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 [FEE REQUIRED]

For fiscal year ended June 30, 1996

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from

Commission file number (0-16123)

Bethel 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.)

158 Court Street, Auburn, Maine	04210
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (207) 777-5950

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $1.00 par value

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. [ ]

The aggregate market value of the voting stock held by nonaffiliates of the registrant, as of September 19, 1996, was $7,370,214. 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.

As of September 19, 1996, 1,231,294 shares of the registrant's common stock were issued and outstanding.

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	Part
Proxy Statement for the 1996 Annual Meeting of Shareholders	III

PART I

Item 1. Business

(a) General Development of Business

The Registrant, Bethel Bancorp, which does business under the name Northeast Bancorp (the "Company"), is a Maine Corporation chartered in April 1987 for the purpose of becoming a savings and loan holding company. The Office of Thrift Supervision ("OTS") is the Company's primary regulator. The board of directors of Bethel Bancorp voted to assume the name of Northeast Bancorp as of July 1, 1996, pending shareholder approval for the name change of the Company. On July 1, 1996 the Company's two wholly-owned banking subsidiaries, Bethel Savings Bank, F.S.B. ("Bethel"), a federally - chartered savings bank with its principal place of business in Bethel, Maine and Brunswick Federal Savings, F.A. ("Brunswick"), a federally - chartered savings association with its principal place of business in Brunswick, Maine merged following receipt of regulatory approval. The merged banking subsidiary, which changed its name to Northeast Bank, FSB (the "Bank"), has branches located in Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine.

In May of 1992, the Company entered into a Stock Purchase Agreement with Square Lake Holding Corporation ("Square Lake") and, on February 9, 1994, following receipt of regulatory and shareholder approval, the Company issued 71,428 shares of a newly designated Series B convertible preferred stock to Square Lake at an aggregate price of approximately $1 million, or $14.00 per share. As part of the transaction, the Company also issued Square Lake a warrant with a term of seven years to purchase 116,882 shares of the Company's common stock at a price of $14.00 per share. As a result of the exercise of certain of such warrants and the application of anti-dilution provisions pursuant to which such warrants were issued, 133,764 shares remain subject to such warrants at a purchase price of $7.00 per share. The Series B Preferred Stock is convertible into shares of the Company's common stock on a two-for-one basis and carries a dividend rate equal to 2% below the prime rate of The First National Bank of Boston, not to be less than 7%.

In fiscal year 1993, the Company moved its headquarters from Bethel, Maine to Portland, Maine. The Company also acquired a controlling interest in ASI Data Services, Inc. ("ASI"), an existing company which provided sales and service of computer related hardware and software, as well as a full line of data processing support systems. On July 1, 1996, the operations of ASI, which consist primarily of providing data processing support to the Bank and the Company, were transferred to the Bank.

During fiscal 1995 the Company acquired four branches from Key Bank of Maine, located in Buckfield, Mechanic Falls, Richmond and Lisbon Falls, Maine. The total deposits and repurchase agreements acquired from the four branches were approximately $27,749,000. The premium paid to Key Bank of Maine for these deposits was $1,590,228. The cost of the real estate, buildings and equipment purchased from Key Bank of Maine was $498,500.

In fiscal year 1996, the Company relocated its headquarters from Portland to 158 Court Street, Auburn, Maine and intends to open a new retail banking facility in Auburn during the 1997 fiscal year. During fiscal 1996, there were no bankruptcy, receivership or similar proceedings with respect to the Company or the Bank.

(b) Financial Information About Industry Segments

Not applicable.

(c) Narrative Description of Business

General

The Company is a savings and loan holding company whose primary asset is its subsidiary, the Bank.

The Bank (which was formerly known as Bethel Savings Bank, F.S.B.), is a federally-chartered stock savings bank which was organized in 1872 as a Maine-chartered mutual savings bank and received its federal charter in 1984 and is the successor by merger to Brunswick Federal Savings, F.A., a federally-chartered savings association formed in 1988.

In connection with its conversion to a federal stock savings bank in 1984, the Bank retained its then-authorized powers as a Maine-chartered mutual savings bank. Under applicable federal regulations, the Bank may exercise any authority it was allowed to exercise as a mutual savings bank under state law and regulation at the time of its conversion to a federal savings bank. In exercising such "grandfathered" powers, the Bank may continue to comply with applicable state laws and regulations in effect at the time of its conversion to federal charter except as otherwise determined by the Office of Thrift Supervision (the "OTS"). The Bank, however, may not use its grandfathered powers to engage in activities to a greater degree than would be allowed under the most liberal construction of either state or federal law or regulations.

Historically, Maine-chartered savings banks have had certain lending, investment and other powers only recently authorized for federal institutions, including commercial lending authority and the ability to offer personal checking and negotiable order of withdrawal (NOW) accounts. The Bank also has broader securities investment authority than other federal thrift institutions (i.e. savings banks and savings and loan associations) as a result of its retention of state powers.

The Bank's primary business has historically consisted of attracting savings deposits from the general public and applying these funds primarily to the origination and retention of first mortgage loans on residential real estate. Over the past several years, the Bank has concentrated its lending efforts on the origination of loans that are shorter-term or interest rate sensitive. Of the Bank's loan portfolio at June 30, 1996, 83% was invested in real estate loans (including residential, construction and commercial mortgage loans), 8% in commercial loans and 9% in consumer loans.

The Bank's deposits are insured by the Federal Deposit Insurance Corporation, primarily through the Bank Insurance Fund. Deposits at the Brunswick branch are insured through the Savings Association Insurance Fund and represent 41% of the Bank's total deposits at June 30, 1996. The Bank is a member of the Federal Home Loan Bank of Boston (the "FHLB").

At June 30, 1996, the legal lending limit of Bank was approximately $2,600,000. When, on occasion, customers' credit needs exceed the Bank's lending limits, the Bank may seek participations of such loans with other banks.

Market Area and Competition

The Bank is headquartered in Bethel, Maine with full service branches in Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine. The western Maine region of Oxford county is characterized by a diversified economy and a strong emphasis on the tourist industry. The south-central region of Cumberland, Androscoggin and Sagadahoc counties also has a diversified economy with a strong emphasis on the tourist industry.

The banking business in the Bank's market areas has become increasingly competitive over the past several years. The Bank's major competitors in attracting deposits and lending funds consist principally of other Maine-based banks, and regional and money center banks, and nonbank financial institutions. Many of the Banks' competitors are larger in size and 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. Additionally, the Bank believes that the local character of its business and its "community bank" management philosophy will improve its ability to compete successfully in its market areas.

Regional Economic Environment

The state of Maine's economy, including Cumberland, Androscoggin and Sagadahoc counties where the Brunswick, Richmond and Lisbon Falls branches are located, has stabilized with moderate to flat growth, although the state of economy in Oxford county, the location of the Bethel, Harrison, South Paris, Buckfield and Mechanic Falls branches continues to remain weak due to high unemployment and a soft real estate market. The amount of the Company's non-performing loans at June 30, 1996 was $2,603,000. Other real estate owned at June 30, 1996 was $513,831. At June 30, 1996, the Company's ratio of non-performing loans to total loans was 1.53%. At June 30, 1996, the Company's allowance for loan losses was $2,549,000, which represented 98% of non-performing loans at the same date. Based on reviewing the credit risk and collateral of the classified, non-performing and total loan portfolio, management believes the allowance for loan losses is adequate. While management uses its best judgement in recognizing loan losses in light of available information, there can be no assurance that the Company will 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.

Subsidiaries

The Company acquired a wholly-owned subsidiary, ASI Data Services, Inc. ("ASI") through two stock purchases during 1993-1994 for an aggregate purchase price of $465,840. ASI initially provided data processing services to the Company and its subsidiaries. The Company's board of directors voted to transfer the operations of ASI to the Bank as of July 1, 1996. ASI continues to exist as a separate legal entity, but is now inactive.

The Bank has one wholly-owned subsidiary, Northeast Service Corporation, which was organized in 1982. Through Northeast Service Corporation, the Bank has participated in certain real estate development projects. While the Bank does not actively pursue such projects, several projects of varying sizes have been undertaken in the past few years. Any proposed development project is examined for its profit potential and its ability to enhance the communities served by the Bank. There are no definitive plans for additional real estate development projects at the present time. At June 30, 1996, investment in and loans to its subsidiary constituted 0.5% of the Company's total assets. The service corporation also supports the Bank's non-banking financial services through its relationship with Independent Financial Marketing Group, a fully licensed New York securities firm.

Northeast Service Corporation invested $375,000 of capital and owns 62.5% of First New England Benefits, Inc. First New England is an employee benefits consulting firm which specializes in the design and administration of qualified retirement and 401(k) plans.

Employees

As of June 30, 1996, the Company and its consolidated subsidiaries had 108 full-time and 20 part-time employees. The Company's employees are not represented by any collective bargaining unit. Relations between the Company and its employees are considered good.

Regulation

General

Savings banks and savings and loan holding companies are subject to extensive supervision and regulation. The Bank is subject to regulation and supervision by the OTS.

The Company, as a savings and loan holding company, is subject to regulation, examination and supervision by the OTS under the Home Owners Loan Act. The Company is also deemed a Maine financial institution holding company. As such, the Company is registered with the Maine Superintendent of Banking (the "Superintendent") and will be subject to periodic examinations and reporting requirements of the Superintendent.

Recent Developments in Savings Institution Regulation

Federal Deposit Insurance Corporation Improvement Act of 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which was enacted on December 19, 1991, contains various provisions intended to recapitalize the Bank Insurance Fund ("BIF") and also effects a number of regulatory reforms that will 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. Since the Bank exceeded all capital requirements at June 30, 1996, these new provisions are not expected to have any significant impact on its operations. Other provisions of FDICIA increase the premiums to be paid by the Bank for deposit insurance and make the Bank subject to special assessments to maintain the insurance fund. See "Savings Institution Regulation -- Insurance of Deposits."

Financial Institutions Reform, Recovery and Enforcement Act of 1989

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (the "FIRRE Act"), which was enacted on August 9, 1989, abolished the Federal Home Loan Bank Board (the "FHLBB") and the Federal Savings and Loan Insurance Corporation (the "FSLIC") and significantly changed the federal regulatory framework for savings institutions and their holding companies. The FHLBB's regulatory responsibilities over savings institutions and their holding companies were transferred to the Director of the OTS, and a new insurance fund, the Savings Association Insurance Fund (the "SAIF"), was established to insure the deposit accounts of savings institutions. All savings institutions that were insured by the FSLIC immediately prior to the enactment of the FIRRE Act automatically became members of SAIF upon enactment of the FIRRE Act. The SAIF is administered by the FDIC, which also administers BIF, the separate insurance pool for banks. The Bank's deposits are insured under BIF, except for the Brunswick's branch deposits, which are insured under SAIF. The FDIC, in its capacity as administrator of SAIF, has the authority generally to regulate savings institutions to the extent necessary to ensure the safety and soundness of SAIF. The Director of the OTS serves as a member of the FDIC's Board of Directors. The FIRRE Act provides that all orders, resolutions, determinations and regulations issued by the FHLBB or the FSLIC and in effect on the date of enactment of the FIRRE Act will continue in effect and be enforceable by the appropriate successor-in-interest to the FHLBB or the FSLIC under the FIRRE Act, until modified, terminated, set aside or superseded in accordance with applicable law.

The Federal Home Loan ("FHL") Banks continue to serve as central credit facilities for member savings institutions and the Bank is a member of the FHL Bank of Boston. However, the FHL Banks no longer have any supervisory or regulatory authority over savings institutions.

Upon dissolution of the FSLIC, all of the assets and liabilities of the FSLIC were transferred to the FSLIC Resolution Fund ("FRF"), which is managed by the FDIC but maintained separate and apart from SAIF and BIF. The FRF will be dissolved upon satisfaction of all its debts and liabilities and sale of all assets acquired in connection with resolutions of savings institutions that failed prior to January 1, 1989. The FIRRE Act also provides for the creation of the Resolution Funding Corporation ("REFCORP"), which issues debt obligations, the proceeds of which are used to fund the case resolution activities of the Resolution Trust Corporation (the "RTC"). The RTC is primarily responsible for the disposition of savings institutions that fail after January 1, 1989 but prior to the third anniversary of the FIRRE Act. Funds for the operations of REFCORP and repayment of the principal amount of REFCORP obligations are provided, in the first instance, by contributions from the FHL Banks. The FHL Banks continue to be obligated to make contributions to the Financing Corporation ("FICO"), the entity previously created under the Competitive Equality Banking Act of 1987 ("CEBA"), as the vehicle to recapitalize the FSLIC, to cover the operating expenses of FICO and repayment of FICO obligations.

In addition to restructuring the federal regulatory system for savings institutions, the FIRRE Act included provisions which, among other things, increased the deposit insurance premiums payable by savings institutions, authorized the Director of the OTS to make assessments against savings institutions to cover the operating expenses of the OTS, significantly raised the regulatory capital requirements for savings institutions, and altered the investments and activities permitted for savings institutions. These provisions of the FIRRE Act may increase the cost of doing business for savings institutions. Additionally, the contributions which the FHL Banks were required by the FIRRE Act to make to REFCORP and to FICO will reduce the amount of dividends paid on FHL Bank stock and may increase the costs charged member savings institutions for FHL Bank services, thereby further increasing savings institutions' cost of doing business. Implementing regulations were required to be adopted within various time periods after the effective date of the FIRRE Act.

Savings and Loan Holding Company Regulation

General.

Under the Home Owners Loan Act, as amended by the FIRRE Act (the "HOLA"), the Director of the OTS has succeeded to the jurisdiction of the FHLBB, as operating head of the FSLIC, over savings and loan holding companies. Thus, the Company, as a savings and loan holding company within the meaning of the HOLA, is now subject to regulation, supervision and examination by, and the reporting requirements of, the Director of the OTS.

The HOLA prohibits a savings and loan holding company such as the Company, directly or indirectly, or through one or more subsidiaries, from (i) acquiring control of, or acquiring by merger with or purchase of the assets of, another savings institution or a savings and loan holding company without the prior written approval of the Director of the OTS; (ii) acquiring more than 5% of the issued and outstanding shares of voting stock of another savings institution or savings and loan holding company, except as part of an acquisition of control approved by the Director of the OTS, as part of an acquisition of stock issued by an undercapitalized savings institution or its holding company approved by the Director of the OTS or except under certain specified conditions (such as an acquisition of stock in a fiduciary capacity) which negate a finding of control; or (iii) acquiring or retaining control of a financial institution that does not have SAIF or BIF insurance of accounts. The HOLA also allows the Director of the OTS to approve transactions resulting in the creation of multiple savings and loan holding companies controlling savings institutions located in more than one state in both supervisory and nonsupervisory transactions, subject to the requirement that, in nonsupervisory transactions, the law of the state in which the savings institution to be acquired is located must specifically authorize the proposed acquisition, by language to that effect and not merely by implication. As a result, the Company may, with the prior approval of the Director of the OTS, acquire control of a savings institution located in a state other than Maine if the acquisition is expressly permitted by the laws of the state in which the savings institution to be acquired is located. No director, officer, or controlling shareholder of the Company may, except with the prior approval of the Director of the OTS, acquire control of any savings institution which is not a subsidiary of the Company. Restrictions relating to service as an officer or director of an unaffiliated holding company or savings institution are applicable to the directors and officers of the Company and its savings institution subsidiaries under the Depository Institution Management Interlocks Act.

Pursuant to amendments to the HOLA enacted as part of the FIRRE Act, transactions engaged in by a savings association or one of its subsidiaries with affiliates of the savings association generally are subject to the affiliate transaction restrictions contained in Sections 23A and 23B of the Federal Reserve Act in the same manner and to the same extent as such restrictions now apply to transactions engaged in by a member bank or one of its subsidiaries with affiliates of the member bank. Section 23A of the Federal Reserve Act imposes both quantitative and qualitative restrictions on transactions engaged in by a member bank or one of its subsidiaries with an affiliate, while Section 23B of the Federal Reserve Act requires, among other things, that all transactions with affiliates be on terms substantially the same, and at least as favorable to the member bank or its subsidiary, as the terms that would apply to, or would be offered in, a comparable transaction with an unaffiliated party. Exemptions from, and waivers, of, the provisions of Sections 23A and 23B of the Federal Reserve Act may be granted only by the Federal Reserve Board, but the FIRRE Act authorizes the Director of the OTS to impose additional restrictions on transactions with affiliates if the Director determines such restrictions are necessary to ensure the safety and soundness of any savings institution.

Restrictions on Activities of Savings and Loan Holding Companies

The Company is a savings and loan holding company by virtue of its control of the Bank. Under applicable federal regulations, savings and loan holding companies and their noninsured subsidiaries are prohibited from engaging in any activities other than (i) furnishing or providing management services for the savings association; (ii) conducting an insurance agency or escrow business; (iii) holding, managing or liquidating assets owned or acquired from the savings association; (iv) holding or managing properties used or occupied by the savings association; (v) acting as trustee under deeds of trust; (vi) engaging in any other activity in which savings and loan holding companies were authorized by regulation to engage as of March 5, 1987; and (vii) engaging in any activity which the Board of Governors of the Federal Reserve System has permitted for bank holding companies under its regulations (unless the Director of the OTS, by regulation, prohibits or limits any such activity for savings and loan holding companies). The activities in which savings and loan holding companies were authorized by regulation to engage as of March 5, 1987 consist of activities similar to those permitted for service corporations of federally chartered savings institutions and include, among other things, various types of lending activities, furnishing or performing clerical, accounting and internal audit services primarily for affiliates, certain real estate development and leasing activities, underwriting credit life or credit health and accident insurance in connection with extension of credit by savings institutions or their affiliates and the performance of a range of other services primarily for their affiliates, their savings association subsidiaries and service corporation subsidiaries thereof. The activities which the Board of Governors of the Federal Reserve System by regulation has permitted for bank holding companies generally consist of those activities that the Board of Governors of the Federal Reserve System has found to be so closely related to banking or managing or controlling banks as to be a proper incident thereto, and include, among other things, various lending activities, certain real and personal property leasing activities, certain securities brokerage activities, acting as an investment or financial advisor subject to certain conditions, and providing management consulting to depository institutions, subject to certain conditions. OTS regulations do not limit the extent to which savings and loan holding companies and their nonsavings institution subsidiaries may engage in activities permitted for bank holding companies pursuant to the regulations adopted by the Governors of the Federal Reserve System, although prior OTS approval is required to commence such activity whether de novo or by an acquisition (in whole or part) of a going concern.

The Company could be prohibited from engaging in any activity (including those otherwise permitted under the HOLA) not allowed for bank holding companies if the Bank fails to constitute a qualified thrift lender. See "Regulation -- Savings Institution Regulation -- Qualified Thrift Lender Requirement."

Savings Institution Regulation

General.

As a federally chartered institution, the Bank is subject to supervision and regulation by the Director of the OTS, the FHLBB's successor under the FIRRE Act. As a result of its conversion to a federal mutual savings bank in 1984, the Bank retains the then-authorized powers of a Maine-chartered mutual savings bank. Under OTS regulations, the Bank is required to obtain audits by independent accountants and to be examined periodically by the Director of the OTS. These examinations must be conducted no less frequently than every twelve (12) months. The Bank is subject to assessments by the OTS and the FDIC to cover the costs of such examinations. The OTS may revalue assets of the Bank, based upon appraisals, and require the establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets. The Director of the OTS is also authorized to promulgate regulations to ensure the safe and sound operations of savings institutions and may impose various requirements and restrictions on the activities of savings institutions. The FIRRE Act requires that all regulations and policies of the Director of the OTS for the safe and sound operations of savings institutions be no less stringent than those established by the Office of the Comptroller of the Currency (the "OCC") for national banks. In November 1993, the OTS, as well as the Office of the Comptroller of the Currency and the FDIC, acting under FDICIA, issued a notice of proposed rulemaking in which it requested public comment on proposed safety and soundness regulations. These regulations relate to (i) internal controls, information systems, and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate exposure; (v) asset growth; and (vi) compensation and benefit standards for officers, directors, employees and principal shareholders. No final action has been taken. The Bank is also subject to regulation and supervision by the FDIC, in its capacity as insurer of deposits in the Bank, to ensure the safety and soundness of the BIF and the SAIF. See "Regulation -- Savings Institution Regulation -- Insurance of Deposits."

Capital Requirements.

