FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For fiscal year ended June 30, 1997

[ ] 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 (0-16123)

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)

Registrant's telephone number, including area code: (207) 777-6411

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

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

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

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, as of September 19, 1997, was $14,345,253. Although directors and executive officers of the registrant and its subsidiaries were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status.

As of September 19, 1997, 1,292,132 shares of the registrant's common stock were issued and outstanding.

DOCUMENTS INCORPORATED
BY REFERENCE

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

Document	Part
Proxy Statement for the	III

1997 Annual Meeting of
Shareholders

PART I

Item 1. Business

(a) General Development of Business

The Registrant, Northeast Bancorp (the "Company"), is a Maine Corporation chartered in April 1987 for the purpose of becoming a savings and loan holding company. The Office of Thrift Supervision ("OTS") is the Company's primary regulator. The Company has one wholly-owned banking subsidiary, Northeast Bank, FSB (the "Bank"), which has branches located in Auburn, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine.

In May of 1992, the Company entered into a Stock Purchase Agreement with Square Lake Holding Corporation ("Square Lake") and, on February 9, 1994, following receipt of regulatory and shareholder approval, the Company issued 71,428 shares of a newly designated Series B convertible preferred stock to Square Lake at an aggregate price of approximately $1 million, or $14.00 per share. As part of the transaction, the Company also issued Square Lake a warrant with a term of seven years to purchase 116,882 shares of the Company's common stock at a price of $14.00 per share. As a result of the exercise of certain of such warrants and the application of anti-dilution provisions pursuant to which such warrants were issued, 108,764 shares remain subject to such warrants at a purchase price of $7.00 per share. The Series B Preferred Stock is convertible into shares of the Company's common stock on a two-for-one basis and carries a dividend rate equal to 2% below the prime rate of The First National Bank of Boston, not to be less than 7%. The rights and preferences of the Series B Preferred Stock issued pursuant to this transaction are similar to, and on a parity with, the Company's Series A Preferred Stock.

In fiscal year 1993, the Company moved its headquarters from Bethel, Maine to Portland, Maine. The Company also acquired a controlling interest in ASI Data Services, Inc. ("ASI"), an existing company which provided sales and service of computer related hardware and software, as well as a full line of data processing support systems. On July 1, 1996, the operations of ASI, which consists primarily of providing data processing support to the Bank and the Company, were transferred to the Bank.

During fiscal 1995 the Company acquired four branches from Key Bank of Maine, located in Buckfield, Mechanic Falls, Richmond and Lisbon Falls, Maine. The total deposits and repurchase agreements acquired from the four branches were approximately $27,749,000. The premium paid to Key Bank of Maine for these deposits was $1,590,228. The cost of the real estate, buildings and equipment purchased from Key Bank of Maine was $498,500.

On July 1, 1996 the Company's then two wholly-owned banking subsidiaries, Bethel Savings Bank, F.S.B. ("Bethel"), a federally - chartered savings bank with its principal place of business in Bethel, Maine and Brunswick Federal Savings, F.A. ("Brunswick"), a federally - chartered savings association with its principal place of business in Brunswick, Maine merged following receipt of regulatory approval. The merged banking subsidiary was renamed Northeast Bank, FSB. In 1996, the Company amended its Articles of Incorporation to change its name from Bethel Bancorp to Northeast Bancorp and relocated its headquarters from Portland, Maine to 158 Court Street, Auburn, Maine.

In Fiscal 1997, the Company relocated its corporate headquarters and opened a new retail banking facility at 232 Center Street, Auburn, Maine. During fiscal 1997, there were no bankruptcy, receivership or similar proceedings with respect to the Company or the Bank.

On May 9, 1997 the Company entered into a definitive agreement to merge the Bank with Cushnoc Bank and Trust Company ("Cushnoc") of Augusta, Maine. The agreement has been approved by the Company's and Cushnoc's Board of Directors and is subject to approval by Cushnoc's shareholders at a special meeting to be held October 14, 1997. On August 29, 1997, the Company received approval from OTS, subject to certain conditions, to merge the Bank and Cushnoc. At March 31, 1997, Cushnoc had approximately $21,000,000 in total assets and $2,200,000 in stockholder's equity. Under the terms of the

agreement, the Company will issue 2.089 shares of common stock for each share of Cushnoc, which has 90,000 common shares outstanding. The acquisition will be accounted for under the pooling of interest method. The merger of Cushnoc and the Bank is expected to occur during the fourth quarter of Calendar 1997.

(b) Financial Information About Industry Segments

Not applicable.

(c) Narrative Description of Business

General

The Company is a unitary savings and loan holding company whose primary asset is its subsidiary, the Bank.

The Bank (which was formerly known as Bethel Savings Bank, F.S.B.), is a federally-chartered stock savings bank which was organized in 1872 as a Maine-chartered mutual savings bank and received its federal charter in 1984 and is the successor by merger to Brunswick Federal Savings, F.A., a federally-chartered savings association formed in 1988.

In connection with its conversion to a federal stock savings bank in 1984, the Bank retained its then-authorized powers as a Maine-chartered mutual savings bank. Under applicable federal regulations, the Bank may exercise any authority it was allowed to exercise as a mutual savings bank under state law and regulation at the time of its conversion to a federal savings bank. In exercising such "grandfathered" powers, the Bank may continue to comply with applicable state laws and regulations in effect at the time of its conversion to federal charter except as otherwise determined by the OTS. The Bank, however, may not use its grandfathered powers to engage in activities to a greater degree than would be allowed under the most liberal construction of either state or federal law or regulations.

Historically, Maine-chartered savings banks have had certain lending, investment and other powers only recently authorized for federal institutions, including commercial lending authority and the ability to offer personal checking and negotiable order of withdrawal (NOW) accounts. The Bank also has broader securities investment authority than other federal thrift institutions (i.e. savings banks and savings and loan associations) as a result of its retention of state powers.

The Bank's primary business has historically consisted of attracting savings deposits from the general public and applying these funds primarily to the origination and retention of first mortgage loans on residential real estate. Over the past several years, the Bank has concentrated its lending efforts on the origination of loans that are shorter-term or interest rate sensitive. Of the Bank's loan portfolio at June 30, 1997, 85% was invested in real estate loans (including residential, construction and commercial mortgage loans), 8% in commercial loans and 7% in consumer loans.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation

(the "FDIC"), primarily through the Bank Insurance Fund. Deposits at the Brunswick branch are insured through the Savings Association Insurance Fund and represent 33% of the Bank's total deposits at June 30, 1997. The Bank is a member of the Federal Home Loan Bank of Boston (the "FHLB").

At June 30, 1997, the legal lending limit of the Bank was approximately $2,800,000. When, on occasion, customers' credit needs exceed the Bank's lending limits, the Bank may seek participations of such loans with other banks.

Market Area and Competition

The Bank is headquartered in Auburn, Maine with full service branches in Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine. The Banks market area is characterized by a diversified economy and a strong emphasis on the tourist industry.

The banking business in the Bank's market areas has become increasingly competitive over the past several years. The Bank's major competitors in attracting deposits and lending funds consist principally of other Maine-based banks, regional and money center banks, and nonbank financial institutions. Many of the Banks' competitors are larger in size and possess greater financial resources.

The principal factors in competing for deposits are convenient office locations, flexible hours, interest rates and services, while those relating to loans are interest rates, the range of lending services offered and lending fees. Additionally, the Bank believes that the local character of its business and its "community bank" management philosophy will improve its ability to compete successfully in its market areas.

Regional Economic Environment

The state of Maine's economy, in which the Company operates, including the south central and mid-coast region of Cumberland, Androscoggin, and Sagadahoc counties, has stabilized with moderate growth.

Subsidiaries

The Company acquired a wholly-owned subsidiary, ASI Data Services, Inc. ("ASI")through two stock purchases during 1993-1994 for an aggregate purchase price of $465,840. ASI initially provided data processing services to the Company and its subsidiaries. The Company's board of directors voted to transfer the operations of ASI to the Bank as of July 1, 1996. ASI continues to exist as a separate legal entity, but is now inactive.

The Bank has one wholly-owned subsidiary, Northeast Financial Services Corporation, which was organized in 1982. Through Northeast Financial Services Corporation, the Bank has participated in certain real estate development projects. While the Bank does not actively pursue such projects, several projects of varying sizes have been undertaken in the past few years. Any proposed development project is examined for its profit potential and its ability to enhance the communities served by the Bank. There are no definitive plans for additional real estate development projects at the present time. At

June 30, 1997, investment in and loans to its subsidiary constituted 0.4% of the Company's total assets. The service corporation also supports the Bank's non-banking financial services through its relationship with Commonwealth Financial Services, Inc., ("Commonwealth") a fully licensed New York securities firm. The service corporation receives rental fee income, from Commonwealth, derived from the sales activity of local in-house security sales people. The service corporation has not invested in any assets in its business relationship with Commonwealth.

In 1994, Northeast Financial Services Corporation invested $375,000 of capital and became the majority owner of First New England Benefits, Inc.. In fiscal 1997, Northeast Financial Services purchased the remaining 37.5% of outstanding shares of First New England Benefits for $213,750. First New England Benefits has been merged into and will continue to operate as part of the Bank's trust division. First New England was an employee benefits consulting firm which specialized in the design and administration of qualified retirement and 401(k) plans.

Employees

As of June 30, 1997, the Company and its consolidated subsidiaries had 112 full-time and 21 part-time employees. The Company's employees are not represented by any collective bargaining unit. Relations between the Company and its employees are considered good.

Regulation

General

The Company, as a savings and loan holding company, is subject to regulation, examination and supervision by the OTS under the Home Owners Loan Act. The Company is also deemed a Maine financial institution holding company. As such, the Company is registered with the Maine Superintendent of Banking (the "Superintendent") and will be subject to periodic examinations and reporting requirements of the Superintendent.

Recent Developments in Savings Institution Regulation

Federal Deposit Insurance Corporation Improvement Act of 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which was enacted on December 19, 1991, contains various provisions intended to recapitalize the Bank Insurance Fund ("BIF") and also effects a number of regulatory reforms that will impact all insured depository institutions, regardless of the insurance fund in which they participate. Due to the FDICIA Act, SAIF insurance premiums were increased, commencing January 1,1991, to 0.23% of the assessment base. FIDICIA grants, among other things, the OTS broad regulatory authority to take prompt corrective action against insured institutions that do not meet capital requirements, including placing undercapitalized institutions into conservatorship or receivership or that are otherwise operating in an unsafe and unsound manner. Since the Bank exceeded all capital requirements at June 30, 1997, these provisions did not have any

significant impact on its operations. On September 5, 1995, the FDIC announced that the BIF was fully recapitalized at the end of May 1995. As a result, the premium rates for the healthiest banks (1A category) were decrease from 0.23% to 0.04% of the assessment base. During fiscal 1996, premium rates for the healthiest banks (1A category) were decreased from 0.04% to an annual fee of $2,000.

The Deposit Insurance Funds Act of 1996, which was enacted in September of 1996, amended the FDIC BIF-SAIF deposit insurance assessment on institution deposits. Legislation imposed a one-time assessment on institutions holding SAIF insured deposits on March 31, 1995, in an amount necessary for the SAIF to reach its 1.25% Designated Reserve ratio. Institutions with SAIF deposits were required to pay an assessment rate of 65.7 cents per $100 of domestic deposits held as of March 31, 1995. Commencing in 1997 and continuing through 1999, annual premium rates for the healthiest banks (1A category) are 1.29 cents for every $100 of domestic BIF insured deposits and 6.44 cents for every $100 of domestic SAIF insured deposits. Commencing in 2000 and continuing through 2017, banks will be required to pay a flat annual assessment of 2.43 cents for every $100 of domestic deposits. The Bank is 1A category bank. All of the Bank's deposits, except for the Brunswick's branch deposits, which represented 33% of the Bank's total deposits at June 30, 1997, are BIF insured.

Savings and Loan Holding Company Regulation

General.

Under the Home Owners Loan Act (the "HOLA"), as amended by the Financial Institution Return Recovery and Enforcement Act of 1989, the Director of the OTS is the operating head of the Federal Savings and Loan Insurance Corporation (the "FSLIC"), with jurisdiction over savings and loan holding companies. Thus, the Company, as a savings and loan holding company within the meaning of the HOLA, is now subject to regulation, supervision and examination by, and the reporting requirements of, the Director of the OTS.

The HOLA prohibits a savings and loan holding company such as the Company, directly or indirectly, or through one or more subsidiaries, from (I) acquiring control of, or acquiring by merger with or purchase of the assets of, another savings institution or a savings and loan holding company without the prior written approval of the Director of the OTS; (ii) acquiring more than 5% of the issued and outstanding shares of voting stock of another savings institution or savings and loan holding company, except as part of an acquisition of control approved by the Director of the OTS, as part of an acquisition of stock issued by an undercapitalized savings institution or its holding company approved by the Director of the OTS or except under certain specified conditions (such as an acquisition of stock in a fiduciary capacity) which negate a finding of control; or (iii) acquiring or retaining control of a financial institution that does not have SAIF or BIF insurance of accounts. The HOLA also allows the Director of the OTS to approve transactions resulting in the creation of multiple savings and loan holding companies controlling savings institutions located in more than one state in both supervisory and nonsupervisory transactions, subject to the requirement that, in nonsupervisory transactions, the law of the state in which the savings institution to be acquired is located must specifically authorize the proposed acquisition, by language to that effect and not merely by implication. As a result, the Company may, with the prior approval of the Director of the OTS, acquire control of a savings institution located in a state other than Maine if the

acquisition is expressly permitted by the laws of the state in which the savings institution to be acquired is located. No director, officer, or controlling shareholder of the Company may, except with the prior approval of the Director of the OTS, acquire control of any savings institution which is not a subsidiary of the Company. Restrictions relating to service as an officer or director of an unaffiliated holding company or savings institution are applicable to the directors and officers of the Company and its savings institution subsidiaries under the Depository Institution Management Interlocks Act.

Pursuant to the HOLA, transactions engaged in by a savings association or one of its subsidiaries with affiliates of the savings association generally are subject to the affiliate transaction restrictions contained in Sections 23A and 23B of the Federal Reserve Act in the same manner and to the same extent as such restrictions now apply to transactions engaged in by a member bank or one of its subsidiaries with affiliates of the member bank. Section 23A of the Federal Reserve Act imposes both quantitative and qualitative restrictions on transactions engaged in by a member bank or one of its subsidiaries with an affiliate, while Section 23B of the Federal Reserve Act requires, among other things, that all transactions with affiliates be on terms substantially the same, and at least as favorable to the member bank or its subsidiary, as the terms that would apply to, or would be offered in, a comparable transaction with an unaffiliated party. Exemptions from, and waivers, of, the provisions of Sections 23A and 23B of the Federal Reserve Act may be granted only by the Federal Reserve Board, but the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRRE Act"), authorizes the Director of the OTS to impose additional restrictions on transactions with affiliates if the Director determines such restrictions are necessary to ensure the safety and soundness of any savings institution.

Restrictions on Activities of Savings and Loan Holding Companies

The Company is a savings and loan holding company by virtue of its control of the Bank. Under applicable federal regulations, savings and loan holding companies and their noninsured subsidiaries are prohibited from engaging in any activities other than (I) furnishing or providing management services for the savings association; (ii) conducting an insurance agency or escrow business; (iii) holding, managing or liquidating assets owned or acquired from the savings association; (iv) holding or managing properties used or occupied by the savings association; (v) acting as trustee under deeds of trust; (vi) engaging in any other activity in which savings and loan holding companies were authorized by regulation to engage as of March 5, 1987; and (vii) engaging in any activity which the Board of Governors of the Federal Reserve System has permitted for bank holding companies under its regulations (unless the Director of the OTS, by regulation, prohibits or limits any such activity for savings and loan holding companies). The activities in which savings and loan holding companies were authorized by regulation to engage as of March 5, 1987 consist of activities similar to those permitted for service corporations of federally chartered savings institutions and include, among other things, various types of lending activities, furnishing or performing clerical, accounting and internal audit services primarily for affiliates, certain real estate development and leasing activities,underwriting credit life or credit health and accident insurance in connection with extension of credit by savings institutions or their affiliates and the performance of a range of other services primarily for their affiliates, their savings association subsidiaries and service corporation subsidiaries thereof. The activities which the Board

of Governors of the Federal Reserve System by regulation has permitted for bank holding companies generally consist of those activities that the Board of Governors of the Federal Reserve System has found to be so closely related to banking or managing or controlling banks as to be a proper incident thereto, and include, among other things, various lending activities, certain real and personal property leasing activities, certain securities brokerage activities, acting as an investment or financial advisor subject to certain conditions, and providing management consulting to depository institutions, subject to certain conditions. OTS regulations do not limit the extent to which savings and loan holding companies and their nonsavings institution subsidiaries may engage in activities permitted for bank holding companies pursuant to the regulations adopted by the Governors of the Federal Reserve System, although prior OTS approval is required to commence such activity whether de novo or by an acquisition (in whole or part) of a going concern.

The Company could be prohibited from engaging in any activity (including those otherwise permitted under the HOLA) not allowed for bank holding companies if the Bank fails to constitute a qualified thrift lender. See "Regulation -- Savings Institution Regulation -- Qualified Thrift Lender Requirement."

Savings Institution Regulation

General.

As a federally chartered institution, the Bank is subject to supervision and regulation by the Director of the OTS, the FHLBB's successor under the FIRRE Act. As a result of its conversion to a federal mutual savings bank in 1984, the Bank retains the then-authorized powers of a Maine-chartered mutual savings bank. Under OTS regulations, the Bank is required to obtain audits by independent accountants and to be examined periodically by the Director of the OTS. These examinations must be conducted no less frequently than every twelve (12) months. The Bank is subject to assessments by the OTS and the FDIC to cover the costs of such examinations. The OTS may revalue assets of the Bank, based upon appraisals, and require the establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets. The Director of the OTS is also authorized to promulgate regulations to ensure the safe and sound operations of savings institutions and may impose various requirements and restrictions on the activities of savings institutions. The FIRRE Act requires that all regulations and policies of the Director of the OTS for the safe and sound operations of savings institutions be no less stringent than those established by the Office of the Comptroller of the Currency (the "OCC") for national banks. The Bank is also subject to regulation and supervision by the FDIC, in its capacity as insurer of deposits in the Bank, to ensure the safety and soundness of the BIF and the SAIF. See "Regulation -- Savings Institution Regulation -- Insurance of Deposits."

Capital Requirements.

As required by amendments of the HOLA enacted as part of the FIRRE Act, the Director of the OTS has adopted capital standards which require savings institutions to maintain (I) "core capital" in an amount of not less than 3% of total assets, (ii) "tangible capital" in an amount not less than 1.5% of total assets and (iii) a level of risk-based capital equal to 8.0% of risk-weighted assets. The capital standards established for savings institutions must

generally be no less stringent than those applicable to national banks and must use all relevant substantive definitions used in the capital standards for national banks. Under the OTS regulations, the term "core capital" includes common stockholders equity, noncumulative perpetual preferred stock and related surplus, and minority interests in the equity accounts of consolidated subsidiaries, less intangible assets, other than certain amounts of supervisory goodwill, and up to 90% of the fair market value of readily marketable purchased mortgage servicing rights ("PMSRs") (subject to certain conditions). The term "tangible capital," for purposes of the HOLA, is defined as core capital minus intangible assets (as defined by the OCC for national banks), provided, however, that savings institutions may include up to 90% of the fair market value of readily marketable PMSRs as tangible capital (subject to certain conditions, including any limitations imposed by the FDIC on the maximum percentage of the tangible capital requirement that may be satisfied with such servicing rights). In determining compliance with capital standards, a savings institution must deduct from capital its entire investment in and loans to any subsidiary engaged as principal in activities not permissible for a national bank, other than subsidiaries (I) engaged in such nonpermissible activities solely as agent for their customers; (ii) engaged in mortgage banking activities, or (iii) that are themselves savings institutions, or companies the only investment of which is another savings institution, acquired prior to May 1, 1989. With respect to investments in and loans to subsidiaries engaged as of April 12, 1989 in activities not permitted for national banks, the required deduction from capital was to be phased-in over a period ending June 30, 1995.

In determining total risk-weighted assets for purposes of the risk-based requirement, (I) each off-balance sheet asset must be converted to its on-balance sheet credit equivalent amount by multiplying the face amount of each such item by a credit conversion factor ranging from 0% to 100% (depending upon the nature of the asset), (ii) the credit equivalent amount of each off-balance sheet asset and the book value of each on-balance sheet asset must be multiplied by a risk factor ranging from 0% to 100% (again depending upon the nature of the asset) and (iii) the resulting amounts are added together and constitute total risk-weighted assets. Total capital, for purposes of the risk-based capital requirement, equals the sum of core capital plus supplementary capital (which, as defined, includes, among other items, perpetual preferred stock, not counted as core capital, limited life preferred stock, subordinated debt, and general loan and lease loss allowances up to 1.25% of risk-weighted assets), less certain deductions. The amount of supplementary capital that may be counted towards satisfaction of the total capital requirement may not exceed 100% of core capital, and OTS regulations require the maintenance of a minimum ratio of core capital to total risk-weighted assets of at least 4.0%.

In August 1993, the OTS issued a final ruling adding an interest rate risk component for purposes of risk-based capital requirements. The interest rate risk component now takes into account, for risk-based capital purposes, the effect that a change in interest rates would have on the value of a savings institution's portfolio. The final rule and amendments became effective July 1, 1994.

