FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For fiscal year ended June 30, 2000

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

For the transition period from to

Commission file number (1-14588)

Northeast Bancorp
(Exact name of registrant as specified in its charter)

Maine	01-0425066
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

232 Center Street, Auburn, Maine	04210
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant, as of September 13, 2000, was $19,997,728 based on the last reported sales price of the Company's common stock on the American Stock Exchange as of the close of business on such date. Although directors and executive officers of the registrant and its subsidiaries were assumed to be "affiliates" of the registrant for the purposes of this calculation, this classification is not to be interpreted as an admission of such status. There were 2,678,579 shares of the registrant's common stock outstanding as of September 13, 2000.

DOCUMENTS INCORPORATED
BY REFERENCE

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

Document	Form 10-K Part into Which the Document is Incorporated
Proxy Statement for the 2000 Annual Meeting of Shareholders	III

PART I

Item 1. Business

General

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

At the beginning of the fiscal year ended June 30, 2000, the Bank had two separate branch offices in Augusta, Maine; the Western Avenue and the Bangor Street branches. During the third quarter ending March 31, 2000, the Bank consolidated its loan and deposit customers to the Western Avenue branch and closed the Bangor Street location. The merging of these two branches allows the Bank to continue to serve the Augusta, Maine community with greater efficiency with little or no disruption. The Bangor street branch had been subject to a lease agreement, which had expired during the recently completed fiscal year. The relocation expenses were not material and the employees were absorbed into other available positions within the Bank or decreased through attrition. The closure of the branch did not have a material impact on the financial condition or operations of the Company.

Northeast Bancorp through its subsidiary, Northeast Bank and the Bank's subsidiary Northeast Financial Services, Inc., provide a broad range of financial services to individuals and companies in western, midcoast and south-central Maine. Although historically the Bank has been primarily a residential mortgage lender, during the past few years the Bank has expanded its commercial loan business, increased its line of financial products and services, and expanded its market area. Management believes that this strategy will increase core earnings in the long term by providing stronger interest margins, additional non-interest income, and increased loan volume. The Bank believes that the local character of its business and its "community bank" management philosophy allows it to compete effectively in its market area. As of June 30, 2000, the Company, on a consolidated basis, had total assets of approximately $434 million, total deposits of approximately $260 million, and stockholders' equity of approximately $28 million. Unless the context otherwise requires, references herein to the Company include the Company and its subsidiaries on a consolidated basis.

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

Strategy

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

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

* consumer lending and small business, home equity, and commercial loans;

* lending funds to retail banking customers by means or home equity and installment loans;

* originating loans secured by commercial property and multi-family dwellings; and

* generating indirect dealer consumer loans used for the purchase of mobile homes and automobiles.

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

Trust services and employee benefit products are provided to Northeast Bancorp customers through Northeast Trust, a division of the Bank. Since 1993, employee benefit products were provided to Northeast Bancorp's customers through First New England Benefits, a division of the Bank ("FNEB"). During fiscal 1999, Northeast Bancorp dissolved FNEB because it could not attain sufficient growth revenue. These services are now provided to customers through the Bank's trust department. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations."

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

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

With the goal of providing a full range of banking services to its customers and in an effort to develop strong long-term primary banking relationships with businesses and individuals, the Bank has expanded its commercial banking operations by selectively making commercial loans to small and medium sized companies. In this regard, the Bank's business development efforts have been directed towards full service credit packages and financial services, as well as competitively priced mortgage packages. At June 30, 2000, the Bank's loan portfolio consisted of 52% residential real estate mortgages, 17% commercial real estate mortgages, 11% commercial loans, and 20% consumer loans. At June 30, 2000, the Bank's lending limit was approximately $4.2 million. To the extent that customer's credit needs exceed the bank's lending limits, the Bank may seek participations in such loans with other banks. In addition, the Bank invests in certain U.S. government and agency obligations and other investments permitted by applicable law and regulations.

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

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

Market Area and Competition

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

Market for Services and Competition

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

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

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

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

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

Subsidiaries

On October 4, 1999, the Company formed NBN Capital Trust, a Delaware statutory trust and a wholly-owned subsidiary of the Company (the "Trust"), for the purpose of (i) issuing and selling its common securities to the Company and its trust preferred securities to the public, and (ii) using the proceeds therefrom to purchase 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") from the Company. Accordingly, the Junior Subordinated Debentures are, and will be, the sole asset of the Trust. In the quarter ended December 31, 1999, the Trust sold $7,172,998 of its trust-preferred securities to the public and $221,851 of its common securities to the Company. The Trust used the proceeds to purchase $7,394,849 in principal amount of the Junior Subordinated Debentures issued by the Company. The Company will pay interest on the Junior Subordinated Debentures at a rate of 9.60% to the Trust at the end of each quarter, which is equal to the dividend rate payable to the holders of the Trust's preferred securities. The cost of the issuance of the preferred securities was approximately $491,000 and is treated as a deferred asset and will be amortized over the life of the securities. Following the offer and sale of the Trust's securities, the Company owned and currently holds all of the outstanding common securities of the Trust, its only voting securities, and as a result the Trust is a subsidiary of the Company. Through the end of the fiscal year ending June 30, 2000, the Company had used the net proceeds of the offering, approximately $6,700,000, for the following purposes: (i) contributed $4,000,000 as additional capital for the Bank, (ii) allocated $1,000,000 for the Company's stock buy-back program, (iii) paid off the remaining principal balance of $535,000 on its note payable, and (iv) retained the remaining $1,200,000 for general corporate requirements as they may arise from time to time. Since January 1, 2000 through September 15, 2000, the Company has utilized an additional $1,000,000 of the remaining funds for general corporate needs.

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 of directors voted to transfer the assets and operations of ASI to the Bank as of July 1, 1996. ASI continues to exist as a separate legal entity, but is now inactive.

Northeast Financial Services Corporation, a Maine Corporation, and a wholly-owned subsidiary of the Bank was originally formed in 1982 as a vehicle through which the Bank could participate in certain real estate development projects. At June 30, 2000, investment in and loans to its subsidiary constituted 0.14% of the Company's total assets. Generally, any proposed development project will be examined for its profit potential and its ability to enhance the communities served by the Bank. At the present time, there are no definitive plans for additional real estate development projects. Northeast Financial also supports the Bank's non-banking financial services through its relationship with Commonwealth Financial Services, Inc., ("Commonwealth"), a fully licensed New York securities firm, and a variety of insurance agencies, including Kendall Insurance Agency, which allows the Bank to deliver insurance products to its customers, and for which the Bank receives a flat fee from the various relationships for referrals. Northeast Financial has not invested in any assets in its business relationship with Commonwealth.

Employees

As of June 30, 2000, the Company and the Bank together employed 132 full-time and 26 part-time employees. The Company's employees are not represented by any collective bargaining unit. The Company believes that its relations with its employees are good.

SUPERVISION AND REGULATION

General

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

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

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

Federal Regulation of Savings and Loan Holding Companies

General Limitations.

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

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

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

* competitive effects of the transaction;

* financial and managerial resources;

* future prospects of the holding company and its bank or thrift subsidiaries following the transaction;

* the effect of the acquisition on the risk to the insurance fund; and

* compliance history of such subsidiaries with the Community Reinvestment Act.

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

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

* furnishing or performing management services for a subsidiary insured institution;

* conducting an insurance agency or an escrow business;

* holding, managing or liquidating assets owned by or acquired from a subsidiary insured institution;

* holding or managing properties used or occupied by a subsidiary insured institution;

* acting as trustee under deeds of trust;

* those activities previously directly authorized by the OTS by regulation as of March 5, 1987 to be engaged in by multiple savings bank holding companies; or

* subject to prior approval of the OTS, those activities authorized by the Federal Reserve Board as permissible investments for bank holding companies.

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

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

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

* limit the payment of dividends by the savings institution to its parent holding company;

* limit transactions between the savings institution, the holding company and the subsidiaries or affiliates of either; or

* limit any activities of the savings institution that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution.

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

Capital Requirements.
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The OTS capital regulations have three components: a leverage limit, a tangible capital requirement, and a risk-based capital requirement. The OTS has broad discretion to impose capital requirements in excess of minimum applicable ratios.

The leverage limit requires that a savings association maintain core capital of at least 3% of its adjusted total assets. For purposes of this requirement, total assets are adjusted to exclude intangible assets and investments in certain subsidiaries, and to include the assets of certain other subsidiaries, certain intangibles arising from prior period supervisory transactions, and permissible mortgage servicing rights. Core capital includes common shareholders' equity and retained earnings, noncumulative perpetual preferred stock and related surplus and minority interests in consolidated subsidiaries, minus intangibles, plus certain mortgage servicing rights and certain goodwill arising from prior regulatory accounting practices.

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

In determining core capital, all investments in and loans to subsidiaries engaged in activities not permissible for national banks, which are generally more limited than activities permissible for savings associations and their subsidiaries, must be deducted. Certain exceptions are provided, including exceptions for mortgage banking subsidiaries and subsidiaries engaged in agency activities for customers (unless determined otherwise by the FDIC on safety and soundness grounds). Generally, all subsidiaries engaged in activities permissible for national banks are required to be consolidated for purposes of calculating capital compliance by the parent savings association.

The tangible capital requirement mandates that a savings association maintain tangible capital of at least 1.5% of adjusted total assets, provided, however, that savings institutions may include up to 90% of the fair market value of readily marketable purchased mortgage servicing rights included in core capital as tangible capital (subject to certain conditions, including any limitations imposed by the FDIC on the maximum percentage of the tangible capital requirement that may be satisfied with such servicing rights). For purposes of the tangible capital requirement, adjusted total assets are calculated on the same basis as the leverage limit. As of June 30, 2000, the Bank was in compliance with these requirements. The balances maintain the same manner as core capital, except that all intangible assets must be deducted.

The risk-based requirement promulgated by the OTS pursuant to the HOLA, tracks the standard applicable to national banks, except that the OTS may determine to reflect interest rate and other risks not specifically included in the national bank standard. However, such deviations from the national bank standard may not result in a materially lower risk-based requirement for savings associations than for national banks. The risk-based standard adopted by the OTS is similar to the Office of the Comptroller of the Currency standard for national banks. The risk-based standards of the OTS require maintenance of core capital equal to at least 4% of risk-weighted assets and total capital equal to at least 8% of risk-weighted assets. Total capital includes core capital plus supplementary capital (to the extent it does not exceed core capital). Supplementary capital includes (a) cumulative perpetual preferred stock; (b) mutual capital certificates, income capital certificates and net worth certificates; (c) nonwithdrawable accounts and pledged deposits to the extent not included in core capital; (d) perpetual and mandatory convertible subordinated debt and maturing capital instruments meeting specified requirements; and (e) general loan and lease loss allowances, up to a maximum of 1.25% of risk-weighted assets. See Item 8. "Financial Statements and Supplementary Data - Footnote 10."

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

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

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

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

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

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

These penalties do not apply to a federal savings association, such as the

Bank, which existed as a federal savings association on August 9, 1989 but was chartered before October 15, 1982 as a savings bank under state law.

Limitation on Capital Distributions.
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OTS regulations impose limitations upon all capital distributions by savings institutions, including:

* cash dividends;

* payments to repurchase or otherwise acquire its shares;

* payments to stockholders of another institution in a cash-out merger; and

* other distributions charged against capital.

OTS rules establish three tiers of institutions, which are based primarily on an institution's capital level. An institution, such as the Bank, that exceeds all fully phased-in capital requirements before and after a proposed capital distribution and has not been advised by the OTS that it is in need of more than normal supervision, could, after prior notice but without the approval of the OTS, make capital distributions during a calendar year equal to the greater of: (i) 100% of its net earnings to date during the calendar year plus the amount that would reduce by one-half its "surplus capital ratio" (the excess capital over its fully phased-in capital requirements) at the beginning of the calendar year; or (ii) 75% of its net earnings for the previous four quarters; provided that the institution would not be undercapitalized, as the term is defined in the OTS Prompt Corrective Action regulations, following the capital distribution. Any additional capital distributions would require prior regulatory approval. In the event the Bank's capital fell below its fully phased-in requirement or the OTS notified it that it was in need of more than normal supervision, the Bank's ability to make capital distributions could be restricted. In addition, the OTS could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the OTS determines that such distribution would constitute an unsafe or unsound practice.

Liquidity.
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The Bank is required to maintain an average daily balance of "liquid assets" equal to a certain percentage of net withdrawable deposit accounts and borrowings payable in one year or less. Liquid assets are cash, certain time deposits, bankers' acceptances, highly rated corporate debt securities and commercial paper, securities of certain government mutual funds, reserves maintained pursuant to Federal Reserve Board requirements, and specified government, state or federal agency obligations. The liquidity requirement may vary from time to time, between 4% and 10%, depending on economic conditions and savings flows of all savings associations. At June 30, 2000, OTS regulations required savings associations, such as the Bank, to maintain liquid assets equal to not less than 4% of its net withdrawable deposit accounts and borrowing payable in one year or less.

Simply meeting the minimum liquidity requirement does not automatically mean a thrift institution has sufficient liquidity for safe and sound operation. OTS rules include a separate additional requirement that each thrift must maintain sufficient liquidity to ensure its safe and sound operation. Adequate liquidity may vary from institution to institution depending on thrift's asset/liability structure, market conditions, the activities of financial service competitors and the requirements of its own deposit and loan customers. At June 30, 2000, the Bank was in compliance with the liquidity ratio regulatory requirements.

Community Reinvestment Act and Fair Lending Laws.
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Savings associations have a responsibility under the Community Reinvestment Act and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. Failure of a savings association to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice. The Bank received a satisfactory Community Reinvestment Act rating under the current regulations in its most recent federal examination by the OTS.

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

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

Branching.

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

Transactions with Related Parties.

The Bank's authority to engage in transactions with related parties or "affiliates" (i.e., any company that controls or is under common control with the Bank, including Northeast Bancorp and any non-savings institution subsidiaries) or to make loans to certain insiders of the Bank or Northeast Bancorp, is limited by Sections 23A and 23B of the Federal Reserve Act. Section 23A limits the aggregate amount of transactions with any individual affiliate to 10% of the capital and surplus of the savings institution and also limits the aggregate amount of transactions with all affiliates to 20% of the savings institution's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in Section 23A and the purchase of low quality assets from affiliates is generally prohibited. Section 23B provides that certain transactions with affiliates, including loans and asset purchases, must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

Loans to Officers, Directors, and Principal Stockholders.

Sections 22(g) and 22(h) of the Federal Reserve Act and the rules and regulations issued under that act are applicable to loans from a savings association to any of the following persons:

* an executive officer of a savings association;

* a director of a savings association;

* a principal stockholder of a savings association (i.e., any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls, or has power to vote more than 10% of any class of voting securities of a savings association);

* any company controlled by an executive officer, director or principal stockholder of a savings association; and

* any political or campaign committee which is controlled by, or which will benefit any executive officer, director or principal stockholder.

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

Changes in Directors and Senior Executive Officers.

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

Permissible Loans and Investments.

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

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

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

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

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

Enforcement.
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Under the Federal Deposit Insurance Act, the OTS has primary enforcement responsibility over savings institutions and has the authority to bring enforcement action against all "institution-related parties," including

stockholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institutions, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. Under the act, the FDIC has the authority to recommend to the Director of OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such actions under certain circumstances.

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

Prompt Corrective Regulatory Action.
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Under the OTS Prompt Corrective Action regulations, the OTS is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of capitalization. Generally, a savings institution that has total risk-based capital of less than 8.0% or a leverage ratio or a Tier 1 core capital ratio that is less than 3.0% is considered to be undercapitalized. A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 core risk-based capital ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized" and a savings institution that has a tangible capital to assets ratio equal to or less than 1.5% is deemed to be "critically undercapitalized."

Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the OTS within 45 days of the date an institution receives notices that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the institution, including, but not limited to, restrictions on growth, investment activities, capital distributions, and affiliate transactions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. As of June 30, 2000, the Bank was considered to be well-capitalized.

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

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

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

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

For purposes of assessments of FDIC insurance premiums, the Bank is a well-capitalized institution as of June 30, 2000. FDIC regulations prohibit disclosure of the supervisory subgroup to which an insured institution is assigned.

Brokered Deposits.

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

Federal Home Loan Bank System.

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

Federal Reserve System.

The Federal Reserve Board regulations require savings institutions to maintain non-interest-earning reserves against their transactions (primarily NOW and regular checking accounts). As of June 30, 2000, the Bank was in compliance with these requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the OTS.

Federal Securities Laws.

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

Maine Law.

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

Legislation.

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

Statistical Disclosure.

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

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

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

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

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

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

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

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

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

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

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

(i) future acquisitions and the integration of acquired businesses and assets;

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

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

(l) unanticipated litigation, regulatory, or other judicial proceedings;

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

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

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

The Company's results are strongly influenced by general economic conditions in its market areas in the western, central, and mid-coastal regions of the State of Maine. A 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 Financial Condition and Results of Operations."

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

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

Item 2. Properties

The principal executive and administrative offices of the Company and the Bank are located at 232 Center Street, Auburn, Maine and consist of two floors, containing a lobby, executive and customer service offices, teller stations, and vault operations. These office facilities are subject to a lease, which expires in 2007, with an option to renew the lease for 2 additional 10-year terms. The lease requires rental payments of $96,072 per year.

The Bank has 11 branching locations, including the banking facility located at its executive offices. The branches located in Bethel, Harrison, Buckfield, Mechanic Falls, Brunswick, Augusta (Western Avenue), and Lisbon, Maine, are owned by the Bank in fee simple. In addition to the Auburn facilities, the branches located in South Paris and Lewiston, Maine are leased by the Bank. The Bank also owns in fee simple certain real property and improvements located in Auburn and Falmouth, Maine at which various loan and non-banking services as well as accounting and operations functions of the Company and the Bank are performed. The facilities owned or occupied under lease by the Bank and its subsidiaries are considered by management to be adequate.

Item 3. Legal Proceedings

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

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

There were no matters submitted to a vote of the Company's securities-holders during the fourth quarter of the fiscal year ended June 30, 2000.

