



Investor Presentation:
Common Stock Offering
NASDAQ: NBN
May 2012



DISCLAIMER

Safe Harbor Regarding Forward-Looking Statements

This presentation contains certain "forward-looking statements" about Northeast Bancorp (the "Company") within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, such as statements relating to use of proceeds including the redemption of Series A preferred stock. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe," "expect," "estimate," "anticipate," "continue," "plan," "approximately," "intend," "objective," "goal," "project," or other similar terms or variations on those terms, or the future or conditional verbs such as "will," "may," "should," "could," and "would." Actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the factors referenced in the Registration Statement under the heading "Risk Factors"; changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of a continuing deterioration in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay the Company's loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; increasing government regulation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; changes in the rules of participation for the TARP Capital Purchase Program promulgated by the U.S. Department of the Treasury under the Emergency Economic Stabilization Act of 2008, which may be changed unilaterally and restrictively by legislative or regulatory actions; establishment of a consumer financial protection bureau with the broad authority to implement new consumer protection regulations; the risk that the Company may not be successful in the implementation of its business strategy; and changes in assumptions used in making such forward-looking statements.

Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

Free Writing Prospectus Statement

The Company has filed a registration statement (including a prospectus) with the SEC (File No. 333-180215) for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents that the Company has filed with the SEC for more complete information about the Company and the offering. You may obtain these documents without charge by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, copies of the prospectus relating to the offering may be obtained from Sandler O'Neill + Partners, L.P., 1251 Avenue of the Americas, 6th Floor, New York, NY 10020, (866) 805-4128.

Offering Summary

Issuer:	Northeast Bancorp (the "Company")
Ticker/Exchange:	NBN / NASDAQ Global Market
Offering:	Follow-on Public Offering
Type of Security:	Primary and Secondary Shares of Voting and Non-Voting Common Stock
Primary Shares to be Issued by NBN:	4,760,000 Shares
Secondary Shares to be Sold by R3 FHB Master, L.P.:	1,149,952 Shares
Total Shares:	4,909,952 Shares
Over-Allotment Option:	15%
Use of Proceeds:	<p>The Company intends to contribute the net proceeds to the capital of Northeast Bank, where it is expected to be used for general corporate purposes, including leveraging Northeast Bank's balance sheet to allow for loan purchases, organic loan growth and investment in securities.</p> <p>The Company, subject to regulatory approval, also intends to use a portion of the net proceeds to redeem some or all of the outstanding shares of Series A preferred stock issued to the U.S. Treasury under the TARP Capital Purchase Program.</p> <p>The Company will not receive any proceeds from the sale of shares of common stock by the selling shareholder.</p>

Sole Book-Running Manager: Sandler O'Neill + Partners, L.P.



(1) Certain investors may elect or be obligated to hold shares of non-voting common stock under the Company's articles of incorporation.
(2) The Company must establish, to its regulators' satisfaction, that it has met all of the conditions to repurchase and must obtain the approval of the Federal Reserve, which it has not yet sought; if the Company does redeem all of the Series A preferred stock, it may also negotiate a repurchase of the TARP warrant.

FHB Formation LLC Merger Into Northeast Bancorp



Executive Summary

- In December 2010, an investment group acquired a majority stake in Northeast Bancorp and implemented a new business plan focused on purchasing commercial loans
- New management team consists of seasoned professionals with an established track record of success and time together in the loan acquisition business
- Newly-installed board of directors is committed to executing the business plan
- Loan Acquisition and Servicing Group has in-house capabilities for all aspects of secondary loan market acquisitions and management, and is uniquely positioned to acquire performing loans at attractive risk-adjusted returns
- Funding for growth available from opportunities within CommunityBank's branch footprint, with additional potential from the recently-launched ableBanking online affinity deposit platform
- The Company has made significant investments in infrastructure and personnel to support growth plans

Experienced Management Team

Richard Wayne

President & Chief Executive Officer

- Co-founded Capital Crossing Bank in 1988
 - Served as President and Co-Chief Executive Officer of Capital Crossing Bank from 1991 until sale in February 2007
 - Capital Crossing Bank was a national leader in the purchase and management of commercial loans
-

Claire Bean

Chief Financial Officer & Chief Operating Officer

- 25-year record in financial services in the Greater Boston area at Benjamin Franklin Bancorp , Grove Bank and Lighthouse Bank (internet bank)
 - Experience focused on balance sheet management, strategic planning, financial management, commercial credit oversight, operations and information technology
-

Heather Champion

Chief Administrative Officer

- Former Group Executive Vice President and Director of Corporate Affairs at Citizens Financial Group, Inc.
 - Extensive background at leading institutions in both the public and private sectors, including Harvard University's John F. Kennedy School of Government
-

Experienced Management Team

Risk Management

Pender Lazenby
Chief Risk Officer

- Former senior officer at FleetBoston, BankBoston, and Casco Northern Bank, specializing in corporate lending, risk management and finance

Community Banking Division

Jim Delamater
President & Chief Executive Officer

- Served as President and CEO of the Company and Northeast Bank from 1981 to December 2010
- Long active in Maine civic and community organizations

Marcel Blais
Chief Operating Officer

- Responsible for the retail banking, loan administration and operational departments of the Community Banking Division
- Formerly with Casco Northern Bank and Bank of Boston

Loan Acquisition & Servicing Group

Patrick Dignan
Chief Credit Officer

- Manages all underwriting and due diligence activities for the LASG
- Former Senior Vice President and Director of Real Estate at Capital Crossing Bank

Christopher Hickey
Managing Director

- Oversees all aspects of the Company's commercial and managed loan portfolios nationwide
- Former Senior Vice President and Director of Asset Management at Capital Crossing Bank

Blackwell ("Bojay") Taylor
Managing Director

- Evaluates loan purchasing opportunities and manages all aspects of the loan purchasing transaction process
- Former Senior Vice President and Director of Investment Strategy and Analytics at Capital Crossing Bank

David Ellingrud
Managing Director

- Focuses on sourcing and underwriting loan acquisition and servicing opportunities in the LASG
- Former Director at CarVal Investors