As required by amendments of the HOLA enacted as part of the FIRRE Act, the Director of the OTS has adopted capital standards which require savings institutions to maintain (i) "core capital" in an amount of not less than 3% of total assets, (ii) "tangible capital" in an amount not less than 1.5% of total assets and (iii) a level of risk-based capital equal to 8.0% of risk-weighted assets. The capital standards established for savings institutions must generally be no less stringent than those applicable to national banks and must use all relevant substantive definitions used in the capital standards for national banks. Under the OTS regulations, the term "core capital" includes common stockholders equity, noncumulative perpetual preferred stock and related surplus, and minority interests in the equity accounts of consolidated subsidiaries, less intangible assets, other than certain amounts of supervisory goodwill, and up to 90% of the fair market value of readily marketable purchased mortgage servicing rights ("PMSRs") (subject to certain conditions). The term "tangible capital," for purposes of the HOLA, is defined as core capital minus intangible assets (as defined by the OCC for national banks), provided, however, that savings institutions may include up to 90% of the fair market value of readily marketable PMSRs 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). In determining compliance with capital standards, a savings institution must deduct from capital its entire investment in and loans to any subsidiary engaged as principal in activities not permissible for a national bank, other than subsidiaries (i) engaged in such nonpermissible activities solely as agent for their customers; (ii) engaged in mortgage banking activities, or (iii) that are themselves savings institutions, or companies the only investment of which is another savings institution, acquired prior to May 1, 1989. With respect to investments in and loans to subsidiaries engaged as of April 12, 1989 in activities not permitted for national banks, the required deduction from capital was to be phased-in over a period ending June 30, 1995.

In determining total risk-weighted assets for purposes of the risk-based requirement, (i) each off-balance sheet asset must be converted to its on-balance sheet credit equivalent amount by multiplying the face amount of each such item by a credit conversion factor ranging from 0% to 100% (depending upon the nature of the asset), (ii) the credit equivalent amount of each off-balance sheet asset and the book value of each on-balance sheet asset must be multiplied by a risk factor ranging from 0% to 100% (again depending upon the nature of the asset) and (iii) the resulting amounts are added together and constitute total risk-weighted assets. Total capital, for purposes of the risk-based capital requirement, equals the sum of core capital plus supplementary capital (which, as defined, includes, among other items, perpetual preferred stock, not counted as core capital, limited life preferred stock, subordinated debt, and general loan and lease loss allowances up to 1.25% of risk-weighted assets), less certain deductions. The amount of supplementary capital that may be counted towards satisfaction of the total capital requirement may not exceed 100% of core capital, and OTS regulations require the maintenance of a minimum ratio of core capital to total risk-weighted assets of at least 4.0%.

In August 1993, the OTS issued a final ruling adding an interest rate risk component for purposes of risk-based capital requirements. The interest rate risk component now takes into account, for risk-based capital purposes, the effect that a change in interest rates would have on the value of a savings institution's portfolio. The final rule and amendments became effective July 1, 1994.

Any insured depository institution which falls below the minimum capital standards must submit a capital restoration plan. In general, undercapitalized institutions will be precluded from increasing their assets, acquiring other institutions, establishing additional branches, or engaging in new lines of business without an approved capital plan and an agency determination that such actions are consistent with the plan. Savings institutions that are significantly undercapitalized or critically undercapitalized are subject to additional restrictions and may be required to (i) raise additional capital; (ii) limit asset growth; (iii) limit the amount of interest paid on deposits to the prevailing rate of interest in the region where the institution is located; (iv) divest or liquidate any subsidiary which the OTS determines poses a significant risk; (v) order a new election for members of the board of directors; (vi) require the dismissal of a director or senior executive officer, or (vii) take such other action as the OTS determines is appropriate. Under FDICIA, the OTS is required to appoint a conservator or receiver for a critically undercapitalized institution no later than 9 months after the institution becomes critically undercapitalized, subject to a limited exception for institutions which are in compliance with an approved capital plan and which the OTS and the FDIC certify are not likely to fail.

FDICIA prohibits any depository institution that is not well capitalized from accepting deposits through a deposit broker. Previously, only troubled institutions were prohibited from accepting brokered deposits. The FDIC may allow adequately capitalized institutions to accept brokered deposits for successive periods of up to 90 days. FDICIA also prohibits undercapitalized institutions from offering rates of interest on insured deposits that significantly exceed the prevailing rate in their normal market area or the area in which the deposits would otherwise be accepted.

Capital requirements higher than the generally applicable minimum requirement may be established for a particular savings institution if the OTS determines that the institution's capital was or may become inadequate in view of its particular circumstances. Individual minimum capital requirements may be appropriate where the savings institution is receiving special supervisory attention, has a high degree of exposure to interest rate risk, or poses other safety or soundness concerns.

Qualified Thrift Lender Requirement.

In order for the Bank to exercise the powers granted to federally chartered savings institutions, and maintain full access to FHL Bank advances, it must constitute a "qualified thrift lender" ("QTL"). Pursuant to recent amendment effected by FDICIA, a savings institution will constitute a QTL if the institution's qualified thrift investments continue to equal or exceed 65% of the savings association's portfolio assets on a monthly average basis in 9 out of every 12 months. As amended by FDICIA, qualified thrift investments generally consist of (i) various housing related loans and investments (such as residential construction and mortgage loans, home improvement loans, mobile home loans, home equity loans and mortgage-backed securities), (ii) certain obligations of the FSLIC, the FDIC, the FSLIC Resolution fund and the RTC (for limited periods of time), and (iii) shares of stock issued by any Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association. In addition, the following assets may be categorized as qualified thrift investments in an amount not to exceed 20% in the aggregate of portfolio assets: (i) 50% of the dollar amount of residential mortgage loans originated and sold within 90 days of origination; (ii) investments in securities of a service corporation that derives at least 80% of its income from residential housing finance; (iii) 200% of loans and investments made to acquire, develop or construct starter homes or homes in credit needy areas (subject to certain conditions); (iv) loans for the purchase or construction of churches, schools, nursing homes and hospitals; and (v) consumer loans (in an amount up to 20% of portfolio assets). For purposes of the QTL test, as amended by FDICIA, the term "portfolio assets" means the savings institution's total assets minus goodwill and other intangible assets, the value of property used by the savings institution to conduct its business, and liquid assets held by the savings institution in an amount up to 20% of its total assets.

OTS regulations provide that any savings institution that fails to meet the new QTL test must either convert to a national bank charter or limit its future investments and activities (including branching and payments of dividends) to those permitted for both savings institutions and national banks. Additionally, any such savings institution that does not convert to a bank charter will be ineligible to receive further FHL Bank advances and, beginning three years after the loss of QTL status, will be required to repay all outstanding FHL Bank advances and dispose of or discontinue any pre-existing investments and activities not permitted for both savings institutions and national banks. Further, within one year of the loss of QTL status, the holding company of a savings institution 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.

Liquidity.

Under OTS regulations, savings institutions are required to maintain an average daily balance of liquid assets (including cash, certain time deposits, certain bankers' acceptances, certain corporate debt securities and highly rated commercial paper, securities of certain mutual funds and specified United States government, state or federal agency obligations) equal to a monthly average of not less than a specified percentage of the average daily balance of the savings institution's net withdrawable deposits plus short-term borrowings. Under the HOLA, this liquidity requirement may be changed from time to time by the Director of the OTS to any amount within the range of 4% to 10%, depending upon economic conditions and the deposit flows of member institutions, and the required ratio currently is 5%. OTS regulations also require each savings institution to maintain an average daily balance of short term liquid assets at a specified percentage (currently 1%) of the total of the average daily balance of its net withdrawable deposits and short-term borrowings.

Loans to One Borrower Limitations.

The HOLA, as amended by the FIRRE Act, generally requires savings institutions to comply with the loans to one borrower limitations applicable to national banks. National banks generally may not make loans to a single borrower in excess of 15% to 25% of their unimpaired capital and unimpaired surplus (depending upon the type of loans and the collateral therefor). The HOLA, as amended by the FIRRE Act, provides exceptions from the generally applicable national bank limits, under which a savings institution may make loans to one borrower in excess of such limits under one of the following circumstances: (i) for any purpose, in an amount not to exceed $500,000; (ii) to develop domestic residential housing units, in an amount not to exceed the lesser of $30 million or 30% of the savings institution's unimpaired capital and unimpaired surplus, provided other conditions are satisfied; or (iii) to finance the sale of real property which it owns as a result of foreclosure, in an amount not to exceed 50% of the savings institution's unimpaired capital and unimpaired surplus. In addition, further restrictions on a savings institution's loans to one borrower may be imposed by the Director of the OTS if necessary to protect the safety and soundness of the savings institution. The new loans to one borrower limits apply prospectively to loan commitments issued after the date of enactment of the FIRRE Act, and legally binding loan commitments issued prior to that date in compliance with the pre-FIRRE Act limits may be funded even if the amount of the loan would cause the institution to exceed the FIRRE Act limits.

Pursuant to its authority to impose more stringent requirements on savings associations to protect safety and soundness, however, the OTS has promulgated a rule limiting loans to one borrower to finance the sale of real property acquired in satisfaction of debts to 15% of unimpaired capital and surplus. The rule provides that purchase money mortgages received by a savings association to finance the sale of such real property do not constitute "loans" (provided that the savings association is not placed in a more detrimental position holding the note than holding the real estate) and, therefore, are not subject to the loan-to-one-borrower limitations.

Commercial Real Property Loans.

Another of the FIRRE Act amendments to the HOLA limits the aggregate amount of commercial real estate loans that a federal savings institution may make to an amount not in excess of 400% of the savings institution's capital (as compared with the 40% of assets limitation in effect prior to the enactment of the FIRRE Act). However, the new limit does not require the divestiture of loans made prior to enactment of the FIRRE Act. The OTS has the authority to grant exceptions to the limit if the additional amount will not pose a significant risk to the safe or sound operation of the savings institution involved, and is consistent with prudent operating practices.

Regulatory Restrictions on the Payment of Dividends by Savings Institutions.

OTS regulations establish uniform treatment for all capital distributions by savings associations (including dividends, stock repurchases and cash-out mergers). Under the rules, a savings association is classified as a tier 1 institution, a tier 2 institution or a tier 3 institution, depending on its level of regulatory capital both before and after giving effect to a proposed capital distribution. A tier 1 institution (i.e., one that both before and after a proposed capital distribution has net capital equal to or in excess of its fully phased-in regulatory capital requirement) is allowed, subject to any otherwise applicable statutory or regulatory requirements or agreements entered into with regulators, to make capital distributions in any calendar year up to 100% of its net income to date during the capital year plus the amount that would reduce by one-half its surplus capital ratio (i.e., the percentage by which (x) its ratio of capital to assets exceeds (y) the ratio of its fully phased-in capital requirement to assets) as of the beginning of the calendar year, adjusted to reflect current earnings. No regulatory approval of the capital distribution is required, but prior notice has to be given to the OTS. A tier 2 institution (i.e., one that both before and after a proposed capital distribution has net capital equal to its then-applicable minimum capital requirement but would fail to meet its fully phased-in capital requirement either before or after the distribution) may make only limited capital distributions without prior regulatory approval. A tier 3 institution (i.e., one that either before or after a proposed capital distribution fails to meet its then-applicable minimum capital requirement) may not make any capital distributions without prior OTS approval. In addition, the OTS may prohibit a proposed capital distribution, which otherwise would be permitted by the regulation, if the OTS determines that such a distribution would constitute an unsafe or unsound practice. Also, an institution meeting the tier 1 criteria which has been notified that it needs more than normal supervision will be treated as a tier 2 or tier 3 institution, unless the OTS deems otherwise.

Activities of Subsidiaries.

The FIRRE Act requires a savings institution seeking to establish a new subsidiary, acquire control of an existing company (after which it would be a subsidiary), or conduct a new activity through a subsidiary, to provide 30 days prior notice to the FDIC and the Director of the OTS and conduct any activities of the subsidiary in accordance with regulations and orders of the Director of the OTS. The Director of the OTS has the power to require a savings institution to divest any subsidiary or terminate any activity conducted by a subsidiary that the Director of the OTS determines is a serious threat to the financial safety, soundness or stability of such savings institution or is otherwise inconsistent with sound banking practices.

Insurance of Deposits.

Federal deposit insurance is required for all federal savings institutions. Federal savings institutions' deposits are insured to a maximum of $100,000 for each insured depositor by BIF or SAIF. As a FDIC-insured institution, the Bank is subject to regulation and supervision by the FDIC, to the extent deemed necessary by the FDIC to ensure the safety and soundness of BIF and SAIF. The FDIC is entitled to have access to reports of examination of the Banks made by the Director of the OTS and all reports of condition filed by the Bank with the Director of the OTS, and may require the Bank to file such additional reports as the FDIC determines to be advisable for insurance purposes. The FDIC may determine by regulation or order that any specific activity poses a serious threat to BIF or SAIF and that no BIF or SAIF member may engage in the activity directly. The FDIC is also authorized to issue and enforce such regulations or orders as it deems necessary to prevent actions of savings institutions that pose a serious threat to BIF or SAIF.

SAIF insurance premiums were increased commencing January 1, 1991 to 0.23% of the assessment base. The FDIC has the authority to further increase premiums in order to cover expenses and to recapitalize the deposit insurance funds. The current FDIC proposal for SAIF insurance premiums is discussed in the management discussion and analysis section, provided in Item 7, under the heading Regulatory Matters. On September 5, 1995, the FDIC announced that BIF was fully recapitalized at the end of May 1995. As a result, the premium rates for the healthiest banks (1A category) has decreased from 0.23% to 0.04% of the assessment base. During fiscal 1996, premium rates for the healthiest banks (1A category) has been decreased from 0.04% to an annual fee of $2,000. The Bank is 1A category bank. All of the Bank's deposits, except for the Brunswick's branch deposits, which represented 41% of the Bank's total deposits at June 30, 1996, are BIF insured.

As required by the FDICIA, the FDIC adopted a final rule on a permanent system of risk-based premiums effective January 1, 1994. Under the risk-based assessment system, the FDIC will be required to calculate a savings institution's semiannual assessment based on (i) the probability that the insurance fund will incur a loss with respect to the institution (taking into account the institution's asset and liability concentration), (ii) the potential magnitude of any such loss, and (iii) the revenue and reserve needs of the insurance fund. Until December 31, 1997, the minimum semiannual assessments for SAIF members under the risk-based assessment system must equal or exceed the assessments that would have applied prior to enactment of the FDICIA. The semiannual assessments imposed on an institution may be higher depending on SAIF revenue and expense levels, and the risk classification applied to the institution. Effective January 1, 1998, the FDIC is required to set SAIF semiannual assessments rates in an amount sufficient to increase the reserve ratio of the SAIF to 1.25% of insured deposits over no more than a 15-year period. The FDICIA also gives the FDIC the authority to establish a higher reserve ratio.

Insurance of deposits may be terminated by the FDIC after notice and hearing, upon finding by the FDIC that the savings institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, rule, regulation, order or condition imposed by, or written agreement with, the FDIC. Additionally, if insurance termination proceedings are initiated against a savings institution, the FDIC may temporarily suspend insurance on new deposits received by an institution under certain circumstances.

Under the Federal Deposit Insurance Act, as amended by the FIRRE Act, a savings institution may be held liable to the FDIC for any loss incurred by the FDIC in connection with the default of a commonly controlled savings institution or in connection with the provision of assistance by the FDIC to a commonly controlled savings institution in danger of default. Thereafter, if a receiver, conservator or other legal custodian is appointed for one of the institutions, or if the FDIC is required to provide financial assistance to the institution, the institution could be held liable to the FDIC for any loss incurred in connection with such appointment or assistance.

Effective December 19, 1992, FDICIA requires any company that controls an undercapitalized savings institution, in connection with the submission of a capital restoration plan by the savings institution, to guarantee that the institution will comply with the plan and to provide appropriate assurances of performance. The aggregate liability of any such controlling company under such guaranty is limited to the lesser of (i) 5% of the savings institution's assets at the time it became undercapitalized; or (ii) the amount necessary to bring the savings institution into capital compliance as of the time the institution fails to comply with the terms of its capital plan.

Federal Home Loan Bank System

The Federal Home Loan Bank System consists of 12 regional FHL Banks, each subject to supervision and regulation by the Federal Housing Finance Board (the "FHFB"), a new agency established pursuant to the FIRRE Act. The FHL Banks provide a central credit facility for member savings institutions. The Bank, as a member of the FHL Bank of Boston, is required to own shares of capital stock in that FHL Bank in an amount at least equal to 1% of the aggregate principal amount of their unpaid residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 1/20 of their advances (borrowings) from the FHL Bank, whichever is greater. The Bank is in compliance with this requirement. The maximum amount which the FHL Bank of Boston will advance fluctuates from time to time in accordance with changes in policies of the FHFB and the FHL Bank of Boston, and the maximum amount generally is reduced by borrowings from any other source. In addition, the amount of FHL Bank advances that a savings institution may obtain will be restricted in the event the institution fails to constitute a QTL. See

"Regulation -- Savings Institution Regulation -- Qualified Thrift Lender Requirement."

Federal Reserve Board

Pursuant to the Depository Institutions Deregulation and Monetary Control Act of 1980 (the "Deregulation Act"), Federal Reserve Board regulations require savings institutions to maintain reserves against their net transaction accounts (primarily NOW accounts), subject to certain exemptions. 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. Because required reserves must be maintained in the form of vault cash or a non-interest bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce the institution's interest-earning assets.

The Deregulation Act also gives savings institutions authority to borrow from the appropriate Federal Reserve Bank's "discount window." Current Federal Reserve regulations require savings institutions to exhaust all FHLB sources before borrowing from the Federal Reserve Bank. The FDICIA places limitations upon a Federal Reserve Bank's ability to extend advances to undercapitalized and critically undercapitalized depository institutions. The FDICIA provides that a Federal Reserve bank generally may not have advances outstanding to an undercapitalized institution for more than 60 days in any 120-day period.

Maine Law

Under Maine law, a Maine financial institution holding company such as the Company may not engage in any activity other than managing or controlling financial institutions, or other activities deemed permissible by the Superintendent. The Superintendent has by regulation determined that, with the prior approval of the Superintendent, a financial institution holding company may engage in those activities deemed closely related pursuant to Section 408 of the National Housing Act, unless that activity is prohibited by the Maine Banking Code or regulations.

Securities and Exchange Commission

The Company has registered its common stock with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended. As a result of such registration, the proxy and tender offer rules, periodic reporting requirements, insider trading restrictions and reporting requirements, as well as certain other requirements, of such Act are applicable.

Restrictions on the Payment of Dividends

The Maine Business Corporation Act (the "Business Corporation Act") permits the Company to pay dividends on its capital stock only from its unreserved and unrestricted earned surplus or from its net profits for the current fiscal year and the next preceding fiscal year taken as a single period.

Applicable rules further prohibit the payment of a cash dividend by the Company if the effect thereof would cause its net worth to be reduced below either the amount required for the liquidation account or the net worth requirements imposed by federal laws or regulations. The Company is prohibited from paying dividends on their capital stock if it is in default in the payment of any assessment to the FDIC.

Earnings appropriated to bad debt reserves for losses and deducted for federal income tax purposes are not available for dividends without the payment of taxes at the current income tax rates on the amount used.

Restrictions on the Acquisition of the Company

The savings and loan holding company provisions of the HOLA (the "Holding Company Provisions") provide that no company, "directly or indirectly or acting in concert with one or more persons, or through one or more subsidiaries, or through one or more transactions, may acquire "control" of an insured savings institution at any time without the prior approval of the OTS. In addition, any company that acquires such control becomes a "savings and loan holding company" subject to registration, examination and regulation under the Holding Company Provisions and the regulations promulgated thereunder. "Control" in this context means ownership, control of, or holding proxies representing more than 25% of the voting shares of, an insured institution, the power to control in any manner the election of a majority of the directors of such institution or the power to exercise a controlling influence over the management or policies of the institution.

In addition, the Change in Bank Control Act (the "Control Act") provides that no "person," acting directly or indirectly or through or in concert with one or more other persons, may acquire "control" of an insured institution unless at least 60 days' prior written notice has been given to the OTS and the OTS has not objected to the proposed acquisition. "Control" is defined for this purpose as the power, directly or indirectly, to direct the management or policies of an insured institution or to vote 25% or more of any class of voting securities of an insured institution. Under both the Holding Company Provisions and the Control Act (as well as the regulations referred to below) the term "insured institutions" includes state and federally chartered SAIF-insured institutions, federally chartered savings banks insured under the BIF and holding companies thereof.

OTS regulations establish a uniform set of regulations under both the Control Act and the Holding Company Provisions. Under these regulations, prior to obtaining control of an insured institution, a person (under the Control Act) must give 60 days notice to the OTS and have received no OTS objection to such acquisition of control, and a company (under the Holding Company Provisions) must apply for and receive OTS approval of the acquisition. "Control," for purposes of the regulations, means the acquisition of 25% or more of the voting stock (or irrevocable proxies for 25% of more of the voting stock) of the institution, control in any manner of the election of a majority of the institution's directors, or a determination by the OTS that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of an institution's voting stock, if the acquiror also is subject to any one of eight "control factors," constitutes a rebuttable determination of control under the new regulations. The determination of control may be rebutted by submission to the OTS, prior to the acquisition of stock or the occurrence of any other circumstance giving rise to such determination, of a statement setting forth facts and circumstances which would support a finding that no control relationship will exist and containing certain undertakings. The regulations provide that persons or companies which acquire beneficial ownership exceeding 10% or more of any class of an insured institution's stock after the effective date of the regulations must file with the OTS a certification that the holder is not in control of such institution, is not subject to a rebuttable determination of control and will take no action which would result in a determination or rebuttable determination of control without prior notice to or approval of the OTS, as applicable.

