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, 2002

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from to

Commission file number (1-14588)

NORTHEAST BANCORP
(Exact name of registrant as specified in its charter)

Maine (State or other jurisdiction of incorporation or organization)	01-0425066 (I.R.S. Employer Identification No.)
232 Center Street, Auburn, Maine (Address of principal executive offices)	04210 (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. [x]

The aggregate market value of the Registrant's common shares held by non-affiliates, as of September 19, 2002, was $37,597,510 based on the last reported sales price of the Company's common shares on the American Stock Exchange as of the close of business on such date. Although directors and executive officers of the registrant and its subsidiaries were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status. There were 2,647,712 common shares of the registrant outstanding as of September 19, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	**Form 10-K Reference Location**
Proxy Statement for the 2002 Annual Meeting of Shareholders	III

This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and is subject to risks, uncertainties, and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See "Item 1. Business -Forward Looking Statements."

PART I

ITEM 1. BUSINESS

General

Northeast Bancorp (the "Company"), a Maine corporation chartered in April 1987, is a unitary savings and loan holding company registered with the Office of Thrift Supervision ("OTS") its primary regulator. Prior to 1996, the Company operated under the name Bethel Bancorp. The Company's primary subsidiary and principal asset is its wholly-owned banking subsidiary, Northeast Bank, FSB (the "Bank"), which has branches located in Auburn, Augusta, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond, Lewiston, and Lisbon Falls, Maine. The Bank also maintains facilities in Falmouth, Maine, from which loan applications are accepted and investment, insurance and financial planning products and services are offered and in Bethel, Maine, from which casualty and property insurance products are offered.

Northeast Bancorp through its subsidiary, Northeast Bank and the Bank's subsidiary Northeast Financial Services, Inc., provides a broad range of financial services to individuals and companies in western, mid-coast and south-central Maine. Although historically the Bank has been primarily a residential mortgage lender, the Bank has expanded its commercial loan business, increased its line of financial products and services, and expanded its market area over the last decade. Management believes that this strategy will increase core earnings in the long term by providing stronger interest margins, additional non-interest income, and increased loan volume. The Bank believes that the local character of its business and its "community bank" management philosophy allows it to compete effectively in its market area. As of June 30, 2002, the Company, on a consolidated basis, had total assets of approximately $442 million, total deposits of approximately $303 million, and stockholders' equity of approximately $35 million. Unless the context otherwise requires, references herein to the Company include the Company and its subsidiaries on a consolidated basis.

The Bank (which was formerly known as Bethel Savings Bank F.S.B. ("Bethel")) is a federally chartered savings bank, which was originally organized in 1872 as a Maine-chartered mutual savings bank. The Bank received its federal charter in 1984. In 1987, the Bank converted to a stock form of ownership and in subsequent years has engaged in a strategy of both geographic and product expansion. The Bank has broad powers, including the power to engage in non-residential lending activities. In connection with its conversion into a federal savings bank in 1983, the Bank retained its then-authorized powers as a Maine-chartered mutual savings bank. Under applicable regulations, except as otherwise determined by the OTS, the Bank retains the authority that it was permitted to exercise as a mutual savings bank under the state law existing at the time of the conversion. Historically, Maine-chartered savings banks have had certain lending, investment, and other powers that have only recently been granted to federa l savings institutions, including commercial lending authority and the ability to offer personal checking and negotiable order of withdrawal ("NOW") accounts.

Strategy

Northeast Bancorp's corporate philosophy is to offer a wide array of financial products and services with an emphasis on a high level of personalized service. This strategy is designed to attract profitable long-term banking relationships with its customers that will increase the Bank's core earnings by developing strong interest margins, non-interest fee income, and increasing the volume of banking products and services as its market area expands. In keeping with this strategy, the Bank is making a concerted effort to become an all-inclusive financial center that is able to provide its customers with virtually any financial product and service that will meet their needs. In this regard, the Bank assists its clients in assessing their financial needs through its personalized financial planning services. Once the customer's financial needs have been identified, the Bank provides the customer with financial product or service solutions, designed to meet their needs. Management belie ves that the ability to deliver such personalized service and advice will be one of the primary competitive factors in the financial institutions industry in the future. Accordingly, over the past few years the Bank has invested a substantial amount of resources in developing its ability to offer a high level of personalized service with an emphasis on financial planning and delivery of financial advisory services that are responsive to a broad range of customer needs.

To further support the corporate philosophy, the Bank has expanded the scope of lending and other financial services that it provides to its customers. In the past, the Bank has focused primarily on its residential mortgage lending business. As a result, its business has historically consisted of attracting deposits from the general public through its retail banking offices and applying those funds principally to the origination, retention, servicing, investing in and selling first mortgage loans on single and multi-family residential real estate. However, the Bank has expanded the scope of its services by placing additional emphasis on:

- consumer lending and small business, home equity, and commercial loans;
- originating loans secured by commercial property and multi-family dwellings; and
- generating indirect dealer consumer loans used for the purchase of mobile homes and automobiles.

Northeast Bancorp also offers to its customers financial planning, investment services and all lines of insurance products through the Bank's subsidiary, Northeast Financial Services Corporation. Northeast Financial Services Corporation, which is located at Northeast Bancorp's headquarters in Auburn, Maine, offers customers access to investment, insurance and annuity products through an arrangement with Commonwealth Equity Services, Inc., an unaffiliated, fully licensed New York securities firm, which licenses the brokers who sell such products and services. Northeast Bancorp also offers all lines of insurance products to customers through Kendall Insurance, a division of Northeast Financial Services.

Trust services and employee benefit products are provided to Northeast Bancorp customers through the Bank's trust department, Northeast Trust, a division of the Bank.

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

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

With the goal of providing a full range of banking services to its customers and in an effort to develop strong long-term primary banking relationships with businesses and individuals, the Bank has expanded its commercial banking operations by selectively making commercial loans to small and medium sized companies. In this regard, the Bank's business development efforts have been directed towards full service credit packages and financial services, as well as competitively priced mortgage packages. At June 30, 2002, the Bank's loan portfolio consisted of 43% residential real estate mortgages, 24% commercial real estate mortgages, 13% commercial loans, and 20% consumer loans. At June 30, 2002, the Bank's lending limit was approximately $5.2 million. To the extent that customer's credit needs exceed the bank's lending limits, the Bank may seek participations in such loans with other banks. In addition, the Bank invests in certain U.S. government and agency obligations and other investments permitted by a pplicable law and regulations.

The Bank is subject to examination and comprehensive regulation by the OTS and its deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the extent permitted by law. The Bank also is a member of the Federal Home Loan Bank ("FHLB") of Boston. Although the Bank's deposits are primarily insured through the Bank Insurance Fund, deposits at the Brunswick branch, which represent approximately 20% of the Bank's total deposits, are insured through the Savings Association Insurance Fund.

The principal executive offices of Northeast Bancorp and the Bank are located at 232 Center Street, Auburn, Maine, 04210, and their telephone number is (207) 777-6411.

Market Area

The Bank is headquartered in Auburn, Maine with full service branches in Augusta, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond, Lewiston, and Lisbon Falls, Maine. In addition, the Company maintains facilities in Falmouth, Maine from which it accepts loan applications and offers investment services, insurance, and financial planning products and services and in Bethel, Maine from which casualty and property insurance products are offered. The Company's market area, which covers western, central and mid-coastal regions of the State of Maine, is characterized by a diverse economy that has experienced moderate growth in recent years.

Market for Services and Competition

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

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

In an effort to attract a broader base of long-term customer relationships and diversity in its banking operations, during the past few years Northeast Bancorp has expanded its focus from primarily seeking residential loan customers to becoming a "one-stop shopping" destination point for our customers' full financial needs. As a part of this strategy, the Bank has significantly increased the number and type of financial products, loans, and services that it makes available to its customers.

Northeast Bancorp encounters strong competition in its market area in making loans, attracting deposits, and selling its other customer products and services. The deregulation of the banking industry, the ability to create financial services holding companies to engage in a wide range of financial services other than banking, and the widespread enactment of state laws which permit multi-bank holding companies, as well as the availability of nationwide interstate banking, has created a highly competitive environment for financial services providers. In one or more aspects of its business, the Bank competes with other savings banks, commercial banks, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, finance companies, and other financial intermediaries operating in Maine and elsewhere. Many of the Bank's primary competitors, some of which are affiliated with large bank holding companies or other larger financial-based institutions, have subs tantially greater resources and have higher lending limits.

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

Lending Activities

General

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

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

Residential Lending

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

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

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

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

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

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

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

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

Commercial Real Estate Lending

The Bank originates both multi-family and commercial real estate loans. Multi-family and commercial property loans generally are made in amounts up to 80% of the lesser of the appraised value or purchase price of the property. Although the largest multi-family or commercial loan in Northeast Bancorp's portfolio at June 30, 2002 was approximately $2.17 million, the majority of such loans have balances under $500,000.

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

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

Commercial Lending

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

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

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

Consumer Loans

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

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

In 1998, the Bank entered the indirect automobile lending market. Indirect automobile lending consists of automobile loans made by the Bank through the purchase of contracts from automobile dealers. Generally, the Bank will obtain fixed-rate automobile loans indirectly through various automobile dealerships located in its market areas. The indirect origination of consumer loan products occasionally requires funding of dealer reserves. These reserves are maintained for the benefit of the dealer who originated such loans, but such funding is subject to performance of certain loan conditions. The dealer is generally responsible to the Bank for the amount of the reserve only if a loan giving rise to the reserve becomes delinquent or the loan has been prepaid.

Construction Loans

The Bank originates residential construction loans to finance the construction of single-family dwellings. Most of the residential construction loans are made to individuals who intend to erect owner-occupied housing on a purchased parcel of real estate. The Bank's construction loans to individuals typically range in size from $100,000 to $200,000. Construction loans also are made to contractors to erect single-family dwellings for resale. Construction loans are generally offered on the same basis as other residential real estate loans, except that a larger percentage down payment is typically required.

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

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

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

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

Loan Origination and Processing

Loan originations are derived from a number of sources. Residential loan originations can be attributed to real estate broker referrals, mortgage loan brokers, direct solicitation by the Bank's loan officers, present savers and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders. Loan applications, whether originated through the Bank or through mortgage brokers, are underwritten and closed based on the same standards, which generally meet FNMA underwriting guidelines. Consumer and commercial real estate loan originations emanate from many of the same sources. The legal lending limit of the Bank, as of June 30, 2002, was approximately $5.2 million.

The loan underwriting procedures followed by the Bank conform to regulatory specifications and are designed to assess the borrower's ability to make principal and interest payments and the value of any assets or property serving as collateral for the loan. Generally, as part of the process, a bank loan officer meets with each applicant to obtain the appropriate employment and financial information as well as any other required loan information. Upon receipt of the borrower's completed loan application, the Bank then obtains reports with respect to the borrower's credit record, and orders and reviews an appraisal of any collateral for the loan (prepared for the Bank through an independent appraiser). The loan information supplied by the borrower is independently verified. Loan officers or other loan production personnel in a position to directly benefit monetarily through loan solicitation fees from individual loan transactions do not have approval authority. Once a loan application has been completed and all information has been obtained and verified, the loan request is submitted to a final review process. As part of the loan approval process, all uncollateralized loans of $100,000 or more and all collateralized loans of $500,000 or more require pre-approval by the Bank's loan committee, which is currently comprised of five directors of the Bank and meets on such basis as is deemed necessary to promptly service loan demand. All loans of $2,000,000 or more require pre-approval by the Bank's Board of Directors, and borrowers requesting amounts which will result in a loan relationship of $2,000,000 or more also must be approved by the board of directors of the Bank.

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

Subsidiaries

On October 4, 1999, the Company formed NBN Capital Trust, a Delaware statutory trust and a wholly-owned subsidiary of the Company (the "Trust"), for the purpose of (i) issuing and selling its common securities to the company and its trust preferred securities to the public, and (ii) using the proceeds therefrom to purchase 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") from the Company. The Junior Subordinated Debentures are the sole asset of the Trust. In the quarter ended December 31, 1999, the Trust sold its trust-preferred securities to the public and its common securities to the Company. The Trust used the proceeds to purchase the Junior Subordinated Debentures issued by the Company. The Company pays interest on the Junior Subordinated Debentures at a rate of 9.60% to the Trust at the end of each quarter, which is equal to the dividend rate payable to the holders of the Trust's preferred securities. The cost of the issuance of the pref erred securities is treated as a deferred asset and will be amortized over the life of the securities. Following the offer and sale of the Trust's securities, the Company owned and currently holds all of the outstanding common securities of the Trust, its only voting securities, and as a result the Trust is a subsidiary of the Company.

The Company acquired a wholly-owned subsidiary, ASI Data Services, Inc. (ASI) through two stock purchases during 1993-1994. ASI initially provided data processing services to the Company and its subsidiaries. The Company 's board transferred the assets and operations of ASI to the Bank in 1996 and ASI now is an inactive corporate subsidiary.

Northeast Financial Services Corporation, a Maine Corporation, and a wholly-owned subsidiary of the Bank was originally formed in 1982 as a vehicle through which the Bank could participate in certain real estate development projects. At June 30, 2002, investment in and loans to its subsidiary constituted 0.19% of the Company's total assets. Generally, any proposed development project will be examined for its profit potential and its ability to enhance the communities served by the Bank. At the present time, there are no definitive plans for additional real estate development projects. Northeast Financial 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, and Kendall Insurance Agency, a division of Northeast Financial Services, which allows the Bank to deliver insurance products to its customers. Northeast Financial has not invested in any assets in its business relation ship with Commonwealth.

Employees

As of June 30, 2002, the Company, the Bank and its subsidiary together employed 154 full-time and 28 part-time employees. The Company's employees are not represented by any collective bargaining unit. The Company believes that its relations with its employees are good.

SUPERVISION AND REGULATION

General

Northeast Bancorp is a savings and loan holding company that is regulated and subject to examination by the OTS. The Bank is a federally chartered savings bank and also is subject to the regulations, examinations, and reporting requirements of the OTS. The Bank is a member of the Federal Home Loan Bank of Boston and the Bank's deposits are insured by the FDIC. As the administrator of the deposit insurance fund, the FDIC has certain regulatory and full examination authority over OTS regulated savings associations.

The Bank also is subject to regulation by the Board of Governors of the Federal Reserve System governing reserves to be maintained against deposits and certain other matters. The Bank's relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws. Any change in applicable laws or regulations, or a change in the ways these laws and regulations are interpreted by regulatory agencies or courts, may have a material adverse impact on the business of Northeast Bancorp and the Bank.

The following information is a summary of some of the laws and regulations applicable to Northeast Bancorp and the Bank. The applicable statutes and regulations are summarized and do not purport to be complete, and are qualified in their entirety by reference to the particular statutes and regulations.

Federal Regulation of Savings and Loan Holding Companies

Enactment of Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act ("Gramm-Leach") was signed into law on November 12, 1999. This legislation is intended to modernize the financial services industry. This legislation, among other things, establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies and securities firms. Generally, the new law:

- repeals the historical restrictions and eliminates many federal and sate law barriers to affiliations among banks and securities firms, insurance companies and other financial service providers,
- provides a uniform framework for the activities of banks, savings institutions and their holding companies,
- broadens the activities that may be conducted by subsidiaries of national banks and state banks,
- provides an enhanced framework for protecting the privacy of information gathered by financial institutions regarding their customers and consumers,
- adopts a number of provisions related to the capitalization, membership, corporate governance and other measures designed to modernize the FHLB System,
- requires public disclosure of certain agreements relating to funds expended in connection with an institution's compliance with the CRA, and
- addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions, including the functional regulation of bank securities and insurance activities.

Gramm-Leach also restricts the power of new unitary savings and loan association holding companies. Unitary savings and loan holding companies that are "grandfathered," (i.e., unitary savings and loan holding companies in existence or with applications filed with the OTS on or before May 4, 1999), such as the Company, retain their authority under the prior law. All other unitary savings and loan holding companies are limited to financially related activities permissible for bank holding companies, as defined under Gramm-Leach. Gramm-Leach also prohibits non-financial companies from acquiring grandfathered unitary saving sand loan association holding companies.

Gramm-Leach also requires financial institutions to disclose, on ATM machines, any non-customer fees and to disclose to their customers upon the issuance of any ATM card any fees that may be imposed by the institutions on ATM users. For older ATMs, financial institutions will have until December 31, 2004 to provide such notices.

Bank holding companies are permitted to engage in a wider variety of financial activities than permitted under the prior law, particularly with respect to insurance and securities activities. Gramm-Leach establishes state regulators as the appropriate functional regulators for insurance activities but provides that state regulators cannot "prevent or significantly interfere" with affiliations between banks and insurance firms. In addition, in a change from the prior law bank holding companies are in a position to be owned, controlled or acquired by any company engaged in financially related activities.

The Company does not believe that the law has had or will have a material adverse affect upon its operations in the near term. However, to the extent the new law permits banks, securities firms and insurance companies to affiliate, the financial services industry may experience further consolidation. This type of consolidation could result in a growing number of larger financial institutions that offer a wider variety of financial services than the Bank currently offers and that can more aggressively compete in the markets we currently serve.

General Limitations

Northeast Bancorp is a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act of 1933 ("HOLA") and is registered with the OTS. As a result, the Company is subject to the regulations, examinations, supervision and reporting requirements of the OTS. Further, the OTS has enforcement authority over Northeast Bancorp and its non-savings institution subsidiaries. Among other things, this authority permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

As a unitary savings and loan holding company, Northeast Bancorp generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that the Bank continues to be a qualified thrift lender. See "Supervision and Regulation Federal Regulations of Savings Associations Qualified Thrift Lender Test." Nevertheless, various activities conducted by savings and loan holding companies require OTS authorization.

The HOLA prohibits a savings and loan holding company from directly or indirectly acquiring control (including through an acquisition by merger, consolidation or purchase of assets) of any savings association, or any other savings and loan holding company, without prior OTS approval. In considering whether to grant approval for any such transaction, the OTS will take into consideration a number of factors, including:

- competitive effects of the transaction;
- financial and managerial resources;
- future prospects of the holding company and its bank or thrift subsidiaries following the transaction;
- the effect of the acquisition on the risk to the insurance fund; and
- compliance history of such subsidiaries with the Community Reinvestment Act.

Further, a savings and loan holding company may not acquire more than 5% of the voting shares of any savings association unless by merger, consolidation or purchase of assets, each of which requires prior OTS approval. In addition, under other provisions of HOLA, a savings and loan holding company may acquire up to 15% of the voting shares of certain undercapitalized savings associations.

Multiple Savings and Loan Holding Companies

At the present time, Northeast Bancorp is a unitary savings and loan holding company. Upon acquisition by Northeast Bancorp of a separate subsidiary savings association, Northeast Bancorp would become a multiple savings and loan holding company and would be subject to extensive limitations on the types of business activities in which it could engage. A holding company that acquires another institution and maintains it as a separate subsidiary or whose sole subsidiary fails to meet the qualified thrift lender test will become subject to the activities limitations applicable to multiple savings bank holding companies. In general, a multiple savings bank holding company (or subsidiary thereof that is not an insured institution) may not commence, or continue for more than a limited period of time after becoming a multiple savings bank holding company (or a subsidiary thereof), any business activity other than:

- furnishing or performing management services for a subsidiary insured institution;
- conducting an insurance agency or an escrow business;
- holding, managing or liquidating assets owned by or acquired from a subsidiary insured institution;
- holding or managing properties used or occupied by a subsidiary insured institution;
- acting as trustee under deeds of trust;
- those activities previously directly authorized by the OTS by regulation as of March 5, 1987 to be engaged in by multiple savings bank holding companies; or
- subject to prior approval of the OTS, those activities authorized by the Federal Reserve Board as permissible investments for bank holding companies.

These restrictions do not apply to a multiple savings bank holding company if (a) all, or all but one, of its insured institution subsidiaries were acquired in emergency thrift acquisitions or assisted acquisitions and (b) all of its insured institution subsidiaries are qualified thrift lenders.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (a) the approval of interstate supervisory acquisitions by savings and loan holding companies, and (b) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary with regard to the extent to which they permit interstate savings and loan holding company acquisitions. Northeast Bancorp currently is not a party to any discussions with any acquisition targets, which would make Northeast Bancorp a multiple savings and loan holding company.

Safety and Soundness

Under federal law, the Director of the OTS is authorized to take action when it determines that there is reasonable cause to believe that the continuation by a savings bank holding company of any particular activity constitutes a serious risk to the financial safety, soundness or stability of a savings bank holding company's subsidiary savings institution. The Director of the OTS has oversight authority for all holding company affiliates, not just the insured institution. Specifically, the Director of the OTS may, as necessary:

- limit the payment of dividends by the savings institution to its parent holding company;
- limit transactions between the savings institution, the holding company and the subsidiaries or affiliates of either; or
- limit any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The Sarbanes-Oxley Act represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws. Many of the provisions became effectiv e immediately while other provisions become effective over a period of 30 to 270 days and are subject to rulemaking by the Securities and Exchange Commission. Although we anticipate that we will incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, management does not expect that such compliance will have a material impact on our results of operations or financial condition.