Item 4a. Executive Officers of the Registrant

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

Name	Age	Position with Company and/or Bank
James D. Delamater	48	President and Chief Executive Officer(1)
A. William Cannan	58	Executive Vice President and Chief Operating Officer (1)
Philip C. Jackson	56	Senior Vice President of Bank Trust Operations
Richard E. Wyman, Jr.	44	Chief Financial Officer (1)
Gary Berlucchi	54	Senior Vice President of Bank - Operations
A. Daniel Keneborus	59	Senior Vice President of Bank - Commercial Lending
Marcel Blais	41	Senior Vice President of the Bank - Sales Manager
Suzanne Carney	33	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.

A. William Cannan has been Executive Vice President and Chief Operating Officer of the Company and the Bank since 1993, and a director of the Company and the Bank since 1996. From 1991 to 1993 Mr. Cannan served as President of Casco Northern Bank, N.A., located in Portland, Maine.

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

Richard E. Wyman, Jr. has been the Chief Financial Officer of the Company and the Bank since 1992.

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

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

Marcel Blais has been the Senior Vice President of the Bank - Retail Lending 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.

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

Part II

Item 5. Market Prices of Common Stock and Dividends Paid

The Common Stock of Northeast Bancorp trades on the American Stock Exchange ("AMEX") under the symbol NBN. As of the close of business on September 14, 2000, there was approximately 2,682,527 of shares of common stock outstanding held by approximately 470 stockholders of record.

The following table sets forth the high and low closing sales prices of the Company's Common Stock as reported on AMEX, and dividends paid during each quarter for fiscal years ending June 30, 2000 and 1999.

1999 - 00	High	Low	Div Pd
Jul 1 - Sep 30	10.13	8.00	.053
Oct 1 - Dec 31	9.81	7.00	.053
Jan 1 - Mar 31	9.50	7.88	.063
Apr 1 - Jun 30	9.13	8.00	.063
1998 - 99	**High**	**Low**	**Div Pd**
Jul 1 - Sep 30	16.13	9.75	.053
Oct 1 - Dec 31	11.25	8.00	.053
Jan 1 - Mar 31	11.50	9.88	.053
Apr 1 - Jun 30	11.00	9.50	.053

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, including the ability of the Bank to pay dividends to the Company, the amount of cash on hand, and any obligations to pay dividends to holders of its preferred stock.

Item 6. Selected Financial Data

	At or for the Year Ended June 30,				
	2000	1999	1998	1997	1996
	(Dollars in thousands except for Per Share Data)				
Selected Operations Data:					
Interest income	$ 32,406	$ 26,857	$ 24,283	$ 21,936	$ 20,105
Interest expense	18,352	14,550	12,810	11,291	10,087
Net interest income	14,054	12,307	11,473	10,645	10,018
Provision for loan losses	1,072	610	706	614	639
Other operating income (1)	2,451	2,621	2,384	1,827	1,909
Net securities gains	84	95	288	259	279
Other operating expenses (2)	10,543	10,570	9,732	9,718	9,536
Income before income taxes	4,974	3,843	3,707	2,399	2,031
Income tax expense	1,764	1,433	1,303	909	738
Net income	$ 3,210	$ 2,410	$ 2,404	$ 1,490	$ 1,293
Consolidated Per Share Data(3):					
Net income:					
Basic	$ 1.17	$ 0.88	$ 1.00	$ 0.63	$ 0.56
Diluted	$ 1.17	$ 0.86	$ 0.86	$ 0.56	$ 0.50
Cash dividends	$ 0.23	$ 0.21	$ 0.21	$ 0.21	$ 0.16
Selected Balance Sheet Data:					
Total assets	$433,852	$364,383	$322,533	$284,077	$244,782
Loans receivable	381,824	318,986	282,031	222,682	187,210
Deposits	259,982	219,364	184,024	172,921	164,855
Borrowings	129,801	104,569	105,433	81,793	54,140
Total stockholders' equity	28,126	26,683	25,140	22,096	20,364
Other Ratios:					
Return on average assets	0.79%	0.71%	0.83%	0.57%	0.55%
Return on average equity	11.59%	9.18%	10.35%	7.05%	6.31%
Average equity to average total assets	6.85%	7.73%	7.99%	8.09%	8.67%
Common dividend payout ratio (3)	19.66%	24.42%	24.42%	37.50%	32.00%

(1) Includes fees for services to customers and sale of loans.
(2) Includes salaries, employee benefits, occupancy, equipment and other expenses .
(3) Per share data include restatement to reflect (a) a 50% stock dividend paid in 1997 and (b) adoption of FASB No. 128 "Earnings Per Share" and its retroactive application to periods prior to and including 1997. The selected financial data for the years 1997 and 1996 have been restated to include Cushnoc Bank's financial information in accordance with the pooling of interests accounting method due to a merger.

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

Management's Discussion and Analysis

DESCRIPTION OF OPERATIONS

Northeast Bancorp (the "Company") is a unitary savings and loan holding company registered with the Office of Thrift Supervision ("OTS") its primary regulator. The Company's principal asset is its wholly-owned banking subsidiary, Northeast Bank, FSB (the "Bank"), which has branches located in Auburn, Augusta, Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond, Lewiston, and Lisbon Falls, Maine. The Bank also maintains a facility on Fundy Road in Falmouth, Maine, from which loan applications are accepted and investment, insurance and financial planning products and services are offered. The Bank's deposits are primarily BIF-insured. Deposits at the Brunswick branch are SAIF-insured and represent approximately 20% of the Bank's total deposits at June 30, 2000.

Northeast Bancorp through its subsidiary, Northeast Bank and the Bank's subsidiary Northeast Financial Services, Inc., provide a broad range of financial services to individuals and companies in western, midcoast and south-central Maine. Although historically the Bank has been primarily a residential mortgage lender, during the past few years the Bank has expanded its commercial loan business, increased its line of financial products and services, and expanded its market area. 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. Substantially all of the Bank's current income and services are derived from banking products and services in Maine.

This Management's Discussion and Analysis of Financial Condition and Results of Operations presents a review of the financial condition of the Company for the years ended June 30, 1999 and June 30, 2000, and the results of operations for the fiscal years ended June 30, 2000, 1999, and 1998. This discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company and the Bank. Accordingly, this section should be read in conjunction with the consolidated financial statements and the related notes and other statistical information contained herein.

Certain statements contained herein are not based on historical facts and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial condition and future prospects, loan loss reserve adequacy, simulation of changes in interest rates, prospective results of operations, capital spending and financing sources, and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Forwardlooking statements, which are based on various assumptions (some of which are beyond the Company's control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as "believe", "expect", "estimate", "anticipate", "continue", "plan", "approximately", "intend", or other similar terms or variations on those terms, or the future or conditional verbs such as "will", "may", "should", "could", and "would". Such forward-looking statements reflect the current view of management and are based on information currently available to them, and upon current expectations, estimates, and projections regarding the Company and its industry, management's belief with respect there to, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors. Accordingly, actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and 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.

FINANCIAL CONDITION

The overall strategy of the Company is to increase the core earnings of the Bank by the development of strong net interest margins and noninterest fee income, by increasing deposit and loan volume through a larger market area as well as increasing sales in the Company's financial service departments.

The state of Maine's economy, in which the Company operates, including the south central and mid-coast region of Cumberland, Androscoggin and Sagadahoc counties, has experienced moderate growth over the previous three years. The banking business has become increasingly competitive over the past several years. The Bank's major competitors for deposits and loans consist primarily of other Maine-based banks, regional and money center banks, and non-bank financial institutions. Many of the Bank's competitors are larger in size and, consequently, possess greater financial resources. The principal factors in competing for deposits are convenient office locations, flexible hours, interest rates and services, while those relating to loans are interest rates, the range of lending services offered and lending fees. The Bank believes that the local character of its business and its "community bank" management philosophy enhances its ability to compete in its market areas.

The Company has continuously enhanced its product lines and now provides a wide range of financial services such as loans and deposits, investments through its relationship with Commonwealth Financial Services, Inc., employee retirement benefits and trust services through the Bank's trust department, and provides insurance products through its affiliation with local insurance agencies. The Company believes that its level of capital is adequate and with its current capital plan will support future growth and development. As of June 30, 2000, the Company's total equity represents 6.48% of its total assets. The Company's assets totaled $433,852,446 as of June 30, 2000; an increase of $69,469,541 from June 30, 1999, primarily due to loan growth. Loan volume was enhanced during the 2000 fiscal year due to an increase in real estate mortgage loans; indirect mobile home and automobile dealer finance loans, and commercial loans. The increase in loans was primarily funded with increased deposits, securities sold under repurchase agreements and Federal Home Loan Bank ("FHLB") advances. The Company has focused its business development efforts on full service credit packages and financial services, as well as competitively priced mortgage packages.

The Bank's loan portfolio had a balance of $381,824,101 as of June 30, 2000, which represents an increase of $62,837,854 compared to June 30, 1999. From June 30, 1999 to June 30, 2000, the loan portfolio increased by $24,635,226 in real estate mortgage loans, $31,315,452 in consumer and other loans, and by $6,887,176 in commercial loans. During fiscal 2000, the Bank purchased approximately $3,200,000 of residential whole loans on the secondary market. The purchase consisted of 1-4 family adjustable rate mortgages secured by property located primarily in the State of Tennessee. The Bank continues to grow the indirect auto loan portfolio and it is the Bank's intent to build relationships with other institutions for future sales of indirect auto loans. The growth in indirect automobile and mobile home loans has resulted in a shift of the Bank's loan portfolio mix and as a result residential real estate mortgages have decreased, and consumer and other loans have increased, as a percentage of the Bank's total loan portfolio. The Bank's local market, as well as the secondary market, continues to be very competitive for loan volume. The local competitive environment and customer response to favorable secondary market rates will have an adverse affect on the Bank's ability to increase the loan portfolio. In an effort to increase loan volume, the Bank's interest rates for its loan products have been reduced to compete in the various markets. The Bank has experienced margin compression due to decreased loan rates as well as increased rates on its cost of funds. The Bank anticipates that the margin compression will continue for the foreseeable future until loan volume increases in the current rising interest rate environment.

The loan portfolio contains elements of credit and interest rate risk. The Bank historically has loaned within its local market areas, which management believes helps it to better evaluate credit risk. As the Bank expands its purchase of loans in other states, management researches the strength of the economy in the respective state and underwrites every loan before purchase. These steps are taken to better evaluate and minimize the credit risk of out-of-state purchases.

At June 30, 2000, residential real estate mortgages made up 52% of the total loan portfolio, of which 37% of the residential loans are variable rate products. At June 30, 1999, residential real estate mortgages made up 58% of the total loan portfolio, of which 40% of the residential loans were variable rate products. Variable rate residential loans have decreased during fiscal 2000, when compared to 1999, due to the increased market demand for fixed rate loans. It has traditionally been management's intent to increase the proportion of variable rate residential real estate loans during a rising rate environment to reduce the interest rate risk in this area. The Bank has historically purchased adjustable rate residential loans and sold fixed rate residential loans. However, during fiscal 1999, the Bank purchased fixed rate residential loans. This purchase improved the Company's asset/liability management position during the declining rate environment earlier in the 1999 fiscal year. Interest rates began to rise late in the 1999 fiscal year and into the current fiscal 2000 year. Due to the changing interest rate environment, management will again pursue its strategy of increasing the percentage of variable rate loans as a percentage of the total loan portfolio to help manage interest rate risk.

At June 30, 2000, 17% of the Bank's total loan portfolio is commercial real estate mortgages. Commercial real estate loans have minimal interest rate risk as 89% of the portfolio consists of variable rate products. At June 30, 1999, commercial real estate mortgages made up 17% of the total loan portfolio, in which 84% of the commercial real estate loans were variable rate products. The Bank tries to mitigate credit risk by lending in its local market areas as well as maintaining a wellcollateralized position in real estate.

Commercial loans made up 11% of the total loan portfolio at June 30, 2000. Variable rate loans comprise 43% of this loan portfolio at June 30, 2000. At June 30, 1999 commercial loans made up 11% of the total loan portfolio, of which 43% of the balance was variable rate instruments. The credit loss exposure on commercial loans is highly dependent on the cash flow of the customers' business. The Bank mitigates losses by strictly adhering to the Company's underwriting and credit policies.

Consumer and other loans make up 20% of the total loan portfolio as of June 30, 2000, which compares to 14% at June 30, 1999. Since these loans are primarily fixed rate products, they have interest rate risk when market rates increase. These loans also have credit risk. The increase in consumer loans was primarily due to increased volume in indirect automobile and mobile home loans, which together comprise approximately 87% of the total consumer loans. The consumer loan department underwrites all the automobile dealer finance and mobile home loans to protect credit quality. The Bank typically pays a nominal one-time origination fee on the loans. The fees are deferred and amortized over the life of the loans as a yield adjustment. Management attempts to mitigate credit and interest rate risk by keeping the products offered short-term, receiving a rate of return commensurate with the risk, and lending to individuals in the Bank's known market areas.

The Bank's allowance for loan losses was $3,498,000 as of June 30, 2000 versus $2,924,000 as of June 30, 1999, representing 0.92% and 0.93% of total loans, respectively. The Bank had non-performing loans totaling $1,178,000 and $1,144,000 at June 30, 2000 and 1999, which was 0.31% and 0.36% of total loans, respectively. Non-performing loans and assets acquired through foreclosure represented 0.34% and 0.37% of total assets at June 30, 2000 and 1999, respectively. Non-performing loans are generally loans ninety days delinquent or greater for which the Bank does not accrue interest income. The Bank's allowance for loan losses was equal to 297% and 256% of total non-performing loans at June 30, 2000 and 1999, respectively. The following table represents the Bank's non-performing loans as of June 30, 2000 and 1999:

Description	June 30, 2000	June 30,1999
1-4 Family Mortgages	$ 191,000	$ 293,000
Commercial Mortgages	650,000	654,000
Commercial Loans	152,000	197,000
Consumer and Other	185,000	0
Total non-performing	$ 1,178,000	$ 1,144,000

At June 30, 2000, the Bank had approximately $2,426,000 of loans classified substandard, exclusive of the non-performing loans stated above, that could potentially become non-performing due to delinquencies or marginal cash flows. As of June 30, 2000, the amount of such loans has increased from the June 30, 1999 amount by $1,685,000. The increase was primarily due to management downgrading a single commercial real estate loan with an outstanding principal balance of approximately $1,500,000 during its internal review process. The commercial real estate loan is well collaterallized and management does not anticipate any financial loss on this loan. The Bank's delinquent loans, as a percentage of total loans, increased slightly during the 2000 fiscal year and in an effort to control the amount of such loans management continues to allocate substantial resources to the collection area. The increase in delinquencies was primarily in the 30-day delinquent category. Although delinquencies and non-performing loans increased during the fiscal year, management does not consider this to be a potential trend at this time.

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

06/30/00	06/30/99	06/30/98	06/30/97

0.85%	0.76%	1.09%	1.93%

At June 30, 2000, loans classified as non-performing included $71,919 of loan balances that are current and paying as agreed, but which the Bank maintains as non-performing until the borrower has demonstrated a sustainable period of performance. Excluding these loans, the Bank's total delinquencies 30 days or more past due, as a percentage of total loans, would be 0.83% as of June 30, 2000.

The level of the allowance for loan losses as a percentage of total loans remained essentially the same at June 30, 2000 compared to June 30, 1999 and the level of the allowance for loan losses as a percentage of total non-performing loans increased at June 30, 2000 compared to June 30, 1999. The Company has experienced good loan growth during fiscal 2000 particularly in the commercial and consumer loan portfolio. However, these types of loans have additional credit risk as compared to real estate mortgage loans. Due to the increase in these types of loans, the Bank increased its provision for loan losses during fiscal 2000. Management believes that the increases in the provision for loan losses during fiscal 2000 were prudent due to the growth in commercial and consumer loans as well as the general growth of the total loan portfolio. Classified loans are also considered in management's analysis of the adequacy of the allowance for loan losses. Based on reviewing the credit risk and collateral of classified loans, management has considered the risks of the classified portfolio and believes the allowance for loan losses is adequate. Net charge-offs for the Bank were $497,949, $664,017, and $469,909, for the years ended June 30, 2000, June 30, 1999, and June 30, 1998, respectively.

At June 30, 2000, total impaired loans were $1,164,349, of which $81,341 had related allowances of $30,000. This compares to total impaired loans of $612,867, of which $241,420 had related allowances of $77,200, at June 30, 1999. During the year ended June 30, 2000, the income recognized related to impaired loans was $22,648 and the average balance of outstanding impaired loans was $914,493. This compares to income recognized related to impaired loans of $66,030 and the average balance of impaired loans of $1,229,987 at June 30, 1999. The Bank recognizes interest on impaired loans on a cash basis when the ability to collect the principal balance is not in doubt; otherwise, cash received is applied to the principal balance of the loan.

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

Management believes that the allowance for loan losses is adequate considering the level of risk in the loan portfolio. While management believes that it uses the best information available to make its determinations with respect to the allowance, there can be no assurance that the Company will not have to increase its provision for loan losses in the future as a result of changing economic conditions, adverse markets for real estate or other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. The Bank's most recent examination by the Office of Thrift Supervision was on March 7, 2000. At the time of the exam the regulators proposed no additions to the allowance for loan losses.

At June 30, 2000, the Bank had a total of $278,010 in acquired assets as compared to $193,850 as of June 30, 1999. The Bank has an allowance for losses that was established to provide for declines in values and to consider estimated selling costs. The allowance for losses on acquired assets totaled $28,455 at June 30, 2000 versus $27,725 at June 30, 1999. The Company provided for this allowance through a charge against earnings of $24,000 and $47,000 for the years ended June 30, 2000 and 1999, respectively. In 2000 and 1999, write-downs of acquired assets totaled $23,270 and $24,375, respectively. Management periodically receives independent appraisals to assist in its valuation of other real estate owned properties. As a result of its review of the independent appraisals and the other real estate owned portfolio, the Company believes the allowance for losses on other real estate owned is adequate to state the portfolio at lower of cost, or fair value less estimated selling costs.

