

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For fiscal year ended June 30, 2007

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)
500 Canal Street, Lewiston, Maine
(Address of principal executive offices)
Registrant's telephone number, including area code:

01-0425066
(I.R.S. Employer Identification No.)
04240
(Zip Code)
(207) 786-3245

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

Title of each class:
Common Stock, \$1.00 par value

Name of each exchange on which registered:
NASDAQ

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes_ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes_ No

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

Indicate 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]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large Accelerated Filer _ Accelerated filer _ Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes_ No

The aggregate market value of the Registrant's common shares held by non-affiliates, as of December 29, 2006, was approximately \$46,845,271 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. On September 11, 2007, the Company changed its listing from AMEX to NASDAQ. There were 2,391,332 common shares of the registrant outstanding as of September 20, 2007.

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:

<u>Document</u>	<u>Form 10-K Reference Location</u>
Proxy Statement for the 2007 Annual Meeting of Shareholders	III

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

PART I

Item 1. Business

Overview and History

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

Northeast Bank, which was originally organized in 1872 as a Maine-chartered mutual savings bank and was formerly known as Bethel Savings Bank F.S.B. ("Bethel"), is a Maine state-chartered bank and a member of the Federal Reserve System. From 1987 to August 2004, Northeast Bank was a federal savings bank and the Company was a unitary savings and loan holding company registered with the Office of Thrift Supervision ("OTS"). In August 2004, Northeast Bank's charter was converted into a Maine state-chartered universal bank, and the Company became a bank holding company under the BHCA. In connection with the conversion of its charter, Northeast Bank applied for and was granted membership in the Federal Reserve System. Accordingly, the Company and Northeast Bank are currently subject to the regulatory oversight of the Federal Reserve Board ("FRB") and the State of Maine Bureau of Financial Institutions.

As of June 30, 2007, the Company, on a consolidated basis, had total assets of approximately \$557 million, total deposits of approximately \$365 million, and stockholders' equity of approximately \$41 million. Unless the context otherwise requires, references herein to the Company include the Company and its subsidiaries on a consolidated basis.

Strategy

Northeast Bancorp through its subsidiary, Northeast Bank, the Bank's subsidiary, NBIG, and third party affiliations, provides a broad range of financial services to individuals and companies in western and south-central Maine. Although historically the Bank had been primarily a residential mortgage lender, over the last decade the Bank has expanded its commercial loan business, increased its line of financial products and services, and expanded its market area. Management's strategy is to continue modest, but profitable, growth by increasing our loan and deposit market share in our existing markets in western and south-central Maine, closely managing the yields on earning assets and rates on interest-bearing liabilities, introducing new financial products and services, increasing the number of bank services per household, increasing non-interest income from expanded investment and insurance brokerage and trust services, and controlling the growth of non-interest expenses. 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. We believe that the local character of the Bank's business and its "community bank" management philosophy allows it to compete effectively in its market area.

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

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

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

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

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

Market Area

The Bank is headquartered in Lewiston, Maine with full service branches in Auburn, Augusta, Bethel, Brunswick, Buckfield, Harrison, Lewiston (2), Mechanic Falls, Portland, and South Paris, Maine. The Bank's investment brokerage division has an office in Falmouth, Maine from which investment, insurance and financial planning products and services are offered. NBIG has offices in Auburn, Anson, Augusta, Bethel, Jackman, Livermore Falls, Mexico, Rangeley, Scarborough, South Paris and Turner, Maine from where the Bank's insurance division offers personal and commercial casualty and property insurance products. The Company's market area, which covers western and south central regions of the State of Maine, is characterized by a diverse economy that has experienced moderate growth in recent years.

Market for Services

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

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

Competition

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

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

Lending Activities

General

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

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

Residential Lending

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

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

Fixed rate and adjustable rate mortgage loans collateralized by single family residential real estate generally have been originated in amounts of no more than 80% of appraised value. The Bank may, however, lend up to 95% of the value of the property collateralizing the loan, but if 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. The Bank generally does not charge a 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.

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

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

Commercial Real Estate Lending

The Bank originates both multi-family and commercial real estate loans. Multi-family and commercial property loans generally are made in amounts up to 80% of the lesser of the appraised value or purchase price of the property. Although the largest multi-family or commercial loan in our portfolio at June 30, 2007 was \$2,597,020, most of these loans have balances under \$500,000.

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

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

Commercial Lending

The Bank offers a variety of commercial loan services including term loans, lines of credit and 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 the support of inventory and receivables), business expansion (including acquisitions of real estate and improvements), and the purchase of equipment and machinery. Equipment loans are typically originated on both a one year line of credit basis and on a fixed-term basis ranging from one to five years. The purpose of a particular loan generally determines its structure.

The Bank's commercial loans primarily are underwritten in the Company's market areas on the basis of the 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 general practice, the Bank takes as collateral a security interest in any available real estate, equipment, or other business assets, 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.

As a result, the availability of funds for the repayment of commercial loans may be substantially dependent on the success of the business itself. Further, the collateral underlying the loans, which may depreciate over time, usually cannot be appraised with as much precision as residential real estate, and may fluctuate in value based on the success of the business.

Consumer Loans

Consumer loans made by the Bank have included automobiles, recreational vehicles, boats, second mortgages, home improvements, mobile home loans, home equity lines of credit, personal (collateralized and uncollateralized) and deposit account collateralized loans. The Bank's consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans, primarily small trucks and automobiles, which are payable on an installment basis. Most of these loans are for terms of up to 60 months and, although generally collateralized by liens on various personal assets of the borrower, they may be originated without collateral. Consumer loans are made at fixed and variable interest rates and may be made based on up to a 7 year amortization schedule.

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

Indirect automobile lending consists of automobile loans made by the Bank through the purchase of contracts from automobile dealers. Generally, the Bank will obtain fixed-rate automobile loans indirectly through various automobile dealerships located in its market areas. These automobile dealers are selected by us. Currently most of these loans were originated by 86 dealers located in our market area. Because the collateral is a deteriorating asset, the initial determination of the borrower's ability to pay is of primary importance. The indirect origination of consumer loan products generally requires funding of dealer reserves. These reserves are maintained for the benefit of the dealer who originated such loans, but such funding is subject to performance of certain loan conditions. The dealer is generally responsible to the Bank for the amount of the reserve only if a loan giving rise to the reserve becomes delinquent or the loan has been prepaid. The same process applies to indirect recreational vehicle lending.

Construction Loans

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

The Bank also may make residential construction loans to real estate developers for the acquisition, development and construction of residential subdivisions. The Bank has limited reliance on 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 amount for construction loans is based on the lesser of the current appraisal value or the purchase price for the property.

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

Loan Origination and Processing

Loan originations are derived from a number of sources. Residential loan originations can be attributed to real estate broker referrals, mortgage loan brokers, direct solicitation by the Bank's loan officers, present depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders. Loan applications, whether originated through the Bank or through mortgage brokers, are underwritten and closed based on the same standards, which generally meet FNMA underwriting guidelines. Consumer and commercial real estate loan originations emanate from many of the same sources. The legal lending limit of the Bank, as of June 30, 2007, was approximately \$6.4 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 more than \$100,000 and all new collateralized loans of more than \$750,000 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. Loans to one borrower are subject to limits depending on our internal risk ratings.

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.

Other Subsidiaries

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

NBIG, a Maine corporation and a wholly-owned subsidiary of the Bank, was originally formed in 1982 and was formerly known as Northeast Financial Services, Inc. ("NFS"). It transitioned from an entity for real estate development projects, which terminated in fiscal 2005, to acquiring insurance agencies. Subsequent to the 2004 acquisition of Solon-Anson Insurance Agency, Inc. ("Solon Anson") by NFS, Solon-Anson was merged into NFS in April, 2005. NFS's name was then changed to Northeast Bank Insurance Group, Inc. in May 2005. NBIG now supports the Bank's insurance agencies, which allows the Bank to deliver insurance products to its customers. At June 30, 2007, investment in and loans to this subsidiary constituted 0.80% of the Company's total assets.

Employees

As of June 30, 2007, the Company, the Bank and its subsidiary together employed 200 full-time and 24 part-time employees. The Company's employees are not represented by any collective bargaining unit. The Company believes that its relations with its employees are good.

SUPERVISION AND REGULATION

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

Bank Holding Company Regulation

General. As a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), the Company is subject to the regulation and supervision of, and inspection by, the Federal Reserve Board ("FRB"), its primary regulator. The Company also is registered as a Maine financial institution holding company under Maine law and is subject to regulation and examination by the Superintendent of Financial Institutions of the State of Maine ("Superintendent"). The Company is required to file reports with, and provide other information regarding its business operations and those of its subsidiaries to, the FRB and the Superintendent.

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

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

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

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

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

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

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

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

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

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

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

Source of Strength; Safety and Soundness. Under FRB policy, the Company is expected to act as a source of financial strength to, and commit resources to support, Northeast Bank. In addition, any capital loans by a bank holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a Federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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

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

Under FDICIA, as amended, Federal banking regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines.

Bank Regulation

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

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

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

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

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

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

Dividend Restrictions

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

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

At June 30, 2007, under dividend restrictions imposed under federal and state laws, Northeast Bank could declare, without obtaining governmental approvals, aggregate dividends to the Company of approximately \$3,632,000.

Capital Adequacy Guidelines

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

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

These risk-based capital standards define a two-tier capital framework. Under these regulations, the minimum ratio of total capital ("Total Capital") to risk-weighted assets (including certain off-balance sheet activities, such as stand-by letters of credit) is 8%. At least one-half of the Total Capital must be "Tier 1 Capital," consisting of common equity, retained earnings or undivided profits, qualifying non-cumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock and minority interests in the equity account of consolidated subsidiaries, less certain goodwill items and other intangible assets (i.e., at least 4% of the risk weighted assets). The remainder ("Tier 2 Capital") may consist of (a) the allowance for credit losses of up to 1.25% of risk-weighted risk assets, (b) preferred stock that does not qualify as Tier 1 Capital, (c) qualifying hybrid capital instruments, (d) perpetual debt, (e) mandatory convertible securities, and (f) subordinated debt and intermediate term-preferred stock up to 50% of Tier 1 Capital. Assets and off-balance sheet items are assigned to one of four categories of risk weights, based primarily on relative credit risk. The minimum guideline for Tier 1 Capital is 4.0%. At June 30, 2007, the Company's consolidated Tier 1 Capital ratio was 9.07% and its Total Capital ratio was 13.97%.

In addition, the FRB has established minimum leverage ratio guidelines for bank holding companies. The guidelines provide for a minimum Tier 1 Capital to average assets (less goodwill and certain other intangible assets) ("Leverage Ratio") of at least 3% plus an additional cushion of 100 to 200 basis points. The Company's Leverage Ratio at June 30, 2007, was 12.02%.

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

Northeast Bank is subject to substantially similar risk-based and leverage capital requirements as those applicable to the Company. As of June 30, 2007, Northeast Bank was in compliance with applicable minimum capital requirements.

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

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

	Total Risk Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Leverage Ratio	Other
Well Capitalized:	10% or greater	6% or greater	5% or greater	Not subject to any order or written directive to meet and maintain a specific capital level for any capital measure
Adequately Capitalized	8% or greater	4% or greater	4% or greater (3% in the case of a bank with a composite CAMEL rating of 1)	
Undercapitalized	less than 8%	less than 4%	less than 4% ((3% in the case of a bank with a composite CAMEL rating of 1)	
Significantly Undercapitalized	less than 6%	less than 3%	less than 3%	
Critically Undercapitalized				Ratio of tangible equity to total assets is less than or equal to 2%

Under certain circumstances, a depository institution's primary Federal bank regulatory agency may use its authority to reclassify a "well classified" bank as "adequately capitalized" or subject an "adequately capitalized" or "undercapitalized" institution to supervisory actions applicable to the next lower capital category if it determines that the bank is in an unsafe or unsound condition or deems the bank to be engaged in an unsafe or unsound practice and not have corrected the deficiency. The banking agencies are permitted to establish individual minimum capital requirements exceeding the general requirements described above. Generally, failing to maintain the status of a "well capitalized" or "adequately capitalized" depository institution subjects the institution to restrictions and limitations on its business that become progressively more severe as capital levels decrease. At June 30, 2007, Northeast Bank met the definition of a "well capitalized" institution.

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

Enforcement Policies and Actions

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

Community Reinvestment Act

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

FDIC Insurance Premiums

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

Gramm-Leach-Bliley Act

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

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

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

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

Anti-Money Laundering and Anti-Terrorism Legislation

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

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

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

Sarbanes-Oxley Act

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

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

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

On September 11, 2007, the Company changed its listing from the American Stock Exchange to the NASDAQ Stock Exchange. Both exchanges have adopted corporate governance rules that have been approved by the SEC. Those rules are intended to allow shareholders to more easily and efficiently monitor the performance of companies and directors.

The Company has taken steps to comply with the provisions of the Sarbanes-Oxley Act and the regulations adopted thereunder. Based on our total assets, we are first required to provide management's assessment of the company's internal control over financial reporting in our annual report on Form 10-K filed for our first fiscal year ending on or after December 15, 2007 (i.e., fiscal year 2008). In addition, we are required to obtain an attestation report by our auditors for the annual report on Form 10-K filed for our first fiscal year ending on or after December 15, 2008 (i.e., fiscal year 2009). Compliance with the foregoing provisions is expected to increase our administrative costs.

Monetary Policy and Economic Control

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

Industry Restructuring

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

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

STATISTICAL DISCLOSURE

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

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Annual Report on Form 10-K (including the Exhibits hereto) contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as statements relating to our financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss reserve adequacy, simulation of changes in interest rates, capital spending and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward-looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would". In addition, the Company may from time to time make such oral or written "forward-looking statements" in future filings with the Securities and Exchange Commission (including exhibits thereto), in its reports to shareholders, and in other communication made by or with the approval of the Company.

Such forward-looking statements reflect our current views and expectations based largely on information currently available to our management, and on our current expectations, assumptions, plans, estimates, judgments, and projections about our business and our industry, and they involve inherent risks and uncertainties. Although we believe that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, we can not give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. We caution you that actual results could differ materially from those expressed or implied by such forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity. Accordingly, investors and others are cautioned not to place undue reliance on such forward-looking statements.

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

- a) general economic conditions, either nationally or in the markets where the Company or its subsidiaries offer their financial products or services, may be less favorable than expected, resulting in, among other things, a deterioration of credit quality or in a decreased demand for our products or services;
- b) A significant increase in competitive pressures in the banking and financial services industry and, more particularly, a significant increase in competition in the Company's market areas as described under "Business -- Market for Services and Competition";
- c) changes in the interest rate environment which could reduce our margins and increase defaults in our loan portfolio, including those described under "Management's Discussion and Analysis of Results of Operations and Financial Condition --Risk Management", and also may have a negative impact on the Company's interest rate exchange agreement;
- d) the adequacy of the allowance for loan losses and the Bank's asset quality, including those matters described in "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Results of Operations".
- e) changes in political conditions or changes occurring in the legislative or regulatory environment that adversely affects the businesses in which we are engaged, including the impact of any changes in laws and regulations relating to banking, securities, taxes, and insurance;
- f) changes in technology;
- g) the ability to increase market share and to control expenses, and changes in consumer spending, borrowing, and saving habits;
- h) changes in trade, tax, monetary, or fiscal policies, including the interest rate policies of the FRB;
- i) money market and monetary fluctuations, and changes in inflation or in the securities markets;
- j) Future acquisitions and the integration of acquired businesses and assets;
- k) changes in the Company's organizational structure and in its compensation and benefit plans, including those necessitated by pressures in the labor market for attracting and retaining qualified personnel;
- l) the effect of changes in accounting policies and practices, as may be adopted by regulatory agencies as well as the Financial Accounting Standards Board;
- m) unanticipated litigation, regulatory, or other judicial proceedings;
- n) the success of the Company at managing the risks involved in the foregoing;
- o) other one-time events, risks and uncertainties detailed from time to time in the filings of the Company with the Securities and Exchange Commission.

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

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

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

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

ITEM 1.a. Risk Factors

The following discusses risks that management believes are specific to our business and could have a negative impact on Northeast Bancorp's financial performance. When analyzing an investment in Northeast Bancorp (the "Company"), the risks and uncertainties described below, together with all of the other information included or incorporated by reference in this report, should be carefully considered. This list should not be viewed as comprehensive and may not include all risks that may affect the financial performance of the Company:

Changes in interest rates may have adverse impact on the Company's profitability.

The Company's profitability is largely a function of the spread between the interest rates earned on interest earning assets and the interest rates paid on deposits and other interest-bearing liabilities. Like most financial institutions, the Company's net interest income and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the Federal government, that influence market interest rates and the Company's ability to respond to changes in such rates. At any given time, the Company's assets and liabilities may be such that they are affected differently by a change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable- and fixed- rate loans or investment securities could have a positive or negative effect on its net income, capital and liquidity. Although management believes it has implemented strategies and guidelines to reduce the potential effects of changes in interest rates on results of operations, any substantial and prolonged change in market interest rates, including the slope of the interest rate curve, could adversely affect operating results.

Changes in economic conditions and the composition of the Company's loan portfolio could lead to higher charge-offs or an increase in the Company's provision for loan losses and may reduce the Company's net income.

As a lender, the Company is exposed to the risk that its borrowers may be unable to repay their loans and that any collateral securing the payment of their loans may not be sufficient to assure repayment in full. Credit losses are inherent in the lending business and could have a material adverse effect on the operating results of the Company. Adverse changes in the economy or business conditions, either nationally or in the Company's market areas, could increase credit-related losses and expenses and/or limit growth. Substantially all of the Company's loans are to businesses and individuals in its limited geographic area and any economic decline in this market could impact the Company adversely. We make various assumptions and judgments about the collectibility of our loan portfolio and provide for an allowance for loan losses based on a number of factors. If these assumptions are incorrect, the allowance for loan losses may not be sufficient to cover losses, thereby having an adverse effect on operating results, and may cause the Company to increase the allowance in the future by increasing the provision for loan losses. The Company has adopted underwriting and credit monitoring procedures and credit policies that management believes are appropriate to control these risks; however, such policies and procedures may not prevent unexpected losses that could have a material adverse affect on the Company's financial condition or results of operations.

Impairment Risk

The Company regularly purchases U.S. Government-sponsored enterprise debt securities, U.S. Government agency issued mortgage-backed securities, corporate debt securities and equity securities. The Company is exposed to the risk that the issuers of these securities may experience significant deterioration in credit quality which could impact the market value of the issue. The Company periodically evaluates its investments to determine if market value declines are other-than-temporary. Once a decline is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Competition

The financial services industry is highly competitive, with competition for attracting and retaining deposits and making loans coming from other banks and savings institutions, credit unions, mutual fund companies, insurance companies and other non-bank businesses. Many of the Company's competitors are much larger in terms of total assets and market capitalization, have a higher lending limit, greater access to capital and funding and offer a broader array of financial products and services. In light of these factors, the Company's ability to continue to compete effectively is dependent upon its ability to maintain and build relationships through top quality service.

Government Regulation and Supervision

The banking industry is heavily regulated under both Federal and state law. Banking regulations, designed primarily for the safety of depositors, may limit a financial institution's growth and the return to its investors, by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, expansion of branch offices and the offering of securities. The Company is also subject to capitalization guidelines established by federal law and could be subject to enforcement actions to the extent that its subsidiary bank is found, by regulatory examiners, to be undercapitalized. It is difficult to predict what changes, if any, will be made to existing Federal and state legislation and regulations or the effect that such changes may have on the Company's future business and earnings prospects. Any substantial changes to applicable laws or regulations could also subject the Company to additional costs, limit the types of financial services and products it may offer, and inhibit its ability to compete with other financial service providers.

Internal Controls and Procedures

Management diligently reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. This system is designed to provide reasonable, not absolute, assurances that the internal controls comply with appropriate regulatory guidance; any undetected circumvention of these controls could have a material adverse impact on the Company's financial condition and results of operations.

Litigation

Although there is currently no litigation to which the Company is a party, future litigation that arises during the normal course of business could be material and have a negative impact on the Company's earnings. Future litigation could also adversely impact the reputation of the Company in the communities that it serves.

Attracting and Retaining Skilled Personnel

Attracting and retaining key personnel is critical to the Company's success, and difficulty finding qualified personnel could have a significant impact on the Company's business due to the lack of required skill sets and years of industry experience. Management is cognizant of these risks, and succession planning is built into the Company's long-range strategic planning process.

Item 2. Properties

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

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

<u>Branch Locations</u>	<u>Ownership</u>
232 Center Street, Auburn	Lease (1)
235 Western Avenue, Augusta	Fee Simple
11 Main Street, Bethel	Fee Simple
168 Maine Street, Brunswick	Fee Simple
2 Depot Street, Buckfield	Fee Simple
46 Main Street, Harrison	Fee Simple
882 Lisbon Street, Lewiston	Lease (2)
500 Canal Street, Lewiston	Lease (3)
26 Pleasant Street, Mechanic Falls	Fee Simple
77 Middle Street, Portland	Lease (4)
235 Main Street, South Paris	Fee Simple

<u>Insurance Agency Locations</u>	
59 Main Street, Anson	Lease (5)
350 Minot Avenue, Auburn*	Lease (5)
235 Western Avenue, Augusta*	Fee Simple
11 Main Street, Bethel*	Fee Simple
346 Main Street, Jackman	Lease (5)
28 Main Street, Livermore Falls	Lease (7)
89 Main Street, Mexico	Lease (5)
2568 Main Street, Rangeley	Lease (5)
423 U. S. Route 1, Scarborough	Lease (6)
235 Main Street, South Paris*	Fee Simple
10 Snell Hill Road, Turner	Fee Simple

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

- (1) Lease term is ten years and expires May 1, 2016.
- (2) Lease term is 15 years and expires January 14, 2014.
- (3) Lease term is 15 years and expires July 15, 2020.
- (4) Lease term is five years and expires September 30, 2012.
- (5) Lease term is one year and automatically renews in September each year.
- (6) Lease term is three years and expires July 31, 2010.
- (7) Lease term is eight months and expires December 31, 2007.

The Bank's investment division leases space at 202 US Route One, Falmouth, Maine which has a term of five years and expires August 31, 2012. In addition, the Bank has purchased land in Windham, Maine.

On September 1, 2006, the Company purchased its South Paris, Maine branch, previously leased from a member of our Board of Directors. The \$400,000 purchase price was based upon an independent appraisal. The consideration paid was 5,000 shares of Company common stock and \$297,000 in cash. The common stock issued was based on the market price on the day prior to the closing. This acquisition was not material to the balance sheet or the results of operations for the Company.

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Company is a party or to which any of its property is 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, 2007.

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.

<u>Name</u>	<u>Age</u>	<u>Position with Company and/or Bank</u>
James D. Delamater	56	President and Chief Executive Officer (1)
Philip C. Jackson	63	Senior Vice President of Bank Trust Operations
Pender J. Lazenby	57	Chief Risk Officer
Marcel Blais	48	Chief Operating Officer
Robert S. Johnson	55	Chief Financial Officer (1)
Suzanne Carney	40	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 Bank, the predecessor to the Bank.

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.

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

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

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

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

On September 11, 2007, the Company changed its listing from AMEX to NASDAQ. The common stock of Northeast Bancorp currently trades on the NASDAQ under the symbol "NBN". As of the close of business on September 20, 2007, there were approximately 2,391,332 shares of common stock outstanding held by approximately 446 stockholders of record.

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

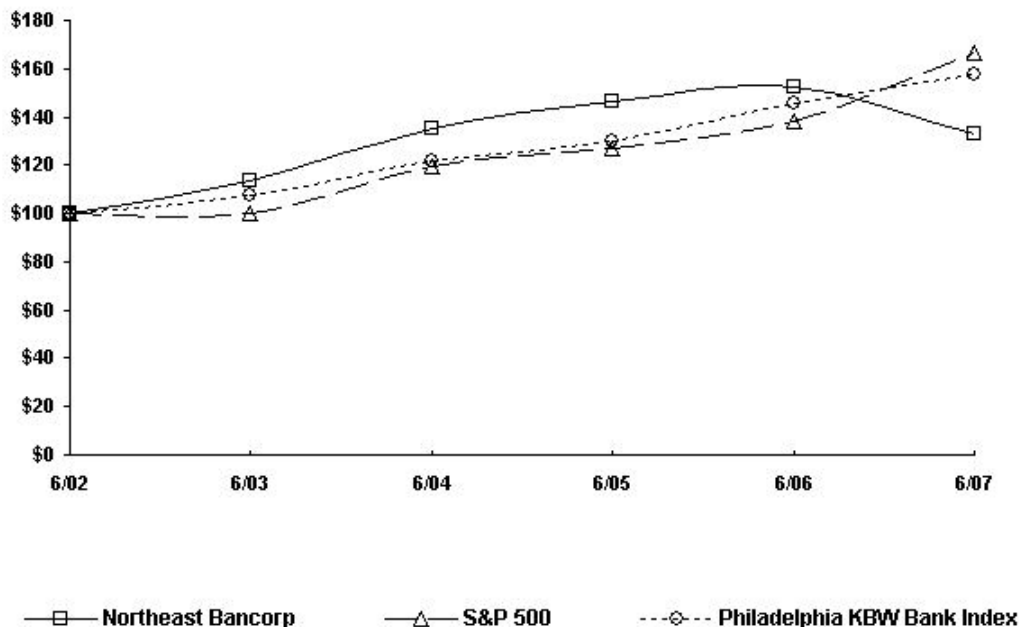
<u>2006 - 2007</u>	<u>High</u>	<u>Low</u>	<u>Div Pd</u>
Jul 1 - Sep 30	21.39	19.18	.090
Oct 1 - Dec 31	19.77	18.20	.090
Jan 1 - Mar 31	20.30	18.34	.090
Apr 1 - Jun 30	18.89	16.60	.090
<u>2005 - 2006</u>	<u>High</u>	<u>Low</u>	<u>Div Pd</u>
Jul 1 - Sep 30	22.50	19.85	.090
Oct 1 - Dec 31	24.00	21.66	.090
Jan 1 - Mar 31	24.50	20.80	.090
Apr 1 - Jun 30	22.10	20.76	.090

On September 20, 2007, the last reported sale price of the Company's Common stock as quoted on NASDAQ was \$17.75. 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 therefore, 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 its revenues are derived primarily from the Bank. Accordingly, the ability of the Company to pay cash dividends on its stock in the future generally will be dependent upon the earnings of the Bank and the Bank's ability to pay dividends to the Company. The payment of dividends by the Bank will depend on a number of factors, including capital requirements, regulatory limitations, the Bank's results of operations and financial condition, tax considerations, and general economic conditions. National banking laws regulate and restrict the ability of the Bank to pay dividends to the Company. See "Item 1. Business - Supervision and Regulation".

Stock repurchases under the 2006 Stock Repurchase Plan for the year ended June 30, 2007 totaled 3,800 shares at an average price per share of \$17.88.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Northeast Bancorp, The S&P 500 Index
And The Philadelphia KBW Bank Index



* \$100 invested on 6/30/02 in stock or index-including reinvestment of dividends. Fiscal year ending June 30.

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www.researchdatagroup.com/S&P.htm

Unregistered Sales of Equity Securities and Use of Proceeds

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

Period (1)	Total Number Of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under The Program (3)
Apr. 1 – Apr. 30	-	-	-	200,000
May 1 – May 31	-	-	-	200,000
Jun. 1 – Jun. 30	3,800	17.88	3,800	196,200

(1) Based on trade date, not settlement date.

(2) Represents shares purchased in open-market transactions pursuant to the Company's 2006 Stock Repurchase Plan.

(3) On December 15, 2006, the Company announced that its Board of Directors of the Company approved the 2006 Stock Repurchase Plan pursuant to which the Company is authorized to repurchase in open-market transactions up to 200,000 shares from time to time until the plan expires on December 31, 2007, unless extended.

Item 6. Selected Financial Data

	At or for the Year Ended June 30,				
	2007	2006	2005	2004	2003
	(Dollars in thousands except for Per Share Data)				
Selected operations data:					
Interest income	\$ 35,682	\$ 35,456	\$ 32,674	\$ 28,124	\$ 29,026
Interest expense	20,097	16,761	13,967	12,079	13,769
Net interest income	15,585	18,695	18,707	16,045	15,257
Provision for loan losses	989	1,226	1,302	962	1,091
Other operating income (1)	7,903	6,578	5,083	4,670	4,174
Net securities gains	42	17	68	201	922
Other operating expenses (2)	20,075	18,209	16,684	14,799	13,530
Income before income taxes	2,466	5,855	5,872	5,155	5,732
Income tax expense	579	1,851	1,853	1,643	1,877
Net income	\$ 1,887	\$ 4,004	\$ 4,019	\$ 3,512	\$ 3,855
Consolidated per share data:					
Net income:					
Basic	\$ 0.77	\$ 1.61	\$ 1.60	\$ 1.38	\$ 1.46
Diluted	\$ 0.76	\$ 1.59	\$ 1.57	\$ 1.35	\$ 1.44
Cash dividends	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.35	\$ 0.32
Selected balance sheet data:					
Total assets	\$ 556,801	\$ 562,918	\$ 575,900	\$ 538,754	\$ 467,684
Loans receivable	425,571	435,663	461,052	432,594	378,987
Deposits	364,554	395,293	396,219	377,820	318,743
Borrowings	147,564	124,860	136,293	121,443	109,871
Total stockholders' equity	40,850	39,096	39,870	36,453	36,499
Other ratios:					
Return on average assets	0.34%	0.70%	0.71%	0.71%	0.86%
Return on average equity	4.59%	9.95%	10.39%	9.50%	10.58%
Average equity to average total assets	7.37%	7.07%	6.86%	7.51%	8.11%
Common dividend payout ratio	46.77%	22.40%	22.65%	25.93%	22.22%

(1) Includes primarily 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 and Analysis of Results of Operations and Financial Condition

The Management's Discussion and Analysis of Results of Operations and Financial Condition which follows presents a review of the consolidated operating results of Northeast Bancorp, Inc. (the "Company") for the fiscal years ended June 30, 2007, 2006 and 2005. This discussion and analysis is intended to assist you in understanding the results of our operations and financial condition. You should read this discussion together with your review of the Company's Consolidated Financial Statements and related notes and other statistical information included in this report. Certain amounts in the years prior to 2007 have been reclassified to conform to the 2007 presentation.

A NOTE ABOUT FORWARD LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as statements relating to our financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss reserve adequacy, simulation of the impact of changes in interest rates, capital spending, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management's projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward looking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "intend", "objective", "goal", "project", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would". In addition, the Company may from time to time make such oral or written "forward-looking statements" in future filings with the Securities and Exchange Commission (including exhibits thereto), in its reports to shareholders, and in other communications made by or with the approval of the Company.

Such forward-looking statements reflect our current views and expectations based largely on information currently available to our management, and on our current expectations, assumptions, plans, estimates, judgments, and projections about our business and our industry, and they involve inherent risks and uncertainties. Although we believe that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, we can not give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. We caution you that actual results could differ materially from those expressed or implied by such forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, changes in technology, changes in the securities markets, and the availability of and the costs associated with sources of liquidity. Accordingly, investors and others are cautioned not to place undue reliance on such forward-looking statements. For a more complete discussion of certain risks and uncertainties affecting the Company, please see "Item 1. Business - Forward-Looking Statements and Risk Factors" set forth in our Form 10-K. These forward-looking statements speak only as of the date of this report and we do not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses

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

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

GENERAL

Northeast Bancorp (the "Company") is a Maine corporation and a bank holding company registered with the Federal Reserve Bank of Boston ("FRB") under the Bank Holding Company Act of 1956. The Company also is a registered Maine financial institution holding company. The FRB is the primary regulator of the Company and the Company is also subject to regulation and examination by the Superintendent of the Maine Bureau of Financial Institutions. We conduct business from our headquarters in Lewiston, Maine and, as of June 30, 2007, from 12 banking offices and 11 insurance agency offices all located in western and south-central Maine. At June 30, 2007, we had consolidated assets of \$556.8 million and consolidated stockholders' equity of \$40.8 million.

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

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, indirect consumer loans and consumer loans. The Bank sells residential mortgage and commercial real estate loans into the secondary market. The Bank also invests in mortgage-backed securities, securities issued by United States Government-sponsored enterprises and municipal securities. The Bank emphasizes the growth of noninterest sources of income from trust management, financial planning, investment brokerage and insurance commissions. We increased insurance commissions in fiscal 2007 by expanding our insurance agency through acquisitions. 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 received and paid on these balances.

Our goal is to continue modest, but profitable, growth by increasing our loan and deposit market share in our existing markets in western and south-central Maine, closely manage the yields on interest earning assets and rates on interest-bearing liabilities, introduce new financial products and services, increase the number of bank services per household, 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. For the twelve months ended June 30, 2007, we acquired four insurance agencies. On August 30, 2007, we acquired the Hartford Agency in Lewiston, Maine, our fifth purchase, for \$1,358,000 in cash and debt.

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

Economic Conditions

We believe that our market area has generally witnessed modest economic growth and a slowing of real estate appreciation from 2006 through 2007. The economy and real estate markets in our market areas will continue to be significant determinants of the quality of our assets in future periods and our results of operations, liquidity and financial condition. We believe future economic activity will significantly depend on consumer confidence, consumer spending and business expenditures for new capital equipment, all of which are tied to strong employment.