Federal Regulation of Savings Institutions

Business Activities

The activities of savings institutions are governed by the HOLA and, in certain respects, the Federal Deposit Insurance Act and the rules and regulations issued by the OTS and the FDIC pursuant to these acts. These laws and regulations delineate the nature and extent of the activities in which savings associations may engage.

Capital Requirements

The OTS capital regulations require federally chartered savings associations to satisfy three different capital requirements: a leverage (core capital) limit, a tangible capital requirement, and a risk-based capital requirement.

The leverage limit requires that a federally chartered savings association maintain core capital of at least 4% of its adjusted total assets. However, OTS regulations also provide for a minimum capital leverage ratio of 3% for depository institutions that have been assigned the highest composite rating of 1 under the Uniform Financial Institutions Rating System. For purposes of this requirement, total assets are adjusted to exclude intangible assets and investments in certain subsidiaries, and to include the assets of certain other subsidiaries, certain intangibles arising from prior period supervisory transactions, and permissible mortgage servicing rights. Core capital includes common shareholders' equity and retained earnings, non-cumulative perpetual preferred stock and related surplus and minority interests in consolidated subsidiaries, minus intangibles, plus certain mortgage servicing rights and certain goodwill arising from prior regulatory accounting practices.

Certain mortgage servicing rights are not deducted in computing core and tangible capital. Prior to August 10, 1998, generally, the lower of 90% of the fair market value of readily marketable mortgage servicing rights, or the current unamortized book value as determined under GAAP could be included in core and tangible capital up to a maximum of 50% of core capital computed before the deduction of any disallowed qualifying intangible assets. Effective August 10, 1998, the OTS increased the maximum amount of mortgage servicing rights that are includable in regulatory capital from 50% to 100% of core capital.

In determining core capital, all investments in and loans to subsidiaries engaged in activities not permissible for national banks, which are generally more limited than activities permissible for savings associations and their subsidiaries, must be deducted. Certain exceptions are provided, including exceptions for mortgage banking subsidiaries and subsidiaries engaged in agency activities for customers (unless determined otherwise by the FDIC on safety and soundness grounds). Generally, all subsidiaries engaged in activities permissible for national banks are required to be consolidated for purposes of calculating capital compliance by the parent savings association. In assessing an institution's capital adequacy, the OTS takes into consideration not only the above numeric factors, but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary.

The tangible capital requirement mandates that a savings association maintain tangible capital of at least 1.5% of adjusted total assets, provided, however, that savings institutions may include up to 90% of the fair market value of readily marketable purchased mortgage servicing rights included in core capital 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). For purposes of the tangible capital requirement, adjusted total assets are calculated on the same basis as the leverage limit. As of June 30, 2002, the Bank was in compliance with these requirements. The balances maintain the same manner as core capital, except that all intangible assets must be deducted.

The risk-based requirement promulgated by the OTS pursuant to the HOLA, tracks the standard applicable to national banks, except that the OTS may determine to reflect interest rate and other risks not specifically included in the national bank standard. However, such deviations from the national bank standard may not result in a materially lower risk-based requirement for savings associations than for national banks. The risk-based standard adopted by the OTS is similar to the Office of the Comptroller of the Currency standard for national banks. The risk-based standards of the OTS require maintenance of core capital equal to at least 4% of risk-weighted assets and total capital equal to at least 8% of risk-weighted assets. Total capital includes core capital plus supplementary capital (to the extent it does not exceed core capital). Supplementary capital includes (a) cumulative perpetual preferred stock; (b) mutual capital certificates, income capital certificates and net worth certificates; (c) non- withdrawable accounts and pledged deposits to the extent not included in core capital; (d) perpetual and mandatory convertible subordinated debt and maturing capital instruments meeting specified requirements; and (e) general loan and lease loss allowances, up to a maximum of 1.25% of risk-weighted assets. See Item 8. "Financial Statements and Supplementary Data - Note 11."

In determining the amount of risk-weighted assets, savings associations must assign balance sheet assets to one of four risk-weight categories, reflecting the relative credit risk inherent in the asset. Off-balance-sheet items are assigned to one of the four risk-weight categories after a credit conversion factor is applied.

The OTS adopted regulations intended to revise their 8% risk-based capital standards discussed above to take into account interest rate risk, concentration of risk, and the risk of non-traditional activities. Only savings associations with more than a normal level of interest rate risk are subject to these requirements. Specifically, savings associations with interest rate risk exposure in excess of 2% (measured in accordance with an OTS Model and Guidelines) must deduct an interest rate risk component from total capital prior to calculating their risk-based capital ratios. The interest rate risk component is calculated as one-half of the difference between the institution's measured interest rate risk and 2%, multiplied by the market value of the institution's assets. This deduction will have the effect of requiring savings associations with interest rate risk exposure of more than 2% to hold more capital than those with less than 2% exposure. On August 21, 1995, the OTS adopted and approved an appea l process, but delayed the interest rate risk capital deduction indefinitely.

Loans to One Borrower

Under the HOLA, savings institutions are generally subject to the national bank limits on loans to a single or related group of borrowers. Generally, a savings association may not make a loan or extend credit to a single borrower or group of related borrowers, on an unsecured basis, in an amount greater than 15% of its unimpaired capital and unimpaired surplus. An additional amount may be loaned not in excess of 10% of the savings association's unimpaired capital and unimpaired surplus, if the loan is secured by readily marketable collateral, which is defined to include certain financial instruments and bullion, but generally does not include real estate. The OTS by regulation has amended the loans to one borrower rule to permit savings associations meeting certain requirements to extend loans to one borrower in additional amounts under circumstances limited essentially to loans to develop or complete residential housing units. The OTS also may impose more stringent limits on an as sociation's loans to one borrower, if it determines that such limits are necessary to protect the safety and soundness of the institution.

Qualified Thrift Lender Test

Under HOLA, all savings associations, including the Bank, are required to meet a qualified thrift lender ("QTL") test for, among other things, future eligibility for FHLB advances. A savings association that fails to satisfy the QTL test is subject to substantial restrictions on its activities and to other significant penalties. A savings association is a QTL if it meets either (a) has invested at least 65% of its "portfolio assets" in qualified thrift investments and maintains this level of "qualified thrift investments" on a monthly average basis in the nine of every twelve months, or (b) the test for being a domestic building and loan association, as that term is defined in Section 7701(a) (19) of the Internal Revenue Code of 1986, as amended.

The term "portfolio assets" under the QTL test is defined as savings institutions total assets less the sum of: (i) certain intangibles, including goodwill and credit card rights, (ii) properties used to conduct business, and (iii) liquid assets (up to 20% total assets). The following assets may be included as "qualified thrift investments" without limit: (1) domestic residential housing or manufactured housing loans, (2) home equity loans and mortgage backed securities backed by residential housing and manufactured housing loans, (3) FHLB stock, (4) certain obligations of the FDIC and certain other related entities, and (5) education, small business, and credit card loans. In addition, the following assets, which may be included in the aggregate amount of up to 20% of portfolio assets, also constitute qualified thrift investments: (i) 50% of originated residential mortgage loans sold within 90 days of origination, (ii) investments in debt or equity of service corporations that derive 80% of their gr oss revenues from housing-related activities, (iii) 200% of certain loans to, and investment in, low cost one-to-four family housing, (iv) 200% of loans for residential real property, churches, nursing homes, schools, and small businesses in areas where the credit needs of low-and moderate- income families are not met, (v) other loans for churches, schools, nursing homes and hospitals, and (vi) personal, family, or household loans (other than education, small business, or credit card loans). At June 30, 2002, the Bank maintained approximately 96.6% of its portfolio assets in qualified thrift institutions and satisfied the QTL test in each of the previous 12 months.

Any savings association that fails to meet the QTL test must convert to a national bank charter, unless it requalifies. A savings association may requalify the next time it meets the requirement in nine of the preceding twelve months, but it may requalify only one time. If an institution that fails the QTL test and has not yet requalified or converted to a national bank charter, the savings institution is immediately ineligible to receive any new FHLB advances, and is subject to national bank limits for payment of dividends. Further, it may not establish a branch office at any location at which a national bank located in the savings association's state could not establish a branch. In addition, within one year of the loss of QTL status, the holding company of the savings association 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, however, 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.

Limitation on Capital Distributions

OTS regulations impose limitations upon all capital distributions by savings institutions, including:

- cash dividends;
- payments to repurchase or otherwise acquire its shares;
- payments to stockholders of another institution in a cash-out merger; and
- other distributions charged against capital.

OTS rules establish three tiers of institutions, which are based primarily on an institution's capital level. Under OTS regulations, certain savings associations are permitted to pay capital distributions during a calendar year that do not exceed the association's net capital income for that year plus its retained net income for the prior two years without notice to, or the approval of the OTS. However, a savings association subsidiary of a savings and loan holding company, such as the Bank, must file a notice unless the specific capital distribution requires an application. In addition, the OTS can prohibit a proposed capital distribution, otherwise permissible under the regulation, if the OTS has determined that the association is in need of more than normal supervision if it determined that the proposed distribution by an association would constitute an unsafe or unsound practice. Furthermore, under the OTS prompt corrective action regulations, the Bank would be prohibited from maki ng any capital distribution if, after the distribution, the Bank failed to meet its minimum capital requirements as described above. See "Supervision and Regulation - Federal Regulation of Savings Institutions - Capital Requirements."

Liquidity

During fiscal 2001, Congress eliminated the statutory liquidity requirement which required federally chartered savings associations to maintain a minimum amount of liquid assets between 4% and 10%, depending on economic conditions and savings flows of all savings associations. The OTS recently conformed its implementing regulations to reflect this statutory change. Under the revised regulations, which became effective March 15, 2001, the Bank is required to maintain sufficient liquidity to ensure safe and sound operations.

Community Reinvestment Act and Fair Lending Laws

Savings associations have a responsibility under the Community Reinvestment Act ("CRA") and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with its examination of a savings association, to assess the association's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such association. The CRA regulations establish an assessment system that bases an association's rating on its actual performance in meeting community needs. In particular, the assessment system focuses on three tests: (a) a lending test, to evaluate the institution's record of making loans in its assessment areas, (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals or businesses, and (c) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. The CRA also requires all institutions to make public disclosure of their CRA rating. In addition, in May 2000, the OTS proposed regulations implementing the requirements under Gramm-Leach that insured depository institutions publicly disclose certain agreements that are in fulfillment of the CRA. The Bank has no such agreement in place at this time.

A savings institution's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. Failure of a savings association to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice. The Bank received a "satisfactory" CRA rating under the current regulations in its most recent federal examination by the OTS.

The Bank Secrecy Act and Money Laundering Laws

The Bank Secrecy Act was enacted by Congress in 1970. This act requires every financial institution within the United States to file a Currency Transaction Report with the Internal Revenue Service for each transaction in currency of more than $10,000 not exempted by the United States Treasury Department.

The Money Laundering Prosecution Improvements Act requires financial institutions, typically banks, to verify and record the identity of the purchaser upon the issuance or sale of bank checks or drafts, cashier's checks, traveler's checks, or money orders involving $3,000 or more in cash. Institutions also must verify and record the identity of the originator and beneficiary of certain funds transfers.

USA Patriot Act

In response to the events of September 11, 2001, President George W. Bush signed into law the Uniting and Strengthening America by Providing Appropriate Tools Requiring to Intercept and Obstruct Terrorism Act of 2002, or the USA PATRIOT Act, on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through the enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit union, money transfer agents and parties registered under the Commodity Exchange Act. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

- all financial institutions must establish anti-money laundering programs that included, at minimum: (i) internal policies, procedures, and controls, (ii) specific designation of an anti-money laundering compliance officer, (iii) ongoing employee training programs, and (iv) an independent audit function to test the anti-money laundering programs.

- the Secretary of the Department of Treasury is authorized, in conjunction with the other bank regulators, to issue regulations by October 26, 2002 that provide for minimum standards with respect to customer identification at the time new accounts are opened.

- financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) are required to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

- effective December 25, 2001, financial institutions are prohibited from establishing, maintaining, administering or managing correspondent account for foreign shell banks (foreign banks that do not have a physical presence in any country), and will be subject to certain recordkeeping obligations with respect to correspondent accounts of foreign banks.

- bank regulators are directed to consider a holding company's effectiveness in combining money laundering when ruling on Federal Reserve Act and Bank Merger act applications.

During the first quarter of 2002 the Federal Crimes Enforcement Network (FinCEN), a bureau of the Department of Treasury, issued proposed and interim regulations to implement the provisions of Section 312 and 352 of the USA PATRIOT Act. To date, it has not been possible to predict the impact and USA PATRIOT Act and its implementing regulations may have on the Company and the Bank.

Branching

Subject to certain statutory restrictions in the HOLA and the Federal Deposit Insurance Act, the Bank is authorized to branch on a nationwide basis. Branching by savings associations also is subject to other regulatory requirements, including compliance with the CRA and its implementing regulations.

Transactions with Related Parties

The Bank's authority to engage in transactions with related parties or "affiliates" (i.e., any company that controls or is under common control with the Bank, including Northeast Bancorp and any non-savings institution subsidiaries) or to make loans to certain insiders of the Bank or Northeast Bancorp, is limited by Sections 23A and 23B of the Federal Reserve Act. OTS regulations prohibit a savings association (a) from lending to any of its affiliates that is engaged in activities that are not permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, and (b) from purchasing the securities of any affiliate other than a subsidiary. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of transactions with all affiliates to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

Loans to Officers, Directors, and Principal Stockholders

The Bank's authority to extend credit to any of the following persons currently is governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board promulgated thereunder :

- an executive officer of a savings association;
- a director of a savings association;
- a principal stockholder of a savings association (i.e., any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls, or has power to vote more than 10% of any class of voting securities of a savings association);
- any company controlled by an executive officer, director or principal stockholder of a savings association; and
- any political or campaign committee which is controlled by, or which will benefit any executive officer, director or principal stockholder.

Among other things, these provisions require that extensions of credit to such insiders be made on terms substantially the same as those prevailing on comparable transactions made to unaffiliated individuals, and that such extensions of credit do not involve more than the normal risk of repayment or present other unfavorable features. Certain extensions of credit to such persons must first be approved in advance by a disinterested majority of a savings association's entire board of directors. Section 22(h) of the Federal Reserve Act prohibits loans to any such individuals where the aggregate amount exceeds an amount equal to 15% of an insured institution's unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all such extensions of credit outstanding to all such persons would exceed the Bank's unimpaired capital and unimpaired surplus. Section 22(g) establishe s additional limitations on loans to executive officers.

Changes in Directors and Senior Executive Officers

Section 32 of the Federal Deposit Insurance Act, as amended by the 1996 Act, requires a depository institution or holding company of a depository institution to give 30 days prior written notice to its primary federal regulator of any proposed appointment of a director or senior executive officer if the institution is not in compliance with the minimum capital requirements or otherwise is in a troubled condition. The regulator then has the opportunity to disapprove the proposed appointment.

Permissible Loans and Investments

Federally chartered savings banks, such as the Bank, are authorized to originate, invest in, sell, purchase, service, participate, and otherwise deal in: (1) loans made on the security of residential and nonresidential real estate, (2) commercial loans (up to 20% of assets, the last 10% of which must be small business loans), (3) consumer loans (subject to certain percentage of asset limitations), and (4) credit card loans. The lending authority of federally chartered associations is subject to various OTS requirements, including, as applicable, requirements governing loan-to-value ratio, percentage-of-assets limits, and loans to one borrower limits. In September 1996, the OTS substantially revised its investment and lending regulations eliminating many of their specific requirements in favor of a more general standard of safety and soundness.

Federally chartered savings associations may invest, without limitation, in the following assets: (1) obligations of the United States government or certain agencies thereof; (2) stock issued or loans made by FHLB or the FNMA; (3) obligations issued or guaranteed by the FNMA, the Student Loan Marketing Association, the GNMA, or any agency of the United States Government; (4) certain mortgages, obligations, or other securities that have been sold by the FHLMC; (5) stock issued by a national housing partnership corporation; (6) demand, time, or savings deposits, shares, or accounts of any insured depository institution; (7) certain "liquidity" investments approved by the OTS to meet liquidity requirements; (8) shares of registered investment companies, the portfolios of which are limited to investments that a federal association is otherwise authorized to make; (9) certain MBS; (10) general obligations of any state of the United States or any political subdivision or municipality thereof, provided that not more than 10% of a savings association's capital may be invested in the general obligations of any one issuer; (11) loans secured by residential real property; (12) credit card loans; and (13) educational loans. Federally chartered savings associations may invest in secured or unsecured loans for commercial, corporate, business, or agricultural purposes, up to 20% of assets, provided that the last 10% is invested in small business loans. The HOLA also limits a federal savings association's aggregate nonresidential real property loans to 400% of the savings association's capital as determined pursuant to the OTS's capital requirements. See "Supervision and Regulation Federal Regulation of Savings Associations Capital Requirements." The OTS may allow a savings association to exceed the aggregate limitation, if the OTS determines that exceeding the limitation would pose no significant risk to the safe and sound operations of the association and would be consistent with prudent operating practices. Federall y chartered savings associations also are authorized by the HOLA to make investments in consumer loans, business development credit corporations, certain commercial paper and corporate debt securities, service corporations, and small business investment companies. All of these types of investments are subject to percentage-of-assets and various other limitations.

Service Corporations

The HOLA authorizes federally chartered savings associations, such as the Bank, to invest in the capital stock, obligations, or other securities of service corporations. The HOLA authorizes a savings association to invest up to a total of 3% of its assets in service corporations. The last 1% of the 3% statutory investment limit applicable to service corporations must be primarily invested in community development investments drawn from a broad list of permissible investments that include, among other things: (1) government guaranteed loans, (2) loans for investment in small businesses, (3) investments in revitalization, and rehabilitation projects, and (4) investments in low- and moderate-income housing developments.

Service corporations are authorized to engage in a variety of pre-approved activities, some of which (e.g., securities brokerage and real estate development) are ineligible activities for the parent savings association. The OTS regulations implementing the service corporation authority contained in the HOLA also provide that activities reasonably related to the activities of a federally chartered savings association may be approved on a case-by-case basis by the Director of the OTS.

Operating Subsidiaries

All federal savings associations are authorized to establish or acquire one or more operating subsidiaries. Operating subsidiaries are subject to examination and supervision by the OTS to the same extent as the parent thrift. An operating subsidiary is a corporation that meets all of the following requirements: (1) it engages only in activities that a federal savings association is permitted to engage in directly; (2) the parent savings association owns, directly or indirectly, more than 50% of the subsidiary's voting stock; and (3) no person or entity other than the parent thrift may exercise effective operating control over the subsidiary. While a savings association's investment in its service corporations is generally limited to an amount that does not exceed 3% of the parent savings association's total assets, OTS regulations do not limit the amount that a parent savings association may invest in its operating subsidiaries. Operating subsidiaries may be incorporated and operat ed in any geographical location where its parent may operate. An operating subsidiary that is a depository institution may accept deposits in any location, provided that the subsidiary has federal deposit insurance.

Enforcement

Under the Federal Deposit Insurance Act, the OTS has primary enforcement responsibility over savings institutions and has the authority to bring enforcement action against all "institution-affiliation parties," including stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in any violation of applicable law or regulation or breach of fiduciary duty or certain other wrongful actions that cause or is likely to have more than a minimal loss or other significant adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institutions, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. Unde r the act, the FDIC has the authority to recommend to the Director of OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such actions under certain circumstances.

Standards for Safety and Soundness

The Federal Deposit Insurance Act, as amended by FDICIA and the Riegle Community Development and Regulatory Improvement of 1994, the OTS and the bank regulatory agencies have adopted a set of general standards relating to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, and compensation, fees, and benefits and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted a final regulation and Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under the act. These guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Further, the guidelines address (a) internal controls and inf ormation systems; (b) internal audit system; (c) credit underwriting; (d) loan documentation; (e) interest rate risk exposure; (f) asset growth; and (g) compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by these guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the Federal Deposit Insurance Act. The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Insurance Activities

The Bank generally is permitted to engage in certain insurance activities through its subsidiaries. In August 2000, the OTS and the other federal banking agencies proposed regulations pursuant to Gramm-Leach which would prohibit depository institutions from conditioning the extension of credit to individuals upon either the purchase of an insurance product or annuity or an agreement that the consumer not purchase an insurance product or annuity from an entity that is not affiliated with the depository institution. The proposed regulations also would require prior disclosure of this prohibition to potential insurance product or annuity customers. We do not believe that these regulations, if adopted as proposed, would have a material impact on our operations.

Prompt Corrective Regulatory Action

Under the OTS Prompt Corrective Action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of capitalization. Generally, a savings institution that has total risk-based capital of less than 8.0% or a leverage ratio or a Tier 1 core capital ratio that is less than 4.0% (3.0% if the association receives the highest rating on the Uniform Financial Institutions Rating System) is considered to be undercapitalized. A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 core risk-based capital ratio of less than 4.0% or a leverage ratio that is less than 4.0% (3.0% if the association receives the highest rating on the Uniform Financial Institutions Rating System) is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized."

Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date an institution receives notices that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the institution, including, but not limited to, restrictions on growth, investment activities, capital distributions, and affiliate transactions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. As of June 30, 2002, the Bank was considered to be well-capitalized.