James Krumsiek, Esq
Managing Director

- Oversees all legal aspects of the LASG
- Former VP, Legal Counsel at Capital Crossing Bank and Partner at Riemer & Braunstein, LLP

Justin Wahls
Managing Director

- Focuses on sourcing and underwriting loan acquisition and servicing opportunities
- Former Vice President at CarVal Investors

Committed Board of Directors

Robert Glauber, Chairman	<ul style="list-style-type: none"> Chairman of the Company and Northeast Bank since 2010 Lecturer at Harvard University's Kennedy School of Government Served as Chairman and CEO of NASD (now FINRA), 2001 to 2006; as Under Secretary of the Treasury, 1989-1992 Served on many boards, including the Board of the Federal Reserve Bank of Boston 	John Orestis	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2007 Owner of Schooner Estates Retirement Community as well as Chief Executive Officer of North Country Associates Former mayor of the city of Lewiston, ME
Matthew Botein	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 Managing Director at BlackRock, Inc.; currently heads its BlackRock Alternative Investors unit Previously a Managing Director at Highfields Capital Management 	Adam Shapiro	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 Partner and co-founder of East Rock Capital, LLC Previously a Vice President in the Special Situations Group at Goldman Sachs
Cheryl Dorsey	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 President of Echoing Green since 2002 	David Tanner	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 Managing Director and member of the Investment Committee of Arlon Group LLC
Peter McClean	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 Managing Director of Gulfstream Advisors LLC since 2004 	Judith E. Wallingford	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 1994 President of The Maine Water Company Certified management accountant
		Richard Wayne	<ul style="list-style-type: none"> Director of the Company and Northeast Bank since 2010 President & Chief Executive Officer of the Company and Northeast Bank

Significant Insider and Institutional Investment in the Company

Investors	Voting Shares	Voting (%)	Non-Voting Shares	Total Shares	Total (%)
All Directors and Executive Officers	322,636	9.74%	0	322,636	9.20%
New Investors ¹					
Arlon Capital Partners II LP	317,286	9.58%	0	317,286	9.04%
Highfields Capital Management LP	317,286	9.58%	0	317,286	9.04%
East Rock Capital, LLC	287,150	8.67%	0	287,150	8.19%
R3 FHB Master, L.P. ²	114,846	3.47%	35,106	149,952	4.28%
Other New Investors ³	635,854	19.20%	160,245	796,099	22.70%
New Investor Totals	1,672,422	50.50%	195,351	1,867,773	53.25%
Other Investors	1,317,115	39.76%	0	1,317,115	37.55%
Total - All Shareholders	3,312,173	100.00%	195,351	3,507,524	100.00%



- (1) New investors were members of FHB Formation LLC prior to its merger with Northeast Bancorp in 2010. Included in "All Directors and Executive Officers" are additional New Investors holding shares of voting common stock aggregating 231,326, or 6.60% of total shares.
- (2) Intends to be a selling shareholder
- (3) Includes certain other private investment funds and institutions, management, and individuals
- Note: Ownership as of March 7, 2012

Loan Acquisition & Servicing Group (“LASG”) Overview

LASG Team

Team of credit analysts, real estate analysts, servicing specialists and legal counsel with extensive experience in the loan acquisition business

The LASG team has an average of over 14 years of experience in the loan purchasing business

Four Managing Directors worked with Richard Wayne at Capital Crossing Bank

All loans serviced by in-house team of experienced asset managers

Transaction Sourcing

Variety of sellers: banks, insurance companies, investment funds and government agencies

The LASG competes primarily with a limited number of community banks, regional banks and private equity funds

Aggregate annual volume of loans tracked by the LASG ranged from \$9 billion to \$20 billion for 2009-2011

Recent economic crisis has led to a high level of trading volume

Market expected to remain active in times of economic prosperity as sellers have additional reserve capacity to sell unwanted and troubled assets

Target Loan Profile

Performing commercial loans secured by real estate or other business assets located throughout the country

Seek to build portfolio that is diverse with respect to geography, loan type and collateral type

Focus primarily on loans with balances between \$1 and \$3 million

Through April 30, 2012, purchased loans for an aggregate investment of \$75.1 million with unpaid principal balance (UPB) of \$91.7 million

LASG Portfolio Screening Process

Seller Screening	Portfolio Screening	Understand Price Expectations	Loan Level Triage	Portfolio Stratification & Yield Analysis	Decision Point
<ul style="list-style-type: none"> Understand sale dynamics Determine whether seller has capital or reserves to absorb sale-related write downs Review prior experience with seller Review recent experience with advisor, if relevant 	<ul style="list-style-type: none"> Assess quality of information available Review data tape to determine which pools and/or loans are worth analyzing further 	<ul style="list-style-type: none"> Identify pool-level reserves and pricing expectations Determine whether portfolio is likely to trade in pools or on an all-or-none basis Identify likely competition 	<ul style="list-style-type: none"> Complete preliminary real estate valuation work and high-level credit work to identify any red flags Analyze deeper where necessary 	<ul style="list-style-type: none"> Stratify portfolio by performance, geography, collateral type, vintage, etc. Develop preliminary loan-level pricing 	<ul style="list-style-type: none"> Determine whether or not to proceed to full underwriting

Loans Reviewed

1,000 loans
\$1.4B UPB

2011 Activity



Loans Bid

93 loans
\$135MM UPB

LASG Asset-Level Underwriting Process

Underwriting Components	Pricing Factors	Cash Flow Modeling	Underwriting Package
<ul style="list-style-type: none"> • Credit review • Financial analysis • Real estate valuation • Legal documentation review • Borrower/guarantor research • Local market research • Environmental analysis • Property inspection 	<ul style="list-style-type: none"> • Note terms • Performance status • Borrower/guarantor strength • Collateral strength • Legal issues • Expected yield • Geographic location • Servicing restrictions, if any 	<ul style="list-style-type: none"> • Cash flow budget prepared for each asset • Specific upside and downside scenarios identified • Sensitivities tested at various price points 	<ul style="list-style-type: none"> • All elements fully documented in underwriting package • Distributed approximately 2-3 days before bid to LASG Credit Committee