Other Regulations

The policies of regulatory authorities, including the Federal Reserve Board, the OTS, and the FDIC, have had a significant effect on the operating results of financial institutions in the past and are expected to do so in the future. Policies of these agencies may be influenced by many factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and fiscal policies of the United States government. Supervision, regulation or examination of the Company and the Bank by such regulatory agencies is not intended for the protection of the Company's shareholders.

Statistical Disclosure

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

(d) Financial Information About Foreign and Domestic Operations and Export Sales

Not applicable.

Item 2. Properties

The only real property which the Company owns is the real estate in Auburn, Maine on which various operational functions are performed for the Bank. It utilizes the premises and equipment of the Bank with no payment of any rental fee to the Bank.

The Bank owns its branch offices in Bethel, Harrison, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine. The branch office in South Paris, Maine is leased.

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

Not applicable

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The common stock of the Company trades on The Nasdaq Stock Exchange under the symbol NEBC. The number of shares of common stock outstanding as of June 30, 1996 was 1,229,910. The number of stockholders of record, as of September 13, 1996 was approximately 415.

The following table sets forth the high and low sales prices of the Company's common shares and dividends paid during each quarter for fiscal years ending June 30, 1995 and 1996.

1995-1996	High	Low	Div. Pd.
July 1 - Sept.30	11.38*	10.75*	.04*
Oct.1 - Dec.31	12.00*	10.75*	.04*
Jan.1 - March 31	13.25	11.00	.08
April 1 - June 30	13.25	12.50	.08

1994 - 1995	High	Low	Div. Pd.
July 1 - Sept.30	11.75*	10.75*	.04*
Oct.1 - Dec.31	11.00*	10.50*	.04*
Jan.1 - March 31	11.50*	10.50*	.04*
April 1 - June 30	11.25*	10.75*	.04*

* Adjusted to reflect 100% stock dividend paid on 12/15/95.

Bethel Bancorp has 45,454 shares of Series A preferred stock outstanding. The Series A preferred stock is convertible into common stock on a two-for-one basis and carries a dividend rate of two percent below the prime rate of the First National Bank of Boston, but in no event to be less than 7% per annum. There is no trading market for the Series A preferred stock.

Bethel Bancorp has 71,428 shares of Series B preferred stock outstanding. The Series A preferred stock is convertible into common stock on a two-for-one basis and carries a dividend rate of two percent below the prime rate of the First National Bank of Boston, but in no event to be less than 7% per annum. There is no trading market for the Series B preferred stock.

Item 6. Selected Financial Data

	Years Ended June 30,				
	1996	1995	1994	1993	1992
	(Dollars in thousands)				
Interest income	$ 17,994	$ 16,923	$ 14,036	$ 14,359	$ 13,987
Interest expense	9,128	8,053	6,479	7,155	8,208
Net interest income	8,866	8,870	7,557	7,204	5,779
Provision for loan losses	603	641	1,021	852	733
Other operating income 1	1,818	1,697	2,111	1,342	694
Net securities gains	279	419	347	108	183
Other operating expenses 2	8,355	7,988	7,011	5,734	4,192
Writedowns on equity and debt securities	93	0	84	61	11
Income before income taxes	1,912	2,358	1,899	2,008	1,720
Income tax expense	719	869	698	786	655
Cumulative effect of change in accounting principle	-	-	260	-	-
Net income	$ 1,193	$ 1,489	$ 1,461	$ 1,222	$ 1,065
Primary earnings per share 3	$ 0.83	$ 1.10	$ 1.13	$ 1.07	$ 0.91
Fully diluted earnings per share 3	$ 0.79	$ 1.02	$ 1.08	$ 1.07	$ 0.91
Cash dividends per common share	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 0.32
Common dividend payout ratio	40.51%	15.69%	14.81%	15.02%	17.58%

	At June 30,				
	1996	1995	1994	1993	1992
Total assets	$222,290	$207,509	$190,600	$178,914	$164,165
Total loans	169,851	170,140	158,461	150,756	141,431
Total deposits	145,195	147,120	124,306	122,497	121,517
Total borrowings	53,625	37,710	48,420	40,500	29,079
Total stockholders' equity	18,151	17,275	15,756	14,067	12,840
Return on assets (net income/average assets)	0.56%	0.73%	0.80%	0.72%	0.69%
Return on equity (net income/average net worth)	6.52%	9.08%	9.72%	9.01%	8.49%
Average equity/average assets	8.62%	8.02%	8.23%	7.85%	8.30%

1 Includes fees for services to customers and gains on sale of loans.
2 Includes salaries, employee benefits and occupancy.
3 Per share data for the years prior to 1996 have been retroactively restated as a result of the stock split in December 1995.

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

DESCRIPTION OF OPERATIONS

Bethel Bancorp, which does business under the name Northeast Bancorp (the "Company"), is a savings and loan holding company with the Office of Thrift Supervision ("OTS") as its primary regulator. The board of directors of Bethel Bancorp voted to assume the name of Northeast Bancorp as of July 1, 1996, pending shareholder approval for the name change of the Company. On July 1, 1996 the Company's two wholly-owned banking subsidiaries, Bethel Savings Bank, F.S.B. and Brunswick Federal Savings, F.A. merged following receipt of regulatory approval. The merged banking subsidiary, which changed its name to Northeast Bank, FSB (the "Bank"), has branches located in Bethel, Harrison, South Paris, Buckfield, Mechanic Falls, Brunswick, Richmond and Lisbon Falls, Maine.

The Bank's deposits are primarily BIF-insured. Deposits at the Brunswick branch are SAIF-insured and represent 41% of the Bank's total deposits at June 30, 1996.

The Company relocated its corporate headquarters to 158 Court Street, Auburn, Maine, in July of 1996 and intends to open a new retail banking facility in the Lewiston/Auburn area during the 1997 fiscal year.

The Company's board of directors voted to transfer the operations of ASI Data Services to the Bank as of July 1, 1996. ASI Data Services, Inc. continues to exist as a separate legal entity and is a wholly - owned subsidiary of the Company. ASI Data Services performed data and item processing for the Company and its subsidiaries during fiscal 1996, but is now inactive.

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, non-interest fee income, and by increasing volume through a larger market area.

The banking business in the Bank's market areas of western and south central Maine 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. Additionally, the Bank believes that the local character of its business and its "community bank" management philosophy will improve its ability to compete in its market areas. The Company has enhanced its product lines and now provides a range of financial services such as loans, deposits and investments through its relationship with the Independent Financial Group, trust services through the Bank's Trust department, employee retirement benefits through the Company's affiliate First New England Benefits and leasing services through its relationship with LGIC Leasing.

The state of Maine's economy, in which the Bank operates, including the south central region of Cumberland, Androscoggin and Sagadahoc counties has stabilized with moderate growth, although the economy in the western region of Oxford county remains weak. Based on the different economic conditions in the Bank's market areas, management of the Company continues to carefully monitor the exposure to credit risk at the Bank.

The Company believes that it has adequate capital, as total equity represents 8.17% of total assets and that its capital position will support future growth and development as well as allow for additional provisions to the allowance for loan losses, if needed, without significant impairment of the financial stability of the Company.

On October 28, 1994 the Company acquired four Key Bank branches, located in Buckfield, Mechanic Falls, Richmond and Lisbon Falls, Maine. The total deposits and repurchase agreements acquired from the four branches were approximately $27,749,000. The premium paid to Key Bank for these deposits was $1,590,228. The cost of the real estate, building, and equipment purchased from Key Bank was $498,500. The growth in assets and deposits in fiscal 1995 was greatly enhanced by the acquisition of the four Key Bank branches.

The Company's assets totaled $222,289,615 as of June 30, 1996, an increase of $14,780,478 compared to June 30, 1995. Loan volume was flat during the fiscal year due to unusually high principal reductions, loans refinancing to the secondary market, and a higher level of competition from financial institutions and mortgage companies. The Bank has focused its business development efforts towards full service credit packages and financial services, as well as competitively priced mortgage packages.

Cash and cash equivalents decreased by $3,173,943 at June 30, 1996 compared to June 30, 1995. The reduction in cash equivalents was primarily the result of securities purchased during fiscal 1996.

The Company's loan portfolio had a balance of $169,850,924 as of June 30, 1996, which represents a decrease of $288,980 compared to June 30, 1995. From June 30, 1995 to June 30, 1996, the loan portfolio decreased by $352,000 in real estate mortgage loans, $1,758,000 in consumer loans, and increased by

$1,808,000 in commercial loans. The loan portfolio contains elements of credit and interest rate risk. The Company primarily lends within its local market areas, which management believes helps it to better evaluate credit risk. The Company also maintains a well collateralized position in real estate mortgages.

Residential real estate mortgages make up 68% of the total loan portfolio, in which 48% of the residential loans are variable rate products. It is management's intent to increase the proportion of variable rate residential real estate loans to reduce the interest rate risk in this area.

Fifteen percent of the Company's total loan portfolio balance is commercial real estate mortgages. Similar to the residential mortgages, the Company tries to mitigate credit risk by lending in its local market areas as well as maintaining a well collateralized position in real estate. The commercial real estate loans have minimal interest rate risk as 83% of the portfolio consists of variable rate products.

Commercial loans make up 8% of the total loan portfolio in which 87% of the balance are variable rate instruments. The credit loss exposure on commercial loans is highly dependent on the cash flow of the customers' business. The Bank attempts to mitigate losses through lending in accordance with the Company's credit policies.

Consumer loans make up 9% of the total loan portfolio. Since these loans are primarily fixed rate products, they have interest rate risk when market rates increase. These loans also have credit risk with, at times, minimal collateral security. Management attempts to mitigate these risks by keeping the products offered short-term, receiving a rate of return commensurate with the risk, and lending to individuals in the Company's known market areas.

The Company's allowance for loan losses was $2,549,000 as of June 30, 1996 versus $2,396,000 as of June 30, 1995, representing 1.50% and 1.41% of total loans, respectively. The Company had non-performing loans totaling $2,603,000 and $2,570,000 at June 30, 1996 and 1995, which was 1.53% and 1.51% of total loans, respectively. Non-performing loans represented 1.17% and 1.24% of total assets at June 30, 1996 and 1995, respectively. The Company's allowance for loan losses was equal to 98% and 93% of the total non-performing loans at June 30, 1996 and 1995, respectively. At June 30, 1996, the Company had approximately $2,541,000 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, 1996, the amount of such loans has decreased from the June 30, 1995 amount by $1,082,000. This decrease was primarily due to substandard loans being classified as non-performing or being liquidated through the sale of foreclosed assets. Management takes an aggressive posture in reviewing its loan portfolio to classify certain loans substandard. The following table represents the Company's current non-performing loans:

Description	Total
1-4 Family Mortgages	$1,092,000
Commercial Mortgages	1,154,000
Commercial Installment	283,000
Consumer Installment	74,000
Total non-performing	$2,603,000

The majority of the non-performing loans are seasoned loans located in the Oxford county area. This geographic area continues to have a depressed economy resulting in high unemployment and a soft real estate market. As a result, management has allocated substantial resources to the collection area in an effort to control the growth in non-performing, delinquent and substandard loans. The Company's delinquent accounts has increased slightly during the 1996 fiscal year. This increase was largely due to higher delinquencies in the western Maine market and the reduction of the Bank's loan balances.

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

6/30/93	6/30/94	6/30/95	6/30/96
4.42%	2.64%	2.60%	2.77%

The level of the allowance for loan losses as a percentage of total loans and non-performing loans represented an increase at June 30, 1996 compared to June 30, 1995. Loans classified substandard decreased in the 1996 fiscal year, when compared to the 1995 fiscal year. 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 these 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 Company were $449,860, $707,634, and $680,795, for the three years ended June 30, 1996, June 30, 1995, and June 30, 1994, respectively.

On a regular and ongoing basis, management evaluates the adequacy of the Bank's allowance for loan losses. 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 uses its best judgement in recognizing loan losses in light of available information, 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 Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

At June 30, 1996, the Company had a total of $513,831 in other real estate owned versus $1,068,454 as of June 30, 1995. The decrease in other real estate owned of $554,623 was due to sales of properties and an increase in the allowance for losses on other real estate owned. The Company has an allowance for losses on other real estate owned that was established to provide for declines in real estate values and to consider estimated selling costs. The allowance for losses on other real estate owned totaled $100,000 at June 30, 1996 versus $5,289 at June 30, 1995. The Company provided for this allowance through a charge against earnings of $94,711 and $107,173 for the years ended June 30, 1996 and 1995, respectively. In 1996 and 1995, write downs of other real estate owned totaled $-0- and $151,289, respectively. The Company increased the June 30, 1996 allowance for losses on other real estate owned to provide for additional losses due to its plan to aggressively sell the other real estate owned property. Management periodically receives independent appraisals to assist in its valuation of the other real estate owned portfolio. 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.

On July 1, 1995 the Company adopted the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards Nos. 114 and 118 ("Statements 114 and 118"). The adoption resulted in the reclassification, as of June 30, 1995, of in-substance foreclosure loans to non-performing loans. Statements 114 and 118, taken together, require the Company to identify impaired loans and generally value them at the lower of (I) the present value of expected future cash flows discounted at the loan's original effective interest rate or (II) the loan's observable market price or (III) fair value of the loan's collateral, if the loan is collateral dependent. The two statements, in connection with recent regulatory guidance, require the Company to reclassify its in-substance foreclosures to loans and disclose them as impaired loans. At June 30, 1996, total impaired loans were $1,530,650, of which $1,063,720 had related allowances of $499,200. During the year ended June 30, 1996, the income recognized related to impaired loans was $87,128 and the average balance of outstanding impaired loans was $1,799,087. 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.

As of June 30, 1996, trading account securities had increased by $196,246 compared to the balance of such assets at June 30, 1995. This increase was attributed to the purchase of securities in which management intends to trade for net securities gains.

Proceeds from increased Federal Home Loan Bank ("FHLB") borrowings as well as funds obtained from the reduction of FHLB overnight deposits were utilized to purchase mortgage-backed securities, thereby increasing the Company's earning assets. The Company restructured its investment portfolio during the quarter ended December 31, 1995 to improve the yield on the securities portfolio. This was accomplished by selling mortgage-backed securities with lower coupon rates and purchasing additional mortgage-backed securities with better yields. The Company took advantage of the fluctuating market rates and prices and purchased $16,751,113 of additional mortgage-backed securities in the March 31, 1996 quarter and $2,750,955 in the June 30,1996 quarter, increasing securities available for sale by $19,502,068 compared to June 30, 1995. The additional securities currently have a net earnings yield benefit of 200 basis points, when factoring in the average yield on FHLB overnight deposits and the average cost on FHLB advances. At June 30, 1996, the Company's total investment portfolio was classified as available for sale. The amortized cost and market value of available for sale securities at June 30, 1996 was $30,919,037 and $29,650,319, respectively. The reduction in carrying value from the cost was primarily attributable to the decline in market value of mortgage-backed securities, which was due to the change in current market prices from the price at the time of purchase. The Company has primarily invested in mortgage-backed securities. Substantially all of the mortgage-backed securities are high grade government backed securities. As in any long term earning asset in which the earning rate is fixed, the market value of mortgage-backed securities will decline when market interest rates increase from the time of purchase. Since these mortgage-backed securities are backed by the U.S. government, there is little or no risk of loss of principal. Management believes that the yields currently received on this portfolio are satisfactory.

During 1995, the Company purchased $12,399,000 in securities it classified as held to maturity. At the time of acquiring these securities, the Company had the intention and the ability to hold such securities to maturity. In the last quarter of fiscal 1995, as a result of its planning process and changes in market conditions, Company management determined that it no longer possessed the intent to hold such securities to maturity. The investment portfolio is an integral piece of the Company's asset/liability ("ALCO") management program. The Company's ALCO committee meets on a regular basis to analyze the Company's risk during a rising or falling interest rate environment. In management's efforts to maintain the proper asset/liability mix for the Company, management determined that the investment portfolio needs to be managed aggressively and consistently. Consequently, the Company transferred its entire held to maturity portfolio, with an aggregate cost of $18,775,000 and an aggregate market value of $18,822,000 (including unrealized gains and losses of $191,000 and $144,000, respectively) to available for sale. The Company subsequently sold selected securities with an aggregate cost of $11,900,000 and realized gains of $273,000 and realized losses of $225,000. The Company's decision not to hold these securities to maturity does not satisfy the limited criteria of FASB Statement of Financial Accounting Standards No. 115, which specifies circumstances in which it is permissible to sell or transfer held to maturity securities. Consequently, the Company will, for the foreseeable future, classify its securities portfolio as available for sale, or trading.

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 1996, 1995 and 1994, there have been other than temporary declines in values of individual equity securities in the amounts of $93,819, $-0-, and $84,419, respectively. Such securities have been written down to market value through an adjustment against current earnings.

The Company increased its investment in FHLB stock by $506,200, compared to June 30, 1995, due to the increase in FHLB borrowings. The FHLB requires institutions to hold a certain level of FHLB stock based on advances outstanding.

The Company has used off-balance-sheet risk financial instruments in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Hence, these instruments have the same elements of credit and interest rate risk. The Company limits its involvement in derivative financial instruments to covered call and put contracts. Gains and losses from entering into these contracts were immaterial to the results of operations of the Company in fiscal 1996, 1995 and 1994. 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. Off-balance-sheet risk financial instruments are more fully described in footnote 19 to the financial statements.

The Company's premises and equipment decreased by a net of $296,892 during fiscal 1996 due to normal depreciation. The Company's premises and equipment increased, during fiscal 1995, by a net of $828,487. The 1995 increase was primarily due to the acquisition of the Key Bank branches, explained above, as well as the capitalized costs associated with the relocation of the Bank's Mechanic Falls branch to a new facility.

The increase in accrued interest receivable on investments of $150,391 during fiscal 1996 was primarily due to the increase in the mortgage-backed securities portfolio. The Company's goodwill decreased by $308,913 during fiscal 1996 due to normal amortization. Goodwill increased by $1,414,566 during the 1995 fiscal year due to the premium paid to acquire the deposits of the Key Bank branches, explained above, less the 1995 amortization of $235,098. The increase in other assets during fiscal 1996 of $153,188 was primarily due to the increase in deferred tax assets, caused by a reversal of temporary differences between the Company's financial statements and its tax returns. Due from broker decreased by $941,407 due to the purchase of a mortgage-backed security at June 30, 1995 which settled in fiscal 1996.

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

Total deposits were $145,195,369 and securities sold under repurchase agreements were $3,762,966 as of June 30, 1996. These amounts represent a decrease of $1,924,501 and an increase of $1,177,579, respectively, compared to June 30, 1995. Broker deposits represented $5,647,138 of total deposits at June 30, 1996, which decreased by $3,140,563 compared to June 30, 1995's $8,787,701 balance. Based on the normal growth of local deposits and attractive FHLB advance rates, management has chosen to reduce its level of brokered deposits. Management will be reviewing an additional $1,000,000 of brokered deposits maturing in the next quarter. Total borrowings from the FHLB were $52,123,000 as of June 30, 1996, for an increase of $16,423,000 compared to June 30, 1995. Mortgages, free of liens, pledges and encumbrances are required to be pledged to secure FHLB advances. The increase in repurchase agreements and FHLB advances were utilized to fund investment securities growth.

Notes payable decreased by $507,899 during the 1996 fiscal year due to the scheduled principal payments on the Fleet Bank of Maine loan incurred to finance, in part, the Brunswick Federal Savings, F.A. acquisition. In August 1996, the Company refinanced the remaining balance of the note payable of $1,375,000. The new note is payable in eighteen quarterly principal payments of $76,389. Interest is payable monthly at an 8% fixed rate. Due to broker decreased by $989,062 at June 30, 1996 due to the purchase of a GNMA security on June 30, 1995 that settled in fiscal 1996. Other liabilities decreased by $274,603 compared to June 30, 1995, due primarily to the decrease in accrued tax liabilities, deferred gain on loan sales, and escrow accounts.

CAPITAL RESOURCES & LIQUIDITY

Liquidity is defined as the ability to meet unexpected deposit withdrawals and increased loan demand of a short-term nature with a minimum loss of principal. 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 approximately $45,000,000 over and above the 1996 end-of-year advances reported. The Company's ability to access the principal sources of liquid funds listed above is immediate and adequate to support the Company's budgeted growth.