Any insured depository institution which falls below the minimum capital standards must submit a capital restoration plan. In general, undercapitalized institutions will be precluded from increasing their assets, acquiring other institutions, establishing additional branches, or engaging in new lines of business without an approved capital plan and an agency determination that such

actions are consistent with the plan. Savings institutions that are significantly undercapitalized or critically undercapitalized are subject to additional restrictions and may be required to (I) raise additional capital; (ii) limit asset growth; (iii) limit the amount of interest paid on deposits to the prevailing rate of interest in the region where the institution is located; (iv) divest or liquidate any subsidiary which the OTS determines poses a significant risk; (v) order a new election for members of the board of directors; (vi) require the dismissal of a director or senior executive officer, or (vii) take such other action as the OTS determines is appropriate. Under FDICIA, the OTS is required to appoint a conservator or receiver for a critically undercapitalized institution no later than 9 months after the institution becomes critically undercapitalized, subject to a limited exception for institutions which are in compliance with an approved capital plan and which the OTS and the FDIC certify are not likely to fail.

FDICIA prohibits any depository institution that is not well capitalized from accepting deposits through a deposit broker. Previously, only troubled institutions were prohibited from accepting brokered deposits. The FDIC may allow adequately capitalized institutions to accept brokered deposits for successive periods of up to 90 days. FDICIA also prohibits undercapitalized institutions from offering rates of interest on insured deposits that significantly exceed the prevailing rate in their normal market area or the area in which the deposits would otherwise be accepted.

Capital requirements higher than the generally applicable minimum requirement may be established for a particular savings institution if the OTS determines that the institution's capital was or may become inadequate in view of its particular circumstances. Individual minimum capital requirements may be appropriate where the savings institution is receiving special supervisory attention, has a high degree of exposure to interest rate risk, or poses other safety or soundness concerns.

Qualified Thrift Lender Requirement.

In order for the Bank to exercise the powers granted to federally chartered savings institutions, and maintain full access to FHLB advances, it must constitute a "qualified thrift lender" ("QTL"). Pursuant to recent amendment effected by FDICIA, a savings institution will constitute a QTL if the institution's qualified thrift investments continue to equal or exceed 65% of the savings association's portfolio assets on a monthly average basis in 9 out of every 12 months. As amended by FDICIA, qualified thrift investments generally consist of (I) various housing related loans and investments (such as residential construction and mortgage loans, home improvement loans, mobile home loans, home equity loans and mortgage-backed securities), (ii) certain obligations of the FSLIC, the FDIC, the FSLIC Resolution fund and the RTC (for limited periods of time), and (iii) shares of stock issued by any Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association. In addition, the following assets may be categorized as qualified thrift investments in an amount not to exceed 20% in the aggregate of portfolio assets: (I) 50% of the dollar amount of residential mortgage loans originated and sold within 90 days of origination; (ii) investments in securities of a service corporation that derives at least 80% of its income from residential housing finance; (iii) 200% of loans and investments made to acquire, develop or construct starter homes or homes in credit needy areas (subject to certain conditions); (iv) loans for the purchase or construction of churches, schools, nursing homes and hospitals; and (v) consumer loans (in an amount up to 20% of portfolio assets). For purposes of the QTL test, as

amended by FDICIA, the term "portfolio assets" means the savings institution's total assets minus goodwill and other intangible assets, the value of property used by the savings institution to conduct its business, and liquid assets held by the savings institution in an amount up to 20% of its total assets.

OTS regulations provide that any savings institution that fails to meet the new QTL test must either convert to a national bank charter or limit its future investments and activities (including branching and payments of dividends) to those permitted for both savings institutions and national banks. Additionally, any such savings institution that does not convert to a bank charter will be ineligible to receive further FHL Bank advances and, beginning three years after the loss of QTL status, will be required to repay all outstanding FHL Bank advances and dispose of or discontinue any pre-existing investments and activities not permitted for both savings institutions and national banks. Further, within one year of the loss of QTL status, the holding company of a savings institution that does not convert to a bank charter must register as a bank holding company and will be subject to all statutes applicable to bank holding companies.

These penalties do not apply to a federal savings association, such as the Bank, which existed as a federal savings association on August 9, 1989 but was chartered before October 15, 1982 as a savings bank under state law.

Liquidity.

Under OTS regulations, savings institutions are required to maintain an average daily balance of liquid assets (including cash, certain time deposits, certain bankers' acceptances, certain corporate debt securities and highly rated commercial paper, securities of certain mutual funds and specified United States government, state or federal agency obligations) equal to a monthly average of not less than a specified percentage of the average daily balance of the savings institution's net withdrawable deposits plus short-term borrowings. Under the HOLA, this liquidity requirement may be changed from time to time by the Director of the OTS to any amount within the range of 4% to 10%, depending upon economic conditions and the deposit flows of member institutions, and the required ratio currently is 5%. OTS regulations also require each savings institution to maintain an average daily balance of short term liquid assets at a specified percentage (currently 1%) of the total of the average daily balance of its net withdrawable deposits and short-term borrowings.

Loans to One Borrower Limitations.

The HOLA, as amended by the FIRRE Act, generally requires savings institutions to comply with the loans to one borrower limitations applicable to national banks. National banks generally may not make loans to a single borrower in excess of 15% to 25% of their unimpaired capital and unimpaired surplus (depending upon the type of loans and the collateral therefor). The HOLA, as amended by the FIRRE Act, provides exceptions from the generally applicable national bank limits, under which a savings institution may make loans to one borrower in excess of such limits under one of the following circumstances: (I) for any purpose, in an amount not to exceed $500,000; (ii) to develop domestic residential housing units, in an amount not to exceed the lesser of $30 million or 30% of the savings institution's unimpaired capital and unimpaired surplus, provided other conditions are satisfied; or (iii) to finance the sale of real property which it owns as a result of foreclosure, in an amount not to exceed 50% of the savings institution's unimpaired capital and unimpaired surplus. In addition, further restrictions on a savings

institution's loans to one borrower may be imposed by the Director of the OTS if necessary to protect the safety and soundness of the savings institution. The new loans to one borrower limits apply prospectively to loan commitments issued after the date of enactment of the FIRRE Act, and legally binding loan commitments issued prior to that date in compliance with the pre-FIRRE Act limits may be funded even if the amount of the loan would cause the institution to exceed the FIRRE Act limits.

Pursuant to its authority to impose more stringent requirements on savings associations to protect safety and soundness, however, the OTS has promulgated a rule limiting loans to one borrower to finance the sale of real property acquired in satisfaction of debts to 15% of unimpaired capital and surplus. The rule provides that purchase money mortgages received by a savings association to finance the sale of such real property do not constitute "loans" (provided that the savings association is not placed in a more detrimental position holding the note than holding the real estate) and, therefore, are not subject to the loan-to-one-borrower limitations.

Commercial Real Property Loans.

Another of the FIRRE Act amendments to the HOLA limits the aggregate amount of commercial real estate loans that a federal savings institution may make to an amount not in excess of 400% of the savings institution's capital (as compared with the 40% of assets limitation in effect prior to the enactment of the FIRRE Act). However, the new limit does not require the divestiture of loans made prior to enactment of the FIRRE Act. The OTS has the authority to grant exceptions to the limit if the additional amount will not pose a significant risk to the safe or sound operation of the savings institution involved, and is consistent with prudent operating practices.

Regulatory Restrictions on the Payment of Dividends by Savings Institutions.

OTS regulations establish uniform treatment for all capital distributions by savings associations (including dividends, stock repurchases and cash-out mergers). Under the rules, a savings association is classified as a tier 1 institution, a tier 2 institution or a tier 3 institution, depending on its level of regulatory capital both before and after giving effect to a proposed capital distribution. A tier 1 institution (i.e., one that both before and after a proposed capital distribution has net capital equal to or in excess of its fully phased-in regulatory capital requirement) is allowed, subject to any otherwise applicable statutory or regulatory requirements or agreements entered into with regulators, to make capital distributions in any calendar year up to 100% of its net income to date during the capital year plus the amount that would reduce by one-half its surplus capital ratio (i.e., the percentage by which (x) its ratio of capital to assets exceeds (y) the ratio of its fully phased-in capital requirement to assets) as of the beginning of the calendar year, adjusted to reflect current earnings. No regulatory approval of the capital distribution is required, but prior notice has to be given to the OTS. A tier 2 institution (i.e., one that both before and after a proposed capital distribution has net capital equal to its then-applicable minimum capital requirement but would fail to meet its fully phased-in capital requirement either before or after the distribution) may make only limited capital distributions without prior regulatory approval. A tier 3 institution (i.e., one that either before or after a proposed capital distribution fails to meet its then-applicable minimum capital requirement) may not make any capital

distributions without prior OTS approval. In addition, the OTS may prohibit a proposed capital distribution, which otherwise would be permitted by the regulation, if the OTS determines that such a distribution would constitute an unsafe or unsound practice. Also, an institution meeting the tier 1 criteria which has been notified that it needs more than normal supervision will be treated as a tier 2 or tier 3 institution, unless the OTS deems otherwise.

Activities of Subsidiaries.

The FIRRE Act requires a savings institution seeking to establish a new subsidiary, acquire control of an existing company (after which it would be a subsidiary), or conduct a new activity through a subsidiary, to provide 30 days prior notice to the FDIC and the Director of the OTS and conduct any activities of the subsidiary in accordance with regulations and orders of the Director of the OTS. The Director of the OTS has the power to require a savings institution to divest any subsidiary or terminate any activity conducted by a subsidiary that the Director of the OTS determines is a serious threat to the financial safety, soundness or stability of such savings institution or is otherwise inconsistent with sound banking practices.

Insurance of Deposits.

Federal deposit insurance is required for all federal savings institutions. Federal savings institutions' deposits are insured to a maximum of $100,000 for each insured depositor by the BIF or the SAIF. As a FDIC-insured institution, the Bank is subject to regulation and supervision by the FDIC, to the extent deemed necessary by the FDIC to ensure the safety and soundness of BIF and SAIF. The FDIC is entitled to have access to reports of examination of the Banks made by the Director of the OTS and all reports of condition filed by the Bank with the Director of the OTS, and may require the Bank to file such additional reports as the FDIC determines to be advisable for insurance purposes. The FDIC may determine by regulation or order that any specific activity poses a serious threat to BIF or SAIF and that no BIF or SAIF member may engage in the activity directly. The FDIC is also authorized to issue and enforce such regulations or orders as it deems necessary to prevent actions of savings institutions that pose a serious threat to BIF or SAIF.

Insurance of deposits may be terminated by the FDIC after notice and hearing, upon finding by the FDIC that the savings institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, rule, regulation, order or condition imposed by, or written agreement with, the FDIC. Additionally, if insurance termination proceedings are initiated against a savings institution, the FDIC may temporarily suspend insurance on new deposits received by an institution under certain circumstances.

Effective December 19, 1992, FDICIA requires any company that controls an undercapitalized savings institution, in connection with the submission of a capital restoration plan by the savings institution, to guarantee that the institution will comply with the plan and to provide appropriate assurances of performance. The aggregate liability of any such controlling company under such guaranty is limited to the lesser of (I) 5% of the savings institution's assets at the time it became undercapitalized; or (ii) the amount necessary to bring the savings institution into capital compliance as of the time the institution fails to comply with the terms of its capital plan.

Federal Home Loan Bank System

The Federal Home Loan Bank System consists of 12 regional FHL Banks, each subject to supervision and regulation by the Federal Housing Finance Board (the "FHFB"), a new agency established pursuant to the FIRRE Act. The FHL Banks provide a central credit facility for member savings institutions. The Bank, as a member of the FHLB, is required to own shares of capital stock in that FHL Bank in an amount at least equal to 1% of the aggregate principal amount of their unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 1/20 of their advances (borrowings) from the FHL Bank, whichever is greater. The Bank is in compliance with this requirement. The maximum amount which the FHLB will advance fluctuates from time to time in accordance with changes in policies of the FHFB and the FHLB, and the maximum amount generally is reduced by borrowings from any other source. In addition, the amount of FHL Bank advances that a savings institution may obtain will be restricted in the event the institution fails to constitute a QTL. See "Regulation -- Savings Institution Regulation -- Qualified Thrift Lender Requirement."

Federal Reserve Board

Pursuant to the Depository Institutions Deregulation and Monetary Control Act of 1980 (the "Deregulation Act"), Federal Reserve Board regulations require savings institutions to maintain reserves against their net transaction accounts (primarily NOW accounts), subject to certain exemptions. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the OTS. Because required reserves must be maintained in the form of vault cash or a non-interest bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce the institution's interest-earning assets.

The Deregulation Act also gives savings institutions authority to borrow from the appropriate Federal Reserve Bank's "discount window." Current Federal Reserve regulations require savings institutions to exhaust all FHLB sources before borrowing from the Federal Reserve Bank. The FDICIA places limitations upon a Federal Reserve Bank's ability to extend advances to undercapitalized and critically undercapitalized depository institutions. The FDICIA provides that a Federal Reserve bank generally may not have advances outstanding to an undercapitalized institution for more than 60 days in any 120-day period.

Maine Law

Under Maine law, a Maine financial institution holding company such as the Company may not engage in any activity other than managing or controlling financial institutions, or other activities deemed permissible by the Superintendent. The Superintendent has by regulation determined that, with the prior approval of the Superintendent, a financial institution holding company may engage in those activities deemed closely related pursuant to Section 408 of the National Housing Act, unless that activity is prohibited by the Maine Banking Code or regulations.

Securities and Exchange Commission

The Company has registered its common stock with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended. As a result of such registration, the proxy and tender offer rules, periodic reporting requirements, insider trading restrictions and reporting requirements, as well as certain other requirements, of such Act are applicable.

Restrictions on the Payment of Dividends

The Maine Business Corporation Act permits the Company to pay dividends on its capital stock only from its unreserved and unrestricted earned surplus or from its net profits for the current fiscal year and the next preceding fiscal year taken as a single period.

Applicable rules further prohibit the payment of a cash dividend by the Company if the effect thereof would cause its net worth to be reduced below either the amount required for the liquidation account or the net worth requirements imposed by federal laws or regulations. The Company is prohibited from paying dividends on their capital stock if it is in default in the payment of any assessment to the FDIC.

Earnings appropriated to bad debt reserves for losses and deducted for federal income tax purposes are not available for dividends without the payment of taxes at the current income tax rates on the amount used.

Restrictions on the Acquisition of the Company

The savings and loan holding company provisions of the HOLA (the "Holding Company Provisions") provide that no company, "directly or indirectly or acting in concert with one or more persons, or through one or more subsidiaries, or through one or more transactions, may acquire "control" of an insured savings institution at any time without the prior approval of the OTS. In addition, any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation under the Holding Company Provisions and the regulations promulgated thereunder. "Control" in this context means ownership, control of, or holding proxies representing more than 25% of the voting shares of, an insured institution, the power to control in any manner the election of a majority of the directors of such institution or the power to exercise a controlling influence over the management or policies of the institution.

In addition, the Change in Bank Control Act (the "Control Act") provides that no "person," acting directly or indirectly or through or in concert with one or more other persons, may acquire "control" of an insured institution unless at least 60 days' prior written notice has been given to the OTS and the OTS has not objected to the proposed acquisition. "Control" is defined for this purpose as the power, directly or indirectly, to direct the management or policies of an insured institution or to vote 25% or more of any class of voting securities of an insured institution. Under both the Holding Company Provisions and the Control Act (as well as the regulations referred to below) the term "insured institutions" includes state and federally chartered SAIF-insured institutions, federally chartered savings banks insured under the

BIF and holding companies thereof.

OTS regulations establish a uniform set of regulations under both the Control Act and the Holding Company Provisions. Under these regulations, prior to obtaining control of an insured institution, a person (under the Control Act) must give 60 days notice to the OTS and have received no OTS objection to such acquisition of control, and a company (under the Holding Company Provisions) must apply for and receive OTS approval of the acquisition. "Control," for purposes of the regulations, means the acquisition of 25% or more of the voting stock (or irrevocable proxies for 25% of more of the voting stock) of the institution, control in any manner of the election of a majority of the institution's directors, or a determination by the OTS that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of an institution's voting stock, if the acquiror also is subject to any one of eight "control factors," constitutes a rebuttable determination of control under the new regulations. The determination of control may be rebutted by submission to the OTS, prior to the acquisition of stock or the occurrence of any other circumstance giving rise to such determination, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of an insured institution's stock after the effective date of the regulations must file with the OTS a certification that the holder is not in control of such institution, is not subject to a rebuttable determination of control and will take no action which would result in a determination or rebuttable determination of control without prior notice to or approval of the OTS, as applicable.

Other Regulations

The policies of regulatory authorities, including the Federal Reserve Board, the OTS and the FDIC, have had a significant effect on the operating results of financial institutions in the past and are expected to do so in the future. Policies of these agencies may be influenced by many factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and fiscal policies of the United States government. Supervision, regulation or examination of the Company and the Bank by such regulatory agencies is not intended for the protection of the Company's shareholders.

The United States Congress has periodically considered and adopted legislation which has resulted and could result in further deregulation of the Bank and other financial institutions. Such legislation could relax or eliminate geographic restrictions on banks and bank holding companies and could place the Company in more direct competition with other financial institutions, including mutual funds, securities brokerage firms and investment banking firms.

Statistical Disclosure

The additional statistical disclosure describing the business of the Company and the Banks required by Industry Guide 3 under the Securities Exchange Act of 1934, as amended, is provided in Item 8 b.

(d) Financial Information About Foreign and Domestic Operations and Export Sales

Not applicable.

Item 2. Properties

The only real property which the Company owns is the real estate in Auburn, Maine on which various operational functions are performed for the Bank. It utilizes the premises and equipment of the Bank with no payment of any rental fee to the Bank.

The Bank owns its branch offices in Bethel, Harrison, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine. The branch offices in Auburn and South Paris, Maine is leased.

Item 3. Legal Proceedings

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

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

Not applicable

PART II

Item 5. Market Prices of Common Stock and Dividends Paid

The common stock of Northeast Bancorp trades on the American Stock Exchange under the symbol NBN. The number of shares of common stock outstanding as of June 30, 1997 was 1,274,969. The number of stockholders of record as of September 19, 1997 was approximately 400.

The following table sets forth the high and low sales prices of the Company's common shares and dividends paid during each quarter for fiscal years ending June 30, 1996 and 1997.

1996-97	High	Low	Div. Pd

Jul 1 - Sep 30	13.50	12.50	.08
Oct 1 - Dec 31	14.00	13.00	.08
Jan 1 - Mar 31	14.25	13.25	.08
Apr 1 - Jun 30	14.75	13.75	.08

1995-96	High	Low	Div. Pd
Jul 1 - Sep 30	11.38*	10.75*	.04*
Oct 1 - Dec 31	12.00*	10.75*	.04*
Jan 1 - Mar 31	13.25	11.00	.08
Apr 1 - Jun 30	13.25	12.50	.08

*Adjusted to reflect 100% stock dividend paid on 12/15/95

Northeast Bancorp has 45,454 shares of Series A preferred stock outstanding. The Series A preferred stock is convertible into common stock on a two-for-one basis and carries a dividend rate of two percent below the prime rate of the First National Bank of Boston, but in no event to be less than 7% per annum. There is no trading market for the Series A preferred stock.

Northeast Bancorp has 71,428 shares of Series B preferred stock outstanding. The Series B preferred stock is convertible into common stock on a two-for-one basis and carries a dividend rate of two percent below the prime rate of the First National Bank of Boston, but in no event to be less than 7% per annum. There is no trading market for the Series B preferred stock.

On July 1, 1997, the Company issued a total of 1,070 shares of its common stock, $1.00 par value per share, to Company employees under its 1996 Employee Stock Bonus Plan (the "Plan"). Each employee, other than executive officers who are not eligible to participate in the Plan, received 10 shares. The Plan is a non-voluntary, non-contributory employee bonus plan. No consideration (other than past services of the employees) was paid for the shares. No underwriter was involved in the issuance of the shares, and there was no underwriting discount or commission. There was no solicitation. The shares were not registered under the Securities Act of 1933, as amended, in reliance on SEC Rels. No. 33-6188 and 33-6281.

Item 6. Selected Financial Data

	Years Ended June 30,				
	1997	1996	1995	1994	1993
	(Dollars in thousands)				
Interest income	$ 20,029	$ 17,994	$ 16,923	$ 14,036	$ 14,359
Interest expense	10,500	9,128	8,053	6,479	7,155
Net interest income	9,529	8,866	8,870	7,557	7,204

Provision for loan losses	578	603	641	1,021	852
Other operating income 1	1,753	1,818	1,697	2,111	1,342
Net securities gains	259	279	419	347	108
Other operating expenses 2	8,438	8,355	7,988	7,011	5,734
Writedowns on equity and debt securities	110	93	0	84	61
Income before income taxes	2,415	1,912	2,358	1,899	2,008
Income tax expense	908	719	869	698	786
Cumulative effect of change in accounting principle	-	-	-	260	-
Net income	$ 1,507	$ 1,193	$ 1,489	$ 1,461	$ 1,222
Primary earnings per share 3	$ 1.03	$ 0.83	$ 1.10	$ 1.13	$ 1.07
Fully diluted earnings per share 3	$ 0.96	$ 0.79	$ 1.02	$ 1.08	$ 1.07
Cash dividends per common share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Common dividend payout ratio	33.33%	40.51%	15.69%	14.81%	15.02%

	At June 30,				
	1997	1996	1995	1994	1993
Total assets	$261,800	$222,290	$207,509	$190,600	$178,914
Total loans	206,356	169,851	170,140	158,461	150,756
Total deposits	154,411	145,195	147,120	124,306	122,497
Total borrowings	80,292	53,625	37,710	48,420	40,500
Total stockholders' equity	19,901	18,151	17,275	15,756	14,067
Return on assets (net income/average assets)	0.63%	0.56%	0.73%	0.80%	0.72%
Return on equity (net income/average net worth	7.96%	6.52%	9.08%	9.72%	9.01%
Average equity/average assets	7.90%	8.62%	8.02%	8.23%	7.85%

1 Includes fees for services to customer and gains on sale of loans.
2 Includes salaries, employee benefits and occupancy.
3 Per share data for the years prior to 1996 have been retroactively restated as a result of the stock split in December 1995.