Insurance of Deposit Accounts and Assessments

The Bank's deposits are insured by the FDIC through the bank insurance fund ("BIF") and the savings association insurance fund ("SAIF") for up to $100,000 for each insured account holder, the maximum amount currently permitted by law. The FDIC establishes premium assessment rates for BIF and SAIF deposit insurance. There is no statutory limit on the maximum assessment and the percent of increase in the assessment that the FDIC may impose in any one year, provided, however, that the FDIC may not collect more than is necessary to reach or maintain the BIF's and SAIF's designated reserve ratio and must rebate any excess collected. Under the FDIC's risk-based insurance system, BIF and SAIF-assessable deposits are now subject to premiums of between 0 to 27 cents per $100 of deposits, depending upon the institution's capital position and other supervisory factors.

To arrive at a risk-based assessment for each bank and thrift, the FDIC places the institution in one of nine risk categories using a two-step process based first on capital ratios and then on relevant supervisory information. Each institution is assigned to one of three groups (well-capitalized, adequately capitalized, or undercapitalized) based on its capital ratios. A well-capitalized institution is one that has at least a 10% total risk-based capital ratio (the ratio of total capital to risk-weighted assets), a 6% tier 1 risk-based capital ratio (the ratio of tier 1 core capital to risk-weighted assets), and a 5% leverage capital ratio (the ratio of core capital to adjusted total assets). An adequately capitalized institution has at least an 8% total risk-based capital ratio, a 4% tier 1 core risk-based capital ratio, and a 4% leverage capital ratio. An undercapitalized institution is one that does not meet either the definition of well-capitalized or adequately capitalized.

The FDIC also assigns each institution to one of three supervisory subgroups based on an evaluation of the risk posed by the institution. These supervisory evaluations modify premium rates within each of the three capital groups. The nine risk categories and the corresponding SAIF assessment rates are as follows:

Supervisory Subgroup			
Meets numerical standards for:	A	B	C
Well-capitalized	0	3	17
Adequately capitalized	3	10	24
Undercapitalized	10	24	27

For purposes of assessments of FDIC insurance premiums, the Bank is a well-capitalized institution as of June 30, 2002. FDIC regulations prohibit disclosure of the supervisory subgroup to which an insured institution is assigned.

Brokered Deposits

Only a well-capitalized depository institution may accept brokered deposits without prior regulatory approval. Under implementing regulations, well-capitalized banks may accept brokered deposits without restriction, adequately capitalized banks may accept brokered deposits without a waiver from the FDIC (subject to certain restrictions on payments of rates), while undercapitalized banks may not accept brokered deposits.

Federal Home Loan Bank System

The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional banks. FHLBs provide a central credit facility primarily for member institutions. The Bank, as a member of the FHLB of Boston, is required to acquire and hold shares of capital stock in that institution in an amount at least equal to the greater of: (a) 1% of the aggregate principal amount of the Bank's unpaid residential mortgage loans and similar obligations at the beginning of each year, (b) 0.390 of total assets, or (c) 5% of its advances from the FHLB of Boston.

Pursuant to Gramm-Leach, the foregoing minimum share ownership requirements will be replaced by regulations to be promulgated by the Federal Housing Finance Board. Gramm-Leach specifically provides that the minimum requirements in existence immediately prior to adoption of Gramm-Leach shall remain in effect until such regulations are adopted. Formerly, federal savings associations were required to be members of the FHLB System. The new law removed the mandatory membership requirement and authorized voluntary membership for federal savings associations, as is the case for all other eligible institutions.

Federal Reserve System

The Federal Reserve Board regulations require savings institutions to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). As of June 30, 2002, the Bank was in compliance with these requirements. 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.

Federal Securities Laws

Northeast Bancorp's common stock is registered with the SEC under the Securities Exchange Act of 1934. Accordingly, Northeast Bancorp is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act.

Maine Law

Northeast Bancorp and the Bank are headquartered in, and qualified to do business in the State of Maine. Accordingly, the Maine Bureau of Banking has the authority to impose certain regulations and the power to examine both the Bank and Northeast Bancorp. In addition to approvals from federal regulatory agencies, Northeast Bancorp may be required to seek approval of the Maine Bureau of Banking prior to engaging in certain extraordinary transactions.

Legislation

Federal legislation and regulation have significantly affected the operations of federally insured savings associations, such as the Bank, and other federally regulated financial institutions in the past several years and has increased competition among savings associations, commercial banks, and other financial institutions. Congress has been considering legislation in various forms that would require federal thrifts, such as the Bank, to convert their charters to national or state bank charters. The Bank cannot determine whether, or in what form, such legislation may eventually be enacted, and there can be no assurance of the effect that any legislation that is enacted would have on Northeast Bancorp, the Bank, and its affiliates. The operations of regulated depository institutions will continue to be subject to changes in applicable statutes and regulations from time to time and could adversely affect Northeast Bancorp, the Bank, and its affiliates.

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 8b.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Annual Report on Form 10-K (including the Exhibits hereto) contains certain statements that are not based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial condition and future prospects, loan loss reserve adequacy, simulation of changes in interest rates, prospective results of operations, capital spending and financing sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", or other similar terms or variations on those terms, or the future or conditional verbs such as "will" , "may", "should", "could", and "would". Such forward-looking statements reflect the current view of management and are based on information currently available to them, and upon current expectations, estimates, and projections regarding the Company and its industry, management's belief with respect there to, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors. Accordingly, actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and th e integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity. In addition, the Company may from time to time make such written or oral "forward-looking statements" in future filings with the Securities and Exchange Commission (including exhibits thereto), in its reports to shareholders, and in other communications made by or with the approval of the Company.

These forward-looking statements reflect the current views of the Company at the time they are made and are based on information currently available to the management of the Company and upon current expectations, estimates, and projections regarding the Company and its industry, management's beliefs with respect thereto, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors (many of which are outside the control of the Company), which could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

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

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

b. competitive pressure in the banking and financial services industry increasing significantly and, more particularly, competition in the Company's market areas as described under "Business -- Market for Services and Competition";

c. changes in the interest rate environment which reduces margins, including those described under "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management" and also may have a negative impact on the Company's interest rate exchange agreement;

d. the adequacy of the allowance for loan losses and the Bank's asset quality, including those matters described in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations" as well as the federal income tax impact for recapture of pre-1988 tax bad debt reserve in the event the Bank's assets exceed $500 million;

e. changes in political conditions or changes occurring in the legislative or regulatory environment, including the impact of any changes in laws and regulations relating to banking, securities, taxes, and insurance;

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

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

h. money market and monetary fluctuations, and changes in inflation or in the securities markets;

i. future acquisitions and the integration of acquired businesses and assets;

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

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

l. unanticipated litigation, regulatory, or other judicial proceedings;

m. the success of the Company at managing the risks involved in the foregoing;

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

Such forward-looking statements speak only to the date that such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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

All forward-looking statements presume a continuation of the existing regulatory environment and monetary policy. The banking industry is subject to extensive state and federal regulation, and significant new laws or regulations, or changes in or repeals of existing laws or regulations may cause results of the Company to differ materially. Further federal monetary policy, particularly as implemented by the FRB, significantly affect credit conditions for the Bank and its customers. Such changes could adversely impact the Company's financial results. See "Item 1. Business Supervision and Regulation."

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

ITEM 2. PROPERTIES

The principal executive and administrative offices of the Company and the Bank are located at 232 Center Street, Auburn, Maine and consist of two floors, containing a lobby, executive and customer service offices, teller stations, and vault operations. These office facilities are subject to a lease, which expires in 2007, with an option to renew the lease for 2 additional 5-year terms. The lease requires rental payments of $112,885 per year.

The Bank has 11 branching locations, including the banking facility located at its executive offices. The branches located in Bethel, Harrison, Buckfield, Mechanic Falls, Brunswick, Augusta (Western Avenue), and Lisbon, Maine, are owned by the Bank in fee simple. In addition to the Auburn facilities, the branches located in South Paris and Lewiston, Maine are leased by the Bank and the facility in Bethel, Maine for the insurance division is leased by Northeast Financial Services. These leases have renewal options. In aggregate, branch and the Bethel facility leases require rental payments of $101,000 per year. The Bank also owns in fee simple certain real property and improvements located in Auburn and Falmouth, Maine at which various loan and non-banking services as well as accounting and operations functions of the Company and the Bank are performed. The facilities owned or occupied under lease by the Bank and its subsidiaries are considered by management to be adequate.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's securities-holders during the fourth quarter of the fiscal year ended June 30, 2002.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position with Company and/or Bank
James D. Delamater	51	President and Chief Executive Officer (1)
Philip C. Jackson	58	Senior Vice President of Bank Trust - Operations
Gary Berlucchi	56	Senior Vice President of Bank - Operations
A. Daniel Keneborus	61	Senior Vice President of Bank - Commercial Lending
Marcel Blais	43	Senior Vice President of the Bank - Retail Banking
Robert S. Johnson	50	Chief Financial Officer (1)
Suzanne Carney	35	Clerk

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

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

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

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

A. Daniel Keneborus has been the Senior Vice President of the Bank - Commercial Lending since October 1998. Mr. Keneborus served as Vice President, Casco Northern Bank from 1976 to 1990, Vice President Commercial Lending of Peoples Heritage from 1990 to 1992, and Vice President Commercial Lending for Shawmut Bank from 1993 to 1997.

Marcel Blais has been the Senior Vice President of the Bank - Retail Banking since 1998. Mr. Blais joined the Company in 1997 as the Vice President of the Bank - Branch Administration. Prior to joining the Company he served as Vice President of Atlantic Bank from 1995 to 1997, and as Vice President - Branch Manager of Casco Bank from 1977 until 1995.

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

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

Part II

Item 5. Market Prices of Common Stock and Dividends Paid

The Common Stock of Northeast Bancorp trades on the American Stock Exchange ("AMEX") under the symbol "NBN". As of the close of business on September 19, 2002, there was approximately 2,649,212 shares of common stock outstanding held by approximately 503 stockholders of record.

The following table sets forth the high and low closing sales prices of the Company's Common Stock as reported on AMEX, and dividends paid during each quarter for fiscal years ending June 30, 2002 and 2001.

2001 - 2002	High	Low	Div Pd
Jul 1- Sep 30	13.20	11.50	.063
Oct 1 - Dec 31	13.00	11.25	.063
Jan 1 - Mar 31	15.25	13.20	.063
Apr 1 - Jun 30	15.25	14.00	.063

2000 - 2001	High	Low	Div Pd
Jul 1- Sep 30	9.50	8.13	.063
Oct 1 - Dec 31	8.63	7.63	.063
Jan 1 - Mar 31	10.60	8.38	.063
Apr 1 - Jun 30	12.90	10.01	.063

On September 19, 2002, the last reported sale price of the Company's Common stock as quoted on AMEX was $14.20. Holders of the Company's Common stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available. The amount and timing of future dividends payable on the Company's Common Stock will depend on, among other things, the financial condition of the Company, regulatory considerations, and other factors. The Company is a legal entity separate from the Bank, but the revenues are derived primarily from the Bank. Accordingly, the ability of the Company to pay cash dividends on its stock in the future generally will be dependent upon the earnings of the Bank and the Bank's ability to pay dividends to the Company. The payment of dividends by the Bank will depend on a number of factors, including capital requirements, regulatory limitations, the Bank's results of operations and financial condition, tax consideration, and general economic conditions. National banking laws regulate and restrict the ability of the Bank to pay dividends to the Company. See "Item 1.Business - Supervision and Regulation".

Item 6. Selected Financial Data

	At or for the Year Ended June 30,				
	2002	2001	2000	1999	1998
	(Dollars in thousands except for Per Share Data)				
Selected operations data:					
Interest income	$ 31,664	$ 35,800	$ 32,406	$ 26,857	$ 24,283
Interest expense	16,998	21,754	18,352	14,550	12,810
Net interest income	14,666	14,046	14,054	12,307	11,473
Provision for loan losses	842	781	1,072	610	706
Other operating income (1)	3,675	2,934	2,451	2,621	2,384
Net securities gains	547	148	84	95	288
Other operating expenses (2)	12,146	10,975	10,543	10,570	9,732
Income before income taxes	5,900	5,372	4,974	3,843	3,707
Income tax expense	2,047	1,888	1,764	1,433	1,303
Net income	$ 3,853	$ 3,484	$ 3,210	$ 2,410	$ 2,404
	======	======	======	======	======
Consolidated per share data:					
Net income:					
Basic	$ 1.48	$ 1.32	$ 1.17	$ 0.88	$ 1.00

Diluted	$ 1.44	$ 1.30	$ 1.17	$ 0.86	$ 0.86
Cash dividends	$ 0.25	$ 0.25	$ 0.23	$ 0.21	$ 0.21
Selected balance sheet data:					
Total assets	$ 442,216	$ 431,298	$ 433,852	$ 364,383	$ 322,533
Loans receivable	374,634	380,483	381,824	318,986	282,031
Deposits	303,198	274,136	259,982	219,364	184,024
Borrowings	93,130	115,222	129,801	104,569	105,433
Total stockholders' equity	34,731	30,445	28,126	26,683	25,140
Other ratios:					
Return on average assets	0.88%	0.80%	0.79%	0.71%	0.83%
Return on average equity	11.73%	11.65%	11.59%	9.18%	10.35%
Average equity to average total assets	7.51%	6.84%	6.85%	7.73%	7.99%
Common dividend payout ratio	17.36%	19.23%	19.66%	24.42%	24.42%

(1) Includes fees for deposit, investment brokerage, and trust services to customers and gains on the sale of loans.

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

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

The discussion and analysis which follows focuses on the factors affecting the results of operations of Northeast Bancorp, Inc. during fiscal years ended June 30, 2002, 2001 and 2000. The Consolidated Financial Statements and related notes should be read in conjunction with this review. Certain amounts in the years prior to 2002 have been reclassified to conform to the 2002 presentation.

FORWARD LOOKING STATEMENTS

Certain statements contained in this report are not based on historical facts and are "forward-looking statements" within the meaning of federal securities law, such as statements relating to financial condition and future prospects, loan loss reserve adequacy, simulation of changes in interest rates, prospective results of operations, capital spending and finance sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would". Such forward-looking statements reflect the current view of management and are based on information currently available to them, and upon current expectations, estimates, and projections regarding the Company and its industry, management's belief with respect thereto, and certain assumptions made by management. These forward - looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors. Accordingly, actual results could differ materially from those set forth in forward -looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity.

GENERAL

Northeast Bancorp (the "Company") is a Maine corporation and a registered unitary savings and loan holding company with the Office of Thrift Supervision ("OTS") its primary regulator. We conduct business from our headquarters in Auburn, Maine and, as of June 30, 2002, 13 banking offices all located in Western and South-central Maine. At June 30, 2002, we had consolidated assets of $442.2 million and consolidated stockholders' equity of $34.7 million.

Northeast Bancorp's principal asset is all the capital stock of Northeast Bank, FSB (the "Bank"), a federally chartered savings and loan association. Accordingly, Northeast Bancorp's results of operations are primarily dependent on the results of the operations of the Bank. The Bank has offices in Auburn, Augusta, Bethel, Brunswick, Buckfield, Harrison, Lewiston, Lisbon Falls, Mechanic Falls, Richmond, and South Paris, Maine. The Bank also maintains a facility on Fundy Road in Falmouth, Maine from which loan applications are accepted and investment, insurance and financial planning products and services are offered. Kendall Insurance, an insurance agency which is a division of the Bank's wholly owned subsidiary Northeast Financial Services, Inc. offers property and casualty insurance products from a facility in Bethel, Maine formerly occupied by Kendall Insurance.

Business Strategy

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

Our goal is to maintain profitable, continued modest growth by increasing our loan and deposit market share in our existing markets in Western and South-central Maine, closely manage the yields on earning assets and rates on interest-bearing liabilities, introduce new financial products and services, increase noninterest income from expanded trust, investment and insurance brokerage services, and control the growth of noninterest expenses. It also is part of our business strategy to make targeted acquisitions in our current market areas from time to time when opportunities present themselves. As part of our growth strategy, substantially all of the assets of Kendall Insurance, Inc. located in Bethel, Maine were acquired by Northeast Financial Services, a wholly owned subsidiary of the Bank, on February 20, 2002.

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

Economic Conditions

We believe that our market area has generally witnessed a softening in economic growth in late 2001 and early 2002. Although these developments have not materially affected us to date, they did contribute to the increase in net charge-offs, and nonperforming assets in fiscal 2002. The economy and real estate markets in our market areas will continue to be significant determinants of the quality of our assets in future periods and our results of operations, liquidity, and financial condition. We believe future economic activity will significantly depend on consumer confidence, consumer spending and business expenditures for new capital equipment, all of which are tied to strong employment.

Critical Accounting Policy that Involves Estimates and Judgment

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

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

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

RESULTS OF OPERATIONS

Comparison of 2002 and 2001

Overview

Net income reported of $3,852,620, or $1.44 per diluted share, in 2002 compared to $3,483,901, or $1.30 per diluted share, in 2001 increased 10.6%. The improved results were attributable to increased net interest income and increased noninterest income partially offset by increased provision for loan losses and increased noninterest expense. The return on average assets was 0.88% in 2002 and 0.80% in 2001. The return on average equity was 11.73% in 2002 and 11.65% in 2001. Increased net income in 2002 accounts for the better results for both measures.

Net interest income and noninterest income increased 4% and 37% during 2002, respectively. The increase in net interest income was due to an increase in net interest margin. The increase in net interest margin was attributable to the decrease in FHLB borrowings and an overall decrease in average rates paid on interest-bearing deposits and borrowings. This was partially offset by a decrease in the yield on earning assets. The general decline in interest rates resulted from the Open Market Committee of the Federal Reserve Board cutting short-term interest rates during the fiscal year. The increase in noninterest income was primarily due to gains on sales of securities and residential real estate loans and investment and insurance commissions as well as increased fees and service charges on loans.

Noninterest expense increased 11% during 2002. This increase was primarily due to increases in salaries and employee benefits and other expense.

Net Interest Income

Net interest income increased by $619,970 or 4% during 2002 primarily due to a 118 basis point reduction in the average rates paid on interest-bearing liabilities, more than offsetting the 95 basis points decrease in the yield on earning assets. The net interest margin increased to 3.50% in 2002 from 3.33% in 2001. Average loans decreased by $10.7 million, or 3%, in 2002 compared to 2001. The decrease was primarily due to the decreased residential real estate loans, attributable to the Company selling most of the residential real estate loans originated during 2002. Average investment securities increased by $6.2 million, or 27%, during 2002 due to an increase in interest-bearing deposits. Average interest-bearing deposits increased by $25.5 million, or 10%, during 2002 primarily from the promotion of a new tiered NOW account called Express Gold. Average repurchase agreements and borrowed funds decreased by $31 million, or 24%. The decrease in borrowings was due to repayments at maturity. Table 1 shows the average balances, yields and rates for the past three years. The table below shows the changes from 2001 to 2002 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended
June 30, 2002 versus June 30, 2001

Difference Due to

	Volume	Rate	Total
Investments	$ 173,826	$ (377,391)	$ (203,565)
Loans, net	(904,235)	(2,874,128)	(3,778,363)
FHLB deposits & other	106,396	(260,296)	(153,900)
Total interest earning assets	(624,013)	(3,511,815)	(4,135,828)
Deposits	620,276	(2,684,811)	(2,064,535)
Repurchase agreements	(119,542)	(276,010)	(395,552)
Borrowings	(1,694,437)	(601,274)	(2,295,711)
Total interest-bearing liabilities	(1,193,703)	(3,562,095)	(4,755,798)
Net interest income	$ 569,690	$ 50,280	$ 619,970

Rate/volume amounts are spread proportionately between Volume and Rate. Borrowings in the table above include trust-preferred securities and FHLB advances.

Provision for Loan Losses

The provision for loan losses in 2002 was $842,101, an increase of $61,255 compared to 2001. The increase reflects the increase in charge-offs during 2002, and mitigated by a decrease in classified and nonaccrual loans and a decrease in total loans. Net charge-offs to average loans outstanding was 0.30% in 2002 compared to 0.13% in 2001. Net charge-offs were $1,332,000 in 2002 compared to $744,000 in 2001. This $588,000 increase was due to increased levels of gross charge-offs, including commercial real estate and commercial loans.

The allowance for loan losses was $3,496,000 at June 30, 2002, compared to $3,778,000 at June 30, 2001. The decline was attributable to the increased net charge-offs above. The allowance to total portfolio loans was 0.94% in 2002 compared to 0.99% in 2001. The ratio of the allowance for loan losses to nonperforming loans was 299% at June 30, 2002 and 104% at June 30, 2001 reflecting a decrease in nonperforming loans. Nonperforming assets were 0.40% of total assets at June 30, 2002 as compared to 0.93% at June 30, 2001. The decrease in nonperforming assets was primarily due to a decrease in nonperforming commercial real estate loans and accruing loans contractually past due 90 days or more, both down by 84% from the prior year.

See Critical Accounting Policy that Involves Estimates and Judgments for additional information on the allowance for loan losses.

