the market is a good investment and use of its funds.

Cash provided by operating activities in the consolidated statements of cash flow increased by \$2,329,105 from December 31, 1998 to December 31, 1999 as a result of the increase in net income and the adjustments to reconcile net income to net cash provided by operating activities. The reconciling items

that increased operating activities were the market value adjustment of available for sale securities, the provision and recoveries to the loan loss allowance and the depreciation expense for premises and equipment.

Results of Operations

Net income for the quarter ended December 31, 1999 was \$836,744 or basic and diluted earnings per share of \$0.30, respectively. This compares to earnings of \$700,568 or basic earnings per share of \$0.26 and diluted earnings per share of \$0.25 for the quarter ended December 31, 1998. Net income for the six months ended December 31, 1999 was \$1,638,465 versus \$1,336,605 for the period ended December 31, 1998. Basic and diluted earnings per share were \$.59, respectively, for the six months ended December 31, 1999 versus basic earnings per share of \$.49 and diluted earnings per share of \$.48 for the period ended December 31, 1998.

The Company's net interest income was \$6,992,917 for the six months ended December 31, 1999, as compared to \$5,998,927 for the six months ended December 31, 1998, an increase of \$993,990. Total interest income increased \$2,180,066 during the six months ended December 31, 1999 compared to the six months ended December 31, 1998. Loan interest income increased by \$1,264,421 and \$1,966,135 for the three and six months ended December 31, 1999 compared to December 31, 1998, respectively. The increase in loan interest income was primarily due to the increased volume in consumer loans during the three and six month periods ended December 31, 1999. The increase in interest income was due primarily from an increase in the volume of loans offset in part by a decrease in rates. The increase in total interest expense of \$1,186,076 for the six months ended December 31, 1999 was due primarily from the increased volume of deposits and borrowings offset in part by the decrease in rates.

The changes in net interest income are presented in the schedule below.

Northeast Bancorp

Rate/Volume Analysis for the six months ended
December 31, 1999 versus December 31, 1998

	Difference Due to		
	Volume	Rate	Total
Investments	\$ 252,211	\$ 29,827	\$ 282,038
Loans	2,276,065	(309,930)	1,966,135
FHLB & Other Deposits	(62,999)	(5,108)	(68,107)
Total	2,465,277	(285,211)	2,180,066
Deposits	890,421	(292,008)	598,413
Repurchase Agreements	159,821	(4,099)	155,722
Borrowings	453,255	(21,314)	431,941
Total	1,503,497	(317,421)	1,186,076
Net Interest Income	\$ 961,780	\$ 32,210	\$ 993,990

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Rate/Volume amounts spread proportionately between volume and rate.

The Company's business primarily consists of the savings and loan activities of the Bank. Accordingly, the success of the Company is largely dependent on its ability to manage interest rate risk. This is the risk that changes in interest rates may adversely affect net interest income. Generally, interest rate risk results from differences in repricing intervals or maturities between interest-earning assets and interest-bearing liabilities, the components of which comprise the interest rate spread. When such differences exist, a change in the level of interest rates will most likely result in an increase or decrease in net interest income. The Bank has shifted to a slightly liability sensitive position based on its own internal analysis which categorizes its core deposits as long term liabilities which are then matched to long term assets. As a result, the Bank will generally experience a contraction in its net interest margins during a period of increasing rates. Management is currently addressing the asset/liability mix to reposition the Bank to a slightly asset sensitive position.

Approximately 19% of the Bank's loan portfolio is comprised of floating rate loans based on a prime rate index. Interest income on these existing loans will increase as the prime rate increases, as well as on approximately 20% of other loans in the Bank's portfolio that are based on short-term rate indices such as the one-year treasury bill. An increase in short-term interest rates will also increase deposit and FHLB advance rates, increasing the Company's interest expense. Although the Company has experienced some net interest margin compression, the impact on net interest income will depend on, among other things, actual rates charged on the Bank's loan portfolio, deposit and advance rates paid by the Bank and loan volume.

The provision for loan losses for the six months ended December 31, 1999 increased by \$121,693 when compared to December 31, 1998. Management believes the increase in the provision for loan losses was prudent to mitigate potential credit risk, based on the growth in the loan portfolio.

Total non-interest income was \$613,708 and \$1,241,032 for the three and six months ended December 31, 1999 versus \$841,470 and \$1,263,140 for the three and six months ended December 31, 1998. The decrease in total non-interest income was primarily due to the decrease in other income. Service fee income was \$325,051 and \$590,232 for the three and six months ended December 31, 1999 versus \$269,536 and \$522,921 for the three and six months ended December 31, 1998. The \$55,515 and \$67,311 service fee increase for the three and six months ended December 31, 1999, respectively, was primarily due to an increase in loan servicing and deposit fee income. Gains from available for sale securities were \$20,697 and \$25,861 for the three and six months ended December 31, 1999 versus \$47,699 and \$58,490 for the three and six months ended December 31, 1998. The Company sold a larger volume of its available for sale securities during the three and six month period ended December 31, 1998, taking advantage of the fluctuation in market prices.

Other income was \$267,960 and \$624,939 for the three and six months ended December 31, 1999, which was a decrease of \$251,155 and \$46,058 when compared to other income of \$519,115 and \$670,997 for the three and six months ended December 31, 1998, respectively. The decrease in other income in the three and

six months ended December 31, 1999, was primarily due to gains from 1-4 family mortgage and indirect auto loan sales that occurred in 1998, which was offset by the increased fee income from trust and investment services.

Total non-interest expense for the Company was \$2,617,708 and \$5,205,254 for the three and six months ended December 31, 1999, which was an increase of \$132,629 and \$402,368, respectively, when compared to total non-interest expense of \$2,485,079 and \$4,802,886 for the three and six months ended December 31, 1998. The increase in non-interest expense for the three and six months ended December 31, 1999 as compared to the three and six months ended December 31, 1998 was due, in part, to the following items: (I) compensation expense increased for the three and six months ended December 31, 1999 and was primarily due to the additional staffing for the new branch opened in Lewiston, Maine, the increased commission paid to brokers in the investment sales division due to growth in sales revenue and increased costs associated with the Company's health insurance and benefit plans, (II) occupancy expense increased for the three and six month period due to the additional lease expense in opening the new Lewiston branch, (III) equipment expense increased for the three and six month period due to the expenses associated with opening the new Lewiston branch as well as the conversion of the mainframe hardware and software and tele-communication system.

Other expenses increased by \$24,005 and 48,499 for the three and six months ended December 31, 1999 compared to the three and six months ended December 31, 1998. The increase was primarily due to the following: an increase in professional fees due to increased legal and audit services, courier services and data operations services; an increase due to the Company's growth in tele-communication lines and fees; and an increase in loan and deposit expenses due to the costs associated with the growth of loans and deposits. These increases were offset by the reduction of the Company's other general expenses.

The Company's income tax expense increased by \$71,127 and \$145,961 for the three and six months ended December 31, 1999, when compared to the three and six months ended December 31, 1998. The increase in income tax expense is due to increased earnings before tax.