(1) Through April 30, 2012, LASG has acquired loans with total UPB of \$92 million

Regularly Scheduled Interest & Accretion	10.78%
Gain on Loan Sales	0.99%
Accelerated Accretion & Fees Recognized on Loan Payoffs	3.43%
Total²	15.20%

- Three components drive return:
 - Regularly scheduled interest and accretion
 - Gain on loan sales
 - Accelerated accretion and fees recognized on loan payoffs
- We often achieve results in excess of our targeted yields when a loan is prepaid

LASG Summary Purchased Loan Portfolio Statistics

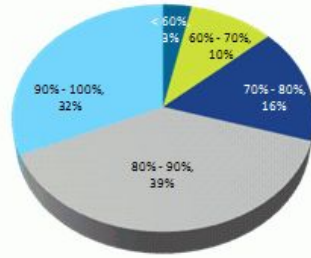
Investment Size

- Average investment was \$766,000/loan
- Largest purchased investment was \$5.5 million



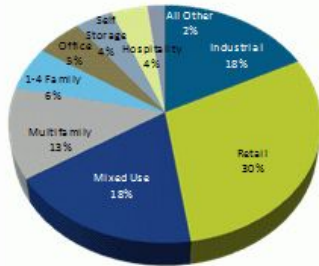
Purchase Price

- Weighted average purchase price of 80.9%
- 3% of portfolio acquired for less than 60%



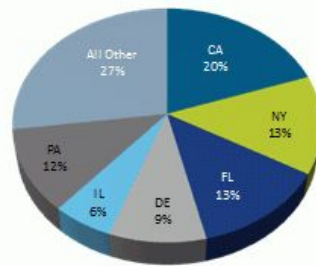
Collateral Type

- Diverse collateral types focused primarily in four major sectors: retail, industrial, mixed use and multifamily



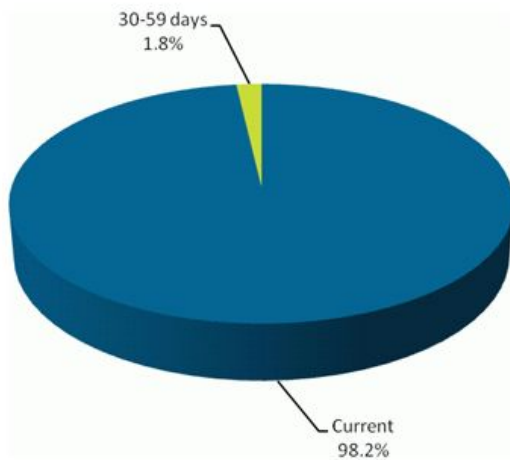
Collateral State

- Geographically diverse with collateral in 16 different states
- CA, NY and FL represent combined 46% of portfolio



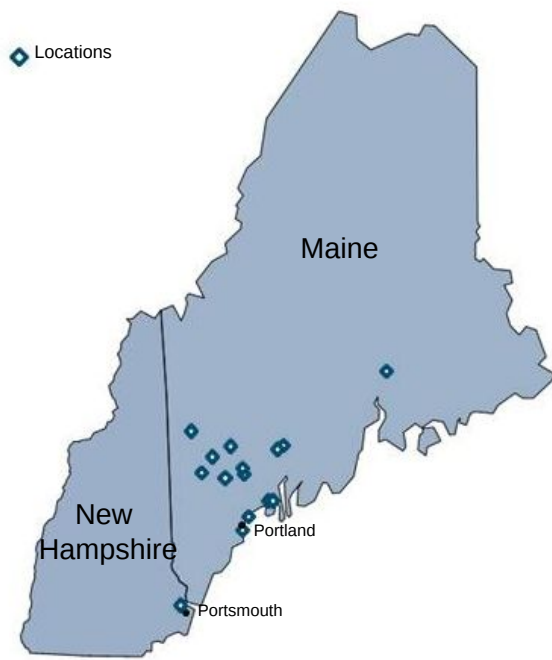
(1) Based on the composition of the Company's purchased loans through March 31, 2012 by initial investment

Purchased Loan Book Delinquency¹



- Total investment amount of \$56.9 million at March 31, 2012
- 2 loans totaling \$1.0 million are more than 30 days delinquent
- No loans more than 59 days delinquent
- No nonperforming loans

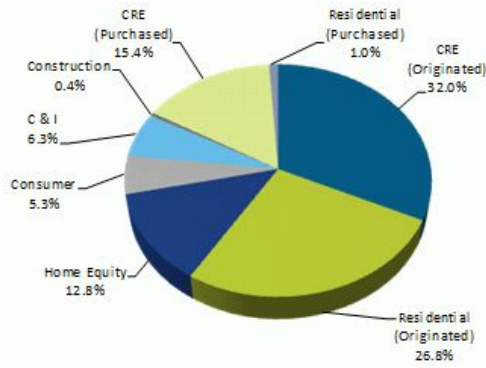
Community Banking Division: Overview



- Ten branches, four investment centers and three mortgage loan production offices (LPOs) located in south central and western Maine
- Diverse loan mix with stable credit profile
- Expanded residential mortgage group with broader geographic focus
- Sold insurance division in 2011

Loan and Deposit Mix

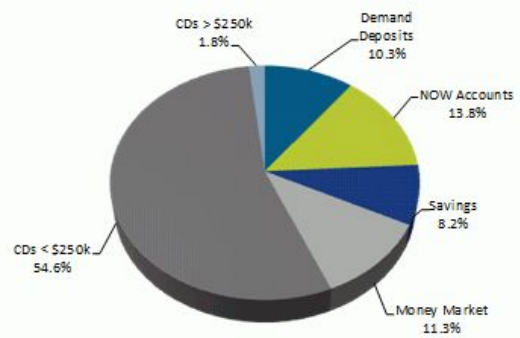
Total Loans \$345.8 Million



Diversified Loan Portfolio

- 1.50% NPLs/loans
- Largest originated loan \$3.7 million and largest purchased loan \$5.5 million (invested dollars)
- Average originated CRE loan size of \$253 thousand and average purchased loan investment size of \$780 thousand
- Purchased loan yield of 14.21% for the nine months ended March 31, 2012, compared to 5.99% for originated loans