EXECUTIVE SUMMARY

The following were significant factors comparing our results for fiscal 2007 to fiscal 2006:

- Four insurance agencies were acquired in twelve months ended June 30, 2007.
- Revenues from our investment brokerage, insurance, and trust and wealth management divisions increased by 28%.
- Commercial real estate loans were sold to the secondary market, increasing gain on sale income by \$428,000.
- Net interest margins decreased to 299 basis points compared to 349 basis points in fiscal 2006 and, combined with a decrease in total interest earning assets, resulted in a decrease in net interest income.
- Though net income decreased in fiscal 2007, our financial condition and liquidity remain strong.
- The Company and the Bank are "well capitalized" under regulatory definitions.
- The allowance for loan losses increased by \$260,000 in fiscal 2007, to \$5,756,000, and, as a percentage of total loans, increased in fiscal 2007 to 1.35% compared to 1.26% in fiscal 2006.
- Net income decreased to \$1,886,677 for fiscal 2007 compared to \$4,004,199 for fiscal 2006.

On September 1, 2006, the Bank purchased the real estate located at 235 Main Street, South Paris, Maine, (our South Paris branch) from a director for a purchase price of \$400,000. The price was determined through an independent, third party appraisal. We paid \$297,000 in cash and 5,000 shares of Northeast Bancorp common stock (based on the \$20.60 per share closing price on August 31, 2006). Management believes that the transaction reflected arms-length, negotiated terms.

RESULTS OF OPERATIONS

Comparison of Fiscal Years Ended June 30, 2007 and 2006

Overview

For the fiscal year ended June 30, 2007 ("fiscal 2007"), we reported net income of \$1,886,677, or \$0.76 per diluted share, as compared to \$4,004,199, or \$1.59 per diluted share, for the fiscal year ended June 30, 2006 ("fiscal 2006"), a decrease of \$2,117,522, or 53%. This decrease was attributable to a decrease in net interest income due to a decrease in net interest margin and increased noninterest expense which were partially offset by a decrease in the provision for loan losses and an increase in noninterest income. The return on average assets was 0.34% in fiscal 2007 compared to 0.70% in fiscal 2006. The return on average equity was 4.59% in fiscal 2007 and 9.95% in fiscal 2006. The decrease in our return on average assets and return on average equity was due to decreased net income for fiscal 2007.

Net interest income decreased by 17% in fiscal 2007. This decrease was primarily due to a decrease in our net interest margin of 50 basis points compared to fiscal 2006, combined with a decrease in average interest earning assets of approximately \$11.0 million as compared to the average interest earning assets in fiscal 2006. Of the decrease in average interest earning assets, average loans decreased \$15.0 million and average interest-bearing deposits and regulatory stock decreased \$0.6 million, partially offset by average investment securities, which increased \$4.6 million. Noninterest income increased 20% during fiscal 2007 primarily from increased investment brokerage and insurance commission revenue, gains on the sale of residential real estate and commercial real estate loans and net securities gains. These increases were partially offset by lower fees and services charges on loans and deposits. The provision for loan losses decreased 19% primarily due to a decrease in loans. Noninterest expense increased 10% during fiscal 2007, which was primarily due to increases in salaries and employee benefits expense, equipment expense, amortization of intangibles associated with the four insurance agency acquisitions and other expenses.

Net Interest Income

Net interest income decreased by \$3,110,245, or 17%, during fiscal 2007, primarily as a result of a decrease in net interest margin. Average interest earning assets decreased \$11.0 million during fiscal 2007 due to a \$15.0 million decrease in average loans that was partially offset by a \$4.7 million increase in average investment securities. Regulatory stock and interest-bearing deposits decreased \$0.6 million. The decrease in average residential real estate construction, commercial real estate and commercial loans of \$22.9 million was partially offset by a \$7.9 million increase in consumer loans. The increase in average investment securities was due to increases in mortgage-backed securities used to pledge as eligible collateral for FHLB advances, and securities sold under agreements to repurchase and municipal securities. Average interest-bearing deposits decreased by \$13.5 million, or 4%, during fiscal 2007 primarily due to a decrease in average brokered deposits, which decreased by \$18.8 million and reduced our dependency on wholesale funding. All other interest-bearing, non-maturing deposits decreased, in the aggregate amount of \$14.1 million, offset by an increase in certificates of deposit of \$19.4, for a net increase of \$5.3 million. Average repurchase agreements increased during fiscal 2007 by \$4.7 million, or 15%. Average borrowings increased, primarily due to debt incurred in the acquisition of insurance agencies. The yield on average interest earning assets increased 19 basis points, to 6.79%, in fiscal 2007. The cost of funds increased 75 basis points, to 4.20%, due to an increase in the cost of interest-bearing deposits. [Table 1](#) provided in Item 8 of this Form 10-K shows the average balances, yields and rates of assets, liabilities, and stockholders' equity of the Company for the past three years. The table below shows the changes from 2006 to 2007 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended
June 30, 2007 versus June 30, 2006

	Difference Due to		
	Volume	Rate	Total
Investments	\$ 131,490	\$ 375,714	\$ 507,204
Loans, net	(1,075,851)	799,395	(276,456)
FHLB deposits & other	33,336	42,035	75,371
Total interest-earning assets	(911,025)	1,217,144	306,119
Deposits	(437,192)	2,775,059	2,337,867
Repurchase agreements	154,571	422,677	577,248
Borrowings	42,110	379,167	421,277
Total interest-bearing liabilities	(240,511)	3,576,903	3,336,392
Net interest income	\$ (670,514)	\$ (2,359,759)	\$ (3,030,273)

Rate/volume amounts which are partly attributable to rate and volume are spread proportionately between Volume and Rate based on the direct change attributable to rate and volume. Borrowings in the table above include FHLB advances, obligation under capital leases and junior subordinated debentures. The adjustments to interest income and yield required to make the presentation on a fully tax equivalent basis were \$197,674 and \$117,702 for the twelve months ended June 30, 2007 and 2006, respectively.

Provision for Loan Losses

The provision for loan losses in fiscal 2007 was \$989,158, a decrease of \$237,255, or 19%, compared to fiscal 2006. This decrease in the provision for loan losses reflects the overall decrease in loans of approximately \$10.0 million. The impact of this decrease in loans on the provision for loan losses was partially offset by higher loan delinquency, higher classified and criticized loans, higher net losses, and slightly lower nonperforming loans for fiscal 2007. Net charge-offs were \$729,200 in fiscal 2007 compared to \$630,300 in fiscal 2006. This \$98,900 increase was primarily in residential real estate and indirect consumer loans. Net charge-offs to average loans outstanding was 0.17% in fiscal 2007 compared to 0.14% in fiscal 2006.

The allowance for loan losses at June 30, 2007 was \$5,756,000 as compared to \$5,496,000 at June 30, 2006, an increase of \$260,000, or 5%. The ratio of the allowance to total loans was 1.35% at June 30, 2007 compared to 1.26% at June 30, 2006. The ratio of the allowance for loan losses to nonperforming loans was 113% at June 30, 2007 and 106% at June 30, 2006, reflecting an increase of \$260,000 in the allowance for loan losses and a \$105,000 decrease in nonperforming loans, to \$5,090,000, primarily due to nonperforming commercial real estate loans. Of total non-performing loans at June 30, 2007, \$2,038,000 million was current with principal and interest payments. Nonperforming loans were 1.20% of total loans at June 30, 2007 as compared to 1.19% at June 30, 2006, also due to a decrease in total loans. For additional information on the allowance for loan losses, see "Critical Accounting Policies" above, and see "Asset Quality" below for additional discussion on loans.

Noninterest Income

Noninterest income for the fiscal years ended June 30, 2007 and 2006 was \$7,944,827 and \$6,594,881, respectively, an increase of \$1,349,946, or 20%, in fiscal 2007. Most of this increase was due to the increase in investment brokerage and insurance commission income and gain from sale of loans.

Fees for other services to customers of \$1,042,648 decreased \$71,433, or 6%, during fiscal 2007. This decrease was due to lower transaction service fees and overdraft fee revenue as compared to fiscal 2006.

Net securities gains of \$42,349 increased \$25,014, or 144%, during fiscal 2007. The volume of securities sold in fiscal 2007 increased from fiscal 2006. 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.

Gains on the sales of loans of \$869,255 increased \$560,478, or 182%, during fiscal 2006. This increase was primarily due to gains on the sales of commercial loans of \$455,680. Gains on the sales of residential real estate loans were \$413,575, an increase of \$104,798 over fiscal 2006. Sold loan volume is subject to changing interest rates. Fixed rate residential real estate loans are sold to reduce our exposure to interest rate risk.

Investment commission revenue of \$2,385,118 increased \$615,818, or 35%, during fiscal 2007. This increase was primarily due to adding investment brokers and increased production from existing investment brokers.

Insurance commissions of \$2,330,435 increased \$413,613, or 21%, during the fiscal year 2007 due to the partial year impact of the acquisition of the Palmer, Sturtevant & Ham, and Southern Maine insurance agencies. The Russell Agency was acquired on June 28, 2007, the last business day of fiscal 2007.

Bank owned life insurance (BOLI) income of \$388,613 increased \$21,674, or 6%, during fiscal 2007. This increase was due to an increase in the average interest yield, net of mortality cost, to 3.85% in fiscal 2007 from 3.81% in fiscal 2006. The additions to cash surrender value are based on this average interest yield. These interest rates are determined by the life insurance companies and are reset quarterly or annually. Each policy is subject to minimum interest rates.

Other noninterest income of \$806,524 decreased \$197,473, or 20%, during fiscal 2007. This decrease was primarily due to the fiscal 2006 deposit premium received of \$500,845 from the sale of the deposits and certain loans of the Lisbon Falls branch, with no such corresponding transaction occurring in fiscal 2007. This decrease was partially offset by an increase in trust fee revenue of \$83,384, a change in gain on the sales of fixed assets of \$202,326 and an increase in gains from the trading of covered call options of \$31,412. The gain on the sale of fixed assets in fiscal 2007 of \$73,963 was primarily from the sale of the former Lisbon Falls branch building and land compared to a loss on the sale of fixed assets in fiscal 2006 of \$128,363.

Noninterest Expense

Noninterest expense for fiscal years ended June 30, 2007 and 2006 was \$20,075,186 and \$18,208,504, respectively, an increase of \$1,866,682, or 10%. The increase in fiscal 2007 was primarily due to an increase in salaries and employee benefits and other expenses. Our efficiency ratio, noninterest expense as a percentage of the total of net interest income and noninterest income, increased to 85.3% during fiscal 2007 from 72.0% in fiscal 2006. The decrease in net interest income in fiscal 2007 compared to the prior year was a significant factor contributing to the increase in the efficiency ratio.

Salaries and employee benefits expense of \$12,022,037 increased \$1,384,279, or 13%, during the fiscal year 2007. This increase includes the incentive compensation paid based on the gains on the sales of commercial loans and insurance agency acquisition totaling \$431,000, and the salary and benefits for new positions in residential real estate lending, investment brokerage and the insurance agencies. Total full-time equivalent employees were 214 compared to 201 at June 30, 2007 and 2006, respectively.

Occupancy expense of \$1,722,381 increased \$49,876, or 3%, during the fiscal year 2007. This increase was primarily due to mold remediation for our Bethel branch, the full year impact of the headquarters capital lease, increased amortization expense, increased utilities and real estate taxes. These increases were partially offset by a decrease in rent expense resulting from the consolidation of leased space during fiscal 2006.

Equipment expense of \$1,531,276 increased \$91,038, or 6%, during the fiscal year 2007. Software depreciation expense and software licensing amortization expense for Internet banking software and conversion fees for the insurance agency core system increased compared to fiscal year 2006. These expenses were partially offset by lower moving expenses compared to that incurred in fiscal year 2006 due to relocating staff and equipment to the Gateway Building in Lewiston.

Other expense of \$4,484,908 increased \$267,933, or 6%, during fiscal year 2007. This increase was due to increases in loan expense, primarily collection expenses incurred as delinquencies and workout loans increased during fiscal 2007, supplies expense, due to reprinting of forms for image processing of customer transactions, computer services expense, resulting from converting to image processing and a higher volume of investment brokerage transactions, and business insurance. Other noninterest expense includes other-than-temporary write downs on equity and non-marketable securities of \$50,442 and \$248,482, respectively, for fiscal 2007 compared to \$38,394 and \$42,257, respectively, in fiscal 2006, an aggregate increase of \$218,273. These other-than-temporary write downs resulted from the periodic analysis by management of impaired securities whereby management determined that recovery of cost was unlikely within a reasonable period of time for certain equity and non-marketable securities. Partially offsetting these increases was a decrease of \$51,698 in advertising expense and a decrease in dues and assessments of \$47,356.

The Company's effective tax rate was 23.5% and 31.7% for the fiscal years ended June 30, 2007 and 2006, respectively. See Note 12 in the Consolidated Financial Statements for additional information.

Comprehensive Income

The Company's comprehensive income was \$2,594,600 and \$2,051,917 during 2007 and 2006, respectively. Comprehensive income differed from our net income in 2007 and 2006 due to the change in the fair value of available-for-sale securities, net of income tax. In fiscal 2007, there was a net increase in fair value of \$707,923 due to a net unrealized loss on investments available-for-sale, net of income tax. There was a net decrease in fair value in fiscal 2006 of \$1,952,282. See the Consolidated Statements of Changes in Shareholders' Equity and Note 16 in the Consolidated Financial Statements for additional information.

Comparison of Fiscal Years Ended June 30, 2006 and 2005

For fiscal 2006, we reported net income of \$4,004,199, or \$1.59 per diluted share, as compared to \$4,018,634, or \$1.57 per diluted share, for the fiscal year ended June 30, 2005 ("fiscal 2005"), a decrease of \$14,435, or less than 1%. This decrease was attributable to increased noninterest expense which slightly exceeded the increase in noninterest income. The return on average assets was 0.70% in fiscal 2006 compared to 0.71% in fiscal 2005. The return on average assets changed due to total average assets increasing by \$5.8 million, or 1%, compared to fiscal 2005. The return on average equity was 9.95% in fiscal 2006 and 10.39% in fiscal 2005. The decrease in our return on average equity was due to decreased net income for those periods and an increase in average equity of 4%.

Net interest income decreased by less than 1% during fiscal 2006. This decrease was primarily due to a decrease in our net interest margin of 1 basis point. Average interest earning assets increased approximately \$5.4 million as compared to the average interest earning assets in fiscal 2005. Of the increase in average interest earning assets, average investment securities increased \$10.6 million and average loans decreased \$4.8 million. Net interest margin, the ratio of net interest income to average interest earning assets, decreased to 3.49% in fiscal 2006 from 3.50% in fiscal 2005. Net interest spread, the difference between the yield on interest earning assets and the cost of funds, decreased by 8 basis points to 3.15% in fiscal 2006 from 3.23% in fiscal 2005. The Bank balance sheet moved during fiscal 2006 from an asset sensitive profile, where the yields on assets reprice faster than the cost of funds, to a slightly liability sensitive profile, where cost of funds reprice faster than the yields on assets. Noninterest income increased 28% during fiscal 2006 primarily from increased investment brokerage and insurance commission revenue, loan servicing fees, gains on the sale of residential real estate loans, and the gain on sale of deposits. This increase was partially offset by lower net securities gains. The provision for loan losses decreased 6%, primarily resulting from a decrease in loans. Noninterest expense increased 9% during fiscal 2006, which was primarily due to increases in salaries and employee benefits expense, occupancy and equipment expense associated with the consolidation of the Bank's operations and administration functions into a new Gateway headquarters in Lewiston and the full year impact of the Solon-Anson Insurance Agency acquisition (September, 2004), partially offset by a decrease in other expense. Other expense in fiscal 2005 included a loss from the write-off of deferred issuance costs related to trust preferred securities redeemed on December 31, 2004.

Net Interest Income

Net interest income decreased by \$11,484, or less than 1%, during fiscal 2006 primarily resulting from a decrease in the net interest margin. Average interest earning assets increased \$5.4 million during fiscal 2006, comprised of a \$10.6 million increase in average investment securities, partially offset by a \$4.8 million decrease in average loans and a \$0.5 million decrease in interest-bearing deposits (primarily with the Federal Home Loan Bank). The increase in average investment securities was due to increases in mortgage-backed securities, pledged as eligible collateral for FHLB advances and securities sold under agreements to repurchase and municipal securities. The decrease in average loans resulted from a decrease in construction loans, commercial loans and commercial real estate loans of \$18.8 million, partially offset by increases in residential real estate loans and consumer loans of \$3.0 million and \$11.0 million, respectively. Origination of commercial loans and commercial real estate loans decreased by \$60 million in fiscal 2006 compared to fiscal 2005. Average interest-bearing deposits increased by \$0.6 million, or 0.1%, during fiscal 2006, with the increase primarily consisting of time deposits. Average certificates of deposit increased by \$43.7 million. All other interest-bearing deposits decreased including average brokered time deposits, which decreased by \$31.7 million, or 36%, reflecting a reduction in our use of wholesale funding. Average repurchase agreements increased during fiscal 2006 by \$0.9 million, or 3%. Average borrowings increased primarily due to a new obligation under a capital lease. The yield on average interest earning assets increased 48 basis points to 6.60% in fiscal 2006. The cost of funds increased 56 basis points, to 3.45%, due to an increase in the cost of interest-bearing deposits, partially (offset by) a decrease in the costs of advances from the FHLB and junior subordinated debentures (refinanced in fiscal 2005). [Table 1](#) provided in Item 8 of this Form 10-K shows the average balances, yields and rates of assets, liabilities, and stockholders' equity of the Company for the past three years. The table below shows the changes from 2005 to 2006 in net interest income by category due to changes in rate and volume.

Rate/Volume Analysis for the Year Ended June 30, 2006 versus June 30, 2005

	Difference Due to		
	Volume	Rate	Total
Investments	\$ 437,837	\$ 378,420	\$ 816,257
Loans, net	(314,444)	2,338,463	2,024,019
FHLB deposits & other	(8,398)	68,098	59,700
Total interest-earning assets	114,995	2,784,981	2,899,976
Deposits	14,332	2,513,176	2,527,508
Repurchase agreements	11,589	512,560	524,149
Borrowings	42,541	(300,440)	(257,899)
Total interest-bearing liabilities	68,462	2,725,296	2,793,758
Net interest income	\$ 46,533	\$ 59,685	\$ 106,218

Rate/volume amounts which are partly attributable to rate and volume are spread proportionately between Volume and Rate based on the direct change attributable to rate and volume. Borrowings in the table above include FHLB advances, obligation under capital lease, and junior subordinated debentures. The adjustments to interest income and yield to a fully tax equivalent basis were \$117,702 and \$0 for the twelve months ended June 30, 2006 and 2005, respectively.

Provision for Loan Losses

The provision for loan losses in fiscal 2006 was \$1,226,413, a decrease of \$75,187, or 6%, compared to fiscal 2005. This decrease in the provision for loan losses reflects the significant overall decrease in loans of approximately \$25.4 million and a decrease in net loan charge-offs. Although we experienced higher loan delinquency, higher nonperforming loans, and higher classified and criticized loans for fiscal 2006, the level of expected loan defaults and the level of loss did not increase. Net charge-offs were \$630,300 in fiscal 2006 compared to \$774,600 in fiscal 2005. This \$144,300 decrease was in residential real estate, commercial real estate loans and consumer loans. Net charge-offs to average loans outstanding was 0.14% in fiscal 2006 compared to 0.17% in fiscal 2005.

The allowance for loan losses at June 30, 2006 was \$5,496,000 as compared to \$5,104,000 at June 30, 2005, an increase of \$392,000, or 8%. This increase was net of \$204,000 reclassified from the allowance for loan losses to a separate reserve account for off-balance credit risk (unadvanced lines of credit and loan commitments) included in other liabilities. This off-balance credit risk had been included in the allowance for loan loss in prior years. The ratio of the allowance to total loans was 1.26% at June 30, 2006 compared to 1.11% at June 30, 2005. The ratio of the allowance for loan losses to nonperforming loans was 106% at June 30, 2006 and 301% at June 30, 2005, reflecting an increase of \$3.5 million in nonperforming loans, to \$5.2 million, primarily from nonperforming commercial real estate and commercial loans. Of total non-performing loans at June 30, 2006, \$1.9 million was current with principal and interest payments. Nonperforming loans were 1.19% of total loans at June 30, 2006 as compared to 0.37% at June 30, 2005, also due to the increase in nonperforming loans at June 30, 2006 and a decrease in total loans. For additional information on the allowance for loan losses, see "Critical Accounting Policies" above, and see "Asset Quality" below for additional discussion on loans.

Noninterest Income

Noninterest income for the fiscal years ended June 30, 2006 and 2005 was \$6,594,881 and \$5,151,179, respectively, an increase of \$1,443,702, or 28%, in fiscal 2006. Most of this increase was due to the increase in investment brokerage and insurance commission revenue and a gain from the sale of the deposits and certain loans of the Lisbon Falls branch.

Fees for other services to customers of \$1,114,081 increased \$46,965, or 4%, during fiscal 2006. This increase was due to higher transaction service fees, overdraft fees, and ATM and debit card fee revenue as compared to fiscal 2005.

Net securities gains of \$17,335 decreased \$50,605, or 74%, during fiscal 2006. The volume of securities sold in fiscal 2006 decreased from fiscal 2005. Gains from the sale of equity and bond securities are subject to market and economic conditions and there can be no assurance that gains reported in prior periods will be achieved in the future. Other-than-temporary write-downs on equity securities of \$38,394 and \$27,849 during fiscal 2006 and 2005, respectively, were included in noninterest expense.

Gains on the sales of loans of \$308,777 increased \$75,750, or 33%, during fiscal 2006. This increase was primarily due to a higher sales volume of residential real estate loans, which increased by \$4 million, to \$15 million, in fiscal 2006 compared to \$11 million in fiscal 2005. Sold loan volume was impacted by 30 year fixed rate residential real estate loan origination volume, which is subject to changing interest rates, and a shift in the demand for loans with fixed or adjustable interest rates. The Bank continues to hold in portfolio all new 15 year fixed rate loans and all adjustable rate loans. Residential real estate loans were sold to reduce our exposure to interest rate risk.

Investment commission revenue of \$1,769,300 increased \$314,437, or 22%, during fiscal 2006. This increase was primarily due to adding investment brokers and increased production from existing investment brokers.

Insurance commissions of \$1,916,822 increased \$512,787, or 37%, during the fiscal year 2006 due to the full year impact of the acquisition of the Solon Anson Insurance Agency (September 2004) and increased contingency payments from insurance carriers based on loss experience.

BOLI income of \$366,939 increased \$36,239, or 11%, during fiscal 2006. This increase was due to an increase in the average interest yield to 4.21% in fiscal 2006 from 4.15% in fiscal 2005. The additions to cash surrender value are based on this average interest yield. These interest rates are determined by the life insurance companies and are reset quarterly or annually. Each policy is subject to minimum interest rates.

Other income of \$1,003,997 increased \$511,273, or 104%, during fiscal 2006. This increase was primarily due to the deposit premium received of \$500,845 from the sale of the deposits and certain loans of the Lisbon Falls branch to Androscoggin Bank. Trust fee revenue also increased by \$109,266. The deposit premium and increased trust fees were partially offset by change in loss on the disposal of fixed assets of \$188,082. The latter represents costs written off for a new branch site which was abandoned in fiscal 2006. A \$59,719 gain was realized in fiscal 2005 from the sale of our former Richmond branch building.

Noninterest Expense

Noninterest expense for fiscal years ended June 30, 2006 and 2005 was \$18,208,504 and \$16,684,174, respectively, an increase of \$1,524,330, or 9%. The increase in fiscal 2006 was primarily the result of an increase in salaries and employee benefits and occupancy and equipment expenses. Our efficiency ratio increased to 72.0% during fiscal 2006 from 69.9% in fiscal 2005 due to increased noninterest expense.

Salaries and employee benefits expense of \$10,637,758 increased \$1,083,441, or 11%, during the fiscal year 2006. This increase includes the salary and benefits for new positions in commercial lending, investment brokerage, insurance agency, trust, and risk management divisions. Total full-time equivalent employees were 201 compared to 193 at June 30, 2006 and 2005, respectively. Deferred compensation expense related to the Solon-Anson Insurance acquisition was \$399,845, an increase of \$301,769 compared to fiscal 2005.

Occupancy expense of \$1,672,505 increased \$253,809, or 18%, during the fiscal year 2006. This increase was primarily due to the relocation of our commercial, administration and operations to the new Southern Gateway building in Lewiston, completed in August 2005. Expenses contributing to this increase were amortization of capital lease asset, depreciation of leasehold improvements and real estate taxes. Repairs to the Mechanic Falls branch for mold remediation increased building repairs by \$25,305. Higher heating fuel oil costs increased utilities expense by \$55,611.

Equipment expense of \$1,440,238 increased \$330,130, or 30%, during the fiscal year 2006. As with occupancy expense, moving expense and increased depreciation expense from new furniture and equipment for the new Southern Gateway building accounted for most of this increase. Additional licensing fees for our core operating system for new customer relationships also contributed to this increase.

Other expense of \$4,216,975 decreased \$134,377, or 3%, during fiscal year 2006. This decrease was due in part to the \$396,425 loss recognized in fiscal 2005 from the write-off of unamortized deferred issuance costs related to the redemption of the 9.60% trust preferred stock. Also contributing to this decrease was other-than-temporary write downs on equity and non-marketable securities of \$38,394 and \$42,257, respectively, for fiscal 2006 compared to \$27,849 and \$96,931, respectively, in fiscal 2005, an aggregate decrease of \$44,129. These other-than-temporary write downs resulted from the periodic analysis by management of impaired securities whereby management determined that recovery of cost was unlikely within a reasonable period of time for certain equity and non-marketable securities. Partially offsetting this decrease was an increase of \$155,719 in advertising expense resulting from increased use of television advertising, and an increase of \$108,841 in computer services expenses resulting from higher investment brokerage transaction costs, increased processing fees from higher trust activity, increased internet banking costs from higher customer enrollment and conversion costs and core system users in the insurance agency.

Taxes

The Company's effective tax rate was 31.7% and 31.5% for the fiscal years ended June 30, 2006 and 2005, respectively. See Note 12 in the Consolidated Financial Statements for additional information.

Comprehensive Income

The Company's comprehensive income was \$2,051,917 and \$4,745,415 during 2006 and 2005, respectively. Comprehensive income differed from our net income in 2006 and 2005 due to the change in the fair value of available-for-sale securities, net of income tax. In fiscal 2006, there was a net decrease in fair value of \$1,952,282 due to a net unrealized loss on investments available-for-sale, net of income tax. There was a net increase in fair value in fiscal 2005 of \$726,781. See the Consolidated Statements of Changes in Stockholders' Equity and Note 16 in the Consolidated Financial Statements for additional information.

FINANCIAL CONDITION

The Company's total assets decreased \$6,116,822, or 1%, to \$556,800,980 at June 30, 2007 compared to \$562,917,802 at June 30, 2006. This decrease was primarily due to a \$10,091,111 decrease in total loans, primarily construction, commercial real estate and commercial loans, partially offset by an \$4,663,322 increase in goodwill and intangibles created from the acquisition of four insurance agencies. The cash flow from the decrease in loans was utilized to repay brokered time deposits at maturity. Also, advances from the FHLB increased \$17,128,100 to replace the funding of brokered time deposits. Stockholders' equity totaled \$40,849,878 and \$39,096,125 at June 30, 2007 and 2006, respectively, an increase of \$1,753,753. Stockholders' equity was increased by net income of \$1,886,677, a decrease in net unrealized losses on available-for-sale securities of \$707,923, proceeds from the exercise of previously granted stock options of \$6,550 and stock issued of \$103,000 in connection with the purchase of branch real estate. These increases were offset by share repurchases and retirements of \$67,944 and payment of cash dividends of \$882,453.

Cash and Cash Equivalents

Average cash and cash equivalents (cash and due from bank and short-term investments) decreased \$1,258,962, to \$11,174,060, in fiscal 2007 as compared to \$12,433,022 in fiscal 2006. This decrease was due to the transfer of our clearing activity to Banker's Bank Northeast, reducing reserves balances maintained at the Federal Reserve Bank of Boston.

Investments Securities and Other Interest-earning Assets

The average balance of the available-for-sale securities portfolio was \$84,705,459 and \$80,050,271 for fiscal 2007 and fiscal 2006, respectively. This increase of \$4,655,188, or 6%, provided additional collateral for FHLB advances and securities sold under agreements to repurchase. The portfolio is comprised of U.S. Government-sponsored enterprises, mortgage-backed securities, municipal securities, and equity and bank-issued trust preferred securities, with most of our investment portfolio consisting of federal agency mortgage-backed securities and short-term U.S. Government-sponsored enterprise bonds. See Item 8, Tables 2 and 3, for a detail of available-for-sale securities and investment maturities, respectively.

All of the Company's securities are classified as available-for-sale and were carried at fair value of \$86,348,070 and \$86,137,707 as of June 30, 2007 and 2006, respectively. These securities had net unrealized losses after taxes of \$1,914,546 at June 30, 2007 and \$2,622,469 at June 30, 2006. See Note 2 to the Consolidated Financial Statements. These unrealized losses do not impact net income or regulatory capital, but are recorded as an adjustment to stockholders' equity, net of related deferred income taxes, and are a component of comprehensive income contained in the Consolidated Statements of Changes in Stockholders' Equity.

Loans

The average balance for loans, including loans held for sale, was \$433,576,281 in fiscal 2007, compared to \$448,610,511 in fiscal 2006. This decrease of \$15,034,230, or 3%, in our average balance for loans at June 30, 2007, was attributable to decreases in average residential real estate, commercial real estate, commercial, and construction loans, partially offset by an increase in average consumer loans. See Item 8, Tables 4 and 5, for additional information on the composition of the loan portfolio and loan maturities, respectively.

Residential real estate loans averaged \$147,432,431 in fiscal 2007, as compared to \$149,940,456 in fiscal 2006. This decrease of \$2,508,025, or 2%, was attributable to a decrease in residential real estate loans and home equity lines of credit. We continued to sell most of the 15 year and 30 year fixed rate residential real estate loans originated by us into the secondary market. Residential real estate loans were 34% of the total loan portfolio at both June 30, 2007 and 2006, respectively. Of residential real estate loans at June 30, 2007, approximately 37% were variable rate products, compared to 43% at June 30, 2006. This decrease in the percentage of variable rate products resulted from customers replacing variable rate products with fixed rate products, which were subsequently sold into the secondary market. We expect variable rate residential real estate loans to decrease, causing the liability sensitivity of the consolidated balance sheet to increase.

Commercial real estate and commercial loans both decreased during fiscal 2007. The decrease reflects the Bank's tightening of credit underwriting standards as delinquencies and classified and criticized commercial loans increased and priced the origination of these loans to reflect risk. Generally, competition for new and renewing commercial real estate and commercial loans has been intense. Frequently, the interest rates offered by competing banks appeared not to factor in credit risk.

Commercial real estate loans averaged \$116,384,948 in fiscal 2007 and \$121,279,403 in fiscal 2006. This decrease of \$4,894,455, or 4%, reflects the factors noted above. Our focus was to lend primarily 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 26% of the total loan portfolio at both June 30, 2007 and 2006, respectively. Approximately 94% of the commercial real estate loans were variable rate product, with this portfolio reflecting our desire to minimize the interest rate risk, compared to approximately 96% of this portfolio at June 30, 2006.

Construction loans averaged \$7,009,832 in fiscal 2007 and \$8,840,891 in fiscal 2006. This decrease of \$1,831,059, or 21%, was primarily in commercial construction loans. Construction loans were 1% of the total loan portfolio at June 30, 2007 and 2006, respectively. Most construction loans are subject to interest rates based on the prime rate, have contractual maturities less than 12 months, and disbursements are made on construction as completed and verified by inspection. Approximately 60% of the construction loans were variable rate product at June 30, 2007, compared to approximately 30% at June 30, 2006.

Commercial loans averaged \$44,762,107 in fiscal 2007 and \$58,416,018 in fiscal 2006. This decrease of \$13,653,911, or 23%, reflects the above factors and reduced warehouse lines of credit. Commercial loans were 10% and 12% of total loans at June 30, 2007 and 2006, respectively. Variable rate products comprised 58% and 56% of this loan portfolio at June 30, 2007 and 2006, respectively. The commercial loan credit risk exposure is highly dependent on the cash flow of the customer's business. The Company mitigates credit risk by strictly adhering to our underwriting and credit policies.

Consumer and other loans averaged \$115,314,393 in fiscal 2007 and \$107,591,979 in fiscal 2006. This increase of \$7,722,414, or 7%, was attributable to new recreational vehicle loans. Consumer and other loans comprised 29% and 26% of total loans at June 30, 2007 and 2006, respectively. Consumer, including indirect auto and recreational vehicle, and other loans are mostly fixed rate products. At June 30, 2007 and 2006, we held \$36,808,246 and \$39,075,798 of indirect auto loans, respectively. Indirect auto, indirect RV and indirect mobile home loans together comprised approximately 95% of total consumer and other loans, a slight decrease from 96% in 2006. The detail of consumer loans at June 30, 2007 and 2006 appears in the following table. The Company underwrites all automobile dealer financed recreational vehicle and mobile home loans to protect credit quality. The Company pays a nominal one-time origination fee on these loans. The fees are deferred and amortized over the contractual life of the loan as a yield adjustment. Management attempts to mitigate credit and interest rate risk by keeping the products offered short-term, earning a rate of return commensurate with the risk, and lending to individuals in the Company's known market areas. We did experience an increase in consumer loan delinquency to 1.78% from 1.45%, and an increase in the net charge-off of consumer loans to \$443,000 from \$286,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

	Consumer Loans			
	June 30, 2007	% of Total	June 30, 2006	% of Total
Indirect Auto	\$ 36,808,246	31%	\$ 39,075,798	35%
Indirect RV	51,611,223	43%	41,111,060	36%
Indirect Mobile Home	24,961,562	21%	28,212,411	25%
Subtotal Indirect	113,381,031	95%	108,399,269	96%
Other	5,499,692	5%	4,793,128	4%
Total Consumer Loans	\$ 118,880,723	100%	\$ 113,192,397	100%

BOLI averaged \$9,082,562 in fiscal 2007 and \$8,717,180 in fiscal 2006. One new general account policy was purchased in fiscal 2007 for \$600,000. BOLI assets were invested in the general account of three insurance companies and separate accounts in a third quality insurance company. A general account policy's cash surrender value is supported by the general assets of the insurance company. A separate account policy's cash surrender value is supported by assets segregated from the general assets of the insurance company. Standard and Poor's rated these companies AA- or better at June 30, 2007. Interest earnings, net of mortality costs, increase the cash surrender value. These interest earnings are based on interest rates reset each year, subject to minimum interest rates. The increases in cash surrender value offset all or a portion of the increase in employee benefit costs. The increase in cash surrender value was recognized in other income and was not subject to income taxes. Borrowing on or surrendering the policy may subject the Bank to income tax expense on the increase in cash surrender value. For these reasons, management considers BOLI an illiquid asset. BOLI represented 21.12% of capital plus the allowance for loan losses at June 30, 2007.