Impact of Inflation

The consolidated financial statements and related notes herein 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.

Year 2000

The Company addressed the Year 2000 issue and believes it has been successful. The Company has had no adverse affects to date regarding the century rollover period. There also has been no adverse implications from the Company's borrowers or depositors. The Company will continue to monitor for any affects of the Year 2000 issue during the current quarter, but management does not expect any adverse implications. As of December 31, 1999, the Company had

incurred approximately \$39,000 of capitalized purchases and \$106,600 of cumulative Year 2000 expenses.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in the Company's market risk from June 30, 1999. For information regarding the Company's market risk, refer to the Company's Annual Report on Form 10-K dated as of June 30, 1999.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

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

SUMMARY OF VOTING AT 11/09/99 ANNUAL SHAREHOLDERS' MEETING

At the Annual Meeting of Shareholders held in Auburn, Maine on November 9, 1999, the following matters were submitted to a vote of, and approved by, the Company's shareholders, each such proposal receiving the vote of the Company's outstanding common shares, as follows:

Proposal 1 - Election of Directors:

	Votes For	Votes Withheld
John W. Trinward, D.M.D.	2,255,260	82,089
John B. Bouchard	2,256,960	80,389
A. William Cannan	2,256,863	80,486
James D. Delamater	2,256,960	80,389
Ronald J. Goguen	2,256,960	80,389
Judith W. Hayes	2,249,960	87,389
Philip Jackson	2,256,960	80,389
Roland C. Kendall	2,256,960	80,389
John Rosmarin	2,255,960	81,389
John Schiavi	2,249,110	88,239
Stephen W. Wight	2,251,635	85,714
Dennis A. Wilson	2,256,960	80,389

Proposal 2 - Approval of Stock Plan. Proposal to approve and adopt the Northeast Bancorp 1999 stock Option Plan.

Votes For	Votes Against	Votes Abstain
2,166,676	151,717	18,956

Proposal 3 - Ratification of Appointment of Auditors. Proposal to ratify the appointment of Baker, Newman & Noyes, Limited Liability Company, as the Company's auditors for the 2000 fiscal year.

Votes For	Votes Against	Votes Abstain
2,328,520	5,800	3,029

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8 - K

(a) Exhibits

10 1999 Stock Option Plan of Northeast Bancorp

11 Statement regarding computation of per share earnings.

27 Financial data schedule

(b) Reports on Form 8 - K

On December 6, 1999, the Company filed a report on Form 8-K announcing an adoption of a Stock Repurchase Program.

SIGNATURES

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

Date: February 11, 2000

NORTHEAST BANCORP

By: /s/ James D. Delamater

James D. Delamater
President and CEO

By: /s/ Richard Wyman

Richard Wyman
Chief Financial Officer

NORTHEAST BANCORP
Index to Exhibits

EXHIBIT NUMBER	DESCRIPTION
10	1999 Stock Option Plan of Northeast Bancorp
11	Statement regarding computation of per share earnings
27	Financial data schedule

ARTICLE I
The Plan

1.1 Establishment of the Plan.

Northeast Bancorp, a Maine corporation (the "Company"), hereby establishes the "Northeast Bancorp 1999 Stock Option Plan" (hereinafter referred to as the "Plan"). The Plan permits the grant of incentives in the form of Nonqualified Stock Options, Incentive Stock Options, and any combination thereof. Unless otherwise defined, all capitalized terms have the meaning ascribed to them in Article II.

1.2 Purpose.

The purpose of the Plan is to advance the interests of the Company and its stockholders by offering officers, employees, and directors incentives that will promote the identification of their personal interests with the long-term financial success of the Company and with growth in shareholder value. The Plan is designed to strengthen the Company's ability to recruit, attract, and retain, highly qualified managers, consultants, and staff, and qualified and knowledgeable independent directors capable of furthering the future success of the Company by encouraging the ownership of Shares (as defined below) by such employees and directors and to strengthen the mutuality of interest between employees and directors, on one hand, and the Company's stockholders, on the other hand. The equity investments granted under the Plan are expected to provide employees with an incentive for productivity and to provide both employees and directors with an opportunity to share in the growth and value of the Company.

ARTICLE II
Definitions

As used in this Plan, unless the context otherwise requires, the following capitalized terms are defined as follows:

2.1 "Award" shall mean any award under this Plan of any Stock Option. Each separate grant of a Stock Option, and each group of Stock Options, which mature on a separate date is treated as a separate Award.

2.2 "Board" or "Board of Directors" means the Board of Directors of the Company, as constituted from time to time.

2.3 "Cause" means a determination by the Board of Directors that a

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Participant has: (a) engaged in any type of disloyalty to the Company, including without limitation fraud, embezzlement, theft, or dishonesty in the course of his or her employment or service, or has otherwise breached a duty owed to the Company, (b) been convicted of a misdemeanor involving moral turpitude or a felony, (c) pled nolo contendere to a felony, (d) disclosed trade secrets or confidential information of the Company to unauthorized parties, except as may be required by law, or (e) materially breached any material agreement with the Company, unless such agreement was materially breached first by the Company.

2.4 "Change of Control" shall have the meaning set forth in Section 7.2 of this Plan.

2.5 "Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder. Reference to any provision of the Code or rule or regulation thereunder shall be deemed to include any amended or successor provision, rule, or regulation.

2.6 "Committee" means the committee appointed by the Board in accordance with Section 3.1 of the Plan, if one is appointed, to administer this Plan. If no such committee has been appointed, the term Committee shall refer to the Board of Directors.

2.7 "Common Stock" or "Shares" means the shares of common stock, \$1.00 par value per share, of the Company.

2.8 "Company" shall mean Northeast Bancorp or any successor thereto as provided in Section 11.8 hereto.

2.9 "Date of Exercise" means the date on which the Company receives notice of the exercise of a Stock Option in accordance with the terms of Section 6.8 of this Plan.

2.10 "Date of Grant" or "Award Date" shall be the date on which an Award is made by the Committee under this Plan. Such date shall be the date designated in a resolution adopted by the Committee pursuant to which the Award is made; provided, however, that such date shall not be earlier than the date of such resolution and action thereon by the Committee. In the absence of a date of grant or award being specifically set forth in the Committee's resolution, or a fixed method of computing such date, then the Date of Grant shall be the date of the Committee's resolution and action.

2.11 "Director" means any person who is a member of the Board of Directors.

2.12 "Employee" means any person who is an officer or full-time employee of the Company or any of its Subsidiaries and who receives from it regular compensation (other than pension, retirement allowance, retainer, or fee under contract). An Employee does not include independent contractors or temporary employees.

2.13 "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time.

2.14 "Exercise Period" means the period during which a Stock Option may be exercised.

2.15 "Exercise Price" means the price for Shares at which a Stock Option may

be exercised.