At June 30, 2000 and 1999, the Company's investment portfolio totaled $23,159,039 and $18,054,317, respectively. The investment portfolio consists of federal agency securities, mortgage-backed securities, bonds, and equity securities. Funds retained by the Bank as a result of increases in deposits or decreases in loans, which are not immediately used by the Bank, are invested in securities held in its investment portfolio. The investment portfolio is used as a source of liquidity for the Bank. The investment portfolio is structured so that it provides for an ongoing source of funds for meeting loan and deposit demands and for reinvestment opportunities to take advantage of changes in the interest rate environment. Equity securities and debt securities, which may be sold prior to maturity, are classified as available for sale and are carried at market value.

The Company's investment portfolio is primarily classified as available for sale at June 30, 2000 and 1999. Equity securities, and debt securities which may be sold prior to maturity, are classified as available for sale and are carried at market value. Changes in market value, net of applicable income taxes, are reported as a separate component of stockholders' equity. Gains and losses on the sale of securities are recognized at the time of the sale using the specific identification method. The amortized cost and market value of available for sale securities at June 30, 2000 was $24,335,060 and $23,159,039, respectively. The increase of $5,104,722 in securities available for sale, from June 30, 1999 to June 30, 2000, was primarily due to the Company purchasing mortgage-backed securities for collateral for the increased volume of securities sold under repurchase agreements and to take advantage of the higher yields on these investments during the current increasing rate environment. The difference between the carrying value and the cost of the securities of $1,176,021 was primarily attributable to the decline in the market value of mortgage-backed securities due to rising interest rates. The net unrealized loss on mortgage-backed securities was $904,688 at June 30, 2000. Substantially all of the mortgage-backed securities are high-grade government backed securities. As in any long term earning asset in which the earnings rate is fixed, the market value of mortgage-backed securities will fluctuate based on changes in market interest rates from the time of purchase. Since these mortgage-backed securities are backed by the U.S. Government, there is virtually no risk of loss of principal. Management believes that the yields currently received on this portfolio are satisfactory and intends to hold these securities for the foreseeable future. Management attributes the reduction of $262,263 in the market value of equity securities to the decline on the market value of the Company's investments in preferred equity securities. Management reviews the portfolio of investments on an ongoing basis to determine if there has been an other-than-temporary decline in value. Some of the considerations management makes in the determination are market valuations of particular securities and economic analysis of the securities' sustainable market values based on the underlying companies' profitability. Based on management's assessment of the securities portfolio in fiscal 2000, 1999 and 1998, there have been other than temporary declines in values of individual equity securities in the amounts of $60,000, $95,728, and $172,235, respectively. Such securities have been written down through an adjustment against earnings and are included in other expenses in the statements of income.

The Company's premises and equipment decreased by $639,258 during fiscal 2000 when compared to 1999. The decrease was due to normal depreciation.

The Bank increased its investment in FHLB stock by $964,000, compared to June 30, 1999, due to the increase in FHLB borrowings. The Bank increased FHLB borrowings to fund loan growth. The FHLB requires institutions to hold a certain level of FHLB stock based on advances outstanding.

Other assets increased by $1,098,604 from June 30, 1999 to June 30, 2000. The increase was primarily due to the increase in deferred tax assets, the purchase of non-marketable investments and the deferred costs associated with the issuance of the Company's trust preferred security offering.

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

Total deposits were $259,981,812 and securities sold under repurchase agreements were $13,110,165 as of June 30, 2000. These amounts represent an increase of $40,617,777 and $1,242,326, respectively, as compared to June 30, 1999. The increase in deposits was primarily due to the increase in time deposits. Time deposits increased due to various special offerings as well as normal growth from the branch market areas. The Bank has devoted additional staffing to increase its balances in repurchase agreements. Repurchase agreements enhance the Bank's ability to attain additional municipal and commercial deposits, improving the Bank's overall liquidity position in a cost-effective manner. Brokered CD's represented $37,505,141 of total deposits at June 30, 2000, which increased by $24,046,884 compared to June 30, 1999's $13,458,257 balance. During the June 30, 2000 quarter, the Bank issued two structured brokered CD's at $10 million each. The first CD offering was for a ten-year term with a one-year call option at a fixed rate of 7.75%. The Bank then entered into an interest rate exchange agreement with a third party to receive a fixed rate of interest at 7.75% and pay a variable rate at the one-month Libor rate. The second CD offering was for a five year six month term with a one-year call option at a fixed rate of 7.50%. The Bank then entered into an interest rate exchange agreement with a third party to receive a fixed rate of interest at 7.50% and pay a variable rate at the three-month Libor rate. The Bank entered into these transactions as an alternative to short-term borrowings at the FHLB. These brokered CD's were utilized to fund loan growth as well as decrease FHLB short term advances.

Total borrowings from the FHLB were $122,627,805 as of June 30, 2000, for an increase of $18,746,089 compared to June 30, 1999. The cash received from the increase in FHLB advances were utilized to fund loan growth. Certain mortgage loans, free of liens, pledges and encumbrances, investment securities not otherwise pledged, FHLB overnight deposits and the Company's FHLB stock have been pledged under a blanket agreement to secure these borrowings.

At the beginning of fiscal 2000, the Company had a note payable for $687,500. The note payable was a loan from an unrelated financial institution. This note payable was paid off in fiscal 2000.

The Bank served its Augusta, Maine location with two branch offices. In the March 31, 2000 quarter, the Bank consolidated its loan and deposit customers to the Western Avenue branch and closed the Bangor Street location. The merging of these two branches allows the Bank to continue to serve the Augusta, Maine community with greater efficiency with little or no disruption. The Bangor Street branch was under a lease agreement, which had expired. The relocation expenses were not material and the employees were absorbed into other available positions within the Bank or decreased through attrition. The closure of the branch did not have a material impact on the financial condition or operations of the Company.

Other liabilities were $2,833,188 as of June 30, 2000, which was an increase of $934,488 when compared to June 30, 1999. The increase in other liabilities was due to higher escrow account balances and accrued interest and other operating expenses.

CAPITAL RESOURCES & LIQUIDITY

Liquidity is defined as the ability of the Bank to generate sufficient cash to fund current loan demand, deposit withdrawals, other cash demands and disbursement needs, and otherwise operate on an ongoing basis. The Bank's primary sources of funds are its interest bearing deposits, cash and due from banks, deposits with the FHLB, certificates of deposit, loan payments and prepayments and other investments maturing in less than two years as well as securities available for sale. In addition, the Bank has unused borrowing capacity from the FHLB through its advances program. The Bank's current advance availability, subject to the satisfaction of certain conditions, is $20,740,000 over and above the 2000 end-of-year advances. The Company's ability to access the principal sources of liquid funds listed above is immediate and adequate to support the Company's needs.

Cross selling strategies are employed by the Bank to develop deposit growth. Even though deposit interest rates increased during fiscal 2000, the rate of return was still higher in other financial instruments such as mutual funds and annuities. Like other companies in the banking industry, the Bank will be challenged to maintain and or increase its core deposit base.

Total equity of the Company was $28,126,478 at June 30, 2000 compared to $26,683,115 at June 30, 1999. During the quarter ended December 31, 1999, the Company generated additional liquidity and funding through the issuance of certain debt instruments. In this regard, on October 4, 1999, the Company formed NBN Capital Trust, a Delaware statutory trust and a wholly-owned subsidiary of the Company (the "Trust"), for the purpose of (i) issuing and selling its common securities to the Company and its trust preferred securities to the public, and (ii) using the proceeds therefrom to purchase 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") from the Company. Accordingly, the Junior Subordinated Debentures are, and will be, the sole asset of the Trust. In the quarter ended December 31, 1999, the Trust sold $7,172,998 of its trust-preferred securities to the public and $221,851 of its common securities to the Company. The Trust used the proceeds to purchase $7,394,849 in principal amount of the Junior Subordinated Debentures issued by the Company. The Company will pay interest on the Junior Subordinated Debentures at a rate of 9.60% to the Trust at the end of each quarter, which is equal to the dividend rate payable to the holders of the Trust's preferred securities. The cost of the issuance of the preferred securities was approximately $491,000 and is treated as a deferred asset and will be amortized over the life of the securities. Following the offer and sale of the Trust's securities, the Company owned and currently holds all of the outstanding common securities of the Trust, its only voting securities, and as a result the Trust is a subsidiary of the Company. The Company used the net proceeds of the offering, approximately $6,700,000, for the following purposes: (i) contributed $4,000,000 as additional capital for the Bank, (ii) allocated $1,000,000 for the Company's stock buy-back program, (iii) paid off the remaining principal balance of $535,000 on its note payable, and (iv) retained the remaining $1,200,000 for general corporate requirements as they may arise from time to time.

The Company made an equity contribution of $4,000,000 of the funds received from the Junior Subordinated Debentures to the Bank. The funds are allowed under the Office of Thrift Supervision regulations to be used as capital at the Bank. These funds have increased the regulatory capital position at the Bank. The increase in regulatory capital will allow the Bank to fund loan growth for the immediate future.

In December 1999, the Board of Directors of Northeast Bancorp approved a plan to repurchase up to $2,000,000 of its common stock. Under the common stock repurchase plan, Northeast Bancorp may purchase shares of its common stock from time to time in the open market at prevailing prices. Repurchased shares will be held in treasury and may be used in connection with employee benefits and other general corporate purposes. The Company does not believe that the current market price for its common stock adequately reflects full value and believes that the purchase of its common stock from time to time in the market is a good investment and use of its funds. As of June 30, 2000, the Company has repurchased $871,826 of its common stock.

In November 1998, Square Lake Holding Corporation converted its Series A preferred stock into 136,362 shares of common stock. Square Lake Holding Corporation is a Maine corporation and a subsidiary of a Canadian corporation of which Ronald Goguen is a 95% stockholder and director. Mr. Goguen, also is a director, and, through the ownership of his affiliates, a principal stockholder of the Company. In fiscal 1998, Square Lake Holding Corporation exercised the remaining 163,146 warrants at an aggregate price of $761,433.

Various employees exercised company stock options during fiscal 2000 and 1999, in the amount of 16,500 in each year. The proceeds from the exercised options were utilized as general working capital and contributed to the growth of the Company's total equity. As of June 30, 2000, 238,000 shares of unissued common stock were reserved for issuance pursuant to stock options.

The total equity to total assets ratio of the Company was 6.48% as of June 30, 2000, 7.32% as of June 30, 1999 and 7.79% at June 30, 1998. Book value per common share was $10.49 as of June 30, 2000, $9.64 as of June 30, 1999 and $9.23 at June 30, 1998.

The Company's net cash provided by operating activities was $5,296,729 during fiscal 2000, which was a $2,760,745 increase when compared to fiscal 1999. The increase was primarily attributable to the increase in net income, other liabilities and provision for loan losses. Cash provided by financing activities also increased the Company's net cash during fiscal 2000 due to the growth in the Company's deposits and FHLB advances. The increase in net cash provided by the Company's operating and finance activities was offset by the cash used by investing activities due to the increase in net loans. Overall, the Company's cash position increased by $684,373 in fiscal 2000 when compared to fiscal 1999.

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

FDICIA defines specific capital categories based on an institution's capital ratios. The OTS has issued regulations requiring a minimum regulatory tangible capital equal to 1.5% of adjusted total assets, Tier 1 core capital of 4.0% and a risk-based capital standard of 8.0%. The prompt corrective action regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically undercapitalized". As of June 30, 2000, the most recent notification from the OTS categorized the Bank as well capitalized. There are no conditions or events since that notification that management believes has changed the institution's category. Regulatory capital requirements are also discussed and illustrated in footnote 10 of the consolidated financial statements.

RESULTS OF OPERATIONS

Net income for the year ended June 30, 2000 was $3,209,722 as compared to $2,410,452 for the year ended June 30, 1999 and $2,403,783 for the year ended June 30, 1998. Basic and diluted earnings per share were $1.17 for the year ended June 30, 2000. Basic and diluted earnings per share were $0.88 and $0.86, respectively, for the year ended June 30, 1999 and $1.00 and $0.86, respectively for the year ended June 30, 1998. In 1999, the decrease in basic earnings per share was primarily attributable to the conversion of outstanding preferred stock into common. The increase in net income for the year ended June 30, 2000, when compared to June 30, 1999, was primarily due to the increase in net interest income, which was offset, in part, by the decrease in non-interest income and the increase in provision for loan losses. Net income in 1999 was approximately the same as fiscal 1998 although the components of net income changed. While net income was up only $6,669, or 0.3% for the year ended June 30, 1999 as compared to the 1998 fiscal year, net interest income increased by $833,611, or 7.3% relative to the 1998 fiscal year. The increase in net interest income was primarily the result of increased loan volume, which was offset, in part, by a decrease in loan rates. In addition, non-interest income increased in 1999 as compared to 1998 and net operating income in 1999 benefited from a reduction in the provision for loan losses. The Company's overall return on average assets ("ROAA") was 0.79% for the year ended June 30, 2000, 0.71% for the year ended June 30, 1999, and 0.83% for the year ended June 30, 1998.

Total interest income for the fiscal years ended June 30, 2000, 1999 and 1998 was $32,405,984, $26,856,793, and $24,283,011, respectively. The Company's net interest income for the years ended June 30, 2000, 1999 and 1998 was $14,053,532, $12,306,551, and $11,472,940, respectively. Net interest income for fiscal 2000 increased $1,746,981, or 14.20%, compared to the amount at June 30, 1999. Total interest and dividend income increased $5,549,191 for the year ended June 30, 2000 compared to the year ended June 30, 1999, resulting primarily from an increase in the volume of loans and investments offset in part by a decrease in the volume of FHLB deposits. The increase in total interest expense of $3,802,210 for the twelve months ended June 30, 2000 resulted primarily from the increased volume of borrowings and deposits. The changes in net interest income, as explained above, are also presented in the schedule that follows.

Northeast Bancorp
Rate/Volume Analysis for the Year Ended
June 30, 2000 versus June 30, 1999

	Difference Due to Volume	Rate	Total
Investments	$ 454,986	$ 136,967	$ 591,953
Loans, net	4,985,554	62,917	5,048,471
FHLB Deposits & Other	(124,193)	32,960	(91,233)
Total Interest Earning Assets	5,316,347	232,844	5,549,191
Deposits	1,715,372	(50,086)	1,665,286
Repurchase Agreements	230,254	(246)	230,008
Borrowings	1,460,113	446,803	1,906,916
Total Interest-Bearing Liabilities	3,405,739	396,471	3,802,210
Net Interest Income	$ 1,910,608	$ (163,627)	$ 1,746,981

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

Net interest income for fiscal 1999 increased $833,611, or 7.27%, compared to the amount at June 30, 1998. Total interest and dividend income increased $2,573,782 for the year ended June 30,1999 compared to the year ended June 30, 1998, resulting primarily from an increase in the volume of loans offset in part by a decrease in loan rates as well as investment volume and rates. The increase in total interest expense of $1,740,171 for the twelve months ended June 30, 1999 resulted primarily from the increased volume of borrowings and deposits. The changes in net interest income, as explained above, are also presented in the schedule that follows.

Northeast Bancorp
Rate/Volume Analysis for the Year Ended
June 30, 1999 versus June 30, 1998

	Difference Due to Volume	Rate	Total
Investments	$ (331,743)	$ (108,142)	$ (439,885)
Loans, net	4,897,423	(1,707,700)	3,189,723
FHLB Deposits & Other	(140,613)	(35,443)	(176,056)
Total Interest Earning Assets	4,425,067	(1,851,285)	2,573,782

Deposits	1,185,979	(92,399)	1,093,580
Repurchase Agreements	136,042	(3,137)	132,905
Borrowings	755,980	(242,294)	513,686
Total Interest-Bearing Liabilities	2,078,001	(337,830)	1,740,171
Net Interest Income	$ 2,347,066	$(1,513,455)	$ 833,611

Rate/Volume amounts are spread proportionately between Volume and Rate. Borrowings in the table above include FHLB advances and note payable.

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

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

The provision for loan losses as recorded for the fiscal year ended June 30, 2000 was $1,071,949 as compared to $610,017 and $706,100 for 1999 and 1998, respectively. As discussed above, the Company has experienced good loan growth during fiscal 2000 particularly in the commercial and consumer loan portfolios. However, these types of loans have additional credit risk as compared to real estate mortgage loans. Due to the increase in these types of loans, the Bank increased its provision for loan losses during fiscal 2000 to maintain its allowance for loan losses as a percentage of total loans, when compared to fiscal 1999. Net charge offs amounted to $497,949 during fiscal 2000 versus $664,017 and $469,909 for 1999 and 1998, respectively. The Bank intends to continue to aggressively manage the non-performing assets, through sales, work-outs and charge-offs, to reduce the amount of non-performing assets.

Non-interest income was $2,534,945 for the year ended June 30, 2000 and was a decrease of $181,407 when compared to the $2,716,352 balance at June 30, 1999. Non-interest income for June 30, 1998 was $2,671,531, which was a decrease of $44,821 when compared to fiscal 1999. The decrease in non-interest income in fiscal 2000, when compared to fiscal 1999 was primarily due to the decrease in gain on sales of loans which was offset, in part, by the increase in service fees and other income. Non-interest income increased in fiscal 1999 when compared to fiscal 1998 due to the increase in gain on sales of loans and service fee income.

Included in non-interest income were service charges and fees for other services, which totaled $1,034,617 for the year ended June 30, 2000, $948,765 for the year ended June 30, 1999 and $803,071 for June 30, 1998. The increase in service charges and fees at June 30, 2000, when compared to June 30, 1999 and at June 30, 1999, when compared to June 30, 1998, was primarily due to fees generated from loan and deposit growth.

Net securities gains were $84,022, $94,865 and $287,513 for fiscal 2000, 1999 and 1998, respectively. Net security gains were higher in fiscal 1998 than fiscal 2000 and 1999. The primary reason for the increase in net security gains during fiscal 1998 was that the Company sold more of its available for sale securities in fiscal 1998 than fiscal 2000 and 1999, taking advantage of the fluctuation in higher market prices.