Goodwill and intangible average assets were \$1,404,753 and \$3,015,589, respectively, for fiscal 2007, and \$407,897 and \$2,048,461, respectively, for fiscal 2006. These increases resulted from the acquisition of four insurance agencies during fiscal 2007. The allocation of the purchase price paid for the four insurance agency acquisitions in excess of tangible assets acquired added \$2,472,906 to goodwill and \$2,505,000 to intangibles in the form of customer lists and non-compete agreements. These intangibles are being amortized over lives from 5 to 18 years, with an average of 12.55 years. Goodwill and intangibles are subject to impairment testing annually. No impairment expense was recognized in fiscal 2007.

Deposits

Average demand deposit accounts were \$35,420,046 for the year ended June 30, 2007 as compared to \$39,161,547 in fiscal 2006. The increase of \$3,741,501, or 10%, was related to the loss of commercial real estate and commercial loans during fiscal 2007.

Average interest-bearing deposits decreased by \$13,513,511, or 4%, during fiscal 2007 to \$342,601,166. This decrease was primarily due to decreased brokered time deposits and non-maturing, interest-bearing deposits. Average certificates of deposit balances increased \$19,445,872, to \$218,915,654, primarily from the promotion of time deposits as interest rates remained high during fiscal 2007. This increase allowed the Bank to decrease brokered time deposits as they matured. Average brokered time deposit balances decreased \$18,777,144, or 33%, to \$37,352,470 in fiscal 2007 from \$56,129,614 in fiscal 2006. All other non-maturing interest-bearing deposits decreased during fiscal 2007. NOW, money market, and savings balances declined as customers moved balances to higher yielding time deposits. Average NOW accounts decreased \$5,301,826, or 9%, during fiscal 2007 to \$54,666,850. The average interest rate paid on NOW accounts increased from 1.93% in fiscal 2006 to 2.26% in fiscal 2007. Average money market accounts decreased \$3,735,870, or 29%, to \$9,357,336 in fiscal 2007. The average interest rate paid on money market accounts increased from 1.88% in fiscal 2006 to 2.36% in fiscal 2007. Average savings accounts decreased \$5,144,543, or 19%, to \$22,308,856 during fiscal 2007. The average interest rate paid on savings accounts increased from 0.83% in fiscal 2006 to 0.87% in fiscal 2007. The average interest rate paid on certificates of deposit increased from 3.72% in fiscal 2006 to 4.62% in fiscal 2008. See Item 8, Table 10, for the scheduled maturities of certificates of deposit of \$100,000 or more.

We use brokered time deposits as part of our overall funding strategy and as an alternative to retail certificates of deposits, FHLB advances, and junior subordinated debentures, to fund the growth of our earning assets. These deposits are limited by policy to 25% of total assets and individual brokered time deposit maturities do not exceed \$5 million in any one month. We use five national brokerage firms to source time deposits, which are obtained through agents of the brokerage company soliciting customers from throughout the United States. The terms of these brokered time deposits allow for termination prior to maturity only in the case of the depositor's death, have maturities generally beyond one year and have interest rates equal to or slightly above comparable FHLB advances. At June 30, 2007, outstanding brokered time deposits of \$22,546,163 as a percentage of total assets was 4.05%, compared to 9.21% at June 30, 2006. The average interest rate paid on brokered time deposits increased from 3.58% in fiscal 2006 to 4.69% in fiscal 2007. Generally, interest rates paid on brokered time deposits exceed rates paid on FHLB advances with similar maturities, but the incremental interest expenses did not have a material impact on the results of operations for fiscal 2007.

Other Funding Sources

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

Average short-term borrowings during fiscal 2007 were \$36,144,925, compared to \$31,427,133 during fiscal 2006. The increase of \$4,717,792, or 15%, was due to one existing customer. This liability was collateralized by U.S. government-sponsored enterprise and federal agency mortgage-backed securities. See Note 8 to the Consolidated Financial Statements.

Average FHLB advances for fiscal 2007 were \$79,209,913, compared to \$79,648,575 in fiscal 2006. This decrease was \$438,662, or 1%. These advances had an average cost of 4.84% during fiscal 2007 compared to 4.40% during fiscal 2006. At June 30, 2007 and 2006, FHLB advances were \$93,016,698 and \$75,888,598, respectively. The Company had unused advance capacity with the FHLB of \$19,576,000 at June 30, 2007. Management intends to increase available FHLB advance capacity by continuing to add qualifying securities. See Note 8 to the Consolidated Financial Statements.

The Bank has a secured line of credit under the Borrower in Custody program through the Fed Discount Window. Under the terms of this credit line, the Bank has pledged its indirect auto loans, and the line bears an interest rate equal to the then current federal funds rate plus 1.00%. At June 30, 2007, the credit availability under the Borrower in Custody program was \$28,690,000. There were no borrowings outstanding under this credit line at June 30, 2007.

The following is a summary of the unused borrowing capacity of the Bank at June 30, 2007 and available to meet our short-term funding needs:

Brokered time deposits	\$ 116,654,000	Subject to policy limitation of 25% of total assets
Federal Home Loan Bank of Boston	\$ 19,576,000	Unused advance capacity subject to eligible and qualified collateral
Fed Discount Window Borrower-in-Custody	\$ 28,690,000	Unused credit line subject to the pledge of indirect auto loans
Total Unused Borrowing Capacity	\$ 164,920,000	

We had outstanding \$16,496,000 at June 30, 2007 and 2006, respectively, of junior subordinated debentures issued by us to affiliated trusts. See "Capital" for more information on junior subordinated debentures and affiliated trusts.

ASSET QUALITY

We monitor our asset quality with lending and credit policies which require the regular independent 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, 2007 and 2006, the allowance for loan losses was \$5,756,000 and \$5,496,000, respectively. The increase in the allowance for loan losses was attributed to the increasing mix of consumer indirect loans with a higher risk profile in the Bank's loan portfolio, the increase in loan delinquencies and an increase in internally classified and criticized loans.

The allowance for loan losses as a percentage of total loans was 1.35% and 1.26% at June 30, 2007 and 2006, respectively. This increase of 9 basis points was attributable to a decline in loans in fiscal 2007 compared to fiscal 2006.

Classified loans, exclusive of non-performing loans, that could potentially become non-performing due to delinquencies or marginal cash flows were \$2,542,000 and \$3,349,000 at June 30, 2007 and 2006, respectively. Significant credit losses are not expected.

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

06/30/07	06/30/06	06/30/05	06/30/04
2.90%	2.09%	1.09%	1.13%

The delinquency for the years prior to June 30, 2006 have been restated because we changed the method of measuring past due loans to the number of days lapsed from the date of last payment from the number of payments past due. For the years ended June 30, 2005 and 2004, the previously reported delinquency and current non-accrual loans were 0.96% and 0.66%, respectively.

Non-performing Assets

Total non-performing loans were \$5,090,000 and \$5,195,000 at June 30, 2007 and 2006, respectively. This decrease of \$105,000, or 2%, was attributable primarily to commercial real estate and commercial loans. Of non-performing commercial real estate and commercial loans, \$627,000 and \$1,411,000, respectively, were current and paying as agreed. Many of these substandard loans were subject to a name-by-name review determining the risk of loss based on the liquidation of the collateral. This risk of loss is incorporated in determining the adequacy of the allowance for loan losses and represented approximately 13% of the allowance at June 30, 2007. The following table represents the non-performing loans as of June 30, 2007 and 2006.

Description	June 30, 2007	June 30, 2006
Residential real estate	\$ 477,000	\$ 521,000
Commercial real estate	2,033,000	2,980,000
Commercial loans	2,104,000	1,553,000
Consumer and other	476,000	141,000
Total non-performing	\$ 5,090,000	\$ 5,195,000

Non-performing loans as a percentage of total loans were 1.20% and 1.19% at June 30, 2007 and 2006, respectively. The allowance for loan losses was equal to 113% and 106% of total non-performing loans at June 30, 2007 and 2006, respectively. At June 30, 2007, non-performing loans included \$2,038,000 of loans that are current and paying as agreed, but which the Bank maintains as non-performing until the borrower has demonstrated a sustainable period of performance. Excluding these loans, the total delinquencies 30 days and more past due as a percentage of total assets would be 2.42% and 1.66% for June 30, 2007 and 2006, respectively.

See Item 8 [Table 8](#) for a summary of non-performing assets for the last five years.

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

Residential real estate, commercial real estate, commercial, and consumer and other loans are generally placed on nonaccrual when reaching 90 days past due. 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 and thus become classified as non-performing.

Net charge-offs were \$729,000 during 2007, compared to \$630,000 in 2006. Net charge-offs as a percentage of average loans outstanding were 0.17% and 0.14% in 2007 and 2006, respectively. The increase of \$99,000 was due to higher gross charge-offs in indirect consumer loans and commercial loans. See Item 8 [Table 6](#) for more information concerning charge-offs and recoveries for the last five years.

Potential Problem Loans

Commercial real estate and commercial loans are periodically evaluated under an eight point risk rating system. These ratings are guidelines in assessing the risk of a particular loan. We had classified commercial real estate and commercial loans totaling \$15,011,000 and \$12,228,000 at June 30, 2007 and 2006, respectively, as substandard or lower under our risk rating system. This increase was primarily due to commercial customer relationships experiencing weaknesses in the underlying businesses and also reflects a tightening of our credit standards. These loans were subject to our internal name-by-name review for the risk of loss based on the liquidation of collateral. This risk of loss was included in determining the adequacy of the allowance for loan loss. At June 30, 2007, \$3,935,000 of this amount was non-performing commercial real estate and commercial loans. The remaining \$11,076,000 of commercial real estate and commercial loans classified as substandard at June 30, 2007 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 and change the level of the loan loss allowance. The process of evaluating the allowance involves a high degree of management judgment. The methods employed to evaluate the allowance for loan losses are quantitative in nature and consider such factors as the loan mix, the level of non-performing loans, delinquency trends, past charge-off history, loan reviews and classifications, collateral and the current economic climate. The liquidation value of collateral for each classified commercial real estate or commercial loan is considered in the evaluation of the allowance for loan loss.

Management believes that the allowance for loan losses is adequate considering the level of risk in the loan portfolio. While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Company will not have to increase its allowance for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors. Regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. These agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. No such adjustments were proposed by the Federal Reserve Bank of Boston or the Maine Bureau of Financial Institutions based on their 2007 examination.

At June 30, 2007, the Company had no acquired assets, compared to \$10,384 at June 30, 2006. The decrease of \$10,384 was due to a change in accounting for repossessed vehicles and no in substance foreclosures at June 30, 2007. The collateral for indirect loans is written down to its estimated realizable value once the loan reaches 90 days or more delinquent. We continue to carry it as a loan, on non-accrual status, until sold. Gains and losses on disposition are recognized as recoveries and additional charge-offs, respectively. Total indirect loans 90 days or more past due at June 30, 2007 and included in consumer loans were \$199,000. 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 and the review of 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.

A reserve for off-balance sheet credit risk was created in fiscal 2006. At June 30, 2006, this account balance was \$204,086, compared to \$178,818 at June 30, 2007. The adequacy of this balance is subject to the similar analysis as the allowance for loan losses by taking into consideration the unadvanced lines of credit for commercial and home equity loans, letters of credit and commitments to make loans.

RISK MANAGEMENT

Asset-Liability Management

The Company's operating results are 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 it 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 activities are not material.

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

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

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

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

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

Assuming a 200 basis point increase and decrease in interest rates starting on June 30, 2007, we estimate that our net interest income in the following 12 months would decrease by 1.80% if rates went up 200 basis points and increase by 4.60% if rates went down 200 basis points. This demonstrates the liability sensitivity of our balance sheet where the simulated increase in interest expense would be greater than the increase in interest income because our interest-bearing liabilities reprice more quickly than the repricing of our interest-bearing assets. In a falling rate environment, the interest-bearing liabilities reprice downward more quickly than the repricing of our interest-bearing assets. Also shown in the table are the results assuming a 200 basis increase and decrease in interest rates starting June 30, 2006.

	Up 200 Basis Points	Down 200 Basis Points
June 30, 2007	-1.80%	4.60%
	Up 200 Basis Points	Down 200 Basis Points
June 30, 2006	-0.17%	2.33%

LIQUIDITY

On a parent Company only basis, our commitments and debt service requirements at June 30, 2007 consisted of junior subordinated notes issued to NBN Capital Trust II and NBN Capital Trust III totaling \$6,186,000 due March 30, 2034 and junior subordinated debentures issued to NBN Capital Trust IV totaling \$10,310,000 due February 23, 2035. NBN Capital Trust II issued \$3,093,000 of junior subordinated notes with a variable interest rate based on three month LIBOR plus 2.80% and which reprice quarterly. The interest rate was 8.16% at June 30, 2007. NBN Capital Trust III also issued \$3,093,000 of junior subordinated notes with a fixed interest rate of 6.50% until March 30, 2009, when the interest rate will become variable based on three month LIBOR plus 2.80%. NBN Capital Trust IV issued \$10,310,000 of junior subordinated debentures with a fixed interest rate of 5.88% until February 23, 2010, when the interest rate will become variable based on three month LIBOR plus 1.89%. NBN Capital Trust II and III have a call option on March 30, 2009 and NBN Capital Trust IV has a call option on February 23, 2010. See Note 18 to the Consolidated Financial Statements. Based on the interest rates at June 30, 2006, the annual aggregate payments to meet the debt service of the junior subordinated debentures is approximately \$1,060,000.

Affiliated Trusts	Trust Preferred Securities	Common Securities	Junior Subordinated Debentures	Interest Rate	Maturity Date
NBN Capital Trust II	\$ 3,000,000	\$ 93,000	\$ 3,093,000	8.16%	March 30, 2034
NBN Capital Trust III	3,000,000	93,000	3,093,000	6.50%	March 30, 2034
NBN Capital Trust IV	10,000,000	310,000	10,310,000	5.88%	February 23, 2035
Total	\$ 16,000,000	\$ 496,000	\$ 16,496,000	6.42%	

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 9 to the Consolidated Financial Statements.

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

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

At June 30, 2007, our banking subsidiary had \$165 million of immediately accessible liquidity, defined as cash that could be raised within 7 days through collateralized borrowings, brokered deposits or security sales. This position represented 30% of total assets, compared to a policy minimum of 10%.

OFF-BALANCE SHEET ARRANGEMENTS & AGGREGATE CONTRACTUAL OBLIGATIONS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. To control the credit risk associated with entering into commitments and issuing letters of credit, the Company uses the same credit quality, collateral policies, and monitoring controls in making commitments and letters of credit as it does with its lending activities. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation.

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

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

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

A summary of the amounts of the Company's (a) contractual obligations, and (b) other commitments with off-balance sheet risk, both at June 30, 2007 follows:

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
FHLB advances	\$ 93,016,698	\$ 50,016,698	\$ 33,000,000	\$ 10,000,000	\$ -
Junior subordinated debentures	16,496,000	-	16,496,000	-	-
Capital lease obligation	2,653,511	134,087	289,193	319,668	1,910,563
Other borrowings	2,292,163	534,522	997,665	405,777	354,199
Total long-term debt	114,458,372	50,685,307	50,782,858	10,725,445	2,264,762
Operating lease obligations	1,926,575	379,059	622,833	466,344	458,339
Total contractual obligations	\$ 116,384,947	\$ 51,064,366	\$ 51,405,691	\$ 11,191,789	\$ 2,723,101

Commitments with off-balance sheet risk	Total	Amount of Commitment Expiration - Per Period			
		Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Commitments to extend credit (1)(3)	\$ 10,003,000	\$ 10,003,000	\$ -	\$ -	\$ -
Commitments related to loans held for sale(2)	2,557,000	2,557,000	-	-	-
Unused lines of credit (3)(4)	45,002,000	21,189,000	3,099,000	2,288,000	18,426,000
Standby letters of credit (5)	696,000	696,000	-	-	-
	\$ 58,258,000	\$ 34,445,000	\$ 3,099,000	\$ 2,288,000	\$ 18,426,000

(1) Represents commitments outstanding for residential real estate, commercial real estate, and commercial loans.

(2) Commitments of residential real estate loans that will be held for sale.

(3)

Loan commitments and unused lines of credit for commercial and construction loans that expire or are subject to renewal in twelve months or less.

(4) Represents unused lines of credit from commercial, construction, and home equity loans.

(5) Standby letters of credit generally expiring in twelve months.

The Bank has written options limited to those residential real estate loans designated for sale in the secondary market and subject to a rate lock. These rate-locked loan commitments are used for trading activities, not as a hedge. The fair value of the outstanding written options at June 30, 2007 was a loss of \$10,248.

CAPITAL

At June 30, 2007 and 2006, stockholders' equity totaled \$40,849,878 and \$39,096,125, respectively, or 7.34% and 6.95% of total assets, respectively. In addition, we had on both June 30, 2007 and 2006, \$16,496,000 of junior subordinated debentures which mature in 2034 and 2035 and qualify as Tier 1 Capital. See Note 18 to the Consolidated Financial Statements. The changes in stockholders' equity include net income for the year ended June 30, 2007 of \$1,886,677, stock issued for \$6,550 from the exercise of stock options and \$103,000 in connection with the purchase of branch real estate and a decrease of \$707,923 in the net unrealized losses on available-for-sale securities offset by dividend payments of \$882,453, and stock repurchases of \$67,944, representing 3,800 shares repurchased at an average cost of \$17.88 per share. See Note 9 to the Consolidated Financial Statements for additional information on capital ratios.

The 2006 Stock Repurchase Plan was approved by the Board of Directors on December 15, 2006, replacing the 2004 Stock Repurchase Plan which was terminated on the same date. Although the Company may discontinue the repurchase program at any time, it is scheduled to terminate on December 31, 2007. Under the 2006 Stock Repurchase Plan, the Company may purchase up to 200,000 shares of its common stock from time to time in the open market at prevailing prices. Common stock repurchased pursuant to the plan is classified as authorized but unissued shares of common stock available for future issuance as determined by the Board of Directors. Total stock repurchases under the 2006 Plan in fiscal 2007 were 3,800 shares, for \$67,944, at an average price of \$17.88 per share. For fiscal 2006, the total stock repurchased was 90,200 shares, for \$2,142,250, at an average price of \$23.75 per share. The remaining repurchase capacity of the 2006 Plan is 196,200 shares. Since inception, total stock repurchases under the 2004 plan were 145,500 shares, for \$3,204,902, through December 15, 2006. Management believes that these and future purchases have not and will not have a significant impact on the Company's liquidity.

Regulatory capital guidelines require the Bank to maintain certain capital ratios. The Bank's Tier 1 Capital was \$46,780,000, or 8.60% of total average assets at June 30, 2007 compared to \$50,864,000, or 9.07% of total average assets, at June 30, 2006. We are also required to maintain risk-based capital ratios based on the level of certain assets, as adjusted to reflect their perceived level of risk. Our regulatory capital ratios currently exceed all applicable requirements. See Note 9 to the Consolidated Financial Statements.

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

Note 1 of the Consolidated Financial Statement includes the Financial Accounting Standards Board (FASB) and the SEC issued statements and interpretations affecting the Company.

Item 7 A. Quantitative and Qualitative Disclosure about Market Risk

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

Item 8. Financial Statements and Supplementary Data

a. Financial Statements Required by Regulation S-X

To the Board of Directors
Northeast Bancorp and Subsidiary
Lewiston, Maine

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of Northeast Bancorp and Subsidiary as of June 30, 2007 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year ended June 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Northeast Bancorp and Subsidiary as of June 30, 2006 were audited by other auditors whose report dated August 11, 2006 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and Subsidiary as of June 30, 2007, and the results of their operations and their cash flows for the year ended June 30, 2007, in conformity with U.S. generally accepted accounting principles.

West Peabody, Massachusetts
September 6, 2007

/s/ Shatswell, MacLeod & Company, P.C.
Shatswell, MacLeod & Company, P.C.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Northeast Bancorp and Subsidiaries

We have audited the consolidated statement of financial condition of Northeast Bancorp and Subsidiaries (the Company) as of June 30, 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the two years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Bancorp and Subsidiaries as of June 30, 2006, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2006, in conformity with U.S. generally accepted accounting principles.

Portland, Maine
August 11, 2006

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

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and due from banks	\$ 9,065,330	\$ 9,573,908
Interest-bearing deposits	1,676,391	1,099,813
Federal Home Loan Bank overnight deposits	-	1,430,000
Total cash and cash equivalents	<u>10,741,721</u>	<u>12,103,721</u>
Available-for-sale securities, at fair value	86,348,070	86,137,707
Loans held-for-sale	1,636,485	681,143
Loans receivable	425,571,418	435,662,529
Less allowance for loan losses	5,756,000	5,496,000
Net loans	<u>419,815,418</u>	<u>430,166,529</u>
Premises and equipment - net	7,545,430	7,315,881
Acquired assets - net	-	10,384
Accrued interest receivable	2,586,720	2,678,558
Federal Home Loan Bank stock, at cost	4,825,700	5,498,300
Federal Reserve Bank stock, at cost	471,500	459,500
Goodwill	2,880,803	407,897
Intangible assets, net of accumulated amortization of \$2,681,148 in 2007 and \$2,366,564 in 2006	4,110,081	1,919,665
Bank owned life insurance (BOLI)	9,844,584	8,895,326
Other assets	<u>5,994,468</u>	<u>6,643,191</u>
Total assets	<u>\$ 556,800,980</u>	<u>\$ 562,917,802</u>

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2007 and 2006

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2007</u>	<u>2006</u>
Liabilities:		
Deposits		
Demand	\$ 36,332,604	\$ 38,137,357
NOW	53,405,241	54,432,157
Money market	8,053,552	9,430,378
Regular savings	21,145,567	24,247,324
Brokered time deposits	22,546,163	51,859,091
Certificates of deposit under \$100,000	154,972,970	152,681,352
Certificates of deposit \$100,000 or more	68,097,680	64,505,718
Total deposits	<u>364,553,777</u>	<u>395,293,377</u>
Federal Home Loan Bank advances	93,016,698	75,888,598
Short-term borrowings	33,105,377	29,637,426
Junior subordinated debentures issued to affiliated trusts	16,496,000	16,496,000
Capital lease obligation	2,653,511	2,781,046
Other borrowings	2,292,163	57,129
Other liabilities	3,833,576	3,668,101
Total liabilities	<u>515,951,102</u>	<u>523,821,677</u>
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, \$1.00 par value, 1,000,000 shares authorized; none issued	-	-
Common stock, at stated value, 15,000,000 shares authorized; 2,448,832 and 2,447,132 shares outstanding at June 30, 2007 and 2006, respectively	2,448,832	2,447,132
Additional paid-in capital	4,715,164	4,675,258
Retained earnings	35,600,428	34,596,204
Accumulated other comprehensive loss	(1,914,546)	(2,622,469)
Total stockholders' equity	<u>40,849,878</u>	<u>39,096,125</u>
Total liabilities and stockholders' equity	<u>\$ 556,800,980</u>	<u>\$ 562,917,802</u>

The accompanying notes are an integral part of these consolidated financial statements.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended June 30, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest and dividend income:			
Interest and fees on loans	\$ 31,366,547	\$ 31,643,003	\$ 29,618,984
Interest on Federal Home Loan Bank overnight deposits	152,805	93,017	52,912
Taxable interest on available-for-sale securities	3,154,072	2,947,224	2,568,558
Tax-exempt interest on available-for-sale securities	442,311	264,839	-
Dividends on available-for-sale securities	140,954	130,605	146,678
Dividends on Federal Home Loan Bank and Federal Reserve Bank stock	368,463	335,900	264,777
Other interest and dividend income	57,203	41,620	22,025
Total interest and dividend income	<u>35,682,355</u>	<u>35,456,208</u>	<u>32,673,934</u>
Interest expense:			
Deposits	13,490,173	11,152,306	8,624,798
Federal Home Loan Bank advances	3,819,550	3,482,655	3,850,815
Short-term borrowings	1,504,936	927,688	403,539
Junior subordinated debentures issued to affiliated trusts	1,080,538	1,063,681	1,087,696
Obligation under capital lease agreements	136,726	130,583	-
Other borrowings	65,075	3,693	-
Total interest expense	<u>20,096,998</u>	<u>16,760,606</u>	<u>13,966,848</u>
Net interest and dividend income before provision for loan losses	15,585,357	18,695,602	18,707,086
Provision for loan losses	<u>989,158</u>	<u>1,226,413</u>	<u>1,301,600</u>
Net interest and dividend income after provision for loan losses	<u>14,596,199</u>	<u>17,469,189</u>	<u>17,405,486</u>
Noninterest income:			
Fees and service charges on loans	79,885	97,630	100,858
Fees for other services to customers	1,042,648	1,114,081	1,067,116
Net securities gains	42,349	17,335	67,940
Loss on trading activities	-	-	(83)
Gain on sales of loans	869,255	308,777	233,027
Investment and insurance commissions	4,715,553	3,686,122	2,858,897
BOLI income	388,613	366,939	330,700
Other	806,524	1,003,997	492,724
Total noninterest income	<u>7,944,827</u>	<u>6,594,881</u>	<u>5,151,179</u>
Noninterest expense:			
Salaries and employee benefits	12,022,037	10,637,758	9,554,317
Occupancy expense	1,722,381	1,672,505	1,418,696
Equipment expense	1,531,276	1,440,238	1,110,108
Intangible assets amortization	314,584	241,028	249,701
Other	4,484,908	4,216,975	4,351,352
Total noninterest expense	<u>20,075,186</u>	<u>18,208,504</u>	<u>16,684,174</u>
Income before income taxes	2,465,840	5,855,566	5,872,491
Income tax expense	<u>579,163</u>	<u>1,851,367</u>	<u>1,853,857</u>
Net income	<u>\$ 1,886,677</u>	<u>\$ 4,004,199</u>	<u>\$ 4,018,634</u>
Earnings per common share:			
Basic	\$ 0.77	\$ 1.61	\$ 1.60
Diluted	\$ 0.76	\$ 1.59	\$ 1.57

The accompanying notes are an integral part of these consolidated financial statements.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended June 30, 2007, 2006 and 2005

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2004	\$ -	\$ 2,525,416	\$ 6,943,894	\$ 28,380,678	\$ (1,396,968)	\$ 36,453,020
Net income	-	-	-	4,018,634	-	4,018,634
Other comprehensive income net of tax:						
Net unrealized losses on investments available-for-sale, net of reclassification adjustment	-	-	-	-	726,781	726,781
Total comprehensive income	-	-	-	-	-	4,745,415
Purchase of 43,609 shares of Company stock	-	(43,609)	(799,893)	-	-	(843,502)
Stock options exercised	-	37,875	385,410	-	-	423,285
Stock grant	-	150	1,425	-	-	1,575
Dividends on common stock at \$0.36 per share	-	-	-	(910,220)	-	(910,220)
Balance at June 30, 2005	-	2,519,832	6,530,836	31,489,092	(670,187)	39,869,573
Net income	-	-	-	4,004,199	-	4,004,199
Other comprehensive income net of tax:						
Net unrealized losses on investments available-for-sale, net of reclassification adjustment	-	-	-	-	(1,952,282)	(1,952,282)
Total comprehensive income	-	-	-	-	-	2,051,917
Purchase of 90,200 shares of Company stock	-	(90,200)	(2,052,050)	-	-	(2,142,250)
Stock options exercised	-	17,500	196,472	-	-	213,972
Dividends on common stock at \$0.36 per share	-	-	-	(897,087)	-	(897,087)
Balance at June 30, 2006	-	2,447,132	4,675,258	34,596,204	(2,622,469)	39,096,125
Net income	-	-	-	1,886,677	-	1,886,677
Other comprehensive income net of tax:						
Net unrealized losses on investments available-for-sale, net of reclassification adjustment	-	-	-	-	707,923	707,923
Total comprehensive income	-	-	-	-	-	2,594,600
Purchase of 3,800 shares of Company stock	-	(3,800)	(64,144)	-	-	(67,944)
Stock options exercised	-	500	6,050	-	-	6,550
Common stock issued in connection with the purchase of branch real estate	-	5,000	98,000	-	-	103,000
Dividends on common stock at \$0.36 per share	-	-	-	(882,453)	-	(882,453)
Balance at June 30, 2007	<u>\$ -</u>	<u>\$ 2,448,832</u>	<u>\$ 4,715,164</u>	<u>\$ 35,600,428</u>	<u>\$ (1,914,546)</u>	<u>\$ 40,849,878</u>

The accompanying notes are an integral part of these consolidated financial statements.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:			
Net income	\$ 1,886,677	\$ 4,004,199	\$ 4,018,634
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	989,158	1,226,413	1,301,600
Provision for losses on acquired assets	6,384	2,500	20,000
Provision made for deferred compensation	276,539	399,845	98,000
Write-down of available-for-sale securities	50,442	38,394	27,849
Write-down of non-marketable securities	248,482	42,257	96,931
Deferred income tax benefit	(329,268)	(323,220)	(197,522)
BOLI income, net	(349,258)	(366,939)	(274,347)
Depreciation of premises and equipment	1,088,373	1,048,529	711,339
Amortization of intangible assets	314,584	241,028	249,701
Net gain on sale of available-for-sale securities	(42,349)	(17,335)	(67,940)
Net (gain) loss on disposals, writedowns and sale of fixed assets	(73,962)	128,363	(59,719)
Gain on sale of deposits	-	(500,845)	-
Net change of loans held-for-sale	(955,342)	(362,293)	226,872
Other	27,839	21,962	(350,028)
Change in other assets and liabilities:			
Interest receivable	91,838	(123,669)	(361,720)
Other assets and liabilities	28,754	106,976	631,272
Net cash provided by operating activities	<u>3,258,891</u>	<u>5,566,165</u>	<u>6,070,922</u>
Cash flows from investing activities:			
Federal Reserve Bank stock purchased	(12,000)	(54,000)	(405,500)
Proceeds from redemption of Federal Home Loan Bank stock	672,600	1,146,200	-
Proceeds from the sales of available-for-sale securities	2,290,571	1,354,098	1,126,131
Purchases of available-for-sale securities	(14,720,181)	(25,311,089)	(22,862,781)
Proceeds from maturities and principal payments on available-for-sale securities	13,255,927	9,078,452	15,859,638
Net decrease (increase) in loans	9,361,953	24,729,918	(29,502,226)
Purchases of premises and equipment	(1,373,474)	(1,111,469)	(1,241,683)
Proceeds from sales of premises and equipment	246,610	-	481,794
Proceeds from sales of acquired assets	4,000	244,722	497,507
Other	-	-	(75,492)
Purchase of retirement annuity	-	-	(900,000)
Purchase of BOLI	(600,000)	-	(529,184)
Cash paid in connection with acquisition of insurance agencies	(2,450,000)	-	(993,469)
Net cash provided (used) by investing activities	<u>6,676,006</u>	<u>10,076,832</u>	<u>(38,545,265)</u>
Cash flows from financing activities:			
Net (decrease) increase in deposits	(30,739,600)	7,267,169	18,398,993
Cash paid on sale of deposits	-	(7,691,669)	-
Advances from the Federal Home Loan Bank	43,000,000	105,000,000	33,000,000
Repayment of advances from the Federal Home Loan Bank	(36,831,900)	(115,309,004)	(24,403,032)
Net advances (repayments) on Federal Home Loan Bank overnight advances	10,960,000	-	(5,377,000)
Net increase (decrease) in short-term borrowings	3,467,951	(3,741,986)	8,494,543
Dividends paid	(882,453)	(897,087)	(910,220)
Company stock purchased	(67,944)	(2,142,250)	(698,812)
Issuance of common stock	6,550	213,972	280,170
Proceeds from issuance of junior subordinated debentures	-	-	10,310,000
Repayment of junior subordinated debentures	-	-	(7,394,849)
Repayment on debt from insurance agencies acquisitions	(81,966)	-	-
Repayment on capital lease obligation	(127,535)	(111,656)	-
Net cash (used) provided by financing activities	<u>(11,296,897)</u>	<u>(17,412,511)</u>	<u>31,699,793</u>
Net decrease in cash and cash equivalents	<u>(1,362,000)</u>	<u>(1,769,514)</u>	<u>(774,550)</u>
Cash and cash equivalents, beginning of year	<u>12,103,721</u>	<u>13,873,235</u>	<u>14,647,785</u>
Cash and cash equivalents, end of year	<u>\$ 10,741,721</u>	<u>\$ 12,103,721</u>	<u>\$ 13,873,235</u>
Supplemental schedule of cash flow information:			
Interest paid	\$ 20,120,234	\$ 16,872,352	\$ 13,214,688
Income taxes paid	819,500	2,220,561	2,017,222

Supplemental schedule of noncash investing and financing activities:

Transfer from loans to acquired assets	\$	-	\$	173,800	\$	570,339
Stock tendered in cashless stock option exercise		-		-		144,690
Change in valuation allowance for unrealized losses (gains) on available-for-sale securities, net of tax		707,923		1,952,282		(726,781)
Net change in deferred taxes for unrealized losses (gains) on available-for-sale securities		364,689		1,005,701		(374,404)
Transfer from loan loss allowance to other liabilities for off balance sheet credit risk		-		204,086		-
Capital lease asset and related obligation		-		2,892,702		-
Stock issued in branch purchase		103,000		-		-

The accompanying notes are an integral part of these consolidated financial statements.

