# NORTHEAST BANK
# CORPORATE GOVERNANCE GUIDELINES

## INTRODUCTION

The business and affairs of Northeast Bank, a Maine chartered bank (the "Bank"), are subject to the general oversight and authority of its Board of Directors (the "Board"). The Board has adopted these guidelines to promote the effective functioning of the Board and its committees. Together with the Bank's Articles of Incorporation, By-laws, and charters of the Board's committees, these guidelines provide the authority and practices for governance of the Bank.

## ROLE OF THE BOARD

The business and affairs of the Bank are managed by or under the direction of its Board in accordance with Maine law. The directors' fiduciary duty is to exercise their business judgment in the best interests of the Bank's shareholders.

## BOARD STRUCTURE

***Board Size***. The size of the Board will provide for sufficient diversity among non-employee directors while also facilitating substantive discussions in which each director can participate meaningfully. The number of directors of the Bank shall be determined by resolutions of the Board in accordance with the Bank's Articles of Incorporation and By-laws, subject to applicable law. Any vacancy in the Board caused by death, resignation, retirement, disqualification, removal, or other cause, including a vacancy resulting from an increase in the number of directors, may be filled solely by a majority vote of the remaining directors, though less than a quorum. Any director appointed in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been duly elected and qualified or until his or her earlier resignation, death or removal.

***Independent Directors***. A majority of the Board will consist of directors who satisfy the independence requirements of the Sarbanes-Oxley Act of 2002 ("SOX") and the rules and regulations of the Securities and Exchange Commission (the "Commission") (which are applicable to the Bank as a registrant under the Securities Exchange Act of 1934, as amended) and the NASDAQ Stock Exchange ("NASDAQ"). In general, an independent director must have no material relationship with Bank, directly or indirectly, except as a director. The Board will review factors affecting independence at the time a director is proposed for election or reelection.

Under the NASDAQ Stock Market LLC Rules (the "NASDAQ Rules"), the Board is required to review factors affecting independence at the time a director is proposed for election or reelection. A director is not independent if the director is an officer or employee of the Bank or its subsidiaries. A director also is not independent unless the Board affirmatively determines that the director does not have a material relationship with the Bank that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

The following persons, among others, will not be considered independent:

1. a director who is, or at any time during the past three years was, employed by the Bank or by any subsidiary of the Bank;

2. a director who accepted, or who has a Family Member (i.e., a person's spouse, parent, child or sibling, whether by blood, marriage or adoption, or anyone residing in such person's home) who accepted, any payments from the Bank or any subsidiary of the Bank in excess of $120,000 during any twelve consecutive months within the past three years, other than the following:

   (a) compensation for Board or Board committee service;

   (b) compensation paid to a Family Member who is a non-executive employee of the Bank or a subsidiary of the Bank; or

   (c) benefits under a tax-qualified retirement plan, or non-discretionary compensation.

   (Note that Audit Committee members are subject to additional, more stringent requirements under the NASDAQ corporate governance rules);

3. a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Bank or by any subsidiary of the Bank as an executive officer;

4. a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Bank made, or from which the Bank received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following:

   (a) payments arising solely from investments in the Bank's securities; or

   (b) payments under non-discretionary charitable contribution matching programs;

5. a director of the Bank who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Bank serve on the compensation committee of such other entity; or

6. a director who is, or has a Family Member who is, a current partner of the Bank's outside auditor, or was a partner or employee of the Bank's outside auditor who worked on the Bank's audit at any time during any of the past three years.

***Election of Directors***. All directors will stand for election as set forth in the Bank's Articles of Incorporation and By-laws.

***Chair and CEO***. The Board shall select a Chair in the manner and upon the criteria which the Board deems appropriate at the time of selection. The Board has no policy requiring the separation or combination of the roles of the Bank's Chief Executive Officer ("CEO") and Chair of the Board.

***Term Limits***. The Board believes that experience as a Bank director is a valuable asset. Therefore, directors are not subject to term limits.