Total Deposits \$403.7 Million



Stable Core Deposit Base

- Core deposits of \$396.4 million, or 98.2% of total deposits
- Cost of interest-bearing deposits of 0.96% for the nine months ended March 31, 2012
- aBleBanking deposits of \$1.1 million

Funding

- The purchase and origination of loans is funded 100% by core deposits which totaled \$396 million at March 31, 2012
 - 98.2% of total deposits
- The Community Banking Division, which consists of ten branches in south central and western Maine, is the primary source of core deposit funding
- The pilot of ableBanking, an online affinity deposit program, was launched in March 2012 to provide an additional source of core deposit funding

2011 Maine Deposit Universe (\$ millions)	
Total Maine Bank Deposits	\$30,694.1
Portland, ME Bank Deposits	\$11,582.7

Top 10 Banks in NBN's Market ² By 2011 Deposits	Deposits in Market (\$ millions)	% of Market Share
Toronto-Dominion Bank	\$11,272.8	59.79%
KeyCorp	\$1,614.4	8.56%
Bank of America Corp.	\$1,125.7	5.97%
Norway Bancorp MHC	\$666.9	3.54%
Gorham Bancorp MHC	\$627.3	3.33%
Kennebec Savings Bank	\$524.0	2.78%
Androscoggin Bancorp MHC	\$500.2	2.65%
Camden National Corp.	\$408.6	2.17%
Northeast Bancorp	\$402.2	2.13%
SBM Financial Inc.	\$368.6	1.96%

Deposits as of June 30, 2011
Source: FDIC



(1) Core deposits are defined as non-maturity deposits and non-brokered insured time deposits
(2) NBN's market includes the following Maine counties: Androscoggin, Cumberland, Kennebec and Oxford

Financial Data



Summary Overview

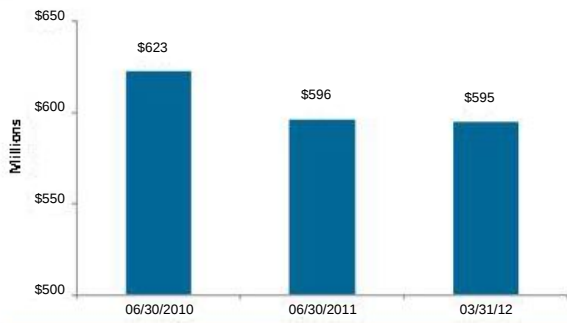
Financial Overview ¹		Corporate Overview	
Total Assets	\$595.0	Bank Headquarters	Lewiston, ME
Total Loans	\$345.8	Corporate Offices	Lewiston, ME Boston, MA
Total Deposits	\$403.7	Charter / Primary Regulators	State of Maine Federal Reserve
Total Common Equity	\$60.6		
Tangible Book Value per Share ²	\$15.94		
		<u>Composition of Shares Outstanding³</u>	
Tangible Common Equity / Tangible Assets ²	9.47%	Voting Shares	3,312,173
Tier 1 Leverage Ratio	11.85%	Non-Voting Shares	<u>195,351</u>
Tier 1 Risk-based Capital Ratio	19.28%	Total Shares Outstanding	3,507,524
Total Risk-based Capital Ratio	19.49%		
		<u>Current Market Data</u>	
Nonperforming Assets / Total Assets	1.02%	Current Stock Price	\$10.19
Nonperforming Loans / Total Loans	1.50%	Market Capitalization	\$35.7
		Price / Tangible Book Value	64%
TARP Preferred Stock	\$4.2	Annual Dividend	\$0.36
TARP Warrants		Current Dividend Yield	3.53%
Underlying Shares of Common Stock	67,958		
Exercise Price	\$9.33		



- (1) Financial data at March 31, 2012; dollars in millions, other than per share amounts
(2) See Appendix for a reconciliation of non-GAAP financial measures
(3) At March 31, 2012
(4) At May 2, 2012

Balance Sheet Overview

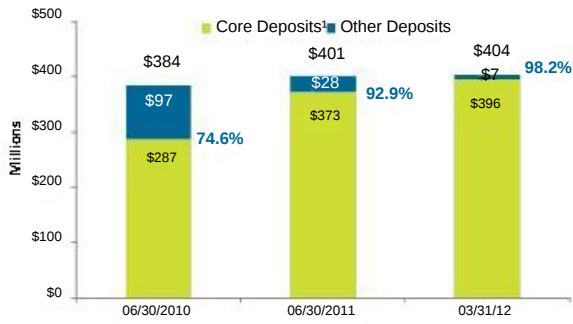
Total Assets



Total Loans



Total Deposits



Total Common Equity²



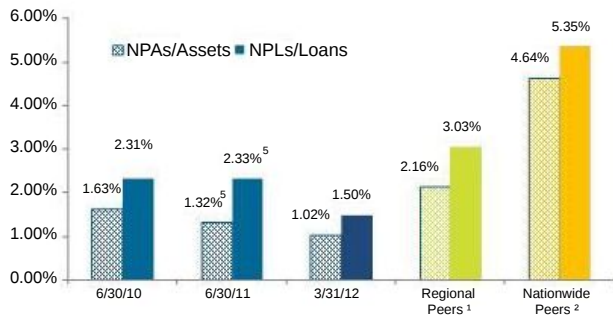
- (1) Core deposits are defined as non-maturity deposits and non-brokered insured time deposits
- (2) As a result of the sale of Northeast Bank Insurance Group, Inc. in August 2011, tangible equity increased by approximately \$8.4 million