Noninterest Income

Noninterest income was $4,222,467 in 2002 compared to $3,081,705 in 2001. Noninterest income increased $1,140,762, or 37% in 2002. Most of this increase was due to increased fees and service charges on loans, net securities gains, gains on sales of loans, and investment and insurance commissions.

Fees and service charges on loans of $588,056 increased $267,351 or 83% during 2002. The increase was attributed to an increase in miscellaneous loan fees, prepayment penalties, and late charges collected on commercial and commercial real estate loans.

Fees for other services to customers of $829,279 increased $36,224 or 5% during 2002. The increase was due to better management of waived service charges on deposit account activity and increased debit card revenue compared to 2001.

Net securities gains of $546,614 increased $411,739 or 305% during 2002. The increase was due to the sale of Ocean National Bank common stock which was acquired by Chittenden Corporation of Burlington, Vermont, resulting in a gain of $213,236, and sales of mortgage backed and government agency bond securities in 2002. Gains from the sale of equity and bond securities are subject to market and economic conditions and there can be no assurance that gains reported in prior periods will be achieved in the future. Other than temporary write-downs on equity securities during 2002 and 2001 were included in noninterest expense.

Gains on the sales of loans of $692,641 increased $299,623 or 76% during 2002. The loans sold were indirect auto loans, guaranteed portion of SBA loans, and residential real estate loans. The increase was primarily due to the sale of residential real estate loans of $25,888,000 in 2002 compared to $13,008,000 in 2001, sale of indirect auto loans of $5,139,720 in 2002 compared to $5,327,307 in 2001, and the sale in 2002 of the guaranteed portion of SBA loans of $1,215,947. No SBA loan sales occurred in 2001. Gains on the sale of indirect auto loans decreased $103,249 to $68,988 in 2002 compared to 2001. Gain on the sale of the guaranteed portion of SBA loans was $98,720 in 2002. Residential real estate loans were primarily originated for sale to FHLMC to reduce interest rate risk.

Loan servicing fees of $44,059 decreased $41,556 or 49% during 2002. The decrease was attributable to fewer loans serviced for others, $43,871,000 in 2002 compared to $48,540,000 in 2001. High levels of prepayments during 2002 caused an increase in amortization of capitalized mortgage servicing rights contributing to the decreased loan servicing fees.

Investment and insurance commissions of $1,283,277 increased $238,009 or 23% during 2002. The increase was due to increased commissions earned from the third party sale of mutual funds, annuities, stocks, bonds, and life insurance. The operations of Kendall Insurance, a division of Northeast Financial Services, Inc, contributed insurance commissions of $76,450 since the acquisition date.

Other income of $238,052 decreased $58,250 or 20% during 2002. The decrease was primarily from trust fees which are dependent upon the market value of assets. There was a broad-based decline in the stock market during 2002.

Noninterest Expense

Noninterest expense was $12,146,326 in 2002 compared to $10,975,264, an increase of $1,171,062 or 11%. The 2002 increase was primarily salaries and employee benefits. The efficiency ratio, which excludes securities transactions, increased slightly to 64.8% during 2002 from 64.0% in 2001.

Salaries and employee benefits expense of $6,582,511 increased $920,768 or 16% during 2002. The increase was attributable to additional staff to support the increased levels of commercial and residential lending activities, acquisition of Kendall Insurance, starting a division to originate commercial loans for sale to third parties and increased incentive compensation.

Occupancy expense of $923,924 increased $51,704 or 6% during 2002. The increase was primarily due to new leased space to accommodate the additional staff above. Equipment expense of $857,821 decreased $55,200 or 6% during 2002. The decrease was attributable to lower equipment depreciation expense as equipment assets became fully depreciated.

Goodwill amortization decreased $101,975 from the Company electing the early adoption of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets" on July 1, 2002. The Company replaced the annual amortization with an annual impairment test. There was no impairment based on the test performed at June 30, 2002.

Intangible assets amortization of $211,278 increased $38,994 or 23% during 2002. The increase was due to the amortization from the customer list and non-compete intangibles acquired from the Kendall Insurance transaction.

Other expense of $3,519,937 increased $316,332 or 10% during 2002. The increase was due to $257,186 in write-downs on the equity portfolio for other than temporary declines in fair value, increased expenditures collecting loans, increased employee recruitment expenses and increased shareholder relations expense.

Taxes

The Company's effective tax rate was 34.7% and 35.2% in 2002 and 2001, respectively.

Comprehensive Income

The Company's comprehensive income was $4,208,501 and $4,082,356 during 2002 and 2001, respectively. Comprehensive income differed from our net income in 2002 and 2001 due to the change in net unrealized gains on available for sale securities of $355,881 and $598,455 in 2002 and 2001, respectively. See the Consolidated Statements of Changes in Shareholders' Equity and Note 18 in the Consolidated Financial Statements for additional information.

Comparison of 2001 and 2000

The Company reported net income of $3,483,901 for 2001, or $1.30 per diluted share, compared with net income of $3,209,722, or $1.17 per diluted share reported in 2000. Return on average assets and return on average equity were 0.80% and 11.65%, respectively, in 2001 and 0.79% and 11.59%, respectively, in 2000.

Net interest income totaled $14,046,235 during 2001 compared with $14,053,532 in 2000. The decrease of $7,297 was due to increased interest expense from an increase in rates on deposits and borrowings combined with an increase in volume of deposits. This increase more than offset the increases in interest income from an increase in loan volume and rates. The table below shows the changes from 2000 to 2001 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended
June 30, 2001 versus June 30, 2000

	Difference Due to		
	Volume	Rate	Total
Investments	$ 100,966	$ 7,487	$ 108,453
Loans, net	2,535,584	667,462	3,203,046
FHLB deposits & other	76,385	6,063	82,448
Total interest earning assets	2,712,935	681,012	3,393,947
Deposits	1,701,822	1,046,280	2,748,102
Repurchase agreements	(7,978)	(21,756)	(29,734)
Borrowings	(36,666)	719,542	682,876
Total interest-bearing liabilities	1,657,178	1,744,066	3,401,244
Net interest income	$ 1,055,757	$ (1,063,054)	$ (7,297)

Rate/volume amounts are spread proportionately between Volume and Rate. Borrowings in the table above include trust-preferred securities and FHLB advances.

The provision for loan losses was $780,846 in 2001 compared to $1,071,949 in 2000. The decrease of $291,103 or 27% was attributable to a slowing of loan growth in 2001 compared to 2000. As a result, it was not deemed necessary to provide at the same level in 2000. The ratio of the allowance for loan losses to nonperforming loans was 104% in 2001 compared to 297% in 2000. The allowance for loan losses represented 0.99% of total loans at June 30, 2001 compared to 0.92% at June 30, 2000. Nonperforming assets increased $2,558,000 from June 30, 2000 to $4,014,000, or 0.93% of total assets at June 30, 2001. Accruing loans 90 days or more past due were $544,000 at June 30, 2001, up $472,000 from the prior year.

Noninterest income was $3,081,705 during 2001 compared to $2,534,945 during 2000. The increases of $79,143 in aggregate fees and service charges related to loans and other services to customers, $59,700 in net securities gains, $4,020 in gains on trading activities, $172,064 in gain on sales of loans, and $291,380 in investment and insurance commissions partially offset by decreases of $55,999 in loan servicing fees and $3,548 in other income contributed to the $546,760, or 22%, increase in 2001. The increase in gains on sales of loans reflects the Company's decision to originate residential real estate loans and indirect auto loans for sale in the secondary markets. The increase of $291,380 in investment and insurance commissions during 2001 was attributable to additional staff increasing sales commissions.

Noninterest expense was $10,975,264 for 2001 compared to $10,543,085 for 2000. The increase of $432,179 or 4% was due primarily to salaries and employee benefits from increased commissions paid to brokers in the investment sales division on higher sales revenue and increased health insurance and other benefit costs. Occupancy, equipment, and FDIC insurance expenses all decreased during 2001 compared to 2000. The increase in other expenses of $197,768 was due to increased professional fees, printing expenses, and advertising expenses.

Average earning assets increased $32,219,000, or 8%, in 2001 due to increased loans. Average interest-bearing liabilities increased $27,124,000, or 8%, in 2001 primarily due to increased certificates of deposit.

FINANCIAL CONDITION

The Company's total assets increased $10,917,731, or 3%, to $442,215,917 at June 30, 2002 compared to $431,298,186 at June 30, 2001. The increase was due to increased available for sale securities funded with increased deposits, primarily NOW accounts. Stockholders' Equity totaled $34,730,791 and $30,445,017 at June 30, 2002 and 2001, respectively. The increase of $4,285,774 was due to net income of $3,852,620, issuance of $284,779 of treasury stock in connection with the acquisition of certain assets of Kendall Insurance Co., issuance of $458,206 of treasury stock for exercise of stock options, and an increase in net unrealized gains on available for sale securities of $355,881. Partially offsetting these increases were the payment of cash dividends of $648,731 and share repurchases of $16,981.

Average cash and cash equivalents (cash and due from bank and short-term investments) increased $5,169,686 to $18,193,881 at June 30, 2002 compared to $13,024,195 at June 30, 2001. The increase was attributable to increased reserves maintained at the Federal Reserve Bank and increased short-term investment of funds from increased deposits.

Investments Securities and Other Earning Assets

The average balance of the available for sale securities portfolio was $28,743,239 in 2002 and $22,575,868 in 2001. The increase of $6,167,371 was due to the investment of funds provided from the increase in deposits. The portfolio is primarily comprised of U.S. Government agency and mortgage-backed securities, corporate bonds, and equity securities. Most are seasoned federal agency mortgage-backed securities and short-term federal agency bonds. See Table 2 and 3 for a detail of available for sale securities and investment maturities, respectively.

All of the Company's securities are classified as available for sale and are carried at fair value at $32,440,386 and $20,172,844 as of June 30, 2002 and 2001, respectively. These securities had a net unrealized gain of $178,162 and a net unrealized loss of $177,719 at June 30, 2002 and 2001, respectively. See Note 2 to the Consolidated Financial Statements. These unrealized gains and losses do not impact net income or regulatory capital but are recorded as an adjustment to stockholders' equity, net of related deferred income taxes. Unrealized gains and losses, net of related deferred income taxes, are a component of comprehensive income contained in the Consolidated Statements of Changes in Stockholders' Equity.

Loans

The average balance for loans was $375,226,704 at June 30, 2002 compared to $385,888,498 at June 30, 2001. The decrease of $10,661,794 was attributable to decreased residential real estate loans. See Tables 4 and 5 for additional information on the composition of the loan portfolio.

Residential real estate loans averaged $170,970,245 in 2002 and $195,700,396 in 2001. The decrease of $24,730,151, or 13%, was attributable to increased refinancing activity and prepayment in a low interest rate environment, and our policy to sell most of the residential real estate loans into the secondary market. Residential real estate loans were 43% of the total loan portfolio at June 30, 2002. Of residential real estate loans, 35% were variable rate products. In 2001, residential real estate loans were 49% of total loans and 34% were variable rate. The increase in the percentage of variable rate product resulted from holding new variable rate loans in portfolio and selling fixed rate product into the secondary market.

Commercial real estate loans averaged $73,603,085 in 2002 and $66,341,895 in 2001. The increase of $7,261,190 or 11% reflects our focus to primarily lend to small businesses within our market areas. This portfolio consists of loans secured primarily by income-producing commercial real estate and multifamily residential real estate. Commercial real estate loans were 22% and 18% of the total loan portfolio at June 30, 2002 and 2001, respectively. Commercial real estate loans have 93% variable rate product, minimizing the interest rate risk for this portfolio. In 2001, the variable rate product was 89% of this portfolio.

Construction loans averaged $7,552,655 in 2002 and $5,633,265 in 2001. The increase of $1,919,390, or 34%, was primarily in commercial construction loans. All construction loans are subject to interest rates based on the prime rate, contractual maturities under 12 months, and disbursements made on construction as completed and verified by inspection.

Commercial loans averaged $46,780,721 in 2002 and $41,844,293 in 2001. The increase of $4,436,428, or 12%, reflects additional opportunities with small businesses in our market areas. Commercial loans were 13% and 12% of total loans at June 30, 2002 and 2001, respectively. Variable rate product comprised 53% of this loan portfolio at June 30, 2002. In 2001, variable rate product accounted for 51% of this portfolio. The increase in variable rate loans reflects our policy to originate commercial loans with interest rates tied to prime rate. The commercial loan credit risk exposure is highly dependent on the cash flow of the customer's business. The Company mitigates credit risk by strictly adhering to our underwriting and credit policies.

Consumer and other loans averaged $73,455,823 in 2002 and $73,584,219 in 2001. The decrease of $128,396, or less than 1%, is attributable to one sale of $5.3 million of indirect auto loans, and a reduction in new indirect loans due to competitive financing offered by the major automobile manufacturers. Consumer and other loans comprise 20% and 19% of total loans at June 30, 2002 and 2001, respectively. These loans are mostly fixed rate products. We held $17,084,991 and

$19,908,626 of indirect auto loans as of June 30, 2002 and 2001, respectively. We continue to originate indirect auto loans and continue to build relationships with other institutions for future sales of indirect auto loans the Bank originates. Indirect auto and mobile home loans together comprise approximately 77% of total consumer and other loans, a decrease from 84% in 2001. The Company underwrites all automobile dealer finance and mobile home loans to protect credit quality. The Company pays a nominal one-time origination fee on these loans. The fees are deferred and amortized over the contractual life of the loan as a yield adjustment. Management attempts to mitigate credit and interest rate risk by keeping the products offered short-term, earning a rate of return commensurate with the risk, and lending to individuals in the Company's known market areas.

Net deferred loan origination costs averaged $2,864,175 in 2002 and $2,784,430 in 2001, an increase of $79,745, or 3%.

Deposits

Average demand deposit accounts were $26,826,135 in 2002 and $25,440,000 in 2001. The increase of $1,386,135, or 5%, is consistent with our focus of increasing consumer and commercial core deposits.

Average interest-bearing deposits increased by $25,537,439 during 2002 to $268,926,725. Average NOW accounts increased 81% to $53,519,412. This increase of $23,956,357 during 2002 was attributable to the promotion of Express Gold, a NOW account with tiered interest rates, to attract core deposits. The average interest rate paid on NOW accounts decreased from 2.93% to 2.41%. Average money market accounts increased $2,504,164, or 38% to $9,099,858 during 2002 from the introduction of the Maximum Return Sweep account. This is a sweep account for commercial demand deposit account customers. The average interest rate paid on money market accounts decreased from 2.70% to 2.19%. Average savings accounts decreased $469,045, or 2%, to $20,501,168 during 2002. The average interest rate paid on savings accounts decreased from 2.31% to 1.79%. Average certificates of deposit increased $2,594,554, or 2%, to $155,241,751 during 2002. Our overall funding strategy includes the use of deposits obtained from firms which obtain funds from their customers for deposit with us ("brokered deposits"). These brokered deposits, each a certificate of deposit, averaged $30,564,536 and $33,613,126 during 2002 and 2001 respectively. Certificates of deposit and brokered deposit comprise time deposits. The average rate paid on time deposits decreased from 6.21% to 4.94%. See Table 10 for the scheduled maturities of certificates of deposit of $100,000 or more.

Other Funding Sources

The Company's source of funding other than deposits are securities sold under repurchase agreements and Federal Home Loan Bank (FHLB) advances. Average securities sold under repurchase agreements for 2002 were $9,857,892, compared to $13,573,000 during 2001. This liability was collateralized by federal agency mortgage-backed securities. See Note 10 to the Consolidated Financial Statements.

Average FHLB borrowings for 2002 were $88,724,286, compared to $116,012,660 in 2001. The decrease of $27,288,374, or 24%, was attributed to repayment of FHLB borrowings at maturity using the funds generated by promoting the Express Gold NOW account. These borrowings had an average cost of 5.77% during 2002 compared to 6.39% during 2001. At June 30, 2002 and 2001, FHLB borrowings amounted to $85,956,608 and $108,048,723, respectively. The Company's additional borrowing capacity with the FHLB at June 30, 2002 was approximately $32 million. See Note 9 to the Consolidated Financial Statements.

ASSET QUALITY

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

At June 30, 2002 and 2001, the allowance for loan losses was $3,496,000 and $3,778,000, respectively. The allowance for loan losses as a percentage of total loans was 0.94% and 0.99% at June 30, 2002 and 2001, respectively. The decrease in the allowance for loan losses was attributed to a decline in non-performing loans, lower delinquencies, and fewer classified loans during 2002.

Classified loans, exclusive of non-performing loans, that could potentially become non-performing due to delinquencies or marginal cash flows were $0 and $488,000 at June 30, 2002 and 2001, respectively.

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

06/30/02	06/30/01	06/30/00	06/30/99
1.03%	1.53%	0.85%	0.76%

Non-performing Assets

Non-performing assets consist of non-performing loans, other real estate owned and repossessed assets. Total non-performing assets as a percentage of total assets were 0.40% at June 30, 2002 and 0.93% at June 30, 2001. See Table 8 for a summary of non-performing assets for the last five years.

Total non-performing loans were $1,171,000 and $3,629,000 at June 30, 2002 and 2001, respectively. The decrease of $2,458,000 was attributable primarily to the settlement of one commercial real estate loan of $1,231,000, although all non-performing loans in all categories decreased compared to 2001. Non-performing loans as a percentage of total loans were 0.31% and 0.96% at June 30, 2002 and 2001, respectively. The allowance for loan losses was equal to 299% and 104% of total non-performing loans at June 30, 2002 and 2001, respectively. The following table represents the non-performing loans as of June 30, 2002 and 2001.

Description	June 30, 2002	June 30, 2001
Residential real estate	$ 486,000	$ 577,000
Commercial real estate	330,000	2,139,000
Commercial loans	183,000	523,000
Consumer and other	172,000	390,000

Total non-performing	$ 1,171,000	$ 3,629,000
	===========	===========

At June 30, 2002, non-performing loans included $87,115 of loans that are current and paying as agreed, but which the Bank maintains as non-performing until the borrower has demonstrated a sustainable period of performance. Excluding these loans, the total delinquencies 30 days and more past due as a percentage of total assets would be 1.00%.

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

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

Net charge-offs were $1,124,000 during 2002 compared to $501,000 in 2001. Net charge-offs as a percentage of average loans outstanding were 0.30% and 0.13% in 2002 and 2001, respectively. The increase of $623,000 was due to higher gross charge-offs in commercial real estate and commercial loans resulting from the slowing economy during the fiscal year. See Table 6 for more information concerning charge-offs and recoveries for the last five years.

Potential Problems Loans

Commercial real estate and commercial loans are periodically evaluated under a seven point risk rating system. These ratings are guidelines in assessing the risk of a particular loan. We had classified commercial real estate and commercial loans totaling $3,076,800 at June 30, 2002 as substandard or lower on our risk rating system. This amount includes $513,000 of non-performing commercial real estate and commercial loans. The remaining $2,563,800 of commercial real estate and commercial loans classified as substandard at June 30, 2002 evidence one or more weaknesses or potential weaknesses and may become non-performing loans in future periods.

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

Management believes that the allowance for loan losses is adequate considering the level of risk in the loan portfolio. While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Company will not have to increase its allowance for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors. Regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. These agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. No such adjustments were proposed by the Office of Thrift Supervision based on their 2002 examination.

At June 30, 2002, the Company had acquired assets of $586,642 compared to $385,077 in 2001. The increase of $201,565 was primarily in substance foreclosure of real estate loans. The Bank has an allowance for losses on acquired assets. It was established to provide for declines in market values and estimated selling costs. The Company provided for the allowance through a charge against earnings of $24,000 for the years ending June 30, 2002 and 2001. See Note 5 of the Consolidated Financial Statements for additional information. Management periodically receives independent appraisals on acquired assets. As a result of this review of the independent appraisals and the acquired assets portfolio, the Company believes the allowance for losses on acquired assets is adequate to state acquired assets at lower of cost or fair value less estimated selling costs.

RISK MANAGEMENT

Asset-Liability Management

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

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

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

The table below presents in tabular form contractual balances of the Company's on balance sheet financial instruments that are interest rate sensitive, in U.S. dollars, at the expected maturity dates as well as the fair value of those on balance sheet financial instruments that are interest rate sensitive for the period ended June 30, 2002, with comparative summary balances for 2001. The expected maturity categories take into consideration historical prepayment speeds as well as actual amortization of principal and do 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, such as cash equivalents and certain deposits, are considered to be long term in nature 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 loan information in the table reflects contractual maturity and does not indicate repricing in variable rate loans. Variable rate loans reprice in the fiscal years as follows: fiscal year 2003 $119,454,274, fiscal year 2004 $9,429,286, fiscal year 2005 $22,083,161, fiscal year 2006 $4,945,604, and fiscal year 2007 $8,710,777. In the fiscal years after 2007 there are no variable rate loans repricing. The weighted average interest rates for the various assets and liabilities presented are actual as of June 30, 2002.