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

DESCRIPTION OF OPERATIONS

Northeast Bancorp (the "Company"), is a unitary savings and loan holding company with the Office of Thrift Supervision ("OTS") as its primary regulator. The Company has one wholly-owned banking subsidiary, Northeast Bank, FSB (the

"Bank"), which has branches located in Auburn, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine.

Prior to July 1, 1996, the Company conducted business as Bethel Bancorp. The Company's board of directors voted to assume the name of Northeast Bancorp as of July 1, 1996. At the 1996 annual meeting, the Company's shareholders approved changing the Company's name from Bethel Bancorp to Northeast Bancorp. On July 1, 1996, the Company's two wholly-owned banking subsidiaries, Bethel Savings Bank, F.S.B. and Brunswick Federal Savings, F.A. merged following receipt of regulatory approval. The merged banking subsidiary's name was changed to Northeast Bank, FSB.

The Bank's deposits are primarily BIF-insured. Deposits at the Brunswick branch are SAIF-insured and represent 33% of the Bank's total deposits at June 30, 1997.

The Company relocated its corporate headquarters and opened a new retail banking facility at 232 Center Street, Auburn, Maine, in February, 1997.

FINANCIAL CONDITION

The overall strategy of the Company is to increase the core earnings of the Bank by the development of strong net interest margins, non-interest fee income, and by increasing volume through a larger market area.

The state of Maine's economy in which the Company operates, including the south central and mid-coast region of Cumberland, Androscoggin and Sagadahoc counties, has stabilized with moderate growth. The banking business has become increasingly competitive over the past several years. The Bank's major competitors for deposits and loans consist primarily of other Maine-based banks, regional and money center banks, and non-bank financial institutions. Many of the Bank's competitors are larger in size and, consequently, possess greater financial resources. The principal factors in competing for deposits are convenient office locations, flexible hours, interest rates and services, while those relating to loans are interest rates, the range of lending services offered and lending fees. The Bank believes that the local character of its business and its "community bank" management philosophy will improve its ability to compete in its market areas. The Company has enhanced its product lines and now provides a range of financial services such as loans, deposits and investments through its relationship with Commonwealth Financial Services, Inc., trust services through the Bank's trust department, employee retirement benefits through First New England Benefits ("FNEB"), a division of the Bank's trust department, and leasing services through its relationship with LGIC Leasing.

The Company believes that it has adequate capital, as total equity represents 7.60% of total assets and that its capital position will support future growth and development as well as allow for additional provisions to the allowance for loan losses, if needed, without significant impairment of the financial stability of the Company. The Company's assets totaled $261,799,706 as of June 30, 1997, an increase of $39,510,091 compared to June 30, 1996. Loan volume was enhanced during the 1997 fiscal year due to whole loan purchases on the secondary market. The loans purchased were funded with advances through the Federal Home Loan Bank of Boston ("FHLB"). The Bank has focused its business development efforts towards full service credit packages and financial services, as well as competitively priced mortgage packages.

Cash and cash equivalents increased by $4,095,115 at June 30, 1997 compared to June 30, 1996. The increase in cash equivalents was primarily the result of the timing of cash items clearing through the Federal Reserve and increased liquidity requirements due to the growth of the Bank during fiscal 1997.

The Bank's loan portfolio had a balance of $206,356,137 as of June 30, 1997, which represents an increase of $36,505,213 compared to June 30, 1996. From June 30, 1996 to June 30, 1997, the loan portfolio increased by $33,663,000 in real estate mortgage loans, $400,000 in consumer loans, and by $2,443,000 in commercial loans. During fiscal 1997, the Bank purchased approximately $25,000,000 of residential whole loans on the secondary market. The loans purchased are secured by properties located throughout the State of Maine and were originated and are being serviced by a local Maine bank. The loan portfolio contains elements of credit and interest rate risk. The Bank primarily lends within its local market areas, which management believes helps it to better evaluate credit risk. The Bank also maintains a well collateralized position in real estate mortgages.

At June 30, 1997, residential real estate mortgages made up 66% of the total loan portfolio, in which 53% of the residential loans are variable rate products, as compared to 68% and 48%, respectively, at June 30, 1996. It is management's intent to increase the proportion of variable rate residential real estate loans to reduce the interest rate risk in this area.

At June 30, 1997, 19% of the Bank's total loan portfolio is commercial real estate mortgages. Commercial real estate loans have minimal interest rate risk as 87% of the portfolio consists of variable rate products. At June 30, 1996, commercial real estate mortgages made up 15% of the total loan portfolio, in which 83% of the commercial real estate loans were variable rate products. Similar to the residential mortgages, the Bank tries to mitigate credit risk by lending in its local market areas as well as maintaining a well collateralized position in real estate.

Commercial loans make up 8% of the total loan portfolio in which 74% of the balance were variable rate instruments at June 30, 1997. At June 30, 1996 commercial loans made up 8% of the total loan portfolio, of which 87% of the balance were variable rate instruments. The credit loss exposure on commercial loans is highly dependent on the cash flow of the customers' business. The Bank attempts to mitigate losses through lending in accordance with the Company's credit policies.

Consumer loans make up 7% of the total loan portfolio as of June 30, 1997 which compares to 9% at June 30, 1996. Since these loans are primarily fixed rate products, they have interest rate risk when market rates increase. These loans also have credit risk with, at times, minimal collateral security. Management attempts to mitigate these risks 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.

In fiscal year 1997, the Company adopted FASB Statement No. 122, "Accounting for Mortgage Servicing Rights an amendment of FASB Statement No. 65" and Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The effect of adopting the new accounting standards did not have a significant effect on the Company's financial condition, liquidity, or results of operations. These statements are more fully described in footnote 1 to the consolidated financial statements.

The Banks's allowance for loan losses was $2,517,000 as of June 30, 1997 versus $2,549,000 as of June 30, 1996, representing 1.22% and 1.50% of total loans, respectively. The Bank had non-performing loans totaling $2,424,000 and $2,603,000 at June 30, 1997 and 1996, which was 1.17% and 1.53% of total loans, respectively. Non-performing loans represented .93% and 1.17% of total assets at June 30, 1997 and 1996, respectively. The Bank's allowance for loan losses was equal to 104% and 98% of the total non-performing loans at June 30, 1997 and 1996, respectively. At June 30, 1997, the Bank had approximately $586,000 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. As of June 30, 1997, the amount of such loans has decreased from the June 30, 1996 amount by $1,955,000. This decrease was primarily due to substandard loans being classified as non-performing or liquidated through the sale of foreclosed assets. Management takes an aggressive posture in reviewing its loan portfolio to classify certain loans substandard. The following table represents the Bank's non-performing loans as of June 30, 1997 and 1996:

Description	June 30, 1997	June 30, 1996
1-4 Family Mortgages	$ 983,000	$ 1,092,000
Commercial Mortgages	913,000	1,154,000
Commercial Installment	492,000	283,000
Consumer Installment	36,000	74,000
Total non-performing	$ 2,424,000	$ 2,603,000

Although the growth in non-performing, delinquent and substandard loans has been reversed, management continues to allocate substantial resources to the collection area in an effort to control the amount of such loans. The Bank's delinquent loan accounts, as a percentage of total loans, decreased during the 1997 fiscal year. This decrease was largely due to improved collection efforts and the increase in the Bank's loan portfolio.

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

6/30/94	6/30/95	6/30/96	6/30/97
2.64%	2.60%	2.77%	1.60%

The level of the allowance for loan losses as a percentage of total loans decreased and the level of the allowance for loan losses as a percentage of total non-performing loans increased at June 30, 1997 compared to June 30, 1996. The decrease in the level of allowance for loan losses as a percentage of total loans was primarily due to the increase in the Bank's total loan

portfolio. The decrease was also supported by the Bank's lower delinquency levels and decreased non-performing and substandard loans. As previously discussed, loans classified substandard decreased in the 1997 fiscal year, when compared to the 1996 fiscal year. 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 these classified loans, management has considered the risks of the classified portfolio and believes the allowance for loan losses is adequate. Net charge-offs for the Bank were $610,427, $449,860, and $707,634, for the three years ended June 30, 1997, June 30, 1996, and June 30, 1995, respectively.

At June 30, 1997, total impaired loans were $1,661,698, of which $844,457 had related allowances of $369,474. This compares to total impaired loans of $1,530,650, of which $1,063,720 had related allowances of $499,200, at June 30, 1996. During the year ended June 30, 1997, the income recognized related to impaired loans was $50,690 and the average balance of outstanding impaired loans was $1,330,983. This compares to income recognized related to impaired loans of $87,128 and the average balance of impaired loans being $1,799,087 at June 30, 1996. The Bank recognizes interest on impaired loans on a cash basis when the ability to collect the principal balance is not in doubt; otherwise, cash received is applied to the principal balance of the loan.

On a regular and ongoing basis, management evaluates the adequacy of the Bank's allowance for loan losses. The process of evaluating the allowance involves a high degree of management judgment. The methods employed to evaluate the allowance for loan losses are quantitative in nature and consider such factors as the loan mix, the level of non-performing loans, delinquency trends, past charge-off history, loan reviews and classifications, collateral, and the current economic climate.

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 judgments about information available to them at the time of their examination. The Bank's most recent examination by the OTS was on August 19, 1996. At the time of the exam the regulators proposed no additions to the allowance for loan losses.

At June 30, 1997, the Bank had a total of $492,411 in other real estate owned versus $513,831 as of June 30, 1996. The Bank has an allowance for losses on other real estate owned that was established to provide for declines in real estate values and to consider estimated selling costs. The allowance for losses on other real estate owned totaled $50,839 at June 30, 1997 versus $100,000 at June 30, 1996. The Company provided for this allowance through a charge against earnings of $39,000 and $94,711 for the years ended June 30, 1997 and 1996, respectively. In 1997 and 1996, write downs of other real estate owned totaled $88,161 and $-0-, respectively. The Company increased the June 30, 1996 allowance for losses on other real estate owned to provide for additional losses due to its plan to aggressively sell the other real estate owned property. Management periodically receives independent appraisals to assist in its valuation of the other real estate owned portfolio. As a result of its

review of the independent appraisals and the other real estate owned portfolio, the Company believes the allowance for losses on other real estate owned is adequate to state the portfolio at lower of cost, or fair value less estimated selling costs.

As of June 30, 1997, trading account securities had decreased by $172,621 compared to the balance of such assets at June 30, 1996. This decrease was attributed to the sale of securities in which management traded for net securities gains. Trading account securities consist of equity securities purchased with the intent to be subsequently sold to provide net securities gains, and are carried at market value. Realized and unrealized gains and losses on trading account securities are recognized in the statements of income as they occur. Transactions are accounted for as of the trade date using the specific identification method.

Since the last quarter of fiscal 1995, the remainder of the Company's total securities portfolio has been classified as available for sale. Equity securities, and debt securities which may be sold prior to maturity, are classified as available for sale and are carried at market value. Changes in market value, net of applicable income taxes, are reported as a separate component of stockholder's equity. Gains and losses on the sale of securities are recognized at the time of the sale using the specific identification method. The amortized cost and market value of available for sale securities at June 30, 1997 was $27,603,256 and $27,096,931, respectively. The reduction in carrying value from the cost was primarily attributable to the decline in market value of mortgage-backed securities, which was due to the change in current market prices from the price at the time of purchase. The net unrealized loss on mortgage-backed securities has decreased from $1,164,000 at June 30, 1996 to $410,000 at June 30, 1997 due to improvements in interest rates. 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 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 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. Based on management's assessment of the securities portfolio in fiscal 1997, 1996 and 1995, there have been other than temporary declines in values of individual equity securities in the amounts of $110,000, $93,819, and $-0-, respectively. Such securities have been written down through an adjustment against earnings and are included in other expenses in the statements of income.

The Company increased its investment in FHLB stock by $1,293,500, compared to June 30, 1996, due to the increase in FHLB borrowings. As discussed below, the Bank had a large increase in FHLB borrowings to fund loan growth. The FHLB requires institutions to hold a certain level of FHLB stock based on advances outstanding.

The Bank has used off-balance-sheet risk financial instruments in the normal course of business to meet the financing needs of its customers and to reduce

its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Hence, these instruments have the same elements of credit and interest rate risk. The Company limits its involvement in derivative financial instruments to covered call and put contracts. Gains and losses from entering into these contracts were immaterial to the results of operations of the Company in fiscal 1997, 1996 and 1995. The total value of securities under call and put contracts at any one time is immaterial to the Company's financial position, liquidity, or results of operations. Off-balance-sheet risk financial instruments are more fully described in footnote 18 to the financial statements.

The Company's premises and equipment increased by a net of $384,317 during fiscal 1997. The increase was primarily due to the construction of the new Auburn retail branch as well as the relocation of the Company's headquarters to the Auburn location.

The increase in accrued interest receivable on loans of $125,908 during fiscal 1997 was primarily due to the increase in the loan portfolio. The increase in other assets during fiscal 1997 of $463,774 was primarily due to the increase in federal tax receivables and in deferred tax assets, caused by temporary differences between the Company's financial statements and its tax returns. The balance in real estate held for investment decreased by $98,166, during fiscal 1997 when compared to June 30, 1996, due to the Company establishing an allowance for losses on real estate held for investment of $100,000. The allowance for losses in real estate held for investment totaled $100,000 at June 30, 1997 versus $-0- at June 30, 1996. The Company provided for this allowance through a charge against earnings of $100,000 for the year ended June 30, 1997.

The Bank continues to attract new local deposit relationships. The Bank utilizes, as alternative sources of funds, brokered C.D.'s when national deposit interest rates are less than the interest rates on local market deposits as well as 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 as well as to fund short-term liquidity demands.

Total deposits were $154,410,687 and securities sold under repurchase agreements were $5,098,622 as of June 30, 1997. These amounts represent an increase of $9,215,318 and $1,335,656, respectively, compared to June 30, 1996. Broker deposits represented $7,185,566 of total deposits at June 30, 1997, which increased by $1,538,428 compared to June 30, 1996's $5,647,138 balance. Total borrowings from the FHLB were $78,993,361 as of June 30, 1997, for an increase of $26,870,361 compared to June 30, 1996. Mortgages, free of liens, pledges and encumbrances and certain non-pledged mortgage-backed securities are required to be pledged to secure FHLB advances. The increase in deposits, repurchase agreements and FHLB advances were utilized to fund the loan growth during fiscal 1997.

Notes payable decreased by $203,581 during the 1997 fiscal year due to the scheduled principal payments on the Fleet Bank of Maine loan incurred to finance, in part, the purchase of a bank in prior years. The note is payable in eighteen quarterly principal payments of $76,389. Interest is payable

monthly at an 8% fixed rate. Other liabilities increased by $542,966 compared to June 30, 1996, due primarily to increases in accrued expenses and escrow accounts.

CAPITAL RESOURCES & LIQUIDITY

Liquidity is defined as the ability to meet unexpected deposit withdrawals and increased loan demand of a short-term nature with a minimum loss of principal. The Bank's primary sources of funds are its interest bearing deposits, cash and due from banks, deposits with the FHLB, certificates of deposit, loan payments and prepayments and other investments maturing in less than two years as well as securities available for sale. In addition, 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 $35,000,000 over and above the 1997 end-of-year advances reported. The Company's ability to access the principal sources of liquid funds listed above is immediate and adequate to support the Company's budgeted growth.

Cross selling strategies are employed by the Bank to develop deposit growth. Even though deposit interest rates increased during fiscal 1997, the rate of return was much stronger in 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 deposit liquidity base.

Total equity of the Company was $19,900,613 as of June 30, 1997 versus $18,151,242 at June 30, 1996. In March of 1997 Square Lake Holding Corporation exercised 25,000 warrants at an aggregate price of $175,000. Square Lake Holding Corporation is a Maine corporation and subsidiary of a Canadian corporation of which Ronald Goguen is a 95% shareholder and director. Mr. Goguen, who is also a director of this Company, and the affiliates he controls, owns approximately 22.8% of common shares outstanding of the Company. During fiscal 1997, 20,000 stock options were exercised by various employees of the Company. The proceeds from the exercised warrants and options were utilized as general working capital and contributed to the growth of the Company's total equity. As of June 30, 1997, 296,000 shares of unissued common stock are reserved for issuance pursuant to stock options as well as 108,764 outstanding warrants. The Company repurchased 2,030 treasury shares at a cost of $28,420 during fiscal 1997 and 4,100 treasury shares at a cost of $52,277 during fiscal 1996. These treasury shares were utilized in fiscal 1997, for the employee stock bonus and options plans as well as the exercise of warrants. On December 15, 1995, the Company paid a 100% stock dividend to all shareholders. The 1996 and 1995 earnings per share have been restated as a result of the stock dividend. Based in part on this dividend, the common shares outstanding increased to 1,229,910 shares on June 30, 1996.

The total equity to total assets ratio of the Company was 7.60% as of June 30, 1997 and 8.17% at June 30, 1996. The reduction in the equity to assets ratio during fiscal 1997, when compared to fiscal 1996, was primarily due to the Company leveraging the Bank in the purchase of mortgage loans through the increased use of FHLB advances. Book value per common share was $14.04 as of June 30, 1997 versus $13.13 at June 30, 1996.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which was enacted on December 19, 1991, contains various provisions intended to recapitalize the Bank Insurance Fund ("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 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 OTS broader regulatory authority to take corrective action against insured institutions that are otherwise operating in an unsafe and unsound manner.

Regulations implementing the prompt corrective action provisions of FDICIA became effective December 19, 1992 and defined specific capital categories based on an institution's capital ratios. OTS has issued regulations requiring 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%. Regulatory capital requirements are also discussed in footnote 11 of the consolidated financial statements. At June 30, 1997, the Bank was in compliance with regulatory capital requirements as follows:

Northeast Bank, F.S.B.

	Actual Capital		Required Capital		Excess Capital
	Amount	Ratio	Amount	Ratio	Amount
Tangible capital	$ 17,733,000	6.83%	$ 3,892,000	1.50%	$ 13,841,000
Core capital	$ 17,733,000	6.83%	$ 7,785,000	3.00%	$ 9,948,000
Leverage capital	$ 17,733,000	6.83%	$ 10,380,000	4.00%	$ 7,353,000
Risk-based capital	$ 18,840,000	11.89%	$ 12,677,000	8.00%	$ 6,163,000

RESULTS OF OPERATIONS

Net income for the year ended June 30, 1997 was $1,507,103 versus $1,193,420 for the year ended June 30, 1996 and $1,489,381 for the year ended June 30, 1995. Primary earnings per share was $1.03 and fully diluted earnings per share was $.96 for the year ended June 30, 1997. Primary and fully diluted earnings per share were $.83 and $.79, respectively, for the year ended June 30, 1996 and $1.10 and $1.02, respectively for the year ended June 30, 1995. The weighted average number of shares outstanding in fiscal 1996 and 1995, as well as the reported earnings per share for these two years, have been restated as a result of the Company's 100% stock dividend in December, 1995. The increase in net income for the year ended June 30, 1997, when compared to June 30, 1996, was primarily due to the increase in net interest income and the reduction in the Company's operational expenses, exclusive of the one time FDIC SAIF assessment described below. The Company experienced a reduction in net income in fiscal 1996, as compared to fiscal 1995, primarily due to the expenses attributed to the merger and name change of the subsidiary banks, the costs associated with the acquisition of the Key Bank branches, and the general growth in infrastructure expenses of the Company. The Company's overall return on average assets ("ROAA") was .63% for the year ended June 30, 1997, .56% for the year ended June 30, 1996, and .73% for the year ended June 30, 1995.

In September of 1996, Congress enacted comprehensive legislation amending the FDIC BIF-SAIF deposit insurance assessment on savings and loan institution

deposits. The legislation imposed a one-time assessment on institutions holding SAIF insured deposits on March 31, 1995, in an amount necessary for the SAIF to reach its 1.25% Designated Reserve Ratio. Institutions with SAIF deposits were required to pay an assessment rate of 65.7 cents per $100 of domestic deposits held as of March 31, 1995. The Bank held approximately $57,900,000 of SAIF deposits as of March 31,1995. This resulted in an expense of $380,000 which was reflected in the Company's September 30, 1996 quarter end financial statements. During the December 31, 1996 quarter, Congress issued final legislation which enabled certain qualifying institutions to apply for a 20% discount on the special assessment. The Bank received a credit of $83,140 reducing the assessment expense in the December 31, 1996 quarter. The net effect of the one time assessment was $296,860 and decreased the Company's primary earnings per share by $.15 and the fully diluted earnings per share by $.12 for the fiscal year ended June 30, 1997. Commencing in 1997 and continuing through 1999, the Bank is required to pay an annual assessment of 1.29 cents for every $100 of domestic BIF insured deposits and 6.44 cents for every $100 of domestic SAIF insured deposits. Commencing in 2000 and continuing through 2017, banks would be required to pay a flat annual assessment of 2.43 cents for every $100 of domestic deposits. If there are no additional deposit assessments in the future, it is anticipated that the Company may save approximately $80,000 annually commencing in fiscal 1998.