Gains on the sale of loans amounted to $220,954 for fiscal 2000 and were a decrease of $596,130 compared to the $817,084 balance in fiscal 1999. Gains on the sale of loans amounted to $817,084 for fiscal 1999 and were an increase of $90,485 compared to $726,599 for fiscal 1998. The decrease in gain on sale of loans in fiscal 2000, when compared to 1999 was due to decreased sales of approximately $13,133,000 in qualified 1-4 family mortgage loans to Freddie Mac. The decrease in loan sale volume was due to the Federal Reserve increasing its rates during fiscal 2000. The increase in gain on sale of loans in fiscal 1999, when compared to 1998 was due to increased sales of $10,224,848 in qualified 1-4 family mortgage loans to Freddie Mac. In addition in fiscal 1999, loans were sold from the Bank's portfolio to improve its asset/liability management position while at the same time taking advantage of market prices, which also accounted for part of the increase in gain on sale of loans in fiscal 1999 and 1998. The Company's loan sales activity is dependent on market interest rates as well as local competition. The Company receives income from servicing mortgage loans for others that the Bank originated and sold. The outstanding balance of such loans decreased from approximately $64,690,000 at June 30, 1999 to $52,410,000 at June 30, 2000.

Other income was $1,053,738 at June 30, 2000 and was an increase of $358,911, when compared to June 30, 1999. Other income was $694,827 at June 30, 1999 for an increase of $67,888, when compared to June 30, 1998. The increase in other income for fiscal 2000 and 1999 was primarily due to income generated from the Bank's trust department, insurance division and revenue from the sale of investments to customers through the Bank's relationship with Commonwealth Financial Services, Inc..

Total non-interest expense for the Company was $10,543,085 for fiscal 2000, $10,569,843 for fiscal 1999, and $9,731,717 for fiscal 1998. Total non-interest expense decreased by $26,758 for fiscal 2000 compared to fiscal 1999 due, in part, to the following items: (I) compensation expense increased by $435,204 primarily due to the increased commission paid to brokers in the investment sales division due to growth in sales revenue as well as increased costs associated with the Company's normal growth and health insurance and benefit plans and (II) equipment expense increased by $83,556 due to the expenses associated with opening the new Lewiston branch as well as the conversion of the mainframe hardware and software and tele-communication system. These increases were offset, in part, by the decrease in occupancy expense by $63,183 due to the closing of the Bangor Street branch in Augusta, Me. Other expenses decreased by $473,626 during fiscal 2000, when compared to fiscal 1999. The decrease in fiscal 2000 was primarily due to the additional one-time expenses the Company incurred during fiscal 1999 for professional fees and other various expenses incurred in expanding the Company's operations and upgrading its technology resources. The Company decided in the fourth quarter of fiscal 1999 to dissolve the First New England Benefits (FNEB) division. FNEB was a pension and 401k administration company and was purchased by the Company in 1993. The FNEB division was dissolved because the division could not attain sufficient growth to meet revenue expectations. Due to the closure of FNEB the Company experienced onetime pretax expenses of $290,133 for goodwill, receivables and fixed asset write-offs as well as approximately $140,000 in pretax other general business expenses related to the operations of FNEB during fiscal 1999.

The increase in non-interest expense of $838,126 for fiscal 1999 compared to 1998 was due, in part, to the following items: (I) compensation expense increased by $250,359 primarily due to the additional staffing for the new branch opened in Lewiston, Maine, the increased commission paid to brokers in the investment sales division due to growth in sales revenue and increased costs associated with the Company's health insurance and benefit plans, (II) occupancy expense increased by $71,108 due to the additional lease expense in opening the new Lewiston branch as well as the Company relocating its benefit administration department and in doing so paid a one time lease penalty to terminate the existing lease contract for that location, (III) equipment expense increased by $24,843 due to the expenses associated with opening the new Lewiston branch as well as the conversion of the mainframe hardware and software and tele-communication system.

Other expenses increased by $488,472 during fiscal 1999, when compared to fiscal 1998. The increase in fiscal 1999 was primarily due to the following: an increase in professional fees of $160,493 due to increased legal services, courier services, trust consulting services and data operations services; an increase in supplies expense of $34,934 due to the opening of the Lewiston and Falmouth locations; an increase in check item and data processing of $175,043 due to the Company's growth in checking accounts and data-communication lines; an increase in advertising expense of $39,129 due to the opening of the Lewiston branch and to support the growth of the Company; an increase in loan servicing fees of $108,246 due to the growth in loans purchased and the fees paid for servicing those loans; a goodwill write-off of $165,195 due to the closing of the First New England Benefits division and merging the administrative function into the trust department; and an increase of $66,650 in telephone, postage, education and other general expenses. These increases were offset, in part, by the reduction of the merger expenses associated with Cushnoc Bank.

The Company's income tax expense increased by $331,130 for the year ended June 30, 2000, when compared to the year ended June 30, 1999. The increase in income tax expense is due to increased earnings before tax. The Company's income tax expense increased by $129,720 for the year ended June 30, 1999, when compared to the year ended June 30, 1998. The increase in income tax expense is due to increased earnings before tax and that the goodwill write-off of $165,195 for FNEB was not a tax deductible expense.

MARKET RISKS

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

The Company's interest rate risk management is the responsibility of the Asset/Liability Management Committee (ALCO), which reports to the Board of Directors. ALCO establishes policies that monitor and coordinate the Company's sources, uses and pricing of funds. The ALCO is also involved in formulating the economic projections for the Company's budget and strategic plan.

The Company continues to reduce the volatility of its net interest income by managing the relationship of interest-rate sensitive assets to interest-rate sensitive liabilities. To accomplish this, management undertakes steps to increase the percentage of variable rate assets, as a percentage of its total earning assets. In recent years, the focus has been to originate adjustable rate residential and commercial real estate loans, which reprice or mature more quickly than fixed-rate real estate loans. The Company also originates adjustable-rate consumer loans and commercial business loans. The Company's adjustable-rate loans are primarily tied to published indices, such as the Wall Street Journal prime rate and one year U.S. Treasury Bills. During the 1999 and early 2000 fiscal year the Company increased its fixed rate assets, as a percentage of total earning assets to protect the Company against the continuation of declining interest rates. In the later part of the fiscal 2000-year interest rates started to increase and due to that fact the Company intends to again focus on the origination of variable rate assets. During fiscal 2000 the Company entered into two interest rate exchange agreements to hedge against interest rate movements. The interest rate exchange agreement, as explained in the management discussion and analysis, was utilized to replace short-term FHLB advances.

The table that follows presents in tabular form contractual balances of the Company's on balance sheet and off balance sheet financial instruments that are interest rate sensitive, in U.S. dollars, at the expected maturity dates as well as the fair value of those on balance sheet and off balance sheet financial instruments that are interest rate sensitive for the period ended June 30, 2000, with comparative summary balances for 1999. The expected maturity categories take into consideration historical prepayment speeds as well as actual amortization of principal and do not take into consideration reinvestment of cash. Principal prepayments are the amounts of principal reduction, over and above normal amortization, that the Company has experienced in the past twenty-four months. The Company's assets and liabilities that do not have a stated maturity date, as in cash equivalents and certain deposits, are considered to be long term in nature by the Company and are reported in the "Thereafter" column. The Company does not consider these financial instruments materially sensitive to interest rate fluctuations and historically the balances have remained fairly constant over various economic conditions. The interest rate table for loans reflects contractual maturity and does not indicate repricing in variable rate loans. Variable rate loans reprice in the fiscal years as follows: fiscal year 2001 $85,214,641, fiscal year 2002 $22,837,061, fiscal year 2003 $11,627,262, fiscal year 2004 $13,158,344, fiscal year 2005 $13,004,301, and fiscal years thereafter $3,419,226. The weighted average interest rates for the various assets and liabilities presented are actual as of June 30, 2000.

The fair value of interest bearing deposits at other banks and interest receivable approximate their book values due to their short maturities. The fair value of available for sale securities are based on bid quotations from security dealers or on bid prices published in financial newspapers. FHLB stock does not have a market and the fair value is unknown. The fair value of loans are estimated in portfolios with similar financial characteristics and takes into consideration discounted cash flows through the estimated maturity or repricing dates using estimated market discount rates that reflect credit risk. The fair value of loans held for sale is based on bid quotations from loan dealers. The fair value of demand deposits, NOW, money market, and savings accounts is the amount payable upon demand. The fair value of time deposits is based upon the discounted value of contractual cash flows, which is estimated using current rates offered for deposits of similar remaining terms. The fair value of repurchase agreements approximate the carrying value due to their short maturity. The fair value of FHLB borrowings is estimated by discounting the cash flows through maturity or the next repricing date based on current rates offered by the FHLB for borrowings with similar maturities. The fair value of the note payable approximates the carrying value due to the note payables interest rate approximating market rates. The fair value of trust preferred securities are based on comparisons to similar contracts at year end.

There have been no substantial changes in the Company's market risk from the preceding year, other than the fair value of the Company's loans and the assumptions are consistent with prior year assumptions. The fair value of the Company's loans decreased by approximately $22,000,000, when compared to the carrying value at June 30, 2000. A large percentage of the Company's loan portfolio growth was in fixed rate loans during fiscal 2000. As interest rates increased at the end of the fiscal year, the loan portfolio decreased in value due to the fixed coupon rates in the portfolio being below current market rates.

Market Risk
June 30, 2000
($ In Thousands)

	Expected Maturity Date									
	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	There-after	2000 Total	2000 Fair Value	1999 Total	1999 Fair Value
Financial Assets:										
Interest Bearing Deposits										
Variable Rate	$ -	$ -	$ -	$ -	$ -	$ 4,782	$ 4,782	$ 4,782	$ 7,130	$ 7,130
Weighted Average Interest Rate	-	-	-	-	-	6.72%	6.72%	-	5.54%	-
Available for Sale Securities	3,972	2,464	2,709	3,152	3,389	8,649	24,335	23,159	18,720	18,054
Weighted Average Interest Rate	7.13%	6.87%	6.87%	6.82%	6.89%	6.87%	6.91%	-	6.52%	-
FHLB Stock (1)	-	-	-	-	-	6,645	6,645	6,645	5,681	5,681
Weighted Average Interest Rate	-	-	-	-	-	7.50%	-	-	6.55%	-
Loans Held For Sale										
Fixed Rate	82	-	-	-	-	-	82	84	312	315
Weighted Average Interest Rate	7.00%	-	-	-	-	-	7.00%	-	7.53%	-
Loans										
Fixed Rate Loans	19,311	20,135	25,494	35,660	39,583	89,771	229,954	208,367	182,153	172,834
Weighted Average Interest Rate	8.89%	9.12%	9.46%	9.27%	9.34%	8.54%	8.97%	-	8.75%	-
Variable Rate Loans	23,091	13,009	16,081	18,916	21,555	55,720	148,372	147,882	136,833	135,853
Weighted Average Interest Rate	9.95%	9.37%	9.10%	9.29%	9.41%	8.84%	9.23%	-	8.58%	-
Interest Receivable	2,404	-	-	-	-	-	2,404	2,404	1,991	1,991
Financial Liabilities:										
NOW/Money Market/Savings	-	-	-	-	-	56,592	56,592	56,592	60,359	60,359
Weighted Average Interest Rate	-	-	-	-	-	2.74%	2.74%	-	2.41%	-
Time Deposits	86,715	60,713	11,050	976	2,096	20,068	181,618	181,094	141,113	141,352
Weighted Average Interest Rate	5.69%	6.35%	6.01%	5.41%	6.59%	7.62%	6.15%	-	5.37%	-
Repurchase Agreements										
Fixed Rate	13,111	-	-	-	-	-	13,111	13,111	11,868	11,868
Weighted Average Interest Rate	4.18%	-	-	-	-	-	4.18%	-	4.07%	-
FHLB Advances										
Fixed Rate	91,580	11,472	6,833	2,743	2,000	8,000	122,628	121,484	103,882	99,986
Weighted Average Interest Rate	6.55%	6.73%	6.41%	5.95%	6.65%	5.62%	6.47%	-	5.36%	-
Note Payable										
Fixed Rate	-	-	-	-	-	-	-	-	688	688
Weighted Average Interest Rate	-	-	-	-	-	-	-	-	8.00%	-
Junior Subordinated Debentures										
Fixed Rate	-	-	-	-	-	7,173	7,173	6,660	-	-
Weighted Average Interest Rate	-	-	-	-	-	9.60%	9.60%	-	-	-
Off Balance Sheet Instruments:										
Interest rate exchange agreements in a net receivable position										
Fixed Rate	140	-	-	-	-	-	140	296	-	-
Weighted Average Interest Rate	7.74%	-	-	-	-	-	7.74%	-	-	-

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

Impact of Inflation

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

Year 2000

The Company addressed the Year 2000 issue and believes it has been successful. The Company has not experienced any adverse affects to date regarding the century rollover period. There also have been no adverse implications from the Company's borrowers or depositors. The Company continued to monitor for any affects of the Year 2000 issue during the March 31, and June 30, 2000 quarters and did not incur any adverse implications. As of June 30, 2000, the Company had incurred approximately $39,000 of capitalized purchases and $111,800 of cumulative Year 2000 expenses.

RECENT ACCOUNTING DEVELOPMENTS

In June of 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("Statement 133"). Statement 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that Companies recognize all derivatives as other assets or liabilities in the statements of financial position and measure those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the internal use of the derivative and the resulting designation. Statement 133 is scheduled to be effective in fiscal 2001. Management of the Company does not expect this statement to have a significant effect on the Company's financial position or results of operations based on the Company's current activities.

Item 7A. Quantiture and Qualitative Disclosure about Market Risk

See " - Market Risks" and accompanying table set forth in Item 7 above.

Item 8. Financial Statements and Supplementary Data

a. Financial Statements Required by Regulation S-X

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Northeast Bancorp and Subsidiaries

We have audited the consolidated statements of financial condition of Northeast Bancorp and Subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 2000. These financial statements are the responsibility of Northeast Bancorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Bancorp and Subsidiaries as of June 30, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2000, in conformity with generally accepted accounting principles.

Portland, Maine　　　　　　　　Baker Newman & Noyes

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2000 and 1999

ASSETS

	2000	1999
Cash and due from banks	$ 7,996,321	$ 4,963,985
Interest bearing deposits	488,622	345,585
Federal Home Loan Bank overnight deposits (note 7)	4,293,000	6,784,000
Total cash and cash equivalents	12,777,943	12,093,570
Available for sale securities, at market value (notes 2, 7 and 9)	23,159,039	18,054,317
Loans held for sale	81,890	311,600
Loans receivable (notes 3 and 7):		
Mortgage loans:		
Residential real estate	194,287,520	182,244,336
Construction loans	10,999,414	3,187,642
Commercial real estate	61,924,339	55,437,983
	267,211,273	240,869,961
Undisbursed portion of construction loans	(3,593,553)	(1,501,993)
Net deferred loan origination costs	605,811	220,337
Total mortgage loans	264,223,531	239,588,305
Commercial loans	41,701,428	34,814,252
Consumer and other loans	75,899,142	44,583,690
	381,824,101	318,986,247
Less allowance for loan losses	(3,498,000)	(2,924,000)
Net loans	378,326,101	316,062,247
Premises and equipment - net (note 4)	4,397,768	5,037,026
Acquired assets - net (note 5)	278,010	193,850
Accrued interest receivable - loans	2,149,846	1,803,379
Accrued interest receivable - investments	253,868	187,281
Federal Home Loan Bank stock, at cost (note 7)	6,644,500	5,680,500
Goodwill, net of accumulated amortization of $1,936,846 in 2000 and $1,662,588 in 1999	1,188,088	1,462,346
Other assets (notes 14 and 21)	4,595,393	3,496,789
Total assets	$433,852,446	$364,382,905

LIABILITIES AND STOCKHOLDERS' EQUITY

	2000	1999
Liabilities:		
Deposits (note 6):		
Demand	$ 21,772,073	$ 17,891,552
NOW	29,250,094	31,203,347
Money market	6,339,360	7,156,424
Regular savings	21,002,599	21,999,615
Brokered time deposits	37,505,141	13,458,257
Certificates of deposit under $100,000	116,080,981	103,302,505
Certificates of deposit $100,000 or more	28,031,564	24,352,335
Total deposits	259,981,812	219,364,035
FHLB borrowings (note 7)	122,627,805	103,881,716
Note payable (note 8)	-	687,500
Securities sold under repurchase agreements (notes 2 and 9)	13,110,165	11,867,839
Other liabilities	2,833,188	1,898,700
Total liabilities	398,552,970	337,699,790
Guaranteed Preferred Beneficial Interest in the Company's Junior Subordinated Debentures (note 21)	7,172,998	-

Commitments and contingent liabilities (notes 16 and 17)		
Stockholders' equity (notes 2, 10, 12, 14 and 16):		
Preferred stock, cumulative, $1 par value, 1,000,000 shares authorized and none issued and outstanding	-	-
Common stock, $1 par value, 15,000,000 shares authorized; 2,786,095 and 2,768,624 shares issued and 2,682,527 and 2,768,624 shares outstanding at June 30, 2000 and 1999, respectively	2,786,095	2,768,624
Additional paid-in capital	10,265,909	10,208,299
Retained earnings	16,722,474	14,145,720
Accumulated other comprehensive income (loss)	(776,174)	(439,528)
Treasury stock, 103,568 shares at June 30, 2000, at cost	(871,826)	-
Total stockholders' equity	28,126,478	26,683,115
Total liabilities and stockholders' equity	$433,852,446	$364,382,905

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended June 30, 2000, 1999 and 1998