Market Risk
June 30, 2002
($ In Thousands)

	Expected Maturity Date						2002	2002	2001	2001
	6/30/03	6/30/04	6/30/05	6/30/06	6/30/07	Thereafter	Total	Fair Value	Total	Fair Value
Financial assets:										
Interest bearing deposits										
Variable rate	$ --	$ --	$ --	$ --	$ --	$ 4,406	$ 4,406	$ 4,406	$ 4,594	$ 4,594
Weighted average interest rate	--	--	--	--	--	1.69%	1.69%		3.90%	
Available for sale securities	9,369	5,230	8,406	3,731	4,106	1,328	32,170	32,440	20,442	20,173
Weighted average interest rate	5.24%	5.23%	4.95%	6.16%	6.16%	6.16%	5.43%		6.83%	
FHLB stock (1)	--	--	--	--	--	6,645	6,645	6,645	6,645	6,645
Weighted average interest rate	--	--	--	--	--	3.75%	3.75%		6.25%	
Loans held for sale										
Fixed rate	611	--	--	--	--	--	611	643	1,167	1,187
Weighted average interest rate	7.19%	--	--	--	--	--	7.19%		6.58%	
Loans										
Fixed rate loans	20,922	23,921	31,532	34,292	37,646	59,512	207,825	218,776	227,211	223,187
Weighted average interest rate	8.49%	8.97%	8.95%	8.89%	8.65%	9.07%	8.87%		9.09%	
Variable rate loans	38,282	22,270	18,672	22,005	27,558	34,526	163,313	159,492	149,494	150,382
Weighted average interest rate	6.18%	6.58%	6.75%	6.79%	6.72%	6.96%	6.64%		8.51%	
Interest receivable	2,229	--	--	--	--	--	2,229	2,229	2,403	2,403
Financial liabilities:										
NOW/Money market/savings	--	--	--	--	--	101,370	101,370	101,370	57,913	57,913
Weighted average interest rate	--	--	--	--	--	1.92%	1.92%		2.28%	
Time deposits	105,631	36,178	12,810	4,203	14,397	356	173,575	176,037	189,900	191,365
Weighted average interest rate	4.13%	4.03%	5.07%	5.26%	5.08%	5.44%	4.29%		5.97%	
Repurchase agreements										
Fixed rate	8,872	--	--	--	--	--	8,872	8,872	8,819	8,819
Weighted average interest rate	1.15%	--	--	--	--	--	1.15%		2.66%	
FHLB advances										
Fixed rate	9,479	17,478	17,000	27,000	--	15,000	85,957	88,364	108,049	110,240
Weighted average interest rate	4.22%	5.72%	4.52%	6.70%	--	5.24%	5.54%		5.71%	
Junior subordinated debentures										
Fixed rate	--	--	--	--	--	7,173	7,173	7,788	7,173	7,224
Weighted average interest rate	--	--	--	--	--	9.60%	9.60%		9.60%	

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

The fair values of 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. FHLB stock does not have a market and the fair value is unknown, however, shares are bought and sold at par. 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 approximates 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 trust preferred securities is based on comparisons to similar contracts at year-end.

There have been no substantial changes in the Company's market risk from the preceding year, other than the fair value of the Company's loans. The fair value of the Company's loans improved at June 30, 2002 when compared to June 30, 2001. As interest rates decreased during the fiscal year, the loan portfolio improved in value due to the fixed coupon rates in the portfolio being better than current market rates.

LIQUIDITY

On a parent company only basis, our commitments and debt service requirements at June 30, 2002 consisted of junior subordinated debentures issued to NBN Capital Trust in connection with the issuance of $7,172,998 in 9.60% trust preferred securities due December 31, 2029. See Note 20 to the Consolidated Financial Statements. NBN Capital is a wholly-owned subsidiary of the Company and was formed for the purpose of raising funds for the Bank. The principal sources of funds for us to meet parent-only obligations are dividends from our banking subsidiary, which are subject to regulatory limitations and borrowings from public and private sources. For information on the restrictions on the payment of dividends by our banking subsidiary see Note 11 to the Consolidated Financial Statements.

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

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

At June 30, 2002, our banking subsidiary had $122 million of immediately accessible liquidity, defined as cash that could be raised with 1-3 days through collateralized borrowings or security sales. This represented 28% of total assets, compared to a policy minimum of 10%.

CAPITAL

At June 30, 2002 and 2001, stockholders' equity totaled $34,730,791 and $30,445,017 respectively or 7.85% and 7.06% of total assets, respectively. In addition, we had on these dates $7,172,998 of junior subordinated debentures which mature in 2029 and qualify as Tier 1 Capital. See Note 20 to the Consolidated Financial Statements. The changes in stockholders' equity include net income for the year end June 30, 2002 of $3,852,620, a $355,881 net unrealized gain on available for sale securities, $742,985 of treasury stock issued for the exercise of stock options and the purchase of the assets of Kendall Insurance, which were partially offset by $648,731 in dividend payments and $16,981 of stock repurchases (1,398 shares). See Note 7 to the Consolidated Financial Statements for additional information on acquiring Kendall Insurance.

In December 1999, the Company's Board of Directors approved a plan to repurchase up to $2,000,000 of its common stock. An additional repurchase of $2,000,000 of its common stock was approved by the Company's Board of Directors in May 2001. Under the common stock repurchase plans, the Company may purchase shares of its common stock from time to time in the open market at prevailing prices. Repurchased shares are held in treasury and may be used in connection with employee benefits and other general corporate purposes. The Company does not believe that the current market price for its common stock adequately reflects full value. As of June 30, 2002, the Company had repurchased $1,356,511 of its common stock. Management believes that these and future purchases have not and will not have a significant impact on the Company's liquidity. The repurchases had a positive effect on diluted earnings per share during 2002 and 2001, by reducing the number of common stock shares outstanding.

Regulatory capital guidelines require the Bank to maintain certain capital ratios. The Bank's Tier 1 Capital was $38,063,000 or 8.65% of total assets at June 30, 2002 compared to $35,114,000 or 8.17% of total assets at June 30, 2001. We are also required to maintain capital ratios based on the level of assets, as adjusted to reflect their perceived level of risk. Our regulatory capital ratios currently exceed all applicable requirements. See Note 11 on the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our contractual obligations and commitments as of June 30, 2002 are summarized in Note 16 on the Consolidated Financial Statements. We have entered into a commitment to occupy office space at two locations in greater Portland, Maine. We expect to occupy this space in the fourth quarter of calendar 2002. The leases have terms of five years each and base rent of $149,000 per year.

IMPACT OF INFLATION

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

IMPACT OF NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) issued in June 2001 Statement of Accounting Standards No. 141 *Business Combinations,* Statement of Accounting Standards No. 142 *Goodwill and Other Intangible Assets*, and Statement of Accounting Standards No. 143 *Accounting for Asset Retirement Obligations;* and, in August 2001, Statement of Accounting Standard No. 144 *Accounting for the Impairment or Disposal of Long-lived Assets*.

FASB 141 and 142 provide guidance on how to account for acquired goodwill and other intangible assets. The most substantive changes represented by these statements are that certain intangible assets formerly reported as goodwill be reclassified separate from goodwill and that goodwill and other intangibles with indefinite useful lives will no longer be amortized but will be subject to impairment testing on a periodic basis. FASB 141 applies to all business combinations initiated after June 30, 2001, and eliminates the pooling of interest method of accounting for business acquisitions. It also provides the criteria that determine whether acquired intangible assets should be recognized separately from goodwill. Under FASB 142, goodwill is no longer amortized, but instead is tested for impairment on a regular basis. FASB 142 is effective for fiscal years beginning after December 15, 2001 and must be applied to all goodwill and other intangible assets that are recognized in an entity's balance sheet at the beginning of the fiscal year. Early adoption of FASB 142 is permitted for entities with fiscal years beginning after March 31, 2001. The Company has elected early adoption of the provision of these statements in the fiscal year beginning July 1, 2001.

Accordingly, on July 1, 2001, $505,932 of core deposit premium was reclassified from goodwill as previously reported and is included in intangible assets. The Company has determined that the original useful life of the core deposit premium used for amortization calculations is appropriate and will continue to be used for the remaining two year life. As of July 1, 2001, the remaining goodwill of $407,897 represents the excess purchase price over the carrying value of the identifiable assets and liabilities from the prior acquisition of a bank. The Company determined that the estimated fair value of the assets and liabilities exceeded the carrying value, including goodwill at June 30, 2002 and 2001 and therefore no impairment has been experienced. The Company has discontinued the annual goodwill amortization of $101,975. For additional information, see Note 6 on the Consolidated Financial Statements.

FASB 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset. It is effective for financial statements issued for the fiscal years beginning after June 15, 2002. We expect that the provisions of FASB 143 will not have a material impact on our financial condition or results of operation.

FASB 144 provides additional implementation guidance and supercedes FASB 121 *Accounting for the Impairment of Long-lived and for Long-lived Assets to be Disposed of*. It is effective for financial statements issued for fiscal years beginning after December 15, 2001. We expect that the provision of FASB 144 will not have a material impact on our financial condition or results of operations.

Item 7a. **Quantitative and Qualitative Disclosure about Market Risk**

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

Item 8. **Financial Statements and Supplementary Data**

a. **Financial Statements Required by Regulation S-X**

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Northeast Bancorp and Subsidiaries

We have audited the consolidated statements of financial condition of Northeast Bancorp and Subsidiaries as of June 30, 2002 and 2001, 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, 2002. These financial statements are the responsibility of Northeast Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and Subsidiaries as of June 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As described in note 6 to the financial statements, the Company adopted the provisions of the Financial Accounting Standards Board Statement No. 142, effective July 1, 2001.

Portland, Maine	/s/ Baker Newman & Noyes
August 2, 2002	Baker Newman & Noyes
	Limited Liability Company

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2002 and 2001

ASSETS	2002	2001
Cash and due from banks	$ 14,343,009	$ 9,594,668
Interest bearing deposits	674,083	507,597
Federal Home Loan Bank overnight deposits (note 9)		

	3,732,000	4,086,000
Total cash and cash equivalents	18,749,092	14,188,265
Available for sale securities, at market value (notes 2, 9 and 10)	32,440,386	20,172,844
Loans held for sale	611,210	1,166,775
Loans receivable (notes 3 and 9):		
Mortgage loans:		
Residential real estate	159,566,886	185,985,453
Construction loans	11,084,462	6,574,545
Commercial real estate	80,423,303	68,568,711
Total mortgage loans	251,074,651	261,128,709
Commercial loans	48,535,162	45,438,422
Consumer and other loans	74,267,760	72,777,245
	373,877,573	379,344,376
Undisbursed portion of construction loans	(2,126,410)	(1,696,402)
Net deferred loan origination costs	2,882,956	2,834,838
	374,634,119	380,482,812
Less allowance for loan losses (note 3)	3,496,000	3,778,000
Net loans	371,138,119	376,704,812
Premises and equipment - net (note 4)	4,150,197	4,118,587
Acquired assets - net (note 5)	586,642	385,077
Accrued interest receivable - loans	1,951,997	2,190,566
Accrued interest receivable - investments	276,896	212,258
Federal Home Loan Bank stock, at cost (note 9)	6,644,500	6,644,500
Goodwill, net of accumulated amortization of $1,067,373 in 2002 and 2001 (note 6)	407,897	407,897
Intangible assets, net of accumulated amortization of $1,355,010 in 2002 and $1,143,732 in 2001 (notes 6 and 7)	849,718	505,932
Other assets (notes 14 and 20)	4,409,263	4,600,673
Total assets	$ 442,215,917	$ 431,298,186
	=========	=========

LIABILITIES AND STOCKHOLDERS' EQUITY

	2002	2001
Liabilities:		
Deposits (note 8):		
Demand	$ 28,252,757	$ 26,323,105
NOW	62,468,856	30,957,847
Money market	15,879,962	6,601,435

Regular savings	23,021,132	20,353,424
Brokered time deposits	24,463,179	26,001,690
Certificates of deposit under $100,000	117,688,983	128,179,846
Certificates of deposit $100,000 or more	31,422,777	35,718,431
Total deposits	303,197,646	274,135,778
FHLB borrowings (note 9)	85,956,608	108,048,723
Securities sold under repurchase agreements (note 10)	8,871,642	8,818,799
Other liabilities	2,286,232	2,676,871
Total liabilities	400,312,128	393,680,171
Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures (note 20)	7,172,998	7,172,998
Commitments and contingent liabilities (notes 15 and 16)		
Stockholders' equity (notes 2, 11, 12, 14 and 15):		
Preferred stock, cumulative, $1 par value, 1,000,000 shares authorized and none issued and outstanding	--	--
Common stock, $1 par value, 15,000,000 shares authorized; 2,786,095 and 2,786,095 shares issued and 2,647,712 and 2,572,938 shares outstanding at June 30, 2002 and 2001, respectively	2,786,095	2,786,095
Additional paid-in capital	10,374,285	10,267,067
Retained earnings	22,748,760	19,544,871
Accumulated other comprehensive income (loss)	178,162	(177,719)
Treasury stock, 138,383 shares at June 30, 2002 and 213,157 shares at June 30, 2001, at cost	(1,356,511)	(1,975,297)
Total stockholders' equity	34,730,791	30,445,017
Total liabilities and stockholders' equity	$ 442,215,917	$ 431,298,186

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended June 30, 2002, 2001 and 2000

	2002	2001	2000
Interest and dividend income:			
Interest on loans	$ 29,651,741	$ 33,430,104	$ 30,227,058
Interest on Federal Home Loan Bank overnight deposits	181,580	320,846	242,386
Interest and dividends on available for sale securities	1,525,931	1,532,659	1,485,774
Dividends on Federal Home Loan Bank stock	292,713	489,550	427,982
Other interest and dividend income	12,138	26,772	22,784
Total interest and dividend income	31,664,103	35,799,931	32,405,984

Interest expense:

Interest expense:			
Deposits (note 8)	11,029,150	13,093,685	10,345,583
Repurchase agreements	144,278	539,830	569,564
Borrowed funds	5,118,389	7,414,100	7,010,715
Trust preferred securities	706,081	706,081	426,590
Total interest expense	16,997,898	21,753,696	18,352,452
Net interest income before provision for loan losses	14,666,205	14,046,235	14,053,532
Provision for loan losses (note 3)	842,101	780,846	1,071,949
Net interest income after provision for loan losses	13,824,104	13,265,389	12,981,583
Noninterest income:			
Fees and service charges on loans	588,056	320,705	302,953
Fees for other services to customers	829,279	793,055	731,664
Net securities gains (note 2)	546,614	134,875	75,175
Gain on trading activities	489	12,867	8,847
Gain on sales of loans	692,641	393,018	220,954
Loan servicing fees	44,059	85,615	141,614
Investment and insurance commissions	1,283,277	1,045,268	753,888
Other income	238,052	296,302	299,850
Total noninterest income	4,222,467	3,081,705	2,534,945
Noninterest expense:			
Salaries and employee benefits (note 15)	$ 6,582,511	$ 5,661,743	$ 5,324,376
Occupancy expense	923,924	872,220	911,903
Equipment expense	857,821	913,021	971,979
FDIC insurance expense	50,855	50,416	54,732
Goodwill amortization (note 6)	--	101,975	101,975
Intangible assets amortization	211,278	172,284	172,283
Other (notes 2 and 13)	3,519,937	3,203,605	3,005,837
Total noninterest expense	12,146,326	10,975,264	10,543,085
Income before income taxes	5,900,245	5,371,830	4,973,443
Income tax expense (note 14)	2,047,625	1,887,929	1,763,721
Net income	$ 3,852,620	$ 3,483,901	$ 3,209,722
Earnings per common share (notes 12 and 15):			
Basic	$ 1.48	$ 1.32	$ 1.17
Diluted	$ 1.44	$ 1.30	$ 1.17

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY
Years Ended June 30, 2002, 2001 and 2000

	Common Stock	Additional Paid-in Capital
Balance at June 30, 1999	$ 2,768,624	$ 10,208,299
Net income	--	--
Other comprehensive income net of tax:		
Net unrealized loss on investments available for sale, net of reclassification adjustment (note 18)	--	--
Total comprehensive income	--	--
Treasury stock purchased, 104,298 shares	--	--
Issuance of common stock and treasury stock sold	971	7,765
Stock options exercised	16,500	49,845
Dividends on common stock at $0.23 per share	--	--
Balance at June 30, 2000	2,786,095	10,265,909
Net income	--	--
Other comprehensive income net of tax:		
Net unrealized gains on investments available for sale, net of reclassification adjustment (note 18)	--	--
Total comprehensive income	--	--
Treasury stock purchased, 112,499 shares	--	--
Stock options exercised and treasury stock sold	--	1,158
Dividends on common stock at $0.25 per share	--	--
Balance at June 30, 2001	2,786,095	10,267,067
Net income	--	--
Other comprehensive income net of tax:	--	--
Net unrealized gain on investments available for sale, net of reclassification adjustment (note 18)	--	--
Total comprehensive income	--	--
Treasury stock purchased, 1,398 shares	--	--
Stock options exercised and treasury stock sold	--	(7,326)
Dividends on common stock at $0.25 per share	--	--
Treasury stock issued in connection with acquisition of Kendall Insurance, Inc. (note 7)	--	114,544
Balance at June 30, 2002	$ 2,786,095	$ 10,374,285

See accompanying notes.

Accumulated
Other

Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total
$ 14,145,720	$ (439,528)	$ --	$ 26,683,115
3,209,722	--	--	3,209,722
--	(336,646)	--	(336,646)
--	--	--	2,873,076
--	--	(878,532)	(878,532)
--	--	6,706	15,442
--	--	--	66,345
(632,968)	--	--	(632,968)
16,722,474	(776,174)	(871,826)	28,126,478
3,483,901	--	--	3,483,901
--	598,455	--	598,455
--	--	--	4,082,356
--	--	(1,125,257)	(1,125,257)
--	--	21,786	22,944
(661,504)	--	--	(661,504)
19,544,871	(177,719)	(1,975,297)	30,445,017
3,852,620	--	--	3,852,620
--	355,881	--	355,881
--	--	--	4,208,501
--	--	(16,981)	(16,981)
--	--	465,532	458,206
(648,731)	--	--	(648,731)
--	--	170,235	284,779
$ 22,748,760	$ 178,162	$ (1,356,511)	$ 34,730,791

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2002, 2001 and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 3,852,620	$ 3,483,901	$ 3,209,722
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	842,101	780,846	1,071,949
Provision for losses on acquired assets	24,000	24,000	24,000

Provision for losses on acquired assets	24,000	24,000	24,000
Write down of investment securities	257,187	105,643	60,000
Deferred income tax expense (benefit)	163,023	(274,481)	(154,576)
Depreciation of premises and equipment	583,400	701,830	808,760
Amortization of goodwill	--	101,975	101,975
Amortization of intangible assets	211,278	172,284	172,283
Net gain on sale of available for sale securities	(546,614)	(134,875)	(75,175)
Net gain on sales of loans	(692,641)	(393,018)	(220,954)
Originations of loans held for sale	(25,888,420)	(13,008,894)	(4,343,694)
Proceeds from sale of loans held for sale	26,600,687	12,155,643	4,672,871
Other	22,310	(89,157)	(325,495)
Change in other assets and liabilities:			
Interest receivable	173,931	890	(413,054)
Other assets and liabilities	(562,821)	(215,082)	708,117
Net cash provided by operating activities	5,040,041	3,411,505	5,296,729
Cash flows from investing activities:			
Proceeds from the sale of available for sale securities	13,931,845	604,650	341,815
Purchases of available for sale securities	(30,804,586)	(1,589,596)	(9,173,218)
Proceeds from maturities and principal payments on available for sale securities	5,383,749	4,907,123	3,291,786
Proceeds from sale of portfolio loans	6,645,499	5,488,691	40,769
Purchases of loans	--	--	(3,168,848)
Net increase in loans	(2,052,873)	(4,880,739)	(60,039,333)
Additions to premises and equipment	(603,610)	(433,658)	(325,814)
Proceeds from sale of acquired assets	490,457	382,645	246,124
Purchase of Federal Home Loan Bank stock	--	--	(964,000)
Cash paid in connection with acquisition of Kendall Insurance, Inc. (note 7)	(284,785)	--	--
Net cash (used) provided by investing activities	(7,294,304)	4,479,116	(69,750,719)
Cash flows from financing activities:			
Net increase in deposits	29,061,868	14,153,966	40,617,777
Net (repayments) borrowings from the Federal Home Loan Bank	(22,092,115)	(14,579,082)	18,746,089
Net increase (decrease) in repurchase agreements	52,843	(4,291,366)	1,242,326
Dividends paid	(648,731)	(661,504)	(632,968)
Treasury stock purchased	(16,981)	(1,125,257)	(878,532)
Issuance of common stock and treasury stock sold	458,206	22,944	81,787
Principal payments on note payable	--	--	(687,500)
Debt issuance costs paid	--	--	(523,614)
Proceeds from issuance of interest in Junior			

Subordinated Debentures	--	--	7,172,998
Net cash provided (used) by financing activities	6,815,090	(6,480,299)	65,138,363
Net increase in cash and cash equivalents	4,560,827	1,410,322	684,373
Cash and cash equivalents, beginning of year	14,188,265	12,777,943	12,093,570
Cash and cash equivalents, end of year	$ 18,749,092	$ 14,188,265	$ 12,777,943
	========	========	========
Supplemental schedule of cash flow information:			
Interest paid	$ 17,104,899	$ 21,696,449	$ 18,145,911
Income taxes paid	1,940,200	2,101,500	1,872,000
Supplemental schedule of noncash investing and financing activities			
Transfer from loans to acquired assets	$ 716,022	$ 513,712	$ 338,570
Treasury stock issued in connection with acquisition of Kendall Insurance, Inc. (note 7)	284,779	--	--
Change in valuation allowance for unrealized (gains) losses on available for sale securities, net of tax	(355,881)	(598,455)	336,646
Net change in deferred taxes for unrealized (gains) losses on available for sale securities	(183,333)	(308,295)	173,424

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2002, 2001 and 2000

1. Summary of Significant Accounting Policies

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

Business

Northeast Bancorp 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 the OTS.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, a savings and loan holding company, and two wholly-owned subsidiaries, Northeast Bank, F.S.B. (including the Bank's wholly-owned subsidiary, Northeast Financial Services, Inc.), and NBN Capital Trust. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the Unites States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the 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. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties. A substantial portion of the Company's loans are secured by real estate in the State of Maine. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in Maine.