2.16 "Fair Market Value" of a share of Common Stock on a particular date shall be the closing price for a share of Common Stock as quoted on the American Stock Exchange ("AMEX"), or the National Association of Securities Dealers Automated Quotation System National Market ("Nasdaq-NMS"), or any other national securities exchange on which the Common Stock is listed (as reported by the Wall Street Journal or, if not reported thereby, any other authoritative source selected by the Committee), or if there is no trading on that date, on the next preceding date on which there were reported share prices. If the Common Stock is quoted on any other inter-dealer quotation system (but not quoted by Nasdaq-NMS or any national securities exchange), then the Fair Market Value per Common Stock on a particular date shall be the mean of the bid and asked prices for a share of Common Stock as reported in the Wall Street Journal or, if not reported thereby, any other authoritative source selected by the Committee. If the Common Stock is not quoted by the Nasdaq-NMS or any other inter-dealer quotation system, and are not listed on any national securities exchange, then the "Fair Market Value" of a share of Common Stock shall be determined by the Committee pursuant to any reasonable method adopted by it in good faith for such purpose. In the case of an Incentive Stock Option, if the foregoing method of determining the fair market value is inconsistent with Section 422 of the Code, "Fair Market Value" shall be determined by the Committee in a manner consistent with the Code and shall mean the value as so determined.

2.17 "Incentive Stock Option" or "ISO" means any Stock Option awarded under this Plan intended to be and designated as an incentive stock option within the meaning of Section 422 of the Code.

2.18 "Non-Employee Director" shall have the meaning as set forth in, and interpreted under, Rule 16b-3(b)(3) promulgated by the SEC under the Exchange Act, or any successor definition adopted by the SEC.

2.19 "Nonqualified Stock Option" means any Stock Option awarded under this Plan which is not an Incentive Stock Option.

2.20 "Participant" means each Employee or Director to whom an Award has been granted under this Plan.

2.21 "Payment Shares" shall have the meaning set forth in Section 6.8(b) of this Plan.

2.22 "Person" shall mean an individual, partnership, corporation, limited liability company or partnership, trust, joint venture, unincorporated association, or other entity or association.

2.23 "Plan" means this Northeast Bancorp 1999 Stock Option Plan as defined in Section 1.1 hereof.

2.24 "SEC" means the Securities and Exchange Commission.

2.25 "Securities Act" means the Securities Act of 1933, as amended from time to time.

2.26 "Stock Option" means any Incentive Stock Option or Nonqualified Stock Option to purchase Common Stock that is awarded under this Plan.

2.27 "Stock Option Agreement" means the written agreement between the Company and a Participant implementing the grant of, and evidencing and reflecting the terms of, an Award.

2.28 "Subsidiary" or "Subsidiaries" means any corporation or corporations other than the Company organized under the laws of the United States or any other jurisdiction that the Board of Directors designates, in an unbroken chain of corporations beginning with the Company if each corporation other than the last corporation in the unbroken chain owns more than 50% of the total combined voting power of all classes of stock in one of the other corporation in such chain.

ARTICLE III Administration of the Plan

3.1 The Committee.

This Plan shall be administered by the Committee, subject to such terms and conditions as the Board may prescribe from time to time. Pursuant to applicable provisions of the Company's Articles of Incorporation, as amended, and Bylaws, the Committee, which shall be appointed by the Board, shall consist of no fewer than three (3) members of the Board. Members of the Committee shall serve for such period of time as the Board may determine. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause), and appoint new members, fill vacancies however caused, and remove all members and thereafter directly administer the Plan. During such times as the Company's Common Stock is registered under the Exchange Act, all members of the Committee shall be Non-Employee Directors and "outside directors" as defined under Section 162(m)(4)(C)(i) of the Code.

3.2 Duties and Powers of the Committee.

Subject to the express provisions of this Plan, the Committee shall have all the power and authority to, and shall be authorized to take any and all actions required, necessary, or desirable to administer the Plan. In addition to any other powers, subject to the provisions of the Plan, the Committee shall have the following powers:

- (a) subject to Section 3.3 of this Plan, to select the Employees and Directors to whom Awards may from time to time be granted pursuant to this Plan;
- (b) to determine all questions as to eligibility;
- (c) to determine the number of shares of Common Stock to be covered by each Award granted under this Plan;
- (d) subject to the limitations set forth in Section 4.1 of this Plan, to determine whether and to what extent Incentive Stock Options, Nonqualified Stock Options, or any combination thereof, are to be granted or awarded hereunder;
- (e) to determine the terms and conditions (to the extent not inconsistent with this Plan) of any Award granted hereunder, all provisions of each Stock Option Agreement, which provisions need not be identical (including,

but not limited to, the Exercise Price, the Exercise Period, any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, regarding any Stock Option or other Award and the Common Stock relating thereto, based on such factors as the Committee shall determine, in its sole discretion);

(f) to determine whether, and to what extent, and under what circumstances grants of Stock Options under this Plan are to operate on a tandem basis and/or in conjunction with or apart from other cash awards made by the Company outside of this Plan;

(g) to determine whether and under what circumstances a Stock Option may be settled in cash, Common Stock, or any combination thereof under Section 6.8 of this Plan;

(h) to determine whether, and to what extent, and under what circumstances shares of Common Stock under this Plan shall be deferred either automatically or at the election of the Participant;

(i) to prescribe, amend, waive, or rescind rules or regulations relating to the Plan's administration;

(j) to accelerate the vesting or Exercise Date of any Award, or to waive compliance by a holder of an Award of any obligation to be performed by such holder or the terms and conditions of an Award;

(k) to construe and interpret the provisions of the Plan or any Stock Option Agreement;

(l) to amend the terms of previously granted Awards so long as the terms as amended are consistent with the terms of the Plan and provided that the consent of the Participant is obtained with respect to any amendment that would be detrimental to the Participant;

(m) require, whether or not provided for in the pertinent Stock Option Agreement, of any person exercising a Stock Option, or otherwise receiving an Award, at the time of such exercise or receipt, the making of any representations or agreements that the Board of Directors or Committee may deem necessary or advisable in order to comply with the securities laws of the United States or of any applicable jurisdiction;

(n) to delegate to an appropriate officer of the Corporation the authority to select Employees for Awards and to recommend to the Committee the components of the Award to each, including vesting requirements, subject in each case to final approval by the Committee of the selection of the Employee and the Award;

(o) to authorize any person to execute on behalf of the Company any instrument required to effectuate an Award or to take such other actions as may be necessary or appropriate with respect to the Company's rights pursuant to Awards or agreements relating to the Awards or the exercise thereof; and

(p) to make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

3.3 Awards to Members of the Committee.

Each Award granted to a Director or members of the Committee shall be approved by the entire Board of Directors and shall be evidenced by minutes of a meeting or the written consent of the Board of Directors and a Stock Option Agreement.