Cross selling strategies are employed by the Bank to develop deposit growth. Even though deposit interest rates increased during fiscal 1996, the rate of return was much stronger 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 liquidity base.

Total equity of the Company was $18,151,242 as of June 30, 1996 versus $17,275,278 at June 30, 1995. On September 8, 1995 Square Lake Holding Corporation exercised 50,000 warrants at an aggregate price of $700,000. These proceeds were utilized as general working capital. The exercise of these warrants contributed to the growth of the Company's total equity. Warrants outstanding were 133,764 as of June 30, 1996. The Company paid a 100% stock dividend to all shareholders on December 15, 1995. Based in part on this dividend, the current common shares outstanding increased to 1,229,910 shares on June 30, 1996. The Company repurchased 4,100 treasury shares at a cost of $52,277. These treasury shares are to be utilized for the employee stock bonus and options plans. The Company continued to pay an annualized dividend of $.32 per share following the stock dividend, resulting in an increase in yield to shareholders. The effect of increasing the dividend payout to common stock shareholders will not have a significant effect on the financial position, liquidity, or results of operations of the Company. The total equity to total assets ratio of the Company was 8.17% as of June 30, 1996 and 8.33% at June 30, 1995. The reduction in the equity to assets ratio from fiscal 1996 compared to fiscal 1995 was primarily due to the Company leveraging the Bank in the purchase of mortgage-backed securities through the increased use of FHLB advances. Book value per common share was $13.13 as of June 30, 1996 versus $13.95 at June 30, 1995, when restated for the 100% stock dividend.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), which was enacted on December 19, 1991, contains various provisions intended to recapitalize the Bank Insurance Fund ("BIF") and also effects 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 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 OTS broader regulatory authority to take corrective action against insured institutions that are otherwise operating in an unsafe and unsound manner.

Regulations implementing the prompt corrective action provisions of FDICIA became effective December 19, 1992 and defined specific capital categories based on an institution's capital ratios. OTS has issued regulations requiring a minimum regulatory tangible capital equal to 1.5% of adjusted total assets, core capital of 3.0%, leverage capital of 4.0% and a risk-based capital standard of 8.0%. Regulatory capital requirements are also discussed in footnote 12 of the financial statements. At June 30, 1996, the Bank was in compliance with regulatory capital requirements as follows:

	Northeast Bank F.S.B.
Tangible capital	$ 15,386,000
Percent of adjusted total assets	7.00%
Excess over requirement	$ 12,095,000
Core capital	$ 15,386,000
Percent of adjusted total assets	7.00%
Excess over requirement	$ 8,804,000
Leverage capital	$ 15,386,000
Percent of adjusted total assets	7.00%
Excess over requirement	$ 6,610,000
Risk-based capital	$ 16,349,000
Percent of total risk-weighted assets	12.60%
Excess over requirement	$ 5,987,000

RESULTS OF OPERATIONS

Net income for the year ended June 30, 1996 was $1,193,420 versus $1,489,381 for the year ended June 30, 1995 and $1,460,559 for the year ended June 30, 1994. Primary earnings per share was $.83 and fully diluted earnings per share was $.79 for the period ended June 30, 1996. Primary and fully diluted earnings per share were $1.10 and $1.02, respectively, for the year ended June 30, 1995 and $1.13 and $1.08 for the year ended June 30, 1994. The weighted average number of shares outstanding in fiscal 1995 and 1994, as well as the reported earnings per share for these two years, have been restated as a result of the Company's 100% stock dividend in December, 1995. Also included in the Company's income statement for fiscal 1994 was $260,000 for the cumulative effect of a change in the method of accounting for income taxes, FASB Statement of Financial Accounting Standard No. 109. This one time adjustment is more fully described in footnote 16 to the financial statements. This one time adjustment increased the Company's primary earnings per share by $.22 and the fully diluted earnings per share by $.19 for the year ended June 30, 1994. The Company's overall return on assets ("ROA") was .55% for the year ended June 30, 1996, .72% for the year ended June 30, 1995, and .77% for the year ended June 30, 1994. Due to the decreased net income as well as the increase in assets due to the purchase of securities in the last four months of fiscal 1996, the Company's ROA decreased compared to fiscal 1995.

The Company experienced a reduction in net income in fiscal year 1996, when compared to fiscal 1995, primarily due to the expenses attributed to the merger and name change of the subsidiary banks, the costs associated with the acquisition of the Key Bank branches, and the general growth in infrastructure expenses of the Company. These expenses are discussed below.

The Company's net interest income for the years ended June 30, 1996, June 30, 1995 and June 30, 1994 was $8,866,458, $8,870,005 and $7,556,529, respectively. Net interest income for fiscal 1996 decreased $3,547, or .04%, compared to the amount at June 30, 1995. Total interest and dividend income increased $1,071,937 for the year ended June 30, 1996 compared to the year ended June 30, 1995, resulting from the following items: (I) interest income on loans increased by $925,547 resulting from an increase of $518,349 due to an increase in the volume of loans and an increase of $407,198 due to increased interest rates on loans, (II) interest and dividend income on investment securities decreased by $22,088 resulting from a $11,381 increase due to increased volume, which was more than offset by the decrease of $33,469 due to decreased interest rates on investments, and (III) interest income on short term liquid funds increased by $168,478 resulting from a $154,590 increase due to increased volume and an increase of $13,888 due to increased interest rates on deposits at the FHLB and other institutions.

The increase in total interest expense of $1,075,484 for fiscal 1996 compared to 1995 resulted from the following items: (I) interest expense on deposits increased by $983,069 resulting from a $328,965 increase due to increased deposits and an increase of $654,104 due to higher deposit interest rates, (II) interest expense on repurchase agreements increased by $81,289 resulting from an $82,258 increase due to increased volume offset, in part, by a decrease of $969 due to decreasing interest rates, and (III) interest expense on borrowings increased $11,126 resulting from a decrease of $161,857 due to a decrease in volume which was more than offset by the increase of $172,983 due to the change in the mix of interest rates on borrowings. The changes in net interest income, as explained above, are also presented in the schedule below.

NORTHEAST BANCORP
Rate/Volume Analysis for the Year ended
June 30, 1996 Versus June 30, 1995

	Difference Due to		
	Volume	Rate	Total
Investments	$ 11,381	$ (33,469)	$ (22,088)
Loans	518,349	407,198	925,547
FHLB & Other Deposits	154,590	13,888	168,478
Total Interest Earning Assets	684,320	387,617	1,071,937
Deposits	328,965	654,104	983,069
Repurchase Agreements	82,258	(969)	81,289
Borrowings	(161,857)	172,983	11,126
Total Interest-Bearing Liabilities	249,366	826,118	1,075,484
Net Interest Income	$ 434,954	$ (438,501)	$ (3,547)

Rate/Volume amounts spread proportionately between Volume and Rate.

Net interest income for fiscal 1995 increased $1,313,476, or 17.38%, over 1994. Total interest and dividend income increased $2,886,684 for fiscal 1995 compared to 1994, resulting from the following items: (I) interest income on loans increased by $1,923,203 resulting from a $747,297 increase due to an increase in the volume of loans and $1,175,906 due to increased interest rates on loans, (II) interest and dividend income on investment securities increased by $793,417 resulting from a $721,372 increase due to an increase in volume and $72,045 due to increased interest rates on investments, and (III) interest income on short term liquid funds increased by $170,064 resulting from a $14,926 increase due to an increase in volume and $155,138 due to increased interest rates on deposits at the FHLB and other institutions.

The increase in total interest expense of $1,573,208 for fiscal 1995 as compared to 1994 resulted from the following items: (I) interest expense on deposits increased by $976,328 resulting from a $557,015 increase due to an increase in the volume of deposits and $419,313 due to increased deposit interest rates, (II) interest expense on repurchase agreements increased by $84,921 as fiscal 1995 was the first year this product was offered, and (III) interest expense on borrowings increased $511,959 resulting from an increase of $274,607 due to an increase in the volume of borrowings and $237,352 due to the change in the mix of interest rates on borrowings. The changes in net interest income, as explained above, are also presented in the schedule below.

NORTHEAST BANCORP
Rate/Volume Analysis for the Year ended
June 30, 1995 Versus June 30, 1994

	Difference Due to		
	Volume	Rate	Total
Investments	$ 721,372	$ 72,045	$ 793,417
Loans	747,297	1,175,906	1,923,203
FHLB & Other Deposits	14,926	155,138	170,064
Total Interest Earning Assets	1,483,595	1,403,089	2,886,684
Deposits	557,015	419,313	976,328
Repurchase Agreements	84,921	-0-	84,921
Borrowings	274,607	237,352	511,959
Total Interest-Bearing Liabilities	916,543	656,665	1,573,208
Net Interest Income	$ 567,052	$ 746,424	$1,313,476

Rate/Volume amounts spread proportionately between Volume and Rate.

The majority of the Company's income is generated from the Bank. Management believes that the Bank is slightly asset sensitive based on its own internal analysis which considers its core deposits long term liabilities that are matched to long term assets; therefore, it will generally experience a contraction in its net interest margins during a period of falling rates. Management believes that the maintenance of a slight asset sensitive position is appropriate since historically interest rates tend to rise faster than they decline.

Since October 1993, actions by the Federal Reserve Board have resulted in increases in prime lending rates. 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 27% 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 some 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 was $602,860 for fiscal 1996 compared to $640,634 and $1,020,795 for 1995 and 1994, respectively. Net charge-offs amounted to $449,860 during fiscal 1996 versus $707,634 and $680,795 for 1995 and 1994, respectively. Due to the weak economy in some of the Bank's market areas, loan charge-offs have been high in the reported fiscal years. 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 $2,097,191 for the year ended June 30, 1996, $2,116,442 for June 30, 1995 and $2,458,485 for June 30, 1994. Generally, the Bank continues to generate an increasing level of non-interest income through service charges and fees for other services. This component totaled $737,229 for the year ended June 30, 1996, $679,495 for the year ended June 30, 1995 and $579,322 for June 30, 1994. The increase in 1996 was primarily due to growth in the deposit accounts and other branch services.

Net securities gains were $278,895, $419,313, and $347,032 for fiscal 1996, 1995 and 1994, respectively. The major reason for the increase in 1995 was that the Company sold some of its available for sale and trading securities, taking advantage of the fluctuation in market prices.

Gains on the sale of loans amounted to $251,597 for fiscal 1996 and was an increase of $90,615 compared to $160,982 for fiscal 1995. Gains on the sale of loans decreased $273,228 in fiscal 1995 compared to the 1994 balance. Gains on the sale of loans in fiscal 1996 increased due to increased volume in underwriting Freddie Mac and Fannie Mae loans. The decrease in 1995, compared to 1994, was primarily due to the Bank's reduced volume in underwriting and selling Freddie Mac and SBA guaranteed commercial loans. 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 increased from approximately $32,560,000 at June 30, 1995 to $39,940,000 during 1996. In addition to loans originated and sold by the Company, during 1993 the Company purchased loan servicing rights from another institution. The balance of the loans serviced under this agreement was approximately $9,676,000 and $12,983,000 at June 30, 1996 and 1995, respectively. Fees for servicing loans was $302,261 for the year ended June 30, 1996 versus $306,220 and $267,697 for the years ended June 30, 1995 and 1994, respectively.

Other income was $527,209, $550,432, $830,224 for fiscal 1996, 1995 and 1994, respectively. The decrease of $279,792 in fiscal 1995 compared to fiscal 1994 was primarily due to the reduction in gross sales at ASI Data Services. ASI Data Services' operations were transferred to the Bank as of July 1, 1996. ASI will not be offering services to third parties for the near future, although it remains a separate legal entity.

Total non-interest expense for the Company was $8,448,757 for fiscal 1996, $7,987,877 for fiscal 1995, and $7,095,664 for fiscal 1994. The increase in non-interest expense of $460,880 for fiscal 1996 compared to 1995 was due, in part, to the following items: (I) compensation expenses increased by $175,360 as the result of the additional employees from the Key Bank branch acquisition, general growth in the Company, as well as annual salary increases and other benefits expenses, (II) occupancy expense increased by $100,647 due to the expense associated with the branches acquired from Key Bank and general maintenance on existing locations, and (III) equipment expense increased by $69,957 due to depreciation on new assets, as well as increased maintenance costs from new assets acquired and the equipment acquired from Key Bank.

Other operating expenses increased by $114,916 in fiscal 1996 compared to 1995 due to the following: an increase of $58,000 in computer servicing expense due to the merger of the two subsidiary banks and increased ATM services, an increase of $54,000 in collection expense due to non-performing loans, an increase of $25,000 in postage expense due to additional customer mailings concerning the merger of the two subsidiary banks, an increase of $74,000 in goodwill expense due to a full years recognition of goodwill from the acquisition of the Key Bank branches, an increase of $94,000 due to the write-down on equity securities to current market values, a one time expense of $166,000 due to direct expenses associated with the merger and name change of the two subsidiary banks, and increases due to normal business growth. These increases in other expenses were offset by the following reductions: a decrease of $169,000 in deposit insurance expense due to the FDIC reducing its BIF deposit insurance assessment from $.23 per $100 of deposits to an annual fee of $2,000, a decrease of $38,000 in supplies expense due to savings from bulk orders, a decrease of $53,000 in telephone expense due to the Company's new telephone network system, and a $93,000 decrease in the Company's other general business expenses.

The increase in non-interest expense of $892,213 for fiscal 1995 compared to 1994 was due, in part, to the following items: Operating expenses increased primarily due to the Key Bank branch acquisition and the general growth of the Company; Compensation expenses increased by $699,682 as the result of the additional employees from the four new branches, additional employees in sales and operations due to the new branch locations and general Company growth, as well as increases in annual salaries and other benefits; occupancy expense increased $125,952 due to the four new branches acquired from Key Bank and general maintenance on the Company's existing locations; and equipment expense increased $62,544 primarily due to depreciation on assets acquired from the Key Bank acquisition. Other Operating expenses increased by $4,035 in fiscal 1995 compared to 1994 primarily due to the increase in other operational expenses at the Banks from the Key Bank branch acquisition. This increase was offset by the reduction of ASI's 1995 cost of goods sold, resulting from hardware sales to third parties.

In February 1992, the FASB issued Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("Statement 109"), which changed the method of accounting for income taxes to the asset and liability method from the deferred method previously required by APB opinion 11. Effective July 1, 1993, the Company adopted Statement 109 and has reported the cumulative effect of the change in the method of accounting for income taxes in the 1994 consolidated statement of income. The cumulative effect of this change in accounting for income taxes of $260,000 was determined as of July 1, 1993, and is reported separately in the consolidated statement of income for the year ended June 30, 1994.

REGULATORY MATTERS

The FDIC has announced various proposals to recapitalize SAIF. Under one proposal, the FDIC would charge a one time assessment on all SAIF insured deposits in a range of $.85 to $.90 per $100 of domestic deposits. This one time assessment is intended to recapitalize SAIF to the required level of 1.25% of insured deposits and could be payable in 1996 or early 1997. If the assessment is made at the proposed rates, the effect on the Company would be an after tax charge of approximately $320,000 (assuming an income tax rate of 36%). The one time charge assumes a .85% charge on the Brunswick branch deposits of approximately $60,000,000. Subsequent to the proposed payment of the one time assessment, the ongoing risk based assessment schedule for the newly capitalized SAIF would be similar to the schedule of BIF. The current FDIC BIF insurance rates range from an annual assessment fee of $2,000 to 31 basis points. The Company anticipates that it would be assessed at the lowest BIF rate as it currently is assessed at the lowest SAIF rate due to its regulatory standing. The Company would have future after tax annual savings of approximately $86,000 due to the Brunswick branch deposits described above (assuming an income tax rate of 36%). The annual savings assumes an annual flat fee of $2,000 for an insurance premium charge compared to the current .23% insurance premium paid on the Brunswick branch's deposit base of $60,000,000.

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 many 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.

RECENT ACCOUNTING DEVELOPMENTS

On March 31, 1995, FASB issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("Statement 121"). Statement 121 provides guidance for recognition and measurement of impairment of long-lived assets, certain identifiable intangibles and goodwill related both to assets to be held and used and assets to be disposed of. Statement 121 requires entities to perform separate calculations for assets to be held and used to determine whether recognition of an impairment loss is required and, if so, to measure the impairment. Statement 121 requires long-lived assets and certain identifiable intangibles to be disposed of to be reported at the lower of carrying amount or fair value less cost to sell, except for assets covered by the provisions of APB Opinion No. 30. Statement 121 is effective for financial statements issued for fiscal years beginning after December 15, 1995 although earlier application is encouraged. The Company adopted Statement 121 on July 1, 1996; the effect of adopting the new rules did not have a significant effect on its financial condition, liquidity, or results of operations of the Company.

In May 1995, FASB issued Statement No. 122, Accounting for Mortgage Servicing Rights, an amendment of FASB Statement No. 65, ("Statement 122"). Statement 122 is effective for fiscal years beginning after December 15, 1995. The Company will adopt Statement 122 in the first quarter of fiscal year 1997, on a prospective basis. Statement 122 requires that a mortgage banking enterprise recognize as separate assets the rights to service mortgage loans for others. Statement 122 also requires the assessment of capitalized mortgage servicing rights for impairment to be based on the current fair value of those rights. This assessment includes servicing rights capitalized prior to adoption of Statement 122. Management has determined that the impact of adoption of Statement 122 will not be material to the Company's financial position, liquidity, or results of operations.

In October 1995, FASB issued Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123"), which became effective on July 1, 1996 for the Company. Statement 123 establishes a fair value based method of accounting for stock-based compensation plans under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. However, the statement allows a company to continue to measure compensation cost for such plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Under APB Opinion No. 25, 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. The Company has elected to continue to follow the accounting under APB Opinion No. 25. Statement 123 requires companies which elect to continue to follow APB Opinion No. 25 to disclose in the notes to their financial statements pro forma net income and earnings per share as if the value based method of accounting had been applied. Management has not determined the impact of the adoption of Statement No. 123.

In June of 1996, FASB issued Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, ("Statement 125"). Statement 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. Statement 125 provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Statement 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. Management has not determined the impact of the adoption of Statement 125.