Cash and Cash Equivalents

For purposes of presentation in the consolidated statements of cash flow, cash and cash equivalents consist of cash and due from banks, Federal Home Loan Bank overnight deposits and interest bearing deposits. The Company is required to maintain a certain reserve balance in the form of cash or deposits with the Federal Reserve Bank. At June 30, 2002, the reserve balance was approximately $5,173,000.

Available for Sale Securities

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

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 market value, estimated based on bid quotations from loan dealers. The carrying value of loans held for sale approximates the market value at June 30, 2002 and 2001. Realized gains and losses on sale of loans are determined using the specific identification method and are reflected as gains on sale of loans in the consolidated statements of income.

The Company recognizes as separate assets the rights to service mortgage loans for others, and performs an assessment of capitalized mortgage servicing rights for impairment based on the current fair value of those rights. The Company capitalizes mortgage servicing rights at their allocated cost (based on the relative fair values of the rights and the related loans) upon the sale of the related loans.

The Company's mortgage servicing rights asset at June 30, 2002 and 2001 was approximately $448,000 and $452,000, respectively, and is included in other assets in the consolidated statements of financial position. Mortgage servicing rights are amortized over the estimated weighted average life of the loans. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to reflect current circumstances. The Company evaluates the estimated life of its servicing portfolio based on data which is disaggregated to reflect note rate, type and term on the underlying loans.

Loans

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

Allowance for Loan Losses

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

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

Long-Lived Assets

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

Income Taxes

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

Acquired Assets

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

Goodwill and Intangible Assets

Goodwill arising from the acquisition of a bank in prior years is deemed to have an indefinite useful life. The Company ceased amortization of goodwill on July 1, 2001 as further described in note 6.

Intangible assets including core deposit premiums, noncompete agreement and customer lists are being amortized on a straight-line basis over the estimated life of the asset ranging from five to ten years.

Goodwill and intangible assets are reviewed annually for possible impairment, and if the assets are deemed impaired, an expense would be charged in the then current period.

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs were approximately $253,000, $286,000 and $194,000 for the years ended June 30, 2002, 2001 and 2000, respectively.

Stock-Based Compensation

Compensation expense for the Stock Option Plans is accounted for in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. The Stock Option Plans are noncompensatory plans and no expense is recognized. Shares reserved for issuance under the Plans, but not yet awarded, are not considered outstanding for purposes of computing earnings per share.

Comprehensive Income

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

Derivatives

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

The Company has only limited involvement with derivative financial instruments and they are used for trading and hedging purposes. The derivative financial instruments used by the Company are covered call and put contracts on its equity securities portfolio. Gains and losses from entering into covered call and put contracts have been immaterial to the results of operations of the Company. Such covered call and put contracts are recorded at fair value with any adjustments recognized through earnings. 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.

During fiscal 2000, the Company entered into two interest rate exchange agreements with a combined notional principal amount of $20,000,000 to manage and hedge its interest rate exposure with respect to certain certificates of deposit. The interest rate exchange agreements and related certificates of deposit were both called during fiscal 2001. No such agreements are outstanding at June 30, 2002 and 2001.

Reclassification

Certain 2001 and 2000 accounts have been reclassified to conform to the 2002 presentation.

2. Available for Sale Securities

A summary of the cost and approximate fair values of available for sale securities at June 30, 2002 and 2001 follows:

	2002		2001	
	Cost	Fair Value	Cost	Fair Value
Debt securities issued by the U.S. Treasury and other U.S. Government corporations and agencies	$ 12,088,598	$ 12,176,875	$ 248,628	$ 248,628
Corporate bonds	149,938	154,125	149,887	151,641
Mortgage backed securities	18,448,558	18,912,078	18,737,709	18,662,746
Equity securities	1,483,350	1,197,308	1,305,892	1,109,829
	$ 32,170,444	$ 32,440,386	$ 20,442,116	$ 20,172,844

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

	2002		2001	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
Debt securities issued by the U.S.				

Debt securities issued by the U.S. Treasury and other U. S. Government corporations and agencies	$ 88,277	$ --	$ --	$ --
Corporate bonds	4,187	--	1,754	--
Mortgage backed securities	463,520	--	157,027	231,990
Equity securities	6,669	292,711	24,885	220,948
	$ 562,653	$ 292,711	$ 183,666	$ 452,938

At June 30, 2002, mortgage-backed securities with a market value of approximately $16,950,000 were pledged as collateral to secure outstanding repurchase agreements.

At June 30, 2002 and 2001, included in accumulated other comprehensive income (loss) as an adjustment to stockholders' equity are net unrealized gains (losses) of $269,942 and $(269,272), respectively, net of the deferred tax effect of $(91,780) and $91,553, respectively.

The cost and fair values of available for sale securities at June 30, 2002 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
Debt securities:		
Due in one year	$ 5,082,410	$ 5,113,281
Due after one year through five years	7,156,126	7,217,719
Mortgage backed securities (including securities with interest rates ranging from 5.5% to 9.0% maturing February 2005 to November 2029)	18,448,558	18,912,078
Equity securities	1,483,350	1,197,308
	$ 32,170,444	$ 32,440,386

Realized gains and losses on sales of available for sale securities for the year ended June 30, 2002 were $559,390 and $12,776, respectively, for the year ended June 30, 2001 were $134,875 and $0, respectively, and for the year ended June 30, 2000 were $75,175 and $0, 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. During the years ended June 30, 2002, 2001 and 2000, write-downs of available for sale securities were $257,187, $105,643 and $60,000, respectively, and are included in other expense in the consolidated statements of income.

3. Loans Receivable

The Company's lending activities are predominantly conducted in south central and western Maine. However, the Company does purchase residential mortgage loans in the open market out of this geographical area when management believes this is prudent. The Company grants single-family and multi-family residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the Company grants loans for the construction of residential homes, multi-family properties, commercial real estate properties and for land development. Also, the Company participates in indirect lending arrangements for automobile, equipment and mobile home loans. The Company's indirect lending activities are conducted in south central and western Maine. 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 sector in the borrowers' geographic area and/or 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 $3,527,236 and $3,051,196 at June 30, 2002 and 2001, respectively. In 2002, new loans and advances granted to related parties totaled $3,169,074 payments and reductions amounted to $2,693,034.

Included in the loan portfolio are unamortized premiums on purchased loans of approximately $290,500 and $453,000 at June 30, 2002 and 2001, respectively.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	2002	2001	2000
Balance at beginning of year	$ 3,778,000	$ 3,498,000	$ 2,924,000

Provision charged to operating expenses	842,101	780,846	1,071,949
Loans charged off	(1,332,116)	(744,345)	(763,979)
Recoveries on loans previously charged off	208,015	243,499	266,030
Net loans charged off	(1,124,101)	(500,846)	(497,949)
Balance at end of year	$ 3,496,000	$ 3,778,000	$ 3,498,000

Commercial and commercial real estate loans with balances greater than $25,000 are considered impaired when it is probable that the Company will not collect all amounts due in accordance with the contractual terms of the loan. Loans that are returned to accrual status are no longer considered to be impaired. Certain loans are exempt from individual impairment evaluation, including large groups of smaller-balance 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 allowance for loan losses includes impairment reserves related to loans that are identified as impaired, which are based on discounted cash flows using the loan's effective interest rate, the fair value of the collateral for collateral-dependent loans, or the observable market price of the impaired loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral. Loans that experience insignificant payment delays (less than 60 days) and insignificant shortfalls in payment amounts (less than 10%) generally are not classified as impaired. Restructured loans are reported as impaired in the year of restructuring. Thereafter, such loans may be removed from the impaired loan disclosure if the loans were paying a market rate of interest at the time of restructuring and are performing in accordance with their renegotiated terms.

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

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

	2002	2001	2000
Impaired loans	$ 459,005	$ 3,311,240	$ 1,164,349
Impaired loans with related allowances	171,992	1,987,699	81,341
Allowances on impaired loans	10,000	515,704	30,000
Average balance of impaired loans	980,976	1,963,065	914,493
Interest recognized on impaired loans	7,640	36,781	22,648

Loans on nonaccrual status, including impaired loans described above, at June 30, 2002 and 2001 totaled approximately $1,171,000 and $3,629,000, 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, 2002, 2001 and 2000, totaled approximately $66,000, $287,000 and $89,000, 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 of approximately $43,871,000, $48,540,000 and $52,410,000 at June 30, 2002, 2001 and 2000, respectively.

4. Premises and Equipment

Premises and equipment at June 30, 2002 and 2001 are summarized as follows:

	2002	2001
Land	$ 1,025,440	$ 1,025,440
Buildings	2,240,667	2,240,667
Leasehold and building improvements	1,507,833	1,437,119
Furniture, fixtures and equipment	4,271,488	3,742,101
	9,045,428	8,445,327
Less accumulated depreciation	4,895,231	4,326,740
Net premises and equipment	$ 4,150,197	$ 4,118,587

Depreciation and amortization of premises and equipment, included in occupancy and equipment expense, was $583,400, $701,830 and $808,760 for the years ended June 30, 2002, 2001 and 2000, respectively.

5. Acquired Assets

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

	2002	2001
Real estate properties acquired in settlement of loans and other acquired assets	$ 603,090	$ 406,271
Less allowance for losses	16,448	21,194
	$ 586,642	$ 385,077

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

	2002	2001	2000
Balance at beginning of year	$ 21,194	$ 28,455	$ 27,725
Provision for losses on acquired assets	24,000	24,000	24,000
Write-downs	(28,746)	(31,261)	(23,270)
Balance at end of year	$ 16,448	$ 21,194	$ 28,455

6. Goodwill and Other Intangible Assets

The Financial Accounting Standards Board (FASB) has issued Statement of Accounting Standards No. 141, *Business Combinations*, and Statement of Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. These FASB statements provide guidance on how to account for acquired goodwill and other intangible assets. The most substantive changes represented by these statements are that certain intangible assets that have been reported as goodwill be reclassified separate from goodwill and that goodwill and other intangibles with indefinite useful lives will no longer be amortized but will be subject to impairment testing on a periodic basis.

FASB 141 applies to all business combinations initiated after June 30, 2001, and eliminates the pooling of interest method of accounting for business acquisitions. FASB 142 is effective for fiscal years beginning after December 15, 2001 and must be applied to all goodwill and other intangible assets that are recognized in an entity's balance sheet at the beginning of the fiscal year. Early adoption of FASB 142 is permitted for entities with fiscal years beginning after March 31, 2001. Northeast Bancorp has elected early adoption of the provisions of these statements in this fiscal year beginning July 1, 2001. Accordingly, on July 1, 2001, $505,932 of core deposit premium was reclassified from goodwill as previously reported and is included in intangible assets. The Company has determined that the original useful life of the core deposit premium used for amortization calculations is appropriate and will continue to be used for the remaining two year life.

As of July 1, 2001, the remaining goodwill of $407,897 represents the excess purchase price over the carrying value of the identifiable assets and liabilities from the prior acquisition of a bank.

Northeast Bancorp operates in the banking industry and management considers the Company to be aggregated in one reportable operating segment. The Company determined that the estimated fair value of the assets and liabilities of Northeast Bancorp (the reporting unit) exceeded the carrying value, including goodwill, at June 30, 2002 and 2001 and therefore no impairment has been experienced. Accordingly, the Company has discontinued the annual amortization of $101,975.

The following schedule presents the impact of adoption of FASB 142 for the periods indicated:

	For the Years Ended June 30,		
	2002	2001	2000
Reported net income	$ 3,852,620	$ 3,483,901	$ 3,209,722
Add back goodwill amortization	--	101,975	101,975
Adjusted net income	$ 3,852,620	$ 3,585,876	$ 3,311,697
Basic earnings per share:			
Reported net income	$ 1.48	$ 1.32	$ 1.17
Goodwill amortization	0.00	0.03	0.04
Adjusted net income			

	$ 1.48	$ 1.35	$ 1.21
	=========	=========	=========
Diluted earnings per share:			
Reported net income	$ 1.44	$ 1.30	$ 1.17
Goodwill amortization	0.00	0.04	0.03
Adjusted net income	$ 1.44	$ 1.34	$ 1.20
	=========	=========	=========

7. Acquisition of Assets from Kendall Insurance, Inc.

On February 20, 2002, Northeast Financial Services, Inc., a wholly-owned subsidiary of Northeast Bank, F.S.B., acquired substantially all of the assets of Kendall Insurance, Inc. located in Bethel, Maine for a purchase price of $569,564. The assets purchased were primarily intangibles, including customer lists and a noncompete agreement both with useful lives of 7 years and 5 years, respectively. The purchase was structured as an asset acquisition, and consideration was paid 50% in cash and 50% from the issuance of 21,412 shares of common stock of Northeast Bancorp from treasury. The common stock issued was based on the market price on the date of acquisition. Kendall Insurance, Inc. was purchased from Ronald C. Kendall, a director of Northeast Bancorp and Northeast Bank, F.S.B., in an arm's length transaction. The acquisition was accounted for as a purchase in accordance with FASB 141. The results of operations of Kendall Insurance, Inc. have been included in the consolidated financial statements of the Company since the acquisition date. The acquisition was not material to the financial condition or results of operations of the Company.

8. Deposits

Deposits at June 30 are summarized as follows:

	Weighted Average Rate at June 30, 2002	2002 Amount	2002 Percent	2001 Amount	2001 Percent
Demand	0.00%	$ 28,252,757	9.3%	$ 26,323,105	9.6%
NOW	2.0 2	62,468,856	20.6	30,957,847	11.3
Money market	2.09	15,879,962	5.2	6,601,435	2.4
Regular savings	1.52	23,021,132	7.6	20,353,424	7.4
Certificates of deposit and brokered time deposits:					
1.00 - 3.75%	2.74	45,123,629	14.9	1,394,470	.5
3.76 - 5.75%	4.64	112,784,269	37.2	64,889,000	23.7
5.76 - 7.75%	6.23	15,667,041	5.2	123,616,497	45.1
	3.41%	$303,197,646	100.0%	$274,135,778	100.0%
	====	=========	====	=========	====

At June 30, 2002, scheduled maturities of certificates of deposit and brokered time deposits are as follows:

	2003	2004	2005	2006	2007	Thereafter
1.00 - 3.75%	$ 32,289,445	$ 12,810,935	$ 23,249	$ --	$ --	$ --
3.76 - 5.75%	61,619,253	22,590,573	10,222,337	3,810,725	14,238,493	302,888
5.76 - 7.75%	11,722,152	776,712	2,564,078	392,699	157,719	53,681
	$105,630,850	$ 36,178,220	$ 12,809,664	$ 4,203,424	$ 14,396,212	$ 356,569
	========	========	========	=======	========	========

Interest expense on deposits for the years ended June 30, 2002, 2001 and 2000 is summarized as follows:

2002	2001	2000

NOW	$ 1,291,733	$ 864,359	$ 915,018
Money market	199,454	178,334	144,388
Regular savings	365,729	484,288	493,861
Certificates of deposit and brokered time deposits	9,172,234	11,566,704	8,792,316
	$ 11,029,150	$ 13,093,685	$ 10,345,583

9. Federal Home Loan Bank Borrowings

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

June 30, 2002		
Principal Amounts	Interest Rates	Maturity Dates
$ 9,478,495	1.84% - 6.64%	2003
17,478,113	4.78 - 6.67	2004
17,000,000	3.11 - 6.65	2005
27,000,000	5.52 - 6.79	2006
8,000,000	5.59 - 5.68	2008
7,000,000	4.50 - 4.99	2011
$ 85,956,608		

June 30, 2001		
Principal Amounts	Interest Rates	Maturity Dates
$ 38,105,113	3.79% - 7.05%	2002
8,722,204	4.34 - 6.64	2003
18,221,406	4.78 - 6.67	2004
2,000,000	6.65	2005
26,000,000	5.55 - 6.79	2006
8,000,000	5.59 - 5.68	2008
7,000,000	4.50 - 4.99	2011
$ 108,048,723		

Several of the FHLB borrowings are subject to call provisions and may be called prior to the stated maturity.

Certain mortgage loans, free of liens, pledges and encumbrances, certain investment securities maintained at the FHLB not otherwise pledged, FHLB overnight deposits and the Company's FHLB stock have been pledged under a blanket agreement 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.

At June 30, 2002, the Company had approximately $2,100,000 available under a line of credit arrangement with the FHLB. Also, in addition to the FHLB advances outstanding at June 30, 2002, the Company had approximately $32,000,000 available for long-term advances from the FHLB.

10. Securities Sold Under Repurchase Agreements

During 2002 and 2001, the Company sold securities under agreements to repurchase. The weighted average interest rate on repurchase agreements was 1.15% and 2.66% at June 30, 2002 and 2001, respectively. These borrowings, which were scheduled to mature the next business day, were collateralized by mortgage-backed securities with a market value of $16,950,000 and amortized cost of $16,548,000 at June 30, 2002, and a market value of $14,211,000 and amortized cost of $14,388,000 at June 30, 2001. The average balance of repurchase agreements was $9,858,000 and $13,573,000 during the years ended June 30, 2002 and 2001, respectively. The maximum amount outstanding at any month-end during 2002 and 2001 was $14,816,000 and $16,109,000, respectively. Securities sold under these agreements were under the control of the Company throughout 2002 and 2001.

11. Capital and Regulatory Matters

The Bank 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

As of June 30, 2002 and 2001, the most recent notification from the Office of Thrift Supervision (OTS) categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 capital as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2002 and 2001, the Bank ratios exceeded the regulatory requirements. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of June 30, 2002 and 2001.

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

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in Thousands)					
As of June 30, 2002:						
Tier 1 (Core) capital to Risk weighted assets	$ 38,063	11.79%	≥ $ 12,912	≥ 4.0%	≥ $ 19,368	≥ 6.0%
Tier 1 (Core) capital to total assets	$ 38,063	8.65%	≥ $ 17,621	≥ 4.0%	≥ $ 21,997	≥ 5.0%
Total capital to risk weighted assets	$ 40,352	12.50%	≥ $ 25,824	≥ 8.0%	≥ $ 32,280	≥ 10.0%
As of June 30, 2001:						
Tier 1 (Core) capital to risk weighted assets	$ 35,114	11.12%	≥ $ 12,628	≥ 4.0%	≥ $ 18,924	≥ 6.0%
Tier 1 (Core) capital to total assets	$ 35,114	8.17%	≥ $ 17,197	≥ 4.0%	≥ $ 21,496	≥ 5.0%
Total capital to risk weighted assets	$ 37,266	11.80%	≥ $ 25,257	≥ 8.0%	≥ $ 31,571	≥ 10.0%

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Parent if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under OTS rules (approximately $847,000 is available at June 30, 2002).

In December 1999, the Board of Directors of the Company approved a plan to repurchase up to $2,000,000 of the Company's common stock. Also in May 2001, the Board of Directors authorized the repurchase of an additional $2,000,000 of common stock. Under the common stock repurchase plans, the Company may purchase shares of its common stock from time to time in the open market at prevailing prices. Repurchased shares will be held in treasury and may be used in connection with employee benefits and other general corporate purposes. As of June 30, 2002, the Company had approximately $1,357,000 of treasury stock, which is carried at cost.