3.4 Requirements Relating to Section 162(m) of the Code.

Any provision of this Plan notwithstanding: (a) transactions with respect to persons whose remuneration is subject to the provisions of Section 162(m) of the Code shall conform to the requirements of Section 162(m)(4)(C) of the Code unless the Committee determines otherwise; (b) the Plan is intended to give the Committee the authority to grant Awards that qualify as performance-based compensation under Section 162(m)(4)(C) of the Code as well as Awards that do not qualify; and (c) any provision of the Plan that would prevent the Committee from exercising the authority referred to in Section 3.4(b) of this Plan or that would prevent an Award that the Committee intends to qualify as performance-based compensation under Section 162(m)(4)(C) of the Code from so qualifying shall be administered, interpreted, and construed to carry out the Committee's intention and any provision that cannot be so administered, interpreted, and construed shall to that extent be disregarded.

3.5 Decisions Final and Binding.

All decisions, determinations, and actions taken by the Committee, and the interpretation and construction of any provision of the Plan or any Stock Option Agreement by the Committee shall be final, conclusive, and binding, unless otherwise determined by the Board.

3.6 Limitation on Liability.

Notwithstanding anything herein to the contrary, except as otherwise provided under applicable Maine law, no member of the Board of Directors or of the Committee shall be liable for any good faith determination, act, or failure to act in connection with the Plan or any Award hereunder.

ARTICLE IV

Shares Subject to the Plan

4.1 Number of Shares.

Subject to adjustment as provided in Section 4.4, the maximum aggregate number of Shares that may be issued under this Plan shall not exceed 135,000 Shares, which Shares may be either authorized but unissued Shares or Shares issued and thereafter reacquired by the Company. Stock Options awarded under the Plan may be either Incentive Stock Options or Nonqualified Stock Options, as determined by the Committee. Except as provided in Sections 4.2 and 4.3 of this Plan, Shares issued upon the exercise of an Award granted pursuant to the Plan shall not again be available for the grant of an Award hereunder.

4.2 Lapsed Awards.

If any Award granted under this Plan shall terminate, expire, lapse, or be cancelled for any reason without having been exercised in full, any unissued Shares which had been subject to the Stock Option Agreement relating thereto shall again become available for the grant of an Award under this Plan.

4.3 Delivery of Shares as Payment.

In the event a Participant pays the Exercise Price for Shares pursuant to the exercise of an Stock Option with previously acquired Shares, the number of Shares available for future Awards under the Plan shall be reduced only by the net number of new Shares issued upon the exercise of the Stock Option. Notwithstanding anything to the contrary herein, no fractional Shares will be delivered under the Plan.

4.4 Capital Adjustments.

(a) If by reason of a merger, consolidation, reorganization, recapitalization, combination of Shares, stock split, reverse stock split, stock dividend, separation (including a spin-off or split-off), or other such similar event, the number of outstanding Shares of the Company are increased, decreased, changed into, or been exchanged for a different number or kind of shares, or if additional shares or new and different shares are issued in respect of such Shares, the Committee in its sole discretion may adjust proportionately (i) the aggregate maximum number of Shares available for issuance under the Plan, (ii) the number and class of Shares covered by outstanding Awards denominated in Shares or units of Shares, (iii) the Exercise Price and grant prices related to outstanding Awards, and (iv) the appropriate Fair Market Value and other price determinations for such Awards.

(b) In the event of any other change in corporate structure affecting the Common Stock or any distribution (other than normal cash dividends) to holders of shares of Common Stock, such adjustments in the number and kind of shares and the exercise, grant, or conversion prices of the affected Awards as may be deemed equitable by the Committee shall be made to give proper effect to such event.

(c) In the event of a corporate merger, consolidation, or acquisition of property or stock, separation (including spin-offs and split-offs), reorganization or liquidation, the Committee shall be authorized to cause the Company to issue or assume stock options, whether or not in a transaction to which Section 424(a) of the Code applies, by means of substitution of new Stock Options for previously issued stock options or an assumption of previously issued stock options. In such event, the aggregate maximum number of Shares available for issuance under Section 4.1 of the Plan will be increased to reflect such substitution or assumption.

(d) If any adjustment made pursuant to this Article IV would result in the possible issuance of fractional Shares under any then-outstanding Award, the Committee may adjust the outstanding Awards so as to eliminate fractional Shares.

(e) Any adjustment to be made with respect to Incentive Stock Options shall comply with Sections 422 and 424 of the Code.

ARTICLE V Eligibility

Awards may be made to any Employee or Director, except that (a) only Employees (including employees who also serve as Director) may receive Incentive Stock Options, and (b) the grant of Awards to Directors must comply with Section 3.3. A Participant who has been granted an Award may be granted additional Awards.

ARTICLE VI
Stock Options

6.1 Stock Options.

Each Stock Option granted under this Plan shall be either an Incentive Stock Option or a Nonqualified Stock Option.

6.2 Grant of Stock Options.

Subject to the terms and provisions of this Plan, the Committee shall have the authority to grant to any Participant one or more Incentive Stock Options, Nonqualified Stock Options, or both kinds of Stock Options. Subject to Section 4.1 and Article V, the Committee has complete and sole discretion in determining the number of Shares subject to Stock Options to be granted to a Participant; provided, however, that the aggregate Fair Market Value (determined at the time the Award is made) of Shares with respect to which a Participant may first exercise ISOs granted under the Plan during any calendar year may not exceed \$100,000 or such amount as shall be specified under Section 422 of the Code and the rules and regulations promulgated thereunder. To the extent that any Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions or the time and manner of its exercise or otherwise), such Stock Options or portion thereof which does not qualify shall constitute a Nonqualified Stock Option. To the extent that a Stock Option is to be treated in part as an Incentive Stock Option and in part as a Nonqualified Stock Option, the Company may designate the Shares that are to be treated as Shares acquired pursuant to an Incentive Stock Option by issuing a separate certificate as Incentive Stock Option Shares in the stock transfer records of the Company. Stock Options granted at different times need not contain similar provisions.

6.3 Incentive Stock Options.

Anything in the Plan to the contrary notwithstanding, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended, or altered, nor shall any discretion or authority granted under this Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consents of the Participants affected, to disqualify any Incentive Stock Option under Section 422 of the Code.

6.4 Stock Option Agreement.

Each Stock Option granted under this Plan shall be evidenced by a Stock Option Agreement between the Company and the Participant in accordance with Section 6.2 that specifies the Exercise Price, the Exercise Period, the number of Shares to which the Stock Option pertains, method of exercise and the form of consideration payable therefor, any vesting requirements, any conditions imposed upon the exercise of the Stock Options in the event of retirement, death, disability, or other termination of service, and such other provisions and conditions, not inconsistent with this Plan, as the Committee may determine. Each Stock Option Agreement relating to a grant of Stock Options shall clearly specify whether the Stock Option is intended to be an Incentive Stock Option within the meaning of Section 422 of the Code, or a Nonqualified Stock Option not intended to be within the provisions of Section 422 of the Code.

6.5 Exercise Price.

The Exercise Price per Share purchasable under any Stock Option granted under this Plan shall be determined by the Committee at the Date of Grant, subject to the following limitations:

(a) In the case of a Stock Option intended to be an Incentive Stock Option, the Exercise Price shall not be less than 100% of the Fair Market Value of the Common Stock on the Date of Grant or, in the case of any optionee who, at the time such Incentive Stock Option is granted, owns Common Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent corporation or Subsidiaries, not less than 110% of the of the Fair Market Value of the Common Stock on the Date of Grant.