The Company's net interest income for the years ended June 30, 1997, June 30, 1996 and June 30, 1995 was $9,529,044, $8,866,458 and $8,870,005, respectively. Net interest income for fiscal 1997 increased $662,586, or 7.47%, compared to the amount at June 30, 1996. Total interest and dividend income increased $2,034,278 for the year ended June 30, 1997 compared to the year ended June 30, 1996, resulting from the following items: (I) interest income on loans increased by $1,215,252 resulting from an increase of $1,576,666 due to an increase in the volume of loans, which was offset by the decrease of $361,414 due to decreased interest rates on loans, (II) interest and dividend income on investment securities increased by $996,594 resulting from a $986,222 increase due to increased volume and an increase of $10,372 due to increased interest rates on investments, and (III) interest income on short term liquid funds decreased by $177,568 resulting from a $149,079 decrease due to decreased volume and a decrease of $28,489 due to decreased interest rates on deposits at the FHLB and other institutions.

The increase in total interest expense of $1,371,692 for fiscal 1997 compared to 1996 resulted from the following items: (I) interest expense on deposits decreased by $71,369 resulting from a $120,230 increase due to increased deposits, which was more than offset by the decrease of $191,599 due to decreased deposit interest rates, (II) interest expense on repurchase agreements increased by $33,243 resulting from a $46,631 increase due to increased volume offset, in part, by a decrease of $13,388 due to decreasing interest rates, and (III) interest expense on borrowings increased $1,409,818 resulting from an increase of $1,468,418 due to an increase in volume which was offset by the decrease of $58,600 due to the change in the mix of interest rates on borrowings. The changes in net interest income, as explained above, are also presented in the schedule below.

Northeast Bancorp
Rate/Volume Analysis for the Year ended
June 30, 1997 versus June 30, 1996

	Difference Due to		
	Volume	Rate	Total
Investments	$ 986,222	$ 10,372	$ 996,594
Loans	1,576,666	(361,414)	1,215,252
FHLB & Other Deposits	(149,079)	(28,489)	(177,568)
Total Interest Earning Assets	2,413,809	(379,531)	2,034,278
Deposits	120,230	(191,599)	(71,369)
Repurchase Agreements	46,631	(13,388)	33,243
Borrowings	1,468,418	(58,600)	1,409,818
Total Interest-Bearing Liabilities	1,635,279	(263,587)	1,371,692
Net Interest Income	$ 778,530	$ (115,944)	$ 662,586

Rate/Volume amounts spread proportionately between Volume and Rate.

Net interest income for fiscal 1996 decreased $3,547, or .04%, compared to the amount for the year ended June 30, 1995. Total interest and dividend income increased $1,071,937 for the year ended June 30, 1996 compared to the year ended June 30, 1995, resulting from the following items: (I) interest income on loans increased by $925,547 resulting from an increase of $518,349 due to an increase in the volume of loans and an increase of $407,198 due to increased interest rates on loans, (II) interest and dividend income on investment securities decreased by $22,088 resulting from a $11,381 increase due to increased volume, which was more than offset by the decrease of $33,469 due to decreased interest rates on investments, and (III) interest income on short term liquid funds increased by $168,478 resulting from a $154,590 increase due to increased volume and an increase of $13,888 due to increased interest rates on deposits at the FHLB and other institutions.

The increase in total interest expense of $1,075,484 for fiscal 1996 compared to 1995 resulted from the following items: (I) interest expense on deposits increased by $983,069 resulting from a $328,965 increase due to increased deposits and an increase of $654,104 due to higher deposit interest rates, (II) interest expense on repurchase agreements increased by $81,289 resulting from an $82,258 increase due to increased volume offset, in part, by a decrease of $969 due to decreasing interest rates, and (III) interest expense on borrowings increased $11,126 resulting from a decrease of $161,857 due to a decrease in volume which was more than offset by the increase of $172,983 due to the change in the mix of interest rates on borrowings. The changes in net interest income, as explained above, are also presented in the schedule below.

Northeast Bancorp
Rate/Volume Analysis for the Year ended
June 30, 1996 versus June 30, 1995

Difference Due to

	Volume	Rate	Total
Investments	$ 11,381	$ (33,469)	$ (22,088)
Loans	518,349	407,198	925,547
FHLB & Other Deposits	154,590	13,888	168,478
Total Interest Earning Assets	684,320	387,617	1,071,937
Deposits	328,965	654,104	983,069
Repurchase Agreements	82,258	(969)	81,289
Borrowings	(161,857)	172,983	11,126
Total Interest-Bearing Liabilities	249,366	826,118	1,075,484
Net Interest Income	$ 434,954	$ (438,501)	$ (3,547)

Rate/Volume amounts spread proportionately between Volume and Rate.

The majority of the Company's income is generated from the Bank. Management believes that the Bank is slightly asset sensitive based on its own internal analysis which considers its core deposits long term liabilities that are matched to long term assets; therefore, it will generally experience a contraction in its net interest margins during a period of falling rates. Management believes that the maintenance of a slight asset sensitive position is appropriate since historically interest rates tend to rise faster than they decline.

Approximately 22% 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 approximately 36% 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 was $578,427 for fiscal 1997 compared to $602,860 and $640,634 for 1996 and 1995, respectively. Net charge-offs amounted to $610,427 during fiscal 1997 versus $449,860 and $707,634 for 1996 and 1995, respectively. The Bank intends to continue to aggressively manage the non-performing assets, through sales, work-outs and charge-offs, to reduce the amount of non-performing assets.

Non-interest income was $2,011,856 for the year ended June 30, 1997, $2,097,191 for June 30, 1996 and $2,116,442 for June 30, 1995. Generally, the Bank continues to generate an increasing level of non-interest income through service charges and fees for other services. This component totaled $775,874 for the year ended June 30, 1997, $737,229 for the year ended June 30, 1996 and $679,495 for June 30, 1995. The increase in 1997 was primarily due to growth in the deposit accounts and other branch services.

Net securities gains were $259,430, $278,895, and $419,313 for fiscal 1997, 1996 and 1995, respectively. The major reason for the increase in 1995 was that the Company sold some of its available for sale and trading securities, taking advantage of the fluctuation in higher market prices.

Gains on the sale of loans amounted to $201,418 for fiscal 1997 and was a decrease of $50,179 compared to the balance in fiscal 1996. Gains on the sale of loans amounted to $251,597 for fiscal 1996 and was an increase of $90,615 compared to $160,982 for fiscal 1995. The decrease in gain on sales of loans in 1997, compared to 1996, was primarily due to the Bank's reduced volume in underwriting and selling Freddie Mac, Fannie Mae and SBA guaranteed commercial loans. Gains on the sale of loans in fiscal 1996 increased due to increased volume in underwriting Freddie Mac and Fannie Mae loans. The Company's loan sales activity is dependent on market interest rates as well as local competition. The Company receives income from servicing mortgage loans for others that the Bank originated and sold. The outstanding balance of such loans decreased from approximately $39,940,000 at June 30, 1996 to $34,683,000 at June 30, 1997. In addition to loans originated and sold by the Company, during 1993 the Company purchased loan servicing rights from another institution. The balance of the loans serviced under this agreement was approximately $7,826,000 and $9,676,000 at June 30, 1997 and 1996, respectively. Fees for servicing loans were $275,496 for the year ended June 30, 1997 versus $302,261 and $306,220 for the years ended June 30, 1996 and 1995, respectively.

Total non-interest expense for the Company was $8,547,773 for fiscal 1997, $8,448,757 for fiscal 1996, and $7,987,877 for fiscal 1995. The increase in non-interest expense of $99,016 for fiscal 1997 compared to 1996 was due, in part, to the following items: (I) occupancy expense increased by $25,811 due to the expenses associated with the opening of the new Auburn retail branch, (II) equipment expense increased by $32,005 due to the depreciation expense associated with the new Auburn branch equipment as well as general maintenance costs, and (III) FDIC deposit insurance increased by $248,833 primarily due to the SAIF assessment described above. The non-interest expense increases above were offset by the reduction of $119,782 in compensation expense due to the Company restructuring its internal departments.

Other operating expenses decreased by $87,851 in fiscal 1997 compared to 1996 primarily due to the following: a decrease of $12,000 in business insurances and computer services due to the savings in merging the two subsidiary banks, a decrease of $56,000 in other real estate owned expenses, a decrease of $15,000 in deposit expenses due to the merger of the subsidiary banks, a decrease of $21,000 in telephone expenses due to the Company's telephone network system, a decrease of $17,000 in postage due to savings in bulk mailing prices, a decrease of $30,000 in travel & meeting expenses, a decrease of $36,000 in correspondent banking fees due to the merger of the subsidiary banks, and a decrease of $84,000 in the Company's other general business expenses. These decreases in other expenses were primarily offset by the following increases: an increase of $86,000 due to hiring third party consultants for marketing and compliance and an increase of $98,000 in advertising expense to continue the Company's strategy in increasing market exposure.

The increase in non-interest expense of $460,880 for fiscal 1996 compared to 1995 was due, in part, to the following items: (I) compensation expenses increased by $175,360 as the result of the additional employees from the Key Bank branch acquisition, general growth in the Company, as well as annual salary increases and other benefits expenses, (II) occupancy expense increased

by $100,647 due to the expense associated with the branches acquired from Key Bank and general maintenance on existing locations, and (III) equipment expense increased by $69,957 due to depreciation on new assets, as well as increased maintenance costs from new assets acquired and the equipment acquired from Key Bank.

Other operating expenses increased by $114,916 in fiscal 1996 compared to 1995 due to the following: an increase of $58,000 in computer servicing expense due to the merger of the two subsidiary banks and increased ATM services, an increase of $54,000 in collection expense due to non-performing loans, an increase of $25,000 in postage expense due to additional customer mailings concerning the merger of the two subsidiary banks, an increase of $74,000 in goodwill expense due to a full years recognition of goodwill from the acquisition of the Key Bank branches, an increase of $94,000 due to the write-down on equity securities to current market values, a one time expense of $166,000 due to direct expenses associated with the merger and name change of the two subsidiary banks, and increases due to normal business growth. These increases in other expenses were offset by the following reductions: a decrease of $169,000 in deposit insurance expense due to the FDIC reducing its BIF deposit insurance assessment from $.23 per $100 of deposits to an annual fee of $2,000, a decrease of $38,000 in supplies expense due to savings from bulk orders, a decrease of $53,000 in telephone expense due to the Company's new telephone network system, and a $93,000 decrease in the Company's other general business expenses.

PENDING MERGER

On May 9, 1997 the Company entered into a definitive agreement to merge the Bank with Cushnoc Bank and Trust Company ("Cushnoc") of Augusta, Maine. The agreement has been approved by the Company's and Cushnoc's Board of Directors and is subject to approval by Cushnoc's shareholders. On August 29, 1997, the Company received approval from OTS, subject to certain conditions, to merge the Bank and Cushnoc. At March 31, 1997, Cushnoc had approximately $21,000,000 in total assets and $2,200,000 in stockholder's equity. Under the terms of the agreement, the Company will issue 2.089 shares of its common stock for each share of Cushnoc, which has 90,000 common shares outstanding. The acquisition will be accounted for under the pooling of interest method. The merger of Cushnoc and the Bank is expected to occur during the fourth quarter of calendar year 1997.

MARKET RISKS

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

The Company's interest rate risk management is the responsibility of the Asset/Liability Management Committee (ALCO), which reports to the Board of Directors. ALCO establishes policies that monitors and coordinates the Company's sources, uses and pricing of funds. The committee is also involved in

formulating the economic projections for the Company's budget and strategic plan.

The Company continues to reduce the volatility of its net interest income by managing the relationship of interest-rate sensitive assets to interest-rate sensitive liabilities. To accomplish this, management has undertaken steps to increase the percentage of variable rate assets, as a percentage of its total earning assets. In recent years, the focus has been to originate adjustable rate residential and commercial real estate loans, which reprice or mature more quickly than fixed-rate real estate loans. The Company also originates adjustable-rate consumer loans and commercial business loans. The Company's adjustable-rate loans are primarily tied to published indices, such as the Wall Street Journal prime rate and one year U.S. Treasury Bills.

The Company utilizes a simulation model to analyze net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on both an immediate rise or fall in interest rates (rate shock) over a twelve and twenty-four month period. The model is based on the actual maturity and repricing characteristics of interest-rate sensitive assets and liabilities. The model incorporates assumptions regarding the impact of changing interest rates on the prepayment rate of certain assets and liabilities. The assumptions are based on the Company's historical prepayment speeds on assets and liabilities when interest rates increase or decrease by 200 basis points or greater. The model factors in projections for anticipated activity levels by product lines offered by the Company. The simulation model also takes into account the Company's increased ability to control the rates on deposit products than over adjustable-rate loans tied to published indices.

Based on the information and assumptions in effect at June 30, 1997, management believes that a 200 basis point rate shock over a twelve month period, up or down, would not significantly affect the Company's annualized net interest income.

The table below represents in tabular form contractual balances of the Company's on balance sheet financial instruments in U.S. dollars at the expected maturity dates as well as the fair value of those on balance sheet financial instruments for the period ended June 30, 1997. The expected maturity categories take into consideration historical prepayment speeds as well as actual amortization of principal and does not take into consideration reinvestment of cash. Principal prepayments are the amounts of principal reduction, over and above normal amortization, that the Company has experienced in the past twenty four months. The Company's assets and liabilities that do not have a stated maturity date, as in cash equivalents and certain deposits, are considered to be long term in nature by the Company and are reported in the thereafter column. The Company does not consider these financial instruments materially sensitive to interest rate fluctuations and historically the balances have remained fairly constant over various economic conditions. The weighted average interest rates for the various assets and liabilities presented are actual as of June 30, 1997.

The fair value of cash, interest bearing deposits at other banks, and interest receivable approximate their book values due to their short maturities. The fair value of available for sale securities are based on bid quotations from security dealers or on bid prices published in financial newspapers. FHL Bank stock does not have a market and the fair value is unknown. The fair value of loans are estimated in portfolios with similar financial characteristics and takes into consideration discounted cash flows through the estimated maturity

or repricing dates using estimated market discount rates that reflect credit risk. The fair value of loans held for sale is based on bid quotations from loan dealers.The fair value of demand deposits, NOW, money market, and savings accounts is the amount payable upon demand. The fair value of time deposits is based upon the discounted value of contractual cash flows, which is estimated using current rates offered for deposits of similar remaining terms. The fair value of repurchase agreements approximate the carrying value due to their short maturity. The fair value of FHLB borrowings is estimated by discounting the cash flows through maturity or the next repricing date based on current rates offered by the FHLB for borrowings with similar maturities. The fair value of the note payable approximates the carrying value due to the note payable's interest rate approximating market rates.

Market Risk
6/30/97
(In Thousands)

	Expected Maturity Date							
	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02	There-after	Total	Fair Value
Financial Assets:								
Cash	$ --	$ --	$ --	$ --	$ --	$ 5,152	$ 5,152	$ 5,152
Weighted Average Interest Rate	--	--	--	--	--	--	--	--
Interest Bearning Deposits at other Banks								
Variable Rate	--	--	--	--	--	10,509	10,509	10,509
Weighted Average Interest Rate	--	--	--	--	--	5.77%	5.77%	
Available for Sale Securities								
US Government Treasuries & Agencies								
Fixed Rate	249	--	--	250	--	1,000	1,499	1,455
Weighted Average Interest Rate	5.35%	--	--	5.40%	--	7.18%	6.57%	
Corporate Bonds								
Fixed Rate	--	--	--	--	--	149	149	143
Weighted Average Interest Rate	--	--	--	--	--	5.95%	5.95%	
Mortgage Backed								

Securities									
Fixed Rate	1,742	1,917	2,110	2,320	2,553	14,416	25,058	24,648	
Weighted Average									
Interest Rate	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%	7.15%		
Equity Securities	897	--	--	--	--	--	897	851	
Dividend Yield	3.82%	--	--	--	--	--	3.82%		
FHLB Stock	--	--	--	--	--	3,950	3,950	3,950	(1)
Weighted Average									
Interest Rate	--	--	--	--	--	6.50%	6.50%		
Loans Held For Sale									
Fixed Rate	240	--	--	--	--	--	240	242	
Weighted Average									
Interest Rate	8.19%	--	--	--	--	--	8.19%		
Loans									
Residential Mortgages									
Fixed Rate	9,211	9,263	10,165	11,139	12,225	12,497	64,500	65,950	
Weighted Average									
Interest Rate	8.80%	8.94%	8.93%	8.93%	8.93%	8.92%	8.91%		
Variable Rate	10,144	10,624	11,760	12,537	13,420	13,205	71,690	71,402	
Weighted Average									
Interest Rate	8.89%	8.82%	8.82%	8.78%	8.74%	8.71%	8.79%		
Commercial Real Estate									
Fixed Rate	605	711	746	1,087	1,082	933	5,164	4,705	
Weighted Average									
Interest Rate	9.35%	9.40%	9.17%	9.20%	9.19%	9.09%	9.22%		
Variable Rate	5,810	4,409	5,640	5,041	5,220	7,664	33,784	32,982	
Weighted Average									
Interest Rate	10.03%	10.10%	10.14%	10.15%	10.12%	10.12%	10.11%		
Commercial									
Fixed Rate	1,315	644	1,020	1,013	193	28	4,213	4,060	
Weighted Average									
Interest Rate	11.05%	9.93%	10.23%	10.13%	9.24%	8.67%	10.37%		
Variable Rate	4,400	2,022	1,173	1,653	1,311	1,690	12,249	11,896	
Weighted Average									
Interest Rate	9.81%	9.91%	10.51%	10.46%	10.53%	10.72%	10.18%		
Consumer									
Fixed Rate	1,911	2,209	2,447	2,845	1,351	2,822	13,585	13,016	
Weighted Average									
Interest Rate	10.25%	10.39%	10.23%	9.63%	11.18%	11.15%	10.42%		
Variable Rate	254	132	216	137	142	290	1,171	1,154	
Weighted Average									
Interest Rate	9.51%	8.56%	8.75%	8.46%	8.57%	8.89%	8.87%		
Interest Receivable	1,480	--	--	--	--	--	1,480	1,480	
Weighted Average									

Interest Rate	--	--	--	--	--	--	--	
Finanical Liabilities:								
Deposits (with no stated maturity)								
Demand Deposits	--	--	--	--	--	12,056	12,056	12,056
Weighted Average Interest Rate	--	--	--	--	--	--	--	
NOW	--	--	--	--	--	11,429	11,429	11,429
Weighted Average Interest Rate	--	--	--	--	--	1.26%	1.26%	
Money Market	--	--	--	--	--	12,318	12,318	12,318
Weighted Average Interest Rate	--	--	--	--	--	3.44%	3.44%	
Regular Savings	--	--	--	--	--	20,389	20,389	20,389
Weighted Average Interest Rate	--	--	--	--	--	2.60%	2.60%	
Time Deposits								
Fixed Rate	69,621	15,259	5,088	2,451	4,670	10	97,099	97,591
Weighted Average Interest Rate	6.55%	5.89%	6.35%	6.20%	6.44%	5.00%	6.42%	
Variable Rate	759	361	--	--	--	--	1,120	1,120
Weighted Average Interest Rate	5.01%	5.06%	--	--	--	--	5.03%	
Repurchase Agreements								
Fixed Rate	616	--	--	--	--	--	616	616
Weighted Average Interest Rate	5.18%	--	--	--	--	--	5.18%	
Variable Rate	4,483	--	--	--	--	--	4,483	4,483
Weighted Average Interest Rate	4.12%	--	--	--	--	--	4.12%	
FHLB Advances								
Fixed Rate	53,408	15,606	3,000	273	1,442	4,264	77,993	77,987
Weighted Average Interest Rate	5.71%	5.72%	6.27%	6.40%	6.30%	6.58%	5.80%	
Variable Rate	1,000	--	--	--	--	--	1,000	1,003
Weighted Average Interest Rate	6.20%	--	--	--	--	--	6.20%	
Notes Payable								
Fixed Rate	306	306	306	306	75	--	1,299	1,299
Weighted Average Interest Rate	8.00%	8.00%	8.00%	8.00%	8.00%	--	8.00%	

(1) FHLB stock does not have a market; therefore, its fair value is unknown.

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 many 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.

RECENT ACCOUNTING DEVELOPMENTS
- ------------------------------
In February, 1997, FASB issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("Statement 128"). Statement 128 supersedes APB Opinion No. 15,"Earnings Per Share" (APB 15) and specifies the computation, presentation, and disclosure requirements for earnings per share (EPS) for entities with publicly held common stock or potential common stock. It replaces the presentation of primary EPS with a presentation of basic EPS and fully diluted EPS with diluted EPS. Statement 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. After adoption, all prior period EPS data presented shall be restated to conform with Statement 128. Management has not determined the impact of Statement 128.

In February 1997, FASB issued Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure"("Statement 129"). This Statement was issued in connection with Statement 128,"Earnings Per Share". It is not expected that the issuance of Statement 129 will require significant revision of prior disclosures since the Statement lists required disclosures that had been included in a number of previously existing separate statements and opinions. Statement 129 is effective for financial statements for periods ending after December 15, 1997. Management does not expect the requirements of Statement 129 to have a material impact on capital disclosures.

In June 1997, FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("Statement 130"). Statement 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. This Statement requires all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed in equal prominence with the other financial statements. It requires that an enterprise display an amount representing total comprehensive income for each period. It does not require per share amounts of comprehensive income to be disclosed. Statement 130 is effective for both interim and annual periods after December 15, 1997. Earlier application is permitted. Comparative financial statements provided for earlier periods are required to be reclassified to reflect the provisions of this statement. Management has not determined the impact of the adoption of Statement No. 130.