12. Earnings Per Common Share

Basic earnings per share (EPS) are computed by dividing net income available to common stockholders by the weighted average number of shares outstanding. The following table shows the weighted average number of shares outstanding for each of the last three years. Shares issuable relative to stock options granted have been reflected as an increase in the shares outstanding used to calculate diluted EPS, after applying the treasury stock method. The number of shares outstanding for basic and diluted EPS are presented as follows:

	2002	2001	2000
Average shares outstanding, used in computing Basic EPS	2,599,368	2,648,205	2,739,966
Dilutive effect of stock options	67,665	23,727	13,627
Average equivalent shares outstanding, used in computing Diluted EPS	2,667,033	2,671,932	2,753,593

13. Other Expenses

Other expenses include the following for the years ended June 30, 2002, 2001 and 2000:

	2002	2001	2000
Professional fees	$ 465,210	$ 512,041	$ 504,179
Printing and office supplies	248,829	275,742	214,103
Real estate owned expenses	38,900	33,343	59,896
Write down of investment securities	257,187	105,643	60,000
Other	2,509,811	2,276,836	2,167,659
	$ 3,519,937	$ 3,203,605	$ 3,005,837

14. Income Taxes

The current and deferred components of income tax expense (benefit) were as follows for the years ended June 30, 2002, 2001 and 2000:

	2002	2001	2000
Federal: Current	$ 1,810,686	$ 2,093,089	$ 1,848,732
Deferred	163,023	(274,481)	(154,576)
	1,973,709	1,818,608	1,694,156
State and local - current	73,916	69,321	69,565
	$ 2,047,625	$ 1,887,929	$ 1,763,721

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, 2002, 2001 and 2000:

	2002		2001		2000	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Expected income tax expense at federal tax rate	$ 2,006,083	34.0%	$ 1,826,422	34.0%	$ 1,690,971	34.0%
State tax, net of federal tax benefit	48,785	0.8	45,752	0.9	45,913	0.9
Nondeductible goodwill	--	0.0	34,671	0.6	34,671	0.7
Dividend received deduction	(19,367)	(0.3)	(17,832)	(0.3)	(20,049)	(0.4)
Low income/rehabilitation						

credit	--	0.0	(10,000)	(0.2)	(18,126)	(0.4)
Other	12,124	0.2	8,916	0.2	30,341	0.6
	$ 2,047,625	34.7%	$ 1,887,929	35.2%	$ 1,763,721	35.4%

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2002 and 2001 are presented below:

	2002	2001
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 1,185,000	$ 1,258,000
Interest on nonperforming loans	23,000	98,000
Difference in tax and financial statement bases of investments	80,000	190,000
Difference in tax and financial statement amortization of goodwill and other intangible assets	189,000	156,000
Other	117,000	151,000
Total deferred tax assets	1,594,000	1,853,000
Deferred tax liabilities:		
Loan loss reserve - tax basis	(30,000)	(44,000)
Mortgage servicing rights	(148,000)	(149,000)
Premises and equipment	(65,000)	--
Other	(111,000)	(73,000)
Total deferred tax liabilities	(354,000)	(266,000)
Net deferred tax assets, included in other assets	$ 1,240,000	$ 1,587,000

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

Tax legislation requires that all thrift institutions, such as the Company, 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 rules will have no effect on net income or federal income tax expense. Except as stated below, the unrecaptured base year reserves will not be subject to recapture as long as the Bank continues to carry on the business of banking. However, the balance of the pre-1988 tax bad debt reserves is subject to provisions of present law that require recapture in the case of certain excess distributions to stockholders and recapture would also be required should the Bank's assets exceed $500 million. For federal income tax purposes, the Company has designated approximately $2,400,000 of net worth as a reserve for tax basis bad debts on loans. No deferred taxes have been provided for base year reserve recapture as management plans to avoid the events that would cause such recapture.

15. Employee Benefit Plans

401(k) Plan

The Company offers a contributory 401(k) plan which is available to all full-time salaried and hourly-paid employees who are regularly scheduled to work 1,000 hours or more in a Plan year, have attained age 21, and after completing 90 days of employment. Employees may contribute between 1% and 15% of their base compensation to which the Company will match 50% up to the first 6% contributed. For the years ended June 30, 2002, 2001 and 2000, the Company contributed $125,294, $117,046 and $86,984, respectively.

The Company also has a profit sharing plan which covers substantially all full-time employees. Contributions and costs are determined as a percent of each covered employee's salary and are at the Board of Directors' discretion. There were no discretionary contributions in 2002, 2001 and 2000.

Stock Option Plans

The Company has adopted Stock Option Plans. 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 to employees of the Company and nonqualified stock options may be granted to employees and nonemployee directors. 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 per share of common stock on the date the option is granted. Options immediately vest upon being granted. The options are exercisable for a maximum of ten years after the options are granted in the case of all incentive stock options and five years after the grant date for nonqualified stock options.

In accordance with the Stock Option Plans, a total of 388,000 shares of unissued common stock were reserved for issuance. Of these shares, 85,000 were designated for the incentive stock option plan, 18,000 for the nonqualified stock plan and the remaining 285,000 for either plan. At June 30, 2002, a total of 175,600 shares remain available to be granted including 6,500 available for the incentive stock option plan, 1,600 for the nonqualified stock plan and 167,500 for either plan.

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

	2002		2001		2000	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	160,500	$ 9.96	128,250	$ 10.66	111,750	$ 10.69
Granted	51,000	13.09	40,500	8.25	38,000	8.32
Exercised	(54,750)	8.37	(2,500)	8.33	(16,500)	4.02
Expired	(5,250)	18.50	(5,750)	14.10	(5,000)	15.63
Outstanding and exercisable at end of year	151,000	$ 11.30	160,500	$ 9.96	128,250	$ 10.66

The following table summarizes information about stock options outstanding at June 30, 2002:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at June 30, 2002	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$7.50	12,000	2.2 years	$ 7.50
$ 8.00 to $ 9.00	66,000	6.9	8.28
$10.00 to $10.50	4,000	6.3	10.31
$12.00 to $13.50	46,000	9.1	13.09
$15.00 to $18.50	23,500	5.7	18.36
$ 7.50 to $18.50	151,500	7.0	$ 11.30

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

	2002	2001	2000
Dividend yield	1.9%	1.9%	2.8%
Expected volatility	26.5%	28.0%	27.9%
Risk free interest rates	4.8%	5.4%	6.0%
Expected lives	8 years	8 years	8 years

The weighted-average fair values of options granted during 2002, 2001 and 2000 were $4.21, $2.86 and $2.62, respectively.

For financial statement purposes, the Company measures the compensation costs of its stock option plans under Accounting Principles Board (APB) Opinion No. 25, whereby 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. Had the Company determined cost based on the fair value at the grant date for its stock options under SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income and earnings per share for the years ended June 30, 2002, 2001 and 2000 would have been reduced to the pro forma amounts indicated below:

Earnings Per Share

	Net Income	Basic	Diluted
June 30, 2002:			
As reported	$ 3,852,620	$ 1.48	$ 1.44
Pro forma	$ 3,638,113	$ 1.40	$ 1.36
June 30, 2001:			
As reported	$ 3,483,901	$ 1.32	$ 1.30
Pro forma	$ 3,367,981	$ 1.27	$ 1.26
June 30, 2000:			
As reported	$ 3,209,722	$ 1.17	$ 1.17
Pro forma	$ 3,110,103	$ 1.14	$ 1.13

16. 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:

	2002	2001
Commitments to originate loans:		
Residential real estate mortgages	$ 7,749,000	$ 9,399,000
Commercial real estate mortgages, including multi-family residential real estate	6,374,000	10,983,000
Commercial business loans	5,171,000	2,520,000
	19,294,000	22,902,000
Unused lines of credit	29,385,000	27,094,000
Standby letters of credit	1,618,000	2,542,000
Unadvanced portions of construction loans	2,126,000	1,696,000

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

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

Lease Obligations

The Company leases certain properties and equipment used in operations under terms of operating leases which include renewal options. Rental expense under these leases approximated $289,000, $264,000 and $312,000 for the years ended June 30, 2002, 2001 and 2000, respectively.

Approximate future minimum lease payments over the remaining terms of the leases at June 30, 2002 are as follows:

2003	$ 298,000
2004	298,000
2005	298,000
2006	212,000
2007	151,000
2008 and after	328,000
	$ 1,585,000

Legal Proceedings

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

17. Condensed Parent Information

Condensed financial statements for Northeast Bancorp at June 30, 2002 and 2001 and for each of the years in the three year period ended June 30, 2002 are presented below.

Balance Sheets	June 30,	
Assets	2002	2001
Cash (deposited with banking subsidiary)	$ 666,710	$ 63,923
Investment in banking subsidiary	39,325,029	35,571,532
Investment in common securities of Trust Subsidiary	221,851	221,851
Goodwill, net	407,897	407,897
Other assets	1,505,468	1,575,978
Total assets	$ 42,126,955	$ 37,841,181
Liabilities and Stockholders' Equity		
Junior Subordinated Debentures issued to subsidiary	7,394,849	7,394,849
Other liabilities	1,315	1,315
	7,396,164	7,396,164
Stockholders' equity	34,730,791	30,445,017
Total liabilities and stockholders' equity	$ 42,126,955	$ 37,841,181

Statements of Income

	Years Ended June 30,		
	2002	2001	2000
Income:			
Dividends from banking subsidiary	$ 1,000,000	$ 2,330,000	$ --
Other income	21,970	26,486	14,304
Total income	1,021,970	2,356,486	14,304
Expenses:			

Amortization of goodwill	--	101,975	101,975
Interest on note payable	--	--	25,927
Interest on Junior Subordinated Debentures paid to subsidiary	727,379	727,379	439,487
General and administrative expenses	125,649	65,389	65,934
Total expenses	853,028	894,743	633,323
Income (loss) before income tax benefit and equity in undistributed net income of subsidiaries	168,942	1,461,743	(619,019)
Income tax benefit	286,062	264,458	178,538
Income (loss) before equity in undistributed net income of subsidiaries	455,004	1,726,201	(440,481)
Equity in undistributed net income of subsidiaries	3,397,616	1,757,700	3,650,203
Net income	$ 3,852,620	$ 3,483,901	$ 3,209,722

	Years Ended June 30,		
Statements of Cash Flows	2002	2001	2000
Cash flows from operating activities:			
Net income	$ 3,852,620	$ 3,483,901	$ 3,209,722
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Amortization	17,474	119,448	111,574
Undistributed earnings of subsidiaries	(3,397,616)	(1,757,700)	(3,650,203)
Decrease (increase) in other assets	53,036	(271,592)	(175,752)
Decrease in other liabilities	--	(3,575)	(1,008)
Net cash provided (used) by operating activities	525,514	1,570,482	(505,667)
Cash flows from investing activities:			
Increase in investment in banking subsidiary	--	--	(3,850,004)
Purchase of common securities of Trust subsidiary	--	--	(221,851)
Net cash used by investing activities	--	--	(4,071,855)
Cash flows from financing activities:			
Principal payments on note payable	--	--	(687,500)
Issuance of common stock and treasury stock	458,206	22,944	81,787
Issuance of treasury stock to subsidiary	284,779	--	--
Treasury stock purchased	(16,981)	(1,125,257)	(878,532)
Dividends paid to stockholders	(648,731)	(661,504)	(632,968)
Proceeds from issuance of Junior Subordinated Debentures	--	--	7,394,849
Payments for debt issuance costs			

	--	--	(523,614)
Net cash provided (used) by financing activities	77,273	(1,763,817)	4,754,022
Net increase (decrease) in cash	602,787	(193,335)	176,500
Cash, beginning of year	63,923	257,258	80,758
Cash, end of year	$ 666,710	$ 63,923	$ 257,258
Supplemental schedule of cash flow information:			
Interest paid	$ 727,379	$ 727,379	$ 455,814

18. Other Comprehensive Income

The components of other comprehensive income for the years ended 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Unrealized gains (losses) arising during the the period, net of tax effect of $281,738 in in 2002, $318,234 in 2001 and $178,583 in 2000	$ 546,903	$ 617,748	$ (346,662)
Less: reclassification adjustment for gains, net of write downs, included in net income, net of tax effect of $98,405 in 2002, $9,939 in 2001 and $5,159 in 2000	191,022	19,293	10,016
Other comprehensive income	$ 355,881	$ 598,455	$ (336,646)

19. Segment Reporting

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

20. Guaranteed Preferred Beneficial Interests in the Company's Junior Subordinated Debentures

NBN Capital Trust ("NBNCT"), a Delaware statutory trust, exists for the exclusive purpose of (i) issuing and selling Common Securities to the Company and Preferred Securities to the public (together the "Trust Securities"), (ii) using the proceeds of the sale of Trust Securities to acquire 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") issued by the Company, and (iii) engaging only in those other activities necessary, convenient or incidental thereto (such as registering the transfer of the Trust Securities). Accordingly, the Junior Subordinated Debentures are the sole assets of NBNCT. The preferred securities accrue and pay distributions quarterly at an annual rate of 9.60% of the stated liquidation amount of $7.00 per preferred security. The Company has fully and unconditionally guaranteed all of the obligations of the NBNCT. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the trust preferred securities, but only to the extent of funds held by NBNCT. The trust preferred securities are mandatory redeemable upon the maturity of the Junior Subordinated Debentures on December 31, 2029 or upon earlier redemption as provided in the Indenture. The Company has the right to redeem the Junior Subordinated Debentures, in whole or in part on or after December 31, 2004 at a redemption price specified in the Indenture plus any accrued but unpaid interest to the redemption date. The costs of the issuance of the trust preferred securities was approximately $524,000 and is included in other assets in the Company's consolidated statement of financial condition at June 30, 2002 and 2001, as a deferred financing cost, net of accumulated amortization. The costs are being amortized into interest expense over the life of the securities. The Company owns all of the common securities of NBNCT, the only voting security, and as a result, NBNCT is a subsidiary of the Company.

21. Fair Value of Financial Instruments

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

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

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

Federal Home Loan Bank Stock - This financial instrument does not have a market nor is it practical to estimate the fair value without incurring excessive costs.

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

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

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

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

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

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 time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

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

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

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

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

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

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

The following table presents the estimated fair value of the Company's significant financial instruments at June 30, 2002 and 2001:

	June 30, 2002		June 30, 2001	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	$ 18,749	$ 18,749	$ 14,188	$ 14,188
Available for sale securities	32,440	32,440	20,173	20,173
Loans held for sale	611	643	1,167	1,187
Loans	371,138	378,268	376,705	373,569
Interest receivable	2,229	2,229	2,403	2,403
Financial liabilities:				
Deposits (with no stated maturity)	129,623	129,623	84,236	84,236
Time deposits	173,575	176,037	189,900	191,365
Borrowed funds	85,957	88,364	108,049	110,240
Repurchase agreements	8,872	8,872	8,819	8,819
Junior Subordinated Debentures	7,173	7,788	7,173	7,224

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

Table 1
Northeast Bancorp Consolidated
Distribution of Assets, Liabilities and Net Worth (in thousands)
Interest Rates and Interest Differential
Years Ended June 30, 2002, 2001 and 2000

June 30, 2002	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest-earning assets:			
Investment securities (1)	$ 28,743	$ 1,526	5.31%
Loans (2)(3)	375,226	29,652	7.90%
FHLB stock	6,645	293	4.41%
Short-term investments (4)	8,726	193	2.21%
Total interest-earning assets/interest income/average rates earned	419,340	31,664	7.55%
Non-interest earning assets:			
Cash & due from banks	9,468		
Bank premises and equipment, net	4,140		
Other assets	8,112		
Allowance for loan losses	(3,704)		
Total non-interest earning assets	18,016		
Total assets	$ 437,356		
Liabilities & net worth:			
Interest-bearing liabilities:			
Now	$ 53,519	$ 1,292	2.41%
Money market	9,100	199	2.19%
Savings	20,501	366	1.79%
Time	185,806	9,172	4.94%
Total interest-bearing deposits	268,926	11,029	4.10%
Repurchase agreements	9,858	144	1.46%
Borrowed funds	88,725	5,119	5.77%
Junior subordinated debentures	7,173	706	9.84%
Total interest-earning liabilities/ interest expense/average rates paid	374,682	16,998	4.54%
Total non-interest bearing liabilities:			

Demand deposits and escrow accounts	26,826		
Other liabilities	3,002		
Total liabilities	404,510		
Stockholders' equity	32,846		
Total liabilities and stockholders' equity	$ 437,356		
	==========		
Net interest income		$ 14,666	
		==========	
Interest rate spread			3.01%
Net yield on interest earning assets (5)			3.50%

June 30, 2001	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest-earning assets:			
Investment securities (1)	$ 22,576	$ 1,533	6.79%
Loans (2)(3)	385,888	33,430	8.66%
FHLB Stock	6,645	489	7.36%
Short-term investments (4)	6,216	348	5.60%
Total interest-earning assets/interest income/average rates earned	421,325	35,800	8.50%
Non-interest earning assets:			
Cash & due from banks	6,808		
Bank premises and equipment, net	4,331		
Other assets	8,412		
Allowance for loan losses	(3,634)		
Total non-interest earning assets	15,917		
Total assets	$ 437,242		
	==========		
Liabilities & net worth:			
Interest-bearing liabilities:			
Now	$ 29,563	$ 865	2.93%
Money market	6,596	178	2.70%
Savings	20,970	484	2.31%
Time	186,260	11,567	6.21%
Total interest-bearing deposits	243,389	13,094	5.38%
Repurchase agreements	13,573	540	3.98%
Borrowed funds	116,013	7,414	6.39%
Junior subordinated debentures	7,173	706	9.84%
Total interest-earning liabilities/ interest expense/average rates	380,148	21,754	5.72%

paid			
Total non-interest bearing liabilities:			
Demand deposits and escrow accounts	25,440		
Other liabilities	1,741		
Total liabilities	407,329		
Stockholders' equity	29,913		
Total liabilities and stockholders' equity	$ 437,242		
	==========		
Net interest income		$ 14,046	
		==========	
Interest rate spread			2.78%
Net yield on interest earning assets (5)			3.33%

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June 30, 2000	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest-earning assets:			
Investment securities (1)	$ 21,613	$ 1,486	6.88%
Loans (2)(3)	356,490	30,227	8.48%
FHLB Stock	6,157	428	6.95%
Short-term investments (4)	4,846	265	5.47%
Total interest-earning assets/interest income/average rates earned	389,106	32,406	8.33%
Non-interest earning assets:			
Cash & due from banks	6,061		
Bank premises and equipment, net	4,787		
Other assets	7,586		
Allowance for loan losses	(3,156)		
Total non-interest earning assets	15,278		
Total assets	$ 404,384		
	==========		
Liabilities & net worth:			
Interest-bearing liabilities:			
Now	$ 31,462	$ 915	2.91%
Money market	6,446	144	2.23%
Savings	20,391	494	2.42%
Time	157,164	8,792	5.59%
Total interest-bearing deposits	215,463	10,345	4.80%
Repurchase agreements	13,768	570	4.14%
Borrowed funds	119,472	7,011	5.87%
Junior subordinated	4,321	426	9.86%

debentures			
Total interest-earning liabilities/ interest expense/average rates paid	353,024	18,352	5.20%
Total non-interest bearing liabilities:			
Demand deposits and escrow accounts	22,109		
Other liabilities	1,563		
Total liabilities	376,696		
Stockholders' equity	27,688		
Total liabilities and stockholders' equity	$ 404,384		
Net interest income		$ 14,054	
Interest rate spread			3.13%
Net yield on interest earning assets (5)			3.61%

(1) Taxable. The yield information does not give effect to changes in fair value that are reflected as a component of stockholders equity.

(2) Non-accruing loans are included in computation of average balance, but unpaid interest on nonperforming loans has not been included for purposes of determining interest income.

(3) Interest income on loans includes amortization of net deferred costs ($ in thousands) of $790 in 2002, $814 in 2001, and $698 in 2000.

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

(5) The net yield on average earning assets is net interest income divided by average interest-earning assets

Table 2

Northeast Bancorp Consolidated

Investment Securities Portfolio

($ in thousands)

	At June 30,		
	2002	2001	2000
Available for sale (1)			
U.S. Government and agency obligations	$ 12,177	$ 248	$ 346
Mortgage-backed securities	18,912	18,663	21,446
Other bonds	154	152	193
Equity securities	1,197	1,110	1,174
Total available for sale (2):	$ 32,440	$ 20,173	$ 23,159

(1) Carried at estimated market value. Northeast Bancorp does not have any securities classified as held to maturity.

(2) Cost of such securities ($ in thousands) was $32,170 as of June 30, 2002, $20,442 as of June 30, 2001, and $24,335 as of June 30, 2000.

Table 3

Northeast Bancorp Consolidated

Investment Maturity

($ in thousands)

	Within One Year		After One Year But Within 5 Years		After Five Years But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At June 30, 2002										
U. S. Government and agencies obligations	$ 5,113	4.50%	$ 7,064	4.02%	$ 0	0.00%	$ 0	0.00%	$ 12,177	4.22%
Mortgage-backed securities	0	0.00%	4	8.50%	253	7.00%	18,655	6.15%	18,912	6.16%
Other bonds	0	0.00%	154	5.95%	0	0.00%	0	0.00%	154	5.95%
Equity securities	1,197	6.02%	0	0.00%	0	0.00%	0	0.00%	1,197	6.02%
	$ 6,310	4.79%	$ 7,222	4.06%	$ 253	7.00%	$ 18,655	6.15%	$ 32,440	5.43%
	======	====	======	====	=====	====	=====	====	======	====
At June 30, 2001										
U. S. Government and agencies obligations	$ 248	4.93%	$ 0	0.00%	$ 0	0.00%	$ 0	0.00%	$ 248	4.93%
Mortgage-backed securities	0	0.00%	19	6.44%	346	7.00%	18,298	6.85%	18,663	6.85%
Other bonds	0	0.00%	152	5.95%	0	0.00%	0	0.00%	152	5.95%
Equity securities	1,110	7.08%	0	0.00%	0	0.00%	0	0.00%	1,110	7.08%
	$ 1,358	6.69%	$ 171	6.00%	$ 346	7.00%	$ 18,298	6.85%	$ 20,173	6.83%
	======	====	======	====	=====	====	=====	====	======	====

There are no tax-exempt securities carried in our investment portfolio.