NORTHEAST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2007, 2006 and 2005

1. Summary of Significant Accounting Policies

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

Business

Northeast Bancorp (the Company) is a Maine corporation and a bank holding company registered with the Federal Reserve Bank of Boston (FRB) under the Bank Holding Company Act of 1956. The Company provides a full range of banking services to individual and corporate customers throughout south-central and western Maine through its wholly-owned subsidiary, Northeast Bank (the Bank), a Maine state-chartered universal bank. Effective August, 2004, the Bank converted its charter to a state bank from a charter as a federal savings and loan association and became a member of the Federal Reserve Bank of Boston. As a result, the Bank is subject to the joint regulatory oversight by the FRB and the State of Maine Bureau of Financial Institutions. The Bank is also subject to the regulations of the Federal Deposit Insurance Corporation (FDIC). The Bank faces vigorous competition from banks and other financial institutions.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, and its wholly-owned subsidiary, Northeast Bank (including the Bank's wholly-owned subsidiary, Northeast Bank Insurance Group, Inc.). All significant intercompany transactions and balances have been eliminated in consolidation.

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

NBN Capital Trust, NBN Capital Trust II and NBN Capital Trust III are considered affiliates. (See note 18).

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and a determination as to whether declines in the fair values below cost of investments is other-than-temporary.

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

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

Cash and Cash Equivalents

For purposes of presentation in the consolidated statements of cash flow, cash and cash equivalents consist of cash and due from banks, interest-bearing deposits and Federal Home Loan Bank overnight 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, 2007 and 2006, the reserve balance was approximately \$250,000 and \$230,000, respectively.

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 fair value. Fair value is determined based on bid prices published in financial newspapers or bid quotations received from securities dealers. Changes in fair value, net of applicable income taxes, are reported as a separate component of stockholders' equity. When a decline in fair 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. The Company has no marketable securities classified as held-to-maturity or trading.

Federal Home Loan Bank and Federal Reserve Bank Stock

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

Loans held-for-sale and Mortgage Banking Activities

Loans originated for sale are specifically identified and carried at the lower of aggregate cost or fair value, estimated based on bid quotations from loan dealers. The carrying value of loans held-for-sale approximates the fair value at June 30, 2007 and 2006. Realized gains and losses on sales of loans are determined using the specific identification method and are reflected as gains on sale of loans in the consolidated statements of income.

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

The Company's mortgage servicing rights asset at June 30, 2007 and 2006 was approximately \$202,000 and \$303,000, respectively, and is included in other assets in the consolidated statements of financial condition. The fair value of mortgage servicing rights exceeds their carrying value. Mortgage servicing rights are amortized over the estimated weighted average life of the loans. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to reflect current circumstances. The Company evaluates the estimated life and fair value of its servicing portfolio based on data which is disaggregated to reflect note rate, type and term on the underlying loans.

Loans

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

Allowance for Loan Losses

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

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

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

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line and accelerated methods over the estimated useful lives of the assets. Premises and equipment under capital leases are amortized over the estimated useful lives of the assets or the respective lease terms, whichever is shorter. Maintenance and repairs are charged to expense as incurred and the cost of major renewals and betterments are capitalized. Premises and equipment 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 of \$407,897 arising from the acquisition of a bank in prior years is deemed to have an indefinite useful life. The Company ceased amortization of goodwill on July 1, 2001, with the adoption of Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets*. Intangible assets include noncompete agreements and customer lists which are being amortized on a straight-line basis over the estimated lives of the asset ranging from five to eighteen years. The weighted average amortization period for intangibles subject to amortization is 12.55 years. Goodwill and intangible assets are reviewed annually for possible impairment, and if the assets are deemed impaired, an expense would be charged in the then current period. The estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows: 2008 - \$389,287; 2009 - \$352,943; 2010 - \$345,703; 2011 - \$345,703 and 2012 - \$345,703.

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs were approximately \$440,000, \$492,000 and \$336,000 for the years ended June 30, 2007, 2006 and 2005, respectively.

Stock-Based Compensation

The Company has stock-based employee compensation plans, which are described more fully in note 14. The Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123-R"), effective for the fiscal year beginning July 1, 2005, superseding APB Opinion 25 and replacing FASB Statement No. 123. Prior to July 1, 2005, the Company utilized the intrinsic value methodology allowed by APB Opinion 25. SFAS 123-R requires companies to measure and record compensation expense for stock options and other share-based payments based on the instruments' fair value reduced by expected forfeitures. Under the modified prospective approach adopted by the Company, the Company recognizes expense for new options awarded and to awards modified, repurchased or canceled after the effective date. Since there were no new options granted (or modifications of existing options) during fiscal 2007 and 2006 and since all previously granted options were fully vested at the grant date, adoption of SFAS 123-R had no impact on the 2007 and 2006 financial statements.

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123-R to stock-based employee compensation.

	Years Ended June 30,		
	2007	2006	2005
Net income, as reported	\$ 1,886,677	\$ 4,004,199	\$ 4,018,634
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-	-	1,513
Pro forma net income	<u>\$ 1,886,677</u>	<u>\$ 4,004,199</u>	<u>\$ 4,017,121</u>
Earnings per share:			
Basic - as reported	<u>\$.77</u>	<u>\$ 1.61</u>	<u>\$ 1.60</u>
Basic - pro forma	<u>\$.77</u>	<u>\$ 1.61</u>	<u>\$ 1.59</u>
Diluted - as reported	<u>\$.76</u>	<u>\$ 1.59</u>	<u>\$ 1.57</u>
Diluted - pro forma	<u>\$.76</u>	<u>\$ 1.59</u>	<u>\$ 1.57</u>

The following table presents the weighted average fair value and related assumptions using the Black-Scholes option-pricing model for all stock options granted during the periods indicated. There were no stock options granted in fiscal 2007 and 2006.

	2007	2006	2005
Weighted average fair value	\$ -	\$ -	\$ 1,513
Dividend yield	-	-	2.8%
Expected volatility	-	-	24.3%
Risk-free interest rates	-	-	4.5%
Expected lives	-	-	8 years

Bank-Owned Life Insurance

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

Comprehensive Income

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

Derivatives

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

The Company has only limited involvement with derivative financial instruments and they are used for trading and hedging purposes. The derivative financial instruments used by the Company are covered call and put contracts on its equity securities portfolio and certain residential mortgage loan commitments for resale into the secondary market. The total value of securities under call and put contracts and commitments to originate residential mortgage loans for resale at June 30, 2007, 2006 and 2005, which are not used as a hedge but are classified as trading, is immaterial to the Company's financial position, liquidity, and results of operations.

Trust Assets

Assets of the Company's trust department are not included in these consolidated financial statements because they are not assets of the Company. As of June 30, 2007, total assets held in trust for customers, for which the Company has fiduciary responsibility, amounted to approximately \$97,329,000.

Treasury Stock

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

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments* (SFAS 155), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133. The statement also subjects beneficial interests issued by securitization vehicles to the requirements of SFAS No. 133. The statement is effective as of July 1, 2007. The adoption of SFAS 155 is not expected to have a material impact on the Company's financial condition and results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140* (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the "amortization method" or "fair value method" for subsequent balance sheet reporting periods. SFAS 156 is effective as of an entity's first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company does not expect the adoption of this statement to have a material impact on its financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles (GAAP) and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Company's consolidated financial statements for the year beginning on July 1, 2008, with earlier adoption permitted. The Company does not expect the adoption of SFAS 157 to have a material impact on its financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective at the beginning of the Company's fiscal year beginning July 1, 2008, and early application may be elected in certain circumstances. The Company is currently evaluating and has not yet determined the impact the new standard is expected to have on its financial position, results of operations or cash flows.

2. Available-for-sale securities

A summary of the cost and approximate fair values of available-for-sale securities at June 30, 2007 and 2006 follows:

	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Debt securities issued by U.S. Government-sponsored enterprises	\$ 21,765,732	\$ 21,158,409	\$ 25,766,682	\$ 24,694,409
Mortgage-backed securities	53,987,824	52,138,732	50,618,118	48,126,031
Municipal bonds	11,067,197	10,709,069	11,075,274	10,770,167
Corporate bonds	500,000	484,625	500,000	477,520
Equity securities	1,928,144	1,857,235	2,151,072	2,069,580
	<u>\$ 89,248,897</u>	<u>\$ 86,348,070</u>	<u>\$ 90,111,146</u>	<u>\$ 86,137,707</u>

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

	2007		2006	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses
Debt securities issued by U. S. Government-sponsored enterprises	\$ -	\$ 607,323	\$ -	\$ 1,072,273
Mortgage-backed securities	2,818	1,851,910	2,289	2,494,376
Municipal bonds	-	358,128	-	305,107
Corporate bonds	-	15,375	-	22,480
Equity securities	18,661	89,570	22,809	104,301
	<u>\$ 21,479</u>	<u>\$ 2,922,306</u>	<u>\$ 25,098</u>	<u>\$ 3,998,537</u>

At June 30, 2007, mortgage-backed and U.S. Government-sponsored enterprise securities with a fair value of approximately \$70,934,000 were pledged as collateral to secure outstanding repurchase agreements, FHLB advances and other purposes.

The following summarizes the Company's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007.

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored enterprises	\$ 391,296	\$ 9,828	\$ 20,767,113	\$ 597,495	\$ 21,158,409	\$ 607,323
Mortgage-backed securities	22,180,625	463,353	27,327,140	1,388,557	49,507,765	1,851,910
Municipal bonds	7,945,475	262,497	2,763,594	95,631	10,709,069	358,128
Corporate bonds	-	-	484,625	15,375	484,625	15,375
Equity securities	839,368	49,720	630,039	39,850	1,469,407	89,570
	<u>\$ 31,356,764</u>	<u>\$ 785,398</u>	<u>\$ 51,972,511</u>	<u>\$ 2,136,908</u>	<u>\$ 83,329,275</u>	<u>\$ 2,922,306</u>

Unrealized losses within U.S. Government-sponsored enterprises of \$607,323 consist of twelve individual debt securities issued by the FHLB, FHLMC and FNMA of which eleven securities have had continuous losses for more than one year. Unrealized losses within the mortgage-backed securities category of \$1,851,910 consist of thirty individual debt securities, of which sixteen securities have had continuous losses for more than one year. Unrealized losses within the municipal bond category of \$358,128 consist of thirty-three individual debt securities, of which eight securities have had continuous losses of more than a year. The primary cause for unrealized losses within the above investment categories is the impact movements in market interest rates have had in comparison to the underlying yields on these securities, and normal market fluctuations. Unrealized losses within the equity security category of \$89,570 consist of forty-five individual equity securities, of which thirteen have had continuous losses for more than one year.

Management of the Company, in addition to considering current trends and economic conditions that may affect the quality of individual securities within the Company's investment portfolio, also considers the Company's ability and intent to hold such securities to maturity or recovery of cost. Management does not believe any of the Company's available-for-sale securities are other-than-temporarily impaired at June 30, 2007, 2006 and 2005, except as discussed below.

Based on management's assessment of available-for-sale securities, there has been more than a temporary decline in market value of certain equity securities. During the years ended June 30, 2007, 2006 and 2005, write-downs of available-for-sale securities were \$50,442, \$38,394 and \$27,849, respectively, and are included in other noninterest expense in the consolidated statements of income.

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

	<u>2007</u>	<u>2006</u>
Net unrealized losses	\$ (2,900,827)	\$ (3,973,439)
Deferred tax effect	986,281	1,350,970
Accumulated other comprehensive loss	<u>\$ (1,914,546)</u>	<u>\$ (2,622,469)</u>

The cost and market values of available-for-sale securities at June 30, 2007, 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.

	<u>Cost</u>	<u>Fair Value</u>
Due one year or less	\$ 6,505,701	\$ 6,410,365
Due after one year through five years	13,370,205	12,989,363
Due after five years through ten years	996,925	972,840
Due after ten years	<u>12,460,098</u>	<u>11,979,535</u>
	33,332,929	32,352,103
Mortgage-backed securities (consisting of securities with interest rates ranging from 4.00% to 6.375% maturing November 2007 to April 2036)	53,987,824	52,138,732
Equity securities	<u>1,928,144</u>	<u>1,857,235</u>
	<u>\$ 89,248,897</u>	<u>\$ 86,348,070</u>

Realized gains and losses on sales of available-for-sale securities for the year ended June 30, 2007 were \$59,419 and \$17,070, respectively, \$21,073 and \$3,738, respectively, for the year ended June 30, 2006 and \$72,238 and \$4,298, respectively, for the year ended June 30, 2005. The tax provision applicable to these net realized gains amounted to \$14,678, \$6,008 and \$23,548, respectively.

3. Loans Receivable

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

Loans consisted of the following as of June 30:

	<u>2007</u>	<u>2006</u>
Mortgage loans:		
Residential real estate	\$ 145,184,733	\$ 149,099,809
Commercial real estate	112,534,812	115,327,157
Construction	7,707,432	7,480,823
Total mortgage loans	<u>265,426,977</u>	<u>271,907,789</u>
Commercial loans	40,783,958	50,261,725
Consumer and other loans	118,880,723	113,192,397
	425,091,658	435,361,911
Undisbursed portion of construction loans	(2,256,606)	(2,375,257)
Net deferred loan origination costs	2,736,366	2,675,875
	<u>425,571,418</u>	<u>435,662,529</u>
Less allowance for loan losses	<u>5,756,000</u>	<u>5,496,000</u>
Net loans	<u>\$ 419,815,418</u>	<u>\$ 430,166,529</u>

Included in the loan portfolio are unamortized premiums on purchased loans of approximately \$60,000 and \$98,000 at June 30, 2007 and 2006, respectively.

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 \$3,110,276 and \$2,792,963 at June 30, 2007 and 2006, respectively. In 2007, new loans and advances granted to related parties totaled \$1,484,077, and payments and reductions amounted to \$1,166,764. In 2006, new loans and advances totaled \$573,262 and payments and reductions amounted to \$1,089,589.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 5,496,000	\$ 5,104,000	\$ 4,577,000
Provision charged to operating expenses	989,158	1,226,413	1,301,600
Transferred to off balance sheet credit risk reserve included in other liabilities	-	(204,086)	-
Loans charged off	(854,631)	(793,653)	(935,285)
Recoveries on loans previously charged off	125,473	163,326	160,685
Net loans charged off	<u>(729,158)</u>	<u>(630,327)</u>	<u>(774,600)</u>
Balance at end of year	<u>\$ 5,756,000</u>	<u>\$ 5,496,000</u>	<u>\$ 5,104,000</u>

As shown above, during fiscal 2006 the Company transferred \$204,086, representing the portion of the allowance related to unfunded loans and commitments at the transfer date, to other liabilities.

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

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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Impaired loans	\$ 2,498,498	\$ 7,128,111	\$ 2,190,143
Impaired loans with related allowances	884,543	5,950,923	810,543
Allowances on impaired loans	322,402	1,290,960	118,778
Average balance of impaired loans during the year	2,269,862	4,584,621	1,760,925
Interest recognized on impaired loans	211,346	71,400	85,900

Impaired loans at June 30, 2006 include loans totaling \$2,544,000 which were current as to both principal and interest payments at that date, but which were considered impaired based on current estimates of collateral valuation.

Loans on nonaccrual status, including certain impaired loans described above, at June 30, 2007 and 2006, totaled approximately \$5,090,000 and \$5,195,000, 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, 2007, 2006 and 2005, totaled approximately \$211,000, \$158,000 and \$35,000, respectively. The Company has no material outstanding commitments to lend additional funds to customers whose loans have been placed on nonaccrual status or the terms of which have been modified.

The Company was servicing, for others, loans of approximately \$51,097,000 and \$54,829,000 at June 30, 2007 and 2006, respectively.

4. Premises and Equipment

Premises and equipment at June 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,327,621	\$ 875,096
Buildings	2,058,695	1,790,720
Assets recorded under capital lease	2,892,702	2,892,702
Leasehold and building improvements	1,888,618	1,908,861
Furniture, fixtures and equipment	5,663,105	5,245,108
	<u>13,830,741</u>	<u>12,712,487</u>
Less accumulated depreciation	6,285,311	5,396,606
Net premises and equipment	<u>\$ 7,545,430</u>	<u>\$ 7,315,881</u>

Depreciation and amortization of premises and equipment included in occupancy and equipment expense, was \$1,088,373, \$1,048,529 and \$711,339 for the years ended June 30, 2007, 2006 and 2005, respectively.

5. Acquired Assets

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

	<u>2007</u>	<u>2006</u>
Real estate properties acquired in settlement of loans and other acquired assets	\$ -	\$ 12,000
Less allowance for losses	-	1,616
	<u>\$ -</u>	<u>\$ 10,384</u>

Activity in the allowance for losses on acquired assets was as follows for the years ended June 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 1,616	\$ 20,666	\$ 13,007
Provision for losses on acquired assets	6,384	2,500	20,000
Write-downs	(8,000)	(21,550)	(12,341)
Balance at end of year	<u>\$ -</u>	<u>\$ 1,616</u>	<u>\$ 20,666</u>

6. Acquisition of Insurance Agencies

Northeast Bank Insurance Group, Inc. acquired Solon-Anson Insurance Agency, Inc. on September 29, 2004. This acquisition used purchase accounting and resulted in a customer list intangible asset of \$2,081,500, which is being amortized over twelve years.

Northeast Bank Insurance Group, Inc. acquired four agencies during fiscal 2007. Each acquisition was the purchase of assets, except the Palmer Insurance Agency which was the purchase of stock, for cash and debt. The details of the purchases appear below including the acquisition date and the agency's location. Each agency will be operated at its existing location except Russell which was relocated to the agency office in Anson, Maine.

All acquisitions were accounted for using the purchase method and resulted in increases in goodwill and customer list and non-compete intangibles on the consolidated balance sheet. All purchase and sale agreements call for a reduction in the purchase price should the stipulated minimum commission revenue levels not be attained over periods of one to three years from the purchase date. The customer list intangibles and estimated useful lives are based on estimates from a third-party appraiser. The useful lives of these intangibles range from eleven to eighteen years. Non-compete intangible useful lives are amortized over a range of twelve to fifteen years. The goodwill and customer list intangible for Russell are estimates and subject to change.

The debt incurred is due to the seller of each agency. Each bears an interest rate of 6.50% over terms as follows: Palmer debt is payable over a term of seven years; the Sturtevant debt is payable over a term of three years; the Southern Maine debt is payable over a term of four years; and the Russell debt is payable over a term of two years. Northeast Bank guaranteed the debt repayment to each seller.

Northeast Bank Insurance Group, Inc. leases the office locations for Sturtevant and Southern Maine. These are operating leases. Northeast Bank acquired Palmer's agency building and land in January, 2007.

The results of operations of Palmer, Sturtevant, Southern Maine and Russell have been included in the consolidated financial statements since the acquisition date. There is no pro-forma disclosure included because the four agencies individually and in aggregate were not considered significant acquisitions.

	Palmer	Sturtevant and Ham	Southern Maine	Russell	Totals
Purchase price					
Cash paid	\$ 800,000	\$ 475,000	\$ 900,000	\$ 275,000	\$ 2,450,000
Debt incurred	1,067,000	475,000	450,000	325,000	2,317,000
Acquisition costs	8,360	3,877	4,264	4,501	21,002
Total	\$ 1,875,360	\$ 953,877	\$ 1,354,264	\$ 604,501	\$ 4,788,002
Allocation of purchase price:					
Goodwill	1,174,274	324,367	754,764	219,501	2,472,906
Customer list intangible	600,000	550,000	520,000	300,000	1,970,000
Non-compete intangible	300,000	75,000	75,000	85,000	535,000
Fixed and other assets	5,086	4,510	4,500	-	14,096
Deferred income taxes	(204,000)	-	-	-	(204,000)
Total	\$ 1,875,360	\$ 953,877	\$ 1,354,264	\$ 604,501	\$ 4,788,002
Acquisition date	11/28/06	12/01/06	03/30/07	06/28/07	
Location in Maine	Turner	Livermore	Scarborough	Madison	

\$1,298,632 of the total goodwill acquired is expected to be deductible for tax purposes.

7. Deposits

Deposits at June 30 are summarized as follows:

	Weighted Average Rate at June 30,	2007		2006		
		2007	Amount	Percent	Amount	Percent
Demand	0.00%	\$ 36,332,604	10.0%	\$ 38,137,357	9.6%	
NOW	2.22%	53,405,241	14.7%	54,432,157	13.8%	
Money market	2.35%	8,053,552	2.2%	9,430,378	2.4%	
Regular savings	0.78%	21,145,567	5.8%	24,247,324	6.1%	
Certificates of deposit and brokered time deposits:						
Less than 1.00%	0.75%	151,674	0.0%	150,855	0.0%	
1.00-3.75%	3.46%	9,973,634	2.7%	56,262,927	14.2%	
3.76-5.75%	4.94%	235,151,508	64.5%	212,373,529	53.8%	
5.76-7.75%	6.17%	339,997	0.1%	258,850	0.1%	
	4.12%	\$ 364,553,777	100.0%	\$ 395,293,377	100.0%	

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

	2008	2009	2010	2011	2012	Thereafter
Less than 1.00%	\$ 151,674	\$ -	\$ -	\$ -	\$ -	\$ -
1.00-3.75%	7,163,772	2,735,068	74,794	-	-	-
3.76-5.75%	196,830,663	21,866,789	11,579,940	2,501,660	2,051,349	321,107
5.76-7.75%	298,492	9,185	-	32,320	-	-
Total	\$ 204,444,601	\$ 24,611,042	\$ 11,654,734	\$ 2,533,980	\$ 2,051,349	\$ 321,107

Interest expense on deposits for the years ended June 30, 2007, 2006 and 2005 is summarized as follows:

	2007	2006	2005
NOW	\$ 1,234,207	\$ 1,065,675	\$ 808,762
Money market	221,118	246,283	212,744
Regular savings	194,258	227,830	230,201
Certificates of deposit and brokered time deposits	11,840,590	9,612,518	7,373,091
	<u>\$ 13,490,173</u>	<u>\$ 11,152,306</u>	<u>\$ 8,624,798</u>

In the fourth quarter of fiscal year 2006, the Company sold the deposits of its Lisbon Falls, Maine branch and the branch was closed. The deposits sold totaled approximately \$8,908,000. The Company recognized a gain on sale of deposits of \$500,845 from this transaction, which is included in other income in the 2006 consolidated statement of income.

8. Borrowings

Federal Home Loan Bank

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

Principal Amounts	June 30, 2007		Maturity Dates
		Interest Rates	
\$50,016,698		2.68% - 5.69%	2008
30,000,000		4.86 - 5.21	2009
3,000,000		4.99	2011
10,000,000		4.26	2017
<u>\$93,016,698</u>			
Principal Amounts	June 30, 2006		Maturity Dates
		Interest Rates	
\$34,831,900		2.22% - 5.31%	2007
31,056,698		2.68 - 5.68	2008
5,000,000		4.88	2009
5,000,000		4.81 - 4.99	2011
<u>\$75,888,598</u>			

At June 30, 2007, FHLB advances of \$43,500,000 are subject to call provisions and may be called prior to the stated maturity.

Certain mortgage loans, free of liens, pledges and encumbrances and certain investment securities maintained at the FHLB not otherwise pledged have been pledged under a blanket agreement to secure these advances. The Company is required to own stock of the Federal Home Loan Bank of Boston in order to borrow from the Federal Home Loan Bank.

As of June 30, 2007, the Company had a \$2,103,000 line of credit arrangement with the FHLB which was fully available. Also at June 30, 2007, the Company had approximately \$19,576,000 of additional capacity to borrow from the FHLB for long-term advances.

Other borrowings

Other borrowings consist of non-negotiable promissory notes payable to former shareholders of acquired insurance companies.

Maturities of notes payable for the years ending after June 30, 2007 are summarized as follows:

Principal Amounts	June 30, 2007		Maturity Dates
		Interest Rates	
\$ 534,522		6.50%	2008
569,471		6.50%	2009
428,194		6.50%	2010
244,721		6.50%	2011
161,056		6.50%	2012
171,525		6.50%	2013
182,674		6.50%	2014
<u>\$ 2,292,163</u>			

As of June 30, 2006, the Company had other borrowings of \$57,129 with an interest rate of 3% maturing in 2007.

Capital Lease Obligations

During fiscal 2006, the Company recognized a capital lease obligation for its new headquarters known as the Southern Gateway building located at 500 Canal Street in Lewiston, Maine. The present value of the lease payments over fifteen years (\$264,262 per year for each of the initial ten years of the lease term and \$305,987 per year for each of the last five years) exceeded 90% of the fair value of the Southern Gateway building. Northeast Bank's commercial lending and underwriting, consumer loan underwriting, loan servicing, deposit operations, accounting, human resources, risk management, and executive administration departments occupy the approximately 27,000 square feet of space.

The future minimum lease payments over the remaining terms of the lease and the outstanding capital lease obligation at June 30, 2007 are as follows:

2008	\$ 264,262
2009	264,262
2010	264,262
2011	264,262
2012	264,262
2013 and thereafter	2,344,740
Total minimum lease payments	3,666,050
Less imputed interest	1,012,539
Capital lease obligation	<u>\$ 2,653,511</u>

Fed Discount Window Borrower-in-Custody Program

The Bank also has a secured line of credit of \$28,690,000 through the Fed Discount Window Borrower-in-Custody program. The Bank pledged \$35,863,000 of its indirect auto loan portfolio as collateral for this line of credit. If used, interest is based upon the current federal funds rate plus 1.00%. There were no outstanding balances under this line of credit at June 30, 2007.

Short-Term Borrowings

Short-term borrowings consist of securities sold under agreements to repurchase and other sweep accounts. The weighted average interest rate on short-term borrowings was 4.28% and 3.79% at June 30, 2007 and 2006, respectively. Securities sold under agreement to repurchase, which were scheduled to mature the next business day, were collateralized by mortgage-backed and U.S. Government-sponsored enterprise securities with a fair value of \$31,530,000 and amortized cost of \$30,348,000, respectively at June 30, 2007 and a fair value of \$33,112,000 and amortized cost of \$34,893,000, respectively at June 30, 2006. Sweep accounts have excess deposit insurance coverage of \$7,300,000 at June 30, 2007. The average balance of short-term borrowings was \$36,145,000 and \$31,427,000 during the years ended June 30, 2007 and 2006, respectively. The maximum amount outstanding at any month-end during 2007 and 2006 was \$44,164,000 and \$37,237,000, respectively. Securities sold under these agreements were under the control of the Company throughout 2007 and 2006.

9. Capital and Regulatory Matters

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

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

As of June 30, 2007 and 2006, the most recent notification from the Company's and the Bank's regulator categorized the Company and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Company and the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratio as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2007 and 2006, the Company and the Bank ratios exceeded the regulatory requirements. Management believes that the Company and the Bank meet all capital adequacy requirements to which it is subject as of June 30, 2007 and 2006.

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

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2007:						
Northeast Bancorp:						
Total capital to risk weighted assets	\$ 57,302	13.97%	≥\$32,804	≥8.0%	≥\$41,005	≥10.0%
Tier 1 capital to risk weighted assets	\$ 49,295	12.02%	≥\$16,402	≥4.0%	≥\$24,603	≥ 6.0%
Tier 1 capital to total average assets	\$ 49,295	9.07%	≥\$21,845	≥4.0%	≥\$27,306	≥ 5.0%

As of June 30, 2006:						
Northeast Bancorp:						
Total capital to risk weighted assets	\$ 60,940	14.52%	≥\$33,585	≥8.0%	≥\$41,981	≥10.0%
Tier 1 capital to risk weighted assets	\$ 52,252	12.45%	≥\$16,793	≥4.0%	≥\$25,189	≥ 6.0%
Tier 1 capital to total average assets	\$ 52,252	9.32%	≥\$22,437	≥4.0%	≥\$28,047	≥ 5.0%

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

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2007:						
Northeast Bank:						
Total capital to risk weighted assets	\$ 51,892	12.71%	≥\$32,668	≥8.0%	≥\$40,835	≥10.0%
Tier 1 capital to risk weighted assets	\$ 46,780	11.46%	≥\$16,334	≥4.0%	≥\$24,501	≥ 6.0%
Tier 1 capital to total average assets	\$ 46,780	8.60%	≥\$21,748	≥4.0%	≥\$27,185	≥ 5.0%

As of June 30, 2006:						
Northeast Bank:						
Total capital to risk weighted assets	\$ 56,088	13.44%	≥\$33,395	≥8.0%	≥\$41,743	≥10.0%
Tier 1 capital to risk weighted assets	\$ 50,864	12.18%	≥\$16,697	≥4.0%	≥\$25,046	≥ 6.0%
Tier 1 capital to total average assets	\$ 50,864	9.07%	≥\$22,426	≥4.0%	≥\$28,032	≥ 5.0%

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Parent if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under FRB rules (approximately \$3,632,000 is available at June 30, 2007).

The 2006 Stock Repurchase Plan was approved and the 2004 stock repurchase plan terminated by the Board of Directors on December 15, 2006. Under the 2006 Stock Repurchase Plan, the Company may purchase up to 200,000 shares of its common stock from time to time in the open market at prevailing prices. Common stock repurchased pursuant to the plan will be classified as authorized but un-issued shares of common stock available for future issuance as determined by the Board of Directors, from time to time. Total stock repurchases under the 2006 plan were 3,800 shares for \$67,944 through June 30, 2007. Total stock repurchases under the 2004 plan were 145,500 shares for \$3,204,092 through December 15, 2006. The repurchase program may be discontinued by Northeast Bancorp at any time. Total stock repurchases in fiscal 2007 were 3,800 shares for \$67,944 at an average price of \$17.88 per share and in fiscal 2006 were 90,200 shares for \$2,142,250 at an average price of \$23.75 per share. The remaining repurchase capacity of the 2006 Plan is 196,200 shares. 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 earnings per share during 2007 and 2006, by reducing the number of common stock shares outstanding.

10. 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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Average shares outstanding, used in computing Basic EPS	2,451,610	2,493,560	2,518,764
Effect of Dilutive Securities:			
Stock and options outstanding	18,905	23,456	28,681
Options exercised or canceled	47	9,079	16,100
Average equivalent shares outstanding, used in computing Diluted EPS	<u>2,470,562</u>	<u>2,526,095</u>	<u>2,563,545</u>

11. Other Expenses

Other expenses include the following for the years ended June 30, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Professional fees	\$ 639,821	\$ 620,914	\$ 658,334
Advertising expense	440,222	491,920	336,201
Write-down of non-marketable securities	248,482	42,257	96,931
Computer services and processing costs	616,173	580,995	472,154
Loan expense	402,936	342,586	401,126
Write-down of available-for-sale securities	50,442	38,394	27,849
Other	<u>2,086,832</u>	<u>2,099,909</u>	<u>2,358,757</u>
	<u>\$ 4,484,908</u>	<u>\$ 4,216,975</u>	<u>\$ 4,351,352</u>

12. Income Taxes

The current and deferred components of income tax expense (benefit) were as follows for the years ended June 30, 2007, 2006 and 2005:

	2007	2006	2005
Federal:			
Current	\$ 845,509	\$ 2,089,538	\$ 1,965,463
Deferred	(329,268)	(323,220)	(197,522)
	516,241	1,766,318	1,767,941
State and local - current	62,922	85,049	85,916
	<u>\$ 579,163</u>	<u>\$ 1,851,367</u>	<u>\$ 1,853,857</u>

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, 2007, 2006 and 2005:

	2007		2006		2005	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Expected income tax expense at federal tax rate	\$ 838,386	34.0%	\$ 1,990,892	34.0%	\$ 1,996,646	34.0%
State tax, net of federal tax benefit	41,529	1.7	56,132	1.0	56,705	1.0
Dividend received deduction	(33,547)	(1.4)	(30,634)	(0.5)	(34,310)	(0.6)
Non-taxable interest income	(143,938)	(5.8)	-	-	-	-
Non-taxable BOLI income	(118,748)	(4.8)	(112,829)	(1.9)	(93,278)	(1.6)
Other	(4,519)	(0.2)	(52,194)	(0.9)	(71,906)	(1.3)
	<u>\$ 579,163</u>	<u>23.5%</u>	<u>\$ 1,851,367</u>	<u>31.7%</u>	<u>\$ 1,853,857</u>	<u>31.5%</u>

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2007 and 2006, are presented below:

	2007	2006
Deferred tax assets:		
Loans, principally due to allowance for loan losses	\$ 2,018,000	\$ 1,882,000
Interest on nonperforming loans	72,000	54,000
Difference in tax and federal statement basis of investments	1,125,000	1,444,000
Deferred compensation	263,000	169,000
Other	110,000	156,000
Total deferred tax assets	<u>3,588,000</u>	<u>3,705,000</u>
Deferred tax liabilities:		
Difference in tax and financial statement amortization of goodwill and other intangible assets	(324,000)	(138,000)
Mortgage servicing rights	(69,000)	(110,000)
Premises and equipment	(193,000)	(229,000)
Prepaid expenses	(159,000)	(143,000)
Other	-	(3,000)
Total deferred tax liabilities	<u>(745,000)</u>	<u>(623,000)</u>
Net deferred tax asset, included in other assets	<u>\$ 2,843,000</u>	<u>\$ 3,082,000</u>

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

In prior years, the Bank utilized the percentage of income bad debt deduction to calculate its bad debt expense for tax purposes as was then permitted by the Internal Revenue Code. Subsequent tax legislation required the Company to recapture a portion of its tax bad debt reserves. Except as stated below, the unrecaptured base year reserves will not be subject to recapture as long as the Bank continues to carry on the business of banking. However, the balance of the tax bad debt reserves is subject to provisions of present law that require recapture in the case of certain excess distributions to stockholders. For federal income tax purposes, the Company has designated approximately \$1,967,000 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.