Online Affinity Deposit Program: ableBanking Pilot

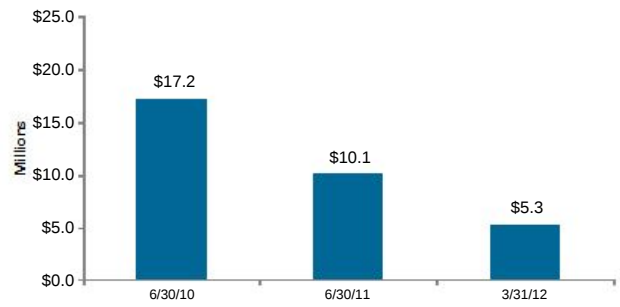
- Build a brand, attract customers and cost-effectively obtain core deposits
- Onlineaffinity depositprogram- designed to allow customers to designate bank marketing funds to any 501(c)(3) charity
 - \$25.00 when a new customer opens a savings or time deposit account
 - Thereafter, 25 bps of average annual deposit balance (remitted annually)
- As part of ableBanking pilot, the Company has formed partnerships with non-profit organizations in the Boston area to highlight needs of the community
- Boston-based pilot expected to continue for approximately six months

Asset Quality Metrics

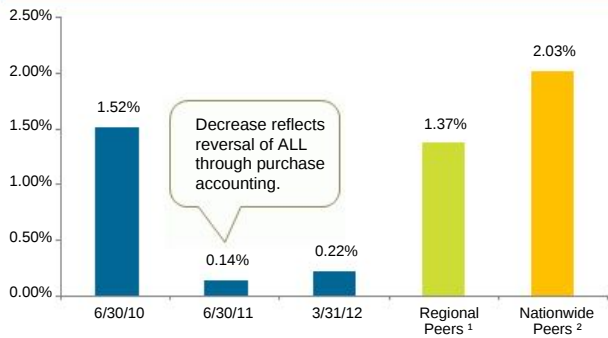
NPAs / Total Assets & NPLs / Total Loans



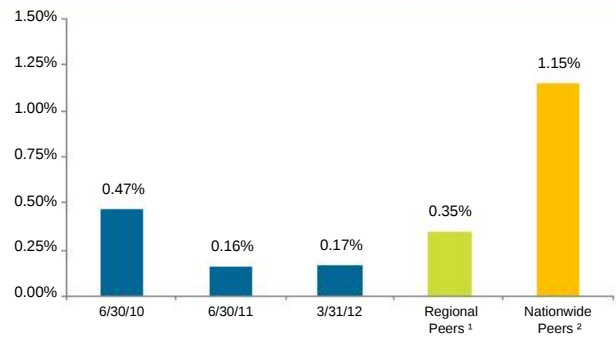
Classified Loans³



Allowance for Loan Losses / Gross Loans

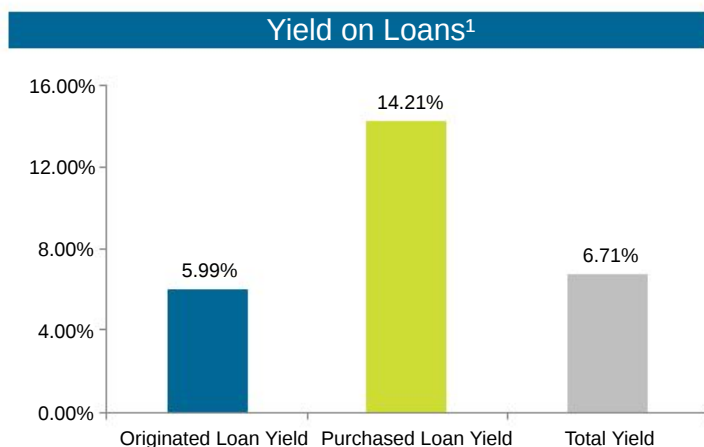


NCOs / Average Loans



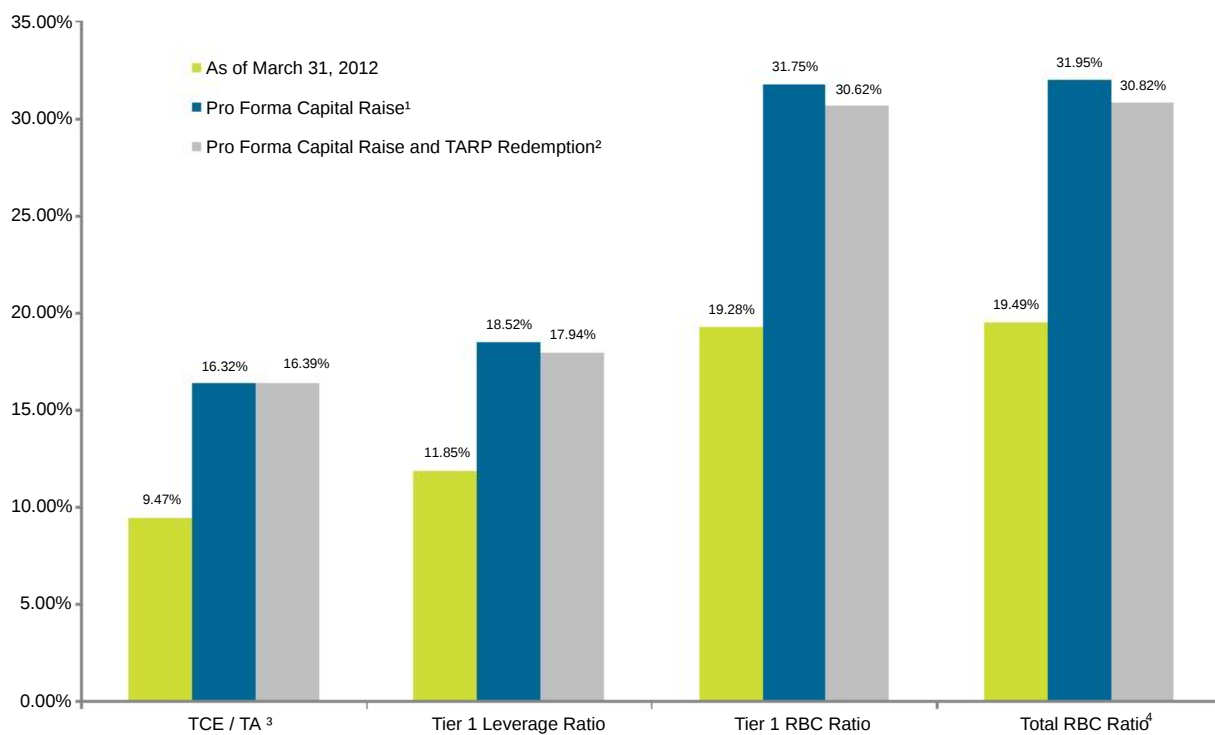
- (1) Regional peers include all public banks and thrifts in New England with assets between \$300 million and \$1 billion, as of December 31, 2011
- (2) Nationwide peers include all public banks and thrifts with assets between \$500 million and \$700 million
- (3) Classified loans includes commercial real estate, commercial business, and construction loans risk rated under the Company's internal loan rating system
- (4) Calculated as net charge-offs divided by average loans for the previous 12 months. 6/30/11 ratio represents annualized experience after the merger on 12/29/10.
- (5) Excludes \$751 thousand of accruing loans over 90 days past due that were well secured and in the process of collection