(b) In the case of a Stock Option intended to be a Nonqualified Stock Option, the Exercise Price shall not be less than 85% of the Fair Market Value of the Common Stock on the Date of Grant.

(c) In no event shall the Exercise Price of any Stock Option be less than the par value of the Common Stock.

6.6 Exercise Period.

The Exercise Period of each Stock Option granted shall be fixed by the Committee and shall be specified in the Stock Option Agreement; provided, however, that no Incentive Stock Option shall be exercisable later than ten years after the Award Date, and no Incentive Stock Option which is granted to any optionee who, at the time such Stock Option is granted, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent corporation or Subsidiaries, shall be exercisable after the expiration of five years from the Award Date.

6.7 Exercise of Stock Options.

Stock Options granted under the Plan shall be exercisable at such time or times and be subject to such terms and conditions as shall be set forth in the Stock Option Agreement (as may determined by the Committee at the time of such grant), which need not be the same for all Participants. Such terms and conditions may include performance criteria with respect to the Company or the Participant, and as shall be permissible under the other terms of the Plan. No Stock Option, however, shall be exercisable until the expiration of the vesting period, if any, set forth in the Stock Option Agreement. To the extent that no vesting conditions are stated in the Stock Option Agreement, the Stock Options represented thereby shall be fully vested at the Date of Grant.

6.8 Method of Exercise.

(a) Subject to the provisions of the Stock Option Agreement, Stock Options may be exercised in whole at any time, or in part from time to time with respect to whole Shares only, during the Exercise Period by the delivery to the Company of a written notice of intent to exercise the Stock Option, in such form as the Committee may prescribe, setting forth the number of Shares with respect to which the Stock Option is to be exercised; provided, however, that the minimum exercise amount permitted at any time shall be one hundred

(100) Shares. The Exercise Price, which shall accompany the written notice of exercise, shall be payable to the Company in full (along with the taxes described in the last sentence of this Section 6.8(a)) by the Participant who, if so provided in the Stock Option Agreement, may: (i) deliver cash or a check (acceptable to the Committee in accordance with guidelines established for this purpose) in satisfaction of all or any part of the Exercise Price; (ii) deliver, or cause to be withheld from the Stock Option, Shares valued at Fair Market Value on the Date of Exercise in satisfaction of all or any part of the Exercise Price, (iii) deliver any combination of cash and Shares, or (iv) deliver any other consideration and method of payment permitted under any laws to which the Company is subject, in each such case as the Committee may determine.

(b) If the Exercise Price is to be paid by the surrender of previously acquired and owned Common Stock, the Participant will make representations and warranties satisfactory to the Company regarding his title to the Common Stock used to effect the purchase (the "Payment Shares"), including, without limitation, representations and warranties that the Participant has good and marketable title to such Payment Shares free and clear of any and all liens, encumbrances, charges, equities, claims, security interests, options or restrictions, and has full power to deliver such Payment Shares without obtaining the consent or approval of any person or governmental authority other than those which have already given consent or approval in a manner satisfactory to the Company. If such Payment Shares were acquired upon previous exercise of Incentive Stock Options granted within two years prior to the exercise of the Stock Option or acquired by the Participant within one year prior to the exercise of the Stock Option, such Participant shall be required, as a condition to using the Payment Shares in payment of the Exercise Price of the Stock Option, to acknowledge the tax consequences of doing so, in that such previously exercised Incentive Stock Options may have, by such action, lost their status as Incentive Stock Options, and the Participant may recognize ordinary income for tax purposes as a result.

6.8 Transfer Restrictions.

Neither the Stock Options granted under the Plan nor any rights or interest in such Stock Options may be sold, pledged, hypothecated, assigned, or otherwise disposed of or transferred by such Participant, other than by will or by the laws of descent and distribution. Except as permitted by the Committee, during the lifetime of Participant to whom a Stock Option is granted, the Stock Options shall be exercisable only by him or her or, in the event of the Participant's permanent and total disability as determined by the Committee in accordance with applicable Company policies, by his or her legal representative.

6.10 Termination of Stock Options.

(a) Termination by Death. Unless the Committee provides otherwise in the Stock Option Agreement, if a Participant's employment or service with the Company or its Subsidiaries terminates by reason of death, then for a period of one year (or such other period as the Committee may specify at grant) from the date of such death or until the end of the Exercise Period of such Stock Option, whichever period is shorter, the Award may be exercised by the legal representative of the estate or by a person who acquires the right to exercise such Stock Option by bequest or inheritance, subject to the limitations of Section 6.11 with respect to Incentive Stock Options, to the extent that such

Participant was entitled to exercise the Award at the date of such death.

(b) Termination by Disability. Unless the Committee provides otherwise in the Stock Option Agreement, if a Participant's employment or service with the Company or its Subsidiaries terminates by reason of permanent and total disability, as determined by the Committee in accordance with applicable Company personnel policies, then for a period of one year (or such other period as the Committee may specify at grant) from the date of such termination of employment or service, or until the end of the Exercise Period of such Stock Option, whichever is shorter, the Award may be exercised by the Participant, or his or her legal representative, subject to the limitations of Section 6.11 with respect to Incentive Stock Options, to the extent that such Participant was entitled to exercise the Award at the date of such termination; provided, however, that, if the Participant dies within such one year period (or such other period as the Committee may specify at grant), then for a period of one year from the date of death or until the end of the Exercise Period of such Stock Option, whichever period is shorter, any unexercised Stock Options held by such Participant shall thereafter be exercisable to the extent to which they were exercisable at the time of such termination due to disability. In the event of termination of employment by reason of permanent and total disability, as determined by the Committee in accordance with applicable Company personnel policies, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code (currently one year from such termination), such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(c) Termination by Retirement. Unless the Committee provides otherwise in the Stock Option Agreement, if a Participant's employment or service with the Company or its Subsidiaries terminates by reason of normal or late retirement under any retirement plan of the Company or its Subsidiaries or, with the consent of Committee, then for a period of three months (or such other period as the Committee may specify at grant) from the date of such termination of employment or service, or until the end of the Exercise Period of such Stock Option, whichever is shorter, the Award may be exercised by the Participant, or his or her legal representative, subject to the limitations of Section 6.11 with respect to Incentive Stock Options, to the extent that such Participant was entitled to exercise the Award at the date of such termination; provided, however, that, if the Participant dies within such three month period, then for a period of one year from the date of death or until the end of the Exercise Period of such Stock Option, whichever period is shorter, any unexercised Stock Options held by such Participant shall thereafter be exercisable to the extent to which they were exercisable at the time of such retirement. In the event of termination of employment by reason of retirement pursuant to any retirement plan of the Company or its Subsidiaries or with the consent of the Committee, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code (currently three months from such termination), such Stock Option will thereafter be treated as a Nonqualified Stock Option.