Item 8. Financial Statements and Supplementary Data

a. Financial Statements Required by Regulation S-X

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Financial Condition
June 30, 1996 and 1995

ASSETS	1996	1995
Cash and due from banks	$ 3,386,263	$ 3,855,648
Interest bearing deposits	650,430	367,423
Federal Home Loan Bank overnight deposits	7,529,435	10,517,000
	11,566,128	14,740,071
Trading account securities, at market value	197,621	1,375
Available for sale securities, at market value (notes 2 and 11)	29,650,319	10,148,251
Loans held for sale (note 3)	448,475	528,839
Due from broker	-	941,407
Loans receivable (notes 4 and 9):		
Mortgage loans:		
Residential real estate	113,711,131	116,976,491
Construction loans	5,012,583	3,342,708
Commercial real estate	25,314,128	22,778,608
	144,037,842	143,097,807
Less:		
Undisbursed portion of construction loans	2,243,814	951,754
Net deferred loan origination fees	289,340	302,178
Total mortgage loans	141,504,688	141,843,875
Commercial loans	13,990,220	12,181,512
Consumer and other loans	14,356,016	16,114,517
	169,850,924	170,139,904
Less allowance for loan losses	2,549,000	2,396,000
Net loans	167,301,924	167,743,904
Premises and equipment - net (note 5)	3,576,386	3,873,278

Other real estate owned - net (note 6)	513,831	1,068,454
Real estate held for investment (note 7)	459,820	452,479
Accrued interest receivable - loans	1,094,555	1,031,389
Accrued interest receivable - investments	257,708	107,317
Federal Home Loan Bank stock, at cost (note 9)	2,656,200	2,150,000
Goodwill, net of accumulated amortization of $940,059 in 1996 and $631,146 in 1995 (note 17)	2,557,913	2,866,826
Other assets (note 16)	2,008,735	1,855,547
	$ 222,289,615	$ 207,509,137

LIABILITIES AND STOCKHOLDERS' EQUITY	1996	1995
Liabilities:		
Deposits (note 8):		
Demand	$ 11,424,481	$ 9,711,732
NOW	13,516,135	14,210,010
Money market	12,291,543	12,761,762
Regular savings	21,884,843	23,697,510
Brokered deposits	5,647,138	8,787,701
Certificates of deposit under $100,000	64,962,559	62,633,273
Certificates of deposit $100,000 or more	15,468,670	15,317,882
Total deposits	145,195,369	147,119,870
Borrowed funds (note 9)	52,123,000	35,700,000
Notes payable (note 10)	1,502,192	2,010,091
Securities sold under repurchase agreements (note 11)	3,762,966	2,585,387
Due to broker	-	989,062
Other liabilities	1,554,846	1,829,449
Total liabilities	204,138,373	190,233,859
Commitments and contingent liabilities (notes 10, 18 and 19)		
Stockholders' equity (notes 12, 13, 14 and 18):		
Series A cumulative convertible preferred stock; $1 par value, 1,000,000 shares authorized; 45,454 shares issued and outstanding	999,988	999,988
Series B cumulative convertible preferred stock; $1 par value, 1,000,000 shares authorized; 71,428 shares issued and outstanding	999,992	999,992
Common stock, $1 par value, 3,000,000 shares authorized; 1,234,010 and 547,502 shares issued at June 30, 1996 and 1995, respectively; 1,229,910 and 547,502 shares outstanding in 1996 and 1995, respectively	1,234,010	547,502
Additional paid-in capital	5,455,852	4,643,059
Retained earnings	10,351,031	10,180,244
Net unrealized losses on available for sale securities (note 2)	(837,354)	(95,507)
Treasury stock at cost 4,100 shares	(52,277)	-
Total stockholders' equity	18,151,242	17,275,278
	$ 222,289,615	$ 207,509,137

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
Consolidated Statements of Income
Years Ended June 30, 1996, 1995, and 1994

	1996	1995	1994
Interest and dividend income:			

Interest on loans	$ 16,010,685	$ 15,085,138	$ 13,161,935
Interest on Federal Home Loan Bank overnight deposits	567,915	393,497	211,213
Interest on investments held to maturity, excluding mortgage backed securities	-	75,691	48,302
Interest and dividends on available for sale securities	89,684	60,159	122,719
Interest on mortgage backed securities	1,149,407	1,088,420	294,037
Dividends on Federal Home Loan Bank stock	148,762	189,980	156,940
Other interest income	28,409	30,040	41,095
Total interest income	17,994,862	16,922,925	14,036,241
Interest expense:			
Deposits (note 8)	6,426,172	5,443,103	4,466,775
Repurchase agreements	166,210	84,921	-
Borrowed funds	2,536,022	2,524,896	2,012,937
Total interest expense	9,128,404	8,052,920	6,479,712
Net interest income before provision for loan losses	8,866,458	8,870,005	7,556,529
Provision for loan losses (note 4)	602,860	640,634	1,020,795
Net interest income after provision for loan losses	8,263,598	8,229,371	6,535,734
Noninterest income:			
Fees and service charges on loans	188,410	200,782	233,331
Fees for other services to customers	548,819	478,713	345,991
Net securities gains (note 2)	231,344	49,045	275,263
Gain on trading securities	47,551	370,268	71,769
Gain on sales of mortgage loans (note 3)	251,597	160,982	434,210
Loan servicing fees	302,261	306,220	267,697
Other income	527,209	550,432	830,224
Total noninterest income	2,097,191	2,116,442	2,458,485
Noninterest expense:			
Salaries and employee benefits (note 18)	$ 4,153,160	$ 3,977,800	$ 3,278,118
Occupancy expense (note 5)	611,007	510,360	384,408
Equipment expense (note 5)	761,545	691,588	629,044
Other (note 15)	2,923,045	2,808,129	2,804,094
Total noninterest expense	8,448,757	7,987,877	7,095,664
Income before income taxes and cumulative effect of change in accounting principle	1,912,032	2,357,936	1,898,555
Income tax expense (note 16)	718,612	868,555	697,996
Income before cumulative effect of change in accounting principle	1,193,420	1,489,381	1,200,559
Cumulative effect at July 1, 1993 of change in accounting for income taxes (note 16)	-	-	260,000
Net income	$ 1,193,420	$ 1,489,381	$ 1,460,559
Net income per common share before cumulative effect of change in accounting principle (note 13):			
Primary earnings per share	.83	1.10	.91
Fully diluted earnings per share	.79	1.02	.89
Net income per common share (note 13):			
Primary earnings per share	.83	1.10	1.13
Fully diluted earnings per share	.79	1.02	1.08

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended June 30, 1996, 1995 and 1994

	Preferred Stock Series A and B	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Net Unrealized (Losses) Gains on Available for Sale Securities	Total
Balance at June 30, 1993	$ 999,988	$ 542,400	$ 4,589,068	$ -	$ 7,824,465	$ 111,421	$ 14,067,342
Net income	-	-	-	-	1,460,559	-	1,460,559
Issuance of Series B preferred stock	999,992	-	-	-	-	-	999,992
Increase in net unrealized losses on available for sale securities	-	-	-	-	-	(549,444)	(549,444)
Stock options exercised	-	5,000	51,900	-	-	-	56,900
Dividends on preferred stock	-	-	-	-	(104,998)	-	(104,998)
Dividends on common stock at $.32 per share	-	-	-	-	(173,988)	-	(173,988)
Balance at June 30, 1994	1,999,980	547,400	4,640,968	-	9,006,038	(438,023)	15,756,363
Net income	-	-	-	-	1,489,381	-	1,489,381
Decrease in net unrealized losses on available for sale securities	-	-	-	-	-	342,516	342,516
Issuance of common stock	-	102	2,091	-	-	-	2,193
Dividends on preferred stock	-	-	-	-	(140,000)	-	(140,000)
Dividends on common stock at $.32 per share	-	-	-	-	(175,175)	-	(175,175)
Balance at June 30, 1995	1,999,980	547,502					
Net income	-	-					
Common stock - warrants exercised	-	50,000					
Stock split in the form of a dividend	-	597,743					
Increase in net unrealized losses on available for sale securities	-	-					
Treasury stock purchased (4,100 shares at $12.75)	-	-					
Issuance of common stock	-	765					
Stock options exercised	-	38,000					
Dividends on preferred stock	-	-					
Dividends on common stock at $.32 per share	-	-					
Balance at June 30, 1996	$ 1,999,980	$ 1,234,010					

See accompanying notes.

4,643,059	-	10,180,244	(95,507)	17,275,278
-	-	1,193,420	-	1,193,420
650,000	-	-	-	700,000
-	-	(597,743)	-	-
-	-	-	(741,847)	(741,847)
-	(52,277)	-	-	(52,277)
10,793	-	-	-	11,558
152,000	-	-	-	190,000
-	-	(139,999)	-	(139,999)
-	-	(284,891)	-	(284,891)
$ 5,455,852	$ (52,277)	$ 10,351,031	$ (837,354)	$ 18,151,242

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 1996, 1995 and 1994

	1996	1995	1994
Cash flows from operating activities:			
Net income	$ 1,193,420	$ 1,489,381	$ 1,460,559
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	602,860	640,634	1,020,795
Provision for losses on other real estate owned	94,711	107,173	62,600
Deferred income tax expense (benefit)	19,236	122,143	(267,594)
Cumulative effect of change in accounting for income taxes	-	-	(260,000)
Depreciation of premises and equipment	675,232	606,604	543,730
Goodwill amortization	308,913	235,098	119,743
Net gain on sale of available for sale securities	(231,344)	(49,045)	(275,263)
Net gain on sale of loans	(251,597)	(160,982)	(434,210)
Originations of loans held for sale	(13,518,583)	(4,273,878)	(8,781,896)
Proceeds from sale of loans held for sale	13,750,008	4,325,745	11,309,708
Net change in trading account securities	(196,246)	171,696	(118,071)
Net change in due to/from broker	(47,655)	47,655	-
Other	(5,266)	(73,829)	36,177
Change in other assets and liabilities:			
(Increase) decrease in interest receivable	(213,557)	(291,215)	179,246
(Increase) decrease in other assets and liabilities	(39,262)	(326,872)	300,852
Net cash provided by operating activities	2,140,870	2,570,308	4,896,376
Cash flows from investing activities:			
Proceeds from the sale of available for sale securities	16,858,222	12,179,897	5,332,865
Purchase of available for sale securities	(38,104,596)	(1,265,840)	(9,639,772)
Proceeds from maturities and principal payments on available for sale securities	851,639	335,432	2,532,959
Proceeds from maturities and principal payments on held to maturity securities	-	1,645,454	54,672
Purchase of held to maturity securities	-	(12,399,309)	(3,992,341)
Net increase in loans	(177,492)	(11,905,988)	(8,431,810)

Additions to premises and equipment	(398,937)	(936,647)	(332,748)
Proceeds from sale of investment in real estate	24,251	238,189	74,804
Purchase of investment in real estate	(40,068)	(13,397)	(90,501)
Proceeds from sale of other real estate owned	585,798	581,880	642,355
Sale (purchase) of Federal Home Loan Bank stock	(506,200)	195,000	(317,400)
Acquisition of nonbanking subsidiary	-	-	(348,314)
Cash received from acquisition of bank branches	-	25,547,199	-
Net cash provided (used) in investing activities	(20,907,383)	14,201,870	(14,515,231)
Cash flows from financing activities:			
Net (decrease) increase in deposits	$ (1,924,501)	$ (4,930,902)	$ 1,809,469
Net increase in repurchase agreements	1,177,579	2,585,387	-
Dividends paid	(424,890)	(315,175)	(278,986)
Treasury stock purchased	(52,277)	-	-
Stock options exercised	190,000	-	56,900
Warrants exercised	700,000	-	-
Issuance of common stock	11,558	2,193	-
Proceeds from issuance of preferred stock	-	-	999,992
Net (payments) borrowings (to) from Federal Home Loan Bank	16,423,000	(10,200,000)	7,900,000
Increase in notes payable	-	-	20,206
Principal payments on notes payable	(507,899)	(510,115)	-
Net cash (used) provided by financing activities	15,592,570	(13,368,612)	10,507,581
Net increase (decrease) in cash and cash equivalents	(3,173,943)	3,403,566	888,726
Cash and cash equivalents, beginning of year	14,740,071	11,336,505	10,447,779
Cash and cash equivalents, end of year	$ 11,566,128	$ 14,740,071	$ 11,336,505
Supplemental schedule of cash flow information:			
Interest paid	$ 9,103,639	$ 7,997,123	$ 6,457,283
Income taxes paid	913,000	794,000	872,500
Supplemental schedule of noncash investing and financing activities:			
Transfer from loans to other real estate owned	$ 314,718	$ 827,304	$ 1,479,233
Transfer from other real estate owned to loans	-	382,718	767,720
Loans originated to finance the sales of other real estate owned	184,732	399,550	362,826
Transfer from available for sale securities to held to maturity securities, at fair value	-	-	4,082,439
Transfer of securities into available for sale securities, at fair value	-	18,821,933	-
Transfer of securities out of held to maturity securities, at amortized cost	-	(18,774,672)	-
Net change in valuation for unrealized (gains) losses on available for sale securities	741,847	(295,255)	549,444
Net change in deferred taxes for unrealized losses on available for sale securities	382,164	(176,446)	326,641

In connection with the acquisition of bank branches in 1995, the Company assumed deposit liabilities (See note 17).

See accompanying notes.

NORTHEAST BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1996, 1995 and 1994

1. Summary of Significant Accounting Policies

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

Business

On July 1, 1996, Bethel Bancorp assumed the name of Northeast Bancorp. On the same day, the Company's two banking subsidiaries, Bethel Savings Bank, F.S.B. and Brunswick Federal Savings Bank, F.A. were merged and renamed Northeast Bank, F.S.B. ASI Data Services, Inc., a nonbanking subsidiary which provided data processing services to the Company, was also merged into the bank.

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.

Basis of Financial Statement Presentation

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 and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the carrying value of real estate acquired through foreclosure, management obtains independent appraisals for significant properties.

A substantial portion (85%) of the Company's loans are secured by real estate in the State of Maine. In addition, all of the real estate acquired through foreclosure is located in the same market. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio and the recovery of the carrying amount of real estate acquired through foreclosure are susceptible to changes in market conditions in Maine.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Bancorp, a savings and loan holding company, its wholly-owned subsidiary, Northeast Bank, F.S.B. (including the bank's wholly-owned subsidiary, Northeast Service Corporation and its majority owned subsidiary, First New England Benefits, Inc.).

All significant intercompany transactions and balances have been eliminated in consolidation.

Cash Equivalents

Cash equivalents consist of cash and due from banks, Federal Home Loan

Bank overnight deposits and interest bearing deposits. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. 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, 1996, the reserve balance was approximately $432,000.

Investments

Trading Account Securities

Trading account securities, consisting of equity securities purchased with the intent to be subsequently sold to provide net securities gains, are carried at market value. Realized and unrealized gains and losses on trading account securities are recognized in the statements of income as they occur. Transactions are accounted for as of the trade date using the specific identification method.

Held to Maturity Securities

Held to maturity securities consist of debt securities purchased where the Company has the positive intent and ability to hold such securities until maturity. Debt securities classified as held to maturity are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts. When a decline in market value is considered other than temporary, the loss is charged to expense as a write down. There were no held to maturity securities at June 30, 1996 and 1995.

Available for Sale Securities

Available for sale securities consist of mortgage-backed, debt and equity securities not classified as trading or held to maturity. These assets are specifically identified and are carried at fair value. Unrealized holding gains and losses for these assets less the related tax effects are reported as a net amount in a separate component of stockholders' equity. When a decline in market value is considered other than temporary, the loss is charged to expense as a write down. Gains and losses on the sale of available for sale securities are determined using the specific identification method.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is carried at cost.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are classified as held for sale and are carried at the lower of cost or market value in the aggregate.

Interest Income and Expense Recognition

Interest income, including amortization of premiums and accretion of discounts, on loans and debt securities is recognized using the interest method which relates income earned to the loans and investment securities outstanding. The recognition of interest income on problem loan accounts ceases when the loan is 90 days past due or when collectibility becomes doubtful, whichever is earlier. Interest accrued but not received on loans placed on nonaccrual status is reversed and charged against current operations. Interest on nonaccrual loans is recognized only when received. Loans are restored to accrual status when the borrower has demonstrated the ability to make future principal and interest payments. Interest expense on deposits is determined by applying contractual interest rates to outstanding balances.

Loans

Effective July 1, 1995, the Company adopted SFAS No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan   Income Recognition and Disclosures. 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. At adoption, the Company reclassified $304,232 of insubstance foreclosures to loans.

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 also obtains appraisals when considered necessary.

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.

Loan Origination Fees

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.

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 or the term of the lease, if shorter. Maintenance and repairs are charged to current expense as incurred and the cost of major renewals and betterments are capitalized.

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 income in the period that includes the enactment date.

Other Real Estate Owned

Other real estate owned is comprised of (1) properties or other assets acquired through foreclosure proceedings, or acceptance of a deed or title in lieu of foreclosure and (2) other assets repossessed in connection with non-real estate loans. Other real estate owned is carried at the lower of cost or fair value of the collateral less estimated selling expenses. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses and any subsequent provisions to reduce the carrying value are charged to current period earnings. Gains and losses upon disposition are reflected in earnings as realized.

Real Estate Held for Investment

Real estate properties held for investment are carried at the lower of cost, including costs of improvements and amenities incurred subsequent to acquisition, or net realizable value. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Goodwill

Goodwill arising from acquisitions is being amortized on a straight-line basis over ten to fifteen years.

Reclassification

Certain prior year accounts and balances in the consolidated financial statements have been reclassified to conform to the current year presentation.

2. Available for Sale Securities

A summary of the cost and approximate fair values of available for sale securities at June 30, 1996 and 1995 follows:

	1996		1995	
	Cost	Fair Value	Cost	Fair Value
Debt securities issued by the U.S. Treasury and other U.S. Government corporations and agencies	$ 1,497,111	$ 1,424,690	$ 250,000	$ 239,225
Corporate bonds	149,646	139,005	149,599	141,436
Equity securities	462,167	440,330	577,939	470,085
Mortgage-backed securities	28,810,113	27,646,294	9,315,419	9,297,505
	$30,919,037	$29,650,319	$10,292,957	$10,148,251

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

	1996		1995	
	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	$ -	$ 72,421	$ -	$ 10,775
Corporate bonds	-	10,641	-	8,163
Equity securities	5,321	27,158	10,625	118,479
Mortgage-backed securities	17,664	1,181,483	211,709	229,623
	$ 22,985	$ 1,291,703	$ 222,334	$ 367,040

At June 30, 1996, investment securities with a carrying value of approximately $6,000,000 were pledged as collateral to secure outstanding repurchase agreements.

At June 30, 1996 and 1995, included in net unrealized losses on available for sale securities as a reduction to stockholders' equity are net unrealized losses of $1,268,718 and $144,707 respectively, net of the deferred tax effect of $431,364 and $49,200, respectively.

The cost and fair values of available for sale securities at June 30, 1996 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
Due in one year	$ 247,111	$ 246,790
Due after one year through five years	250,000	237,900
Due after five years through ten years	149,646	139,005
Due after ten years	1,000,000	940,000
	1,646,757	1,563,695
Mortgage-backed securities (including securities with interest rates ranging from 5.15% to 8.5% maturing September 2003 to June 2026)	28,810,113	27,646,294
Equity securities	462,167	440,330
	$ 30,919,037	$ 29,650,319

The realized gains and losses on available for sale securities for the year ended June 30, 1996 were $248,542 and $17,198, respectively, and for the year ended June 30, 1995 were $280,257 and $231,212, 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. Such securities were written down to market value. At June 30, 1996, 1995 and 1994, write-downs of available for sale securities were $93,819, $0 and $84,419, respectively, and are included in other expense in the statements of income.

During 1995, the Company purchased $12,399,000 in securities it classified as held to maturity, since at the time of acquisition Company management had the intention, and the Company had the ability, to hold such securities until maturity. In the last quarter of fiscal 1995, as a result of its planning process and changes in market conditions, Company management determined that it no longer possessed the intent to hold such securities to maturity. Consequently, the Company transferred its entire held to maturity portfolio, with an aggregate cost of $18,775,000 and an aggregate fair value of $18,822,000 (including unrealized gains and losses of $191,000 and $144,000, respectively) to available for sale.

The Company subsequently sold selected of the aforementioned securities with an aggregate cost of $11,900,000 and realized gains of $273,000 and realized losses of $225,000.

The Company's decision not to hold these securities to maturity does not satisfy the limited criteria of Financial Accounting Standards No. 115 which specifies circumstances in which it is permissible to sell or transfer held to maturity securities. Consequently, the Company will, for the foreseeable future, classify its securities portfolio as available for sale, or trading.

3. Loans Held for Sale

A summary of the carrying value and market value of loans held for sale at June 30, 1996 and 1995 follows:

	June 30, 1996		June 30, 1995	
	Carrying Value	Market Value	Carrying Value	Market Value
Real estate mortgages	$ 448,475	$ 452,960	$ 528,839	$ 532,652

At June 30, 1996 and 1995, gross unrealized gains on loans held for sale were $4,485 and $3,813, respectively, and there were no unrealized losses.

The Company originates loans to be sold to the secondary market and occasionally sells mortgage loans from its loan portfolios. Gain on sales of loans amounted to $251,597, $160,982 and $434,210 for the years ended June 30, 1996, 1995 and 1994. Proceeds from the sale of loans out of the portfolio were $-0- in 1996, $1,616,926 in 1995 and $3,862,039 in 1994.

4. Loans

The Company's lending activities are conducted in south central and western Maine. 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. 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 economic sector in the borrowers' geographic area and 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 $2,229,045 and $2,564,230 at June 30, 1996 and 1995, respectively. New loans granted to related parties in 1996 totaled $478,166; payments and reductions amounted to $813,351. In 1995, new loans granted to related parties totaled $490,418; payments and reductions amounted to $537,290.

The Company was servicing for others, mortgage loans originated and sold of approximately $39,940,000 and $32,560,000 at June 30, 1996 and 1995, respectively. During 1993, the Company purchased loan servicing rights from another institution. The balance of the loans serviced under this agreement was approximately $9,676,000 and $12,983,000 at June 30, 1996 and 1995, respectively.

Activity in the allowance for loan losses was as follows:

	Years Ended June 30,		
	1996	1995	1994
Balance at beginning of year	$ 2,396,000	$ 2,463,000	$ 2,123,000
Provision charged to operating expenses	602,860	640,634	1,020,795
Loans charged off	(525,653)	(760,733)	(730,108)
Recoveries on loans charged off	75,793	53,099	49,313
Net loans charged off	(449,860)	(707,634)	(680,795)
Balance at end of year	$ 2,549,000	$ 2,396,000	$ 2,463,000

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. Except for certain restructured loans, impaired loans are loans that are on nonaccrual status. Loans that are returned to accrual status are no longer considered to be impaired. Certain loans are exempt from the provisions of SFAS No. 114, 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 1996 allowance for loan losses related to loans that are identified as impaired includes impairment reserves, which are based on discounted cash flows using the loan's effective interest rate, or 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, as well as, commercial loans with balances less than $25,000. Loans which were restructured prior to the adoption of SFAS No. 114, and which are performing in accordance with the renegotiated terms, are not required to be reported as impaired. Loans restructured subsequent to the adoption of SFAS No. 114, are required to be reported as impaired in the year of restructuring. Thereafter, such loans can 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. In accordance with SFAS No. 114, a loan is classified as an insubstance foreclosure when the Company has taken possession of the collateral, regardless of whether formal foreclosure proceedings take place.