Profitability



- Substantial investments have been made in staffing, new software, and hardware
- Current infrastructure has significant capacity for growth
- The yield on purchased loans is meaningfully above that for loans originated by the Community Bank
- Growth in purchased loans and leveraging of current expense structure positions the Company for an increase in profitability

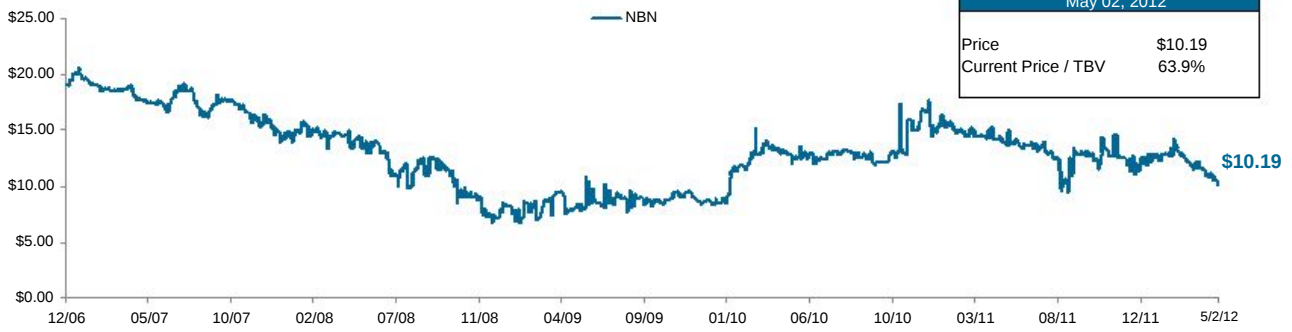
Pro Forma Capital Ratios



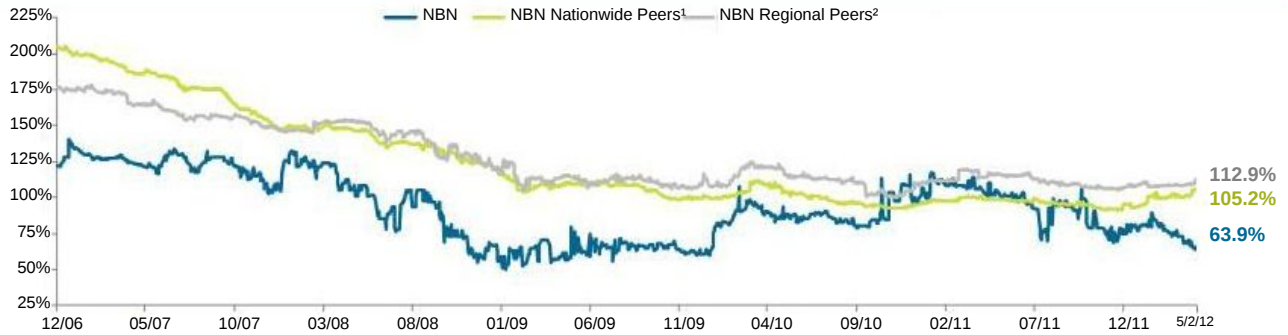
- (1) Assumes \$48.3 million of net proceeds and 20% risk-weighting of new capital
- (2) Assumes redemption of TARP preferred stock at par and repurchase of warrants for an aggregate of \$285 thousand, or \$4.20 per warrant, post capital raise. At this time, no discussions with the Federal Reserve have taken place regarding the ability to repay TARP or to repurchase warrants
- (3) See Appendix for a reconciliation of non-GAAP financial measures

Valuation

Stock Price Since 2007



Price / Tangible Book Value Since 2007



(1) Nationwide peers include all public banks and thrifts with assets between \$500 million and \$700 million
 (2) Regional peers include all public banks and thrifts in New England with assets between \$300 million and \$1 billion
 Source: SNL Financial
 As of May 2, 2012

Well-Positioned for Performance

- Proven ability to execute loan purchasing strategies
- Strong position in bidding for performing commercial loans
- Experienced management team and committed board of directors
- Attractive valuation – opportunity to invest at key growth and profitability juncture

Appendix



Summary of Recent Financials

Dollars in thousands

	Predecessor Company ¹		Successor Company ²	
	As of 6/30/2010	As of 12/31/2010	As of 6/30/2011	As of 3/31/2012
Balance Sheet				
Purchased loans	\$0	\$0	\$1	\$56,916
Total originated loans	\$382,309	\$361,233	\$309,912	\$288,861
Total loans	\$382,309	\$361,233	\$309,913	\$345,777
Total assets	\$622,607	\$644,820	\$596,393	\$594,952
Core deposits	\$286,710	\$290,975	\$372,789	\$396,365
Total deposits	\$384,197	\$380,366	\$401,118	\$403,735
Total common equity	\$46,679	\$60,748	\$60,727	\$60,643
Total risk-based capital	\$56,488	\$58,901	\$61,860	\$70,694
Tangible book value per common share ³	\$15.19	\$13.41	\$13.58	\$15.94