	2000	1999	1998
Interest and dividend income:			
Interest on loans	$30,227,058	$25,178,587	$21,988,864
Interest on Federal Home Loan Bank overnight deposits	242,386	328,981	514,113
Interest and dividends on available for sale securities	1,485,774	957,558	1,461,024
Dividends on Federal Home Loan Bank stock	427,982	364,245	300,664
Other interest and dividend income	22,784	27,422	18,346
Total interest and dividend income	32,405,984	26,856,793	24,283,011
Interest expense:			
Deposits (note 6)	10,345,583	8,680,297	7,586,717
Repurchase agreements	569,564	339,556	206,651
Borrowed funds	7,010,715	5,530,389	5,016,703
Trust preferred securities	426,590	-	-
Total interest expense	18,352,452	14,550,242	12,810,071
Net interest income before provision for loan losses	14,053,532	12,306,551	11,472,940
Provision for loan losses (note 3)	1,071,949	610,017	706,100
Net interest income after provision for loan losses	12,981,583	11,696,534	10,766,840
Noninterest income:			
Fees and service charges on loans	302,953	288,720	206,961
Fees for other services to customers	731,664	660,045	596,110
Net securities gains (note 2)	75,175	84,133	285,716
Gain on trading activities	8,847	10,732	1,797
Gain on sales of loans	220,954	817,084	726,599
Loan servicing fees	141,614	160,811	227,409
Other income	1,053,738	694,827	626,939
Total noninterest income	2,534,945	2,716,352	2,671,531
Noninterest expense:			
Salaries and employee benefits (notes 15 and 16)	5,324,376	4,889,172	4,638,813
Occupancy expense (note 4)	911,903	975,086	903,978
Equipment expense (note 4)	971,979	888,423	863,580
FDIC insurance expense	54,732	63,441	60,097
Other (notes 2, 13 and 15)	3,280,095	3,753,721	3,265,249
Total noninterest expense	10,543,085	10,569,843	9,731,717

Income before income taxes	4,973,443	3,843,043	3,706,654
Income tax expense (note 14)	1,763,721	1,432,591	1,302,871
Net income	$ 3,209,722	$ 2,410,452	$ 2,403,783
Earnings per common share (notes 11 and 16):			
Basic	$ 1.17	$ .88	$ 1.00
Diluted	$ 1.17	$ .86	$ .86

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES
IN STOCKHOLDERS' EQUITY

Years Ended June 30, 2000, 1999 and 1998

	Preferred Stock Series A and B	Common Stock
Balance at June 30, 1997	$ 1,999,980	$ 1,462,909
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized income on investments available for sale, net of reclassification adjustment (note 19)	-	-
Total comprehensive income	-	-
Issuance of common stock	-	939
Conversion of preferred stock Series B (note 12)	(999,992)	214,284
Stock split in the form of a dividend	-	740,807
Stock options exercised and treasury stock purchased	-	32,200
Treasury stock sold	-	-
Exercise of stock warrants	-	163,146
Dividends on preferred stock	-	-
Dividends on common stock at $0.21 per share	-	-
Balance at June 30, 1998	999,988	2,614,285
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized loss on investments available for sale, net of reclassification adjustment (note 19)	-	-
Total comprehensive income	-	-
Issuance of common stock	-	1,477
Stock options exercised	-	16,500
Dividends on preferred stock	-	-
Dividends on common stock at $0.21 per share	-	-
Conversion of preferred stock Series A (note 12)	(999,988)	136,362
Balance at June 30, 1999	-	2,768,624
Net income	-	-
Other comprehensive income net of tax:		
Net unrealized loss on investments available for sale, net of reclassification adjustment (note 19)	-	-
Total comprehensive income	-	-
Treasury stock purchased, 104,298 shares	-	-
Issuance of common stock and treasury stock sold	-	971
Stock options exercised	-	16,500
Dividends on common stock at $0.23 per share	-	-
Balance at June 30, 2000	$ -	$ 2,786,095

See accompanying notes.

Additional	Accumulated Other

Paid-in Capital	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Total
$ 7,699,882	$ 11,266,984	$ (334,175)	$ -	$ 22,095,580
-	2,403,783	-	-	2,403,783
-	-	269,727	-	269,727
-	-	-	-	2,673,510
15,730	-	-	-	16,669
785,708	-	-	-	-
-	(741,902)	-	-	(1,095)
158,500	-	-	(44,988)	145,712
-	-	-	44,988	44,988
598,287	-	-	-	761,433
-	(125,827)	-	-	(125,827)
-	(471,443)	-	-	(471,443)
9,258,107	12,331,595	(64,448)	-	25,139,527
-	2,410,452	-	-	2,410,452
-	-	(375,080)	-	(375,080)
-	-	-	-	2,035,372
14,780	-	-	-	16,257
71,786	-	-	-	88,286
-	(25,667)	-	-	(25,667)
-	(570,660)	-	-	(570,660)
863,626	-	-	-	-
10,208,299	14,145,720	(439,528)	-	26,683,115
-	3,209,722	-	-	3,209,722
-	-	(336,646)	-	(336,646)
-	-	-	-	2,873,076
-	-	-	(878,532)	(878,532)
7,765	-	-	6,706	15,442
49,845	-	-	-	66,345
-	(632,968)	-	-	(632,968)
$ 10,265,909	$ 16,722,474	$ (776,174)	$ (871,826)	$ 28,126,478

NORTHEAST BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2000, 1999 and 1998

	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 3,209,722	$ 2,410,452	$ 2,403,783
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,071,949	610,017	706,100
Provision for losses on acquired assets	24,000	47,000	62,300
Write-down of investment securities	60,000	95,728	172,235
Deferred income tax (benefit) expense	(154,576)	86,398	(14,949)
Depreciation of premises and equipment	808,760	755,956	617,628
Amortization of goodwill	274,258	461,569	296,374
Net gain on sale of available for sale securities	(75,175)	(84,133)	(285,716)
Net gain on sales of loans	(220,954)	(817,084)	(726,599)
Originations of loans held for sale	(4,343,694)	(17,476,548)	(7,251,700)
Proceeds from sale of loans held for sale	4,672,871	17,908,553	7,287,744
Net change in trading account securities	-	50,000	(25,000)
Other	(325,495)	(213,899)	(131,200)

Change in other assets and liabilities:			
Interest receivable	(413,054)	(56,962)	(293,605)
Other assets and liabilities	708,117	(1,241,063)	466,597
Net cash provided by operating activities	5,296,729	2,535,984	3,283,992
Cash flows from investing activities:			
Proceeds from the sale of available for sale securities	341,815	6,930,743	27,974,991
Purchases of available for sale securities	(9,173,218)	(15,992,030)	(15,666,889)
Proceeds from maturities and principal payments on available for sale securities	3,291,786	4,086,624	3,588,092
Proceeds from sale of portfolio loans	40,769	11,278,496	17,479,139
Purchases of loans	(3,168,848)	(27,913,995)	(66,283,950)
Net increase in loans	(60,039,333)	(20,629,306)	(10,509,720)
Additions to premises and equipment	(325,814)	(1,424,307)	(363,562)
Proceeds from sale of acquired assets	246,124	422,787	214,884
Purchase of Federal Home Loan Bank stock	(964,000)	-	(1,559,500)
Net cash used by investing activities	(69,750,719)	(43,240,988)	(45,126,515)
Cash flows from financing activities:			
Net increase in deposits	$ 40,617,777	$ 35,339,938	$ 11,102,811
Net borrowings (repayments) from the Federal Home Loan Bank	18,746,089	(558,236)	23,945,481
Net increase in repurchase agreements	1,242,326	6,662,245	106,972
Dividends paid	(632,968)	(596,327)	(597,270)
Treasury stock purchased	(878,532)	-	(44,988)
Treasury stock sold	6,706	-	44,988
Stock options exercised	66,345	88,286	190,700
Warrants exercised	-	-	761,433
Issuance of common stock	8,736	16,257	16,669
Stock split - payment for fractional shares	-	-	(1,095)
Principal payments on note payable	(687,500)	(305,555)	(305,556)
Debt issuance costs paid	(523,614)	-	-
Proceeds from issuance of interest in Junior Subordinated Debentures	7,172,998	-	-
Net cash provided by financing activities	65,138,363	40,646,608	35,220,145
Net increase (decrease) in cash and cash equivalents	684,373	(58,396)	(6,622,378)
Cash and cash equivalents, beginning of year	12,093,570	12,151,966	18,774,344
Cash and cash equivalents, end of year	$ 12,777,943	$ 12,093,570	$ 12,151,966
Supplemental schedule of cash flow information:			
Interest paid	$ 18,145,911	$ 14,610,453	$ 12,727,917
Income taxes paid	1,872,000	1,524,000	972,000
Supplemental schedule of noncash investing and financing activities:			
Transfer from loans to acquired assets	$ 338,570	$ 301,537	$ 56,861
Change in valuation allowance for unrealized losses on available for sale securities, net of tax	336,646	375,080	269,727
Net change in deferred taxes for unrealized losses on available for sale securities	173,424	193,222	138,949
Transfer of nonmarketable investment security to other assets	-	45,000	-

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2000, 1999 and 1998

1. Summary of Significant Accounting Policies

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

Business

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, a savings and loan holding company, and two wholly-owned subsidiaries, Northeast Bank, F.S.B. (including the Bank's wholly-owned subsidiary, Northeast Financial Services, Inc.), and NBN Capital Trust. NBN Capital Trust was created in fiscal year 2000 (see note 21). All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

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

Cash and Cash Equivalents

For purposes of presentation in the consolidated statements of cash flow, cash and cash equivalents consist of cash and due from banks, Federal Home Loan Bank overnight deposits and interest bearing deposits. The Company is required to maintain a certain reserve balance in the form of cash or deposits with the Federal Reserve Bank. At June 30, 2000, the reserve balance was approximately $1,459,000.

Available for Sale Securities

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

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is carried at cost.

Loans Held for Sale and Mortgage Banking Activities

Loans originated for sale are specifically identified and carried at the lower of aggregate cost or market value, estimated based on bid quotations from loan dealers. The carrying value of loans held for sale approximates the market value at June 30, 2000 and 1999. Realized gains and losses on sale of loans are determined using the specific identification method and are reflected as gains on sale of loans in the consolidated statements of income.

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

The Company's mortgage servicing rights asset at June 30, 2000 and 1999 was approximately $524,000 and $569,000, respectively, and is included in other assets in the consolidated statements of financial position. Mortgage servicing rights are amortized over the estimated weighted average life of the loans. The Company's assumptions with respect to prepayments, which affect the estimated average life of the loans, are adjusted periodically to reflect current circumstances. The Company evaluates the estimated life of its servicing portfolio based on data which is disaggregated to reflect note rate, type and term on the underlying loans.

Loans

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

Allowance for Loan Losses

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

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

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

Premises and Equipment

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

Long-Lived Assets

Long-lived assets are evaluated periodically for impairment. An assessment of recoverability is performed prior to any writedown 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

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

Advertising Expense

Advertising costs are expensed as incurred. Advertising costs were approximately $194,000, $218,000 and $172,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

Stock-Based Compensation

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

Comprehensive Income

In 1999, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income. No adjustments to recorded amounts were required by adoption of this statement. Accumulated other comprehensive income or loss consists solely of unrealized gains or losses on investment securities available for sale net of related income taxes.

New Accounting Pronouncements Not Yet Implemented

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is scheduled to be effective in fiscal 2001. Management of the Company does not expect this statement to have a significant effect on the Company's financial position or results of operations based on the Company's current activities.

2. Available for Sale Securities

A summary of the cost and approximate fair values of available for sale securities at June 30, 2000 and 1999 follows:

	2000		1999	
	Cost	Fair Value	Cost	Fair Value
Debt securities issued by the U.S. Treasury and other U.S. Government corporations and agencies	$ 347,573	$ 345,792	$ 596,626	$ 598,445
Corporate bonds	200,876	193,587	201,916	199,527
Mortgage-backed securitie	22,350,606	21,445,918	16,653,302	16,027,028
Equity securities	1,436,005	1,173,742	1,268,424	1,229,317
	$24,335,060	$23,159,039	$18,720,268	$18,054,317

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

	2000		1999	
	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Gains	Gross Unrealized Losses

Debt securities issued by The U. S. Treasury and other U. S. Government corporations and agencies	$ -	$ 1,781	$ 2,752	$ 933
Corporate bonds	164	7,453	681	3,070
Mortgage-backed securities	1,124	905,812	3,287	629,561
Equity securities	23,972	286,235	15,631	54,738
	$ 25,260	$ 1,201,281	$ 22,351	$ 688,302

At June 30, 2000, mortgage-backed securities with a market value of approximately $17,006,000 were pledged as collateral to secure outstanding repurchase agreements.

At June 30, 2000 and 1999, included in accumulated other comprehensive income (loss) as a reduction to stockholders' equity are net unrealized losses of $1,176,021 and $665,951, respectively, net of the deferred tax effect of $399,847 and $226,423, respectively.

The cost and fair values of available for sale securities at June 30, 2000 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost	Fair Value
Debt securities:		
Due in one year	$ 298,613	$ 298,777
Due after one year through five years	249,836	240,602
	548,449	539,379
Mortgage-backed securities (including securities with interest rates ranging from 5.15% to 9.0% maturing September 2003 to November 2029)	22,350,606	21,445,918
Equity securities	1,436,005	1,173,742
	$24,335,060	$23,159,039

Realized gains and losses on sales of available for sale securities for the year ended June 30, 2000 were $75,175 and $0, respectively, for the year ended June 30, 1999 were $85,891 and $1,758, respectively, and for the year ended June 30, 1998 were $288,196 and $2,480, respectively.

Based on management's assessment of available for sale securities, there has been more than a temporary decline in fair value of certain securities. During the years ended June 30, 2000, 1999 and 1998, write-downs of available for sale securities were $60,000, $95,728 and $172,235, respectively, and are included in other expense in the consolidated statements of income.

3. Loans Receivable

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

In the ordinary course of business, the Company has loan transactions with its officers, directors and their associates and affiliated companies ("related parties") at substantially the same terms as those prevailing at the time for comparable transactions with others. Such loans amounted to $3,444,816 and $3,500,973 at June 30, 2000 and 1999, respectively. In 2000, new loans granted to related parties totaled $1,033,959 payments and reductions amounted to $1,090,116.

Included in the loan portfolio are unamortized premiums on purchased loans of approximately $632,000 and $742,000 at June 30, 2000 and 1999, respectively.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	2000	1999	1998
Balance at beginning of year	$ 2,924,000	$ 2,978,000	$ 2,741,809
Provision charged to operating expenses	1,071,949	610,017	706,100
Loans charged off	(763,979)	(926,364)	(785,111)
Recoveries on loans charged off	266,030	262,347	315,202
Net loans charged off	(497,949)	(664,017)	(469,909)
Balance at end of year	$ 3,498,000	$ 2,924,000	$ 2,978,000

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

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

At June 30, 2000, impaired loans were $1,164,349 of which $81,341 had related allowances of $30,000. During the year ended June 30, 2000, the income recognized related to impaired loans was $22,648 and the average balance of outstanding impaired loans was $914,493. At June 30, 1999, impaired loans were $612,867 of which $241,420 had related allowances of $77,200. During the year ended June 30, 1999, the income recognized related to impaired loans was $66,030 and the average balance of outstanding impaired loans was $1,229,987. At June 30, 1998, impaired loans were $1,623,720 of which $927,355 had related allowances of $251,474. During the year ended June 30, 1998, the income recognized related to impaired loans was $50,690 and the average balance of outstanding impaired loans was $1,956,488. The Company recognizes interest on impaired loans on a cash basis when the ability to collect the principal balance is not in doubt; otherwise, cash received is applied to the principal balance of the loan.

Loans on nonaccrual status, including impaired loans described above, at June 30, 2000 and 1999 totaled approximately $1,178,000 and $1,144,000, 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, 2000, 1999 and 1998, totaled approximately $89,000, $71,000 and $165,000, respectively.

The Company has no material outstanding commitments to lend additional funds to customers whose loans have been placed on nonaccrual status or the terms of which have been modified.
The Company was servicing for others mortgage loans of approximately $52,410,000, $64,690,000 and $55,581,000 at June 30, 2000, 1999 and 1998, respectively.

4. Premises and Equipment

Premises and equipment at June 30, 2000 and 1999 are summarized as follows:

	2000	1999
Land	$ 1,025,440	$ 1,012,503
Buildings	2,348,507	2,586,996
Leasehold and building improvements	1,228,423	1,272,732
Furniture, fixtures and equipment	3,720,732	3,818,358
	8,323,102	8,690,589
Less accumulated depreciation	3,925,334	3,653,563
Net premises and equipment	$ 4,397,768	$ 5,037,026

Depreciation and amortization of premises and equipment, included in occupancy and equipment expense, was $808,760, $755,956 and $617,628 for the years ended June 30, 2000, 1999 and 1998, respectively.

5. Acquired Assets

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

	2000	1999
Real estate properties acquired in settlement of loans and other acquired assets	$ 306,465	$ 221,575
Less allowance for losses	28,455	27,725
	$ 278,010	$ 193,850

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

	2000	1999	1998
Balance at beginning of year	$ 27,725	$ 5,100	$ 50,839
Provision for losses on acquired assets	24,000	47,000	62,300
Write-downs	(23,270)	(24,375)	(108,039)
Balance at end of year	$ 28,455	$ 27,725	$ 5,100

6. Deposits

Deposits at June 30 are summarized as follows:

	Weighted Average Rate at June 30, 2000	2000 Amount	2000 Percent	1999 Amount	1999 Percent
Demand	0.00%	$ 21,772,073	8.4%	$ 17,891,552	8.2%
NOW	3.07	29,250,094	11.3	31,203,347	14.2
Money market	2.53	6,339,360	2.4	7,156,424	3.3
Regular savings	2.34	21,002,599	8.1	21,999,615	10.0
Certificates of deposit and brokered time deposits:					
1.00 - 3.75%	1.19	54,349	0.0	1,093,801	.5
3.76 - 5.75%	5.33	53,790,708	20.7	103,086,863	47.0
5.76 - 7.75%	6.50	127,772,629	49.1	36,924,752	16.8
7.76 - 9.75%	-	-	-	7,681	-
	5.34%	$259,981,812	100.0%	$219,364,035	100.0%

At June 30, 2000, scheduled maturities of certificates of deposit and brokered time deposits are as follows:

	2001	2002	2003	2004	2005	Thereafter
1.00-3.75%	$ 8,056	$ 46,293	$ -	$ -	$ -	$ -
3.76-5.75%	47,932,387	3,563,062	1,391,705	815,241	48,938	39,375
5.76-7.75%	38,774,487	57,103,077	9,658,503	160,730	2,046,879	20,028,953

Interest expense on deposits for the years ended June 30, 2000, 1999 and 1998 is summarized as follows:

	2000	1999	1998
NOW	$ 915,018	$ 932,896	$ 269,412
Money market	144,388	209,733	466,453
Regular savings	493,861	514,917	569,901
Certificates of deposit and brokered time deposits	8,792,316	7,022,751	6,280,951
	$10,345,583	$ 8,680,297	$ 7,586,717

7. Federal Home Loan Bank Borrowings

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

June 30, 2000

Principal Amounts	Interest Rates	Maturity Dates
$ 91,579,611	4.98% - 6.98%	2001
11,471,802	5.38 - 7.05	2002
6,832,792	5.97 - 6.64	2003
2,743,600	5.55 - 6.67	2004
2,000,000	6.65	2005
8,000,000	5.59 - 5.68	2008
$ 122,627,805		

June 30, 1999

Principal Amounts	Interest Rates	Maturity Dates
$ 42,000,000	4.64% - 6.27%	2000
3,148,288	4.98 - 6.40	2001
2,815,780	5.38 - 6.49	2002
9,515,546	5.69 - 6.64	2003
3,402,102	5.55 - 6.67	2004
9,000,000	5.25 - 6.65	2005
34,000,000	4.89 - 5.68	2008
$ 103,881,716		

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

Certain mortgage loans, free of liens, pledges and encumbrances, investment securities not otherwise pledged, FHLB overnight deposits and the Company's FHLB stock have been pledged under a blanket agreement to secure these borrowings. The Company is required to own stock of the Federal Home Loan Bank of Boston in order to borrow from the Federal Home Loan Bank. Several of the Federal Home Loan Bank borrowings held at June 30, 2000 are adjustable and, therefore, the rates are subject to change.