(d) Other Termination of Employee. Unless otherwise determined by the Committee at or after grant and except as provided in Section 7.1 hereof, if a Participant's employment by the Company terminates for any reason other than death, disability, or retirement covered by Sections (a), (b), or (c) of this Plan: (i) any Stock Options that were not exercisable at the date of such termination (which date shall be determined by the Committee in its sole discretion) will expire automatically, and (ii) any Stock Options exercisable on the date of termination will remain exercisable only for the lesser of three

months or the balance of such Exercise Period of such Stock Option; provided, however, that the Participant was not involuntarily terminated by the Company for Cause. If the Participant dies within such three month period (or such other period as the Committee may specify at grant), then for a period of one year from the date of death or until the end of the Exercise Period of such Stock Option, whichever period is shorter, any unexercised Stock Options held by such Participant shall thereafter be exercisable to the extent to which they were exercisable at the time of such termination. Notwithstanding any other provision of this Plan except for Section 7.1 hereof, upon termination of a Participant's employment with the Company or any of its Subsidiaries for Cause, all of the Participant's unexercised Stock Options will terminate immediately upon the date of such termination (which date shall be determined by the Committee in its sole discretion) and the Participant shall forfeit all Shares for which the Company has not yet delivered share certificates to the Participant. In such event, the Company shall refund to the Participant the Exercise Price paid to it, if any, in the same form as it was paid (or in cash at the Company's discretion). The Company may withhold delivery of share certificates pending resolution of any inquiry that could lead to a finding that a termination of a Participant's employment was for Cause.

(e) Except as covered by Sections 6.10(a), (b), or (c) of this Plan, if a Participant serving as a Non-Employee Director terminates his or her service by resigning from the Board of Directors or by failing to run for election to an additional term as a Director after being offered nomination for an additional term by a nominating or similar committee of the Board of Directors (or in lieu of such committee, by the entire Board of Directors), then (i) any Stock Options that were not exercisable at the date of such termination of service will expire automatically, and (ii) any exercisable Stock Options as of such date held by the Participant may thereafter be exercised by the Participant for a period of three months from the date of such resignation or, in the case of a failure to run for election to an additional term, from (A) the date of such stockholder meeting at which such election of Directors takes place, or (B) until the end of the Exercise Period, whichever is shorter (or such other period as the Committee may specify at grant). If a Participant serving as a Non-Employee Director does not resign and is not offered nomination for an additional term, all Stock Options held by such Participant shall immediately vest on the date that the Participant's service as a Director of the Company terminates and such Stock Options shall be exercisable until the end of the Exercise Period for such Stock Options. Notwithstanding any other provision of this Plan, upon removal of a Director by shareholders of the Company for cause under applicable state law, all of the Participant's unexercised Stock Options will terminate immediately upon the date of such termination (which date shall be determined by the Committee in its sole discretion) and the Participant shall forfeit all Shares for which the Company has not yet delivered share certificates to the Participant. In such event, the Company shall refund to the Participant the Exercise Price paid to it, if any, in the same form as it was paid (or in cash at the Company's discretion).

6.11 Incentive Stock Option Limitations.

(a) To the extent that the aggregate Fair Market Value (determined as of the Date of Grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan and/or any other stock option plan of the Company or any Subsidiary or parent corporation (within the meaning of Section 425 of the Code) exceeds \$100,000, such Stock Options shall be treated as Stock Options

which are not Incentive Stock Options.

(b) To the extent (if any) permitted under Section 422 of the Code, or the applicable rules and regulations promulgated thereunder or any applicable Internal Revenue Service pronouncement, if (i) a Participant's employment with the Company or any Subsidiary is terminated by reason of death, disability, or retirement covered by Section 6.10(a), (b), or (c) of this Plan, and (ii) the portion of the Incentive Stock Option that is otherwise exercisable during the post-termination period specified under Sections 6.10(a), (b), or (c), applied without regard to the \$100,000 limitation currently contained in Section 422(d) of the Code, is greater than the portion of the Stock Option that is immediately exercisable as an "incentive stock option" during such post-termination period under Section 422 of the Code, such excess shall be treated as a Nonqualified Stock Option.

(c) In the event that the application of any of the provisions of Section 6.11 (a) or (b) of this Plan not be necessary in order for Stock Options to qualify as Incentive Stock Options, or should additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the stockholders of the Company.

6.12 Buy-Out and Settlement Provisions.

The Committee may at any time offer to buy-out a Stock Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time that such offer is made.

6.13 No Rights as Stockholder.

No Participant or transferee of a Stock Option shall have any rights as a stockholder of the Company with respect to any Shares subject to a Stock Option (including without limitation, rights to receive dividends, vote, or receive notice of meetings) prior to the purchase of such Shares by the exercise of such Stock Option as provided in this Plan. A Stock Option shall be deemed to be exercised and the Common Stock thereunder purchased when written notice of exercise has been delivered to the Company in accordance with Section 6.8 of the Plan and the full Exercise Price for the Shares with respect to which the Stock Options is exercised has been received by the Company, accompanied with any agreements required by the terms of the Plan and the applicable Stock Option Agreement; provided, however, that if the Participant has been terminated for Cause, only those shares of Common Stock for which a certificate has been delivered to the Participant by the Company will be deemed to be purchased by such Participant. Full payment may consist of such consideration and method of payment allowable under this Article VI of the Plan. No adjustment will be made for a cash dividend or other rights for which the record date precedes the Date of Exercise, except as provided in Section 4.4 of the Plan.

6.14 Sale of Common Stock Upon Exercise of Stock Option.

Unless the Committee provides otherwise in the Stock Option Agreement, Common Stock acquired pursuant to the exercise of Stock Option shall not be subject to any restrictions on transferability under this Plan, except as provided in Section 11.1 of this Plan. With respect to Common Stock acquired pursuant to the exercise of an Incentive Stock Option, a transfer or other disposition of such Common Stock by a Participant (other than by will or the laws of descent and distribution) may not qualify for favorable tax treatment under Section

421(a) of the Code if such transfer or other disposition shall occur before the expiration of the later of (i) the two year period commencing on the Date of Grant of the ISO, or (ii) the one year period commencing on the Date of Exercise of the ISO.

ARTICLE VII
Change of Control

7.1 Acceleration of Options; Lapse of Restrictions.

(a) In the event of a Change of Control of the Company, (i) each Stock Option then outstanding under the Plan shall be fully exercisable, regardless of any unsatisfied vesting requirements established under the terms of the pertinent Stock Option Agreements, and remain so for the duration of the Stock Option as specified in the Stock Option Agreement, and (ii) all conditions or restrictions related to an Award shall be accelerated or released; all in a manner, in the case of persons subject to Section 16(b) of the Exchange Act, as to conform with the provisions of Rule 16b-3 thereunder.

(b) Awards that remain outstanding after a Change of Control shall not be terminated as a result of a termination of service covered by Section 6.10, and shall continue to be exercisable until the end of the Exercise Period in accordance with their original terms, except in the case of a Participant's death in which case termination shall occur within one year from the date of death.