13. 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 have attained age 18, and completed 90 days of employment. Employees may contribute up to 100% of their base compensation, subject to IRS limitations. The Company will match 50% up to the first 6% contributed. For the years ended June 30, 2007, 2006 and 2005, the Company contributed \$220,649, \$202,664 and \$186,649, 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 2007, 2006 or 2005.

Stock Option Plans

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

In accordance with the Stock Option Plans, a total of 363,250 shares of unissued common stock were reserved for grants. At June 30, 2007, a total of 179,500 shares remained available to be granted.

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

	2007		2006		2005	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	52,500	\$ 12.13	71,500	\$ 12.31	108,875	\$ 11.79
Granted	-	-	-	-	1,000	12.75
Exercised	(500)	13.10	(17,500)	12.23	(37,875)	11.18
Expired	-	-	(1,500)	14.90	(500)	18.50
Outstanding and exercisable at end of year	<u>52,000</u>	<u>\$ 12.12</u>	<u>52,500</u>	<u>\$ 12.13</u>	<u>71,500</u>	<u>\$ 12.31</u>

The following table summarizes information about stock options outstanding at June 30, 2007:

Range of Exercise Prices	Number Outstanding at June 30, 2007	Options Outstanding and Exercisable	
		Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price
\$8.00 to \$9.00	25,000	2.7	\$ 8.47
\$13.10	15,000	4.1	13.10
\$18.50	12,000	0.6	18.50
<u>\$8.00 to \$18.50</u>	<u>52,000</u>	<u>2.6</u>	<u>\$12.12</u>

14. 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 are as follows as of June 30:

	<u>2007</u>	<u>2006</u>
Commitments to originate loans:		
Residential real estate mortgages	\$ 5,936,000	\$ 5,810,000
Residential real estate mortgages held for sale	2,557,000	1,393,000
Commercial real estate mortgages, including multi-family residential real estate	395,000	10,985,000
Commercial business loans	3,672,000	1,377,000
	<u>\$ 12,560,000</u>	<u>\$ 19,565,000</u>
Unused lines of credit	\$ 42,745,000	\$ 41,130,000
Standby letters of credit	696,000	1,538,000
Unadvanced portions of construction loans	2,257,000	2,375,000

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. As discussed in note 3, the Company has recorded an allowance for possible losses on commitments and unfunded loans totaling \$178,818 and \$204,086 at June 30, 2007 and 2006, respectively.

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. As of June 30, 2007 and 2006, the maximum potential amount of the Company's obligation was \$696,000 and \$1,538,000, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

Lease Obligations

The Company leases certain properties and equipment used in operations under terms of operating leases which include renewal options. Rental expense under leases approximated \$589,000, \$662,000 and \$708,000 for the years ended June 30, 2007, 2006 and 2005, respectively.

Approximate future minimum lease payments over the remaining terms of leases at June 30, 2007 are as follows:

2008	\$ 379,059
2009	323,512
2010	299,321
2011	233,434
2012	232,910
2013 and thereafter	458,339
	<u>\$ 1,926,575</u>

Legal Proceedings

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

15. Condensed Parent Information

Condensed balance sheets for Northeast Bancorp at June 30, 2007 and 2006, and statements of income and cash flows for each of the years in the three year period ended June 30, 2007, are presented below.

Balance Sheets

<u>Assets</u>	<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
Cash	\$ 1,339,286	\$ 615,784
Available-for-sale securities	565,516	833,971
Investment in banking subsidiary	51,464,689	50,194,825
Investment in common securities of affiliated trusts	496,000	496,000
Goodwill, net	407,897	407,897
Other assets	<u>3,213,580</u>	<u>3,127,862</u>
Total assets	<u>\$ 57,486,968</u>	<u>\$ 55,676,339</u>
<u>Liabilities and Stockholders' Equity</u>		
Junior Subordinated Debentures issued to affiliated trusts	\$ 16,496,000	\$ 16,496,000
Other liabilities	<u>141,090</u>	<u>84,214</u>
	16,637,090	16,580,214
Stockholders' equity	<u>40,849,878</u>	<u>39,096,125</u>
Total liabilities and stockholders' equity	<u>\$ 57,486,968</u>	<u>\$ 55,676,339</u>

Statements of Income

	<u>Years Ended June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<u>Income:</u>			
Dividends from banking subsidiary	\$ 2,500,000	\$ 1,250,000	\$ 300,000
Other income	<u>233,814</u>	<u>147,233</u>	<u>175,715</u>
Total income	<u>2,733,814</u>	<u>1,397,233</u>	<u>475,715</u>
<u>Expenses:</u>			
Interest on Junior Subordinated Debentures paid to affiliated trusts	1,080,538	1,063,681	1,087,696
General and administrative expenses	<u>372,513</u>	<u>151,421</u>	<u>610,330</u>
Total expenses	<u>1,453,051</u>	<u>1,215,102</u>	<u>1,698,026</u>
Income (loss) before income tax benefit and equity in undistributed net income of subsidiary	1,280,763	182,131	(1,222,311)
Income tax benefit	<u>427,997</u>	<u>367,542</u>	<u>602,665</u>
Income (loss) before equity in undistributed net income of subsidiary	1,708,760	549,673	(619,646)
Equity in undistributed net income of subsidiary	<u>177,917</u>	<u>3,454,526</u>	<u>4,638,280</u>
Net income	<u>\$ 1,886,677</u>	<u>\$ 4,004,199</u>	<u>\$ 4,018,634</u>

Statements of Cash Flows	Years Ended June 30,		
	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 1,886,677	\$ 4,004,199	\$ 4,018,634
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Amortization	24,000	24,000	47,170
Undistributed earnings of subsidiary	(177,917)	(3,454,526)	(4,638,280)
Write down on available-for-sale securities	50,442	33,404	27,849
Net gain on available-for-sale securities	(43,513)	(17,693)	(64,174)
Other	-	-	7,783
Writedown of non-marketable investments	248,482	42,257	96,931
Increase in other assets	(366,431)	(272,411)	(980,600)
Increase in other liabilities	56,876	9,934	73,386
Net cash provided (used) by operating activities	1,678,616	369,164	(1,411,301)
Cash flows from investing activities:			
Purchase of common securities of affiliated trusts	-	-	(310,000)
Increase in investment of bank subsidiary	(400,000)	-	(1,800,000)
Proceeds from the sales of securities of affiliated trusts	-	-	221,851
Available-for-sale securities transferred from the bank	-	-	(669,045)
Purchases of available-for-sale securities	(1,964,213)	(1,063,076)	(733,351)
Proceeds from sales of available-for-sale securities	2,249,946	855,635	748,615
Net cash used by investing activities	(114,267)	(207,441)	(2,541,930)
Cash flows from financing activities:			
Issuance of common stock	6,550	213,972	280,170
Common stock issued in connection with the purchase of branch real estate	103,000	-	-
Repayment of junior subordinate debentures	-	-	(7,394,849)
Company stock purchased	(67,944)	(2,142,250)	(698,812)
Dividends paid to stockholders	(882,453)	(897,087)	(910,220)
Proceeds from issuance of junior subordinated debentures to affiliated trusts	-	-	10,310,000
Net cash (used) provided by financing activities	(840,847)	(2,825,365)	1,586,289
Net increase (decrease) in cash	723,502	(2,663,642)	(2,366,942)
Cash, beginning of year	615,784	3,279,426	5,646,368
Cash, end of year	\$ 1,339,286	\$ 615,784	\$ 3,279,426
Supplemental schedule of cash flow information:			
Interest paid	\$ 1,067,097	\$ 1,039,681	\$ 1,087,696

16. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the years ended June 30, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Unrealized gains (losses) arising during the period, net of tax effect of \$(361,936) in 2007, \$997,265 in 2006 and \$(339,093) in 2005	\$ 702,582	\$ (1,935,868)	\$ 658,431
Reclassification adjustment for losses (gains) on investments, net of write-downs, included in net income, net of tax effect of \$(2,753) in 2007, \$8,456 in 2006, and \$(35,311) in 2005	5,341	16,414	(68,350)
Other comprehensive income (loss)	\$ 707,923	\$ (1,952,282)	\$ 726,781

17. Segment Reporting

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

18. Junior Subordinated Debentures

NBN Capital Trust II and III were created in December 2003 and NBN Capital Trust IV was created December 2004. Each such trust is a Delaware statutory trust (together, the "Private Trusts"). The exclusive purpose of the Private Trusts was (i) issuing and selling Common Securities and Preferred Securities in a private placement offering, (ii) using the proceeds of the sale of the Private Trust Securities to acquire Junior Subordinated Deferrable Interest Notes ("Junior Subordinated Debentures"); and (iii) engaging only in those other activities necessary, convenient, or incidental thereto. Accordingly the Junior Subordinated Debentures are the sole assets of each of the Private Trusts.

The following table summarizes the junior subordinated debentures issued by the Company to each affiliated trust and the trust preferred and common securities issued by each affiliated trust at June 30, 2007 and 2006. Amounts include junior subordinated debentures acquired by the affiliated trusts from the Company with the capital contributed by the Company in exchange for the common securities of such trust. The trust preferred securities were sold in two separate private placement offerings. The Company has the right to redeem the junior subordinated debentures, in whole or in part, on or after March 30, 2009 for NBN Capital Trust II and III, and on or after February 23, 2010, for NBN Capital Trust IV at the redemption price specified in the Indenture plus any accrued but unpaid interest to the redemption date.

<u>Affiliated Trusts</u>	<u>Trust Preferred Securities</u>	<u>Common Securities</u>	<u>Junior Subordinated Debentures</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
NBN Capital Trust II	\$ 3,000,000	\$ 93,000	\$ 3,093,000	8.16%	March 30, 2034
NBN Capital Trust III	3,000,000	93,000	3,093,000	6.50%	March 30, 2034
NBN Capital Trust IV	10,000,000	310,000	10,310,000	5.88%	February 23, 2035
Total	\$ 16,000,000	\$ 496,000	\$ 16,496,000	6.42%	

NBN Capital Trust II pays a variable rate based on three month LIBOR plus 2.80%, NBN Capital Trust III pays a 6.50% fixed rate until March 30, 2009 when the rate changes to a variable rate based on three month LIBOR plus 2.80%, and NBN Capital Trust IV pays a 5.88% fixed rate until February 23, 2010 when the rate changes to a variable rate based on three month LIBOR plus 1.89%. Accordingly, the Preferred Securities of the Private Trusts currently pay quarterly distributions at an annual rate of 8.16% for the stated liquidation amount of \$1,000 per Preferred Security for NBN Capital Trust II, an annual rate of 6.50% for the stated liquidation amount of \$1,000 per Preferred Security for NBN Capital Trust III and an annual rate of 5.88% for the stated liquidation amount of \$1,000 per Preferred Security for NBN Capital Trust IV. The Company has fully and unconditionally guaranteed all of the obligations of each trust. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the Private Trust Preferred Securities, but only to the extent of funds held by the trusts. Based on the current interest rates, the annual interest expense is approximately \$1,060,000.

19. Fair Value of Financial Instruments

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

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

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

Federal Home Loan Bank and Federal Reserve Bank Stock - The carrying value of Federal Home Loan Bank (FHLB) stock and Federal Reserve Bank (FRB) stock approximates fair value based on redemption provisions of the FHLB and the FRB.

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

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

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

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

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

Deposits - The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand. The fair values of time deposits are based on the discounted value of contractual cash flows.

The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

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

Borrowings - The fair value of the Company's borrowings with the Federal Home Loan Bank is estimated by discounting the cash flows through maturity or the next repricing date based on current rates available to the Company for borrowings with similar maturities. The fair value of the Company's short-term borrowings, capital lease obligation and other borrowings is estimated by discounting the cash flows through maturity based on current rates available to the Company for borrowings with similar maturities.

Junior Subordinated Debentures - The fair value of the Company's Junior Subordinated Debentures is estimated based on current interest rates.

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, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in Thousands)			
Financial assets:				
Cash and cash equivalents	\$ 10,742	\$ 10,742	\$ 12,104	\$ 12,104
Available-for-sale securities	86,348	86,348	86,138	86,138
Regulatory stock (FHLB and FRB)	5,297	5,297	5,958	5,958
Loans held-for-sale	1,636	1,665	681	703
Loans, net	419,815	422,596	430,167	437,196
Interest receivable	2,587	2,587	2,679	2,679
Financial liabilities:				
Deposits (with no stated maturity)	118,937	118,937	126,247	126,247
Time deposits	245,617	245,009	269,046	266,685
Federal Home Loan Bank advances	93,017	92,625	75,889	75,457
Other borrowings	2,292	2,292	57	57
Short-term borrowings	33,105	33,045	29,637	29,587
Capital lease obligation	2,654	2,557	2,781	2,656
Junior Subordinated Debentures	16,496	16,064	16,496	15,034

20. Branch Acquisition

On September 1, 2006, the Bank acquired its South Paris branch located at 235 Main Street, South Paris, Maine from a director of Northeast Bancorp for a purchase price of \$400,000. The price was determined by an independent, third-party appraisal. The consideration paid was \$297,000 in cash and 5,000 shares of Northeast Bancorp common stock (valued at \$103,000 based on the \$20.60 share price on August 31, 2006). This branch was previously leased from the director. This acquisition was not material to the balance sheet or the results of operations.

21. Subsequent Events

The Board of Directors approved a new deferred compensation plan for the senior executives of the Bank and its subsidiary.

Northeast Bank Insurance Group Inc. acquired the Hartford Agency in Lewiston Maine on August 30, 2007 for \$1,358,000 in cash and debt.

Item 8.b. Statistical Disclosures Required by Industry Guide 3
Table 1

Northeast Bancorp Consolidated
 Distribution of Assets, Liabilities and Stockholders' Equity (\$ in thousands)
 Interest Rates and Interest Differential
 Years Ended June 30, 2007, 2006 and 2005

	June 30, 2007			June 30, 2006			June 30, 2005		
	Average Daily Balance	Interest Income/Expense	Average Yield/Rate	Average Daily Balance	Interest Income/Expense	Average Yield/Rate	Average Daily Balance	Interest Income/Expense	Average Yield/Rate
Assets:									
Interest-earning assets:									
Investment securities (1)	\$ 84,705	\$ 3,935	4.65%	\$ 80,050	\$ 3,461	4.32%	\$ 69,451	\$ 2,715	3.91%
Loans (2)(3)(4)	433,576	31,367	7.23%	448,611	31,643	7.05%	453,379	29,619	6.53%
Regulatory stock	5,529	368	6.66%	6,919	336	4.86%	6,982	265	3.80%
Short-term investments (5)	4,380	210	4.79%	3,588	134	3.73%	3,998	75	1.88%
Total interest-earning assets/interest income/average rates earned	528,190	35,880	6.79%	539,168	35,574	6.60%	533,810	32,674	6.12%
Non-interest earning assets:									
Cash & due from banks	6,794			8,845			11,948		
Bank premises and equipment, net	7,345			7,050			4,230		
Other assets	21,705			19,816			18,512		
Allowance for loan losses	(5,728)			(5,451)			(4,862)		
Total non-interest earning assets	30,116			30,260			29,828		
Total assets	\$ 558,306			\$ 569,428			\$ 563,638		
Liabilities & Stockholders' Equity:									
Interest-bearing liabilities:									
NOW	\$ 54,667	\$ 1,234	2.26%	\$ 59,969	\$ 1,158	1.93%	\$ 65,761	\$ 809	1.23%
Money market	9,357	221	2.36%	13,093	246	1.88%	17,096	213	1.25%
Savings	22,309	194	0.87%	27,453	228	0.83%	29,056	230	0.79%
Time	256,268	11,841	4.62%	255,599	9,520	3.72%	243,612	7,373	3.03%
Total interest-bearing deposits	342,601	13,490	3.94%	356,114	11,152	3.13%	355,525	8,625	2.43%
Short-term borrowings (6)	36,145	1,505	4.16%	31,427	928	2.95%	30,572	403	1.32%
Borrowed funds	83,024	4,021	4.84%	82,143	3,617	4.40%	82,542	3,851	4.67%
Junior subordinated debentures	16,496	1,081	6.55%	16,496	1,064	6.45%	15,248	1,088	7.14%
Total interest-bearing liabilities/interest expense/average rates paid	478,266	20,097	4.20%	486,180	16,761	3.45%	483,887	13,967	2.89%
Non-interest bearing liabilities:									
Demand deposits and escrow accounts	35,420			39,162			37,841		
Other liabilities	3,500			3,827			3,237		
Total liabilities	517,186			529,169			524,965		
Stockholders' equity	41,120			40,259			38,673		
Total liabilities and stockholders' equity	\$ 558,306			\$ 569,428			\$ 563,638		
Net interest income		\$ 15,783			\$ 18,813			\$ 18,707	

Interest rate spread	2.59%	3.15%	3.23%
Net yield on interest earning assets (7)	2.99%	3.49%	3.50%

(1) The yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity. Interest income and yield are stated on a fully tax equivalent basis using a 30.90% tax rate.

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

(3) Interest income on loans includes amortization of net deferred costs of \$998 in 2007, \$946 in 2006, and \$902 in 2005.

(4) Includes Loans Held for Sale.

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

(6) Short-term borrowings include securities sold under repurchase agreement and sweep accounts.

(7) The net yield on interest earning assets is net interest income divided by total interest-earning assets.

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

	As of June 30,		
	2007	2006	2005
Available-for-sale (1)			
Debt securities issued by U.S. Government-sponsored enterprises	\$ 21,158	\$ 24,694	\$ 25,762
Mortgage-backed securities	52,139	48,126	46,154
Municipal bonds	10,709	10,770	-
Corporate bonds	485	478	493
Equity securities	1,857	2,070	1,937
Total available-for-sale (2):	<u>\$ 86,348</u>	<u>\$ 86,138</u>	<u>\$ 74,346</u>

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

(2) Cost of such securities (\$ in thousands) was \$89,249 as of June 30, 2007, \$90,111 as of June 30, 2006 and \$75,361 as of June 30, 2005.

Table 3
Northeast Bancorp Consolidated
Investment Maturity at Fair Value
(\$ 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
As of June 30, 2007										
U. S. Government sponsored enterprises	\$ 6,410	3.26%	\$ 12,505	4.31%	\$ 973	5.14%	\$ 1,270	5.22%	\$ 21,158	4.09%
Mortgage-backed securities	1,295	4.63%	-	0.00%	19,202	4.19%	31,642	5.26%	52,139	4.85%
Municipal bonds (Tax equivalent yields)	-	0.00%	-	0.00%	-	0.00%	10,709	5.97%	10,709	5.97%
Corporate bonds	-	0.00%	485	4.05%	-	0.00%	-	0.00%	485	4.05%
Equity securities	1,857	4.99%	-	0.00%	-	0.00%	-	0.00%	1,857	4.99%
	<u>\$ 9,562</u>	3.78%	<u>\$ 12,990</u>	4.30%	<u>\$ 20,175</u>	4.24%	<u>\$ 43,621</u>	5.43%	<u>\$ 86,348</u>	4.80%
As of June 30, 2006										
U. S. Government sponsored enterprises	\$ -	0.00%	\$ 20,573	3.35%	\$ 2,868	4.85%	\$ 1,253	5.23%	\$ 24,694	3.62%
Mortgage-backed securities	-	0.00%	766	4.38%	23,872	4.19%	23,488	5.08%	48,126	4.63%
Municipal bonds (Tax equivalent yields)	-	0.00%	-	0.00%	-	0.00%	10,770	5.97%	10,770	5.97%
Corporate bonds	-	0.00%	478	4.05%	-	0.00%	-	0.00%	478	4.05%
Equity securities	2,070	6.56%	-	0.00%	-	0.00%	-	0.00%	2,070	6.56%
	<u>\$ 2,070</u>	6.56%	<u>\$ 21,817</u>	3.41%	<u>\$ 26,740</u>	4.26%	<u>\$ 35,511</u>	5.36%	<u>\$ 86,138</u>	4.55%

Table 4
Northeast Bancorp Consolidated
Loan Portfolio
(\$ in thousands)

As of	June 30, 2007		June 30, 2006		June 30, 2005		June 30, 2004		June 30, 2003	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
Loan portfolio:										
Residential real estate	\$ 145,184	34.34%	\$ 149,100	34.44%	\$ 148,840	32.46%	\$ 138,031	32.10%	\$ 125,437	33.33%
Commercial real estate	112,535	26.61%	115,327	26.63%	125,899	27.46%	127,866	29.74%	97,854	26.00%
Construction	5,451	1.29%	5,106	1.18%	12,201	2.66%	8,367	1.95%	7,201	1.92%
Commercial	40,784	9.64%	50,262	11.61%	68,716	14.99%	64,304	14.95%	67,585	17.96%
Consumer and other	118,881	28.12%	113,192	26.14%	102,865	22.43%	91,434	21.26%	78,235	20.79%
Total loans	422,835	100.00%	432,987	100.00%	458,521	100.00%	430,002	100.00%	376,312	100.00%
Net deferred loan costs	2,736		2,676		2,531		2,592		2,675	
Less:										
Allowance for loan losses	5,756		5,496		5,104		4,577		4,016	
Net loans	\$ 419,815		\$ 430,167		\$ 455,948		\$ 428,017		\$ 374,971	

Table 5
Northeast Bancorp Consolidated
Maturities and Repricing of Loans (\$ in thousands)
As of June 30, 2007

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	\$ 30,526	\$ 26,273	\$ 21,749	\$ 66,636	\$ 145,184
Commercial	44,821	61,851	4,206	1,657	112,535
Construction	5,451	-	-	-	5,451
Non-mortgage loans:					
Commercial	21,112	18,337	1,335	-	40,784
Consumer and other	1,330	39,061	23,863	54,627	118,881
Total loans	\$ 103,240	\$ 145,522	\$ 51,153	\$ 122,920	\$ 422,835
Type of interest rate:					
Predetermined rate, maturity greater than 1 year	\$ 227,728				
Floating or adjustable rate due after one year	91,867				
Total due after 1 year:	\$ 319,595				

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)

As of or For Years Ended June 30,	2007	2006	2005	2004	2003
Average net loans outstanding during the period (1)	\$ 432,539	\$ 448,070	\$ 452,951	\$ 395,774	\$ 380,948
Total loans at end of period (1)	\$ 425,571	\$ 435,663	\$ 461,052	\$ 432,594	\$ 378,987
Allowance at beginning of period	\$ 5,496	\$ 5,104	\$ 4,577	\$ 4,016	\$ 3,496
Loans charged-off during the period:					
Residential real estate	60	15	67	142	120
Commercial real estate	6	35	7	124	22
Commercial	251	326	389	49	130
Consumer and other	538	417	472	422	699
Total loans charged-off	855	793	935	737	971
Recoveries on loans previously charged-off:					
Residential real estate	1	1	0	60	41
Commercial real estate	26	25	10	34	55
Commercial	4	6	41	120	166
Consumer and other	95	131	109	122	138
Total recoveries	126	163	160	336	400
Net loans charged off during the period	729	630	775	401	571
Provision for loan losses	989	1,226	1,302	962	1,091
Reclassified to off-balance sheet credit risk reserve	0	(204)	0	0	0
Allowance at end of period	\$ 5,756	\$ 5,496	\$ 5,104	\$ 4,577	\$ 4,016
Ratio of net charge-offs to average loans outstanding	0.17%	0.14%	0.17%	0.10%	0.15%
Allowance as a percentage of total loans	1.35%	1.26%	1.11%	1.06%	1.06%
Allowance as a percentage of non-performing and nonaccrual loans (2)	113.08%	105.79%	300.59%	272.93%	219.57%

(1) Excludes loans held for sale.

(2) The increase in non-performing loans in fiscal 2007 and 2006 caused the allowance as a percentage of non-performing and nonaccrual loans to decrease compared to prior years.

Management believes that the allowance for loan losses is adequate.

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

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

As of	June 30, 2007		June 30, 2006		June 30, 2005		June 30, 2004		June 30, 2003	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	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	\$ 808	34.34%	\$ 672	34.44%	\$ 730	32.46%	\$ 636	32.10%	\$ 516	33.33%
Commercial real estate	2,000	26.61%	2,156	26.63%	1,670	27.46%	989	29.74%	855	26.00%
Construction	64	1.29%	56	1.18%	69	2.66%	48	1.95%	7	1.92%
Commercial	1,042	9.64%	1,037	11.61%	753	14.99%	1,374	14.95%	1,640	17.96%
Consumer and other	1,667	28.12%	1,470	26.14%	1,737	22.43%	1,530	21.26%	998	20.79%
Unallocated	175	0.00%	105	0.00%	145	0.00%	0	0.00%	0	0.00%
Total	\$ 5,756	100.00%	\$ 5,496	100.00%	\$ 5,104	100.00%	\$ 4,577	100.00%	\$ 4,016	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 probable 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 collateral appraisals when considered necessary.

Table 8
 Northeast Bancorp Consolidated
 Non-performing Loans
 (\$ in thousands)

	As of June 30,				
	2007	2006	2005	2004	2003
Nonaccrual loans:					
Residential real estate	\$ 439	\$ 521	\$ 515	\$ 214	\$ 568
Commercial real estate	1,444	1,260	33	47	524
Commercial loans	708	1,423	3	85	28
Consumer and other	461	109	60	101	76
Total nonaccrual loans	3,052	3,313	611	447	1,196
Current nonaccrual loans (1)	2,038	1,882	1,087	1,230	633
Total non-performing loans (2)	5,090	5,195	1,698	1,677	1,829
Acquired assets	-	10	89	39	97
Total non-performing assets	\$ 5,090	\$ 5,205	\$ 1,787	\$ 1,716	\$ 1,926
Non-performing loans to total loans	1.20%	1.19%	0.37%	0.39%	0.49%
Non-performing assets to total assets	0.91%	0.92%	0.31%	0.32%	0.41%

As of June 30, 2007, 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 Management's Discussion and Analysis.

(1) As of June 30, 2007, comprised of commercial real estate loans of \$589 thousand, commercial loans of \$1,396 thousand, residential real estate loans of \$38 thousand and consumer loans of \$15 thousand.

(2) Total non-performing loans increased in fiscal 2007 and 2006 as compared to prior years primarily from commercial real estate and commercial loans. Loans past due 90 days or more and discretionary actions by management to place loans on non-accrual account for the increase in both portfolios. Estimated credit losses were included in the determination of the adequacy of the allowance for loan losses.

Table 9
 Northeast Bancorp Consolidated
 Average Deposits (\$ in thousands) and Rates

For Years Ended	June 30, 2007			June 30, 2006			June 30, 2005		
	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits	Amount	Rate	% of Deposits
	Average deposits:								
Non-interest bearing demand deposits and escrow accounts	\$ 35,420	0.00%	9.37%	\$ 39,162	0.00%	9.91%	\$ 37,841	0.00%	9.62%
Regular savings	22,309	0.87%	5.90%	27,453	0.83%	6.95%	29,056	0.79%	7.39%
NOW and money market	64,024	2.27%	16.94%	73,062	1.80%	18.48%	82,857	1.23%	21.06%
Time deposits	256,268	4.62%	67.79%	255,599	3.76%	64.66%	243,612	3.03%	61.93%
Total average deposits	\$ 378,021	3.57%	100.00%	\$ 395,276	2.82%	100.00%	\$ 393,366	2.19%	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 Certificates of Deposit \$100,000 & Over
 As of June 30, 2007
 (\$ in thousands)

	Balance
3 months or less	\$ 25,535
Over 3 through 6 months	10,138
Over 6 through 12 months	23,860
Over 12 months	8,565
Total certificates of deposit \$100,000 & over	\$ 68,098

Table 11
 Northeast Bancorp Consolidated
 Short-term Borrowings
 (\$ in thousands)

	As of or For Years Ended June 30,					
	2007		2006		2005	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	\$ 33,105	4.28%	\$ 29,637	3.79%	\$ 33,379	1.48%
Average outstanding during year	36,145	4.16%	31,427	2.95%	30,572	1.32%
Maximum outstanding at any month end	44,164		37,237		36,506	

Short-term borrowings consist of securities sold under agreements to repurchase and other sweep accounts. These borrowings were scheduled to mature within 180 days. Securities sold under agreements to repurchase were collateralized by mortgage-backed and U. S. Government-sponsored enterprise securities with a fair value of \$31,530,000 and amortized cost of \$30,348,000 at June 30, 2007, and a fair value of \$33,112,000 and amortized cost of \$34,893,000 at June 30, 2006. Sweep accounts have excess deposit insurance coverage of \$7,300,000 at June 30, 2007. Securities sold under these agreements were under the control of the Company throughout 2007 and 2006.

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

	As of or For Years Ended June 30,					
	2007		2006		2005	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	\$ 50,017	5.17%	\$ 34,832	4.03%	\$ 48,500	4.89%
Average outstanding during year	34,672	4.45%	38,606	4.27%	40,541	5.08%
Maximum outstanding at any month end	50,017		49,306		50,761	

This table shows the Federal Home Loan Bank Advances the Company had due to mature in one year or less as of June 30, 2007, 2006, and 2005.

Table 13
 Northeast Bancorp Consolidated
 Maturities and Repricing of Interest-Earning Assets & Interest-bearing Liabilities
 As of June 30, 2007
 (\$ 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	\$ 9,562	\$ 12,990	\$ 63,796	\$ 86,348	16.68%
Regulatory stock	4,826	-	471	5,297	1.02%
Short-term investments (1)	3,313	-	-	3,313	0.64%
Mortgage loans:					
Residential real estate:					
Fixed rate loans	115	2,922	87,693	90,730	17.52%
Variable loans	30,411	23,351	692	54,454	10.52%
Commercial real estate	44,821	61,851	5,863	112,535	21.73%
Construction	5,451	-	-	5,451	1.05%
Other loans:					
Commercial	21,112	18,337	1,335	40,784	7.88%
Consumer and other	1,330	39,061	78,490	118,881	22.96%
Total loans	103,240	145,522	174,073	422,835	81.66%
Total interest-earning assets	\$ 120,941	\$ 158,512	\$ 238,340	\$ 517,793	100.00%
Interest-bearing liabilities:					
Customer deposits:					
NOW accounts	\$ 53,405	\$ -	\$ -	\$ 53,405	11.29%
Money market accounts	8,054	-	-	8,054	1.70%
Regular savings	21,145	-	-	21,145	4.47%
Time deposits	204,463	40,833	321	245,617	51.91%
Total customer deposits	287,067	40,833	321	328,221	69.37%
Borrowings:					
Short-term borrowings	33,105	-	-	33,105	7.00%
FHLB advances and other borrowings	55,551	29,403	10,355	95,309	20.14%
Junior subordinated debentures	3,093	13,403	-	16,496	3.49%
Total borrowings	91,749	42,806	10,355	144,910	30.63%
Total interest-bearing liabilities	\$ 378,816	\$ 83,639	\$ 10,676	\$ 473,131	100.00%
Interest sensitivity gap	\$ (257,875)	\$ 74,873	\$ 227,664	\$ 44,662	
Cumulative gap	\$ (257,875)	\$ (183,002)	\$ 44,662	\$ 44,662	
Cumulative gap ratio	31.93%	60.43%	109.44%	109.44%	
Cumulative gap as a percentage of total assets	-46.31%	-32.87%	8.02%	8.02%	

(1) Includes interest-earning deposits and loans held for sale.

This table summarizes the anticipated maturities and repricing of the Company's interest-earning assets and interest-bearing liabilities at June 30, 2007.

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 cumulative gap position to be as high of a negative amount as presented in the schedule above.