In June of 1997, FASB issued Statement of Financial Accounting Standards No. 131,"Disclosures about Segments of an Enterprise and Related Information" ("Statement 131"). Statement 131 establishes standards for the way public business enterprises are to report information about operating segments in

annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. Statement 131 is effective for financial statements for periods beginning after December 15, 1997. Earlier application is encouraged. In the initial year of application, comparative information for earlier years is to be restated, unless it is impracticable to do so. Management has not determined the impact of the adoption of Statement 131.

FORWARD-LOOKING STATEMENTS

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. 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 "may", "will", "believe", "expect", "estimate", "anticipate", "continue", or similar terms or variations on those terms, or the negative of those terms. 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, the financial securities markets, and the availability of and the costs associated with sources of liquidity.

Item 7A. Quantiture and Qualitative Disclosure about Market Risk

See Item 7, above.

Item 8. Financial Statements and Supplementary Data

a. Financial Statements Required by Regulation S-X

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 1997 and 1996

ASSETS	1997	1996
Cash and due from banks	$ 5,152,222	$ 3,386,263
Interest bearing deposits	443,021	650,430
Federal Home Loan Bank overnight deposits	10,066,000	7,529,435
	15,661,243	11,566,128
Trading account securities, at market value	25,000	197,621
Available for sale securities, at market		

value (notes 2, 8 and 10)	27,096,931	29,650,319
Loans held for sale (note 3)	240,000	448,475
Loans receivable (notes 4 and 8):		
Mortgage loans:		
Residential real estate	135,607,761	111,901,516
Construction loans	3,220,448	5,012,583
Commercial real estate	37,567,609	27,123,743
	176,395,818	144,037,842
Less:		
Undisbursed portion of construction loans	1,076,936	2,243,814
Net deferred loan origination fees	151,609	289,340
Total mortgage loans	175,167,273	141,504,688
Commercial loans	16,432,937	13,990,220
Consumer and other loans	14,755,927	14,356,016
	206,356,137	169,850,924
Less allowance for loan losses	2,517,000	2,549,000
Net loans	203,839,137	167,301,924
Premises and equipment - net (note 5)	3,960,703	3,576,386
Other real estate owned - net (note 6)	492,411	513,831
Real estate held for investment - net of an allowance for losses of $100,000 at June 30, 1997 and $0 at June 30, 1996	361,654	459,820
Accrued interest receivable - loans	1,220,463	1,094,555
Accrued interest receivable - investments	259,666	257,708
Federal Home Loan Bank stock, at cost (note 8)	3,949,700	2,656,200
Goodwill, net of accumulated amortization of $1,236,433 in 1997 and $940,059 in 1996 (note 16)	2,220,289	2,557,913
Other assets (note 15)	2,472,509	2,008,735
	$ 261,799,706	$ 222,289,615

LIABILITIES AND STOCKHOLDERS' EQUITY	1997	1996
Liabilities:		
Deposits (note 7):		
Demand	$ 12,056,336	$ 11,424,481
NOW	11,428,705	13,516,135
Money market	12,317,349	12,291,543
Regular savings	20,389,221	21,884,843
Brokered deposits	7,185,566	5,647,138
Certificates of deposit under $100,000	74,259,842	64,962,559
Certificates of deposit $100,000 or more	16,773,668	15,468,670
Total deposits	154,410,687	145,195,369
FHLB Borrowings (note 8)	78,993,361	52,123,000
Notes payable (note 9)	1,298,611	1,502,192
Securities sold under repurchase		

	1997	1996
agreements (notes 2 and 10)	5,098,622	3,762,966
Other liabilities	2,097,812	1,554,846
Total liabilities	241,899,093	204,138,373
Commitments and contingent liabilities (notes 9, 16, 17 and 18)		
Stockholders' equity (notes 11, 12, 13 and 17):		
Series A cumulative convertible preferred stock; $1 par value, 1,000,000 shares authorized; 45,454 shares issued and outstanding	999,988	999,988
Series B cumulative convertible preferred stock; $1 par value, 1,000,000 shares authorized; 71,428 shares issued and outstanding	999,992	999,992
Common stock, $1 par value, 3,000,000 shares authorized; 1,274,969 and 1,234,010 shares issued at June 30, 1997 and 1996, respectively; 1,274,969 and 1,229,910 shares outstanding in 1997 and 1996, respectively	1,274,969	1,234,010
Additional paid-in capital	5,639,507	5,455,852
Retained earnings	11,320,332	10,351,031
Net unrealized losses on available for sale securities (note 2)	(334,175)	(837,354)
Treasury stock at cost, 4,100 shares at June 30, 1996	-	(52,277)
Total stockholders' equity	19,900,613	18,151,242
	$ 261,799,706	$ 222,289,615

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
Years Ended June 30, 1997, 1996, and 1995

	1997	1996	1995
Interest and dividend income:			
Interest on loans	$ 17,225,937	$ 16,010,685	$ 15,085,138
Interest on Federal Home Loan Bank overnight deposits	391,059	567,915	393,497
Interest on investments held to maturity, excluding mortgage backed securities	-	-	75,691
Interest and dividends on			

available for sale securities	135,307	89,684	60,159
Interest on mortgage backed securities	2,029,224	1,149,407	1,088,420
Dividends on Federal Home Loan Bank stock	219,916	148,762	189,980
Other interest income	27,697	28,409	30,040
Total interest income	20,029,140	17,994,862	16,922,925
Interest expense:			
Deposits (note 7)	6,354,803	6,426,172	5,443,103
Repurchase agreements	199,453	166,210	84,921
Borrowed funds	3,945,840	2,536,022	2,524,896
Total interest expense	10,500,096	9,128,404	8,052,920
Net interest income before provision for loan losses	9,529,044	8,866,458	8,870,005
Provision for loan losses (note 4)	578,427	602,860	640,634
Net interest income after provision for loan losses	8,950,617	8,263,598	8,229,371
Noninterest income:			
Fees and service charges on loans	181,490	188,410	200,782
Fees for other services to customers	594,384	548,819	478,713
Net securities gains (note 2)	171,080	231,344	49,045
Gain on trading securities	88,350	47,551	370,268
Gain on sales of loans (note 3)	201,418	251,597	160,982
Loan servicing fees	275,496	302,261	306,220
Other income	499,638	527,209	550,432
Total noninterest income	2,011,856	2,097,191	2,116,442
Noninterest expense:			
Salaries and employee benefits (note 17)	$ 4,033,378	$ 4,153,160	$ 3,977,800
Occupancy expense (note 5)	636,818	611,007	510,360
Equipment expense (note 5)	793,550	761,545	691,588
FDIC insurance expense (note 11)	387,275	138,442	307,173
Other (notes 2 and 14)	2,696,752	2,784,603	2,500,956
Total noninterest expense	8,547,773	8,448,757	7,987,877
Income before income taxes	2,414,700	1,912,032	2,357,936
Income tax expense (note 15)	907,597	718,612	868,555
Net income	$ 1,507,103	$ 1,193,420	$ 1,489,381
Net income per common share (notes 12 and 17):			
Primary earnings per share	1.03	.83	1.10
Fully diluted earnings per share	.96	.79	1.02

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended June 30, 1997, 1996 and 1995

	Preferred Stock Series A and B	Common Stock
Balance at June 30, 1994	$ 1,999,980	$ 547,400
Net income	-	-
Decrease in net unrealized losses on available for sale securities	-	-
Issuance of common stock	-	102
Dividends on preferred stock	-	-
Dividends on common stock at $.32 per share	-	-
Balance at June 30, 1995	1,999,980	547,502
Net income	-	-
Common stock - warrants exercised	-	50,000
Stock split in the form of a dividend	-	597,743
Increase in net unrealized losses on available for sale securities	-	-
Treasury stock purchased	-	-
Issuance of common stock	-	765
Stock options exercised	-	38,000
Dividends on preferred stock	-	-
Dividends on common stock at $.32 per share	-	-
Balance at June 30, 1996	1,999,980	1,234,010
Net income	-	-
Issuance of common stock through exercise of stock options and purchase of treasury stock	-	20,000
Exercise of stock warrants	-	19,940
Decrease in net unrealized losses on available for sale securities	-	-
Treasury stock issued - employee stock bonus	-	-
Issuance of common stock	-	1,019
Dividends on preferred stock	-	-
Dividends on common stock at $.32 per share	-	-
Balance at June 30, 1997	$ 1,999,980	$ 1,274,969

See accompanying notes.

Additional Paid-in Capital	Treasury Stock	Retained Earnings	Net Unrealized Losses on Available for Sale Securities	Total
$ 4,640,968	$ -	$ 9,006,038	$ (438,023)	$ 15,756,363
-	-	1,489,381	-	1,489,381
-	-	-	342,516	342,516
2,091	-	-	-	2,193
-	-	(140,000)	-	(140,000)
-	-	(175,175)	-	(175,175)
4,643,059	-	10,180,244	(95,507)	17,275,278
-	-	1,193,420	-	1,193,420
650,000	-	-	-	700,000
-	-	(597,743)	-	-
-	-	-	(741,847)	(741,847)
-	(52,277)	-	-	(52,277)
10,793	-	-	-	11,558
152,000	-	-	-	190,000
-	-	(139,999)	-	(139,999)
-	-	(284,891)	-	(284,891)
5,455,852	(52,277)	10,351,031	(837,354)	18,151,242
-	-	1,507,103	-	1,507,103
83,450	(28,420)	-	-	75,030
88,005	67,055	-	-	175,000
-	-	-	503,179	503,179
(268)	13,642	-	-	13,374
12,468	-	-	-	13,487
-	-	(139,997)	-	(139,997)
-	-	(397,805)	-	(397,805)
$ 5,639,507	$ -	$ 11,320,332	$ (334,175)	$ 19,900,613

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 1997, 1996 and 1995

	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 1,507,103	$ 1,193,420	$ 1,489,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	578,427	602,860	640,634
Provision for losses on other real estate owned	39,000	94,711	107,173
Provision for losses on real estate held for investment	100,000	-	-
Treasury stock bonused to employees	13,374	-	-
Deferred income tax expense (benefit)	(72,290)	19,236	122,143
Depreciation of premises and equipment and other	597,573	675,232	606,604
Goodwill amortization	296,374	308,913	235,098
Net gain on sale of available for sale securities	(171,080)	(231,344)	(49,045)
Net gains on sale of loans	(201,418)	(251,597)	(160,982)
Originations of loans held for sale	(2,178,115)	(11,585,640)	(4,273,878)
Proceeds from sale of loans held for sale	2,430,823	11,781,652	4,325,745
Net change in trading account securities	172,621	(196,246)	171,696
Other	(98,542)	(52,921)	(26,174)
Change in other assets and liabilities:			
Increase in interest receivable	(127,866)	(213,557)	(291,215)
Increase in other assets and liabilities	(54,046)	(39,262)	(326,872)
Net cash provided by operating activities	2,831,938	2,105,457	2,570,308
Cash flows from investing activities:			
Proceeds from the sale of available for sale securities	12,379,650	16,858,222	12,179,897
Purchase of available for sale securities	(11,277,560)	(38,104,596)	(1,265,840)
Proceeds from maturities and principal payments on available for sale securities	2,384,771	851,639	335,432
Proceeds from maturities and principal payments on held to maturity securities	-	-	1,645,454
Purchase of held to maturity securities	-	-	(12,399,309)
Purchases of loans	(25,425,642)	-	-

Net increase in loans	(11,933,101)	(142,079)	(11,905,988)
Additions to premises and equipment	(1,028,625)	(398,937)	(936,647)
Proceeds from sale of investment in real estate	-	24,251	238,189
Purchase of investment in real estate and improvements	(6,156)	(40,068)	(13,397)
Proceeds from sale of other real estate owned	519,871	585,798	581,880
(Purchase) sale of Federal Home Loan Bank stock	(1,293,500)	(506,200)	195,000
Cash received from acquisition of bank branches	-	-	25,547,199
Net cash (used) provided by investing activities	(35,680,292)	(20,871,970)	14,201,870
Cash flows from financing activities:			
Net increase (decrease) in deposits	$ 9,215,318	$ (1,924,501)	$ (4,930,902)
Net increase in repurchase agreements	1,335,656	1,177,579	2,585,387
Dividends paid	(537,802)	(424,890)	(315,175)
Treasury stock purchased	(28,420)	(52,277)	-
Stock options exercised	103,450	190,000	-
Warrants exercised	175,000	700,000	-
Issuance of common stock	13,487	11,558	2,193
Net borrowings (payments) from (to) Federal Home Loan Bank	26,870,361	16,423,000	(10,200,000)
Principal payments on notes payable	(203,581)	(507,899)	(510,115)
Net cash provided (used) by financing activities	36,943,469	15,592,570	(13,368,612)
Net increase (decrease) in cash and cash equivalents	4,095,115	(3,173,943)	3,403,566
Cash and cash equivalents, beginning of year	11,566,128	14,740,071	11,336,505
Cash and cash equivalents, end of year	$ 15,661,243	$ 11,566,128	$ 14,740,071
Supplemental schedule of cash flow information:			
Interest paid	$ 10,356,006	$ 9,103,639	$ 7,997,123
Income taxes paid	620,000	913,000	794,000
Supplemental schedule of noncash investing and financing activities:			
Transfer from loans to other real estate owned	$ 538,019	$ 314,718	$ 827,304
Transfer from other real			

estate owned to loans	-	-	382,718
Loans originated to finance the sales of other real estate owned	-	184,732	399,550
Transfer of securities into available for sale securities, at fair value	-	-	18,821,933
Transfer of securities out of held to maturity securities, at amortized cost	-	-	(18,774,672)
Net change in valuation for unrealized losses on available for sale securities	503,179	741,847	(295,255)
Net change in deferred taxes for unrealized losses on available for sale securities	259,214	382,164	(176,446)

In connection with the acquisition of bank branches in 1995, the Company assumed deposit liabilities (see note 16).

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997, 1996 and 1995

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Northeast Bancorp and Subsidiary (the Company) conform to generally accepted accounting principles and general practice within the banking industry.

Business

Northeast Bancorp provides a full range of banking services to individual and corporate customers throughout south central and western Maine through its wholly owned subsidiary, Northeast Bank, F.S.B. The bank is subject to competition from other financial institutions. The bank is subject to the regulations of the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS) and undergoes periodic examinations by these agencies. Prior to July 1, 1996, the Company conducted business as Bethel Bancorp.

Basis of Financial Statement Presentation

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

those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the carrying value of real estate acquired through foreclosure, management obtains independent appraisals for significant properties.

A substantial portion (85%) of the Company's loans are secured by real estate in the State of Maine. In addition, all of the real estate acquired through foreclosure is located in the same market. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of the carrying amount of real estate acquired through foreclosure are susceptible to changes in market conditions in Maine.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, a savings and loan holding company, and its wholly-owned subsidiary, Northeast Bank, F.S.B. (including the bank's wholly-owned subsidiary, Northeast Financial Services, Inc.)

All significant intercompany transactions and balances have been eliminated in consolidation.

Cash Equivalents

Cash equivalents consist of cash and due from banks, Federal Home Loan Bank overnight deposits and interest bearing deposits. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. The Company is required to maintain a certain reserve balance in the form of cash or deposits with the Federal Reserve Bank. At June 30, 1997, the reserve balance was approximately $503,000.

Investments

Trading Account Securities

Trading account securities, consisting of equity securities purchased with the intent to be subsequently sold to provide net securities gains, are carried at market value. Realized and unrealized gains and losses on trading account securities are recognized in the statements of income as they occur. Transactions are accounted for as of the trade date using the specific identification method.

Available for Sale Securities

Equity securities, and debt securities which may be sold prior to maturity, are classified as available for sale and are carried at market value. Changes in market value, net of applicable income taxes, are reported as a separate component of stockholders' equity. When a decline in market value of a security is considered other than temporary, the loss is charged to other expense in the consolidated statements of income as a writedown. Premiums and discounts are amortized and accreted over the term of the securities on the level yield method adjusted for prepayments. Gains and losses on the sale of securities are recognized at the time of the sale using the specific identification method.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is carried at cost.

Loans Held for Sale and Mortgage Banking Activities

Loans originated for sale are specifically identified and carried at the lower of aggregate cost or estimated market value, estimated based on bid quotations from loan dealers.

Effective July 1, 1996, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Statement No. 122, Accounting for Mortgage Servicing Rights, an Amendment of FASB Statement No. 65. Statement No. 122 requires that the Company recognize as separate assets the rights to service mortgage loans for others, and requires the assessment of capitalized mortgage servicing rights for impairment based on the current fair value of those rights. This assessment includes servicing rights capitalized prior to adoption of Statement No. 122. As required by Statement No. 122, the Company capitalizes mortgage servicing rights at their allocated cost based on the relative fair values upon the sale of the related loans. The impact of adoption of Statement No. 122 was not material to the Company's financial position, liquidity or results of operations.

Effective January 1, 1997, the Company adopted FASB Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The impact of adoption of Statement No. 125 was not material to the Company's financial position, liquidity or results of operations.

The Company's mortgage servicing rights asset at June 30, 1997 and 1996 is not material and is included in other assets in the consolidated statements of financial position.

Gains and losses on sales of mortgage loans are determined using the specific identification method and recorded as gain on sales of mortgage loans in the consolidated statements of income. The gains and losses resulting from the sales of loans with servicing retained are adjusted to recognize the present value of future servicing fee income over the estimated lives of the related loans.

Mortgage servicing rights are amortized on an accelerated method over the estimated weighted average life of the loans. Amortization is recorded as a charge against loan servicing fee income. The Company's assumptions with respect to prepayments, which affect the estimated average life of the

loans, are adjusted periodically to reflect current circumstances. The Company evaluates the estimated life of its servicing portfolio based on data which is disaggregated to reflect note rate, type and term on the underlying loans.

Mortgage servicing fees received from investors for servicing their loan portfolios are recorded as loan servicing fees income when received. Loan servicing costs are charged to noninterest expenses when incurred.

Loans

Loans are carried at the principal amounts outstanding plus premiums paid reduced by partial charge-offs and net deferred loan fees. Loan origination fees and certain direct loan origination costs are deferred and recognized in interest income as an adjustment to the loan yield over the life of the related loans. Loans are generally placed on nonaccrual status when they are past due 90 days as to either principal or interest, or when in management's judgment the collectibility of interest or principal of the loan has been significantly impaired. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months. Loans are classified as impaired when it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and collateral value.

Allowance for Loan Losses

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

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

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

Premises and Equipment

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

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

Income Taxes

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

Other Real Estate Owned

Other real estate owned is comprised of (1) properties or other assets acquired through foreclosure proceedings, or acceptance of a deed or title in lieu of foreclosure and (2) other assets repossessed in connection with non-real estate loans. Other real estate owned is carried at the lower of cost or fair value of the collateral less estimated selling expenses. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses and any subsequent provisions to reduce the carrying value are charged to current period earnings. Gains and losses upon disposition are reflected in earnings as realized.

Real Estate Held for Investment

Real estate properties held for investment are carried at the lower of cost, including costs of improvements and amenities incurred subsequent to acquisition, or fair value. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed. The Company recorded an allowance for losses of $100,000 during the year ended June 30, 1997 in accordance with the provisions of FASB Statement No. 121. The provision has been included as a reduction to other income on the statement of income.

Goodwill

Goodwill arising from acquisitions is being amortized on a straight-line basis over ten to fifteen years. Goodwill is reviewed for possible impairment when events or changed circumstances may affect the underlying

basis of the asset.

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs were approximately $145,000, $47,000 and $55,000, for the years ended June 30, 1997, 1996 and 1995, respectively.

Reclassification

Certain prior year accounts and balances in the consolidated financial statements have been reclassified to conform to the current year presentation.

2. Available for Sale Securities

A summary of the cost and approximate fair values of available for sale securities at June 30, 1997 and 1996 follows:

	1997		1996	
	Cost	Fair Value	Cost	Fair Value
Debt securities issued by the U.S. Treasury and other U.S. Government corporations and agencies	$ 1,498,913	$ 1,455,788	$ 1,497,111	$ 1,424,690
Corporate bonds	149,694	142,750	149,646	139,005
Equity securities	896,739	850,582	462,167	440,330
Mortgage-backed securities	25,057,910	24,647,811	28,810,113	27,646,294
	$27,603,256	$27,096,931	$30,919,037	$29,650,319

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

1997		1996	
Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses

Debt securities issued by the U. S. Treasury and other U. S. Government corporations and agencies	$ -	$ 43,125	$ -	$ 72,421
Corporate bonds	-	6,944	-	10,641
Equity securities	28,965	75,122	5,321	27,158
Mortgage-backed securities	37,503	447,602	17,664	1,181,483
	$ 66,468	$ 572,793	$ 22,985	$ 1,291,703

At June 30, 1997, investment securities with a market value of approximately $9,161,000 were pledged as collateral to secure outstanding repurchase agreements.

At June 30, 1997 and 1996, included in net unrealized losses on available for sale securities as a reduction to stockholders' equity are net unrealized losses of $506,325 and $1,268,718, respectively, net of the deferred tax effect of $172,150 and $431,364, respectively.