At June 30, 1996, total impaired loans recognized in conformity with SFAS No. 114 were $1,530,650 of which $1,063,720 had related allowances of $499,200. During the year ended June 30, 1996, the income recognized related to impaired loans was $87,128 and the average balance of outstanding impaired loans was $1,799,087. 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, 1996 and 1995 totaled approximately $2,603,000 and $2,570,000, 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, 1996, 1995 and 1994, totaled approximately $228,000, $266,000 and $293,000, 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.

In May 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 122, Accounting for Mortgage Servicing Rights, an amendment of FASB Statement No. 65, (Statement 122). Statement 122 is effective in fiscal years beginning after December 15, 1995. The Company will adopt Statement 122 in the first quarter of fiscal year 1997, on a prospective basis. Statement 122 requires that a mortgage banking enterprise recognize as separate assets the rights to service mortgage loans for others. Statement 122 also requires the assessment of capitalized mortgage servicing rights for impairment to be based on the current fair value of those rights. This assessment includes servicing rights capitalized prior to adoption of Statement 122. Management has determined that the impact of adoption of Statement 122 will not be material to the Company's financial position, liquidity or results of operations.

5. Premises and Equipment

Premises and equipment at June 30, 1996 and 1995 are summarized as follows:

	1996	1995
Land	$ 625,750	$ 625,750
Buildings	2,307,574	2,238,391
Leasehold and building improvements	636,814	622,614
Furniture, fixtures and equipment	3,119,569	3,193,546
	6,689,707	6,680,301
Less accumulated depreciation	3,113,321	2,807,023
Net premises and equipment	$ 3,576,386	$ 3,873,278

Depreciation and amortization of premises and equipment, included in occupancy and equipment expense, was $670,774, $599,868 and $531,648 for the years ended June 30, 1996, 1995 and 1994, respectively.

6. Other Real Estate Owned

The following table summarizes the composition of other real estate owned at June 30:

	1996	1995
Real estate properties acquired in settlement of loans	$ 613,831	$ 1,073,743

Less allowance for losses	100,000	5,289
	$ 513,831	$ 1,068,454

Activity in the allowance for losses on other real estate owned was as follows:

	1996	1995	1994
Balance at beginning of year	$ 5,289	$ 49,405	$ 27,881
Provision for losses on other real estate owned	94,711	107,173	62,600
Other real estate owned write-downs	-	(151,289)	(41,076)
Balance at end of year	$ 100,000	$ 5,289	$ 49,405

7. Real Estate Held for Investment

Real estate held for investment (held by Northeast Service Corporation) at June 30 is summarized as follows:

	1996	1995
Rental properties	$ 167,741	$ 167,741
Less accumulated depreciation	6,818	2,639
	160,923	165,102
Land held for development	298,897	287,377
	$ 459,820	$ 452,479

A summary of loss from real estate held for investment operations, which is included in other income, for the years ended June 30, 1996, 1995 and 1994 is as follows:

	1996	1995	1994
Rental income	$ 29,076	$ 9,256	$ 14,513
(Loss) gain on sale of real estate	(4,297)	33,816	4,464
Depreciation	(4,458)	(6,736)	(12,082)
Other operating expenses	(38,325)	(54,068)	(23,209)
Loss	$ (18,004)	$ (17,732)	$ (16,314)

8. Deposits

Deposits at June 30 are summarized as follows:

	Weighted average rate at June 30, 1996	1996		1995	
		Amount	Percent	Amount	Percent
Demand	0.00%	$ 11,424,481	7.9%	$ 9,711,732	6.6%
NOW	1.01	13,516,135	9.3	14,210,010	9.6
Money market	3.36	12,291,543	8.5	12,761,762	8.7
Regular savings	2.60	21,884,843	15.1	23,697,510	16.1

Certificates of deposit:					
1.00 - 3.75%	1.83	256,272	.2	1,564,106	1.1
3.76 - 5.75%	5.22	51,745,006	35.6	40,328,991	27.4
5.76 - 7.75%	6.35	32,963,106	22.7	42,688,280	29.0
7.76 - 9.75%	8.05	1,113,983	.7	2,157,479	1.5
	4.14%	$145,195,369	100.0%	$147,119,870	100.0%

At June 30, 1996, scheduled maturities of certificates of deposit are as follows:

	1997	1998	1999	2000	2001	There-after
1.00-3.75%	$ 179,959	$ 41,482	$ 10,817	$ 24,014	$ -	$ -
3.76-5.75%	43,824,371	4,996,804	2,252,868	258,809	385,659	26,495
5.76-7.75%	21,501,112	5,327,290	2,358,635	2,520,489	1,255,580	-
7.76-9.75%	989,208	114,729	1,484	-	8,562	-

Interest expense on deposits for the years ended June 30, 1996, 1995 and 1994 is summarized as follows:

	1996	1995	1994
NOW	$ 265,551	$ 264,143	$ 197,412
Money market	446,950	455,080	452,620
Regular savings	596,863	610,415	521,298
Certificates of deposit	5,116,808	4,113,465	3,295,445
	$ 6,426,172	$ 5,443,103	$ 4,466,775

9. Borrowings From the Federal Home Loan Bank

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

June 30, 1996

Principal amounts	Interest rates	Maturity Dates
$ 31,400,000	5.17% - 8.30%	1997
5,573,000	4.97% - 6.86%	1998
14,500,000	5.64% - 6.35%	1999
325,000	6.40%	2001
325,000	6.61%	2003
$ 52,123,000		

June 30, 1995

Principal amounts	Interest rates	Maturity Dates
$ 25,400,000	4.41% - 7.65%	1996
5,300,000	5.17% - 8.30%	1997
4,000,000	4.97% - 6.35%	1998
1,000,000	5.75%	1999
$ 35,700,000		

Mortgages, free of liens, pledges and encumbrances, and the Company's Federal Home Loan Bank stock equal to at least 200% of the borrowings from that bank have been pledged 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, 1996 are adjustable, and therefore the rates are subject to change.

10. Notes Payable

At June 30, 1996, notes payable primarily consist of a $2.5 million loan from an unrelated financial institution for the acquisition of a bank. The loan was payable in twenty consecutive equal quarterly payments of principal of $125,000 plus interest payable monthly at a rate equal to the lender's prime rate, floating daily, plus .75%. In August of 1996, the Company refinanced the remaining balance on the note payable of $1,375,000. The new note is payable in eighteen equal quarterly principal payments of $76,389 beginning in calendar year 1997. Interest is payable monthly at 8%. The Company has pledged Northeast Bank F.S.B. common stock and a $1 million key man life insurance policy as collateral for the loan.

The loan agreement contains certain covenants which limits capital expenditures of the Company and the amount of nonperforming loans and requires minimum loan loss reserves, capital, and return on assets. At June 30, 1996, the Company complied with these covenants with the exception of the return on assets covenant which was waived by the lender.

11. Securities Sold Under Repurchase Agreements

During 1996 and 1995, the Company sold securities under agreements to repurchase. The weighted average interest rate on repurchase agreements was 4.25% and 4.99% at June 30, 1996 and 1995, respectively. These borrowings, which were scheduled to mature within 180 days, were collateralized by FHLMC and GNMA securities with a market value of $5,689,000 and amortized cost of $5,875,000 at June 30, 1996, and a market value of $4,000,000 and amortized cost of $3,867,000 at June 30, 1995. The repurchase agreements averaged $3,516,000 and $1,775,000 during the years ended June 30, 1996 and 1995, respectively. The maximum amount outstanding at any month-end during 1996 and 1995 was $4,201,000 and $2,585,000, respectively. Securities sold under these agreements were under the control of the Company during 1996 and 1995.

12. Regulatory Capital Matters

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) was signed into law on December 19, 1991. Regulations implementing the prompt corrective action provisions of FDICIA became effective December 19, 1992. In addition to the prompt corrective action requirements, FDICIA includes significant changes to the legal and regulatory environment for insured depository institutions, including reductions in insurance coverage for certain kinds of deposits, increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions and new regulations concerning internal controls, accounting and operations.

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."

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

To be considered "adequately capitalized," an institution must generally have a leverage ratio of at least 4%, a core capital ratio of at least 3%, a tangible capital ratio of at least 1.5% and a total risk-based capital ratio of at least 8%. An institution is deemed to be "critically undercapitalized" if it has a tangible equity ratio of 2% or less. At June 30, 1996, the Company was in compliance with the regulatory capital requirements.

As of June 30, 1996, the most recent notification from the OTS categorized the Company as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's category. To be categorized as well capitalized, the Company must maintain minimum capital amounts and ratios as set forth in the table that follows.

CAPTION>

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 1996:						
Tangible capital:						
Northeast Bancorp	$14,415,000	6.5%	$ 3,305,000	>1.5%	(no requirement)	
Northeast Bank	15,386,000	7.0%	3,291,000	>1.5%	(no requirement)	
Core capital:						
Northeast Bancorp	$14,415,000	6.5%	$ 6,611,000	>3.0%	$ 8,814,000	>4.0%
Northeast Bank	15,386,000	7.0%	6,582,000	>3.0%	8,775,000	>4.0%
Risked-based capital (total capital):						
Northeast Bancorp	$15,378,000	11.8%	$10,438,000	>8.0%	$13,048,000	>10.0%
Northeast Bank	16,349,000	12.6%	10,362,000	>8.0%	12,952,000	>10.0%

13. Earnings Per Share

Earnings per share have been computed on the basis of the weighted average number of shares of common stock outstanding. The weighted average number of shares outstanding were: 1,270,000, 1,227,400 and 1,205,200 for the years ended June 30, 1996, 1995 and 1994, respectively. All per share data has been restated as a result of the Company's stock split effected in the form of a dividend which occurred in December 1995. Common stock equivalents and potentially dilutive securities were considered in the calculations of weighted average shares outstanding, since their effect was dilutive. Preferred stock dividends have been deducted from net income in the calculation of earnings per share for each of the years.

14. Preferred Stock

The preferred stock, Series A and B, may be converted to common stock on a two to one ratio at the option of the holder and carries voting rights. Dividends are to be paid to the holder of the preferred stock quarterly at a rate equal to interest at prime rate less two percent but in no event less than 7% per annum. The Series B preferred stock has warrants attached for a term of seven years to purchase 133,764 shares of the Company's common stock at $7 per share.

15. Other Expenses

Other expenses includes the following for the years ended June 30, 1996, 1995 and 1994:

	1996	1995	1994
Professional fees	$ 305,721	$ 304,547	$ 374,572
FDIC and other insurance	256,440	417,202	427,227
Supplies	211,126	248,951	193,158
Real estate owned expenses	87,442	99,272	149,570
Provision for losses on OREO	94,711	107,173	62,600
Goodwill amortization	308,913	235,098	119,743
Write-down on securities	93,819	-	84,419
Other	1,564,873	1,395,886	1,392,805
	$ 2,923,045	$ 2,808,129	$ 2,804,094

16. Income Taxes

The current and deferred components of income tax expense (benefit) were as follows for the years ended June 30, 1996, 1995 and 1994:

	1996	1995	1994
Federal:			
Current	$ 668,441	$ 714,055	$ 936,146
Deferred	19,236	122,143	(267,594)
	687,677	836,198	668,552
State and local - current	30,935	32,357	29,444
	$ 718,612	$ 868,555	$ 697,996

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, 1996, 1995 and 1994:

	1996		1995		1994	
	Amount	% of pretax income	Amount	% of pretax income	Amount	% of pretax income
Expected income tax expense at Federal tax rate	$ 650,091	34.0%	$ 801,698	34.0%	$ 645,509	34.0%
State tax, net of federal tax benefit	20,417	1.1	21,562	.9	19,656	1.0
Amortization of goodwill	42,192	2.2	34,671	1.5	34,671	1.8
Dividend received deduction	(6,903)	(.4)	(5,333)	(.2)	(3,276)	(.2)
Low income/ rehabilitation credit	(20,000)	(1.0)	(20,000)	(.9)	(20,000)	(1.1)
Other	32,815	1.7	35,957	1.5	21,436	1.2
	$ 718,612	37.6%	$ 868,555	36.8%	$ 697,996	36.7%

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 1996 and 1995 are presented below:

	1996	1995

Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 650,000	$ 666,000
Deferred loan fees	33,000	103,000
Deferred gain on loan sales	59,000	93,000
Interest on nonperforming loans	77,000	132,000
Difference in tax and financial statement bases of investments	492,000	78,000
Difference in tax and financial statement amortization of goodwill	48,000	-
Other	49,000	24,000
Total deferred tax assets	1,408,000	1,096,000
Deferred tax liabilities:		
Loan loss reserve - tax	(61,000)	(135,000)
Other	(35,000)	(37,000)
Total deferred tax liabilities	(96,000)	(172,000)
Net deferred tax assets, included in other assets	$1,312,000	$ 924,000

The Company has sufficient refundable taxes paid in available carryback years to fully realize its recorded deferred tax asset of $1,408,000.

As a result of the Company filing its 1995 tax return during fiscal year 1996, the Company reclassed $26,000 between current and deferred tax accounts.

For Federal income tax purposes, the Company has designated approximately $2,400,000 of net worth as a reserve for bad debts on loans. The use of this amount for purposes other than to absorb losses on loans would result in taxable income and financial statement tax expense at the then current tax rate.

Effective July 1, 1993, the Company adopted Statement 109, which changed the method of accounting for income taxes to the asset and liability method from the deferred method previously required by APB Opinion 11. The cumulative effect of this change in accounting for income taxes of $260,000 was determined as of July 1, 1993, and is reported separately in the consolidated statement of income for the year ended June 30, 1994.

17. Acquisition

Acquisition of Bank Branches

During 1995, the Company acquired four branches from Key Bank of Maine. The total deposits assumed were $27,749,000. The premium paid to Key Bank for these deposits was $1,590,228. In addition to the assumed deposits, the banks acquired real estate, buildings and furniture totalling $498,500 and other miscellaneous assets and liabilities which are immaterial. The excess of cost over the net assets acquired is being amortized over 10 years. The effective date of the acquisition was October 28, 1994. The acquisition was accounted for using purchase accounting. Separate financial information on the results of operations of the individual branches was not maintained by the seller or the Company and therefore pro-forma results of operations are not presented.

18. 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 for the profit sharing plan for the years ended June 30, 1996, 1995 and 1994 were $99,000, $76,000 and $84,500, 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 3% contributed. For the years ended June 30, 1996, 1995, and 1994, the Company contributed approximately $36,800, $30,800, and $14,700, respectively.

Stock Option Plans

The Company adopted Stock Option Plans in 1987, 1989 and 1992. 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 at the fair market value to employees of the Company. In the case of nonqualified stock options, which may be granted to employees and nonemployee directors, the difference between the exercise price and the fair market value of the common stock on the date of exercise will be a tax deductible expense to the Company. 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 of the share of common stock on the date the option is granted. The options are exercisable for a maximum of ten years after the options are granted in the case of all incentive stock options, three years for nonqualified stock options in the 1987 plan and five years for nonqualified stock options in the 1989 and 1992 plans.

In accordance with the Stock Option Plans, a total of 236,000 shares of unissued common stock are reserved for issuance pursuant to incentive stock options and 60,000 shares of unissued common stock are reserved for issuance pursuant to nonqualified stock options.

A summary of option activity for the years ended June 30, 1996 and 1995 follows:

	1996		1995	
	Incentive Plan	Non qualified Plan	Incentive Plan	Non qualified Plan
Outstanding at beginning of year	136,000	-	95,000	-
Granted during the year	-	-	45,000	-
Exercised, at $5.00 per share	38,000	-	-	-
Canceled	5,000	_	4,000	-
Outstanding at end of year	93,000	-	136,000	_
Price range of options granted	$5.00 - $11.25	-	$5.00 - $11.25	-
Average price of options outstanding	$7.66	-	$7.05	-

In October 1995, the FASB issued Statement No. 123, Accounting for Stock-Based Compensation, which became effective on July 1, 1996 for the Company. This Statement establishes a fair value based method of accounting for stock-based compensation plans under which compensation cost is measured at the grant date based on the value of the award and is recognized over the service period. However, the statement allows a company to continue to measure compensation cost for such plans under Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Under APB Opinion No. 25, 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. The Company has elected to continue to follow the accounting under APB Opinion No. 25. Statement No. 123 requires companies which elect to continue to follow the accounting in APB Opinion No. 25 to disclose in the notes to their financial statements pro forma net income and earnings per share as if the value based method of accounting had been applied. Management has not determined the impact of the adoption of Statement No. 123.

Stock Purchase Plan

The Company has a stock purchase plan which covers substantially all full-time employees with one year of service. Offerings under the Plan will be made quarterly at the market value on the offering termination date. The maximum number of shares which may be granted under the plan is 104,000 shares.

19. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments with contract amounts which represent credit risk:

	1996	1995
Commitments to originate loans:		
Residential real estate mortgages	$ 4,975,000	$ 4,583,000
Commercial real estate mortgages, including multi-family residential real estate	4,045,000	1,850,000
Commercial business loans	1,565,000	360,000
Consumer	-	4,000
	10,585,000	6,797,000
Unused lines of credit	6,321,000	4,331,000
Standby letters of credit	221,000	341,000
Unadvanced portions of construction loans	2,244,000	952,000

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

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

The Company has only limited involvement with derivative financial instruments and they are used for trading purposes. The derivative financial instruments used by the Company are covered call and put contracts on its equity securities portfolio. Gains and losses from entering into these types of 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.

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.

20. Condensed Parent Information

Condensed Financial Statements of the Parent Company

Balance Sheets

Assets	June 30, 1996	1995
Cash and due from banks	$ 1,235,116	$ 88,921
Investment in subsidiary	16,556,065	17,357,978
Premises and equipment, net	625,632	603,763
Goodwill, net	917,766	1,032,279
Other assets	385,848	331,897
Total assets	$ 19,720,427	$ 19,414,838
Liabilities and Stockholders' Equity		
Note payable	$ 1,500,000	$ 2,000,000
Other liabilities	69,185	139,560
	1,569,185	2,139,560
Stockholders' equity	18,151,242	17,275,278
Total liabilities and stockholders' equity	$ 19,720,427	$ 19,414,838

Statements of Income

	Years Ended June 30, 1996	1995	1994
Income:			
Dividends from banking subsidiary	$ 1,436,000	-	$ 642,000
Management fees charged to subsidiary	2,119,992	1,673,179	1,265,620
Other income	25,100	30,083	40,536
Total income	3,581,092	1,703,262	1,948,156
Expenses:			
Goodwill amortization	114,513	102,939	104,997
Origination fee amortization	18,181	4,743	4,742
Interest on note payable	157,959	201,126	174,462
Salaries and benefits	1,326,271	1,318,246	856,249
Occupancy expense	140,065	125,289	104,832
Equipment expense	179,977	159,161	90,012
General and administrative expenses	422,411	383,980	306,667
Total expenses	2,359,377	2,295,484	1,641,961
Income (loss) before income tax benefit, equity (deficit) in undistributed net income of subsidiary and cumulative effect of change in accounting principle	1,221,715	(592,222)	306,195
Income tax benefit	31,771	166,182	81,351
Income (loss) before equity (deficit) in undistributed net income of subsidiary and			

cumulative effect of change in accounting principle	1,253,486	(426,040)	387,546
Equity (deficit) in undistributed net income of subsidiary	(60,066)	1,915,421	813,013
Income before cumulative effect of change in accounting principle	1,193,420	1,489,381	1,200,559
Cumulative effect at July 1, 1994 of change in accounting for income taxes	-	-	260,000
Net income	$ 1,193,420	$ 1,489,381	$ 1,460,559

Statements of Cash Flows

	Years Ended June 30, 1996	1995	1994
Cash flows from operating activities:			
Net income	$ 1,193,420	$ 1,489,381	$ 1,460,559
Adjustments to reconcile net income to net cash provided (used) by operations:			
Cumulative effect of change in accounting principle	-	-	(260,000)
Amortization	132,694	107,682	109,739
Depreciation	120,875	100,321	63,314
Undistributed (earnings) deficit of subsidiary	60,066	(1,915,421)	(813,013)
Decrease (increase) in other assets	(72,132)	24,182	(15,634)
(Decrease) increase in other liabilities	(70,375)	23,242	23,276
Net cash provided (used) by operating activities	1,364,548	(170,613)	568,241
Cash flows from investing activities:			
Proceeds from sale of premises and equipment	24,473	-	-
Purchase of premises and equipment	(167,217)	(84,439)	(203,782)
Increase in goodwill	-	-	(16,526)
Net cash used by investing activities	(142,744)	(84,439)	(220,308)
Cash flows from financing activities:			
Principal payments on note payable	(500,000)	(500,000)	-
Stock options exercised	190,000	-	56,900
Proceeds from issuance of common stock	11,558	2,193	-
Proceeds from issuance of preferred stock	-	-	999,992
Treasury stock purchased	(52,277)	-	-
Dividends paid to stockholders	(424,890)	(315,175)	(278,986)
Warrants exercised	700,000	-	-
Cash flow provided (used) by financing activities	(75,609)	(812,982)	777,906
Net increase (decrease) in cash	1,146,195	(1,068,034)	1,125,839
Cash and cash equivalents, beginning of year	88,921	1,156,955	31,116

Cash and cash equivalents, end of year	$ 1,235,116	$ 88,921	$ 1,156,955
Supplemental schedule of cash flow information:			
Interest paid	$ 157,959	$ 201,126	$ 174,462
Income taxes paid	913,000	794,000	872,500
Supplemental schedule of noncash investing and financing activities:			
Advance contributed as capital to nonbanking subsidiary	$ -	$ -	$ 241,790

21. Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Trading Account Securities and Available for Sale Securities

The fair value of investment securities is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers at or near June 30, 1996 and 1995. 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 Held for Sale

The fair value of loans held for sale is estimated based on bid quotations received from securities dealers at or near June 30, 1996 and 1995.