Table 4

Northeast Bancorp Consolidated

Loan Portfolio

($ in thousands)

	As of					
	June 30, 2002		June 30, 2001		June 30, 2000	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
Loan portfolio						
Residential real estate	$ 159,567	42.92%	$ 185,985	49.25%	$ 194,288	51.24%
Commercial real estate	80,423	21.63%	68,569	18.16%	61,924	16.33%
Construction	8,958	2.41%	4,878	1.29%	7,406	1.95%
Commercial	48,535	13.06%	45,438	12.03%	41,518	10.95%
Consumer and other	74,268	19.98%	72,778	19.27%	74,028	19.53%
Total loans	371,751	100.00%	377,648	100.00%	379,164	100.00%
Less:						
Allowance for loan losses	3,496		3,778		3,498	
Net deferred loan (costs)	(2,883)		(2,835)		(2,660)	
Net loans	$ 371,138		$ 376,705		$ 378,326	

=======		=======		=======

	As of			
	June 30, 1999		June 30, 1998	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans
Loan portfolio				
Residential real estate	$ 182,244	57.37%	$ 171,903	61.10%
Commercial real estate	55,438	17.45%	47,053	16.73%
Construction	1,686	0.53%	2,100	0.75%
Commercial	34,647	10.91%	26,967	9.58%
Consumer and other	43,643	13.74%	33,305	11.84%
Total loans	317,658	100.00%	281,328	100.00%
Less:				
Allowance for loan losses	2,924		2,978	
Net deferred loan (costs)	(1,328)		(703)	
Net Loans	$ 316,062		$ 279,053	
	=======		=======	

Table 5

Northeast Bancorp Consolidated

Maturities and Repricing of Loans ($ in thousands)

As of June 30, 2002

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	$ 47,291	$ 12,931	$ 9,468	$ 89,877	$ 159,567
Commercial	48,579	29,077	579	2,188	80,423
Construction	6,787	2,171	0	0	8,958
Non-mortgage loans :					
Commercial	20,474	26,544	383	1,134	48,535
Consumer and other	1,160	19,741	8,690	44,677	74,268
Total loans	$ 124,291	$ 90,464	$ 19,120	$ 137,876	$ 371,751
	=======	=======	=======	=======	=======

Type of interest rate:	
Predetermined rate, maturity greater than 1 year	202,291
Floating or adjustable rate due after one year	45,169
Total due after 1 year:	247,460
	=======

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

Table 6

Northeast Bancorp Consolidated

Summary of Loan Losses Experience

($ in thousands)

	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999	June 30, 1998
Average net loans outstanding during the period (1)	$ 370,195	$ 381,922	$ 353,142	$ 294,207	$ 237,791
	=======	=======	=======	=======	=======
Net loans at end of period (1)	$ 371,138	$ 376,705	$ 378,326	$ 316,062	$ 279,053
	=======	=======	=======	=======	=======
Allowance at beginning of period	$ 3,778	$ 3,498	$ 2,924	$ 2,978	$ 2,742
Loans charged-off during the period:					
Residential real estate	69	27	81	232	196
Commercial real estate	413	0	46	26	432
Commercial	200	69	10	272	42
Consumer and other	650	648	627	396	115
Total loans charged-off	1,332	744	764	926	785
Recoveries on loans previously charged-off:					
Residential real estate	8	16	14	12	87
Commercial real estate	39	29	64	109	83
Commercial	60	120	108	20	87
Consumer and other	101	78	80	121	58
Total recoveries	208	243	266	262	315
Net loans charged off during the period	1,124	501	498	664	470
Provision for loan losses	842	781	1,072	610	706
Allowance at end of period	$ 3,496	$ 3,778	$ 3,498	$ 2,924	$ 2,978
	=======	=======	=======	=======	=======
Ratio of net charge-offs to average loans outstanding	0.30%	0.13%	0.14%	0.23%	0.20%
Allowance as a percentage of total loans	0.94%	0.99%	0.92%	0.93%	1.07%
Allowance as a percentage of non-performing and non-accrual loans	298.55%	104.11%	296.94%	255.59%	132.47%

(1) Excludes loans held for sale.

The allowance for loan losses as a percentage of loans decreased in 2002 due to lower loan delinquencies, a reduction in non-performing loans, and a lower volume of internally classified loans as of June 30, 2002. The same measure declined in years 1998 to 2000 and was attributable to the pace of loan growth. Management believes that the allowance for loan losses is adequate.

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

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

	June 30, 2002		June 30, 2001		June 30, 2000	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Allocation of allowance for loan losses						

Residential real estate	$ 387	42.92%	$ 437	49.25%	$ 405	51.24%
Commercial real estate	1,122	21.63%	929	18.16%	799	16.33%
Construction	55	2.41%	0	1.29%	0	1.95%
Commercial	977	13.06%	620	12.03%	412	10.95%
Consumer	911	19.98%	1,356	19.27%	1,244	19.53%
Unallocated	44	0.00%	436	0.00%	638	0.00%
Total	$ 3,496	100.00%	$ 3,778	100.00%	$ 3,498	100.00%

	June 30, 1999		June 30, 1998	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Allocation of allowance for loan losses				
Residential real estate	$ 378	57.37%	$ 352	61.10%
Commercial real estate	882	17.45%	762	16.73%
Construction	0	0.53%	0	0.75%
Commercial	508	10.91%	582	9.58%
Consumer	497	13.74%	380	11.84%
Unallocated	659	0.00%	902	0.00%
Total	$ 2,924	100.00%	$ 2,978	100.00%

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

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

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

Table 8

Northeast Bancorp Consolidated

Non-performing Loans

($ in thousands)

	At June 30,				
	2002	2001	2000	1999	1998
Non-accrual loans:					
Residential real estate	$ 486	$ 577	$ 191	$ 235	$ 640
Commercial real estate	254	1,635	650	595	317
Commercial loans	183	483	80	0	468
Consumer and other	161	390	185	197	0
Total non-accrual loans	1,084	3,085	1,106	1,027	1,425
Accruing loans contractually past due 90 days or more	87	544	72	117	823
Total non-performing loans	1,171	3,629	1,178	1,144	2,248
Acquired assets	587	385	278	194	350
Total non-performing assets	$ 1,758	$ 4,014	$ 1,456	$ 1,338	$ 2,598

Non-performing loans to total loans	0.31%	0.96%	0.31%	0.36%	0.80%
Non-performing assets to total assets	0.40%	0.93%	0.34%	0.37%	0.81%

As of June 30, 2002, there were no troubled debt restructured loans.

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

Table 9

Northeast Bancorp Consolidated

Average Deposits ($ in thousands) and Rates

	June 30, 2002			June 30, 2001			June 30, 2000		
	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits
Average deposits:									
Non-interest bearing demand deposits	$ 26,826	0.00%	9.07%	$ 25,440	0.00%	9.46%	$ 22,109	0.00%	9.31%
Regular savings	20,501	1.79%	6.93%	20,970	2.31%	7.80%	20,391	2.42%	8.58%
NOW and money market	62,619	2.38%	21.17%	36,159	2.89%	13.45%	37,908	2.79%	15.96%
Time deposits	185,806	4.94%	62.83%	186,260	6.21%	69.29%	157,164	5.59%	66.15%
Total average deposits	$ 295,752	3.73%	100.00%	$ 268,829	4.87%	100.00%	$ 237,572	4.35%	100.00%
	======	====	=====	======	====	=====	======	====	=====

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

Table 10

Northeast Bancorp Consolidated

Maturities of Time Deposits $100,000 & Over

As of June 30, 2002

($ in thousands)

	Balance
3 months or less	$ 565
Over 3 through 6 months	980
Over 6 through 12 months	5,690
Over 12 months	24,188
Total Time Deposits $100,000 & Over	$ 31,423
	=======

Table 11

Northeast Bancorp

Repurchase Agreements

($ in thousands)

	For Years ended June 30,					
	2002		2001		2000	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	$ 8,872	1.15%	$ 8,819	2.66%	$ 13,110	4.18%

Average outstanding during year	9,858	1.46%	13,573	3.98%	13,768	4.14%
Maximum Outstanding at any month end	14,816		16,109		18,675	

These borrowings, which were scheduled to mature next business day, were collateralized by GNMA and FHLMC securities with the market value of $16,950,000 and amortized cost of $16,548,000 at June 30, 2002, a market value of $14,211,000 and amortized cost of $14,388,000 at June 30, 2001, and a market value of $17,006,000 and amortized cost of $17,877,000 at June 30, 2000. Securities sold under these agreements were under the control for the Company during 2002, 2001 and 2000.

Table 12

Northeast Bancorp

FHLB Advances Due in 1 Year or Less

($ in thousands)

	For Years ended June 30,					
	2002		2001		2000	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	$ 9,478	4.22%	$ 38,105	5.18%	$ 91,580	6.54%
Average outstanding during year	11,100	5.08%	65,019	6.22%	76,132	5.69%
Maximum outstanding at any month end	30,488		88,574		109,500	

This table shows the Federal Home Loan Bank Advances the Company had due to mature in one year or less as of June 30, 2002, 2001 and 2000.

Table 13

Northeast Bancorp Consolidated

Maturities and Repricing of Earning Assets & Interest-bearing Liabilities

As of June 30, 2002

($ in thousands)

	Term to Repricing or Maturity				
	Less Than 1 Year	1-5 Years	Over 5 Years	Total	% of Total
Interest-earning assets:					
Investment securities	$ 6,310	$ 7,222	$ 18,908	$ 32,440	7.80%
FHLB stock	--	--	6,645	6,645	1.60%
Short -term investments (1)	5,017	--	--	5,017	1.21%
Mortgage loans:					
Residential real estate:					
Fixed rate loans	38	2,610	99,345	101,993	24.53%
Variable loans	47,253	10,321	--	57,574	13.84%
Commercial real estate	48,579	29,077	2,767	80,423	19.34%
Construction	6,787	2,171	--	8,958	2.15%
Other Loans:					
Commercial	20,474	26,544	1,517	48,535	11.67%
Consumer and other	1,160	19,741	53,367	74,268	17.86%
Total loans	124,291	90,464	156,996	371,751	89.39%
Total interest-earning assets	$ 135,618	$ 97,686	$ 182,549	$ 415,853	100.00%

Interest-bearing liabilities:

Customer deposits:					
NOW accounts	62,469	--	--	62,469	16.57%
Money market accounts	15,880	--	--	15,880	4.21%
Regular savings	23,021	--	--	23,021	6.11%
Certificates of deposit	105,631	67,588	356	173,575	46.05%
Total customer deposits	207,001	67,588	356	274,945	72.94%
Borrowings:					
Repurchase agreements	8,872	--	--	8,872	2.35%
Other borrowings	9,479	61,478	15,000	85,957	22.81%
Junior subordinated debentures	--	--	7,173	7,173	1.90%
Total borrowings	18,351	61,478	22,173	102,002	27.06%
Total interest-bearing liabilities	$ 225,352	$ 129,066	$ 22,529	$ 376,947	100.00%
Interest sensitivity gap	$ (89,734)	$ (31,380)	$ 160,020	$ 38,906	
Cumulative gap	$ (89,734)	$ (121,114)	$ 38,906	$ 38,906	
Cumulative gap ratio	60.18%	65.83%	110.32%	110.32%	
Cumulative gap as a percentage of total assets	-20.29%	-27.39%	8.80%	8.80%	

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

This table summarizes the anticipated maturities and repricing of the Company's earning assets and interest - bearing liabilities at June 30, 2002.

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

Table 14
Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2002

	1st Qtr Sept. 30 2001	2nd Qtr Dec. 31 2001	3rd Qtr Mar. 31 2002	4th Qtr June 30 2002
Interest Income				
Interest on loans	$ 7,999,536	$ 7,663,289	$ 6,986,374	$ 7,002,543
Interest & dividends on investments & available for sale securities	487,474	458,538	506,644	559,705
Total interest and dividend income	8,487,010	8,121,827	7,493,018	7,562,248
Interest expense				
Interest on deposits	3,181,049	2,874,682	2,538,863	2,434,557
Interest on repurchase agreements	61,708	38,218	21,141	23,211
Interest on borrowings	1,443,299	1,274,207	1,198,453	1,202,430

Interest on trust preferred securities	176,520	176,520	176,520	176,520
Total interest expense	4,862,576	4,363,627	3,934,977	3,836,718
Net interest income	3,624,434	3,758,200	3,558,041	3,725,530
Provision for loan losses	210,323	210,693	210,670	210,415
Net interest income after provision for loan losses	3,414,111	3,547,507	3,347,371	3,515,115
Securities transactions	11,036	35,046	360,219	140,801
Other operating income	869,034	985,866	890,236	930,228
Other operating expense	2,848,283	3,006,261	3,122,565	3,169,217
Income before income taxes	1,445,898	1,562,158	1,475,261	1,416,927
Income tax expense	503,537	543,795	511,564	488,729
Net income	$ 942,361	$ 1,018,363	$ 963,697	$ 928,198
Earnings per share:				
Basic	$ 0.37	$ 0.40	$ 0.37	$ 0.35
Diluted	$ 0.36	$ 0.38	$ 0.36	$ 0.34

Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2001

	1st Qtr Sept. 30 2000	2nd Qtr Dec. 31 2000	3rd Qtr Mar. 31 2001	4th Qtr June 30 2001
Interest Income				
Interest on loans	$ 8,515,449	$ 8,603,316	$ 8,261,777	$ 8,049,562
Interest & dividends on investments & available for sale securities	615,849	629,189	597,993	526,796
Total interest and dividend income	9,131,298	9,232,505	8,859,770	8,576,358
Interest expense				
Interest on deposits	3,277,801	3,336,040	3,277,403	3,202,440
Interest on repurchase agreements	128,602	154,607	150,376	106,245
Interest on borrowings	1,972,441	1,998,747	1,829,317	1,613,594
Interest on trust preferred securities	176,520	176,520	176,520	176,520
Total interest expense	5,555,364	5,665,914	5,433,616	5,098,799
Net interest income	3,575,934	3,566,591	3,426,154	3,477,559
Provision for loan losses	195,511	195,542	194,614	195,180
Net interest income after provision for loan losses	3,380,423	3,371,049	3,231,540	3,282,379
Securities transactions	20,904	42,674	38,187	45,977
Other operating income	624,158	607,597	850,127	852,079
Other operating expense	2,666,390	2,622,741	2,700,851	2,985,282

Income before income taxes	1,359,095	1,398,579	1,419,003	1,195,153
Income tax expense	475,822	490,005	487,314	434,788
Net income	$ 883,273	$ 908,574	$ 931,689	$ 760,365
	========	========	========	========
Earnings per share:				
Basic	$ 0.33	$ 0.34	$ 0.35	$ 0.29
Diluted	$ 0.33	$ 0.34	$ 0.35	$ 0.29

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.

Information relating to the name of each nominee or director of the Company, that person's age, positions and offices with the Company, business and principal occupations, directorships in other public experience companies, and service on the Company's board of directors set forth under the caption "Election of Directors" in the definitive 2002 proxy statement of the Company to be furnished to shareholders in connection with the Company's Annual Meeting to be held on November 12, 2002 (the "2002 Proxy Statement"), and information set forth under the subcaption "Section 16 Ownership Requirements" relating to Section 16 matters, is incorporated herein by reference. Information required by this Item 10 regarding the executive officers of the Company is set forth in Part I, Item 4A of this Form 10-K.

Item 11. Executive Compensation

Information with respect to current renumeration of directors and executive officers under the headings of "Election of Directors - Compensation of Directors", "Compensation of Executive Officers", "Compensation Committee Interlocks and Insider Participation", and "Certain Relationships and Related Transactions" in the 2002 Proxy Statement is, to the extent such information as required by Item 402 of Regulation S-K, hereby incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Security ownership information required by Item 403 of Regulation S-K relating to directors and named executive officers of the company, beneficial holders of 5% or more of the outstanding Common Stock, and of all executive officers and directors as a group set forth under the heading "Security Ownership of Management and Certain Beneficial Owners" in the 2002 Proxy Statement is hereby incorporated herein by reference.

(b) The following table provided information about the common stock of Northeast Bancorp that may be issued upon the exercise of stock options under all of the registrant's equity compensation plans in effect as of June 30, 2002.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-averaged exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in the first column) (c)
Equity compensation plans approved by security holders (1)	151,500	11.30	175,600
Equity compensation plan not approved by securities holders	0	0	0
Total (2)	151,500	11.30	175,600
	===============	===============	===============

1. Includes stock options granted or available under the following shareholder approved plans: 388,000 (the "Plans").

2. The Plans provide for a proportionate adjustment to the number of shares reserved thereunder in the event of any stock split, stock dividend, reclassification, or similar event.

Item 13. **Certain Relationships and Related Transactions**

Information regarding transactions and relationships between the Company and its directors and executive officers under the headings "Certain Relationships and Related Transactions" and "Compensation Committee Interlocks and Insider Participations" in the 2002 Proxy Statement is, to the extent such information as required by Item 404 of Regulation S-K, hereby 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, 2002 and 2001.

Consolidated Statements of Income for the years ended June 30, 2002, 2001 and 2000.

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the years ended June 30, 2002, 2001 and 2000.

(b) Reports on Form 8-K

Not applicable.

(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.

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

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

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

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

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

4.6	Form of Guarantee Agreement, incorporated by reference to Exhibit 4.6 to Northeast Bancorp's Registration Statement on Form S-2 (No. 333-88853-01), filed with the Securities and Exchange Commission.
10.1*	1987 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Bethel Bancorp's Registration Statement on Form S-1 (No. 33-12815), filed with the Securities and Exchange Commission.
10.2*	1989 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp) is incorporated by reference to Exhibit 10.6 to Bethel Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994.
10.3*	1992 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Exhibit 10.7 to Bethel Bancorp's Annual Report on Form 10-K for the year ended June 30, 1992.
10.4*	1999 Stock Option Plan of Northeast Bancorp incorporated by reference to Exhibit 10 to Northeast Bancorp's Quarterly Report on Form 10-Q for quarter ended December 31, 1999.
10.5*	2001 Stock Option Plan of Northeast Bancorp incorporated by reference to Northeast Bancorp's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on March 31, 2002.
11	Statement regarding computation of per share earnings is submitted herewith as Exhibit 11.
21	A list of subsidiaries of Northeast Bancorp is filed herewith as Exhibit 21.
23	The Consent of Baker Newman & Noyes, Limited Liability Company, is submitted herewith as Exhibit 23.
*	Management or compensation plan or arrangement required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K.
	With the exception of the information expressly incorporated herein by reference, the Company's 2002 Proxy Statement for the 2002 Annual Meeting of Shareholders is not to be deemed filed as part of this Annual Report on Form 10-K.

SIGNATURES

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

NORTHEAST BANCORP

Date: September 20, 2002

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 20, 2002
/s/ James D. Delamater James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 20, 2002
/s/ Ronald J. Goguen Ronald J. Goguen	Director	September 20, 2002
/s/ Judith W. Kelly Judith W. Kelly	Director	September 20, 2002

/s/ Philip C. Jackson Philip C. Jackson	Director Vice President	September 20, 2002
/s/ Ronald C. Kendall Ronald C. Kendall	Director	September 20, 2002
/s/ John Rosmarin John Rosmarin	Director	September 20, 2002
/s/ John Schiavi John Schiavi	Director	September 20, 2002
/s/ John W. Trinward, DMD John W. Trinward, DMD	Chairman of the Board	September 20, 2002
/s/ Stephen W. Wight Stephen W. Wight	Director	September 20, 2002
/s/ Dennis A. Wilson Dennis A. Wilson	Director	September 20, 2002
/s/ Robert S. Johnson Robert S. Johnson	Chief Financial Officer (Principal Financial and Accounting Officer)	September 20, 2002

I, James D. Delamater, certify that:

1. I have received this annual report on Form 10-K of Northeast Bancorp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the annual report.

Dated: September 20, 2002

/s/ James D. Delamater

James D. Delamater

President and CEO

(Principal Executive Officer)

I, Robert S. Johnson, certify that:

1. I have received this annual report on Form 10-K of Northeast Bancorp;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the annual report.

Dated: September 20, 2002

/s/ Robert S. Johnson

Robert S. Johnson

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT INDEX

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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, 2002	Year Ended June 30, 2001
EQUIVALENT SHARES:		
Weighted average shares outstanding	2,599,368	2,648,205
Total diluted shares	2,667,033	2,671,932
Net income	$ 3,852,620	$ 3,483,901
Basic earnings per share	$ 1.48	$ 1.32
Diluted earnings per share	$ 1.44	$ 1.30

Exhibit 21. Securities of Registrant

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

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors

Northeast Bancorp

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-85206), (No. 33-32095), (No. 33-58538), (No. 33-32096) and (No. 33-87976) of Northeast Bancorp of our report dated August 2, 2002, with respect to the consolidated financial statements of Northeast Bancorp and Subsidiaries included in the Annual Report (Form 10-K) for the year ended June 30, 2002.

Portland, Maine	/s/ Baker Newman & Noyes
September 27, 2002	Baker Newman & Noyes
	Limited Liability Company