The cost and fair values of available for sale securities at June 30, 1997 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost	Fair Value
Due in one year	$ 248,913	$ 248,913
Due after one year through five years	250,000	242,500
Due after five years through ten years	149,694	142,750
Due after ten years	1,000,000	964,375
	1,648,607	1,598,538
Mortgage-backed securities (including securities with interest rates ranging from 5.15% to 8.5% maturing September 2003 to January 2027)	25,057,910	24,647,811
Equity securities	896,739	850,582
	$27,603,256	$27,096,931

The realized gains and losses on available for sale securities for the year ended June 30, 1997 were $171,205 and $125, respectively, for the year ended June 30, 1996 were $248,542 and $17,198, respectively, and for the year ended June 30, 1995 were $280,257 and $231,212, respectively.

Based on management's assessment of available for sale securities, there has

been more than a temporary decline in fair value of certain securities. At June 30, 1997, 1996 and 1995, write-downs of available for sale securities were $110,000, $93,819 and $0, respectively, and are included in other expense in the statements of income.

During 1995, the Company purchased $12,399,000 in securities it classified as held to maturity, since at the time of acquisition Company management had the intention, and the Company had the ability, to hold such securities until maturity. In the last quarter of fiscal 1995, as a result of its planning process and changes in market conditions, Company management determined that it no longer possessed the intent to hold such securities to maturity. Consequently, the Company transferred its entire held to maturity portfolio, with an aggregate cost of $18,775,000 and an aggregate fair value of $18,822,000 (including unrealized gains and losses of $191,000 and $144,000, respectively) to available for sale. The Company subsequently sold selected of the aforementioned securities with an aggregate cost of $11,900,000 and realized gains of $273,000 and realized losses of $225,000. The Company's decision not to hold these securities to maturity does not satisfy the limited criteria of Financial Accounting Standards No. 115 which specifies circumstances in which it is permissible to sell or transfer held to maturity securities. Consequently, the Company will, for the foreseeable future, classify its securities portfolio as available for sale, or trading.

3. Loans Held for Sale

A summary of the carrying value and market value of loans held for sale at June 30, 1997 and 1996 follows:

	June 30, 1997		June 30, 1996	
	Carrying Value	Market Value	Carrying Value	Market Value
Real estate mortgages	$ 240,000	$ 242,400	$ 448,475	$ 452,960

At June 30, 1997 and 1996, gross unrealized gains on loans held for sale were $2,400 and $4,485, respectively, and there were no unrealized losses.

4. Loans

The Company's lending activities are conducted in south central and western Maine. The Company grants single-family and multi-family residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the Company grants loans for the construction of residential homes, multi-family properties, commercial real estate properties and for land development. Most loans granted by the Company are collateralized by real estate. The ability and willingness of residential and commercial real estate, commercial and construction loan borrowers to honor their repayment commitments is generally dependent on the health of

the real estate economic sector in the borrowers' geographic area and the general economy.

In the ordinary course of business, the Company has loan transactions with its officers, directors and their associates and affiliated companies ("related parties") at substantially the same terms as those prevailing at the time for comparable transactions with others. Such loans amounted to $1,693,737 and $2,229,045 at June 30, 1997 and 1996, respectively. New loans granted to related parties in 1997 totaled $305,863; payments and reductions amounted to $841,171. In 1996, new loans granted to related parties totaled $478,166; payments and reductions amounted to $813,351.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	1997	1996	1995
Balance at beginning of year	$ 2,549,000	$ 2,396,000	$ 2,463,000
Provision charged to operating expenses	578,427	602,860	640,634
Loans charged off	(739,969)	(525,653)	(760,733)
Recoveries on loans charged off	129,542	75,793	53,099
Net loans charged off	(610,427)	(449,860)	(707,634)
Balance at end of year	$ 2,517,000	$ 2,549,000	$ 2,396,000

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

The 1997 and 1996 allowance for loan losses related to loans that are identified as impaired includes impairment reserves, which are based on discounted cash flows using the loan's effective interest rate, or the fair value of the collateral for collateral-dependent loans, or the observable market price of the impaired loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Loans that experience insignificant payment delays (less than 60 days) and insignificant shortfalls in payment amounts (less than 10%) generally are not classified as impaired, as well as, commercial loans with balances less than $25,000. Restructured loans are reported as impaired in the year of restructuring. Thereafter, such loans may be removed from the impaired loan disclosure if the loans were paying a market rate of interest at the time of restructuring and are performing in accordance with their renegotiated terms. A loan is classified as an insubstance foreclosure when the Company

has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place.

At June 30, 1997, total impaired loans were $1,661,698 of which $844,457 had related allowances of $369,474. During the year ended June 30, 1997, the income recognized related to impaired loans was $50,690 and the average balance of outstanding impaired loans was $1,330,983. At June 30, 1996, total impaired loans were $1,530,650 of which $1,063,720 had related allowances of $499,200. During the year ended June 30, 1996, the income recognized related to impaired loans was $87,128 and the average balance of outstanding impaired loans was $1,799,087. The Company recognizes interest on impaired loans on a cash basis when the ability to collect the principal balance is not in doubt; otherwise, cash received is applied to the principal balance of the loan.

Loans on nonaccrual status, including impaired loans described above, at June 30, 1997 and 1996 totaled approximately $2,424,000 and $2,603,000, respectively. Interest income that would have been recorded under the original terms of such loans, net of interest income actually recognized for the years ended June 30, 1997, 1996 and 1995, totaled approximately $176,000, $228,000 and $266,000, respectively.

The Company has no material outstanding commitments to lend additional funds to customers whose loans have been placed on nonaccrual status or the terms of which have been modified.

The Company was servicing for others, mortgage loans originated and sold of approximately $34,683,000, $39,940,000 and $32,560,000 at June 30, 1997, 1996 and 1995, respectively. In the past, the Company purchased loan servicing rights from another institution. The balance of the loans serviced under this agreement was approximately $7,826,000, $9,676,000 and $12,983,000 at June 30, 1997, 1996 and 1995, respectively.

5. Premises and Equipment

Premises and equipment at June 30, 1997 and 1996 are summarized as follows:

	1997	1996
Land	$ 784,109	$ 784,109
Buildings	2,114,006	2,149,215
Leasehold and building improvements	1,007,931	636,814
Furniture, fixtures and equipment	3,630,525	3,119,569
	7,536,571	6,689,707
Less accumulated depreciation	3,575,868	3,113,321
Net premises and equipment	$ 3,960,703	$ 3,576,386

Depreciation and amortization of premises and equipment, included in

occupancy and equipment expense, was $593,251, $670,774 and $599,868 for the years ended June 30, 1997, 1996 and 1995, respectively.

6. Other Real Estate Owned

The following table summarizes the composition of other real estate owned at June 30:

	1997	1996
Real estate properties acquired in settlement of loans	$ 543,250	$ 613,831
Less allowance for losses	50,839	100,000
	$ 492,411	$ 513,831

Activity in the allowance for losses on other real estate owned was as follows:

	1997	1996	1995
Balance at beginning of year	$ 100,000	$ 5,289	$ 49,405
Provision for losses on other real estate owned	39,000	94,711	107,173
Other real estate owned write-downs	(88,161)	-	(151,289)
Balance at end of year	$ 50,839	$ 100,000	$ 5,289

7. Deposits

Deposits at June 30 are summarized as follows:

	Weighted Average Rate at June 30,1997	1997		1996	
		Amount	Percent	Amount	Percent
Demand	0.00%	$ 12,056,336	7.8%	$ 11,424,481	7.9%
NOW	1.26	11,428,705	7.4	13,516,135	9.3

Money market	3.44	12,317,349	8.0	12,291,543	8.5
Regular savings	2.60	20,389,221	13.2	21,884,843	15.1
Certificates of deposit:					
1.00 - 3.75%	1.32	314,846	.2	256,272	.2
3.76 - 5.75%	5.34	50,355,740	32.6	51,745,006	35.6
5.76 - 7.75%	6.23	47,415,692	30.7	32,963,106	22.7
7.76 - 9.75%	8.75	132,798	.1	1,113,983	.7
	4.38%	$154,410,687	100.0%	$145,195,369	100.0%

At June 30, 1997, scheduled maturities of certificates of deposit are as follows:

	1998	1999	2000	2001	2002	There-after
1.00 - 3.75%	$ 283,598	$ 6,992	$ 24,256	$ -	$ -	$ -
3.76 - 5.75%	43,717,335	5,675,311	455,143	422,665	75,243	10,043
5.76 - 7.75%	26,248,599	9,935,796	4,608,497	2,028,549	4,594,251	-
7.76 - 9.75%	131,183	1,615	-	-	-	-

Interest expense on deposits for the years ended June 30, 1997, 1996 and 1995 is summarized as follows:

	1997	1996	1995
NOW	$ 158,485	$ 265,551	$ 264,143
Money market	439,058	446,950	455,080
Regular savings	542,652	596,863	610,415
Certificates of deposit	5,214,608	5,116,808	4,113,465
	$ 6,354,803	$ 6,426,172	$ 5,443,103

8. Federal Home Loan Bank Borrowings

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

June 30, 1997		
Principal	Interest	Maturity

Amounts	Rates	Dates
$ 54,407,706	4.97% - 6.39%	1998
15,606,482	5.64% - 6.20%	1999
3,000,000	6.27%	2000
273,080	6.40%	2001
1,441,827	6.21% - 6.49%	2002
290,652	6.61%	2003
1,973,614	6.36% - 6.67%	2004
2,000,000	6.65%	2005
$ 78,993,361		

June 30, 1996		
Principal Amounts	Interest Rates	Maturity Dates
$ 31,400,000	5.17% - 8.30%	1997
5,573,000	4.97% - 6.86%	1998
14,500,000	5.64% - 6.35%	1999
325,000	6.40%	2001
325,000	6.61%	2003
$ 52,123,000		

Mortgages, free of liens, pledges and encumbrances, investment securities not otherwise pledged, and the Company's Federal Home Loan Bank stock equal to at least 200% of the borrowings from that bank have been pledged to secure these borrowings. The Company is required to own stock of the Federal Home Loan Bank of Boston in order to borrow from the Federal Home Loan Bank. One of the Federal Home Loan Bank borrowings held at June 30, 1997 is adjustable and, therefore, the rate is subject to change.

9. Notes Payable

Notes payable at June 30, 1997 and 1996 primarily consisted of a $2.5 million loan from an unrelated financial institution for the acquisition of a bank. The note is payable in eighteen equal quarterly principal payments of $76,389. Interest is payable monthly at 8%. The Company has pledged Northeast Bank F.S.B. common stock and a $1 million key man life insurance policy as collateral for the loan.

The loan agreement contains certain covenants which limits capital expenditures of the Company and the amount of nonperforming loans and requires minimum loan loss reserves, capital, return on assets, and the Company is required to obtain approval from the lender before the Company can commit to a merger or consolidation with another entity. At June 30, 1997, the Company complied with these covenants with the exception of the merger and consolidation covenant which was approved by the lender.

10. Securities Sold Under Repurchase Agreements

During 1997 and 1996, the Company sold securities under agreements to repurchase. The weighted average interest rate on repurchase agreements was 4.25% at June 30, 1997 and 1996. These borrowings, which were scheduled to mature within 180 days, were collateralized by FHLMC and GNMA securities with a market value of $9,161,000 and amortized cost of $9,300,000 at June 30, 1997, and a market value of $5,689,000 and amortized cost of $5,875,000 at June 30, 1996. The repurchase agreements averaged $4,566,000 and $3,516,000 during the years ended June 30, 1997 and 1996, respectively. The maximum amount outstanding at any month-end during 1997 and 1996 was $5,214,000 and $4,201,000, respectively. Securities sold under these agreements were under the control of the Company during 1997 and 1996.

11. Regulatory Capital and Other Matters

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

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

Management believes that as of June 30, 1997 and June 30, 1996, the Company meets all capital adequacy requirements to which it is subject.

As of June 30, 1997, the most recent notification from the OTS categorized the Company as well capitalized. There are no conditions or events since that notification that management believes have changed the Company's category. The following is a summary of the actual capital amounts and ratios, as of June 30, 1997 and June 30, 1996, compared to the OTS minimum bank capital adequacy requirements and their requirements for classification as a well capitalized institution.

Actual		Minimum Capital Adequacy		For Classification As Well Capitalized	
Amount	Ratio	Amount	Ratio	Amount	Ratio

(Dollars in Thousands)						
As of June 30, 1997:						
Tangible capital:						
Northeast Bancorp	$15,984	6.2%	>$ 3,898	>1.5%	>$ 3,898	> 1.5%
Northeast Bank	17,733	6.8%	> 3,892	>1.5%	> 3,892	> 1.5%
Core capital:						
Northeast Bancorp	$15,984	6.2%	>$ 7,797	>3.0%	>$12,994	> 5.0%
Northeast Bank	17,733	6.8%	> 7,785	>3.0%	> 12,975	> 5.0%
Risked-based capital (total capital):						
Northeast Bancorp	$17,096	10.8%	>$ 12,709	>8.0%	>$15,886	>10.0%
Northeast Bank	18,840	11.9%	> 12,677	>8.0%	> 15,847	>10.0%
As of June 30, 1996:						
Tangible capital:						
Northeast Bancorp	$14,415	6.5%	>$ 3,305	>1.5%	>$ 3,305	> 1.5%
Northeast Bank	15,386	7.0%	> 3,291	>1.5%	> 3,291	> 1.5%
Core capital:						
Northeast Bancorp	$14,415	6.5%	>$ 6,611	>3.0%	>$11,018	> 5.0%
Northeast Bank	15,386	7.0%	> 6,582	>3.0%	> 10,970	> 5.0%
Risked-based capital (total capital):						
Northeast Bancorp	$15,378	11.8%	>$ 10,438	>8.0%	>$13,048	>10.0%
Northeast Bank	16,349	12.6%	> 10,362	>8.0%	> 12,952	>10.0%

The Company is also subject to certain capital requirements established by the FDIC. At June 30, 1997 and June 30, 1996, the Company's capital exceeded the regulatory requirements.

The Company may not declare or pay a cash dividend on, or repurchase, any of its capital stock if the effect thereof would cause the capital of the Company to be reduced below the capital requirements imposed by the OTS.

In September of 1996, Congress enacted comprehensive legislation amending the FDIC BIF-SAIF deposit insurance assessments on savings and loan institution deposits. The legislation imposed a one-time assessment on institutions holding SAIF deposits at March 31, 1995. As a result of this legislation, the Company incurred a special assessment of approximately $297,000 during 1997. This assessment is included in FDIC insurance expense in the 1997 consolidated statement of income.

12. Earnings Per Share

Earnings per share have been computed on the basis of the weighted average number of shares of common stock outstanding. The weighted average number of shares outstanding were: 1,329,000, 1,270,000 and 1,227,400 for the years ended June 30, 1997, 1996 and 1995, respectively. Common stock equivalents and potentially dilutive securities were considered in the calculations of weighted average shares outstanding, since their effect was dilutive. Preferred stock dividends have been deducted from net income

in the calculation of earnings per share for each of the years.

In February 1997, the FASB issued Statement No. 128, Earnings Per Share. This Statement requires disclosure of "basic" and "diluted" earnings per share. The Statement is required to be implemented retroactively in the second quarter of fiscal year 1998. Management has not determined the impact of the adoption of Statement No. 128.

13. Preferred Stock

The preferred stock, Series A and B, may be converted to common stock on a two to one ratio at the option of the holder and carries voting rights. Dividends are to be paid to the holder of the preferred stock quarterly at a rate equal to interest at prime rate less two percent but in no event less than 7% per annum. The Series B preferred stock was issued with warrants attached for a term of seven years to purchase shares of the Company's common stock at $7 per share. During 1997 25,000 such warrants were exercised for a total of $175,000. At June 30, 1997, there remains outstanding warrants to purchase 108,764 shares of the Company's common stock which expire May 1999.

14. Other Expenses

Other expenses includes the following for the years ended June 30, 1997, 1996 and 1995:

	1997	1996	1995
Professional fees	$ 338,670	$ 305,721	$ 304,547
Insurance	106,057	117,998	110,029
Supplies	234,052	211,126	248,951
Real estate owned expenses	64,907	87,442	99,272
Provision for losses on OREO	39,000	94,711	107,173
Goodwill amortization	296,374	308,913	235,098
Write-down on securities	110,000	93,819	--
Other	1,507,692	1,564,873	1,395,886
	$ 2,696,752	$ 2,784,603	$ 2,500,956

15. Income Taxes

The current and deferred components of income tax expense (benefit) were as follows for the years ended June 30, 1997, 1996 and 1995:

	1997	1996	1995
Federal:			
Current	$ 941,276	$ 668,441	$ 714,055

Deferred	(72,290)	19,236	122,143
	868,986	687,677	836,198
State and local - current	38,611	30,935	32,357
	$ 907,597	$ 718,612	$ 868,555

Total income tax expense is different from the amounts computed by applying the U.S. federal income tax rates in effect to income before income taxes. The reasons for these differences are as follows for the years ended June 30, 1997, 1996 and 1995:

	1997		1996		1995	
	Amount	% Of Pretax Income	Amount	% Of Pretax Income	Amount	% Of Pretax Income
Expected income tax expense at federal tax rate	$ 820,998	34.0%	$ 650,091	34.0%	$ 801,698	34.0%
State tax, net of federal tax benefit	25,483	1.1	20,417	1.1	21,562	.9
Amortization of goodwill	42,192	1.7	42,192	2.2	34,671	1.5
Dividend received deduction	(6,873)	(.3)	(6,903)	(.4)	(5,333)	(.2)
Low income/ rehabilitation credit	(20,000)	(.8)	(20,000)	(1.0)	(20,000)	(.9)
Other	45,797	1.9	32,815	1.7	35,957	1.5
	$ 907,597	37.6%	$ 718,612	37.6%	$ 868,555	36.8%

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 1997 and 1996 are presented below:

	1997	1996
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 842,000	$ 650,000
Deferred gain on loan sales	67,000	59,000
Interest on nonperforming loans	60,000	77,000

Difference in tax and financial statement bases of investments	241,000	492,000
Difference in tax and financial statement amortization of goodwill	73,000	48,000
Other	63,000	82,000
Total deferred tax assets	1,346,000	1,408,000
Deferred tax liabilities:		
Loan loss reserve - tax	(73,000)	(61,000)
Other	(32,000)	(35,000)
Total deferred tax liabilities	(105,000)	(96,000)
Net deferred tax assets, included in other assets	$1,241,000	$1,312,000

The Company has sufficient refundable taxes paid in available carryback years to fully realize its recorded deferred tax asset of $1,346,000. Accordingly, no valuation allowance has been recorded at June 30, 1997 and 1996.

During 1997, as a result of an IRS examination and other factors, the Company's deferred tax asset was increased on a net basis by $116,000, with an offset to current taxes payable.

In August 1996, the provisions repealing the then current thrift bad debt rules were passed by Congress. The new rules eliminate the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also require that all thrift institutions recapture all or a portion of their tax bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Company has previously recorded a deferred tax liability equal to the tax bad debt recapture and as such, the new rules will have no effect on net income or federal income tax expense.

The unrecaptured base year reserves will not be subject to recapture as long as the Company continues to carry on the business of banking. In addition, the balance of the pre-1988 tax bad debt reserves continue to be subject to provisions of present law that require recapture in the case of certain excess distributions to stockholders. For federal income tax purposes, the Company has designated approximately $2,400,000 of net worth as a reserve for tax bad debts on loans. The use of this amount for purposes other than to absorb losses on loans would result in taxable income and financial statement tax expense at the then current tax rate.

16. Mergers and Acquisitions

Merger of Bank

On May 9, 1997, the Company entered into a definitive agreement to merge with Cushnoc Bank and Trust Company (Cushnoc) of Augusta, Maine. The agreement, which has been approved by the Company's Board of Directors and

by the Board of Directors of Cushnoc, is subject to approval by Cushnoc's stockholders and receipt of the necessary regulatory approvals and is expected to be consummated during the third or fourth quarter of calendar year 1997.

At March 31, 1997, Cushnoc had approximately $20,939,000 in total assets and stockholders' equity of approximately $2,174,000. Under the terms of the agreement, the Company will issue 2.089 shares of its common stock for each common share of Cushnoc outstanding. At March 31, 1997, Cushnoc had 90,000 common shares outstanding. The acquisition will be accounted for using the pooling of interests method. At the closing, Cushnoc will be merged into the Company's banking subsidiary, Northeast Bank, F.S.B. Pro forma financial information is not presented due to immateriality.

Acquisition of Bank Branches

During 1995, the Company acquired four branches from Key Bank of Maine. The total deposits assumed were $27,749,000. The premium paid to Key Bank for these deposits was $1,590,228. In addition to the assumed deposits, the Company acquired real estate, buildings and furniture totalling $498,500 and other miscellaneous assets and liabilities which are immaterial. The excess of cost over the net assets acquired is being amortized over 10 years. The acquisition was accounted for using purchase accounting.

17. Employee Benefit Plans

Profit Sharing Plan

The Company has a profit sharing plan which covers substantially all full-time employees. Contributions and costs are determined as a percent of each covered employee's salary and are at the Board of Directors discretion. Expenses for the profit sharing plan for the years ended June 30, 1997, 1996 and 1995 were $130,000, $99,000 and $76,000, respectively.

401(k) Plan

The Company offers a contributory 401(k) plan which is available to all full-time salaried and hourly-paid employees who are regularly scheduled to work 1,000 hours or more in a Plan year, have attained age 21, and have completed one year of employment. Employees may contribute between 1% and 15% of their base compensation to which the Company will match 50% up to the first 3% contributed. For the years ended June 30, 1997, 1996 and 1995, the Company contributed approximately $38,300, $36,800 and $30,800, respectively.