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.

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 market 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 as of June 30, 1996 and 1995. 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 at June 30, 1996 and 1995, the fair value of the Company's net assets could increase.

Borrowed Funds, Notes 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 notes payable approximates the carrying value at June 30, 1996 and 1995, as the interest rates adjust periodically.

The fair value of repurchase agreements approximates the carrying value at June 30, 1996 and 1995, as these financial instruments have a short maturity.

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 financialinstruments include the deferred tax asset, premises and equipment, and other real estate owned. 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, 1996 and 1995:

	June 30, 1996		June 30, 1995	
	Carrying	Estimated	Carrying	Estimated

	Value	Fair Value	Value	Fair Value
Non-Trading Instruments:				
Financial assets:				
Cash and cash equivalents	$ 11,566,000	$ 11,566,000	$ 14,740,000	$ 14,740,000
Available for sale securities	29,650,000	29,650,000	10,148,000	10,148,000
Loans held for sale	448,000	452,000	529,000	532,000
Loans	167,302,000	165,730,000	167,740,000	166,290,000
Interest receivable	1,352,000	1,352,000	1,139,000	1,139,000
Financial liabilities:				
Deposits (with no stated maturity)	59,117,000	59,117,000	60,381,000	60,381,000
Time deposits	86,078,000	85,995,000	86,739,000	86,614,000
Borrowed funds	52,123,000	51,888,000	35,700,000	35,670,000
Notes payable	1,502,000	1,502,000	2,010,000	2,010,000
Repurchase agreements	3,763,000	3,763,000	2,585,000	2,585,000
Trading Instruments:				
Financial assets:				
Trading account securities	198,000	198,000	1,400	1,400

INDEPENDENT AUDITORS REPORT

The Board of Directors
Northeast Bancorp and Subsidiary

We have audited the accompanying consolidated statements of financial condition of Northeast Bancorp and Subsidiary (the assumed name of Bethel Bancorp and Subsidiaries) as of June 30, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The consolidated statements of income, changes in stockholders' equity and cash flows, of Bethel Bancorp and Subsidiaries as of June 30, 1994 and for the year then ended, were audited by other auditors whose report thereon dated August 5, 1994 included an explanatory paragraph that described the Company's change in its method of accounting for income taxes in 1994 to adopt provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, on July 1, 1993, as discussed in note 16 to the financial statements.

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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Bancorp and Subsidiary as of June 30, 1996 and 1995, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

Portland, Maine /s/ Baker Newman & Noyes

August 16, 1996 Limited Liability Company

The Board of Directors
Northeast Bancorp and Subsidiary:

We have audited the accompanying consolidated statements of income, changes in stockholders' equity, and cash flows of Northeast Bancorp and subsidiary (formerly Bethel Bancorp and subsidiaries) for the year ended June 30, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit 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 misstatements. 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 audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Northeast Bancorp and subsidiary for the year ended June 30, 1994 in conformity with generally accepted accounting principles.

As discussed in note 16, the Company changed its method of accounting for income taxes in 1994 to adopt the provisions of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes on July 1, 1993.

Portland, Maine /s/ KPMG Peat Marwick LLP

August 5, 1994 KPMG Peat Marwick LLP

(b) Supplementary Financial Information

Northeast Bancorp Consolidated
Distribution of Assets, Liabilities and Net Worth
Interest Rates and Interest Differential
Years Ended June 30, 1996, 1995 and 1994

June 30, 1996

	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Earning Assets:			
Securities Held to Maturity	--	--	--
Securities Available for Sale	1,432,475	89,684	6.26%
Trading Securities	162,430	5,474	3.37%
Mortgage-backed Securities	16,013,118	1,149,407	7.18%
FHLB Stock	2,270,262	148,762	6.55%
Loans (3)	169,908,865	16,010,685	9.42%
FHLB Overnight Deposits & Other	10,523,674	590,850	5.61%
Total Earning Assets	200,310,824	17,994,862	8.98%
Non-interest Earning Assets:			
Cash & Due from Banks	3,318,095		
Premise & Equip Net	3,784,213		
Other Assets	7,444,099		
(Allowance for Loan Loss)	(2,482,368)		
Total Assets	$212,374,863		

Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 14,801,458	265,551	1.79%
Money Market	12,980,882	446,950	3.44%
Savings	22,258,232	596,863	2.68%
Time	87,364,527	5,116,808	5.86%
Total Deposits	137,405,099	6,426,172	4.68%
Repurchase Agreements	3,516,283	166,210	4.73%
Other Borrowed Funds	40,797,048	2,536,022	6.22%
Total Interest Bearing Liabilities	181,718,430	9,128,404	5.02%
Non-interest Bearing Liabilities			
Demand	10,019,506		
Other	2,323,046		
Net Worth	18,313,881		
Total Liabilities & Net Worth	$212,374,863		
Net Interest Income		$ 8,866,458	
Interest Rate Spread (1)			3.96%
Net yield on Interest Earning Assets (2)			4.43%
Equity to Assets Ratio (4)			8.62%

June 30, 1995

	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Earning Assets:			
Securities Held to Maturity	$ 897,691	$ 75,691	8.43%
Securities Available for Sale	971,763	60,159	6.19%
Trading Securities	186,757	1,165	0.62%
Mortgage-backed Securities	15,181,721	1,088,420	7.17%
FHLB Stock	2,470,616	189,980	7.69%
Loans	164,344,609	15,085,138	9.18%
FHLB Overnight Deposits & Other	7,763,217	422,372	5.44%
Total Earning Assets	191,816,374	16,922,925	8.82%
Non-interest Earning Assets:			
Cash & Due from Banks	3,342,796		
Premise & Equip Net	3,594,335		
Other Assets	8,078,832		
(Allowance for Loan Loss)	(2,569,032)		
Total Assets	$204,263,305		
Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 14,673,951	264,143	1.80%
Money Market	14,352,970	455,080	3.17%
Savings	23,027,846	610,415	2.65%
Time	80,114,965	4,113,465	5.13%
Total Deposits	132,169,732	5,443,103	4.12%
Repurchase Agreements	1,776,296	84,921	4.78%
Other Borrowed Funds	43,496,049	2,524,896	5.80%
Total Interest Bearing Liabilities	177,442,077	8,052,920	4.54%
Non-interest Bearing Liabilities			
Demand	8,526,363		
Other	1,904,767		
Net Worth	16,390,098		

Total Liabilities & Net Worth	$204,263,305		
Net Interest Income		$ 8,870,005	
Interest Rate Spread (1)			4.28%
Net yield on Interest Earning Assets (2)			4.62%
Equity to Assets Ratio (4)			8.02%

June 30, 1994

	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:			
Earning Assets:			
Securities Held to Maturity	$ 919,560	$ 48,302	5.25%
Securities Available for Sale	1,953,884	122,634	6.28%
Trading Securities	88,531	85	0.10%
Mortgage-backed Securities	4,593,959	294,037	6.40%
FHLB Stock	2,079,640	156,940	7.55%
Loans	155,786,903	13,161,935	8.45%
FHLB Overnight Deposits & Other	7,349,656	252,308	3.43%
Total Earning Assets	172,772,133	14,036,241	8.12%
Non-interest Earning Assets:			
Cash & Due from Banks	2,689,517		
Premise & Equip Net	3,246,385		
Other Assets	6,365,909		
(Allowance for Loan Loss)	(2,311,357)		
Total Assets	$182,762,587		
Liabilities & Net Worth:			
Interest Bearing Liabilities:			
Deposits			
Now	$ 11,761,069	197,412	1.68%
Money Market	15,248,339	452,620	2.97%
Savings	20,955,884	521,298	2.49%
Time	70,645,721	3,295,445	4.66%
Total Deposits	118,611,013	4,466,775	3.77%
Repurchase Agreements	0	0	0.00%
Other Borrowed Funds	38,535,140	2,012,937	5.22%
Total Interest Bearing Liabilities	157,146,153	6,479,712	4.12%
Non-interest Bearing Liabilities			
Demand	5,578,538		
Other	5,004,547		
Net Worth	15,033,349		
Total Liabilities & Net Worth	$182,762,587		
Net Interest Income		$ 7,556,529	
Interest Rate Spread (1)			4.00%
Net yield on Interest Earning Assets (2)			4.37%
Equity to Assets Ratio (4)			8.23%

(1.) Interest rate spread is the difference between the yield on earning assets and the rates paid on interest-bearing liabilities.
(2.) Net yield on interest earning assets is net interest income divided by average earning assets.
(3.) Non-accruing loans are included in the average of net loans.
(4.) Average equity divided by average assets.

Northeast Bancorp Consolidated

Changes in Net Interest Income
Years Ended June 30, 1996 and 1995

June 30, 1996 Compared to June 30, 1995

	Variance Due to Rate	Variance Due to Volume	Variance Due to Rate/Volume	Total Variance
Interest Earning Assets:				
Securities Held to Maturity	$ 0	$ (75,691)	$ 0	$ (75,691)
Securities Available for Sale	681	28,521	323	29,525
Trading Securities	5,129	(152)	(668)	4,309
Mortgage-backed Securities	1,310	59,605	72	60,987
FHLB Stock	(28,090)	(15,406)	2,278	(41,218)
Loans	401,222	510,741	13,584	925,547
FHLB Overnight Deposits & Other	13,493	150,188	4,797	168,478
Total Income on Earning Assets	393,745	657,806	20,386	1,071,937
Interest Bearing Liabilities:				
Deposits:				
Now	(880)	2,295	(7)	1,408
Money Market	39,113	(43,504)	(3,739)	(8,130)
Savings	7,085	(20,401)	(236)	(13,552)
Time	578,747	372,225	52,371	1,003,343
Total Deposits	624,065	310,615	48,389	983,069
Repurchase Agreements	(958)	83,185	(938)	81,289
Borrowed funds	178,901	(156,674)	(11,101)	11,126
Total Interest Expense	802,008	237,126	36,350	1,075,484
Change in Net interest Income	$ (408,263)	$ 420,680	$ (15,964)	$ (3,547)

June 30, 1995 Compared to June 30, 1994

	Variance Due to Rate	Variance Due to Volume	Variance Due to Rate/Volume	Total Variance
Interest Earning Assets:				
Securities Held to Maturity	$ 29,233	$ (1,149)	$ (695)	$ 27,389
Securities Available for Sale	(1,675)	(61,642)	842	(62,475)
Trading Securities	467	94	519	1,080
Mortgage-backed Securities	35,317	677,671	81,395	794,383
FHLB Stock	2,976	29,505	559	33,040
Loans	1,137,694	723,013	62,496	1,923,203
FHLB Overnight Deposits & Other	147,563	14,197	8,304	170,064
Total Income on Earning Assets	1,351,575	1,381,689	153,420	2,886,684
Interest Bearing Liabilities:				
Deposits:				
Now	14,297	48,893	3,541	66,731
Money Market	30,849	(26,577)	(1,811)	2,461
Savings	34,194	51,542	3,381	89,117
Time	331,826	441,716	44,477	818,019
Total Deposits	411,166	515,574	49,588	976,328
Repurchase Agreements	0	84,921	0	84,921
Borrowed funds	223,984	259,140	28,835	511,959

Total Interest Expense	635,150	859,635	78,423	1,573,208
Change in Net interest Income	$ 716,425	$ 522,054	$ 74,997	$1,313,476

This table reflects changes in net interest income attributable to the change in interest rates and the change in the volume of interest-bearing assets and liabilities. Amounts attributable to the change in rate are based upon the change in rate multiplied by the prior year's volume. Amounts attributable to the change in volume are based upon the changes in volume multiplied by the prior year's rate. The combined effect of changes in both volume and rate are calculated by multiplying the change in rate by the change in volume.

Northeast Bancorp Consolidated
Maturities and Repricing of Loans
As of June 30, 1996

	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	Total Loans
Mortgages:					
Residential	$45,211,547	$10,920,760	$ 7,342,838	$49,946,646	$113,421,791
Commercial	19,638,340	3,604,126	509,307	1,562,355	25,314,128
Construction	2,510,010	258,759	0	0	2,768,769
Non-Mortgage Loans :					
Commercial	12,427,971	1,212,340	278,941	70,968	13,990,220
Consumer	1,675,607	4,185,767	2,444,396	6,050,246	14,356,016
Total Loans	$81,463,475	$20,181,752	$10,575,482	$57,630,215	$169,850,924

Loans due after 1 year:	
Fixed	$75,656,528
Variable	12,730,921
Total due after 1 year:	$88,387,449

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
Securities Held to Maturity
Years Ended June 30, 1996, 1995 and 1994

Securities Held to Maturity	June 30, 1996	June 30, 1995	June 30, 1994
Book Value (thousands)			
U.S. Government and Agency Obligations	$ 0	$ 0	$ 1,383
Mortgage-backed Securities	0	0	5,669
FNMA Guaranteed REMIC	0	0	968
Other Bonds	0	0	0
Total Securities Held to Maturity	$ 0	$ 0	$ 8,020

This table sets forth the book value of securities held to maturity at the dates indicated.
During 1995, the Company transferred all its securities from held to maturity to available for sale. (See financial statement footnote #2).

Northeast Bancorp Consolidated
Securities Available for Sale
Years Ended June 30, 1996, 1995 and 1994

Securities Available for Sale	June 30, 1996	June 30, 1995	June 30, 1994
Market Value (thousands)			
U.S. Government and Agency Obligations	$ 1,425	$ 239	$ 227
Mortgage-backed Securities	27,646	9,298	1,265
Other Bonds	139	141	129
Equity Securities	440	470	439
Total Securities Available for Sale	$ 29,650	$ 10,148	$ 2,060

This table sets forth the market value of securities available for sale at the dates indicated.

Northeast Bancorp Consolidated
Investment Maturity

Securities Available for Sale As of June 30, 1996	Weighted Average Rate	Carrying Value
Due in one Year	5.08%	$ 247
Due after one year through five years	5.40%	238
Due after five years through ten years	5.95%	139
Due after ten years	7.18%	940
Mortgage-backed securities maturing September 2003 to June 2026	7.26%	27,646
Total Securities Available for Sale	7.22%	$ 29,210

This table sets forth the anticipated maturities of debt securities available for sale and the respective weighted average rates within these ranges.

Northeast Bancorp Consolidated
Loan Portfolio
Years Ended June 30, 1996, 1995, 1994, 1993 and 1992

June 30, 1996

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 115,432	67.96%
Consumer & Other	14,356	8.45%
Commercial Mortgage	26,073	15.35%

	Amount	Percent of Total Loans
Commercial	13,990	8.24%
Total Loans	169,851	100.00%
Less: Allowance for loan losses	2,549	
Net Loans	$ 167,302	

June 30, 1995

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 117,795	69.24%
Consumer & Other	16,115	9.47%
Commercial Mortgage	23,975	14.09%
Commercial	12,255	7.20%
Total Loans	170,140	100.00%
Less: Allowance for loan losses	2,396	
Net Loans	$ 167,744	

June 30, 1994

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 110,461	69.71%
Consumer & Other	14,076	8.88%
Commercial Mortgage	22,463	14.18%
Commercial	11,461	7.23%
Total Loans	158,461	100.00%
Less: Allowance for loan losses	2,463	
Net Loans	$ 155,998	

June 30, 1993

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 108,079	71.69%
Consumer & Other	12,129	8.05%
Commercial Mortgage	20,051	13.30%
Commercial	10,497	6.96%
Total Loans	150,756	100.00%
Less: Allowance for loan losses	2,123	
Net Loans	$ 148,633	

June 30, 1992

	Amount	Percent of Total Loans
Loan Portfolio (thousands)		
Residential Mortgage	$ 102,594	72.54%
Consumer & Other	10,958	7.75%
Commercial Mortgage	15,172	10.73%
Commercial	12,707	8.98%

Total Loans	141,431	100.00%
Less: Allowance for loan losses	1,555	
Net Loans	$ 139,876	

This table shows the Company's loan distribution at the end of each of the last five years.

Northeast Bancorp Consolidated
Allowance for Loan Losses
Years Ended June 30, 1996, 1995, 1994, 1993 and 1992

June 30, 1996

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 247	67.96%
Commercial Mortgage	738	15.35%
Commercial & Installment	603	16.69%
Unallocated	961	0.00%
Total	$ 2,549	100.00%

June 30, 1995

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 593	69.24%
Commercial Mortgage	237	14.09%
Commercial & Installment	374	16.67%
Unallocated	1,192	0.00%
Total	$ 2,396	100.00%

June 30, 1994

	Amount	Percent of Loans in Each Category to Total Loans
Allowance for Loan Losses (thousands)		
Real Estate	$ 649	69.71%
Commercial Mortgage	232	14.18%
Commercial & Installment	387	16.11%
Unallocated	1,195	0.00%
Total	$ 2,463	100.00%

June 30, 1993

Allowance for Loan Losses (thousands)	Amount	Percent of Loans in Each Category to Total Loans
Real Estate	$ 1,221	71.69%
Commercial Mortgage	256	13.30%
Commercial & Installment	390	15.01%
Unallocated	256	0.00%
Total	$ 2,123	100.00%

June 30, 1992

Allowance for Loan Losses (thousands)	Amount	Percent of Loans in Each Category to Total Loans
Real Estate	$ 632	72.54%
Commercial Mortgage	250	10.73%
Commercial & Installment	473	16.73%
Unallocated	200	0.00%
Total	$ 1,555	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
Years ended June 30, 1996, 1995, 1994, 1993 and 1992

	June 30, 1996	June 30, 1995	June 30, 1994	June 30, 1993	June 30, 1992
Non-performing loans (thousands)					
Mortgages	$ 2,246	$ 2,383	$ 2,047	$ 2,308	$ 1,425
Other	357	187	676	181	173
Total non-performing loans	2,603	2,570	2,723	2,489	1,598
Other Real Estate Owned	514	1,069	1,994	2,308	2,096
Total non-performing assets	$ 3,117	$ 3,639	$ 4,717	$ 4,797	$ 3,694
Total non-performing loans to total loans	1.53%	1.51%	1.72%	1.65%	1.13%

Total non-performing assets to total assets	1.40%	1.75%	2.47%	2.68%	2.25%

This table sets forth certain information concerning non-performing loans and assets and the ratios of non-performing loans to total loans and non-performing assets to total assets at the dates indicated.

Non-performing loans are problem loan accounts for which the Company has ceased accrual of interest because the loan is 90 days past due or because collectability is doubtful, whichever is earlier.

Management believes that all loans that are considered potential problems are disclosed in the current non-performing loans table above with the exception of loans internally rated substandard. At June 30, 1996, the Company had approximately $2,541,000 of loans classified as substandard that could potentially become non-performing due to previous delinquencies or marginal cash flows.

No loans greater than 90 days past due are on accrual status and there are no troubled debt restructurings not disclosed above.

Refer to the financial statement footnotes #1 & #4 for further discussion of the Company's non-performing loan policy and interest income recognition.