***Other Directorships***. Recognizing the substantial time commitment required of a director, it is expected that a director may serve on the board of directors of other companies which have a class of securities registered under §12 or §15(d) of the Securities Exchange Act of 1934, as amended ("public

company"), only to the extent that, in the judgment of the Board, such services do not detract from the director's ability to devote the necessary time and attention to the Bank. The Nominating and Corporate Governance Committee will review and approve such commitments annually.

***Change in Status***. To avoid any potential conflict of interest, a director may not accept a seat on any additional public company's board of directors without first reviewing the matter with the Nominating and Corporate Governance Committee. In addition, an employee director will tender his or her resignation for consideration by the Board in the event of retirement or other substantial change in the nature of the director's employment or other significant responsibilities. The Nominating and Corporate Governance Committee shall consider such resignation and recommend to the Board whether such resignation should be accepted.

***Former Officers***. The Board does not believe that former officers of the Bank should continue to serve on the Board after they no longer hold that officer position.

## DIRECTOR SELECTION; QUALIFICATIONS; EDUCATION

***Director Candidates***. Subject to the terms of the Articles of Incorporation and By-laws, the Board, acting on the recommendation of the Nominating and Corporate Governance Committee, will nominate a slate of director candidates for election at each annual meeting of shareholders and will elect directors to fill vacancies, including vacancies created as a result of any increase in the size of the Board, between annual meetings. The Nominating and Corporate Governance Committee will review and update the criteria for directors from time to time and make recommendations to the Board as appropriate. Such criteria will include considerations of age, skill, integrity, experience, time availability, appropriate listing standards, and applicable federal and state law and regulation. Each nominee for director must be selected or recommended by either a majority of the independent directors or the Nominating and Corporate Governance Committee, which is comprised solely of independent directors.

***Independent Directors***. As provided above, a majority of the Board must be comprised of independent directors within the meaning of the NASDAQ Rules. The Bank shall disclose in its annual proxy statement those directors that the Board has determined to be independent under the NASDAQ Rules. If the Bank fails to comply with the independence requirements in this paragraph due to one vacancy, or one director ceases to be independent due to circumstances beyond his or her reasonable control, the Bank shall regain compliance with the independence requirements by the earlier of its next annual shareholders meeting or one year from the occurrence of the event that caused the failure to comply with the independence requirements; provided, however, that if the annual shareholders meeting occurs no later than 180 days following the event that caused the failure to comply with the independence requirement, the Bank shall instead have 180 days from such event to regain compliance. The Bank shall provide notice to NASDAQ, as may be required, upon learning of the event or circumstance that caused the non-compliance with the independence requirements. The Board shall make an affirmative determination that each individual who is serving as an independent director is, in fact, independent, and, without limiting the generality of the foregoing, does not have any relationship with the Bank that would impair such person's independence.

***Orientation***. New directors will receive a comprehensive orientation from appropriate executives regarding the Bank's business and affairs.

***Continuing Education***. Management, working with the Board, shall periodically assess the continuing education needs of directors and shall design or identify programs to address specific needs. The goal of continuing education programs should be to assist the Board in fulfilling its duties and

responsibilities and, to the extent practicable, to address areas for improvement, if any, that are identified as part of the Board's annual performance evaluation.

## DIRECTOR RESPONSIBILITIES; BOARD MEETINGS

***Basic Duties***. The basic duties of each director, under the applicable Maine law, are to discharge his or her duties as a director, including his or her duties as a member of a committee, (a) in good faith, (b) with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and (c) in a manner that he or she believes to be in the best interests of the Bank. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of his or her fellow directors, senior executives, and outside advisors and auditors.

***Agenda and Briefing Material***. An agenda for each Board meeting and briefing materials will, to the extent practicable in light of the timing of matters that require Board attention, be distributed to each director prior to each meeting. The Chair of the Board will review the agenda for Board meetings. Any director may request the inclusion of specific items.