Stock Option Plans

The Company adopted Stock Option Plans in 1987, 1989 and 1992. Both "incentive stock options" and "nonqualified stock options" may be granted pursuant to the Option Plans. Under the Option Plans, incentive stock options may only be granted at the fair market value to employees of the Company. In the case of nonqualified stock options, which may be granted to employees and nonemployee directors, the difference between the exercise price and the fair market value of the common stock on the date of exercise will be a tax deductible expense to the Company. All options

granted under the Option Plans will be required to have an exercise price per share equal to at least the fair market value of the share of common stock on the date the option is granted. Options immediately vest upon being granted. The options are exercisable for a maximum of ten years after the options are granted in the case of all incentive stock options, three years for nonqualified stock options in the 1987 plan and five years for nonqualified stock options in the 1989 and 1992 plans.

In accordance with the Stock Option Plans, a total of 236,000 shares of unissued common stock are reserved for issuance pursuant to incentive stock options and 60,000 shares of unissued common stock are reserved for issuance pursuant to nonqualified stock options.

A summary of option activity for the years ended June 30 follows. There was no activity related to the non-qualified plan in 1997, 1996 and 1995, nor were any such options outstanding:

	1997		1996		1995	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	93,000	$ 7.66	136,000	$ 7.05	95,000	$ 5.24
Granted	15,000	12.50	--	--	45,000	11.25
Exercised	(20,000)	5.17	(38,000)	5.00	--	--
Forfeited	(1,000)	12.50	(5,000)	11.25	(4,000)	11.25
Outstanding at end of year	87,000	$ 9.02	93,000	$ 7.66	136,000	$ 7.05
Options exercisable at year end	87,000	$ 9.02	93,000	$ 7.66	136,000	$ 7.05

The following table summarizes information about stock options outstanding at June 30, 1997:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at June 30, 1997	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$ 5.37 to $5.69	37,000	2.0 years	$ 5.52

$11.25 to $13.63	50,000	8.0	11.62
$ 5.37 to $13.63	87,000	6.0	9.02

In October 1995, the FASB issued Statement No. 123, Accounting for Stock-Based Compensation, which became effective on July 1, 1996 for the Company. This Statement establishes a fair value based method of accounting for stock-based compensation plans under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period.

The per share weighted average fair value of stock options granted during 1997 was $3.15 on the date of the grants using the Black Scholes option-pricing model as a valuation technique with the following average assumptions: expected dividend yield, 2.21%; risk-free interest rate, 6.45%; expected life, 8 years; and expected volatility, 10.84%.

Statement No. 123 allows the Company to continue to measure compensation cost for such plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Under APB Opinion No. 25, no compensation cost is recorded if, at the grant date, the exercise price of the options is equal to the fair market value of the Company's common stock. The Company has elected to continue to follow the accounting under APB Opinion No. 25 and, accordingly, no cost has been recognized for its stock options in the financial statements. Had the Company determined cost based on the fair value at the grant date for its stock options under Statement No. 123, the Company's net income and earnings per share for the year ended June 30, 1997 would have been reduced to the pro forma amounts indicated below.

	Net Income	Earnings Per Share	
		Primary	Fully Diluted
As reported	$ 1,507,103	$ 1.03	$ 0.96
Pro forma	$ 1,480,311	$ 1.01	$ 0.94

The pro forma amounts reflect only stock options granted in 1997. Therefore, the full impact of calculating the cost for stock options under Statement No. 123 is not reflected in the pro forma amounts presented above because the cost for options granted prior to July 1, 1995 is not considered under the requirements of Statement No. 123.

Stock Purchase Plan

The Company has a stock purchase plan which covers substantially all full-time employees with one year of service. Offerings under the Plan are made quarterly at the market value on the offering termination date. The maximum number of shares which may be granted under the plan is 104,000 shares.

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

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

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

Financial instruments with contract amounts which represent credit risk:

	1997	1996
Commitments to originate loans:		
Residential real estate mortgages	$ 2,134,000	$ 4,975,000
Commercial real estate mortgages, including multi-family residential real estate	2,113,000	4,045,000
Commercial business loans	1,068,000	1,565,000
	5,315,000	10,585,000
Unused lines of credit	9,265,000	6,321,000
Standby letters of credit	452,000	221,000
Unadvanced portions of construction loans	1,077,000	2,244,000

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

Standby letters of credit are conditional commitments issued by the

Company to guarantee the performance of a customer to a third party. Those guarantees are issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Derivative Financial Instruments

The Company has only limited involvement with derivative financial instruments and they are used for trading purposes. The derivative financial instruments used by the Company are covered call and put contracts on its equity securities portfolio. Gains and losses from entering into these types of contracts have been immaterial to the results of operations of the Company. The total value of securities under call and put contracts at any one time is immaterial to the Company's financial position, liquidity, or results of operations.

Legal Proceedings

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

Lease Obligations

The Company leases certain properties and equipment used in operations under terms of operating leases which include renewal options. Rental expense under these leases approximated $180,000, $101,000 and $95,000 for the years ended June 30, 1997, 1996 and 1995, respectively.

Approximate minimum lease payments over the remaining terms of the leases at June 30, 1997 are as follows:

1998	$ 256,000
1999	258,000
2000	162,000
2001	132,000
2002	132,000
2003 and after	612,000
	$ 1,552,000

19. Condensed Parent Information

Condensed financial statements for Northeast Bancorp at June 30, 1997 and 1996 and for each of the years in the three year period ended June 30, 1997 are presented below.

Balance Sheets

Assets	June 30, 1997	1996
Cash and due from banks	$ 818,965	$ 1,235,116
Investment in subsidiary	18,834,184	16,556,065
Premises and equipment, net	376,012	625,632
Goodwill, net	815,793	917,766
Other assets	367,118	385,848
Total assets	$ 21,212,072	$ 19,720,427
Liabilities and Stockholders' Equity		
Note payable	$ 1,298,611	$ 1,500,000
Other liabilities	12,848	69,185
	1,311,459	1,569,185
Stockholders' equity	19,900,613	18,151,242
Total liabilities and stockholders' equity	$ 21,212,072	$ 19,720,427

Statements of Income

	Years Ended June 30, 1997	1996	1995
Income:			
Dividends from banking subsidiary	$ --	$1,436,000	$ --
Management fees charged to subsidiary	--	2,119,992	1,673,179
Other income	16,232	25,100	30,083
Total income	16,232	3,581,092	1,703,262
Expenses:			
Amortization expense	101,973	114,513	102,939
Interest on note payable	112,753	176,140	205,869
Salaries and benefits	--	1,326,271	1,318,246
Occupancy expense	65,257	140,065	125,289
Equipment expense	--	179,977	159,161
General and administrative expenses	86,457	422,411	383,980
Total expenses	366,440	2,359,377	2,295,484

Income (loss) before income tax benefit, and equity (deficit) in undistributed net income of subsidiary	(350,208)	1,221,715	(592,222)
Income tax benefit	82,371	31,771	166,182
Income (loss) before equity (deficit) in undistributed net income of subsidiary	(267,837)	1,253,486	(426,040)
Equity (deficit) in undistributed net income of subsidiary	1,774,940	(60,066)	1,915,421
Net income	$1,507,103	$1,193,420	$1,489,381

	Years Ended June 30,		
Statements of Cash Flows	1997	1996	1995
Cash flows from operating activities:			
Net income	$1,507,103	$1,193,420	$1,489,381
Adjustments to reconcile net income to net cash provided (used) by operations:			
Depreciation and amortization	114,775	253,569	208,003
Treasury stock bonused	13,374	--	--
Undistributed (earnings) deficit of subsidiary	(1,774,940)	60,066	(1,915,421)
Decrease (increase) in other assets	17,467	(72,132)	24,182
(Decrease) increase in other liabilities	(56,337)	(70,375)	23,242
Net cash (used) provided by operating activities	(178,558)	1,364,548	(170,613)
Cash flows from investing activities:			
Proceeds from sale of premises and equipment to subsidiary	245,167	24,473	--
Purchase of premises and equipment	(7,086)	(167,217)	(84,439)
Net cash provided (used) by investing activities	238,081	(142,744)	(84,439)
Cash flows from financing activities:			
Principal payments on note payable	(201,389)	(500,000)	(500,000)
Stock options exercised	103,450	190,000	--
Proceeds from issuance of common stock	13,487	11,558	2,193
Treasury stock purchased	(28,420)	(52,277)	--

Dividends paid to stockholders	(537,802)	(424,890)	(315,175)
Warrants exercised	175,000	700,000	--
Net cash flow used by financing activities	(475,674)	(75,609)	(812,982)
Net (decrease) increase in cash	(416,151)	1,146,195	(1,068,034)
Cash and cash equivalents, beginning of year	1,235,116	88,921	1,156,955
Cash and cash equivalents, end of year	$ 818,965	$1,235,116	$ 88,921
Supplemental schedule of cash flow information:			
Interest paid	$ 111,490	$ 157,959	$ 201,126
Income taxes paid	620,000	913,000	794,000

20. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Trading Account Securities and Available for Sale Securities

The fair value of investment securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value amounts could have changed.

Federal Home Loan Bank Stock

This financial instrument does not have a market nor is it practical to estimate the fair value without incurring excessive costs.

Loans

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

current economic conditions, lending conditions and the effects of estimated prepayments.
Fair value for significant non-performing loans is based on estimated cash flows and is discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and historical information.

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

Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented would be indicative of the value negotiated in an actual sale.

Accrued Interest Receivable

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

Deposits

The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The fair values of certificates of deposit are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market. If that value was considered, the fair value of the Company's net assets could increase.

Borrowed Funds, Notes Payable and Repurchase Agreements

The fair value of the Company's borrowings with the Federal Home Loan Bank is estimated by discounting the cash flows through maturity or the next repricing date based on current rates available to the Company for borrowings with similar maturities. The fair value of the notes payable approximates the carrying value, as the interest rate approximates market rates. The fair value of repurchase agreements approximates the carrying value, as these financial instruments have a short maturity.

Commitments to Originate Loans

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

Limitations

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

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

The following table presents the estimated fair value of the Company's significant financial instruments at June 30, 1997 and 1996:

	June 30, 1997		June 30, 1996	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Non-Trading Instruments:				
Financal assets:				
Cash and cash equivalents	$ 15,661,000	$ 15,661,000	$ 11,566,000	$ 11,566,000
Available for sale securities	27,097,000	27,097,000	29,650,000	29,650,000
Loans held for sale	240,000	242,000	448,000	452,000
Loans	203,839,000	205,165,000	167,302,000	165,730,000
Interest receivable	1,480,000	1,480,000	1,352,000	1,352,000
Financial liabilities:				
Deposits (with no stated maturity)	56,192,000	56,192,000	59,117,000	59,117,000
Time deposits	98,219,000	98,711,000	86,078,000	85,995,000
Borrowed funds	78,993,000	78,990,000	52,123,000	51,888,000
Notes payable	1,299,000	1,299,000	1,502,000	1,502,000
Repurchase agreements	5,099,000	5,099,000	3,763,000	3,763,000
Trading Instruments:				
Financial assets:				

Trading account securities	25,000	25,000	198,000	198,000

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Northeast Bancorp and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Northeast Bancorp and Subsidiary as of June 30, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended June 30, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Bancorp and Subsidiary as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles.

Portland, Maine — /s/ Baker Newman & Noyes
August 6, 1997 — Limited Liability Company

(b) Supplementary Financial Information

Northeast Bancorp Consolidated
Distribution of Assets, Liabilities and Net Worth
Interest Rates and Interest Differential
Years Ending June 30, 1997, 1996 and 1995

June 30, 1997

	Average Balance	Interest Income/ Expense	Average Yield/ Rate

Assets:			
Earning Assets:			
Securities Held to Maturity	--	--	--
Securities Available for Sale	2,383,410	135,307	5.68%
Trading Securities	118,954	7,426	6.24%
Mortgage-backed Securities	27,746,934	2,029,223	7.31%
FHLB Stock	3,416,358	219,916	6.44%
Loans (3)	186,950,210	17,225,937	9.21%
FHLB Overnight Deposits & Other	7,770,626	411,331	5.29%
Total Earning Assets	228,386,492	20,029,140	8.77%
Non-interest Earning Assets:			
Cash & Due from Banks	3,280,253		
Premise & Equip Net	3,763,788		
Other Assets	6,747,915		
(Allowance for Loan Loss)	(2,549,274)		
Total Assets	$239,629,174		
Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 12,348,929	158,485	1.28%
Money Market	13,045,542	439,058	3.37%
Savings	20,407,224	542,652	2.66%
Time	90,942,748	5,214,608	5.73%
Total Deposits	136,744,443	6,354,803	4.65%
Repurchase Agreements	4,566,385	199,453	4.37%
Other Borrowed Funds	66,302,613	3,945,840	5.95%
Total Interest Bearing Liabilities	207,613,441	10,500,096	5.06%
Non-interest Bearing Liabilities			
Demand	11,565,488		
Other	1,523,687		
Net Worth	18,926,558		
Total Liabilities & Net Worth	$239,629,174		
Net Interest Income		$ 9,529,044	
Interest Rate Spread (1)			3.71%
Net yield on Interest Earning Assets (2)			4.17%
Equity to Assets Ratio (4)			7.90%

June 30, 1996

	Average	Interest Income/	Average Yield/

	Balance	Expense	Rate
Assets:			
Earning Assets:			
Securities Held to Maturity	--	--	--
Securities Available for Sale	1,432,475	89,684	6.26%
Trading Securities	162,430	5,474	3.37%
Mortgage-backed Securities	16,013,118	1,149,407	7.18%
FHLB Stock	2,270,262	148,762	6.55%
Loan (3)	169,908,865	16,010,685	9.42%
FHLB Overnight Deposits & Other	10,523,674	590,850	5.61%
Total Earning Assets	200,310,824	17,994,862	8.98%
Non-interest Earning Assets:			
Cash & Due from Banks	3,318,095		
Premise & Equip Net	3,784,213		
Other Assets	7,444,099		
(Allowance for Loan Loss)	(2,482,368)		
Total Assets	$212,374,863		
Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 14,801,458	265,551	1.79%
Money Market	12,980,882	446,950	3.44%
Savings	22,258,232	596,863	2.68%
Time	87,364,527	5,116,808	5.86%
Total Deposits	137,405,099	6,426,172	4.68%
Repurchase Agreements	3,516,283	166,210	4.73%
Other Borrowed Funds	40,797,048	2,536,022	6.22%
Total Interest Bearing Liabilities	181,718,430	9,128,404	5.02%
Non-interest Bearing Liabilities			
Demand	10,019,506		
Other	2,323,046		
Net Worth	18,313,881		
Total Liabilities & Net Worth	$212,374,863		
Net Interest Income		$ 8,866,458	
Interest Rate Spread (1)			3.96%
Net yield on Interest Earning Assets (2)			4.43%
Equity to Assets Ratio (4)			8.62%

June 30, 1995

	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Earning Assets:			
Securities Held to Maturity	$ 897,691	$ 75,691	8.43%
Securities Available for Sale	971,763	60,159	6.19%
Trading Securities	186,757	1,165	0.62%
Mortgage-backed Securities	15,181,721	1,088,420	7.17%
FHLB Stock	2,470,616	189,980	7.69%
Loans (3)	164,344,609	15,085,138	9.18%
FHLB Overnight Deposits & Other	7,763,217	422,372	5.44%
Total Earning Assets	191,816,374	16,922,925	8.82%
Non-interest Earning Assets:			
Cash & Due from Banks	3,342,796		
Premise & Equip Net	3,594,335		
Other Assets	8,078,832		
(Allowance for Loan Loss)	(2,569,032)		
Total Assets	$204,263,305		
Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 14,673,951	264,143	1.80%
Money Market	14,352,970	455,080	3.17%
Savings	23,027,846	610,415	2.65%
Time	80,114,965	4,113,465	5.13%
Total Deposits	132,169,732	5,443,103	4.12%
Repurchase Agreements	1,776,296	84,921	4.78%
Other Borrowed Funds	43,496,049	2,524,896	5.80%
Total Interest Bearing Liabilities	177,442,077	8,052,920	4.54%
Non-interest Bearing Liabilities			
Demand	8,526,363		
Other	1,904,767		
Net Worth	16,390,098		
Total Liabilities & Net Worth	$204,263,305		
Net Interest Income		$ 8,870,005	
Interest Rate Spread (1)			4.28%
Net yield on Interest Earning Assets (2)			4.62%
Equity to Assets Ratio (4)			8.02%

(1) Interest rate spread is the difference between the yield on earning assets and the rates paid on interest-bearing liabilities.
(2) Net yield on interest earning assets is net interest income divided by average earning assets.
(3) Non-accruing loans are included in the average of net loans.
(4) Average equity divided by average assets.

Northeast Bancorp Consolidated
Changes in Net Interest Income
Years Ended June 30, 1997 and 1996

June 30, 1997 Compared to June 30, 1996

	Variance Due to Rate	Variance Due to Volume	Variance Due to Rate/Volume	Total Variance
Interest Earning Assets:				
Securities Held to Maturity	$ 0	$ 0	$ 0	$ 0
Securities Available for Sale	(8,362)	59,536	(5,551)	45,623
Trading Securities	4,666	(1,465)	(1,249)	1,952
Mortgage-backed Securities	21,684	842,243	15,889	879,816
FHLB Stock	(2,622)	75,099	(1,323)	71,154
Loans	(354,969)	1,605,823	(35,602)	1,215,252
FHLB Overnight Deposits & Other	(33,789)	(154,569)	8,839	(179,519)
Total Income on Earning Assets	(373,392)	2,426,667	(18,997)	2,034,278
Interest Bearing Liabilities:				
Deposits:				
Now	(75,590)	(44,000)	12,524	(107,066)
Money Market	(10,068)	2,226	(50)	(7,892)
Savings	(4,991)	(49,635)	415	(54,211)
Time	(107,373)	209,571	(4,398)	97,800
Total Deposits	(198,022)	118,162	8,491	(71,369)
Repurchase Agreements	(12,624)	49,637	(3,770)	33,243
Borrowed funds	(57,351)	1,501,117	(33,948)	1,409,818
Total Interest Expense	(267,997)	1,668,916	(29,227)	1,371,692
Change in Net interest Income	$ (105,395)	$ 757,751	$ 10,230	$ 662,586

June 30, 1996 Compared to June 30, 1995

	Variance Due to	Variance Due to	Variance Due to	Total

	Rate	Volume	Rate/Volume	Variance
Interest Earning Assets:				
Securities Held to Maturity	$ 0	$ (75,691)	$ 0	$ (75,691)
Securities Available for Sale	681	28,521	323	29,525
Trading Securities	5,129	(152)	(668)	4,309
Mortgage-backed Securities	1,310	59,605	72	60,987
FHLB Stock	(28,090)	(15,406)	2,278	(41,218)
Loans	401,222	510,741	13,584	925,547
FHLB Overnight Deposits & Other	13,493	150,188	4,797	168,478
Total Income on Earning Assets	393,745	657,806	20,386	1,071,937
Interest Bearing Liabilities:				
Deposits:				
Now	(880)	2,295	(7)	1,408
Money Market	39,113	(43,504)	(3,739)	(8,130)
Savings	7,085	(20,401)	(236)	(13,552)
Time	578,747	372,225	52,371	1,003,343
Total Deposits	624,065	310,615	48,389	983,069
Repurchase Agreements	(958)	83,185	(938)	81,289
Borrowed funds	178,901	(156,674)	(11,101)	11,126
Total Interest Expense	802,008	237,126	36,350	1,075,484
Change in Net interest Income	$ (408,263)	$ 420,680	$ (15,964)	$ (3,547)

This table reflects changes in net interest income attributable to the change in interest rates and the change in the volume of interest-bearing assets and liabilities. Amounts attributable to the change in rate are based upon the change in rate multiplied by the prior year's volume. Amounts attributable to the change in volume are based upon the changes in volume multiplied by the prior year's rate. The combined effect of changes in both volume and rate are calculated by multiplying the change in rate by the change in volume.

Northeast Bancorp Consolidated
Maturities and Repricing of Loans
As of June 30, 1997

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	$58,315,267	$13,211,892	$ 9,698,026	$54,193,232	$135,418,417

Commercial	20,441,870	12,502,542	3,173,014	1,458,653	37,576,079
Construction	2,068,512	75,000	0	0	2,143,512
Non-Mortgage Loans:					
Commercial	12,263,956	3,370,799	234,416	593,029	16,462,200
Consumer	2,026,418	5,589,156	2,385,080	4,755,274	14,755,928
Total Loans	$95,116,023	$34,749,389	$15,490,536	$61,000,188	$206,356,136

Loans due after 1 year:	
Fixed	$85,482,056
Variable	25,758,057
Total due after 1 year:	111,240,113

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

Northeast Bancorp Consolidated

Securities Available for Sale As of	June 30, 1997	June 30, 1996	June 30, 1995
Market Value (thousands)			
U.S. Government and Agency Obligations	$ 1,456	$ 1,425	$ 239
Mortgage-backed Securities	24,648	27,646	9,298
Other Bonds	143	139	141
Equity Securities	850	440	470
Total Securities Available for Sale	$ 27,097	$ 29,650	$ 10,148

This table sets forth the market value of securities available for sale at the dates indicated.

Northeast Bancorp Consolidated
Investment Maturity

Securities Available for Sale As of June 30, 1997	Weighted Average Rate	Carrying Value
Due in one Year	5.35%	$ 249
Due after one year through five years	5.40%	243
Due after five years through ten years	5.95%	143
Due after ten years	7.18%	964
Mortgage-backed securities maturing September 2003 to January 2027	7.15%	24,648
Total Securities Available for Sale	7.11%	$ 26,247

This table sets forth the anticipated maturities of debt securities available for sale and the respective weighted average rates within these ranges.