At June 30, 2000, the Company had approximately $2,100,000 available under a line of credit arrangement with the FHLB. Also, in addition to the FHLB advances outstanding at June 30, 2000, the Company had approximately $20,740,000 available for long-term advances with the FHLB.

8. Note Payable

The note payable at June 30, 1999 consisted of a loan from an unrelated financial institution. The note was originally payable in eighteen equal quarterly principal payments of $76,389. Interest was payable monthly at 8%. This note payable was paid off in fiscal 2000.

9. Securities Sold Under Repurchase Agreements

During 2000 and 1999, the Company sold securities under agreements to repurchase. The weighted average interest rate on repurchase agreements was 4.18% and 4.07% at June 30, 2000 and 1999, respectively. These borrowings, which were scheduled to mature within 180 days, were collateralized by mortgage-backed securities with a market value of $17,006,000 and amortized cost of $17,877,000 at June 30, 2000, and a market value of $14,938,000 and amortized cost of $15,525,000 at June 30, 1999. The average balance of repurchase agreements was $13,768,000 and $8,202,000 during the years ended June 30, 2000 and 1999, respectively. The maximum amount outstanding at any month-end during 2000 and 1999 was $18,675,000 and $11,868,000, respectively. Securities sold under these agreements were under the control of the Company throughout 2000 and 1999.

10. Capital and Regulatory Matters

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

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

As of June 30, 2000 and 1999, the most recent notification from the Office of Thrift Supervision (OTS) categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 capital as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as set forth in the table below. At June 30, 2000 and 1999, the Bank ratios exceeded the regulatory requirements. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of June 30, 2000 and 1999.

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

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of June 30, 2000:						
Tier 1 (Core) capital (to risk weighted assets)	$ 33,140	10.60%	>$ 12,504	> 4.0%	>$ 18,756	> 6.0%
Tier 1 (Core) capital (to total assets)	$ 33,140	7.66%	>$ 17,309	> 4.0%	>$ 21,636	> 5.0%
Total capital (to risk weighted assets)	$ 35,434	11.34%	>$ 25,008	> 8.0%	>$ 31,261	> 10.0%

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of June 30, 1999:						
Tier 1 (Core) capital (to risk weighted assets)	$ 25,615	10.1%	>$ 10,159	> 4.0%	>$ 15,239	> 6.0%
Tier 1 (Core) capital (to total assets)	$ 25,615	7.1%	>$ 14,533	> 4.0%	>$ 18,166	> 5.0%
Total capital (to risk weighted assets)	$ 27,233	10.7%	>$ 20,318	> 8.0%	>$ 25,398	> 10.0%

The Bank may not declare or pay a cash dividend on, or repurchase, any of its capital stock from the Parent if the effect thereof would cause the capital of the Bank to be reduced below the capital requirements imposed by the regulatory authorities or if such amount exceeds the otherwise allowable amount under OTS rules (approximately $2,000,000 is available at June 30, 2000).

In December 1999, the Board of Directors of the Company approved a plan to repurchase up to $2,000,000 of its common stock. Under the common stock repurchase plan, the Company may purchase shares of its common stock from time to time in the open market at prevailing prices. Repurchased shares will be held in treasury and may be used in connection with employee benefits and other general corporate purposes. As of June 30, 2000, the Company had approximately $872,000 of treasury stock, which is carried at cost.

11. 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 and outstanding warrants 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:

	2000	1999	1998
Average shares outstanding, used in computing Basic EPS	2,739,966	2,710,117	2,277,165
Effect of Dilutive Securities:			
Stock warrants and options outstanding	7,537	26,188	41,797
Options and warrants exercised	6,090	8,177	167,116
Convertible preferred stock	-	50,062	309,165
Average equivalent shares outstanding, used in computing Diluted EPS	2,753,593	2,794,544	2,795,243

There is a difference in 1999 and 1998 between net income and net income available to common stockholders which is used in the calculation of Basic EPS. The following table illustrates the difference:

	2000	1999	1998
Net income	$ 3,209,722	$ 2,410,452	$ 2,403,783
Preferred stock dividends	-	(25,667)	(125,827)
Net income available to common Stockholders	$ 3,209,722	$ 2,384,785	$ 2,277,956

12. Preferred Stock

In November of 1998, the preferred stock, Series A, was converted to common stock at a three to one ratio. There were no warrants attached to the Series A preferred stock. In April of 1998, the preferred stock, Series B, was converted into common stock at a three to one ratio. The Series B preferred stock was issued with warrants attached and during 1998, 163,146 warrants were exercised for a total capital contribution of $761,443. No preferred stock is outstanding at June 30, 2000 and 1999.

13. Other Expenses

Other expenses includes the following for the years ended June 30, 2000, 1999 and 1998:

	2000	1999	1998
Merger expense (note 15)	$ -	$ -	$ 318,061
Professional fees	504,179	471,083	310,390
General insurance	77,810	81,830	104,391
Printing and office supplies	214,103	300,888	265,954
Real estate owned expenses	59,896	44,219	50,912
Provision for losses on acquired assets	24,000	47,000	62,300
Goodwill amortization	274,258	461,569	296,374
Write-down of investment securities	60,000	95,728	172,235
Other	2,065,849	2,251,404	1,684,632
	$ 3,280,095	$ 3,753,721	$ 3,265,249

The goodwill amortization for 1999 included an impairment write-down of approximately $165,000.

14. Income Taxes

The current and deferred components of income tax (benefit) expense were as follows for the years ended June 30, 2000, 1999 and 1998:

	2000	1999	1998
Federal:			
Current	$ 1,848,732	$ 1,290,783	$ 1,265,879
Deferred	(154,576)	86,398	(14,949)
	1,694,156	1,377,181	1,250,930
State and local - current	69,565	55,410	51,941
	$ 1,763,721	$ 1,432,591	$ 1,302,871

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, 2000, 1999 and 1998:

	2000		1999		1998	
	Amount	% Of Pretax Income	Amount	% Of Pretax Income	Amount	% Of Pretax Income
Expected income tax expense at federal tax rate	$1,690,971	34.0%	$1,306,635	34.0%	$1,260,262	34.0%
State tax, net of federal tax benefit	45,913	.9	36,571	1.0	34,281	.9
Non-deductible goodwill	34,671	.7	98,358	2.6	42,192	1.1
Dividend received deduction	(20,049)	(.4)	(19,367)	(.5)	(7,848)	(.2)
Low income/						

rehabilitation credit	(18,126)	(.4)	(20,000)	(.5)	(20,000)	(.5)
Other	30,341	.6	30,394	.8	(6,016)	(.2)
	$1,763,721	35.4%	$1,432,591	37.4%	$1,302,871	35.1%

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2000 and 1999 are presented below:

	2000	1999
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 1,169,000	$ 994,000
Deferred gain on loan sales	29,000	46,000
Interest on nonperforming loans	33,000	24,000
Difference in tax and financial statement bases of investments	475,000	331,000
Difference in tax and financial statement amortization of deductible goodwill	132,000	107,000
Other	65,000	99,000
Total deferred tax assets	1,903,000	1,601,000
Deferred tax liabilities:		
Loan loss reserve - tax basis	(59,000)	(74,000)
Mortgage servicing rights	(170,000)	(193,000)
Other	(53,000)	(41,000)
Total deferred tax liabilities	(282,000)	(308,000)
Net deferred tax assets, included in other assets	$ 1,621,000	$ 1,293,000

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

Tax legislation requires that all thrift institutions recapture all or a portion of their tax bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Company has previously recorded a deferred tax liability equal to the tax bad debt recapture and as such, the rules will have no effect on net income or federal income tax expense. Except as stated below, the unrecaptured base year reserves will not be subject to recapture as long as the Bank continues to carry on the business of banking. However, the balance of the pre-1988 tax bad debt reserves is subject to provisions of present law that require recapture in the case of certain excess distributions to stockholders and recapture would also be required should the Bank's assets exceed $500 million. For federal income tax purposes, the Company has designated approximately $2,400,000 of net worth as a reserve for tax basis bad debts on loans. No deferred taxes have been provided for base year reserve recapture as management plans to avoid the events that would cause such recapture.

15. Merger

In October 1997, the Company issued approximately 188,000 shares of its common stock for all the outstanding common stock of Cushnoc Bank and Trust Company of Augusta, Maine (Cushnoc). Cushnoc shareholders received 2.089 shares of the Company's common stock for each share of Cushnoc common stock. The merger qualified as a tax-free reorganization and was accounted for as a pooling of interests. Accordingly, the Company's consolidated financial statements were restated for all periods prior to the business combination to include the results of operations, financial position and cash flows of Cushnoc. No adjustments were necessary to conform Cushnoc's methods of accounting to the methods used by the Company. There were no significant intercompany transactions prior to consummation of the merger. The costs associated with the merger totaled approximately $435,000, with $117,000 included in salaries and employee benefits and $318,000 included in other expense in the 1998 consolidated statement of income.

The results of operations previously reported by the separate companies and the combined amounts presented in the accompanying consolidated financial statements are summarized below:

	Through October 24, 1997
Interest Income:	
Northeast Bancorp	$ 7,280,300
Cushnoc Bank	613,733
Combined	$ 7,894,033
Net Income:	
Northeast Bancorp	$ 432,319
Cushnoc Bank	29,435
Combined	$ 461,754

There were no other changes in stockholders' equity prior to consummation of the merger in fiscal 1998 that were material to the financial position of the Company.

16. Employee Benefit Plans

Profit Sharing Plan

The Company has a profit sharing plan which covers substantially all full-time employees. Contributions and costs are determined as a percent of each covered employee's salary and are at the Board of Directors discretion. Expenses related to the profit sharing plan for the years ended June 30, 2000, 1999 and 1998 were $83,064, $53,590 and $43,500, respectively.

401(k) Plan

The Company offers a contributory 401(k) plan which is available to all full-time salaried and hourly-paid employees who are regularly scheduled to work 1,000 hours or more in a Plan year, have attained age 21, and have completed one year of employment. Employees may contribute between 1% and 15% of their base compensation to which the Company will match 50% up to the first 6% contributed. For the years ended June 30, 2000, 1999 and 1998, the Company contributed $86,984, $74,115 and $60,700, respectively.

Stock Option Plans

The Company has adopted Stock Option Plans in 1989, 1992 and 1999. Both "incentive stock options" and "nonqualified stock options" may be granted pursuant to the Option Plans. Under the Option Plans, incentive stock options may only be granted to employees of the Company and nonqualified stock options may be granted to employees and nonemployee directors. All options granted under the Option Plans will be required to have an exercise price per share equal to at least the fair market value per share of common stock on the date the option is granted. Options immediately vest upon being granted. The options are exercisable for a maximum of ten years after the options are granted in the case of all incentive stock options and five years after the grant date for nonqualified stock options.

In accordance with the Stock Option Plans, a total of 211,000 shares of unissued common stock were reserved for issuance pursuant to incentive stock options with 104,500 shares at June 30, 2000 available to be granted and 27,000 shares of unissued common stock were reserved for issuance pursuant to nonqualified stock options with 1,600 shares at June 30, 2000 available to be granted.

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

	2000		1999		1998	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	111,750	$ 10.69	123,000	$ 10.44	130,500	$ 6.01

Granted	38,000	8.32	11,500	9.94	41,250	18.50
Exercised	(16,500)	4.02	(16,500)	5.35	(46,000)	5.11
Expired	(5,000)	15.63	(6,250)	18.50	(2,750)	10.18
Outstanding and exercisable at end of year	128,250	$ 10.66	111,750	$ 10.69	123,000	$ 10.44

The following table summarizes information about stock options outstanding at June 30, 2000:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding at June 30, 2000	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$7.50	42,000	4.2 years	$ 7.50
$ 8.00 to $ 9.00	50,250	8.8	8.39
$10.00 to $18.50	36,000	7.7	17.50
$ 7.50 to $18.50	128,250	7.0	$ 10.66

The per share weighted average fair value of stock options granted during 2000 and 1999 was $2.62 and $3.44, respectively, on the date of the grants using the Black Scholes option-pricing model as a valuation technique with the following average assumptions: expected dividend yield, 2.85% and 2.13%; risk-free interest rate, 6.03% and 5.79%; expected life, 8 years and 8 years; and expected volatility, 27.90% and 27.82%, respectively.

For financial statement purposes, the Company measures the compensation costs of its stock option plans under Accounting Principles Board (APB) Opinion No. 25, whereby no compensation cost is recorded if, at the grant date, the exercise price of the options is equal to the fair market value of the Company's common stock. Had the Company determined cost based on the fair value at the grant date for its stock options under SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income and earnings per share for the year ended June 30, 2000 and June 30, 1999 would have been reduced to the pro forma amounts indicated below.

	Net Income	Earnings Per Share	
		Basic	Diluted
June 30, 2000:			
As reported	$ 3,209,722	$ 1.17	$ 1.17
Pro forma	$ 3,110,103	$ 1.14	$ 1.13
June 30, 1999:			
As reported	$ 2,410,452	$ 0.88	$ 0.86
Pro forma	$ 2,376,947	$ 0.87	$ 0.85

Stock Purchase Plan

The Company had a stock purchase plan which covered substantially all full-time employees with one year of service. Offerings under the Plan were made quarterly at the market value of the Company's common stock on the offering termination date. The maximum number of shares which could be purchased under the plan was 156,000 shares. This plan expired in fiscal 2000.

17. 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, interest rate exchange agreements 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:

	2000	1999
Commitments to originate loans:		
Residential real estate mortgages	$ 2,898,000	$ 9,392,000
Commercial real estate mortgages, including multi-family residential real estate	3,523,000	10,314,000
Commercial business loans	4,552,000	4,725,000
	10,973,000	24,431,000
Unused lines of credit	24,839,000	18,941,000
Standby letters of credit	1,504,000	1,501,000
Unadvanced portions of construction loans	3,594,000	1,502,000

At June 30, 2000, $912,000 of the stand-by letters of credit have been granted with respect to related parties.

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

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

Interest Rate Exchange Agreements

During fiscal 2000, the Company entered into two interest rate exchange agreements to manage and hedge its interest rate exposure with respect to a portion of its certificates of deposit. The first agreement calls for the Company to receive a fixed interest rate of 7.75% and pay a variable rate based on the one month LIBOR rate. The second agreement calls for the Company to receive a fixed interest rate of 7.50% and pay a variable rate based on the three month LIBOR rate. The amounts potentially subject to credit risk are the streams of payments under the agreements and not the notional principal amount used to express the volume of these transactions. At June 30, 2000, the Company had recorded a receivable of approximately $140,000 with respect to these agreements. Entering into interest rate exchange agreements involves not only the risk of default by the other party, but also the interest rate risk if positions are not matched.

The notional principal amount of the interest rate exchange agreements outstanding at June 30, 2000 and 1999 was $20,000,000 and $0, respectively. Each agreement has a notional principal amount of $10,000,000. The termination dates of the agreements are April 28, 2010 and December 29, 2005.

Other Derivative Financial Instruments

The Company has only limited involvement with other 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 interest rate exchange agreements. Gains and losses from entering into covered call and put contracts have been immaterial to the results of operations of the Company. The total value of securities under call and put contracts at any one time is immaterial to the Company's financial position, liquidity, or results of operations.

Legal Proceedings

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

Lease Obligations

The Company leases certain properties and equipment used in operations under terms of operating leases which include renewal options. Rental expense under these leases approximated $312,000, $373,000 and $380,000 for the years ended June 30, 2000, 1999 and 1998, respectively.

Approximate future minimum lease payments over the remaining terms of the leases at June 30, 2000 are as follows:

2001	$ 251,000
2002	251,000
2003	188,000
2004	182,000
2005	182,000
2006 and after	646,000
	$ 1,700,000

18. Condensed Parent Information

Condensed financial statements for Northeast Bancorp at June 30, 2000 and 1999 and for each of the years in the three year period ended June 30, 2000 are presented below.