***Meeting Attendance***. It is expected that each director will make every effort to attend each Board meeting and each meeting of any committee on which he or she sits. Attendance in person is preferred at the four quarterly meetings, but attendance by teleconference is permitted if necessary. Meetings other than the quarterly Board and committee meetings will normally be held telephonically or via teleconference. In addition, all directors are expected to attend all annual meetings of shareholders in person unless doing so is impracticable due to unavoidable conflicts.

***Director Preparedness***. Each director should be familiar with the agenda for each meeting, have carefully reviewed all other materials distributed in advance of the meeting, and be prepared to participate meaningfully in the meeting and to discuss all scheduled items of business.

***Confidentiality***. The proceedings and deliberations of the Board and its committees are confidential. Each director will maintain the confidentiality of information received in connection with his or her service as a director.

## INDEPENDENT DIRECTOR EXECUTIVE SESSIONS

An executive session of the independent directors will normally be held four times per year immediately following each meeting of the full Board. The Chair of the Board will preside at the executive sessions, unless the independent directors select another director to preside for a particular session. Any independent director may raise issues for discussion at an executive session. The independent directors will maintain such records of executive sessions as they deem appropriate.

## BOARD SELF-EVALUATION

At least annually, the Board will evaluate its performance and effectiveness. The Nominating and Corporate Governance Committee shall establish the evaluation criteria and process. The results of the evaluation shall be reported to the entire Board. The purpose of the annual self-evaluation will be to improve the effectiveness of the Board as a unit**.** These Board evaluations should include a review of those areas in which the Board and/or management believes the Board can make a better contribution to the Bank.

## CONFLICTS OF INTEREST

The Bank shall conduct, on an ongoing basis, a review of all related party transactions for potential conflict of interest situations and all such transactions must be approved by the Audit Committee or another independent body of the Board. A "related party transaction" shall include those transactions required to be disclosed pursuant to Item 404 of Regulation S-K, promulgated by the Commission.

## COMMITTEES

***Committees***. The Board will, upon recommendation of the Nominating and Corporate Governance Committee, appoint from among its members, committees it determines are necessary or appropriate to conduct its business. Currently, the standing committees of the Board are the Audit Committee, Compensation Committee, Risk Management Committee, Loan and Investment Committee, and Nominating and Corporate Governance Committee.

***Committee Composition***. The composition of each committee shall comply with the requirements of any applicable law and regulation including, but not limited to, SOX and the rules and regulations of the Commission, NASDAQ, and the Federal Deposit Insurance Corporation. In particular, the Nominating and Corporate Governance Committee, Audit Committee, Risk Management Committee, and Compensation Committee will consist solely of independent directors.

***Committee Charters***. Each of the committees will have a written charter outlining its responsibilities. Charters will be adopted by the Board based on the recommendation of the applicable committee and the Nominating and Corporate Governance Committee. In particular, and without limiting the generality of the preceding sentence, the Audit Committee, shall have such composition and charter as meets the requirements of SOX and the rules and regulations of the Commission, NASDAQ, and the Federal Deposit Insurance Corporation.

***Committee Assignments and Rotation***. Membership of each committee will be determined by the Board after receiving the recommendation of the Nominating and Corporate Governance Committee. Consideration will be given to rotating committee memberships from time to time.

***Committee Meetings and Agenda***. The chairperson of each committee, in consultation with committee members, shall have the right to determine the frequency (meeting any minimum frequency requirements as stated in the committee charters) and length of the committee meetings and to develop the committee's agenda for specific committee meetings. The agendas, materials, and meeting minutes of the committees shall be provided to the chairperson and made available to all directors upon request.

***Committee Self-Evaluation***. At least annually, each of the Board committees will conduct an evaluation of its performance and effectiveness and will consider whether to recommend to the Board any changes to the committee's charter.

***Committee Reports***. The chairperson of each Board committee will report to the full Board on the activities of his or her committee, including, but not limited to, the results of the committee's self-evaluation and any recommended changes to the committee's charter.