	Predecessor Company ¹		Successor Company ²	
	Year Ended 6/30/2010	181 Days Ended 12/28/2010	184 Days Ended 6/30/2011	Nine Months Ended 3/31/2012
Income Statement				
Interest and dividend income	\$31,262	\$14,378	\$13,304	\$18,659
Interest expense	\$13,314	\$5,877	\$3,207	\$4,711
Provision for loan losses	\$1,864	\$912	\$707	\$634
Income before taxes	\$2,614	\$2,564	\$12,492	\$1,506
Net income	\$1,719	\$1,796	\$12,552	\$1,115
Preferred stock dividends and accretion	\$243	\$119	\$197	\$294
Net Income available to common	\$1,476	\$1,677	\$12,355	\$821
Cash dividends per share	\$0.36	\$0.18	\$0.18	\$0.27
Weighted average diluted shares outstanding	2,334,339	2,354,385	3,548,164	3,494,498
Diluted earnings per common share	\$0.63	\$0.71	\$3.47	\$0.23
Net interest margin	3.18%	2.92%	3.58%	3.36%
Noninterest expense / Average total assets	3.18%	3.03%	5.58%	4.67%
Efficiency Ratio	82.4%	74.3%	56.6%	98.1%

- (1) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010.
(2) "Successor Company" means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010.
(3) As a result of the sale of Northeast Bank Insurance Group, Inc. in August 2011, tangible equity was increased by approximately \$8.4 million.



Merger Requirements ¹

- Maintain a Tier 1 leverage ratio of at least 10%;
- Maintain a total risk-based capital ratio of at least 15%;
- Limit purchased loans to 40% of total loans;
 - At March 31, 2012 purchased loans of \$56.9 million represent 16.2% of total loans;
- Fund 100% of loans with core deposits²
 - At March 31, 2012 core deposits exceeded loans by \$45.0 million
- Hold commercial real estate loans including owner-occupied commercial real estate to within 300% of total risk-based capital
 - At March 31, 2012 commercial real estate loans of \$168.4 million represent 238% of total risk-based capital



(1) Certain commitments made to the Maine Bureau of Financial Institutions and the Federal Reserve in connection with the merger of FHB Formation LLC into Northeast Bancorp on December 29, 2010.

(2) Core deposits are defined as non-maturity deposits and non-brokered insured time deposits

Financial Description of the Merger

On December 29, 2010, the merger of the Company and FHB Formation LLC was consummated. FHB was the entity through which a group of independent accredited investors purchased 937,933 shares of the Company's outstanding common stock and 1,161,166 shares of newly-issued voting and non-voting common stock, at a price equal to \$13.93 per share. As a result of this transaction, \$16.2 million of new capital was contributed to the Company and the Investors collectively own approximately 60% of the outstanding common shares of the Company. We have applied the acquisition method of accounting, as described in Accounting Standards Codification 805, "Business Combinations," to this transaction, which represents an acquisition by FHB of Northeast, with Northeast as the surviving company.

As a result of application of the acquisition method of accounting to the Company's balance sheet, the Company's financial statements from the periods prior to the transaction date are not directly comparable to the financial statements for periods subsequent to the transaction date. To make this distinction, we have labeled balances and results of operations prior to the transaction date as "Predecessor Company" and balances and results of operations for periods subsequent to the transaction date as "Successor Company." The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis.

Under the acquisition method of accounting, the Company assets acquired and liabilities assumed are recorded at their respective fair values as of the transaction date. In this transaction, the estimated fair values of the Company's net assets were greater than the purchase price. This resulted in a bargain purchase gain of \$14.9 million, which was reported by the Company as income in the three-day period ended December 31, 2010.

Sale of Northeast Bank Insurance Group, Inc.

On August 31, 2011, the Company sold customer lists and certain fixed assets of its wholly-owned subsidiary, Northeast Bank Insurance Group, Inc. ("NBIG") to local insurance agencies in two separate transactions. The Varney Agency, Inc. of Bangor, Maine purchased the assets of nine NBIG offices in Anson, Auburn, Augusta, Bethel, Livermore Falls, Scarborough, South Paris, Thomaston and Turner, Maine. The NBIG office in Berwick, Maine, which operates under the name of Spence & Matthews, was acquired by Bradley Scott, previously a member of NBIG's senior management team. The following is a summary of the sale transactions.

Dollars in thousands	
Sale proceeds	\$9,863
Less:	
Customer lists and other intangible assets, net	7,379
Fixed assets, net of accumulated depreciation	165
Severance and other direct expenses	768
Pre-tax gain recognized	<u>\$1,551</u>

Operations associated with NBIG have been classified as discontinued operations in the consolidated statements of income. The Company has eliminated all intercompany transactions in presenting discontinued operations. Insurance commissions associated with NBIG were \$965 thousand for the nine months ended March 31, 2012, all of which was recognized in the first quarter of fiscal 2012. Insurance commissions were \$1.5 million for the three months and 93 days ended March 31, 2011 and \$2.7 million for 181 days ended December 28, 2010. Intangible and fixed assets associated with discontinued operations totaled approximately \$7.4 million and \$168 thousand, respectively, at June 30, 2011. In connection with the transaction, the Company repaid borrowings associated with NBIG totaling \$2.1 million.