Table 14
Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2007

	1st Qtr Sept. 30 2006	2nd Qtr Dec. 31 2006	3rd Qtr Mar. 31 2007	4th Qtr June 30 2007
Interest income				
Interest on loans	\$ 7,942,105	\$ 7,951,759	\$ 7,779,765	\$ 7,692,918
Interest & dividends on investments & available-for-sale securities	1,079,884	1,084,560	1,042,775	1,108,589
Total interest and dividend income	9,021,989	9,036,319	8,822,540	8,801,507
Interest expense				
Deposits	3,350,654	3,352,163	3,365,204	3,422,152
FHLB advances and other borrowings	970,138	967,609	993,900	1,089,704
Short-term borrowings	307,829	437,547	398,246	361,314
Junior Subordinated Debentures	277,991	276,883	270,912	254,752
Total interest expense	4,906,612	5,034,202	5,028,262	5,127,922
Net interest income	4,115,377	4,002,117	3,794,278	3,673,585
Provision for loan losses	300,786	375,546	200,043	112,783
Net interest income after provision for loan losses	3,814,591	3,626,571	3,594,235	3,560,802
Securities transactions	4,386	17,878	8,443	11,642
Other operating income	1,458,042	1,869,280	2,379,096	2,196,060
Other operating expense	4,669,678	4,964,155	5,265,250	5,176,103
Income before income taxes	607,341	549,574	716,524	592,401
Income tax expense	152,674	132,218	191,557	102,714
Net income	\$ 454,667	\$ 417,356	\$ 524,967	\$ 489,687
Earnings per share:				
Basic	\$ 0.19	\$ 0.17	\$ 0.21	\$ 0.20
Diluted	\$ 0.18	\$ 0.17	\$ 0.21	\$ 0.20

Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
For Year Ended June 30, 2006

	1st Qtr Sept. 30 2005	2nd Qtr Dec. 31 2005	3rd Qtr Mar. 31 2006	4th Qtr June 30 2006
Interest income				
Interest on loans	\$ 8,018,116	\$ 7,978,433	\$ 7,698,250	\$ 7,948,204
Interest & dividends on investments & available-for-sale securities	852,350	922,229	975,370	1,063,256
Total interest and dividend income	8,870,466	8,900,662	8,673,620	9,011,460
Interest expense				
Deposits	2,513,254	2,771,214	2,808,774	3,059,064
FHLB advances and other borrowings	1,008,655	775,365	856,253	976,658
Short-term borrowings	160,437	224,204	251,767	291,280
Junior Subordinated Debentures	262,056	266,346	264,548	270,731
Total interest expense	3,944,402	4,037,129	4,181,342	4,597,733
Net interest income	4,926,064	4,863,533	4,492,278	4,413,727
Provision for loan losses	300,505	300,104	325,356	300,448
Net interest income after provision for loan losses	4,625,559	4,563,429	4,166,922	4,113,279
Securities transactions	6,736	3,031	1,683	5,885
Other operating income	1,390,298	1,384,568	1,779,952	2,022,728
Other operating expense	4,459,094	4,386,326	4,692,209	4,670,875
Income before income taxes	1,563,499	1,564,702	1,256,348	1,471,017
Income tax expense	521,402	493,506	382,607	453,852
Net income	\$ 1,042,097	\$ 1,071,196	\$ 873,741	\$ 1,017,165
Earnings per share:				
Basic	\$ 0.41	\$ 0.42	\$ 0.35	\$ 0.43
Diluted	\$ 0.41	\$ 0.42	\$ 0.35	\$ 0.41

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

Not applicable

Item 9A. Controls and Procedures

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2007, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in the Corporation's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

An evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal controls and procedures over financial reporting (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this annual report.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors, and instances of fraud, if any, within the Company have been or will be detected. The inherent limitations include, among other things, the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls and procedures also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or employee override of the controls and procedures. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls and procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with its policies or procedures. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on their evaluation of disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded, subject to the limitations described above, that our internal controls and procedures over financial reporting as of the end of the period covered by this report were effective.

There have been no significant changes in our internal controls, or in other factors that could significantly affect our internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation, including any corrective actions with regard to significant deficiencies or material weaknesses.

The Company is not subject to an attestation report from its registered public accounting firm until the fiscal year ended June 30, 2008. Thus, no attestation report on management's assessment of our internal controls over financial reporting is included in this annual report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 of Form 10-K with respect to our directors and executive officers is incorporated by reference from the information contained in the section captioned "Election of Directors" in the Company's definitive Proxy Statement for the 2007 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the Company's 2007 fiscal year (the "2007 Proxy Statement"). Certain information with respect to executive officers is included in Part I, Item 4 of this report. The information required by Item 10 of Form 10-K with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference from the information contained in the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2007 Proxy Statement. Information regarding the information required by Item 406 of Regulation S-K is incorporated herein by reference from the information contained in the section captioned "Corporate Governance – Code of Ethics" in the 2007 Proxy Statement. The information required by Item 10 of Form 10-K with respect to our audit committee is incorporated by reference from the information contained in the section captioned "Corporate Governance Board Committee and Membership and Meetings – Audit Committee" in the Company's 2007 Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 of Form 10-K is incorporated by reference from the information contained in the sections captioned "Election of Directors - Compensation of Directors," "Compensation of Executive Officers", "Compensation Discussion and Analysis", and "Compensation Committee Interlocks and Insider Participation" in the 2007 Proxy Statement.

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

The information required by Item 12 of Form 10-K is incorporated by reference from the information contained in the section captioned "Security Ownership of Management and Certain Beneficial Owners" in the 2007 Proxy Statement

The following table provided information about the Company's Common Stock that may be issued upon the exercise of stock options under all of the registrant's equity compensation plans in effect as of June 30, 2007.

<u>Plan category</u>	(a) Number of securities to be issued upon exercise of <u>outstanding options</u>	(b) Weighted-average exercise price of <u>outstanding options</u>	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in the first <u>column (a)</u>).
Equity compensation Plan approved by Security holders (1)	52,000	\$ 12.12	179,500
Equity compensation Plan not approved by Security holders	0	\$ 0.00	0

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

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

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 of Form 10-K is incorporated by reference from the information contained in the section captioned "Related Party Transactions" and "Corporate Governance – Director Qualifications and Independence" in the 2007 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 of Form 10-K is incorporated herein by reference from the information contained in the section "Relationship with Independent Accountants" in the 2007 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

Consolidated Balance Sheets as of June 30, 2007 and 2006

Consolidated Statements of Income for the years ended June 30, 2007, 2006 and 2005

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended June 30, 2007, 2006 and 2005

(b) Exhibits

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

- 3.1 Conformed Articles of Incorporation of Northeast Bancorp
- 3.2 Bylaws of Northeast Bancorp
- 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 on October 12, 1999.
- 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 on October 12, 1999.
- 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 October 12, 1999.
- 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 on October 12, 1999.
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- 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 on October 12, 1999.
- 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)
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- 10.4 1999 Stock Option Plan of Northeast Bancorp
- 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.
- 23.1 The Consent of Shatswell, MacLeod & Company, P.C.
- 23.2 The Consent of Banker Newman & Noyes, Limited Liability Company.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)).
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)).
- 32.1 Certificate of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)). **

With the exception of the information expressly incorporated herein by reference, the Company's 2007 Proxy Statement for the 2007 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 21, 2007

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
<u>/s/ John B. Bouchard</u> John B. Bouchard	Director	September 21, 2007
<u>/s/ James P. Day</u> James P. Day	Director	September 21, 2007
<u>/s/ James D. Delamater</u> James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 21, 2007
<u>/s/ Ronald J. Goguen</u> Ronald J. Goguen	Director	September 21, 2007
<u>/s/ Philip C. Jackson</u> Philip C. Jackson	Director	September 21, 2007
<u>/s/ Judith W. Kelley</u> Judith W. Kelley	Chairman of the Board	September 21, 2007
<u>/s/ Pender J. Lazenby</u> Pender J. Lazenby	Director	September 21, 2007
<u>/s/ John Rosmarin</u> John Rosmarin	Vice-Chairman of the Board	September 21, 2007
<u>/s/ John Schiavi</u> John Schiavi	Director	September 21, 2007
<u>/s/ Stephen W. Wight</u> Stephen W. Wight	Director	September 21, 2007
<u>/s/ Dennis A. Wilson</u> Dennis A. Wilson	Director	September 21, 2007
<u>/s/ Robert S. Johnson</u> Robert S. Johnson	Chief Financial Officer (Principal Financial and Accounting Officer)	September 21, 2007

EXHIBIT INDEX

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NORTHEAST BANCORP
ARTICLES OF INCORPORATION

FIRST: The name of the corporation is NORTHEAST BANCORP.

SECOND: The name of its Clerk, who must be a Maine resident and the address of its registered office shall be:
Suzanne M. Carney
500 Canal Street, Lewiston, Maine 04240

THIRD: The number of directors constituting the initial board of directors of the corporation is nine, as follows:

Gordon M. Gillies, 3 Broad St, Bethel, Maine 04217
E. Louise Lincoln, PO box 527, Bethel, Maine 04217
John W. Trinward, 8 Vernon St., Bethel, Maine 04217
Stephen W. Wight, RFD 2, Box 1688, Bethel, Maine 04217
Edmond J. Vachon, Paradise St., Bethel, Maine 04217
Ronald C. Kendall, PO Box 1, Bethel, Maine 04217
Norris T. Brown, Clark St., Bethel, Maine 04217
Philip C. Jackson, 12 Smith St, Bethel, Maine 04217
James D. Delamater, Route 121, Oxford, Maine 04270

FOURTH: The board of directors is authorized to increase or decrease the number of directors. The minimum number shall be nine directors and the maximum number shall be twelve directors.

FIFTH: SHARES - There shall be 15,000,000 authorized shares of \$1.00 par value Common Stock, which may be issued by the Corporation from time to time by vote of the Board without the approval of the holders of the Common Stock. Upon payment of lawful consideration, such shares shall be deemed fully paid and nonassessable. Except as the Board shall have otherwise specified or except as otherwise provided by law, voting power shall be vested exclusively in the Common Stock. The holders of the Common Stock shall be entitled to one vote for each share of Common Stock owned. Dividends, as declared by the Board out of lawfully available funds, shall be payable on the Common Stock subject to any rights or preferences of the Preferred Stock.

There shall be 1,000,000 authorized shares of \$1.00 par value Preferred Stock which may be issued from time to time in one or more series as may be determined by the Board of Directors of the Corporation. Each series of Preferred is to be distinctly designated to distinguish the shares in the series from the shares of all other series and classes. The relative rights and preferences of the Preferred Stock and the variations of rights and preferences between different series of Preferred Stock may be fixed and determined by the Board of Directors by resolution or resolutions adopted prior to the issuance of any shares of a particular series of Preferred Stock. All shares of Preferred shall be identical except as to the following relative rights and preferences, as to which there may be variations between different series:

- a. The rate of dividend;
- b. Whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;
- c. The amount payable upon shares in event of voluntary and involuntary liquidation;
- d. Sinking fund provisions, if any, for the redemption or purchase of shares;
- e. The terms and conditions, if any, on which shares may be converted; or
- f. Voting rights, if any.

Upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, holders of Common Stock are entitled to receive pro rata the remaining assets of the Corporation after the holders of Preferred Stock have been paid in full any sums to which they may be entitled.

There shall be no cumulative voting for Directors or otherwise.

SUMMARY

The aggregate par value of all authorized shares (of all classes) having a par value is \$4,000,000. The total number of authorized shares (of all classes) without par value is zero shares.

SIXTH: Meetings of the shareholders may be held outside the State of Maine.

SEVENTH: There are no preemptive rights.

EIGHTH: INTERNAL AFFAIRS OF THE CORPORATION

Section 1.

(a) Number, Qualifications and Term of Office.

Subject to the provisions hereof relating to the initial Board, the number of directors of the corporation shall be no less than 9 and no more than 12. The exact number of Directors within the minimum and maximum limitations specified in the preceding sentence shall be fixed from time to time by the Board pursuant to a resolution adopted by the majority of the entire Board. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. Each Director elected to succeed those directors whose terms expire at or after the 1997 annual meeting of Shareholders shall be elected to serve until the next annual meeting of shareholders and until his or her successor is elected and qualified. Directors need not be Shareholders or residents of the State of Maine.

(b) Vacancies.

Any vacancy in the Board caused by death, resignation, retirement, disqualification, removal or other cause, shall be filled by a majority vote of the remaining Directors, though less than a quorum. A Director so chosen shall hold office for the unexpired term of their predecessors in office. Any Directorship to be filled by reason of an increase in the authorized number of directors may be filled by the Board for a term of office continuing only until the next election of Directors by Shareholders.

(c) Removal of Directors.

At any meeting of Shareholders called expressly for the purpose, any Director may be removed from office by the affirmative vote of the holders of seventy-five percent (75%) of the shares entitled to vote or if removal is for cause, then by a majority of the shares then entitled to vote. For "cause" shall mean a final adjudication by a court of competent jurisdiction that the Director (i) is liable for negligence or misconduct in the performance of his duty, (ii) guilty of a felony conviction, or (iii) has failed to act or has acted in a manner which is in derogation of the Director's duties.

(d) Nomination of Directors.

In addition to the right of the Board to make nominations for the election of Directors, nominations for the election of Directors may be made by any Shareholder entitled to vote for the election of Directors if that Shareholder complies with all of the following provisions:

- a. Advance notice of such proposed nomination shall be received by the Secretary of the Corporation not less than thirty (30) days nor more than sixty (60) days prior to any meeting of the Shareholders called for the election of the Directors; provided, however, that if fewer than fourteen (14) days' notice of the meeting is given to Shareholders, such written notice of a proposed nomination shall be received not later than the close of the tenth day following the day on which the notice of the meeting was mailed to Shareholders.
- b. Each notice shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee; and (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee. In addition, the Shareholder making such nomination shall promptly provide any other information reasonably requested by the Corporation.
- c. The nomination made by a Shareholder may only be made in a meeting of the Shareholders of the Corporation called for the election of Directors at which such Shareholder is present in person or by proxy, and can only be made by a Shareholder who has complied with the notice provisions of (a) and (b) above.
- d. The Chairman of the meeting may in his discretion determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedures, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2. Voting for Business Combinations.

(a) Neither the Corporation nor any subsidiary of which the Corporation owns at least a majority of the equity securities ordinarily entitled to vote for the election of Directors ("Subsidiary"), shall be a party to any of the transactions specified herein (a "Business Combination") or enter into any agreement providing for any Business Combination unless the conditions specified in (b), (c) and (d) below shall have been satisfied:

- (i) any merger or consolidation (whether in a single transaction or a series of related transaction) other than a merger or consolidation of the Corporation and any of its subsidiaries or a merger or consolidation of any subsidiaries of the Corporation; or
- (ii) any sale, lease, exchange, transfer or distribution of all or substantially all or a substantial portion of the property or assets of the Corporation or any of its subsidiaries, including its goodwill; or
- (iii) the issuance of any securities, or of any rights warrants or options to acquire any securities of the Corporation or any of its subsidiaries, to any Shareholders other than by stock dividend declared and paid to all Shareholders of the Corporation or pursuant to an employee stock ownership plan or an employee stock option plan established by the Corporation; or
- (iv) any reclassification of the stock of the Corporation or any of its subsidiaries or any recapitalization or other transaction (other than a redemption of stock) which has the effect, directly or indirectly, of increasing the proportionate share of stock of the Corporation or any of its subsidiaries held by any person; or
- (v) the dissolution of the Corporation or any subsidiary thereof or any partial or complete liquidation of the Corporation or any subsidiary thereof.

(b) The vote of the holders of at least eighty percent (80%) of the outstanding shares entitled to vote for the election of Directors shall be required to approve or authorize any Business Combination to which the Corporation or any Subsidiary is party unless the aggregate of the cash and fair market value of the consideration to be paid to all the holders of the Common Stock of the Corporation in connection with the Business Combination (when adjusted for stock splits, stock dividends, reclassification of shares or otherwise) shall be equal to the highest price per share paid by the other party or parties to the Business Combination (the "Acquiring Party") in acquiring any of the Corporation's Common Stock; provided however, that the consideration to be paid to the holders of the Common Stock of the Corporation shall be in the same form as that paid by the Acquiring Party in acquiring the shares of the Common Stock held by it except to the extent that any Stockholder of the Corporation shall otherwise agree.

(c) Subject to the provisions in (b) above, the vote of the holders of at least seventy-five percent (75%) of the outstanding shares entitled to vote for the election of Directors shall be required to approve or authorize any Business Combination to which the Corporation or any Subsidiary is a party unless the Business Combination shall have been approved by at least two-thirds (2/3) of the Directors of the Corporation who are not affiliated with, or Shareholders of, the Acquiring Party.

In connection with the exercise of its judgment in determining what is in the best interests of the Corporation and of the Shareholders, when evaluating a Business Combination or a proposal by another person or persons to make a Business Combination or a tender or exchange

offer, the Board may, in addition to considering the adequacy of the amount to be paid in connection with any such transaction, consider all of the following factors and other factors which it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its subsidiaries operate or are located; (ii) the business and financial condition and earnings prospects of the acquiring person or persons, including but not limited to debt service and other existing financial obligations, financial obligations to be incurred in connection with the acquisition, and other likely financial obligations of the acquiring person or persons, and the possible effect of such conditions upon the Corporation and its subsidiaries and the other elements of the communities in which the Corporation and its subsidiaries operate or are located; and (iii) the competence, experience and integrity of the acquiring person or persons and its or their management.

- (d) In the event that all of the conditions set forth in (b) and (c) above are met, the Corporation or any Subsidiary may enter into any Business Combination under the terms and conditions specified in the Maine Business Corporation Act.
- (e) The affirmative vote of the holders of at least eighty percent (80%) of all of the shares of the Corporation entitled to vote for the election of Directors shall be required to amend or repeal, or to adopt any provisions in contravention of or inconsistent with this Section 2, notwithstanding the fact that a lesser percentage may be specified by law.

Section 3. Special Meetings and Consent Meetings.

Special meetings of the Shareholders may be called by the Chairman, President, the Board, or by the Secretary upon written request of the holders of not less than ten percent (10%) of all the shares entitled to vote.

Section 4. Acquisition of Stock.

(a) Restrictions on Offers and Acquisitions.

For a period of five (5) years from the effective date of the conversion, no person shall directly or indirectly offer to acquire or acquire the beneficial ownership of (i) more than ten percent (10%) of the issued and outstanding shares of any class of an equity security of the Corporation; (ii) more than ten percent (10%) of any class of securities convertible into, or exercisable for, any class of an equity security of the Corporation; (iii) any securities convertible into, or exercisable for, any equity securities of the Corporation if assuming conversion or exercise by such person of all securities of which such person is the beneficial owner which are convertible into, or exercisable for, such equity securities (but of no securities convertible into, or exercisable for, such equity securities of which such person is not the beneficial owner), such person would be the beneficial owner of more than ten percent (10%) of any class of an equity security of the Corporation.

For the same five year period, each share beneficially owned in violation of the foregoing percentage limitation, as determined by the Board, shall not be voted by any person or counted as voting shares in connection with any matter submitted to the shareholders for a vote.

For the purposes of this Section 4:

- (i) The term "person" shall mean and include any individual, group acting in concert, Corporation, partnership, or other organization or entity, together with its affiliates and associates; and
 - (ii) The term "offer" includes every offer to buy or acquire, solicitation of an offer to sell, tender offer for, or request or invitation for tenders of, a security (including, without limitation, shares of any class of capital stock of the Corporation) or interest in a security for value.
 - (iii) The term "conversion" shall mean the completed process whereby Bethel Savings, FSB Bank will be converted from a federally chartered mutual savings bank to a federally chartered stock savings bank and Bethel Bancorp shall become the holding company for Bethel Savings Bank, FSB.
- (b) Exclusion for Underwriters, Directors, Officers and Employees. The restriction contained in this Section 4 shall not apply to any offer with a view toward public resale made exclusively to the Corporation or the underwriters or a selling group acting on its behalf. In addition, the Directors, Officers and employees of the Corporation or any subsidiary thereof shall not be deemed to be a group with respect to their individual acquisition of equity stock of the Corporation.
 - (c) Readoption of Restriction by Shareholders. This Section 4 may be readopted for additional one-year or longer periods by vote of the holders of a majority of the outstanding voting shares present or represented at a duly convened annual or special meeting of Shareholders of the Corporation.
 - (d) Exception in Cases of Advance Approval. This Section 4 shall not apply to any offer or acquisition referred to in (a) above if such offer or acquisition was approved in advance of such offer or acquisition by two-thirds (2/3) of the entire Board utilizing the standard set forth in Section 2(c).
 - (e) Enforcement of this Section 4. The Corporation may by law or by resolution of the Directors adopt such provisions or resolutions as are necessary to provide for the enforcement of this Section 4.
 - (f) Amendments of this Section 4. Notwithstanding any other provisions of these Articles of Incorporation or the By-Laws of the Corporation, and notwithstanding the fact that some lesser percentage may be specified by law, this Section 4 shall not be amended, altered, changed or repealed without:
 - a. the affirmative vote of two-thirds (2/3) of the Board; and
 - b. the affirmative vote by the holders of at least two-thirds (2/3) of the outstanding shares entitled to vote.

This vote shall be in addition to any vote of the Preferred Stock as may be required by the provisions of any series thereof or applicable by law.

The readoption of Section 4 for additional one-year or longer periods, as provided in (c) above, shall not be an amendment, alteration or change for the purposes of this paragraph.

Section 5. Amendments.

(a) Amendments to Articles of Incorporation.

Except as otherwise provided for in the Articles above, the affirmative vote of the holders of at least two-thirds (2/3) of all of the shares of the Corporation entitled to vote for the election of Directors, shall be required to amend or repeal, or to adopt any provision in contravention of or inconsistent with these Articles notwithstanding the fact that a lesser percentage may be specified by law.

(b) Amendments to By-Laws.

The By-Laws of the Corporation may be amended at any time by the affirmative vote of a majority of the entire Board, subject to repeal, change or adoption of any contravening or inconsistent provision only by vote of the holders of at least two-thirds (2/3) of all the shares entitled to vote on the matter at a meetings expressly called for that purpose.

Section 6. Right of Shareholders Following Control Transaction.

The provisions of ME Rev. Stat. Ann. Title 13-A, Section 910 shall not be applicable to the Corporation.

NORTHEAST BANCORP

BY-LAWS As of February 1998

ARTICLE I

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meeting. All meetings of the shareholders of the Corporation shall be held at the principal office of the Corporation in the State of Maine, or at such other place, within or without the State of Maine, as may, from time to time, be fixed by the Board of Directors or as shall be specified or fixed in the respective notices or waivers of notice thereof.

Section 2. Annual Meetings. The annual meeting of the shareholders shall be held not more than one hundred, thirty-five (135) days after the close of the fiscal year of the Corporation, on such date and at such hour as may be fixed by the Board of Directors and stated in the notice of such meeting or on such other date and at such time as shall be stated in the notice of the meeting or otherwise specified by the President. The Clerk shall serve personally or by mail a written notice not less than ten (10) days nor more than sixty (60) days before such meeting, addressed to each shareholder at his address as it appears on the stock book; but at any meeting at which all shareholders not present shall have waived notice in writing, the giving of notice as above required, may be foregone.

Section 3. Special Meetings. A special meeting of the shareholders for any purpose or purposes, unless otherwise prescribed by statute, may be called at any time by the Chairman of the Board, if any, the President, or a Vice-President, or by a majority of the Board of Directors, or upon written application therefore to the Clerk by the holders of not less than ten percent (10%) of the shares entitled to vote at the meeting. Written notice of such meeting, stating the purpose for which it is called, shall be served personally, or by mail, not less than ten (10) nor more than sixty (60) days before the date set for such meeting. If mailed, it shall be directed to every shareholder at his address as it appears on the stock book, but, at any meeting at which all shareholders shall be present, or of which all shareholders not present have waived notice in writing, the giving of notice as above required may be foregone. No business other than that specified in the call for the meeting shall be transacted at any special meeting of the shareholders.

Section 4. Quorum. At each meeting of the shareholders, the presence, in person or by proxy, of the holders of a majority of the issued and outstanding stock of the corporation entitled to vote at such meeting, shall constitute a quorum for the transaction of business except where otherwise provided by law or by the Articles of Incorporation of the Corporation or any amendment thereto. In the absence of a quorum at any meeting or any adjournment thereof, the shareholders of the Corporation present in person or by proxy and entitled to vote shall have the power to adjourn the meeting, from time to time, until shareholders holding the requisite amount of stock shall be present or represented. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called. Notice of any adjourned meeting of the shareholders shall not be required to be given, except when expressly required by law.

Section 5. Organization. The Chairman of the Board, if any, or in the absence of the Chairman of the Board, the President or a Vice-President, or a Chairman designated by the Board of Directors or by the shareholders shall preside at every meeting of the shareholders. In the absence of the Secretary, the presiding officer shall appoint a secretary pro tempore.

Section 6. Voting. (a) Each shareholder of the corporation having voting rights shall, except as otherwise provided by law or by the Articles of Incorporation of the Corporation, at every meeting of the shareholders be entitled to one vote in person or by proxy for each share of the stock of the Corporation registered in his name on the books of the Corporation

- (1) on the date fixed pursuant to Section 2 of Article VI of the By-laws as the record date for the determination of shareholders entitled to vote at such meeting, notwithstanding the sale, or other disposal or transfer on the books of the Corporation of such share on or after the date so fixed, or
- (2) if no such record date shall have been fixed, then at the date on which notice of such meeting is mailed.

(b) At any meeting of shareholders at which a quorum is present, the holders of a majority in interest of the stock having voting rights represented thereat in person or by proxy shall decide any question brought before such meeting unless a larger or different vote or proportion is required by law or by the Articles of Incorporation of the Corporation or by these By-laws.

(c) When so requested by a majority of the holders of outstanding shares present at the meeting, a written ballot shall be used for any vote of the shareholders. If a written ballot shall be used, each ballot shall state the name of the shareholder voting, the number of shares owned by him, and if such ballot be cast by proxy, the name of the proxy.

Section 7. Shareholders' Action Without Meeting. Any action which, under any provision of the Maine Business Corporation Act, may be taken at a meeting of shareholders, may be taken without such a meeting, if consent in writing, setting forth the action so taken or to be taken, is signed severally or collectively by the holders of all the issued and outstanding shares of stock entitled to vote upon such action. The Secretary shall file such consent or consents with the minutes of the meetings of the Shareholders.

ARTICLE II

BOARD OF DIRECTORS

Section 1. General Powers. The property, affairs and business of the Corporation shall be controlled and managed by the Board of Directors. Without limiting the generality of the foregoing, such control shall include the power to: hire employees, professional, clerical and secretarial; enter into employment agreements with employees where deemed advisable; determine levels of employee compensation, including wages, salaries, bonuses and other fringe benefits; terminate the employment of an employee; determine conditions of employment, including hours of work, work responsibility, vacation time, and

sick leave; authorize the purchase or rental of property and determine all policies of the Corporation with regard to the conduct of the business of the Corporation. The Board of Directors may, from time to time, delegate particular responsibilities to specified officers of the Corporation as it shall deem advisable. They may adopt such rules and regulations for the conduct of their meeting and the management of the Corporation not inconsistent with these By-laws, the Corporation's Articles of Incorporation, or the laws of the State of Maine as they may deem proper.

Section 2. Number, qualifications and Term of Office. The number of directors of the Corporation shall be no less than nine (9) and no more than twelve (12). The number of directors who are also employed by the Company or any affiliate of the Company shall not exceed three (3). The board will use its best efforts to fill any vacancy promptly. The exact number of Directors, within the minimum and maximum limitations specified in the preceding sentence, shall be fixed, from time to time, by the Board pursuant to a resolution adopted by a majority of the entire Board. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. Beginning with the 1997 annual meeting of shareholders, Directors shall be elected for terms of one year. No term of an existing director shall be shortened to less than their elected term. Directors need not be shareholders or residents of the State of Maine.

Section 3. Manner of Election. At the annual meeting of shareholders, the persons receiving the largest number of votes cast, shall be Directors.

Section 4. Quorum and Manner of Acting. A majority of the total number of Directors then holding office, shall constitute a quorum for the transaction of business at any meeting except where otherwise provided by statute, the Corporation's Articles of Incorporation or these By-laws; but, less than a quorum may adjourn the meeting. At all meetings of the Board of Directors, each Director present is to have one vote. At all meetings of the Board of Directors, all questions, the manner of deciding which, is not specifically regulated by statute or the Corporation's Articles of Incorporation, shall be determined by a majority of the Directors present at the meeting.

Section 5. Place of Meeting, etc. The Board of Directors may hold its meetings and have one or more offices at such places within or without the State of Maine as the Board, from time to time, may determine or, in the case of meetings, as shall be specified or fixed in the respective notices or waivers of notice thereof.

Section 6. Books and Records. The correct and complete books and records of account and minutes of the proceedings of Shareholders and the Board of Directors shall be kept at the registered office of the Corporation.

Section 7. First Meeting. The Board of Directors shall meet for the purpose of organization, the election of officers and the Clerk, and the transaction of other business as soon as practicable after each annual election of Directors, on the same day and at the same place at which regular meetings of the Board are held, or as may be otherwise provided by resolution of the Board. Notice of such meeting need not be given. Such meeting may be held at any other time or place which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors or in a consent and waiver of notice, thereof, signed by all the Directors.

Section 8. Regular Meetings. Regular meetings of the Board of Directors shall be held at such place and at such time as the Board shall, from time to time, by resolution, determine. A regular meeting of the board of directors shall be held immediately after and at the same place as the annual meeting of shareholders. Notice of regular meetings need not be given.

Section 9. Special Meetings; Notice. Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, if any, or by the President, or by the Clerk at the request of any two Directors at the time being in office. Notice of each such meeting shall be mailed to each Director, addressed to him at his residence or usual place of business, at least two (2) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable, radio or wireless, or be given personally or by telephone, not later than the day before the day on which the meeting is to be held. Every such notice shall state the time and place of the meeting, but, need not state the purpose thereof. Notice of any meeting of the Board need not be given to any Directors, however, if waived by him in writing or by telegraph, cable, radio or wireless, whether before or after such meeting be held, or if he shall be present at such meeting unless his attendance at the meeting is expressly for the purpose of objecting to the transaction of any business because the meeting is not lawfully convened; and any meeting of the Board shall be a legal meeting without any notice thereof having been given, if all of the Directors shall be present thereat.

Section 10. Resignations. Any Director of the Corporation may resign at any time by giving written notice to the President or to the Clerk of the Corporation. Such resignation shall take effect at the time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 11. Removal of Directors. At any meeting of Shareholders called expressly for the purpose, any Director may be removed from office by the affirmative vote of the holders of seventy-five percent (75%) of the shares entitled to vote or if removal is for cause, then by a majority of the shares then entitled to vote. For "cause" shall mean a final adjudication by a court of competent jurisdiction that the Director (i) is liable for negligence or misconduct in the performance of his duty, (ii) guilty of a felony conviction, (iii) has failed to act or has acted in a manner which is in derogation of the Director's duties.

Section 12. Vacancies. Any vacancy in the Board caused by death, resignation, retirement, disqualification, removal, or other cause, shall be filled by a majority vote of the remaining Directors, though less than a quorum. A Director so chosen shall hold office for the unexpired term of their predecessor in office. Any Directorship to be filled by reason of an increase in the authorized number of Directors may be filled by the Board for a term of office continuing only until the next election of Directors by the Shareholders.

Section 13. Compensation. Directors shall receive such compensation for attendance at regular or special meetings as the Board of Directors shall, from time to time, determine.

Section 14. Directors' Participation in Meeting by Telephone. A Director may participate in a meeting of the Board of Directors by means of conference telephone or similar communication equipment enabling all Directors participating in the meeting to hear one another. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

Section 15. Director's Action Without Meeting. If all the Directors then holding office severally or collectively consent in writing to any action taken or to be taken by the Corporation, such action shall be valid as though it had been authorized at a meeting of the Board of Directors. The Clerk shall file such consent or consents with the minutes of the meetings of the Board of Directors.

Section 16. Presumption of Assent. A director of the Company who is present at a meeting of the board of directors at which action on any institutional manner is taken shall be presumed to have assented to the action taken unless his or her dissent or abstention shall be entered in the minutes of the meeting or unless a written dissent to such action shall be filed with the person acting as the secretary of the meeting before the adjournment thereof or shall be forwarded by registered mail to the secretary of the Company within five (5) days after the date on which a copy of the minutes of the meeting is received. Such right to dissent shall not apply to a director who voted in favor of such action.

Section 17. Age Limitation on Directors. No person of an age of 80 years or older will be eligible for election, re-election, appointment, or reappointment to the board of directors of the savings bank. No director shall serve as such beyond the annual meeting of the savings bank immediately following the attainment of the specified age. This provision shall not apply to any director who was a member of the board of Bethel Savings Bank on August 15, 1987, or the board of Brunswick Federal Savings on July 10, 1990.

ARTICLE III

COMMITTEES

Section 1. Designation; Vacancies. The Board of Directors, by a resolution passed by a majority of the whole Board, may designate such number of their members not less than two (2), including the President of the Corporation, as it may, from time to time, determine to constitute an Executive Committee, each member of which, unless otherwise determined by the Board, shall continue to be a member thereof until the expiration of his term of office as a Director.

Section 2. Powers. During the intervals between the meetings of the Board of Directors, the Executive Committee shall have all of the powers of the Board of Directors in the management of the business and affairs of the Corporation, except those prescribed by applicable Maine law, and may exercise such powers in such manner as the Executive Committee shall deem best for the interests of the Corporation in all cases in which specific directions shall not have been given by the Board of Directors.

Section 3. Procedure; Meetings; Quorum. The Executive Committee shall make its own rules of procedure and shall meet at such times and at such place or places as may be provided by such rules or by resolution of the Executive Committee. A majority of the whole number of the members of the Executive Committee shall constitute a quorum at any meeting thereof, and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the Executive Committee. The Board of Directors shall have power at any time to change the members of the Executive Committee, to fill vacancies, and to discharge the Executive Committee.

Section 4. Other Committees. The Board of Directors, by resolution passed by a majority of the whole Board, may designate members of the board to constitute other committees, which shall in each case consist of such number of Directors and shall have and may exercise such powers as the Board may determine and specify in the respective resolutions appointing them. Such committees shall have such name or names as may be determined, from time to time, by resolution adopted by the Board of Directors. The Board of Directors shall have power at any time to change the members of any such committee, to fill vacancies, and to discharge any such committee.

Section 5. Compensation. Members of the Executive Committee or of other committees of the Board of Directors shall receive such compensation for their services as members of such committees as the Board of Directors shall, from time to time, determine.

ARTICLE IV

OFFICERS

Section 1. Number. The officers of the Corporation may include a Chairman of the Board and shall include a President, Treasurer, Secretary and such other officers as the Board of Directors may, from time to time, deem appropriate. One person may hold the office and perform the duties of more than one of said officers. The Corporation shall also have a Clerk, who shall not be an officer.

Section 2. Election, Term of Office and Qualifications. The officers, and the Clerk, shall be elected annually by the Board of Directors. Each officer shall hold office, and the Clerk shall remain Clerk of the Corporation, until his successor shall have been elected and shall have qualified, or until his death or until he shall have resigned or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any officer, or the Clerk, may be removed by the Board of Directors whenever, in its judgement, the best interests of the Corporation will be served by such action.