## CEO PERFORMANCE REVIEW

At least annually the Compensation Committee will review the performance of the CEO in light of the Bank's goals and objectives.

## SUCCESSION PLANNING

At least annually, the Compensation Committee, as authorized by the Board, will review succession plans for the CEO and other senior executives. Succession planning will address both succession in the ordinary course of business and contingency planning in case of unexpected events.

## BOARD RESOURCES

***Access to Employees***. Directors will have full access to senior management of the Bank and other employees on request to discuss the business and affairs of the Bank. The Board expects that there will be regular opportunities for directors to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings.

***Authority to Retain Advisors***. It is normally expected that information regarding the Bank's business and affairs will be provided to the Board by the Bank's management and staff and by the Bank's independent auditors. However, the Board and each committee has the authority to retain such outside advisors, including, but not limited to, accountants, legal counsel, and other experts, as it deems appropriate. The fees and expenses of any such advisors will be paid by the Bank.

## CODE OF ETHICS

The Bank has adopted a Code of Ethics for the Bank's directors, officers, and employees to comply with applicable laws, rules, and regulations, including, without limitation, NASDAQ Rules. Each director is expected to be familiar with and to follow this code. In addition, directors must avoid any conflict between their own interests and the interests of the Bank.

The Nominating and Corporate Governance Committee will review any allegation that an executive officer or director may have violated the Code of Ethics and will report its findings to the full Board. The Board does not envision that any waiver to this code will be authorized.

## LOANS TO DIRECTORS AND OFFICERS

Neither the Bank nor any of its subsidiaries shall enter into lending relationships, deposit relationships, other banking relationships (such as depository, transfer, registrar, indenture trustee, trusts and estates, private banking, investment management, custodial, securities brokerage, cash management or similar services), or other commercial or financial relationships (whether director or indirect) with a director or executive officer of the Bank or entity (whether for profit, not for profit, or otherwise) with which such director or executive officer is affiliated by reason of being a director, officer or a significant shareholder thereof, unless:

1. such relationships are in the ordinary course of business of the Bank and are on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons; and

2. with respect to extensions of credit by the Bank or its subsidiaries to such individuals or entities such extensions of credit have been made in compliance with applicable law, including Regulation O of the Board of Governors of the Federal Reserve System (as applied to the Bank through 12 C.F.R. § 337.3) and Section 13(k) of the Securities Exchange Act of 1934.

## DIRECTOR COMPENSATION

Compensation for directors will be determined by the Board on the recommendation of the Compensation Committee and will be reviewed annually. Director compensation will be set at a level that is consistent with market practice, taking into account the size and scope of the Bank's business and the responsibilities of its directors. The Compensation Committee is authorized and urged to seek outside consultants or advisors to assist in the evaluation of the Bank's compensation program.

When making its recommendation, the Compensation Committee may take into account the appearance that a director's independence is adversely affected if director compensation and benefits exceed customary levels, if the Bank makes substantial charitable contributions to organizations with which a director is affiliated, or if the Bank enters into consulting contracts with, or provides other indirect forms of compensation, to a director or an organization with which the director is affiliated.

## INDEMNIFICATION

The Bank provides reasonable directors' and officers' liability insurance for the directors and shall indemnify the directors to the fullest extent permitted by law and the Bank's Articles of Incorporation and By-laws and shall enter into separate indemnification agreements with each director, if advisable.

## COMMUNICATION WITH SHAREHOLDERS

The Nominating and Corporate Governance Committee and the Board will establish and review the process by which the Bank's shareholders can communicate with the Board, including, without limitation, how shareholders can communicate with the Board and the process for determining which communications will be relayed to the Board.

## CORPORATE GOVERNANCE GUIDELINES REVISION

The Nominating and Corporate Governance Committee will review and recommend to the Board revisions to these Corporate Governance Guidelines and related documents as and when appropriate.