(c) Notwithstanding the foregoing, if any right granted pursuant to this Section 7.1 would make a Change of Control transaction ineligible for pooling of interests accounting treatment under applicable accounting principles that, but for this Section 7.1, would have been available for such accounting treatment, then the Committee shall have the authority to substitute stock for cash which would otherwise be payable pursuant to this Section 7.1 having a Fair Market Value equal to such cash.

7.2 Definition of Change of Control.

For purposes of this Plan, a "Change of Control" is deemed to have occurred if:

(a) any individual, entity, or group (within the meaning of Sections 13(d)(3) or 14(d)(2) of the Exchange Act), is or becomes, directly or indirectly, the "beneficial owner" (as defined by Rule 13d-3 promulgated under the Exchange Act) of 25% or more of the combined voting power of the then outstanding securities of the Company entitled to vote generally in the election of Directors ("Voting Securities"); provided, however, that any acquisition by the following will not constitute a Change of Control:

- (i) the Company or any of its Subsidiaries,
- (ii) any employee benefit plan (or related trust) of the Company or its Subsidiaries, or
- (iii) any corporation with respect to which, following such acquisition, more than 50% of the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors is then

beneficially owned by the Persons who were the beneficial owners of the Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership immediately prior to such acquisition of the Voting Securities; or

(b) (i) a tender offer or an exchange offer is made to acquire securities of the Company whereby following such offer the offerees will hold, control, or otherwise have the direct or indirect power to exercise voting control over 50% or more of the Voting Securities, or (ii) Voting Securities are first purchased pursuant to any other tender or exchange offer.

(c) as a result of a tender offer or exchange offer for the purchase of securities of the Company (other than such an offer by the Company for its own securities), or as a result of a proxy contest, merger, consolidation, or sale of assets, or as a result of a combination of the foregoing, during any period of two consecutive years, individuals who, at the beginning of such period constitute the Board, plus any new Directors of the Company whose election or nomination for election by the Company's stockholders was or is approved by a vote of at least two-thirds of the Directors of the Company then still in office who either were Directors of the Company at the beginning of such two year period or whose election or nomination for election was previously so approved (but excluding for this purpose, any individual whose initial assumption of office was or is in connection with the actual or threatened election contest relating to the election of Directors of the Company (as such term is used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act)), cease for any reason during such two year period to constitute at least two-thirds of the members of the Board; or

(d) the stockholders of the Company approve a reorganization, merger, consolidation, or other combination, with or into any other corporation or entity regardless of which entity is the survivor, other than a reorganization, merger, consolidation, or other combination, which would result in the Voting Securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or being converted into Voting Securities of the surviving entity) at least 60% of the combined voting power of the Voting Securities or of the voting securities of the surviving entity outstanding immediately after such reorganization, merger, consolidation; or other combination; or

(e) the stockholders of the Company approve a plan of liquidation or winding-up of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, or any distribution to security holders of assets of the Company having a value equal to 30% or more of the total value of all assets of the Company.

7.3 Occurrence of a Change of Control.

A Change of Control will be deemed to have occurred:

(a) with respect to any acquisition referred to in Section 7.2(a) above, the date on which the acquisition of such percentage shall have been completed;

(b) with respect to a tender or exchange offer, the date the offer referred to in Section 7.2(b)(i) above is made public or when documents are filed with the SEC in connection therewith pursuant to Section 14(d) of the Exchange Act, or the date of the purchase referenced in Section 7.2(b)(ii);

(c) with respect to a change in the composition of the Board of Directors referred to in Section 7.2(c), the date on which such change is adopted or is otherwise effective, whichever first occurs; or

(d) with respect to any stockholder approval referred to in Section 7.2(d) or (e), the date of any approval.

7.4 Application of this Article VII.

The provisions of this Article VII shall apply to successive events that may occur from time to time but shall only apply to a particular event if it occurs prior to the expiration of this Plan and each Award issued pursuant to this Plan.

ARTICLE VIII Amendment, Modification, or Termination of Plan

Insofar as permitted by applicable law, the Board, by resolution, shall have the power at any time, and from time to time, to amend, modify, suspend, terminate or discontinue the Plan or any part thereof. The Board is specifically authorized to amend the Plan and take such other action as it deems necessary or appropriate to comply with Section 162(m) of the Code and the rules and regulations promulgated thereunder. Such amendment or modification may be without stockholder approval except to the extent that such approval is required by the Code, or pursuant to the rules and regulations under the Section 16 of the Exchange Act, by any national securities exchange or inter-dealer quotation system on which the Shares are then listed, quoted, or reported, by any regulatory authority or board having jurisdiction with respect thereto, or under any applicable laws, rules, or regulations. Notwithstanding the provisions of this Article VIII, no termination, amendment, or modification of the Plan, other than those pursuant to Article IV hereof, shall in any manner adversely affect any Award theretofore granted under the Plan, without the written consent of the Participant so affected.

ARTICLE IX Modification, Extension, and Renewal of Stock Options and Awards

Subject to the terms and conditions, and within the limitations, of the Plan, the Committee may modify, extend, or renew outstanding Stock Options, prospectively or retroactively, or accept the surrender of outstanding Stock Options (to the extent not theretofore exercised) granted under the Plan or any other plan of the Company or a Subsidiary, and authorize the granting of new Stock Options pursuant to the Plan in substitution therefor (to the extent not theretofore exercised), and the substituted Stock Options may specify a lower exercise price or a longer term than the surrendered Stock Options or have any other provisions that are authorized by the Plan. Notwithstanding the foregoing provisions of this Article IX, (a) no amendment or modification of an Award which adversely affects the Participant shall not be made without the consent of the affected Participant, and (b) no Incentive Stock Option may be modified, amended, extended, or reissued if such action would cause it to cease to be an "Incentive Stock Option" within the meaning of Section 422 of the Code, unless the Participant specifically acknowledges and consents to the tax consequences of such action.

ARTICLE X
Indemnification of the Committee

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall not be liable for any act, omission, interpretation, construction, or determination made in good faith in connection with their administration of and responsibilities with respect to the Plan, and the Company hereby agrees to indemnify the members of the Committee against any claim, loss, damage, or reasonable expense, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit, or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted or made hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit, or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company and its Subsidiaries.