Section 4. Resignations. Any officer, or the Clerk, may resign at any time by giving written notice to the Board of Directors or to the President or to the Clerk. Such resignation shall take effect at the time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. A vacancy in any office, or in the position of Clerk, because of death, resignation, removal or any other cause shall be filled for the unexpired portion of the term in the manner prescribed in these By-laws for election or appointment to such office or position of Clerk.

Section 6. The Chairman of the Board. The Chairman of the Board, if there shall be one, shall be elected by the board from among its members who are directors who are not employed by the Company or any affiliate of the Company, and shall, if present, preside at all meetings of the shareholders and of the Board of Directors. Except where, by law, the signature of the President is required, he shall possess the same power as the President to sign all certificates, contracts and other instruments of the Corporation which may be authorized by the Board of Directors or by the Executive Committee. He shall, in general, perform all duties incident to the office of the Chairman of the Board, subject, however, to the direction and control of the Board of Directors and of the Executive Committee, and such other duties as, from time to time, may be assigned to him by the Board of Directors or by the Executive Committee.

Section 7. The President. The President shall be the chief executive and administrative officer of the Corporation and shall have general and active supervision and direction over the day-to-day business and affairs of the Corporation and over its several officers, subject, however, to the direction and control of the Board of Directors and of the Executive Committee. At the request of the Chairman of the Board, or in case of his absence or inability to act,

the President may act in his place. He shall sign or countersign all certificates, contracts and other instruments of the Corporation as authorized by the Board of Directors, and shall perform all such other duties as, from time to time, may be assigned to him by the Board of Directors or the Executive Committee.

Section 8. The Vice-Presidents. Each Vice-President shall have such powers and perform such duties as the Board of Directors may, from time to time, prescribe. At the request of the President, or in case of his absence or inability to act, any Vice President may act in his place, and when so acting shall have all the powers and be subject to all the restrictions of the President.

Section 9. The Clerk. The Clerk, who shall be an inhabitant of the State of Maine and shall keep his office therein, shall perform the functions provided in the Maine Business Corporation Act, as it may be amended. The Clerk shall keep, or cause to be kept in books provided for the purpose the minutes of the meetings of the shareholders and of the Board of Directors; shall see that all notices are duly given in accordance with the provisions of these By-laws and as required by law; shall be the custodian of the records, stock certificates records and of the seal of the corporation and see that the seal is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-laws.

Section 10. The Secretary. The Secretary shall perform such duties and have such powers as are required or permitted by law and as the Board of Directors shall, from time to time, designate. In his absence, an Assistant Secretary or a secretary pro tempore shall perform his duties, and the Assistant Secretary shall have such other powers and duties as the Board of Directors shall, from time to time, designate. In the absence of the Clerk, the Secretary shall keep or cause to be kept, in books provided for the purpose, the minutes of the meetings of the shareholders and of the Board of Directors and shall perform such other functions as are provided to be performed by the Clerk.

Section 11. The Treasurer. The Treasurer shall be the financial officer of the Corporation; shall have charge and custody of, and be responsible for, all funds of the Corporation, and deposit all such funds in the name of the Corporation in such banks, trust companies or other depositories as shall be selected by the Board of Directors; shall receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever; and in general, shall perform all the duties incident to the office of Treasurer and such other duties as, from time to time, may be assigned to him by the Board of Directors or by the President.

Section 12. Salaries. The salaries of the Chairman of the Board, President, Treasurer, Secretary, other officers and the Clerk, shall be fixed, from time to time, by the Board of Directors. No officer or the Clerk shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

ARTICLE V

CONTRACTS, CHECKS, NOTES, ETC.

Section 1. Execution of Contracts. All contracts and agreements authorized by the Board of Directors, and all checks, drafts, notes, bonds, bills of exchange and orders for the payment of money shall, unless otherwise directed by the Board of Directors, or unless otherwise required by law, be signed by any two of the following officers: The Chairman of the Board, President, Vice-President, Treasurer, or Secretary. The Board of Directors may, however, authorize any one of said officers to sign checks, drafts and orders for the payment of money singly and without necessity of counter signature, and may designate officers and employees of the Corporation other than those named above, or different combinations of such officers and employees, who may, in the name of the Corporation, execute checks, drafts, and orders for the payment of money on its behalf.

Section 2. Loans. No loans, to the Corporation, shall be contracted on behalf of the Corporation and no negotiable paper shall be signed in its name unless authorized by resolution of the Board of Directors. When authorized by the Board of Directors to do so, any officer or agent of the Corporation thereunto authorized may effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation and, when authorized so to do, may pledge, hypothecate or transfer any securities or advances. Such authority may be general or confined to specific instances.

ARTICLE VI

STOCK AND DIVIDENDS

Section 1. Certificate of Stock. Every stockholder shall be entitled to have a certificate certifying the number of shares owned by him in the Corporation. The certificates shall be in such form as the Board of Directors shall approve. They shall be signed by the President and countersigned by the Secretary and may be sealed with the seal of the Corporation or a facsimile thereof. Such certificates shall be transferable on the stock books of the Corporation in person or by attorney, but, except as hereinafter provided in the case of loss, destruction or mutilation of certificates, no transfer of stock shall be entered until the previous certificate, if any, given for the same shall have been surrendered and cancelled.

A record of shareholders giving the names and addresses of all shareholders and the number and class of the shares held by each, shall be kept at the Corporation's registered office or principal place of business.

The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation.

Section 2. Closing of Transfer Books or Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, sixty (60) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten(10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to

be not more than sixty (60) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

Section 3. Lost, Destroyed or Mutilated Certificates. In case of loss, destruction or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, destruction or mutilation and upon satisfying such other requirements as the Board of Directors shall specify, including such provision for indemnity as may seem advisable to the Board of Directors.

Section 4. Dividends. Subject to the provisions of the Articles of Incorporation of the Corporation, and to the extent permitted by law, the Board of Directors may declare dividends on the shares of stock of the Corporation at such times and in such amounts as, in its opinion, are advisable in view of the condition of the affairs of the Corporation.

ARTICLE VII

FISCAL YEAR

The fiscal year of the Corporation shall be fixed by the Board of Directors.

ARTICLE VIII

SEAL

The Board of Directors shall provide a corporate seal which shall be in the form of a circle and shall bear the name of the Corporation and words and figures indicating the year and state in which the Corporation was incorporated.

ARTICLE IX

WAIVER OF NOTICE

Whenever any notice is required to be given to any shareholder or Director by these By-laws or the Articles of Incorporation or the laws of the State of Maine, a waiver of the notice in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to giving the notice.

ARTICLE X

INDEMNIFICATION

Section 1. Power to Indemnify. To the extent permitted by law or regulation, the Company shall indemnify any person who was or is a director, executive officer or secretary of the corporation, and may indemnify any other person who is or was a party, or is threatened to be made a party, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the Company, or is or was serving at the request of the Company as a member, director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, as follows:

(a) if the action, suit or proceeding is not by or in the right of the Company, against expenses (including attorneys' fees), and against judgements, fines and amounts paid in settlement actually and reasonably incurred by him in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe this conduct was unlawful (the termination of any action, suit or proceeding by judgement, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person acted or failed to act other than in good faith and in a manner which he reasonably believed to be in or not opposed to the best interest of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful);

(b) if the action, suit or proceeding is by or in the right of the Company, to procure a judgement in its favor, against expenses (including attorneys' fees) but excluding judgements and fines, and, except as hereinafter set forth, amounts paid in settlement, actually and reasonably incurred by him in connection with the defense of settlement of such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, except that no indemnification shall be made in respect of any claim, issue or manner as to which such person shall have been adjudged to be liable to the Company for negligence or misconduct in the performance of his duty to the Company unless and only to the extent that the court in which such action, suit or proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper.

Section 2. Right to Indemnification. To the extent that a director, officer, employee or agent of the Company has been successful on the merits or otherwise in defense of any civil or criminal action, suit or proceeding referred to above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

Section 3. Procedure to be Followed. Any indemnification under (a) or (b) above, shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in such paragraph (a) or (b). Such determination shall be as follows:

(a) by a majority vote of a quorum of the board of directors consisting only of directors who were not parties to such action, suit or proceeding, or

(b) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by a written opinion of independent legal counsel appointed by a majority of the disinterested directors for that purpose, or,

(c) by the court or other body before which the action, suit or proceeding is or was pending upon application made by the Company or the director, officer, employee or agent, or the attorney or to the person rendering services in connection with the defense, whether or not such application by the director, officer, employee or agent, or attorney or other person is opposed by the Company and in any such case indemnification may include the expenses (including attorneys' fees) actually and reasonably paid in connection with such application.

Section 4. Payment of Expenses in Advance. Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or in a proceeding referred to above may be paid by the Company in advance of the final disposition if such action, suit or proceeding as authorized by the board of directors in the manner provided above upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Company, as authorized in these bylaws.

Section 5. Other Rights. The indemnification provided by these bylaws shall not be deemed exclusive of any other rights to which a person seeking indemnification may be entitled under any statute, agreement, vote of disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 6. Insurance. The Company shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Company or is or was serving at the request of the Company as a member, director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Company would have the power to indemnify his against such liability under the provisions of these bylaws.

ARTICLE XI

EMERGENCY PREPAREDNESS

In the event of an emergency in the conduct of the business of the Company resulting from an attack on the continental United States or any other such disaster resulting in a major disruption of the conduct of the business of the Company:

1. The officers and employees of the Company shall continue to conduct the business of the Company under such guidance from the Board of Directors as may be available, except as to matters which by statute require specific approval of the Board of Directors, and subject to any directive of duly constituted authority during emergency.
2. In the absence or disability of any officer, or upon the refusal of any officer to act, the Board of Directors may delegate for the time being that officer's powers and duties to any other officer or director.
3. In the event of an emergency so severe as to prevent the conduct and management of the business of the Company by the Board of Directors and the officers as contemplated by these by-laws, any two or more available directors shall constitute an interim Executive Committee for the full conduct and management of the business of the Company, subject to such regulations as the Board of Directors may from time to time adopt for emergency preparedness, until such time as the interim Executive Committee determines that the Company can resume the conduct and management of the business of the Company in the manner contemplated by the by-laws.
4. If, as a consequence of an emergency, the Chief Executive Officer of the Company cannot be located or is unable to assume and continue his normal executive duties, then his powers and duties shall, without further action of the Board of Directors, be assumed by one of the following officers in the seniority set forth:
 - (a) President (unless he is serving as Chief Executive Officer)
 - (b) Executive Vice President
 - (c) Senior Vice Presidents (in order of seniority)
 - (d) Treasurer

The officer so assuming the powers and duties of the Chief Executive Officer shall continue to serve until the majority of the available directors certify in writing that either he is unable to serve longer in that capacity or an officer senior to him is available to assume the powers and duties of the Chief Executive Officer.

5. If, as a consequence of an emergency, the Treasurer of the Company cannot be located or is unable to assume and continue his normal duties, then the powers and duties of the Treasurer shall, without further action of the Board of Directors, be assumed by one of the following officers in the seniority set forth:
 - (a) President (unless he is serving as Chief Executive Officer)
 - (b) Executive Vice President
 - (c) Senior Vice Presidents (in order of seniority)
 - (d) Assistant Treasurer or Comptroller.

The officer so assuming the powers and duties of the Treasurer shall continue to serve until the majority of the available directors certify in writing that either he is unable to serve longer in that capacity or an officer senior to him is available to assume the powers and duties of the Treasurer

Anyone dealing with the Company may accept a certificate of two or more officers that a specified individual is the acting Treasurer hereunder and rely upon that certificate to remain in full force and effect until modified or cancelled by a certificate of change signed by three officers of the Company.

6. If during such emergency, or as a consequence thereof, the business of the Company cannot be conducted and managed at its main office, business

may be conducted and managed at such temporary location or locations as may be designated by the Board of Directors or by its interim Executive Committee for which provision is made above; and the business of the Company shall be returned from the temporary location or locations to the main office of the Company as soon as practicable.

ARTICLE XII

AMENDMENTS, ETC.

Section 1. **Amendments.** The By-laws of the Corporation may be amended at any time by the affirmative vote of a majority of the entire Board, subject to repeal, change or adoption of any contravening or inconsistent provision only by vote of the holders of at least two-thirds (2/3) of all the shares entitled to vote on the matter at a meeting expressly called for that purpose.

Section 2. **Supplemental Resolutions.** The Board of Directors by resolution, adopted by (i) two-thirds of the Directors who are not affiliated with any acquiring or offering person in the case of Sections 2 and 4 of Exhibit B to the Articles of Incorporation or (ii) a majority of the Directors in all other cases, may supplement, interpret, clarify or enforce the provisions of the Articles of Incorporation and By-laws. Such resolution shall be binding and may be relied upon for all purposes provided that the resolution is not inconsistent with law, the Articles of Incorporation or these By-laws.

1989 STOCK OPTION PLAN

I. THE PLAN

1. Purpose. The purpose of this Plan is to provide a means whereby Bethel Bancorp (the "Company") may, through the grant of stock options to Key Employees, as defined below, and Directors, as defined below, attract and retain persons of ability as employees and Directors and motivate such persons to exert their best efforts on behalf of the Company or any present or future Subsidiary thereof. As used herein the term "Subsidiary" shall mean any corporation which at the time an option is granted under this Plan qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Section 425 (f) of the Internal Revenue Code of 1986 (the "Code"), as amended from time to time, or any similar provision hereafter enacted, except that such term shall not include any corporation which is classified as a foreign corporation pursuant to Section 7701 of the Code. The term "Key Employees" means those employees (including officers and directors who are also employees) of the Company or of any Subsidiary, who, in the judgment of the Committee defined in Section 2 below, are considered especially important to the future of the Company. The term "Directors" means those members of the Board of Directors of the Company (the "Board") or of any Subsidiary, who are not Key Employees and, who, in the judgment of the Committee, are considered especially important to the future of the Company. The term "stock options", means options to purchase Common Stock, \$1.00 par value, of the Company ("Stock") and in the case of stock options granted pursuant to Article II hereof, which at the time such options are granted qualify as incentive stock options within the meaning of Section 422A of the Code.

2. Administration of the Plan. The Plan shall be administered by the Stock Option Committee (the "Committee") of the Board. The Committee shall consist of at least three members of the Board and serve at the Board's pleasure. All decisions and selections by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members. A member of the Committee who is eligible to receive a stock option under the Plan shall not vote on any question relating specifically to himself. Any decision reduced to writing and signed by all of the members shall be fully effective as if it had been unanimously made at a duly held meeting of the Committee.

Except as otherwise expressly reserved to the Board in this Plan, the Committee may interpret the Plan, describe, amend and rescind any rules and regulations necessary or appropriate for the administration of the Plan or for the continued qualification of any stock options granted to Key Employees and make such other determinations and take such other actions as it deems necessary or advisable. Without limiting the generality of the foregoing, the Committee may, in its discretion, treat all or any portion of any period during which a Key Employee is on military leave or on an approved leave of absence from the Company or a Subsidiary as a period of employment by the Company or such Subsidiary, as the case may be, and not as an interruption of employment, for purposes of maintaining the Key Employee's continuous status as an employee and accrual of rights under any option granted hereunder. Any interpretation, determination or other action made or taken by the Committee shall be final, binding and conclusive.

3. Final Authority with Respect to the Plan. Notwithstanding any other provisions hereof to the contrary, final authority as to the administration of the Plan rests in the full Board. It is a requirement of the Plan that the Committee submit their interpretations, determinations and actions to the full Board for final approval. A Board member who is eligible to receive a stock option under the Plan may not vote on any question relating specifically to himself.

II. INCENTIVE STOCK OPTIONS

1. Incentive Stock Options. Subject to the provisions of the Plan, the Committee may grant stock options from time to time which qualify as incentive stock options within the meaning of Section 422A of the Code ("Incentive Stock Options") in accordance with provisions of this Article II.

2. Shares Subject to Incentive Stock Options. Incentive Stock Options may be granted by the Company from time to time to Key Employees to purchase an aggregate of 33,000 shares of Stock. The Company shall reserve said number of shares for Incentive Stock Options granted under the Plan subject to adjustment as provided in Section 1 of Article V. The shares issued upon the exercise of Incentive Stock Options granted under the Plan may be authorized and unissued shares or shares held by the Company in its treasury. If any Incentive Stock Options granted hereunder should expire or become unexercisable for any reason without having been exercised in full, the unpurchased shares which were subject to an Incentive Stock Option shall, unless the Plan shall have been terminated, be available for the grant of other Incentive Stock Options under the Plan.

3. Grant of Incentive Stock Options to Key Employees. Subject to the provisions of the Plan and in particular this Article II, the Committee shall (i) determine and designate from time to time those Key Employees to whom Incentive Stock Options are to be granted and the number of shares of Stock to be optioned to each such employee and (ii) determine the time or times when and the manner in which each Incentive Stock option shall be exercisable and the duration of the exercise period. Notwithstanding the above (i) no option shall be granted pursuant to this Section 3 after the expiration of ten years from the effective date of the Plan as defined in Section 5 of Article V hereof and (ii) the aggregate fair market value (determined as of the date the Incentive Stock Option is granted) of Stock which is first exercisable by any employee during any calendar year under all stock option plans of the Company and its Subsidiaries shall not exceed \$100,000. Incentive Stock Options need not be identical and in fixing the terms of any Incentive Stock Option, the Committee may take into account such individual factors bearing on the value of an employee as it considers appropriate.

No Director as defined in Section 1 of Article I shall be entitled to receive any Incentive Stock Option under this Article II.

4. Terms and Conditions of Incentive Stock Options. Each Incentive Stock Option granted under the Plan to a Key Employee pursuant to Section 3 hereof shall be evidenced by an agreement with the optionee (the "Incentive Stock Option Agreement") in a form approved by the Committee. Each Incentive Stock Option and the Incentive Stock Option Agreement shall be subject to the following express terms and conditions and to such other terms and conditions as the Committee may deem appropriate.

(a) Incentive Stock Option Period. Subject to the terms of Section 3 hereof, each Incentive Stock Option Agreement shall specify the period for which the Incentive Stock option or any portion thereof is granted and exercisable, as determined by the Committee, and shall provide that the Incentive Stock Option shall expire at the end of such period. In no event shall any Incentive Stock Option be exercisable after the expiration of 10 years from the date of grant unless the Incentive Stock Option price is determined pursuant to Section 4(c)(2) hereof in which event the Incentive Stock Option shall not be exercisable after the expiration of 5 years from the date of grant.

(b) Date of Grant. The date of grant of an Incentive Stock Option to a Key Employee under the Plan shall, for all purposes, be the date on which the Committee makes the determination of granting such Incentive Stock Option. Notice of the determination shall be given to each Key Employee to whom an

Incentive Stock Option is so granted within a reasonable time after the date of such grant.

(c) Incentive Stock Option Price.

(1) The option price per share of Stock shall be determined by the Committee at the time any Incentive Stock Option is granted and except as provided in subsection (2) below shall not be less than the fair market value of one share of Stock on the date the Incentive Stock Option is granted. The fair market value of a share of Stock on the date of grant shall be the mean between the highest and lowest quoted selling prices on such date in the over-the-counter market, as reported by any market makers in the Stock.

(2) If an Incentive Stock Option is granted to a Key Employee then owning Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary taking into account the attribution rules of Section 425(d) of the Code, then the Committee shall set the Incentive Stock Option price per share of Stock at 110% of the Incentive Stock Option price determined pursuant to subsection (1) hereof.

(d) Exercise of Incentive Stock Option. The Incentive Stock Option Agreement shall provide the amount of the aggregate fair market value (determined as of the date the Incentive Stock Option is granted) of the Stock which may be exercised for the first time during any calendar year of the option period and may provide that after the date Stock is first exercisable, the option may be exercised in whole or in part at any time or times during the remainder of option period.

(e) Exercise During Employment or Following Retirement, Disability or Death. Unless otherwise provided in the terms of an Incentive Stock Option Agreement, an Incentive Stock option may be exercised by an optionee only while he is an employee of the Company or a Subsidiary and has maintained continuous status as an employee since the date of the grant of the Incentive Stock Option, except if his continuous employment is terminated by reason of the employee's voluntary termination of employment, disability or death. If the continuous employment of an optionee is terminated as a result of the employee's voluntary termination of employment, he may, but only within a period of 90 days beginning the day following the date of such termination of employment (and no later than the date the Incentive Stock Option would otherwise expire), exercise his option to the extent that he was entitled to exercise it at the date of such termination. If the continuous employment of an optionee is terminated as a result of the optionee's disability, he may, but only within the one year period from the date of such termination of employment (and no later than the date the Incentive Stock Option would otherwise expire), exercise his option to the extent he was entitled to exercise it at the date of such termination. If the continuous employment of an optionee is terminated by death, then to the extent that the optionee would have been entitled to exercise the Incentive Stock option immediately prior to his death, such Incentive Stock Option of the deceased optionee may be exercised within 90 days from the date of his death (but no later than the date on which such Incentive Stock option would otherwise expire) by the person or persons (including his estate) to whom his rights under such Incentive Stock option shall have passed by will or by the laws of descent and distribution. Termination of continuous employment for any other reason shall result in cancellation of the Incentive Stock Option.

The terms "continuous employment" and "continuous status as an employee" mean the absence of any interruption or termination of employment with the Company or with any present or future Subsidiary. Employment shall not be considered interrupted in the case of transfers between the Company and any Subsidiary or between Subsidiaries, nor in the case of any military leave or any approved leave of absence which the Committee, in its discretion, treats as a period of employment.

(f) Non-transferability. No Incentive Stock Option granted to a Key Employee under the Plan shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, an Incentive Stock option shall be exercisable only by him.

(g) Code Requirements. Each Incentive Stock Option Agreement shall contain such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Incentive Stock Option as an incentive stock option within the meaning of Section 422A of the Code.

(h) No Rights as Shareholder. No optionee shall have any rights as a shareholder with respect to any shares of Stock subject to his Incentive Stock option prior to the date of issuance to him of a certificate or certificates for such shares.

(i) No Rights to Continued Employment. The Plan and any Incentive Stock Option granted pursuant to Section 3 of this Article II shall not confer upon any Key Employee any right with respect to continuance of employment by the Company or any Subsidiary nor shall they interfere in any way with the right of the Company or any subsidiary employing an optionee to terminate his employment at any time.

5. Disposition of Shares by Key Employees No share of Stock acquired as a result of the exercise of an Incentive Stock Option granted to a Key Employee under the Plan shall be transferable other than by will or by the laws of descent and distribution before the latter of the expiration of the two year period beginning on the date such Incentive Stock Option was granted or the expiration of the one year period beginning on the date of the transfer of such share pursuant to such exercise.

III. NONQUALIFIED STOCK OPTIONS

1. Nonqualified Stock Options. Subject to the provisions of the Plan, the Committee may grant other stock options ("Nonqualified Stock options") from time to time in accordance with the provisions of this Article III.

2. Share Subject to Nonqualified Stock Options. Nonqualified Stock Options may be granted by the Company from time to time to Key Employees and Directors to purchase an aggregate of 12,000 shares of Stock. The Company shall reserve said number of shares for Nonqualified Stock Options granted under the Plan subject to adjustment as provided in Section 1 of Article V. The shares issued upon the exercise of Nonqualified Stock Options granted under the Plan may be authorized and unissued shares or shares held by the Company in its treasury. If any Nonqualified Stock Options granted hereunder should expire or become unexercisable for any reason without having been exercised in full, the unpurchased shares which were subject to a Nonqualified Stock Option shall, unless the Plan shall terminate, be available for the grant of other Nonqualified Stock Options under the Plan.

3. Grant of Nonqualified Stock Options to Key Employees and Directors. Subject to the provisions of the Plan and in particular this Article III, the Committee shall (i) determine and designate from time to time those Key Employees and Directors to whom Nonqualified Stock Options are to be granted and the number of shares of Stock to be optioned to each such person and (ii) determine the time or times and the manner in which each nonqualified Stock option shall be exercisable and the duration of the exercise period. Nonqualified Stock Options need not be identical and in fixing the terms of any Incentive Stock Option, the Committee may take into account such individual factors bearing on the value of the employee or Director as it considers appropriate.

4. Terms and Conditions of Nonqualified Stock Options. Each Nonqualified Stock Option granted under the Plan to a Key Employee or Director pursuant to Section 3 hereof shall be evidenced by an agreement with the optionee (the "Nonqualified Stock Option Agreement") in a form approved by the Committee. Each Nonqualified Stock Option and the Nonqualified Stock Option Agreement shall be subject to the following express terms and conditions and to such other terms and conditions as the Committee may deem appropriate.

(a) Nonqualified Stock Option Period. Each Nonqualified Stock Option Agreement shall specify the period for which the Nonqualified Stock Option thereunder is granted and exercisable, as determined by the Committee, and shall provide that the option shall expire at the end of such period.

(b) Date of Grant. The date of grant of a Nonqualified Stock Option to a Key Employee or Director under the Plan shall, for all purposes, be the date on which the Committee makes the determination of granting such Nonqualified Stock Option. Notice of such determination shall be given to each Key Employee or Director to whom an option is so granted within a reasonable period of time after the date of such grant.

(c) Nonqualified Stock Option Price

(1) The option price per share of Stock shall be determined by the Committee at the time any Nonqualified Stock option is granted and except as provided in Subsection (2) below shall not be less than the fair market value of one share of Stock on the date the Nonqualified Stock option is granted. The fair market value of a share of Stock on the date of grant shall be the mean between the highest and lowest quoted selling prices on such date in the over-the-counter market, as reported by any market makers in the Stock.

(2) If a Nonqualified Stock Option is granted to a Key Employee or Director then owning Stock possessing more than 10% of the total combined voting power of all classes of Stock of the Company or any Subsidiary taking into account the attribution rules of Section 425(d) of the Code, then the Committee shall set the option price per share of Stock at 110% of the option price determined pursuant to subsection (1) hereof.

(d) Exercise of Nonqualified Stock Option The Nonqualified Stock option-Agreement may provide that the option may be exercised in whole or in part at any time or times during the option period.

(e) Exercise During Employment or Board Tenure. Unless otherwise provided under the terms of a Nonqualified Stock Option Agreement, a Nonqualified Stock option granted to a Key Employee or Director may be exercised by an optionee only while he is an employee or Director of the Company or a Subsidiary and has maintained continuous status as an employee or Director since the date of the grant of the Nonqualified Stock Option, except if his continuous employment or directorship is terminated by reason of the optionee's voluntary termination of employment or directorship, disability or death. If the continuous employment or directorship of an optionee is terminated as a result of the optionee's voluntary termination, he may, but only within a period of 90 days beginning the date following the date of such termination of employment or directorship (and no later than the date the Nonqualified Stock Option would otherwise expire), exercise his option to the extent that he was entitled to exercise it at the date of such termination. If the continuous employment or directorship of an optionee is terminated as a result of optionee's disability, he may, but only within the one year period from the date of such termination of employment or directorship (and no later than the date the Incentive Stock Option would otherwise expire), exercise his option to the extent he was entitled to exercise it at the date of such termination. If the continuous employment or directorship of an optionee is terminated by death, then to the extent that the optionee would have been entitled to exercise the Nonqualified Stock option immediately prior to his death, such Nonqualified Stock option of a deceased optionee may be exercised within 90 days from the date of his death (but no later than the date on which such Nonqualified Stock Option would otherwise expire) by the person or persons (including his estate) to whom his rights under such Nonqualified Stock option shall have passed by will or by the laws of descent and distribution. Termination of continuous employment or directorship for any other reason shall result in cancellation of the Nonqualified Stock option.

The terms "continuous employment" and "continuous status as an employee" mean the absence of any interruption or termination of employment with the Company or with any present or future Subsidiary. Employment shall not be considered interrupted in the case of transfers between the Company and any Subsidiary or between Subsidiaries, nor in the case of any military leave or any approved leave of absence which the committee, in its discretion, treats as a period of employment.

The terms "continuous directorship" and "continuous status as a Director" mean the absence of any interruption or termination as a Director of the Company or with any present or future Subsidiary. Directorship shall not be considered interrupted in the case of transfers between the Company and any Subsidiary or between Subsidiaries.

(f) Non-transferability. No Nonqualified Stock Option granted to a Key Employee or Director under the Plan shall be transferrable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, a Nonqualified Stock Option shall be exercisable only by him.

(g) No Rights as Shareholder. No optionee shall have any rights as a shareholder with respect to any shares of Stock subject to his Nonqualified Stock Option prior to the date of issuance to him of a certificate or certificates for such shares.

(h) No Rights to Continued Employment or Directorship. The Plan and any Nonqualified Stock Option granted pursuant to Section 3 of this Article III shall not confer upon any Key Employee or Director any right with respect to continuance of employment by or as a Director of the Company or any subsidiary nor shall they interfere in any way with the right of any party to terminate his employment or directorship at any time.

5. Disposition of Shares. No share of Stock acquired as a result of the exercise of a Nonqualified Stock Option granted under the Plan shall be subject to any restrictions on transferability or otherwise.

IV. EXERCISE AND PURCHASE PROVISIONS

1. Limitation on Exercise of options. Each option granted under the Plan shall provide that the option may not be exercised in whole or in part by the optionee for less than 100 shares of Stock unless only less than 100 shares of Stock remain subject to the option. In addition, an option may not be exercised for a fractional share.

2. Payment of Purchase Price upon Exercise of Option. Each option granted under the Plan shall provide that the purchase price of the shares as to which an option is exercised will be paid to the Company at the time of exercise, either in cash or in Stock already owned by the optionee having a total fair market value, as determined by the Committee, equal to the purchase price, or a combination of cash and Stock having a total fair market value, as so determined, equal to the purchase price.

3. Procedure for Exercising Options. Each option granted under the Plan shall be exercisable at such times and under such conditions as shall be permissible under the terms of the Plan and the Incentive Stock Option Agreement or the Nonqualified Stock Option Agreement, as the case may be.

An option may be exercised, subject to the applicable provisions of this Plan relative to its termination and limitations on its exercise, from time to time only by (i) written notice of intent to exercise the option with respect to a specified number of shares and (ii) payment to the Company (contemporaneously with delivery of each such notice) of the option price as provided in Section 1 hereof. Each such notice and payment shall be delivered, or mailed by prepaid registered or certified mail, addressed to the Treasurer of the Company at its executive offices.

V. MISCELLANEOUS PROVISIONS

1. Adjustments in Event of Change in Common Stock. In the event of any change in the Common Stock of the Company by reason of any stock dividend, recapitalization, reorganization, merger, consolidation, split-up, combination, or exchange of shares, or rights offering to purchase Common Stock at a price substantially below fair market value, or of any similar change affecting the Stock, the number and kind of shares which thereafter may be optioned and sold under the Plan pursuant to Articles II and III hereof and the number and kind of shares subject to option in outstanding option agreements and the purchase price per share thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, participants in the Plan.

2. Compliance With Other Laws and Regulations The Plan, the grant and exercise of options thereunder and the obligations of the Company to sell and deliver shares under such options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for shares of Stock prior to the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body which the Company shall, in its sole discretion, determine to be necessary or advisable.

3. Modification of Options. At any time and from time to time the Board of Directors of the Company may authorize the modification of any outstanding option, provided no such modification, extension or renewal shall confer on the holder of said option any right or benefit which could not be conferred on him by the grant of a new option at such time or impair the option without the consent of the holder of the option.

4. Amendment and Termination of the Plan. The Board of Directors of the Company may alter, suspend or discontinue the Plan except that no action of the Board may increase (other than as provided in Section 1 hereof) the maximum number of shares permitted to be optioned under the Plan, reduce the minimum option price provided for in Section 4(c) of Article II or extend the period within which options may be exercised, unless such action of the Board shall be subject to approval or ratification by the shareholders of the Company.

5. Effective Date of the Plan. The effective date of the Plan shall be the date of its adoption on by the Board of Directors of the Company, but such adoption shall be subject to approval and ratification of a majority of the shareholders of the Company entitled to vote. Notwithstanding any provision hereof to the contrary, this Plan shall not take effect unless the Company purchases all of the issued and outstanding stock of Bethel Savings Bank FSB.

6. Interpretation of Article II Options. The terms of this Plan which relate to the grant of an Incentive Stock option to a Key Employee are subject to all present and future rules and regulations of the Secretary of the Treasury or his delegate regarding the qualifications of incentive stock options under Section 422A of the Code. If any such provision of the Plan conflicts with any such rule or regulation, then the provision of the Plan shall be void and of no force and effect.

AMENDMENT ONE TO BETHEL BANCORP 1989 STOCK OPTION PLAN

Amendment One made by Bethel Bancorp (the "Company") to the Bethel Bancorp 1989 Stock Option Plan (the "Plan").

1. Section 5 of Article II shall be amended by deleting Section 5 of Article II in its entirety and substituting therefor the following Section 5 of Article II:

"5. Disposition of Shares by Key Employees. With respect to shares of Stock acquired as a result of the exercise of an Incentive Stock Option, any disposition of such shares other than by will or by the laws of descent and distribution before the later of the expiration of the two-year period beginning on the date such Incentive Stock Option was granted or the expiration of the one-year period beginning on the date of the transfer of such share pursuant to such exercise, will not be prohibited by the Plan, but may disqualify the disposition from receiving favorable tax treatment under Section 421(a) of the Code."