Historical Balance Sheet

Dollars in thousands

	Predecessor Company ²		Successor Company ¹	
	As of	As of	As of	As of
	6/30/2010	12/31/2010	6/30/2011	3/31/2012
Assets				
Cash and cash equivalents	\$ 20,435	\$ 72,182	\$ 83,931	\$ 64,880
Available-for-sale Securities, at fair value	164,188	153,521	148,962	136,730
Loans held for sale	14,254	8,195	5,176	6,354
Loans	382,309	361,233	309,913	345,777
Less: Allowance for Loan Losses	5,806	-	437	748
Loans, net	376,503	361,233	309,476	345,029
Premises and equipment, net	7,997	8,013	8,271	8,918
Reposessed collateral, net	1,292	965	690	915
Accrued interest receivable	2,081	1,878	1,244	1,659
Federal Home Loan Bank Stock, at cost	4,889	4,889	4,889	4,602
Federal Reserve Bank Stock, at cost	597	597	871	871
Intangible assets, net	11,371	13,739	13,133	4,749
Bank owned life insurance	13,286	13,540	13,794	14,171
Other assets	5,714	6,068	5,956	6,074
Total Assets	\$ 622,607	\$ 644,820	\$ 596,393	\$ 594,952
Liabilities				
Deposits	\$ 384,197	\$ 380,366	\$ 401,118	\$ 403,735
Federal Home Loan Bank Advances	50,500	52,244	43,922	43,567
Structured repurchase agreements	65,000	68,877	68,008	66,636
Short-term borrowings	46,168	62,034	2,515	1,836
Junior subordinated debentures issued to affiliated trusts	16,496	7,889	7,957	8,066
Capital lease obligation	2,231	2,154	2,075	1,953
Other borrowings	2,630	2,134	2,229	-
Other liabilities	4,479	4,147	3,615	4,289
Total Liabilities	571,701	579,845	531,439	530,082
Equity				
TARP preferred equity	4,227	4,227	4,227	4,227
Common equity	46,679	60,748	60,727	60,643
Total Equity	50,906	64,975	64,954	64,870
Total Liabilities and Equity	\$ 622,607	\$ 644,820	\$ 596,393	\$ 594,952

- (1) "Successor Company" means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010
(2) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010



Historical Income Statement

Dollars in thousands

	Predecessor Company ²		Successor Company ¹	
	181		184	Nine
	Year Ended 6/30/2010	Days Ended 12/28/2010	Days Ended 6/30/2011	Months Ended 3/31/2012
Interest and dividend income	\$ 31,262	\$ 14,378	\$ 13,304	\$ 18,659
Interest expense	13,314	5,877	3,207	4,711
Net Interest Income	17,948	8,501	10,097	13,948
Provision for Loan Losses	1,864	912	707	634
Net interest and dividend income after provision for loan losses	16,084	7,589	9,390	13,314
Fees for other services to customers	1,504	698	670	1,036
Net security gains (losses)	(18)	17	1,200	1,111
Gain on sales of loans	1,264	1,867	830	2,482
Investment commissions	2,054	1,174	1,435	2,111
Bank-owned life insurance income	502	250	258	377
Bargain purchase gain	-	-	15,441	-
Other income	377	225	348	120
Total noninterest income	5,683	4,231	20,182	7,237
Salaries and employee benefits	9,921	4,949	7,681	11,539
Occupancy and equipment expense	2,772	1,352	1,627	2,735
Professional fees	845	509	819	1,231
Intangible asset amortization	-	-	663	935
Goodwill impairment	408	-	-	-
FDIC insurance premiums	745	346	269	364
Merger expense	547	94	3,189	-
Other expense	4,235	2,205	2,900	3,978
Total noninterest expense	19,473	9,455	17,148	20,782
Income (loss) from continuing operations before income tax expense (benefit)	2,294	2,365	12,424	(231)
Income tax expense (benefit)	782	698	(83)	(209)
Net income (loss) from continuing operations	1,512	1,667	12,507	(22)
Net income (loss) from discontinued operations	207	129	45	1,137
Net income	1,719	1,796	12,552	1,115
Preferred stock dividends and discount accretion	243	119	197	294
Net income available to common stockholders	\$ 1,476	\$ 1,677	\$ 12,355	\$ 821
Weighted-average diluted common shares outstanding	2,334,339	2,354,385	3,548,164	3,494,498
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.54	\$ 0.66	\$ 3.46	\$ (0.09)
Discontinued operations	0.09	0.05	0.01	0.32
Total diluted earnings per common share	\$ 0.63	\$ 0.71	\$ 3.47	\$ 0.23

(1) "Successor Company" means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010

(2) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010



Non-GAAP Reconciliation

We calculate tangible common equity by excluding the balance of intangible assets from common stockholders' equity. We calculate tangible book value per share by dividing tangible common equity by actual common shares outstanding, as compared to book value per common share, which we calculate by dividing common stockholder's equity by actual common shares outstanding. We calculate tangible common equity to tangible assets by dividing tangible common equity by tangible assets. We believe that this is consistent with the treatment by bank regulatory agencies, which exclude intangible assets from the calculation of risk-based capital ratios. Accordingly, we believe that these non-GAAP financial measures provide information that is important to investors and that is useful in understanding our capital position and ratios. A reconciliation of the non-GAAP measures of tangible assets, tangible common equity and tangible book value per share to the GAAP measures of common stockholder's equity and book value per share is set forth below.

Dollars in thousands

	Predecessor Company ²		Successor Company ¹	
	As of 6/30/2010	As of 12/31/2010	As of 6/30/2011	As of 3/31/2012
Total Assets	\$ 622,607	\$ 644,820	\$ 596,393	\$ 594,952
Less: Intangible Assets	11,371	13,739	13,133	4,749
Tangible Assets	<u>\$ 611,236</u>	<u>\$ 631,081</u>	<u>\$ 583,260</u>	<u>\$ 590,203</u>
Total Shareholders' Equity	\$ 50,906	\$ 64,975	\$ 64,954	\$ 64,870
Less: Preferred Stock	4,227	4,227	4,227	4,227
Common Shareholders' Equity	46,679	60,748	60,727	60,643
Less: Intangible Assets	11,371	13,739	13,133	4,749
Tangible Common Equity	<u>\$ 35,308</u>	<u>\$ 47,009</u>	<u>\$ 47,594</u>	<u>\$ 55,894</u>
Book Value Per Common Share	\$ 20.08	\$ 17.33	\$ 17.33	\$ 17.29
Less: Intangible Assets Per Common Share	4.89	3.92	3.75	1.35
Tangible Book Value Per Common Share	<u>\$ 15.19</u>	<u>\$ 13.41</u>	<u>\$ 13.58</u>	<u>\$ 15.94</u>
Tangible Common Equity / Tangible Assets	5.78%	7.45%	8.16%	9.47%
Share Information:				
Common Shares Outstanding	2,323,832	3,505,524	3,507,524	3,507,524

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(2) "Predecessor Company" means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010