ARTICLE XI
General Provisions

11.1 Conditions Upon Issuance of Shares.

Shares shall not be issued pursuant to the exercise of an Stock Option unless the exercise of such Stock Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange or inter-dealer quotation system upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Committee may require each person purchasing or otherwise acquiring Shares pursuant to a Stock Option under the Plan to represent to and agree with the Company in writing to the effect that the Participant: (a) is acquiring the Shares for his or her own personal account, for investment purposes only, and not with an intent or a view to distribution within the meaning of Section 2(11) of the Securities Act (unless such shares have been issued to the Participant pursuant to a registration statement declared effective by the SEC), and (b) will not sell, assign, pledge, hypothecate, or otherwise dispose of or transfer the Shares to be issued upon exercise of such Option except as permitted by this Plan and except in compliance with the Securities Act and the securities laws of all other applicable jurisdictions, as supported by an opinion of counsel if so requested by the Committee. As a further condition to the issuance of such Shares, the Participant shall provide any other representation, warranty, or covenant as the Committee or its counsel deems necessary under the Securities Act and the securities laws of all other applicable jurisdiction. In addition to any legend required by this Plan, the certificates for the Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

11.2 Reservation of Shares.

The Company shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The Company

shall use its best efforts to seek to obtain from appropriate regulatory agencies any requisite authorization in order to issue and sell such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain from any such regulatory agency having jurisdiction the requisite authorization(s) deemed by the Company's counsel to be necessary for the lawful issuance and sale of any Shares hereunder, or the inability of the Company to confirm to its satisfaction that any issuance and sale of any Shares hereunder will meet applicable legal requirements, shall relieve the Company of any liability in respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

11.3 Limitation on Legal Rights.

The establishment of the Plan shall not confer upon any Employee or Director any legal or equitable right against the Company, except as expressly provided in the Plan.

11.4 Not a Contract of Employment.

This Plan is purely voluntary on the part of the Company, and the continuation of the Plan shall not be deemed to constitute a contract between the Company and any Participant, or to be consideration for or a condition of the employment or service of any Participant. Participation in the Plan shall not give any Employee or Director any right to be retained in the service of the Company or any of its Subsidiaries, nor shall anything in this Plan affect the right of the Company or any of its Subsidiaries to terminate any such Employee with or without cause.

11.5 Other Compensation Plans.

The adoption of the Plan shall not affect any other Stock Option or incentive or other compensation plans in effect for the Company or any of its Subsidiaries, nor shall the Plan preclude the Company or any Subsidiary from establishing any other forms of incentive or other compensation plan or arrangements for Employees or Director of the Company or any of its Subsidiaries.

11.6 Assumption by the Company.

The Company or its Subsidiaries may assume options, warrants, or rights to purchase shares issued or granted by other companies whose shares or assets shall be acquired by the Company or its Subsidiaries or which shall be merged into or consolidated with the Company or its Subsidiaries. The adoption of this Plan shall not be taken to impose any limitations on the powers of the Company or its Subsidiaries or affiliates to issue, grant, or assume options, warrants, rights, or restricted shares, otherwise than under this Plan, or to adopt other Stock Option or restricted share plans or to impose any requirements of shareholder approval upon the same.

11.7 Creditors.

The interests of any Participant under this Plan is not subject to the claims of creditors and may not, in any way, be assigned, alienated, or encumbered.

11.8 Plan Binding on Successors.

All obligations of the Company under this Plan and any Awards granted hereunder

shall be binding upon any successor and assign of the Company, whether the existence of such successor or assign is a result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

11.9 Unfunded Status of Plan.

This Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any Participant any rights that are greater than those of a general creditor of the Company.

11.10 Withholding.

(a) Tax Withholding.

The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any grant, exercise, or payment under or as a result of this Plan.

(b) Share Withholding.

To the extent the Code requires withholding upon the exercise of Nonqualified Stock Options, or upon the occurrence of any other similar taxable event, the Committee may permit or require, subject to any rules it deems appropriate, the withholding requirement to be satisfied, in whole or in part, with or without the consent of the participant, by having the Company withhold Shares having a Fair Market Value equal to the amount required to be withheld. The value of the Shares to be withheld shall be based on Fair Market Value of the Shares on the date that the amount of tax to be withheld is to be determined.

11.10 Singular, Plural; Gender.

Whenever used in this Plan, nouns in the singular shall include the plural, and vice versa, and the masculine pronoun shall include the feminine gender.

11.11 Headings.

Headings to the Sections and subsections are included for convenience and reference and do not constitute part of the Plan.

11.12 Costs.

The Company shall bear all expenses incurred in administering this Plan, including original issue, transfer, and documentary stamp taxes, and other expenses of issuing the Shares pursuant to Awards granted hereunder.

11.13 Governing Law.

This Plan and the actions taken in connection herewith shall be governed, construed, and administered in accordance with the laws of the State of Maine (regardless of the law that might otherwise govern under applicable Maine principles of laws).

ARTICLE XII

Effectiveness of the Plan

This Plan shall become effective on the date that it is adopted by both the Board of Directors; provided, however, that it shall become limited to a Nonqualified Stock Option Plan if it is not approved by the stockholders of the Company within one year (365 days) of its adoption by the Board of Directors, by a majority of the votes cast at a duly held stockholder meeting at which a quorum representing a majority of the Company's outstanding voting shares is present, either in person or by proxy. The Committee may make awards hereunder prior to stockholder approval of the Plan; provided, however, that any and all Stock Options awarded shall automatically be converted into Nonqualified Stock Options if the Plan is not approved by such stockholders within 365 days of its adoption by the Board of Directors.

ARTICLE XIII
Term of the Plan

Unless sooner terminated by the Board pursuant to Article VIII hereof, this Plan shall terminate ten (10) years from its effective date and no Awards may be granted after termination, but Awards granted prior to such termination may extend beyond that date. The Board of Directors may terminate this Plan at any time. The termination shall not affect the validity of any Stock Option outstanding on the date of termination.

Date Approved by Board of Directors: September 17, 1999

/s/ Suzanne M. Carney

Clerk Certification

Date Approved by the Stockholders: November 9, 1999

/s/ Suzanne M. Carney

Clerk Certification

NORTHEAST BANCORP
 Exhibit 11. Statement Regarding Computation of Per Share Earnings

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	Three Months Ended December 31, 1999	Three Months Ended December 31, 1998
	<hr/>	<hr/>
EQUIVALENT SHARES:		
Weighted Average Shares Outstanding	2,774,885	2,692,802
Total Diluted Shares	2,788,188	2,786,889
Net Income	\$ 836,744	\$ 700,568
Less Preferred Stock Dividend	0	8,167
	<hr/>	<hr/>
Income Available to Common Stockholders	\$ 836,744	\$ 692,401
	=====	=====
Basic Earnings Per Share	\$ 0.30	\$ 0.26
Diluted Earnings Per Share	\$ 0.30	\$ 0.25
	<hr/>	<hr/>
	Six Months Ended December 31, 1999	Six Months Ended December 31, 1998
	<hr/>	<hr/>
EQUIVALENT SHARES:		
Weighted Average Shares Outstanding	2,772,662	2,654,158
Total Diluted Shares	2,792,661	2,790,300
Net Income	\$ 1,638,465	\$ 1,336,605
Less Preferred Stock Dividend	0	25,667
	<hr/>	<hr/>
Income Available to Common Stockholders	\$ 1,638,465	\$ 1,310,938
	=====	=====
Basic Earnings Per Share	\$ 0.59	\$ 0.49
Diluted Earnings Per Share	\$ 0.59	\$ 0.48

6-MOS
JUN-30-2000
DEC-31-1999
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24,093,686
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0.59
3.509
1,715,000
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180,293
372,000
2,924,000
351,598
103,484
3,167,000
107,800
0
3,059,200