2. Section 6 of Article V shall be amended by deleting Section 6 of Article V in its entirety and substituting therefor the following Section 6 of Article V:

"6. Interpretation of Incentive Stock Options. The terms of this Plan which relate to the grant of Incentive Stock Options to Key Employees are intended to comply with rules and regulations regarding the qualification of Incentive Stock Options under Section 422 of the Code, and the Plan shall be interpreted and construed accordingly. Except with respect to certain disqualifying dispositions of Stock acquired as a result of the exercise of an Incentive Stock Option, which are not prohibited by the Plan, if a provision of the Plan conflicts with any such rule or regulation, then the provision of the Plan shall be void and of no force and effect."

3. Section 4(c) of Article III of the Plan shall be amended by deleting Section 4(c) of Article III in its entirety and substituting therefor the following Section 4(c) of Article III:

"(c) Non-qualified Stock Option Price. The option price per share of Stock shall be determined by the Committee at the time any Non-qualified Stock Option is granted and shall not be less than the fair market value of one share of Stock on the date the Non-qualified Stock Option is granted."

4. Amendment One shall be effective as of the date hereof.

IN WITNESS WHEREOF, the Company has caused this Amendment One to be executed by its duly authorized President as of the ____ day of _____, 1994.

BETHEL BANCORP

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

I. THE PLAN

1.1 Purpose. The purpose of this Plan is to provide a means whereby Bethel Bancorp (the "Company") may, through the grant of stock options to Key Employees, as defined below, and to certain other individuals, as set out in Article III, attract, retain and motivate persons of ability to exert their best efforts on behalf of the Company or any present or future Subsidiary thereof. As used herein the term "Subsidiary" shall mean any corporation which at the time an option is granted under this Plan qualifies as a subsidiary of the Company under the definition of "subsidiary corporation" contained in Section 425(f) of the Internal Revenue Code of 1954 (the "Code"), as amended from time to time, or any similar provision hereafter enacted, except that such term shall not include any corporation which is classified as a foreign corporation pursuant to Section 7701 of the Code. The term "Key Employees" means those employees (including officers who are also employees) of the Company or of any Subsidiary, who, in the judgment of the Committee defined in Section 1.2 below, are considered especially important to the future of the Company. The term "stock options", means options to purchase Common Stock, \$1.00 par value, of the Company ("Stock") and in the case of stock options granted pursuant to Article II hereof, which at the time such options are granted qualify as Incentive Stock Options within the meaning of Section 422 of the Code.

1.2 Administration of the Plan. The Plan shall be administered by the Stock Option Committee (the "Committee") of the Board of Directors of the Company (the "Board"). The Committee shall consist of not less than three members who shall be appointed by the Board and serve at the Board's pleasure. Each member of the Committee shall be a member of the Board. Any vacancy occurring in the membership of the Committee shall be filled by appointment by the Board. All decisions and selections by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members. A member of the Committee who is eligible to receive a stock option under the Plan shall not vote on any question relating specifically to that member. Any decision reduced to writing and signed by all of the members of the Committee shall be fully effective as if it had been unanimously made at a duly held meeting of the Committee.

Except as otherwise expressly reserved to the Board in this Plan, the Committee may interpret the Plan, prescribe, amend and rescind any rules and regulations necessary or appropriate for the administration of the Plan or for the continued qualification under the Code of any stock options granted to Key Employees and may make such other determinations and take such other actions as it deems necessary or advisable. Without limiting the generality of the foregoing, the Committee may, in its sole discretion, treat all or any portion of any period during which a Key Employee is on military leave or on an approved leave of absence from the Company or a Subsidiary as a period of employment by the Company or such Subsidiary, as the case may be, and not as an interruption of employment, for purposes of maintaining the Key Employee's continuous status as an employee and accrual of rights under any Incentive Stock Options. Any interpretation, determination or other action made or taken by the Committee shall be final, binding and conclusive, subject only to the full Board's authority as set forth in Section 1.3 hereof.

1.3 Final Authority with Respect to the Plan. Notwithstanding any other provisions hereof to the contrary, final authority as to the administration of the Plan rests in the full Board. It is a requirement of the Plan that the Committee submit its interpretations, determinations and actions to the full Board for final approval. A Board member who is eligible to receive a stock option under the Plan may not vote on any question relating specifically to that member.

II. INCENTIVE STOCK OPTIONS

2.1 Incentive Stock Options. Subject to the provisions of the Plan, the Committee may grant stock options from time to time which qualify as Incentive Stock Options within the meaning of Section 422 of the Code ("Incentive Stock Options") in accordance with provisions of this Article II.

2.2 Shares Subject to Incentive Stock Options. Incentive Stock Options may be granted by the Company from time to time to Key Employees to purchase an aggregate of 52,000 shares of Stock. The Company shall reserve said number of shares for Incentive Stock Options granted under the Plan subject to adjustment as provided in section 5.1. The shares issued upon the exercise of Incentive Stock Options granted under the Plan may be authorized and unissued shares or shares held by the company in its treasury. If any Incentive Stock Options granted hereunder should expire or become unexercisable for any reason without having been exercised in full, the unpurchased shares which were subject to an Incentive Stock Option shall, unless the Plan shall have been terminated, be available for the grant of other Incentive Stock options under the Plan.

2.3 Grant of Incentive Stock Options to Key Employees. Subject to the provisions of the Plan and in particular this Article II, the Committee shall (i) determine and designate from time to time those Key Employees to whom Incentive Stock Options are to be granted and the number of shares of Stock to be optioned to each such employee and (ii) determine the time or times when and the manner in which each Incentive Stock Option shall be exercisable and the duration of the exercise period. Notwithstanding the above, no option shall be granted pursuant to this Section 2.3 after the expiration of ten years from the effective date of the Plan as defined in Section 5.5.

Incentive Stock options need not be identical and in fixing the terms of any Incentive Stock Option, the Committee may take into account such individual factors bearing on the value of an employee as it considers appropriate.

2.4 Terms and Conditions of Incentive Stock Options. Each Incentive Stock Option granted under the Plan to a Key Employee pursuant to Section 2.3 hereof shall be evidenced by an agreement with the optionee (the "Incentive Stock Option Agreement") in a form approved by the Committee. Each Incentive Stock Option and the Incentive Stock Option Agreement shall be subject to the following express terms and conditions and to such other terms and conditions as the Committee may deem appropriate from time to time.

(a) Incentive Stock Option Period. Subject to the terms of Section 2.3 hereof, each Incentive Stock option Agreement shall specify the period for which the Incentive Stock Option thereunder is granted and exercisable, as determined by the Committee, and shall provide that the Incentive Stock Option shall expire at the end of such period. In no event shall any Incentive Stock Option be exercisable after the expiration of 10 years from the date of grant provided, however, that if the Incentive Stock Option price is determined pursuant to Section 2.4 (c)(2) hereof, then the Incentive Stock Option shall not be exercisable after the expiration of 5 years from the date of grant.

(b) Date of Grant. The date of grant of an Incentive Stock Option to a Key Employee under the Plan shall, for all purposes, be the date on which the Committee makes the determination of granting such Incentive Stock Option. Notice of the determination shall be given to each Key Employee to whom an Incentive Stock Option is so granted within a reasonable time after the date of such grant.

(c) Incentive Stock Option Price.

(1) The option price per share of Stock shall be determined by the Committee at the time any Incentive Stock option is granted and except as provided in subsection (2) below shall not be less than the fair market value of one share of Stock on the date that the Incentive Stock Option is granted. The Committee shall have full authority to determine the fair market value of a share of stock. If the stock is traded in the over-the-counter market, then such fair market value shall be deemed to be the arithmetical mean between the asked and the bid prices between the opening of the market and closing on such date, as reported by any market makers in the stock. If the stock is traded on an exchange, then such fair market value shall be deemed to be the arithmetical mean of the high and low prices at which it is quoted or traded between the opening of the market and closing on such day on the exchange on which it generally has the greatest trading volume.

(2) If an Incentive Stock Option is granted to a Key Employee then owning Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary taking into account the attribution rules of Section 425(d) of the Code, then the Committee shall set the Incentive Stock Option price per share of Stock at 110% of the Incentive Stock option price determined pursuant to subsection (1) hereof.

(d) Exercise of Incentive Stock Option. In the event that the aggregate fair market value (determined at the time the option is granted) of stock with respect to which options are exercisable hereunder for the first time by any eligible employee during any one calendar year (under this Plan and all other Incentive Stock Option Plans of the Company or any parent or subsidiary of the Company) shall exceed \$100,000, such options shall be treated as options which are not Incentive Stock Options, taking options into account in the order in which they were granted. In the case of an option that is to be treated in part as an Incentive Stock Option and in part as a Non-Incentive Stock Option, the Company may designate the shares of stock that are to be treated as stock acquired pursuant to the exercise of an Incentive Stock option by issuing a separate certificate for such shares and identifying the certificate as Incentive Stock Option shares in the stock transfer records of the Company.

(e) Exercise During Employment or Following Retirement Disability or Death. Unless otherwise provided in the terms of an Incentive Stock Option Agreement, an Incentive Stock Option may be exercised by an optionee only while the optionee is an employee of the Company or a Subsidiary and has maintained continuous status as an employee since the date of the grant of the Incentive Stock Option, except if the optionee's continuous employment is terminated by reason of the optionee's voluntary termination of employment, disability or death. If the continuous employment of an optionee is terminated as a result of the optionee's voluntary termination of employment, then the optionee may, but only within a period of 90 days beginning the day following the date of such termination of employment (and no later than the date the Incentive Stock Option would otherwise expire), exercise the option to the extent that the optionee was entitled to exercise it at the date of such termination. If the continuous employment of an optionee is terminated as a result of the optionee's disability, such optionee may, but only within a one year period from the date of such termination of employment (and no later than the date the Incentive Stock Option would otherwise expire), exercise the option to the extent that the optionee was entitled to exercise it at the date of such termination. Termination of continuous employment for any other reason (except death) shall result in the immediate and contemporaneous cancellation of the Incentive Stock Option. If the continuous employment of an optionee is terminated by death, then to the extent that the optionee would have been entitled to exercise the Incentive Stock Option immediately prior to the optionee's death, such Incentive Stock Option of the deceased optionee may be exercised within 90 days from the date of the optionee's death (but no later than the date on which such Incentive Stock Option would otherwise expire) by the person or persons (including the optionee's estate) to whom the optionee's rights under such Incentive Stock Option shall have passed by will or by the laws of descent and distribution.

The terms "continuous employment" and "continuous status as an employee" mean the absence of any interruption or termination of employment with the Company or with any present or future Subsidiary. Employment shall not be considered interrupted in the case of transfers between the Company and any Subsidiary or between Subsidiaries, nor in the case of any military leave or any approved leave of absence which the, Committee, in its sole discretion, treats as a period of employment.

(f) Non-transferability. No Incentive Stock Option granted to a Key Employee under the Plan shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, an Incentive Stock Option shall be exercisable only by the optionee. Any attempt to transfer Stock or a Stock Option in violation of the terms of either the Plan or any Incentive Stock Option Agreement shall be null and void.

(g) Code Requirements. Each Incentive Stock Option Agreement shall contain such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Incentive Stock Option as an Incentive Stock Option within the meaning of Section 422 of the Code.

(h) No Rights as Shareholder. No optionee shall have any rights as a shareholder with respect to any shares of Stock subject to the optionee's Incentive Stock Option prior to the date of issuance to the optionee of a certificate or certificates for such shares.

(i) No Rights to Continued Employment. The Plan and any Incentive Stock Option granted pursuant to Section 2.3 of this Article II shall not confer upon any Key Employee any right with respect to continuance of employment by the Company or any Subsidiary nor shall they interfere in any way with the right of the Company or any Subsidiary employing an optionee to terminate the optionee's employment at any time.

2.5. Disposition of Shares by Key Employees. No share of Stock acquired as a result of the exercise of an Incentive Stock Option granted to a Key Employee under the Plan shall be transferable other than by will or by the laws of descent and distribution before the later of the expiration of the two year period beginning on the date such Incentive Stock Option was granted or the expiration of the one year period beginning on the date of the transfer of such share pursuant to such exercise. Each certificate representing shares of Stock acquired by the exercise of an Incentive Stock Option by a Key Employee shall bear a legend thereon stating the shares of Stock represented thereby are not transferable except in accordance with the terms of the Plan.

III. NONQUALIFIED STOCK OPTIONS

3.1. Nonqualified Stock Options. Subject to the provisions of the Plan, the Committee may grant other stock options ("Nonqualified Stock Options") from time to time in accordance with the provisions of this Article III. Nonqualified Stock Options shall only be granted to an individual whose relationship to the Company is one of the following:

- (a) The individual is a Key Employee; or
- (b) The individual is a member of the Board.

Such an individual shall be referred to hereafter as a "NQSO Optionee," and such relationship shall be referred to hereafter as the individual's "Eligibility Status."

3.2 Shares Subject to Nonqualified Stock Options. Nonqualified Stock Options may be granted by the Company from time to time to NQSO Optionees to purchase an aggregate of 6,000 shares of Stock. The Company shall reserve said number of shares for Nonqualified Stock Options granted under the Plan subject to adjustment as provided in Section 5.1. The shares issued upon the exercise of Nonqualified Stock Options granted under the Plan may be authorized and unissued shares or shares held by the Company in its treasury. If any Nonqualified Stock Options granted hereunder should expire or become unexercisable for any reason without having been exercised in full, the unpurchased shares which were subject to a Nonqualified Stock Option shall, unless the Plan shall terminate, be available for the grant of other Nonqualified Stock Options under the Plan.

3.3 Grant of Nonqualified Stock Options to NQSO Optionees. Subject to the provisions of the Plan and in particular this Article III, the Committee shall (i) determine and designate from time to time those NQSO Optionees to whom Nonqualified Stock Options are to be granted and the number of shares of Stock to be optioned to each such person and (ii) determine the time or times and the manner in which each Nonqualified Stock Option shall be exercisable and the duration of the exercise period. Nonqualified Stock Options need not be identical and in fixing the terms of any Incentive Stock Option, the Committee may take into account such individual factors bearing on the value of the NQSO Optionee as it considers appropriate.

3.4 Terms and Conditions of Nonqualified Stock Options. Each Nonqualified Stock Option granted under the Plan to a NQSO Optionee pursuant to Section 3.3 hereof shall be evidenced by an agreement with the NQSO Optionee (the "Nonqualified Stock Option Agreement") in a form approved by the Committee. Each Nonqualified Stock Option and the Nonqualified Stock Option Agreement shall be subject to the following express terms and conditions and to such other terms and conditions as the Committee may deem appropriate.

(a) Nonqualified Stock Option Period. Each Nonqualified Stock Option Agreement shall specify the period for which the Nonqualified Stock option thereunder is granted and exercisable, as determined by the Committee, and shall provide that the option shall expire at the end of such period.

(b) Date of Grant. The date of grant of a Nonqualified Stock Option to a NQSO Optionee under the Plan shall, for all purposes, be the date on which the Committee makes the determination of granting such Nonqualified Stock Option. Notice of such determination shall be given to each NQSO Optionee to whom an option is so granted within a reasonable period of time after the date of such grant.

(c) Nonqualified Stock Option Price. The option price per share of Stock shall be determined by the Committee at the time any Nonqualified Stock Option is granted and shall not be less than the fair market value of one share of Stock on the date the Nonqualified Stock Option is granted.

(d) Exercise of Nonqualified Stock Option. The Nonqualified Stock Option Agreement may provide that the option may be exercised in whole or in part at any time or times during the option period.

(e) Exercise During Employment or Following Retirement, Disability or Death. Unless otherwise provided under the terms of a Nonqualified Stock option Agreement, a Nonqualified Stock Option granted to an NQSO Optionee may be exercised by such optionee only while the NQSO Optionee maintains the optionee's Eligibility Status with the Company or a Subsidiary and has maintained continuous Eligibility Status since the date of the grant of the Nonqualified Stock Option, except as follows. If the continuous Eligibility Status of an optionee is terminated as a result of the optionee's voluntary termination, the optionee may, but only within a period of 90 days beginning the date following the date of such termination of Eligibility Status (and no later than the date the Nonqualified Stock option would otherwise expire), exercise the option to the extent the optionee was entitled to exercise it at the date of such termination. If the continuous Eligibility Status of an optionee is terminated as a result of optionee's disability, the optionee may, but only within a one year period from the date of such termination of Eligibility Status (and no later than the date the Nonqualified Stock Option would otherwise expire), exercise the option to the extent the optionee was entitled to exercise it at the date of such termination. Termination of continuous Eligibility Status for any other reason (except death) shall result in cancellation of the Nonqualified Stock Option. If the continuous Eligibility Status of an optionee is terminated by death, then to the extent that the optionee would have been entitled to exercise the Nonqualified Stock Option immediately prior to the optionee's death, such Nonqualified Stock Option of the deceased optionee may be exercised within 90 days from the date of the optionee's death (but no later than the date on which such Nonqualified Stock Option would otherwise expire) by the person or persons (including the optionee's estate) to whom the optionee's rights under such Nonqualified Stock Option shall have passed by will or by the laws of descent and distribution.

The term "continuous Eligibility Status" shall mean the absence of any interruption or termination of Eligibility Status with the Company or with any present or future Subsidiary. Eligibility Status shall not be considered interrupted in the case of transfers between the Company and any Subsidiary or between Subsidiaries, nor in the case of any military leave or any approved leave of absence which the Committee, in its discretion, treats as a period of Eligibility Status.

(f) Non-transferability. No Nonqualified Stock Option granted to a NQSO optionee under the Plan shall be transferrable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, a Nonqualified Stock Option shall be exercisable only by the optionee.

(g) No Rights as Shareholder. No NQSO Optionee shall have any rights as a shareholder with respect to any shares of Stock subject to the optionee's Nonqualified Stock Option prior to the date of issuance to the optionee of a certificate or certificates for such shares.

(h) No Rights to Continued Employment. The Plan and any Nonqualified Stock option granted pursuant to Section 3.3 shall not confer upon any NQSO Optionee any right with respect to continuance of Eligibility Status by the Company or any Subsidiary nor shall they interfere in any way with the right of any party to terminate the optionee's Eligibility Status at any time.

3.5 Disposition of Shares. Shares of Stock acquired as a result of the exercise of a Nonqualified Stock Option granted under the Plan shall not be subject to any restrictions on transferability imposed by this Plan.

IV. EXERCISE AND PURCHASE PROVISIONS

4.1 Limitation on Exercise of Options. Each option granted under the Plan shall provide that the option may not be exercised in whole or in part by the optionee for less than 100 shares of Stock unless only less than 100 shares of Stock remain subject to the option. In addition, an option may not be exercised for a fractional share.

4.2 Payment of Purchase Price upon Exercise of Option. Each option granted under the Plan shall provide that the purchase price of the shares as to which an option is exercised will be paid to the Company at the time of exercise, either in cash or in Stock already owned by the optionee having a total fair

market value, as determined by the Committee, equal to the purchase price, or a combination of cash and Stock having a total fair market value, as so determined, equal to the purchase price.

4.3 Procedure for Exercising Options. Each option granted under the Plan shall be exercisable at such times and under such conditions as shall be permissible under the terms of the Plan and the Incentive Stock Option Agreement or the Nonqualified Stock Option Agreement, as the case may be.

An option may be exercised, subject to the applicable provisions of this Plan relative to its termination and limitations on its exercise, from time to time only by (i) written notice of intent to exercise the option with respect to a specified number of shares and (ii) payment to the Company (contemporaneously with delivery of each such notice) of the option price as provided in section 4.2 hereof. Each such notice and payment shall be delivered, or mailed by prepaid registered or certified mail, addressed to the Treasurer of the Company at its executive offices.

V. MISCELLANEOUS PROVISIONS

5.1 Adjustments in Event of Change in Stock. In the event of any change in the Stock of the Company by reason of any stock dividend, recapitalization, reorganization, merger, consolidation, split-up, combination, or exchange of shares, or rights offering to purchase Stock at a price substantially below fair market value, or of any similar change affecting the Stock, the number and kind of shares which thereafter may be optioned and sold pursuant to the Plan and the number and kind of shares subject to option in outstanding option agreements and the purchase price per share thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, participants in the Plan.

5.2 Compliance With Other Laws and Regulations. The Plan, the grant and exercise of options thereunder and the obligations of the Company to sell and deliver shares under such options, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. The Company shall not be required to issue or deliver any certificates for shares of Stock prior to the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body which the Company shall, in its sole discretion, determine to be necessary or advisable.

5.3 Modification of Options. At any time and from time to time the Board may authorize the modification of any outstanding option, provided no such modification, extension or renewal shall confer on the holder of said option any right or benefit which could not be conferred by the grant of a new option at such time or impair the option without the consent of the holder of the option.

5.4 Amendment and Termination of the Plan. The Board may amend, suspend or terminate the Plan except that no action of the Board may increase (other than as provided in Section 5.1) the maximum number of shares permitted to be optioned under the Plan, reduce the minimum option price provided for in Section 2.4(c) or extend the period within which options may be exercised, unless such action of the Board shall be subject to approval or ratification by the shareholders of the Company.

5.5 Effective Date of the Plan. The effective date of the Plan shall be the date of its adoption by the Board, but such adoption shall be subject to approval and ratification of a majority of the shareholders of the Company entitled to vote.

5.6 Interpretation of Incentive Stock Options. The terms of this Plan which relate to the grant of an Incentive Stock Option to a Key Employee are subject to all present and future rules and regulations of the Secretary of the Treasury or the Secretary's delegate regarding the qualifications of Incentive Stock Options under Section 422 of the Code. If any such provision of the Plan conflicts with any such rule or regulation, then the provision of the Plan shall be void and of no force and effect.

NHK/646/AAO

Companies Whose Employees are Eligible to Participate in Bethel Bancorp. 1992 Stock Option Plan

1. Bethel Bancorp.
2. Bethel Savings Bank, FSB
3. Brunswick Federal Savings, F.A.
4. Bethel Service Corporation

341646/BM1

NORTHEAST BANCORP
1999 STOCK OPTION PLAN

ARTICLE I

The Plan

1.1 Establishment of the Plan.

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

1.2 Purpose.

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

ARTICLE II

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.16 "Fair Market Value" of a share of Common Stock on a particular date shall be the closing price for a share of Common Stock as quoted on the American Stock Exchange ("AMEX"), or the National Association of Securities Dealers Automated Quotation System National Market ("Nasdaq-NMS"), or any other national securities exchange on which the Common Stock is listed (as reported by the Wall Street Journal or, if not reported thereby, any other authoritative

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

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

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

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

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

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

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

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

2.24 "SEC" means the Securities and Exchange Commission.

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

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

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

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

ARTICLE III

Administration of the Plan

3.1 The Committee.

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

3.2 Duties and Powers of the Committee.

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

(a) subject to Section 3.3 of this Plan, to select the Employees and Directors to whom Awards may from time to time be granted pursuant to this Plan;

(b) to determine all questions as to eligibility;

(c) to determine the number of shares of Common Stock to be covered by each Award granted under this Plan;

(d) subject to the limitations set forth in Section 4.1 of this Plan, to determine whether and to what extent Incentive Stock Options, Nonqualified Stock Options, or any combination thereof, are to be granted or awarded hereunder;

(e) to determine the terms and conditions (to the extent not inconsistent with this Plan) of any Award granted hereunder, all provisions of each Stock Option Agreement, which provisions need not be identical (including, but not limited to, the Exercise Price, the Exercise Period, any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, regarding any Stock Option or other Award and the Common Stock relating thereto, based on such factors as the Committee shall determine, in its sole discretion);

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

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

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

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

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

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

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

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

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

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

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

3.3 Awards to Members of the Committee.

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

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

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

3.5 Decisions Final and Binding.

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

3.6 Limitation on Liability.

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

ARTICLE IV

Shares Subject to the Plan

4.1 Number of Shares.

Subject to adjustment as provided in Section 4.4, the maximum aggregate number of Shares that may be issued under this Plan shall not exceed 135,000 Shares, which Shares may be either authorized but unissued Shares or Shares issued and thereafter reacquired by the Company. Stock Options awarded under the Plan may be either Incentive Stock Options or Nonqualified Stock Options, as determined by the Committee.

Except as provided in Sections 4.2 and 4.3 of this Plan, Shares issued upon the exercise of an Award granted pursuant to the Plan shall not again be available for the grant of an Award hereunder.

4.2 Lapsed Awards.

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

4.3 Delivery of Shares as Payment.

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

4.4 Capital Adjustments.

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

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

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

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

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

ARTICLE V

Eligibility

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

ARTICLE VI

Stock Options

6.1 Stock Options.

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

6.2 Grant of Stock Options.

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

6.3 Incentive Stock Options.

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

6.4 Stock Option Agreement.

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

6.5 Exercise Price.

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

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

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

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

6.6 Exercise Period.

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

6.7 Exercise of Stock Options.

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

6.8 Method of Exercise.

(a) Subject to the provisions of the Stock Option Agreement, Stock Options may be exercised in whole at any time, or in part from time to time with respect to whole Shares only, during the Exercise Period by the delivery to the Company of a written notice of intent to exercise the Stock Option, in such form as the Committee may prescribe, setting forth the number of Shares with respect to which the Stock Option is to be exercised; provided, however, that the minimum exercise amount permitted at any time shall be one hundred (100) Shares. The Exercise Price, which shall accompany the written notice of exercise, shall be payable to the Company in full (along with the taxes described in the last sentence of this Section 6.8(a)) by the Participant who, if so provided in the Stock Option Agreement, may: (i) deliver cash or a check (acceptable to the Committee in accordance with guidelines established for this purpose) in satisfaction of all or any part of the Exercise Price; (ii) deliver, or cause to be withheld from the Stock Option, Shares valued at Fair Market Value on the Date of Exercise in satisfaction of all or any part of the Exercise Price, (iii) deliver any combination of cash and Shares, or (iv) deliver any other consideration and method of payment permitted under any laws to which the Company is subject, in each such case as the Committee may determine.

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

6.8 Transfer Restrictions.

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

6.10 Termination of Stock Options.

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

(b) Termination by Disability. Unless the Committee provides otherwise in the Stock Option Agreement, if a Participant's employment or service with the Company or its Subsidiaries terminates by reason of permanent and total disability, as determined by the Committee in accordance with applicable Company personnel policies, then for a period of one year (or such other period as the Committee may specify at grant) from the date of such termination of employment or service, or until the end of the Exercise Period of such Stock Option, whichever is shorter, the Award may be exercised by the Participant, or his or her legal representative, subject to the limitations of Section 6.11 with respect to Incentive Stock Options, to the extent that such Participant was entitled to exercise the Award at the date of such termination; provided, however, that, if the Participant dies within such one year period (or such other period as the Committee may specify at grant), then for a period of one year from the date of death or until the end of the Exercise Period of such Stock Option,

whichever period is shorter, any unexercised Stock Options held by such Participant shall thereafter be exercisable to the extent to which they were exercisable at the time of such termination due to disability. In the event of termination of employment by reason of permanent and total disability, as determined by the Committee in accordance with applicable Company personnel policies, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code (currently one year from such termination), such Stock Option will thereafter be treated as a Nonqualified Stock Option.

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

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

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

6.11 Incentive Stock Option Limitations.

(a) To the extent that the aggregate Fair Market Value (determined as of the Date of Grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan and/or any other stock option plan of the Company or any Subsidiary or parent corporation (within the meaning of Section 425 of the Code) exceeds \$100,000, such Stock Options shall be treated as Stock Options which are not Incentive Stock Options.

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

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

6.12 Buy-Out and Settlement Provisions.

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

6.13 No Rights as Stockholder.

No Participant or transferee of a Stock Option shall have any rights as a stockholder of the Company with respect to any Shares subject to a Stock Option (including without limitation, rights to receive dividends, vote, or receive notice of meetings) prior to the purchase of such Shares by the exercise of such

Stock Option as provided in this Plan. A Stock Option shall be deemed to be exercised and the Common Stock thereunder purchased when written notice of exercise has been delivered to the Company in accordance with Section 6.8 of the Plan and the full Exercise Price for the Shares with respect to which the Stock Options is exercised has been received by the Company, accompanied with any agreements required by the terms of the Plan and the applicable Stock Option Agreement; provided, however, that if the Participant has been terminated for Cause, only those shares of Common Stock for which a certificate has been delivered to the Participant by the Company will be deemed to be purchased by such Participant. Full payment may consist of such consideration and method of payment allowable under this Article VI of the Plan. No adjustment will be made for a cash dividend or other rights for which the record date precedes the Date of Exercise, except as provided in Section 4.4 of the Plan.

6.14 Sale of Common Stock Upon Exercise of Stock Option.

Unless the Committee provides otherwise in the Stock Option Agreement, Common Stock acquired pursuant to the exercise of Stock Option shall not be subject to any restrictions on transferability under this Plan, except as provided in Section 11.1 of this Plan. With respect to Common Stock acquired pursuant to the exercise of an Incentive Stock Option, a transfer or other disposition of such Common Stock by a Participant (other than by will or the laws of descent and distribution) may not qualify for favorable tax treatment under Section 421(a) of the Code if such transfer or other disposition shall occur before the expiration of the later of (i) the two year period commencing on the Date of Grant of the ISO, or (ii) the one year period commencing on the Date of Exercise of the ISO.

ARTICLE VII

Change of Control

7.1 Acceleration of Options; Lapse of Restrictions.

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

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

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

7.2 Definition of Change of Control.

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

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

(i) the Company or any of its Subsidiaries,

(ii) any employee benefit plan (or related trust) of the Company or its Subsidiaries, or

(iii) any corporation with respect to which, following such acquisition, more than 50% of the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned by the Persons who were the beneficial owners of the Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership immediately prior to such acquisition of the Voting Securities; or

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

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

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

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

7.3 Occurrence of a Change of Control.

A Change of Control will be deemed to have occurred:

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

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

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

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

7.4 Application of this Article VII.

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

ARTICLE VIII

Amendment, Modification, or Termination of Plan

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

ARTICLE IX

Modification, Extension, and Renewal of Stock Options and Awards

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

ARTICLE X

Indemnification of the Committee

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

ARTICLE XI

General Provisions

11.1 Conditions Upon Issuance of Shares.

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

representation, warranty, or covenant as the Committee or its counsel deems necessary under the Securities Act and the securities laws of all other applicable jurisdiction. In addition to any legend required by this Plan, the certificates for the Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer.

11.2 Reservation of Shares.

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

11.3 Limitation on Legal Rights.

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

11.4 Not a Contract of Employment.

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

11.5 Other Compensation Plans.

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

11.6 Assumption by the Company.

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

11.7 Creditors.

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

11.8 Plan Binding on Successors.

All obligations of the Company under this Plan and any Awards granted hereunder shall be binding upon any successor and assign of the Company, whether the existence of such successor or assign is a result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

11.9 Unfunded Status of Plan.

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

11.10 Withholding.

(a) Tax Withholding.

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

(b) Share Withholding.

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

11.10 Singular, Plural; Gender.

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

11.11 Headings.

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

11.12 Costs.

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

11.13 Governing Law.

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

ARTICLE XII

Effectiveness of the Plan

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

ARTICLE XIII

Term of the Plan

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

Date Approved by Board of Directors: September 17, 1999

/s/ Suzanne M. Carney
Clerk Certification

Date Approved by the Stockholders: November 9, 1999

/s/ Suzanne M. Carney
Clerk Certification

Exhibit 11. Statement Regarding Computation of Per Share Earnings

	Year Ended June 30, 2007	Year Ended June 30, 2006
EQUIVALENT SHARES:		
Weighted average shares outstanding	2,451,610	2,493,560
Total diluted shares	2,470,562	2,526,095
Net income	\$ 1,886,677	\$ 4,004,199
Basic earnings per share	\$ 0.77	\$ 1.61
Diluted earnings per share	\$ 0.76	\$ 1.59

Exhibit 21. Securities of Registrant

	Name of Subsidiary	<u>Jurisdiction of Incorporation</u>	<u>Year Acquired of Formed</u>	<u>Percentage of Voting Securities Owned</u>
ASI Data Services Inc		Maine	1993	100%
Northeast Bank (and its 100% owned subsidiary, Northeast Bank Insurance Group, Inc.)		Maine	1987	100 %

SHATSWELL, MacLEOD & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Northeast Bancorp
Lewiston, Maine

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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), (No. 33-87976) and (No. 333-135452) of Northeast Bancorp of our report dated September 6, 2007, related to our audit of the consolidated financial statements of Northeast Bancorp and Subsidiary included in the Annual Report on Form 10-K for the year ended June 30, 2007.

West Peabody, Massachusetts
September 26, 2007

/s/ SHATSWELL, MacLEOD & COMPANY, P.C.
SHATSWELL, MacLEOD & COMPANY, P.C.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form S-8 (No. 333-85206), (No. 33-32095), (No. 33-58538), (No. 33-32096), (No. 33-87976) and (No. 333-135452) of Northeast Bancorp of our report dated August 11, 2006, relating to our audit of the consolidated financial statements at June 30, 2006 and for the years ended June 30, 2006 and 2005 of Northeast Bancorp and Subsidiaries, which appears in the Annual Report on Form 10-K of Northeast Bancorp and Subsidiaries for the year ended June 30, 2007.

Portland, Maine
September 27, 2007

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

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

I, James D. Delamater, certify that:

1. I have reviewed this annual report on Form 10-K of Northeast Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 21, 2007

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

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

I, Robert S. Johnson, certify that:

1. I have reviewed this annual report on Form 10-K of Northeast Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 21, 2007

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

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

In connection with the Annual Report of Northeast Bancorp. (the "Company") on Form 10-K for the annual period ending June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James D. Delamater, as Chief Executive Officer of the Company, hereby certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and the periods covered by the Report.

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

September 21, 2007

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

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

In connection with the Annual Report of Northeast Bancorp. (the "Company") on Form 10-K for the annual period ending June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert S. Johnson, as Chief Financial Officer of the Company, hereby certifies pursuant to 18 U.S.C. 1350, as adopted pursuant to 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and the periods covered by the Report.

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

September 21, 2007

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