Balance Sheets

Assets	June 30, 2000	June 30, 1999
Cash (deposited with banking subsidiary)	$ 257,258	$ 80,758
Investment in banking subsidiary	33,215,377	26,051,816
Investment in common securities of Trust subsidiary	221,851	-
Goodwill, net	509,871	611,845
Other assets	1,321,860	632,094
Total assets	$ 35,526,217	$ 27,376,513
Liabilities and Stockholders' Equity		
Note payable	$ -	$ 687,500
Junior Subordinated Debentures issued to subsidiary	7,394,849	-
Other liabilities	4,890	5,898
	7,399,739	693,398
Stockholders' equity	28,126,478	26,683,115
Total liabilities and stockholders' equity	$ 35,526,217	$ 27,376,513

Statements of Income

	Years Ended June 30, 2000	1999	1998
Income:			

Dividends from banking subsidiary	$ -	$ 98,314	$ -
Other income	14,304	758	76,556
Total income	14,304	99,072	76,556
Expenses:			
Amortization of goodwill	101,974	101,974	101,974
Interest on note payable	25,927	65,100	89,884
Interest on Junior Subordinated Debentures paid to subsidiary	439,487	-	-
Occupancy expense	-	-	46,611
General and administrative expenses	65,935	95,558	97,969
Total expenses	633,323	262,632	336,438
Loss before income tax benefit and Equity in undistributed net income of subsidiaries	(619,019)	(163,560)	(259,882)
Income tax benefit	178,538	55,692	53,967
Loss before equity in undistributed net income of subsidiaries	(440,481)	(107,868)	(205,915)
Equity in undistributed net income of subsidiaries	3,650,203	2,518,320	2,609,698
Net income	$3,209,722	$2,410,452	$2,403,783

	Years Ended June 30,		
Statements of Cash Flows	2000	1999	1998
Cash flows from operating activities:			
Net income	$3,209,722	$2,410,452	$2,403,783
Adjustments to reconcile net income to net cash used by operating activities:			
Amortization	111,574	101,974	110,658
Undistributed earnings of subsidiaries	(3,650,203)	(2,518,320)	(2,609,698)
Increase in other assets	(175,752)	(218,474)	(46,502)
Decrease in other liabilities	(1,008)	(2,039)	(4,911)
Net cash used by operating activities	(505,667)	(226,407)	(146,670)
Cash flows from investing activities:			
Proceeds from sale of premises and equipment to banking subsidiary	-	-	367,696
Purchase of premises and equipment	-	-	(368)
Increase in investment in banking subsidiary	(3,850,004)	-	-
Purchase of common securities of Trust subsidiary	(221,851)	-	-
Net cash (used) provided by investing activities	(4,071,855)	-	367,328
Cash flows from financing activities:			
Principal payments on note payable	(687,500)	(305,555)	(305,556)
Stock options exercised	66,345	88,286	190,700
Proceeds from issuance of common stock	8,736	16,257	16,669
Treasury stock purchased	(878,532)	-	(44,988)
Treasury stock sold	6,706	-	44,988
Dividends paid to stockholders	(632,968)	(596,327)	(597,270)
Warrants exercised	-	-	761,433
Stock split - payment for fractional shares	-	-	(1,095)
Proceeds from issuance of Junior Subordinated Debentures	7,394,849	-	-
Payments for debt issuance costs	(523,614)	-	-
Net cash provided (used) by financing activities	4,754,022	(797,339)	64,881
Net increase (decrease) in cash	176,500	(1,023,746)	285,539
Cash, beginning of year	80,758	1,104,504	818,965
Cash, end of year	$ 257,258	$ 80,758	$1,104,504
Supplemental schedule of cash flow information:			
Interest paid	$ 455,814	$ 67,100	$ 91,921

19. Other Comprehensive Income

SFAS No. 130, Reporting Comprehensive Income, requires display in financial statements of amounts of total comprehensive income and accumulated other comprehensive income. The components of other comprehensive income for the years ended 2000, 1999 and 1998 are as follows:

	2000	1999	1998
Unrealized gains (losses) arising during the period, net of tax effect of $178,583 in 2000, $197,195 in 1999, and $177,534 in 1998	$ (346,662)	$ (382,733)	$ 344,624
Less: reclassification adjustment for gains, net of write-downs, included in net income, net of tax effect of $5,159 in 2000, $3,942 in 1999 and $38,584 in 1998	10,016	7,653	(74,897)
Other comprehensive income	$ (336,646)	$ (375,080)	$ 269,727

20. Segment Reporting

Northeast Bancorp through its banking subsidiary, Northeast Bank and it's subsidiary Northeast Financial Services, Inc., provide a broad range of financial services to individuals and companies in western and south central Maine. These services include lending, demand, savings and time deposits, cash management 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.

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

NBN Capital Trust ("NBNCT"), a Delaware statutory trust, was created in October of 1999. NBNCT exists for the exclusive purpose of (i) issuing and selling Common Securities to the Company and Preferred Securities to the public (together the "Trust Securities"), (ii) using the proceeds of the sale of Trust Securities to acquire 9.60% Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures") issued by the Company, and (iii) engaging only in those other activities necessary, convenient or incidental thereto (such as registering the transfer of the Trust Securities). Accordingly, the Junior Subordinated Debentures will be the sole assets of the NBNCT. The preferred securities accrue and pay distributions quarterly at an annual rate of 9.60% of the stated liquidation amount of $7.00 per preferred security. The Company has fully and unconditionally guaranteed all of the obligations of the NBNCT. The guaranty covers the quarterly distributions and payments on liquidation or redemption of the trust preferred securities, but only to the extent of funds held by NBNCT. In the second quarter of fiscal 2000, the NBNCT sold $7,172,998 of its trust preferred securities to the public and $221,851 of its common securities to the Company. The trust preferred securities are mandatory redeemable upon the maturity of the Junior Subordinated Debentures on December 31, 2029 or upon earlier redemption as provided in the Indenture. The Company has the right to redeem the Junior Subordinated Debentures, in whole or in part on or after December 31, 2004 at a redemption price specified in the Indenture plus any accrued but unpaid interest to the redemption date. The costs of the issuance of the trust preferred securities was approximately $524,000 and is included in other assets in the Company's consolidated statement of financial condition at June 30, 2000, as a deferred financing cost. The costs will be amortized into interest expense over the life of the securities. The Company owns all of the common securities of NBNCT, the only voting security, and as a result, NBNCT is a subsidiary of the Company.

22. 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. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value amounts could have changed.

Federal Home Loan Bank Stock

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

Loans

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

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

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

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

Accrued Interest Receivable

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

Deposits

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

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

Borrowed Funds, Note Payable and Repurchase Agreements

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

Junior Subordinated Debentures

The fair value of the Company's Junior Subordinated Debentures is estimated based on prices published in financial newspapers.

Interest Rate Exchange Agreements

The fair value of interest rate exchange agreements (used for hedging purposes) is the estimated amount that the Company would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and the current credit-worthiness of the counterparties.

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, 2000 and 1999:

	June 30, 2000		June 30, 1999	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 12,778,000	$ 12,778,000	$ 12,094,000	$ 12,094,000
Available for sale securities	23,159,000	23,159,000	18,054,000	18,054,000
Loans held for sale	82,000	84,000	312,000	315,000
Loans	378,326,000	356,249,000	316,062,000	308,687,000
Interest receivable	2,404,000	2,404,000	1,991,000	1,991,000
Financial liabilities:				
Deposits (with no stated maturity)	78,364,000	78,364,000	78,251,000	78,251,000
Time deposits	181,618,000	181,094,000	141,113,000	141,352,000
Borrowed funds	122,628,000	121,484,000	103,882,000	99,986,000
Note payable	-	-	688,000	688,000
Repurchase agreements	13,111,000	13,111,000	11,868,000	11,868,000
Junior Subordinated Debentures	7,173,000	6,660,000	-	-
Off Balance Sheet Instruments:				
Interest rate exchange agreements in a net receivable position	140,000	296,000	-	-

Item 8. b Statistical Disclosures Required by Industry Guide 3

Northeast Bancorp Consolidated
Distribution of Assets, Liabilities and Net Worth (in thousands)
Interest Rates and Interest Differential
Years Ended June 30, 2000, 1999 and 1998

June 30, 2000	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest earning-assets:			
Investment Securities (1)	$ 21,613	$ 1,486	6.88%
Loans (2)(3)	356,490	30,227	8.48%
FHLB Stock	6,157	428	6.95%
Short-term investments (4)	4,846	265	5.47%
Total interest-earning assets/interest income/average rates earned	389,106	32,406	8.33%
Non-interest earning assets:			
Cash & due from banks	6,061		
Bank premises and equipment, net	4,787		
Other assets	7,586		
Allowance for loan losses	(3,156)		
Total non-interest earning assets	15,278		
Total assets	$ 404,384		
Liabilities & Net Worth:			
Interest-bearing liabilities:			
Now	$ 31,462	$ 915	2.91%
Money Market	6,446	144	2.23%
Savings	20,391	494	2.42%
Time	157,164	8,792	5.59%
Total interest-bearing deposits	215,463	10,345	4.80%
Repurchase agreements	13,768	570	4.14%
Borrowed funds	119,472	7,011	5.87%
Junior Subordinated Debentures	4,321	426	9.86%
Total interest-earning liabilities/ interest expense/average rates paid	353,024	18,352	5.20%
Total non-interest bearing liabilities:			
Demand deposits and escrow accounts	22,109		
Other liabilities	1,563		
Total liabilities	376,696		
Stockholders' equity	27,688		
Total liabilities and stockholders' equity	$ 404,384		
Net interest income		$ 14,054	
Interest rate spread			3.13%
Net yield on interest earning assets (5)			3.61%

June 30, 1999	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest earning-assets:			
Investment Securities (1)	$ 15,413	$ 958	6.22%
Loans (2)(3)	297,690	25,179	8.46%
FHLB Stock	5,680	364	6.41%
Short-term investments (4)	7,157	356	4.97%
Total interest-earning assets/interest income/average rates earned	325,940	26,857	8.24%
Non-interest earning assets:			
Cash & due from banks	5,099		
Bank premises and equipment, net	4,839		
Other assets	6,912		
Allowance for loan losses	(2,955)		
Total non-interest earning assets	13,895		
Total assets	$ 339,835		

Liabilities & Net Worth:			
Interest-bearing liabilities:			
Now	$ 31,162	$ 933	2.99%
Money Market	8,938	210	2.35%
Savings	20,068	515	2.57%
Time	125,802	7,022	5.58%
Total interest-bearing deposits	185,970	8,680	4.67%
Repurchase agreements	8,202	340	4.15%
Borrowed funds	100,074	5,530	5.53%
Junior Subordinated Debentures	0	0	0.00%
Total interest-earning liabilities/ interest expense/average rates paid	294,246	14,550	4.94%
Total non-interest bearing liabilities:			
Demand deposits and escrow accounts	17,132		
Other liabilities	2,194		
Total liabilities	313,572		
Stockholders' equity	26,263		
Total liabilities and stockholders' equity	$ 339,835		
Net interest income		$ 12,307	
Interest rate spread			3.30%
Net yield on interest earning assets (5)			3.78%

June 30, 1998	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Interest earning-assets:			
Investment Securities (1)	$ 21,799	$ 1,461	6.70%
Loans (2)(3)	240,859	21,989	9.13%
FHLB Stock	4,647	301	6.48%
Short-term investments (4)	9,951	532	5.35%
Total interest-earning assets/interest income/average rates earned	277,256	24,283	8.76%
Non-interest earning assets:			
Cash & due from banks	4,516		
Bank premises and equipment, net	4,597		
Other assets	7,061		
Allowance for loan losses	(2,867)		
Total non-interest earning assets	13,307		
Total assets	$ 290,563		
Liabilities & Net Worth:			
Interest-bearing liabilities:			
Now	$ 15,400	$ 269	1.75%
Money Market	14,002	467	3.34%
Savings	21,289	570	2.68%
Time	108,580	6,281	5.78%
Total interest-bearing deposits	159,271	7,587	4.76%
Repurchase agreements	4,917	206	4.19%
Borrowed funds	85,686	5,017	5.86%
Junior Subordinated Debentures	0	0	0.00%
Total interest-earning liabilities/ interest expense/average rates paid	249,874	12,810	5.13%
Total non-interest bearing liabilities:			
Demand deposits and escrow accounts	15,480		
Other liabilities	1,983		
Total liabilities	267,337		
Stockholders' equity	23,226		
Total liabilities and stockholders' equity	$ 290,563		
Net interest income		$ 11,473	

Interest rate spread	3.63%
Net yield on interest earning assets (5)	4.14%

(1) Principally taxable. The yield information does not give effect to changes in fair value that are reflected as a component of stockholders' equity.
(2) Non-accruing loans included in computation of average balance.
(3) Interest income on loans includes costs of $698 in 2000, $590 in 1999, and $10 in 1998.
(4) Short term investments include FHLB overnight deposits and other interest-bearing deposits.
(5) The net yield on average earning assets is net interest income divided by average interest-earning assets.

Northeast Bancorp Consolidated
Maturities and Repricing of Loans ($ in thousands)
As of June 30, 2000

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	$ 49,755	$ 25,332	$ 12,321	$ 106,880	$ 194,288
Commercial	19,320	36,731	4,273	1,600	61,924
Construction	7,102	304	0	0	7,406
Non-Mortgage Loans :					
Commercial	13,069	23,057	1,124	4,268	41,518
Consumer and other	1,623	27,396	8,676	36,333	74,028
Total Loans	90,869	112,820	26,394	149,081	379,164
Type of Interest Rate:					
Predetermined rate, maturity greater than 1 year	224,250				
Floating or adjustable rate due one year	64,046				
Total due after 1 year:	288,296				

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

Northeast Bancorp Consolidated
Investment Securities Portfolio

	At June 30,		
	2000	1999	1998
Available for Sale (1)	($ in thousands)		
U.S. Government and Agency Obligations	$ 346	$ 598	$ 4,698
Mortgage-backed Securities	21,446	16,027	7,714
Other Bonds	193	200	204
Equity Securities	1,174	1,229	993
Total Available for Sale (2):	$ 23,159	$ 18,054	$ 13,609

(1) Carried at estimated market value. Northeast Bancorp does not have any securities being held to maturity.
(2) Cost of such securities ($ in thousands) was $24,335 as of June 30, 2000, $18,720 as of June 30, 1999, and $13,706 as of June 30, 1998.

Northeast Bancorp Consolidated
Investment Maturity
($ in thousands)

	Within One Year		After One Year But Within 5 Years		After Five Years But Within 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield
At June 30, 2000						
U. S. Government and agencies obligations	$ 248	5.89%	$ 98	7.23%	$ 0	0.00%
Mortgage -backed securities	0	0.00%	32	6.20%	434	7.00%
Other bonds	51	7.20%	142	5.95%	0	0.00%
Equity securities	1,174	7.75%	0	0.00%	0	0.00%
	$ 1,473	7.42%	$ 272	6.44%	$ 434	7.00%
At June 30, 1999						
U. S. Government and agencies obligations	$ 498	4.62%	$ 100	7.23%	$ 0	0.00%
Mortgage -backed securities	0	0.00%	44	5.15%	572	7.04%
Other bonds	0	0.00%	200	6.28%	0	0.00%
Equity securities	1,229	6.76%	0	0.00%	0	0.00%
	$ 1,727	6.14%	$ 344	6.41%	$ 572	7.04%

	After 10 Years		Total	
	Amount	Yield	Amount	Yield
At June 30, 2000				
U. S. Government and agencies obligations	$ 0	0.00%	$ 346	6.27%
Mortgage -backed securities	20,980	6.88%	21,446	6.88%
Other bonds	0	0.00%	193	6.28%
Equity securities	0	0.00%	1,174	7.75%
	$20,980	6.88%	$23,159	6.91%
At June 30, 1999				
U. S. Government and agencies obligations	$ 0	0.00%	$ 598	5.06%
Mortgage -backed securities	15,411	6.55%	16,027	6.56%
Other bonds	0	0.00%	200	6.28%
Equity securities	0	0.00%	1,229	6.76%
	$15,411	6.55%	$18,054	6.52%

The average yield on investments held for sale is based on the amortized cost of the security.

Northeast Bancorp Consolidated
Loan Portfolio
($ in thousands)

June 30, 2000	Amount	Percent of Total Loans
Loan Portfolio		
Residential Mortgage	$ 194,288	51.24%
Commercial real estate	61,924	16.33%
Construction	7,406	1.95%
Commercial	41,518	10.95%
Consumer & Other	74,028	19.53%
Total Loans	379,164	100.00%
Less:		
Allowance for loan losses	3,498	
Net Deferred fees (costs)	(2,660)	
Net Loans	$ 378,326	

June 30, 1999	Amount	Percent of Total Loans

Loan Portfolio		
Residential Mortgage	$ 182,244	57.37%
Commercial real estate	55,438	17.45%
Construction	1,686	0.53%
Commercial	34,647	10.91%
Consumer & Other	43,643	13.74%
Total Loans	317,658	100.00%
Less:		
Allowance for loan losses	2,924	
Net Deferred fees (costs)	(1,328)	
Net Loans	$ 316,062	

June 30,1998	Amount	Percent of Total Loans
Loan Portfolio		
Residential Mortgage	$ 171,903	61.10%
Commercial real estate	47,053	16.73%
Construction	2,100	0.75%
Commercial	26,967	9.58%
Consumer & Other	33,305	11.84%
Total Loans	281,328	100.00%
Less:		
Allowance for loan losses	2,978	
Net Deferred fees (costs)	(703)	
Net Loans	$ 279,053	

June 30, 1997	Amount	Percent of Total Loans
Loan Portfolio		
Residential Mortgage	$ 139,633	62.64%
Commercial real estate	46,443	20.84%
Construction	2,597	1.17%
Commercial	19,421	8.71%
Consumer & Other	14,792	6.64%
Total Loans	222,886	100.00%
Less:		
Allowance for loan losses	2,742	
Net Deferred fees (costs)	204	
Net Loans	$ 219,940	

June 30, 1996	Amount	Percent of Total Loans
Loan Portfolio		
Residential Mortgage	$ 116,273	61.98%
Commercial real estate	37,270	19.87%
Construction	2,769	1.48%
Commercial	16,761	8.94%
Consumer & Other	14,491	7.73%
Total Loans	187,564	100.00%
Less:		
Allowance for loan losses	2,761	
Net Deferred fees (costs)	354	
Net Loans	$ 184,449	

Northeast Bancorp Consolidated
Allowance for Loan Losses
As of June 30, 2000
($ in thousands)

June 30, 2000	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 405	51.24%
Commercial Mortgage	499	16.33%
Construction	0	1.95%
Commercial	312	10.95%
Consumer	844	19.53%
Unallocated	1,438	0.00%
Total	$ 3,498	100.00%

June 30, 1999	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 378	57.37%
Commercial Mortgage	882	17.45%
Construction	0	0.53%
Commercial	508	10.91%
Consumer	497	13.74%
Unallocated	659	0.00%
Total	$ 2,924	100.00%