Northeast Bancorp Consolidated
Loan Portfolio
As of June 30,

June 30, 1997

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 136,190	66.00%
Consumer & Other	14,756	7.15%
Commercial Mortgage	38,948	18.87%
Commercial	16,462	7.98%
Total Loans	206,356	100.00%
Less: Allowance for loan losses	2,517	
Net Loans	$ 203,839	

June 30, 1996

	Amount	Percent of Total Loans
Residential Mortgage	$ 113,622	66.89%
Consumer & Other	14,356	8.45%
Commercial Mortgage	27,883	16.42%
Commercial	13,990	8.24%

	Amount	Percent of Total Loans
Total Loans	169,851	100.00%
Less: Allowance for loan losses	2,549	
Net Loans	$ 167,302	

June 30, 1995

Loan Portfolio (thousands)	Amount	Percent of Total Loans
Residential Mortgage	$ 117,795	69.24%
Consumer & Other	16,115	9.47%
Commercial Mortgage	23,975	14.09%
Commercial	12,255	7.20%
Total Loans	170,140	100.00%
Less: Allowance for loan losses	2,396	
Net Loans	$ 167,744	

June 30, 1994

Loan Portfolio (thousands)	Amount	Percent of Total Loans
Residential Mortgage	$ 110,461	69.71%
Consumer & Other	14,076	8.88%
Commercial Mortgage	22,463	14.18%
Commercial	11,461	7.23%
Total Loans	158,461	100.00%
Less: Allowance for loan losses	2,463	
Net Loans	$ 155,998	

June 30, 1993

Loan Portfolio (thousands)	Amount	Percent of Total Loans
Residential Mortgage	$ 108,079	71.69%
Consumer & Other	12,129	8.05%

Commercial Mortgage	20,051	13.30%
Commercial	10,497	6.96%
Total Loans	150,756	100.00%
Less: Allowance for loan losses	2,123	
Net Loans	$ 148,633	

This table shows the Company's loan distribution at the end of each of the last five years.

Northeast Bancorp Consolidated
Allowance for Loan Losses
As of June 30, 1997

June 30, 1997

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 283	66.00%
Commercial Mortgage	754	18.87%
Commercial	400	7.98%
Consumer	146	7.15%
Unallocated	934	0.00%
Total	$ 2,517	100.00%

June 30, 1996

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 247	66.89%
Commercial Mortgage	738	16.42%
Commercial	463	8.24%
Consumer	140	8.45%
Unallocated	961	0.00%

	Amount	Percent of Loans in Each Category to Total Loans
Total	$ 2,549	100.00%

June 30, 1995

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 593	69.24%
Commercial Mortgage	237	14.09%
Commercial	123	7.20%
Consumer	251	9.47%
Unallocated	1,192	0.00%
Total	$ 2,396	100.00%

June 30, 1994

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 640	69.71%
Commercial Mortgage	252	14.18%
Commercial	129	7.23%
Consumer	246	8.88%
Unallocated	1,196	0.00%
Total	$ 2,463	100.00%

June 30, 1993

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 1,221	71.69%
Commercial Mortgage	256	13.30%
Commercial	159	6.96%
Consumer	231	8.05%
Unallocated	256	0.00%
Total	$ 2,123	100.00%

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

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

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

Northeast Bancorp Consolidated
Non-performing Ratios
As of June 30,

	June 30, 1997	June 30, 1996	June 30, 1995	June 30, 1994	June 30, 1993
Non-performing loans (thousands)					
Mortgages	$ 1,896	$ 2,246	$ 2,383	$ 2,047	$ 2,308
Other	528	357	187	676	181
Total non-performing loans	2,424	2,603	2,570	2,723	2,489
Other Real Estate Owned	492	514	1,069	1,994	2,308
Total non-performing assets	$ 2,916	$ 3,117	$ 3,639	$ 4,717	$ 4,797
Total non-performing loans to total loans	1.17%	1.53%	1.51%	1.72%	1.65%
Total non-performing assets to total assets	1.11%	1.40%	1.75%	2.47%	2.68%

This table sets forth certain information concerning non-performing loans and assets and the ratios of non-performing loans to total loans and non-performing assets to total assets at the dates indicated.
Non-performing loans are problem loan accounts for which the Company has ceased accrual of interest because the loan is 90 days past due or because

collectability is doubtful, whichever is earlier.

Management believes that all loans that are considered potential problems are disclosed in the current non-performing loans table above with the exception of loans internally rated substandard. At June 30, 1997, the Company had approximately $586,000 of loans classified as substandard that could potentially become non-performing due to previous delinquencies or marginal cash flows.

No loans greater than 90 days past due are on accrual status and there are no troubled debt restructurings not disclosed above.

Refer to the financial statement footnotes #1 & #4 for further discussion of the Company's non-performing loan policy and interest income recognition.

Northeast Bancorp Consolidated
Summary of Loan Losses Experience (in thousands)
As of June 30,

	June 30, 1997	June 30, 1996	June 30, 1995	June 30, 1994	June 30, 1993
Average net loans outstanding, During period	$184,155	$166,965	$161,342	$153,476	$149,051
Net loans outstanding, End of period	$203,839	$167,302	$167,440	$155,998	$148,633
Allowance for loan losses, Beginning of period	$ 2,549	$ 2,396	$ 2,463	$ 2,123	$ 1,555
Loans charged off:					
Residential Mortgage	295	132	136	230	177
Commercial Real Estate	128	236	283	122	26
Commercial	154	53	194	285	64
Installment	163	105	148	93	46
Total loans charged off	740	526	761	730	313
Recoveries on amounts previously charged off:					
Residential Mortgage	36	10	7	25	1
Commercial Real Estate	49	34	1	0	1
Commercial	13	11	16	6	9
Installment	32	21	29	18	18
Total Recoveries	130	76	53	49	29
Net loans charged off	610	450	708	681	284
Provision for loan losses	578	603	641	1,021	852
Allowance for loan losses, End of period	$ 2,517	$ 2,549	$ 2,396	$ 2,463	$ 2,123

Net loans charged-off as a percentage of average loans outstanding	0.33%	0.27%	0.44%	0.44%	0.19%
Allowance for loan losses, as a percentage of net loans outstanding at the end of period	1.23%	1.52%	1.43%	1.58%	1.43%

The reduction in the June 30, 1997 allowance for loan loss percentage to net loans is primarily due to the purchase of $25,000,000 of residential mortgages during fiscal year 1997.

This table summarizes loans outstanding at the end of each period indicated, net of unearned income, at the end of each period indicated and the average amount of loans outstanding, changes in the allowance for loan losses and other selected statistics during each period indicated.

Northeast Bancorp Consolidated
Average Deposits and Rates (thousands)
As of June 30,

	June 30, 1997		June 30, 1996		June 30, 1995	
	Amount	Rate	Amount	Rate	Amount	Rate
Average Deposits:						
Non-interest bearing demand deposits	$ 11,566	0.00%	$ 10,020	0.00%	$ 8,526	0.00%
Regular savings	20,407	2.66%	22,258	2.68%	23,028	2.65%
NOW and Money Market	25,394	2.35%	27,782	2.56%	29,027	2.48%
Time deposits	90,943	5.73%	87,365	5.86%	80,115	5.13%
Total Average Deposits	$148,310	3.67%	$147,425	3.69%	$140,696	3.87%

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

Northeast Bancorp Consolidated
Maturities of Time Deposits $100,000 & Over
As of June 30, 1997

Balance

Time Deposits $100,000 & Over (in thousands):

3 months or less	$ 2,004
Over 3 through 6 months	2,152
Over 6 through 12 months	4,926
Over 12 months	7,692
Total Time Deposits $100,000 & Over	$ 16,774

Northeast Bancorp Consolidated
Maturities and Repricing of Earning Assets & Interest-bearing Liabilities
As of June 30, 1997
(in thousands)

	Less Than 1 Year	1-5 Years	Over 5 Years	Total	% of Total
EARNING ASSETS					
Real Estate Loans:					
Fixed	$ 898	$ 2,591	$ 66,276	$ 69,765	28.11%
Variable	79,927	23,198	2,248	105,373	42.46%
Total Real Estate Loans	80,825	25,789	68,524	175,138	70.57%
Non-Real Estate Loans:					
Fixed	1,715	8,648	7,967	18,330	7.39%
Variable	12,576	312	0	12,888	5.19%
Total Non-Real Estate Loans	14,291	8,960	7,967	31,218	12.58%
Investment Securities & Other Earning Assets	11,023	243	30,555	41,821	16.85%
Total Earning Assets	$106,139	$ 34,992	$107,046	$248,177	100.00%
INTEREST-BEARING LIABILITIES					
Deposits:					
Regular savings, value, & club accounts	$ 20,389			20,389	8.95%
NOW Accounts	11,429			11,429	5.02%
Money market accounts	12,317			12,317	5.40%
Certificates of deposit	70,381	27,828	10	98,219	43.13%
Total Deposits	114,516	27,828	10	142,354	62.50%
Repurchase Agreements	5,099	0	0	5,099	2.24%

Borrowings & Notes Payable	54,713	21,315	4,264	80,292	35.26%
Total Interest-bearing Liabilities	$174,328	$ 49,143	$ 4,274	$227,745	100.00%
Excess(deficiency) of earning assets over interest-bearing liabilities	(68,189)	(14,151)	102,772	20,432	
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities	(68,189)	(82,340)	20,432	20,432	
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities as a % of total assets	(30.68%)	(37.04%)	9.19%	9.19%	

This table summarizes the anticipated maturities and repricing of the Company's earning assets and interest-bearing liabilities at June 30, 1997.

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

Northeast Bancorp Consolidated
Quarterly Data
As of June 30, 1997

	1st Qtr Sept. 30 1996	2nd Qtr Dec. 31 1996	3rd Qtr Mar. 31 1997	4th Qtr June 30 1997
Interest Income				
Interest on loans	$ 3,987,260	$ 4,209,837	$ 4,405,483	$ 4,623,357
Interest & dividends on investments & available for sale securities	729,374	707,752	692,600	673,477
Total Interest Income	4,716,634	4,917,589	5,098,083	5,296,834
Interest Expense				
Interest on Deposits	1,539,567	1,533,721	1,586,983	1,694,532
Interest on Repurchase				

Agreements	38,269	54,686	50,745	55,753
Interest on Borrowings	854,846	929,928	1,079,816	1,081,250
Total Interest Expense	2,432,682	2,518,335	2,717,544	2,831,535
Net Interest Income	2,283,952	2,399,254	2,380,539	2,465,299
Provision for Loan Losses	144,814	144,443	144,452	144,718
Net Interest Income after Provision for Loan Losses	2,139,138	2,254,811	2,236,087	2,320,581
Securities Transactions	89,666	34,876	75,493	59,395
Other Operating Income	416,018	356,180	568,045	412,183
Other Operating Expense	2,343,829	1,819,013	2,153,840	2,231,091
Income Before Income Taxes	300,993	826,854	725,785	561,068
Income Tax Expense	116,732	299,694	274,796	216,375
Net Income	$ 184,261	$ 527,160	$ 450,989	$ 344,693
Net Income Per Common Share:				
Primary earnings per share	$ 0.11	$ 0.37	$ 0.31	$ 0.24
Fully diluted earnings per share	$ 0.11	$ 0.33	$ 0.29	$ 0.23

Northeast Bancorp Consolidated
Quarterly Data
As of June 30, 1996

	1st Qtr Sept. 30 1995	2nd Qtr Dec. 31 1995	3rd Qtr Mar. 31 1996	4th Qtr June 30 1996
Interest Income				
Interest on loans	$ 4,098,178	$ 4,059,758	$ 4,003,840	$ 3,848,909
Interest & dividends on investments & available for sale securities	384,493	445,954	522,346	631,385
Total Interest Income	4,482,671	4,505,712	4,526,186	4,480,294
Interest Expense				
Interest on Deposits	1,635,482	1,652,178	1,611,581	1,526,929
Interest on Repurchase Agreements	33,913	48,880	42,872	40,545

Interest on Borrowings	599,959	592,950	654,874	688,239
Total Interest Expense	2,269,354	2,294,008	2,309,327	2,255,713
Net Interest Income	2,213,317	2,211,704	2,216,859	2,224,581
Provision for Loan Losses	147,855	147,708	159,960	147,337
Net Interest Income after Provision for Loan Losses	2,065,462	2,063,996	2,056,899	2,077,244
Securities Transactions	120,593	92,797	35,280	30,225
Other Operating Income	493,700	457,681	420,186	446,727
Other Operating Expense	2,015,938	1,916,693	2,029,985	2,486,141
Income Before Income Taxes	663,817	697,781	482,380	68,055
Income Tax Expense	242,180	254,345	180,575	41,512
Net Income	$ 421,637	$ 443,436	$ 301,805	$ 26,543
Net Income Per Common Share:				
Primary earnings per share	$ 0.32	$ 0.32	$ 0.20	$ (0.01)
Fully diluted earnings per share	$ 0.29	$ 0.29	$ 0.19	$ 0.02

The decrease in net income for the quarter ending June 30, 1997 is primarily due to the writedown of equity securities and the provision for real estate held for investment.

The reduction of net income for the quarter ending September 30, 1996 is primarily due to the FDIC-SAIF deposit assessment of $380,000.

The reduction of net income for the quarter ending June 30, 1996 is primarily a result of increased operating expenses due to the Bank merger, the writedown of equity securities and the provision for other real estate owned.

(2) Information on the Effects of Changing Prices

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 many 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.

(3) Information About Oil and Gas Producing Activities

Not Applicable.

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

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" sections of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders is incorporated herein by reference.

Item 11. Executive Compensation

The "Executive Compensation and Other Information" section of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The "Election of Directors" and "Common Stock Ownership of Certain Beneficial Owners" sections of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The "Transactions with Management" section of the Company's definitive Proxy Statement for the 1997 Annual Meeting of Shareholders is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

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

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

Consolidated Statements of Financial Condition as of June 30, 1997 and 1996

Consolidated Statements of Income for the years ended June 30, 1997, 1996 and 1995

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 1997, 1996 and 1995

Consolidated Statements of Cash Flows for the years ended June 30, 1997, 1996 and 1995

(b) Reports on Form 8-K

The Company filed a Form 8-K on May 22, 1997, reporting the execution of an Agreement and Plan of Merger dated as of May 9, 1997 by and among Northeast Bancorp, Northeast Bank, FSB and Cushnoc Bank and Trust Company.

(C) Exhibits

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

2.1 Agreement for the Purchase and Sale of Assets and Assumption of Liabilities dated as of May 4, 1994 between Bethel Savings Bank and Key Bank of Maine, incorporated by reference to Exhibit 2.1 to Northeast Bancorp's Current Report on Form 8-K dated May 4, 1994

2.2 Agreement for the Purchase and Sale of Assets and Assumption of Liabilities dated as of May 4, 1994 between Brunswick Federal Savings Bank and Key Bank of Maine, incorporated by reference to Exhibit 2.2 to Northeast Bancorp's Current Report on Form 8-K dated May 4, 1994

2.3 Agreement and Plan of Merger dated as of May 9, 1997 by and among Northeast Bancorp, Northeast Bank, FSB and Cushnoc Bank and Trust Company, incorporated by reference to Exhibit 2 to Northeast Bancorp's Registration Statement on Form S-4 (No. 333-31797) filed with the Securities and Exchange Commission

3.1 Conformed Articles of Incorporation of Northeast Bancorp, incorporated by reference to Exhibit 3.1 to Northeast Bancorp's

	Registration Statement on Form S-4 (No.333-31797) filed with the Securities and Exchange Commission
3.2	Bylaws of Northeast Bancorp, incorporated by reference to Exhibit 3.2 to amendment No.1 to Northeast Bancorp's Registration Statement on Form S-4(No.333-31797) filed with the Securities and Exchange Commission
10.1*	1987 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Bethel Bancorp's Registration Statement on Form S-1 (No. 33-12815), filed with the Securities and Exchange Commission.
10.2*	1989 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp) is incorporated by reference to Exhibit 10.6 to Bethel Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994
10.3*	1992 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Exhibit 10.7 to Bethel Bancorp's Annual Report on Form 10-K for the year ended June 30, 1992
11	Statement regarding computation of per share earnings is submitted herewith as Exhibit 11
21	A list of subsidiaries of Northeast Bancorp is filed herewith as Exhibit 21
23	The Consent of Baker Newman & Noyes, Limited Liability Company, is submitted herewith as Exhibit 23
27	A Financial Data Schedule is submitted herewith as Exhibit 27
*	Management or compensation plan or arrangement required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K

SIGNATURES

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

NORTHEAST BANCORP

Date: September 19, 1997 By: /s/ James D. Delamater

James D. Delamater, President

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

Name	Title	Date
/s/ John B. Bouchard John B. Bouchard	Director	September 19, 1997
/s/ A. William Cannan A. William Cannan	Director, Executive Vice President	September 19, 1997
/s/ James D. Delamater James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 19, 1997
/s/ Ronald J. Goguen Ronald J. Goguen	Director	September 19, 1997
/s/ Philip C. Jackson Philip C. Jackson	Director Vice President	September 19, 1997
/s/ Ronald C. Kendall Ronald C. Kendall	Director	September 19, 1997
/s/ Judith W. Hayes Judith W. Hayes	Director	September 19, 1997
/s/ Normand R. Houde Normand R. Houde	Director	September 19, 1997
/s/ John W. Trinward, DMD John W. Trinward, DMD	Chairman of the Board	September 19, 1997
/s/ Edmond J. Vachon Edmond J. Vachon	Director	September 19, 1997
/s/ Stephen W. Wight Stephen W. Wight	Director	September 19, 1997

/s/ Dennis A. Wilson Dennis A. Wilson	Director	September 19, 1997
/s/ Richard E. Wyman, Jr. Richard E. Wyman, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	September 19, 1997

EXHIBIT INDEX

Exhibit Number	Exhibit
2.1	Agreement for the Purchase and Sale of Assets and Assumption of Liabilities dated as of May 4, 1994 between Bethel Savings Bank and Key Bank of Maine, incorporated by reference to Exhibit 2.1 to Bethel Bancorp's Current Report on Form 8-K dated May 4, 1994
2.2	Agreement for the Purchase and Sale of Assets and Assumption of Liabilities dated as of May 4, 1994 between Brunswick Federal Savings Bank and Key Bank of Maine, incorporated by reference to Exhibit 2.2 to Bethel Bancorp's Current Report on Form 8-K dated May 4, 1994
2.3	Agreement and Plan of Merger dated as of May 9, 1997 by and among Northeast Bancorp, Northeast Bank, FSB and Cushnoc and Trust Company, incorporated by reference to Exhibit 2 to Northeast Bancorp's Registration Statement on Form S-4 (No. 333-31797) filed with the Securities and Exchange Commission
3.1	Conformed Articles of Incorporation of Northeast Bancorp, incorporated by reference to Exhibit 3.1 to Northeast Bancorp's Registration Statement on Form S-4 (333-31797) filed with the Securities and Exchange Commission
3.2	Bylaws of Northeast Bancorp, incorporated by reference to Exhibit 3.2 to amendment No.1 to Northeast Bancorp's Registration Statement on Form S-4(No.333-31797) filed with the Securities and Exchange Commission
10.1*	1987 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Bethel Bancorp's Registration Statement on Form S-1 (No. 33-12815), filed with the Securities and Exchange Commission.
10.2*	1989 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp) is incorporated by reference to Exhibit 10.6 to Bethel Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994
10.3*	1992 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Exhibit 10.7 to Bethel Bancorp's Annual Report on Form 10-K for the year ended June 30, 1992

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*	Management or compensation or plan arrangement required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K

Exhibit 11. Statement Regarding Computation of Per Share Earnings

	Year Ended June 30, 1997	Year Ended June 30, 1996
EQUIVALENT SHARES:		
Average Shares Outstanding	1,247,103	1,183,987
Total Equivalent Shares	1,247,103	1,183,987
Total Primary Shares	1,329,061	1,270,097
Total Fully Diluted Shares	1,569,979	1,512,593
Net Income	$ 1,507,103	$ 1,193,420
Less Preferred Stock Dividend	139,999	139,999
Net Income after Preferred Dividend	$ 1,367,104	$ 1,053,421
Primary Earnings Per Share on Net Income	$ 1.03	$ 0.83
Fully Diluted Earnings Per Share on Net Income	$ 0.96	$ 0.79

Exhibit 21. Securities of Registrant

Name of Subsidiary	Jurisdiction of Incorporation	Year Acquired or Formed	Percentage of Voting Securities Owned
ASI Data Services Inc.	Maine	1993	100%
Northeast Savings Bank, F.S.B. (and its 100% owned subsidiary, Northeast Financial Service Corp. and 100% owned second tier subsidiary, First New England Benefits, Inc.)	Maine	1987	100%

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors
Northeast Bancorp

We consent to incorporation by reference in the Registration Statement, Form S-4 (No. 333-31797) and in the related Prospectus, and in the Registration Statements on Form S-8 (No. 33-32095), (No. 33-58538), (No. 33-32096) and (No. 33-87976) of Northeast Bancorp of our report dated August 6, 1997, with respect to the consolidated financial statements of Northeast Bancorp and Subsidiary included in the Annual Report (Form 10-K) for the year ended June 30, 1997.

Portland, Maine

September 22, 1997

/s/ Baker Newman & Noyes
Limited Liability Company

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JUN-30-1997
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