June 30, 1998	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 352	61.10%
Commercial Mortgage	762	16.73%
Construction	0	0.75%
Commercial	582	9.58%
Consumer	380	11.84%
Unallocated	902	0.00%
Total	$ 2,978	100.00%

June 30, 1997	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 308	62.64%
Commercial Mortgage	821	20.84%
Construction	0	1.17%
Commercial	436	8.71%
Consumer	159	6.64%
Unallocated	1,018	0.00%
Total	$ 2,742	100.00%

June 30, 1996	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 268	61.98%
Commercial Mortgage	799	19.87%
Construction	0	1.48%
Commercial	501	8.94%
Consumer	152	7.73%
Unallocated	1,041	0.00%

Total	$ 2,761	100.00%

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

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

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

Northeast Bancorp Consolidated
Non-performing Ratios ($ in thousands)
As of June 30,

	At June 30,				
	2000	1999	1998	1997	1996
Non-accrual loans:					
Residential mortgage	$ 191	$ 235	$ 640	$ 1,023	$ 1,043
Commercial Real Estate	650	595	317	541	895
Commercial Loans	80	0	468	54	308
Consumer and other	185	197	0	41	76
Total non-accrual loans	1,106	1,027	1,425	1,659	2,322
Accruing loans contractually past due 90 days or more	72	117	823	1,222	860
Total non-performing loans	1,178	1,144	2,248	2,881	3,182
Acquired assets	278	194	350	563	585
Total non-performing assets	1,456	1,338	2,598	3,444	3,767
Non-performing loans to total loans	0.31%	0.36%	0.80%	1.29%	1.70%
Non-performing assets to total assets	0.34%	0.37%	0.81%	1.21%	1.54%

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

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

	June 30, 2000	June 30, 1999	June 30, 1998	June 30, 1997	June 30, 1996
Average net loans outstanding during the period	$353,142	$294,207	$237,791	$200,919	$183,947
Net loans at end of period (1)	$378,326	$316,062	$279,053	$219,940	$184,449
Allowance at beginning of period	$ 2,924	$ 2,978	$ 2,742	$ 2,761	$ 2,661
Loans charged-off during the period:					
Residential mortgage	81	232	196	319	151
Commercial real estate	46	26	432	128	236
Commercial	10	272	42	154	125
Consumer and other	627	396	115	171	108
Total loans charged-off	764	926	785	772	620

Recoveries on loans previously

charged-off:					
Residential Mortgage	14	12	87	43	10
Commercial Real Estate	64	109	83	49	34
Commercial	108	20	87	13	12
Consumer and other	80	121	58	34	25
Total Recoveries	266	262	315	139	81
Net loans charged off during the period	498	664	470	633	539
Provision for loan losses	1,072	610	706	614	639
Allowance at end of period	$ 3,498	$ 2,924	$ 2,978	$ 2,742	$ 2,761
Ratio of net charge-offs to average loans outstanding	0.14%	0.23%	0.20%	0.32%	0.29%
Allowance as a percentage of total portfolio loans	0.92%	0.93%	1.07%	1.25%	1.50%
Allowance as a percentage of non-performing and non-accrual loans	296.94%	255.59%	132.47%	95.18%	86.77%

(1) Excludes loans held for sale.

The allowance for loan losses as a percentage of net loans decreased at the end of each fiscal year from 1996 to 2000. The reduction in each fiscal year was due to the purchase of residential mortgages as well as portfolio loan growth. In the fiscal years 1996 to 1999, the decrease was supported by the Company's lower delinquency levels and decreased non-performing and substandard loans. In the fiscal year 2000, although the delinquency level and non-performing and substandard loans increased slightly, management does not consider this to be material or represents a future trend.

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

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

June 30, 2000	Amount	Rate	% of Deposits
Average Deposits:			
Non-interest bearing demand deposits	$ 22,109	0.00%	9.31%
Regular savings	20,391	2.42%	8.58%
NOW and Money Market	37,908	2.79%	15.96%
Time deposits	157,164	5.59%	66.15%
Total Average Deposits	$ 237,572	4.35%	100.00%

June 30, 1999	Amount	Rate	% of Deposits
Average Deposits:			
Non-interest bearing demand deposits	$ 17,132	0.00%	8.44%
Regular savings	20,068	2.57%	9.88%
NOW and Money Market	40,100	2.85%	19.74%
Time deposits	125,802	5.58%	61.94%
Total Average Deposits	$ 203,102	4.27%	100.00%

June 30, 1998	Amount	Rate	% of Deposits
Average Deposits:			
Non-interest bearing demand deposits	$ 15,481	0.00%	8.86%
Regular savings	21,289	2.68%	12.18%
NOW and Money Market	29,401	2.50%	16.82%
Time deposits	108,580	5.78%	62.14%

Total Average Deposits	$ 174,751	4.34%	100.00%

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

Northeast Bancorp Consolidated
Maturities of Time Deposits $100,000 & Over
As of June 30, 2000
($ in thousands)

	Balance
3 months or less	$ 810
Over 3 through 6 months	1,242
Over 6 through 12 months	4,671
Over 12 months	21,309
Total Time Deposits $100,000 & Over	$ 28,032

Northeast Bancorp
Repurchase Agreements ($ in thousands)

	For Years ended June 30,					
	2000		1999		1998	
	Balance	Weighted Rate	Balance	Weighted Rate	Balance	Weighted Rate
Balance at year end	$ 13,110	4.18%	$ 11,868	4.07%	$ 5,206	4.20%
Average outstanding during year	13,768	4.14%	8,202	4.15%	4,917	4.19%
Maximum Outstanding at any month end	18,675		11,868		5,737	

These borrowings, which were scheduled to mature within 180 days, were collateralized by GNMA and FHLMC securities with the market value of $17,006,000 and amortized cost of $17,877,000 at June 30, 2000, a market value of $14,938,000 and amortized cost of $15,525,000 at June 30, 1999, and a market value of $8,547,000 and amortized cost of $8,558,000 at June 30, 1998. Securities sold under these agreements were under the control of the Company during 2000, 1999 and 1998.

Northeast Bancorp Consolidated
Maturities and Repricing of Earning Assets & Interest-bearing Liabilities
As of June 30, 2000
($ in thousands)

	Term to Repricing				
	Less Than 1 Year	1-5 Years	Over 5 Years	Total	% of Total
Interest Earning Assets:					
Investment securities	$ 1,473	$ 272	$ 21,414	$ 23,159	5.60%
FHLB stock	0	0	6,644	6,644	1.61%
Short -term investments (1)	4,864	0	0	4,864	1.17%
Mortgage Loans:					
Residential mortgages:					
Fixed rate loans	29	2,395	119,065	121,489	29.36%
Variable loans	49,726	22,937	136	72,799	17.59%
Commercial real estate	19,320	36,731	5,873	61,924	14.96%
Construction	7,102	304	0	7,406	1.79%

Other Loans:					
Commercial	13,069	23,057	5,392	41,518	10.03%
Consumer and other	1,623	27,396	45,009	74,028	17.89%
Total loans	90,869	112,820	175,475	379,164	91.62%
Total interest-earning assets	$ 97,206	$113,092	$203,533	$413,831	100.00%
Interest-bearing liabilities:					
Customer deposits:					
NOW Accounts	29,250	0	0	29,250	7.68%
Money market accounts	6,339	0	0	6,339	1.66%
Regular savings	21,003	0	0	21,003	5.51%
Certificates of deposit	86,715	74,835	20,068	181,618	47.65%
Total Customer deposits	143,307	74,835	20,068	238,210	62.50%
Borrowings:					
Repurchase Agreements	13,110	0	0	13,110	3.44%
Other Borrowings	91,580	23,048	8,000	122,628	32.18%
Junior Subordinated Debenture	0	0	7,173	7,173	1.88%
Total borrowings	104,690	23,048	15,173	142,911	37.50%
Total interest-bearing liabilities	$247,997	$ 97,883	$ 35,241	$381,121	100.00%
Interest sensitivity gap	(150,791)	15,209	168,292	32,710	
Cumulative gap	(150,791)	(135,582)	32,710	32,710	
Cumulative gap ratio	39.20%	60.80%	108.58%	108.58%	
Cumulative gap as a percentage of total assets	-34.76%	-31.25%	7.54%	7.54%	

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

This table summarizes the anticipated maturities and repricing of the Company's earning assets and interest-bearing liabilities at June 30, 2000.

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

Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
As of June 30, 2000

	1st Qtr Sept. 30 1999	2nd Qtr Dec. 31 1999	3rd Qtr Mar. 31 2000	4th Qtr June 30 2000
Interest Income				
Interest on loans	$ 7,010,975	$ 7,444,148	$ 7,671,932	$ 8,100,003
Interest & dividends on investments & available for sale securities	457,795	510,021	597,469	613,640
Total Interest and Dividend Income	7,468,770	7,954,169	8,269,401	8,713,643
Interest Expense				
Interest on Deposits	2,335,723	2,550,342	2,639,007	2,820,511
Interest on Repurchase Agreements	126,207	168,791	136,368	138,198
Interest on Borrowings	1,516,348	1,658,679	1,820,771	2,014,916
Interest on Trust Preferred Securities	0	73,932	176,336	176,323
Total Interest Expens	3,978,278	4,451,744	4,772,482	5,149,948
Net Interest Income	3,490,492	3,502,425	3,496,919	3,563,695

Provision for Loan Losses	295,229	195,885	195,147	385,688
Net Interest Income after Provision for Loan Losses	3,195,263	3,306,540	3,301,772	3,178,007
Securities Transactions	5,165	20,697	34,620	23,541
Other Operating Income	622,159	593,011	611,799	623,952
Other Operating Expense	2,587,545	2,617,708	2,591,467	2,746,362
Income Before Income Taxes	1,235,042	1,302,540	1,356,724	1,079,138
Income Tax Expense	433,320	465,796	479,459	385,146
Net Income	$ 801,722	$ 836,744	$ 877,265	$ 693,992
Earnings Per Share:				
Basic	$ 0.29	$ 0.30	$ 0.32	$ 0.26
Diluted	$ 0.29	$ 0.30	$ 0.32	$ 0.26

Northeast Bancorp Consolidated
Quarterly Data (Unaudited)
As of June 30, 1999

	1st Qtr Sept. 30 1998	2nd Qtr Dec. 31 1998	3rd Qtr Mar. 31 1999	4th Qtr June 30 1999
Interest Income				
Interest on loans	$ 6,309,260	$ 6,179,727	$ 6,140,300	$ 6,549,300
Interest & dividends on investments & available for sale securities	405,896	347,989	468,978	455,343
Total Interest and Dividend Income	6,715,156	6,527,716	6,609,278	7,004,643
Interest Expense				
Interest on Deposits	2,129,744	2,157,908	2,143,909	2,248,736
Interest on Repurchase Agreements	52,744	86,531	95,483	104,798
Interest on Borrowings	1,437,078	1,379,940	1,340,474	1,372,897
Total Interest Expense	3,619,566	3,624,379	3,579,866	3,726,431
Net Interest Income	3,095,590	2,903,337	3,029,412	3,278,212
Provision for Loan Losses	204,931	164,491	120,007	120,588
Net Interest Income after Provision for Loan Losses	2,890,659	2,738,846	2,909,405	3,157,624
Securities Transactions	16,403	52,819	11,035	14,608
Other Operating Income	490,118	788,651	722,173	620,545
Other Operating Expense	2,402,657	2,485,079	2,488,839	3,193,268
Income Before Income Taxes	994,523	1,095,237	1,153,774	599,509
Income Tax Expense	358,486	394,669	410,268	269,168
Net Income	$ 636,037	$ 700,568	$ 743,506	$ 330,341
Earnings Per Share:				
Basic	$ 0.24	$ 0.26	$ 0.27	$ 0.12
Diluted	$ 0.23	$ 0.25	$ 0.27	$ 0.12

The decrease in net income and the increase in other operating expense for the quarter ending June 30, 2000 is primarily due to the writedown of equity securities, the increase in professional fees and the increase in the provision for loan losses.

The decrease in net income and the increase in other operating expense for the quarter ending June 30, 1999 is primarily due to the writedown of equity securities and the write-off of goodwill, receivables and fixed assets due to the Company's decision to dissolve 1st New England Benefits. Refer to Management's Discussion and Analysis for further discussion.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information relating to the name of each nominee or director of the Company, that person's age, positions and offices with the Company, business and principal occupations, directorships in other public experience companies, and service on the Company's board of directors set forth under the caption "Election of Directors" in the definitive 2000 proxy statement of the Company to be furnished to shareholders in connection with the Company's Annual Meeting to be held on November 14, 2000 (the "2000 Proxy Statement"), and information set forth under the subcaption "Section 16(a) Beneficial Ownership Requirements" relating to Section 16 matters, is incorporated herein by reference. Information required by this Item 10 regarding the executive officers of the Company is set forth in Part I, Item 4A of this Form 10-K.

Item 11. Executive Compensation

Information with respect to current renumeration of directors and executive officers under the headings of "Election of Directors - Compensation of Directors" and "Compensation of Executive Officers" in the 2000 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information regarding the beneficial ownership of equity securities of the Company by all directors and named executive officers, beneficial holders of 5% or more of the outstanding Common Stock, and of all executive officers and directors as a group set forth under the heading "Security Ownership of Management and Certain Beneficial Owners" in the 2000 Proxy Statement is Incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information regarding transactions and relationships between the Company and its directors and executive officers under the heading "Certain Relationships and Related Transactions" in the 2000 Proxy is incorporated herein by reference.

PART IV

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

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

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

Consolidated Statements of Financial Condition as of June 30, 2000 and 1999

Consolidated Statements of Income for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the years ended June 30, 2000, 1999 and 1998

(b) Reports on Form 8-K

Not applicable.

(c) Exhibits

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

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

2.2 Agreement for the Purchase and Sale of Assets and

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

2.3	Agreement and Plan of Merger dated as of May 9, 1997 by and among Northeast Bancorp, Northeast Bank, FSB and Cushnoc Bank and Trust Company, incorporated by reference to Exhibit 2 to Northeast Bancorp's Registration Statement on Form S-4 (No. 333-31797) filed with the Securities and Exchange Commission
3.1	Conformed Articles of Incorporation of Northeast Bancorp, incorporated by reference to Exhibit 3.1 to Northeast Bancorp's Registration Statement on Form S-4 (No.333-31797) filed with the Securities and Exchange Commission
3.2	Bylaws of Northeast Bancorp, incorporated by reference to Exhibit 3.2 to amendment No.1 to Northeast Bancorp's Registration Statement on Form S-4(No.333-31797) filed with the Securities and Exchange Commission
10.1*	1987 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Bethel Bancorp's Registration Statement on Form S-1 (No. 33-12815), filed with the Securities and Exchange Commission.
10.2*	1989 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp) is incorporated by reference to Exhibit 10.6 to Bethel Bancorp's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994
10.3*	1992 Stock Option Plan of Northeast Bancorp (formerly known as Bethel Bancorp), incorporated by reference to Exhibit 10.7 to Bethel Bancorp's Annual Report on Form 10-K for the year ended June 30, 1992
10.4*	1999 Stock Option Plan of Northeast Bancorp incorporated by reference to Exhibit 10 to Northeast Bancorp's Quarterly Report on Form 10-Q for quarter ended December 31, 1999
11	Statement regarding computation of per share earnings is submitted herewith as Exhibit 11
21	A list of subsidiaries of Northeast Bancorp is filed herewith as Exhibit 21
23	The Consent of Baker Newman & Noyes, Limited Liability Company, is submitted herewith as Exhibit 23
27	A Financial Data Schedule is submitted herewith as Exhibit 27
*	Management or compensation plan or arrangement required to be filed as an Exhibit pursuant to Item 14(c) of Form 10-K

SIGNATURES

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

NORTHEAST BANCORP

Date: September 22, 2000

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

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

Name	Title	Date
/s/ John B. Bouchard John B. Bouchard	Director	September 22, 2000
/s/ A. William Cannan	Director, Executive Vice President	September 22, 2000

A. William Cannan

/s/ James D. Delamater - ------------------------- James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 22, 2000
/s/ Ronald J. Goguen - ------------------------- Ronald J. Goguen	Director	September 22, 2000
/s/ Judith W. Hayes - ------------------------- Judith W. Hayes	Director Vice President	September 22, 2000
/s/ Philip C. Jackson - ------------------------- Philip C. Jackson	Director	September 22, 2000
/s/ Ronald C. Kendall - ------------------------- Ronald C. Kendall	Director	September 22, 2000
/s/ John Rosmarin - ------------------------- John Rosmarin	Director	September 22, 2000
/s/ John Schiavi - ------------------------- John Schiavi	Director	September 22, 2000
/s/ John W. Trinward, DMD - ------------------------- John W. Trinward, DMD	Chairman of the Board	September 22, 2000
/s/ Stephen W. Wight - ------------------------- Stephen W. Wight	Director	September 22, 2000
/s/ Dennis A. Wilson - ------------------------- Dennis A. Wilson	Director	September 22, 2000
/s/ Richard E. Wyman, Jr. - ------------------------- Richard E. Wyman, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	September 22, 2000

EXHIBIT INDEX

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Exhibit 11. Statement Regarding Computation of Per Share Earnings

	Year Ended June 30, 2000	Year Ended June 30, 1999
EQUIVALENT SHARES:		
Weighted Average Shares Outstanding	2,739,966	2,710,117
Total Diluted Shares	2,753,593	2,794,544
Net Income	$ 3,209,722	$ 2,410,452
Less Preferred Stock Dividend	-	25,667
Income Available to Common Stockholders	$ 3,209,722	$ 2,384,785
Basic Earnings Per Share	$ 1.17	$ 0.88
Diluted Earnings Per Share	$ 1.17	$ 0.86

Exhibit 21. Securities of Registrant

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

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors
Northeast Bancorp

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 33-32095), (No. 33-58538), (No. 33-32096) and (No. 33-87976) of Northeast Bancorp of our report dated August 4, 2000, with respect to the consolidated financial statements of Northeast Bancorp and Subsidiaries included in the Annual Report (Form 10-K) for the year ended June 30, 2000.

Portland, Maine	Baker Newman & Noyes
September 25, 2000	Limited Liability Company