Northeast Bancorp Consolidated
Summary of Loan Losses Experience (in thousands)
Years Ended June 30, 1996, 1995, 1994, 1993 and 1992

	June 30, 1996	June 30, 1995	June 30, 1994	June 30, 1993	June 30, 1992
Average net loans outstanding, During period	$166,965	$161,342	$153,476	$149,051	$131,721
Net loans outstanding, End of period	$167,302	$167,440	$155,998	$148,633	$139,876
Allowance for loan losses, Beginning of period	$ 2,396	$ 2,463	$ 2,123	$ 1,555	$ 1,005
Loans charged off:					
Mortgage	326	419	351	203	0
Commercial/installment	200	342	379	110	196
Total loans charged off	526	761	730	313	196
Recoveries on amounts previously charged off:					
Mortgage	73	8	25	0	0
Commercial/installment	3	45	24	29	13
Total Recoveries	76	53	49	29	13
Net loans charged off	450	708	681	284	183
Provision for loan losses	603	641	1,021	852	733
Allowance for loan losses, End of period	$ 2,549	$ 2,396	$ 2,463	$ 2,123	$ 1,555
Net loans charged-off as a percentage of average loans outstanding	0.27%	0.44%	0.44%	0.19%	0.14%
Allowance for loan losses, as a percentage of net loans outstanding at the end of					

period	1.52%	1.43%	1.58%	1.43%	1.11%

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 and Rates (thousands)
For Years Ended June 30, 1996, 1995 and 1994

	June 30, 1996		June 30, 1995		June 30, 1994	
	Amount	Rate	Amount	Rate	Amount	Rate
Average Deposits:						
Non-interest bearing demand deposits	$ 10,020	0.00%	$ 8,526	0.00%	$ 5,579	0.00%
Regular savings	22,258	2.68%	23,028	2.65%	20,956	2.49%
NOW and Money Market	27,782	2.56%	29,027	2.48%	27,009	2.41%
Time deposits	87,365	5.86%	80,115	5.13%	70,646	4.66%
Total Average Deposits	$147,425	3.69%	$140,696	3.87%	$124,190	3.60%

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, 1996

	Balance
Time Deposits $100,000 & Over (in thousands):	
3 months or less	$ 1,863
Over 3 through 6 months	3,037
Over 6 through 12 months	4,603
Over 12 months	5,966
Total Time Deposits $100,000 & Over	$ 15,469

Northeast Bancorp Consolidated
Maturities and Repricing of Earning Assets & Interest-bearing Liabilities
As of June 30, 1996
(in thousands)

	Less Than 1 Year	1-5 Years	Over 5 Years	Total	% of Total
EARNING ASSETS					
Real Estate Loans:					

Fixed	$ 1,553	$ 2,155	$ 59,361	$ 63,069	29.89%
Variable	65,807	12,629	0	78,436	37.18%
Total Real Estate Loans	67,360	14,784	59,361	141,505	67.07%
Non-Real Estate Loans:					
Fixed	1,103	5,296	8,844	15,243	7.22%
Variable	13,001	102	0	13,103	6.21%
Total Non-Real Estate Loans	14,104	5,398	8,844	28,346	13.44%
Investment Securities & Other Earning Assets	9,073	238	31,821	41,132	19.50%
Total Earning Assets	$ 90,537	$ 20,420	$100,026	$210,983	100.00%
INTEREST-BEARING LIABILITIES					
Deposits:					
Regular savings, value, & club accounts	$ 21,885			$ 21,885	11.45%
NOW Accounts	13,516			13,516	7.07%
Money market accounts	12,292			12,292	6.43%
Certificates of deposit	66,495	19,557	26	86,078	45.03%
Total Deposits	114,188	19,557	26	133,771	69.97%
Repurchase Agreements	3,763	0	0	3,763	1.97%
Borrowings & Notes Payable	31,902	21,398	325	53,625	28.05%
Total Interest-bearing Liabilities	$149,853	$ 40,955	$ 351	$191,159	100.00%
Excess(deficiency) of earning assets over interest-bearing liabilities	(59,316)	(20,535)	99,675	19,824	
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities	(59,316)	(79,851)	19,824	19,824	
Cumulative excess (deficiency) of earning assets over interest-bearing liabilities as a % of total assets	(-26.68%)	(-35.92%)	8.92%	8.92%	

This table summarizes the anticipated maturities and repricing of the Company's earning assets and interest-bearing liabilities at June 30, 1996.

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/liabilitiy 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 the schedule above.

(1) Selected Quarterly Financial Data

Northeast Bancorp Consolidated
Quarterly Data
As of June 30, 1996

	1st Qtr Sept. 30 1995	2nd Qtr Dec. 31 1995	3rd Qtr Mar. 31 1996	4th Qtr June 30 1996

Interest Income				
Interest on loans	$ 4,098,178	$ 4,059,758	$ 4,003,840	$ 3,848,909
Interest & dividends on investments & available for sale securities	384,493	445,954	522,346	631,385
Total Interest Income	4,482,671	4,505,712	4,526,186	4,480,294
Interest Expense				
Interest on Deposits	1,635,482	1,652,178	1,611,581	1,526,929
Interest on Repurchase Agreements	33,913	48,880	42,872	40,545
Interest on Borrowings	599,959	592,950	654,874	688,239
Total Interest Expense	2,269,354	2,294,008	2,309,327	2,255,713
Net Interest Income	2,213,317	2,211,704	2,216,859	2,224,581
Provision for Loan Losses	147,855	147,708	159,960	147,337
Net Interest Income after Provision for Loan Losses	2,065,462	2,063,996	2,056,899	2,077,244
Securities Transactions	120,593	92,797	35,280	30,225
Other Operating Income	493,700	457,681	420,186	446,727
Other Operating Expense	2,015,938	1,916,693	2,029,985	2,486,141
Income Before Income Taxes	663,817	697,781	482,380	68,055
Income Tax Expense	242,180	254,345	180,575	41,512
Net Income	$ 421,637	$ 443,436	$ 301,805	$ 26,543
Net Income Per Common Share:				
Primary earnings per share	$ 0.32	$ 0.32	$ 0.20	$ (0.01)
Fully diluted earnings per share	$ 0.29	$ 0.29	$ 0.19	$ 0.02

Northeast Bancorp Consolidated
Quarterly Data
As of June 30, 1995

	1st Qtr Sept. 30 1994	2nd Qtr Dec. 31 1994	3rd Qtr Mar. 31 1995	4th Qtr June 30 1995
Interest Income				
Interest on loans	$ 3,577,983	$ 3,695,313	$ 3,811,479	$ 4,000,363
Interest & dividends on investments & available for sale securities	321,218	467,246	532,491	516,832
Total Interest Income	3,899,201	4,162,559	4,343,970	4,517,195
Interest Expense				
Interest on Deposits	1,152,639	1,301,403	1,410,185	1,578,876
Interest on Repurchase Agreements	--	21,442	25,721	37,758
Interest on Borrowings	635,636	597,446	628,564	663,250
Total Interest Expense	1,788,275	1,920,291	2,064,470	2,279,884
Net Interest Income	2,110,926	2,242,268	2,279,500	2,237,311
Provision for Loan Losses	180,317	168,497	145,776	146,044
Net Interest Income after Provision for Loan Losses	1,930,609	2,073,771	2,133,724	2,091,267

Securities Transactions	17,092	214,859	150,061	37,301
Other Operating Income	392,723	443,771	393,324	467,310
Other Operating Expense	1,705,467	2,087,524	2,030,353	2,164,532
Income Before Income Taxes	634,957	644,877	646,756	431,346
Income Tax Expense	229,245	237,763	238,683	162,864
Net Income	$ 405,712	$ 407,114	$ 408,073	$ 268,482
Net Income Per Common Share:				
Primary earnings per share	$ 0.30	$ 0.30	$ 0.31	$ 0.19
Fully diluted earnings per share	$ 0.28	$ 0.28	$ 0.28	$ 0.18

The reduction of net income for the quarter ending June 30, 1996 is primarily a result of increased operating expenses due to the Bank merger, the writedown of equity securities and the provision for other real estate owned.

(2) Information on the Effects of Changing Prices

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 many 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.

(3) Information About Oil and Gas Producing Activities

Not Applicable.

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

KPMG Peat Marwick LLP was previously the principal accountants for Bethel Bancorp. On February 6, 1995, that firm's appointment as principal accountants was terminated and Baker Newman & Noyes, Limited Liability Company was engaged as principal accountants. The decision to change accountants has been approved by the Board of Directors on February 6, 1995.

In connection with the audits of the two fiscal years ended June 30, 1994 and the subsequent interim period through February 6, 1995, there were no disagreements with KPMG Peat Marwick on any matter of accounting principles or practices, financial statements disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

The audit reports of KPMG Peat Marwick LLP on the consolidated financial statements of Bethel Bancorp as of and for the years ended June 30, 1994 and 1993 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" sections of the Company's definitive Proxy Statement for the 1996 Annual Meeting of Shareholders is incorporated herein by reference.

Item 11. Executive Compensation

The "Excutive Compensation and Other Information" section of the Company's definitive Proxy Statement for the 1996 Annual Meeting of Shareholders is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The "Election of Directors" section of the Company's definitive Proxy Statement for the 1996 Annual Meeting of Shareholders is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The "Transaction with Management" section of the Company's definitive Proxy Statement for the 1996 Annual Meeting of Shareholders 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, 1996 and 1995

Consolidated Statements of Income for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Changes in Stockholders' Equity for the years ended June 30, 1996, 1995 and 1994

Consolidated Statements of Cash Flows for the years ended June 30, 1996, 1995 and 1994

(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 Bethel 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 Bethel Bancorp's Current Report on Form 8-K dated May

4, 1994

3.1	Conformed Articles of Incorporation of Bethel Bancorp, incorporated by reference to Exhibit 3.1 to Bethel Bancorp's Current Report on Form 10-K dated June 30, 1995
3.2	Bylaws of Northeast Bancorp are filed herewith as Exhibit 3.2
10.1*	1987 Stock Option Plan of 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 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 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
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 20, 1996 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/ Joseph A. Aldred, Jr. Joseph A. Aldred, Jr.	Director	September 20, 1996
/s/ John B. Bouchard John B. Bouchard	Director	September 20, 1996
/s/ Norris T. Brown Norris T. Brown	Director	September 20, 1996

/s/ A. William Cannan A. William Cannan	Director, Executive Vice President	September 20, 1996
/s/ James D. Delamater James D. Delamater	Director, President and Chief Executive Officer (Principal Executive Officer)	September 20, 1996
/s/ Ronald J. Goguen Ronald J. Goguen	Director	September 20, 1996
/s/ Judith W. Hayes Judith W. Hayes	Director	September 20, 1996
/s/ Normand R. Houde Normand R. Houde	Director	September 20, 1996
/s/ Philip C. Jackson Philip C. Jackson	Director Vice President	September 20, 1996
/s/ Roland Kendall Roland Kendall	Director	September 20, 1996
/s/ Robert Morrell Robert Morrell	Director	September 20, 1996
/s/ John W. Trinward, DMD John W. Trinward, DMD	Chairman of the Board	September 20, 1996
/s/ Edmond J. Vachon Edmond J. Vachon	Director	September 20, 1996
/s/ Stephen W. Wight Stephen W. Wight	Director	September 20, 1996
/s/ Dennis A. Wilson Dennis A. Wilson	Director	September 20, 1996
/s/ Richard E. Wyman, Jr. Richard E. Wyman, Jr.	Chief Financial Officer (Principal) Financial and Accounting Officer)	September 20, 1996

EXHIBIT INDEX

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NORTHEAST BANCORP

BY-LAWS

ARTICLE I

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meeting.

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

Section 2. Annual Meetings.

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

Section 3. Special Meetings.

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

Section 4. Quorum.

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

Section 5. Organization.

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

Section 6. Voting.

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

(1) on the date fixed pursuant to Section 2 of Article VI of the By-laws as the record date for the determination of shareholders entitled to

vote at such meeting, notwithstanding the sale, or other disposal or transfer on the books of the Corporation of such share on or after the date so fixed, or

(2) if no such record date shall have been fixed, then at the date on which notice of such meeting is mailed.

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

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

Section 7. Shareholders' Action Without Meeting.

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

ARTICLE II

BOARD OF DIRECTORS

Section 1. General Powers.

The property, affairs and business of the Corporation shall be controlled and managed by the Board of Directors. Without limiting the generality of the foregoing, such control shall include the power to: hire employees, professional, clerical and secretarial; enter into employment agreements with employees where deemed advisable; determine levels of employee compensation, including wages, salaries, bonuses and other fringe benefits; terminate the employment of an employee; determine conditions of employment, including hours of work, work responsibility, vacation time, and sick leave; authorize the purchase or rental of property and determine all policies of the Corporation with regard to the conduct of the business of the Corporation. The Board of Directors may, from time to time, delegate particular responsibilities to specified officers of the Corporation as it shall deem advisable. They may adopt such rules and regulations for the conduct of their meeting and the management of the Corporation not inconsistent with these By-laws, the Corporation's Articles of Incorporation, or the laws of the State of Maine as they may deem proper.

Section 2. Number, qualifications and Term of Office.

Subject to the provisions hereof relating to the initial Board, the number of directors of the Corporation shall be no less than nine (9) and no more than fifteen (15). The number of directors who are also employed by the Company or any affiliate of the Company shall not exceed 25% of the entire board, provided that no director who is also an employee shall be required to resign as a result of any vacancy occurring in the board in order to comply with this requirement. The board will use its best efforts to fill any vacancy promptly. The exact number of Directors, within the minimum and maximum limitations specified in the preceding sentence, shall be fixed, from time to time, by the Board pursuant to a resolution adopted by a majority of the entire Board. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. At the 1988 annual meeting of Shareholders, the Directors shall be divided into three classes as nearly equal in number as possible with the term of office of the first class to expire at the 1989 annual meeting of shareholders, the term of office of the second class to expire at the 1990 annual meeting of shareholders and the term of office of the third class to expire at the 1991 annual meeting of Shareholders. At each annual meeting of shareholders following such initial classification and election, Directors elected to succeed those Directors whose terms expire shall be elected for a three-year term of office to expire at the third succeeding annual meeting of shareholders after their election. Directors need not be shareholders or residents of the State of Maine.

Section 3. Manner of Election.

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

Section 4. Quorum and Manner of Acting.

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

Section 5. Place of Meeting, etc.

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

Section 6. Books and Records.

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

Section 7. First Meeting.

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

Section 8. Regular Meetings.

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

Section 9. Special Meetings; Notice.

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

Section 10. Resignations.

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

Section 11. Removal of Directors.

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

Section 12. Vacancies.

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

Section 13. Compensation.

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

Section 14. Directors' Participation in Meeting by Telephone.

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

Section 15. Director's Action Without Meeting.

If all the Directors then holding office severally or collectively consent in writing to any action taken or to be taken by the Corporation, such action shall be valid as though it had been authorized at a meeting of the Board of Directors. The Clerk shall file such consent or consents with the minutes of the meetings of the Board of Directors.

Section 16. Presumption of Assent.

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

Section 17. Age Limitation on Directors.

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

ARTICLE III

COMMITTEES

Section 1. Designation; Vacancies.

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

Section 2. Powers.

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

Section 3. Procedure; Meetings; Quorum.

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

Section 4. Other Committees.

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

Section 5. Compensation.

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

ARTICLE IV

OFFICERS

Section 1. Number.

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

Section 2. Election, Term of Office and Qualifications.

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

Section 3. Removal.

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

Section 4. Resignations.

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

Section 5. Vacancies.

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

Section 6. The Chairman of the Board.

The Chairman of the Board, if there shall be one, shall be elected by the board from among its members who are directors who are not employed by the Company or any affiliate of the Company, and shall, if present, preside at all meetings of the shareholders and of the Board of Directors. Except where, by law, the signature of the President is required, he shall possess the same power as the President to sign all certificates, contracts and other instruments of the Corporation which may be authorized by the Board of Directors or by the

Executive Committee. He shall, in general, perform all duties incident to the office of the Chairman of the Board, subject, however, to the direction and control of the Board of Directors and of the Executive Committee, and such other duties as, from time to time, may be assigned to him by the Board of Directors or by the Executive Committee.

Section 7. The President.

The President shall be the chief executive and administrative officer of the Corporation and shall have general and active supervision and direction over the day-to-day business and affairs of the Corporation and over its several officers, subject, however, to the direction and control of the Board of Directors and of the Executive Committee. At the request of the Chairman of the Board, or in case of his absence or inability to act, the President may act in his place. He shall sign or countersign all certificates, contracts and other instruments of the Corporation as authorized by the Board of Directors, and shall perform all such other duties as, from time to time, may be assigned to him by the Board of Directors or the Executive Committee.

Section 8. The Vice-Presidents.

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

Section 9. The Clerk.

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

Section 10. The Secretary.

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

Section 11. The Treasurer.

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

Section 12. Salaries.

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

ARTICLE V

CONTRACTS, CHECKS, NOTES, ETC.

Section 1. Execution of Contracts.

All contracts and agreements authorized by the Board of Directors, and all checks, drafts, notes, bonds, bills of exchange and orders for the payment of money shall, unless otherwise directed by the Board of Directors, or unless otherwise required by law, be signed by any two of the following officers: The

Chairman of the Board, President, Vice-President, Treasurer, or Secretary. The Board of Directors may, however, authorize any one of said officers to sign checks, drafts and orders for the payment of money singly and without necessity of counter signature, and may designate officers and employees of the Corporation other than those named above, or different combinations of such officers and employees, who may, in the name of the Corporation, execute checks, drafts, and orders for the payment of money on its behalf.

Section 2. Loans.

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

ARTICLE VI

STOCK AND DIVIDENDS

Section 1. Certificate of Stock.

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

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

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

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

Section 2. Closing of Transfer Books or Fixing of Record Date.

For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, sixty (60) days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten(10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than sixty (60) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken.

Section 3. Lost, Destroyed or Mutilated Certificates.

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

Section 4. Dividends.

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

ARTICLE VII

FISCAL YEAR

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

ARTICLE VIII

SEAL

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

ARTICLE IX

WAIVER OF NOTICE

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

ARTICLE X

INDEMNIFICATION

Section 1. Power to Indemnify.

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

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

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

Section 2. Right to Indemnification.

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

Section 3. Procedure to be Followed.

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

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

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

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

Section 4. Payment of Expenses in Advance.

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

Section 5. Other Rights.

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

Section 6. Insurance.

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

ARTICLE XI

EMERGENCY PREPAREDNESS

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

1. The officers and employees of the Company shall continue to conduct the business of the Company under such guidance from the Board of Directors as

may be available, except as to matters which by statue require specific approval of the Board of Directors, and subject to any directive of duly constituted authority during emergency.

2. In the absence or disability of any officer, or upon the refusal of any officer to act, the Board of Directors may delegate for the time being that officer's powers and duties to any other officer or director.

3. In the event of an emergency so severe as to prevent the conduct and management of the business of the Company by the Board of Directors and the officers as contemplated by these by-laws, any two or more available directors shall constitute an interim Executive Committee for the full conduct and management of the business of the Company, subject to such regulations as the Board of Directors may from time to time adopt for emergency preparedness, until such time as the interim Executive Committee determines that the Company can resume the conduct and management of the business of the Company in the manner contemplated by the by-laws.

4. If, as a consequence of an emergency, the Chief Executive Officer of the Company cannot be located or is unable to assume and continue his normal executive duties, then his powers and duties shall, without further action of the Board of Directors, be assumed by one of the following officers in the seniority set forth:

(a) President(unless he is serving as Chief Executive Officer)
(b) Executive Vice President
(c) Senior Vice Presidents (in order of seniority)
(d) Treasurer

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

5. If, as a consequence of an emergency, the Treasurer of the Company cannot be located or is unable to assume and continue his normal duties, then the powers and duties of the Treasurer shall, without further action of the Board of Directors, be assumed by one of the following officers in the seniority set forth:

(a) President(unless he is serving as Chief Executive Officer)
(b) Executive Vice President
(c) Senior Vice Presidents (in order of seniority)
(d) Assistant Treasurer or Comptroller.

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

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

6. If during such emergency, or as a consequence thereof, the business of the Company cannot be conducted and managed at its main office, business may be conducted and managed at such temporary location or locations as may be designated by the Board of Directors or by its interim Executive Committee for which provision is made above; and the business of the Company shall be returned from the temporary location or locations to the main office of the Company as soon as practicable.

ARTICLE XII

AMENDMENTS, ETC.

Section 1. Amendments.

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

Section 2. Supplemental Resolutions.

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

Exhibit 11. Statement Regarding Computation of Per Share Earnings

	Year Ended June 30, 1996	Year Ended June 30, 1995
EQUIVALENT SHARES:		
Average Shares Outstanding	1,183,987	1,094,850
Total Equivalent Shares	1,183,987	1,094,850
Total Primary Shares	1,270,097	1,227,331
Total Fully Diluted Shares	1,512,593	1,461,095
Net Income	$ 1,193,420	$ 1,489,381
Less Preferred Stock Dividend	139,999	139,999
Net Income after Preferred Dividend	$ 1,053,421	$ 1,349,382
Primary Earnings Per Share on Net Income	$ 0.83	$ 1.10
Fully Diluted Earnings Per Share on Net Income	$ 0.79	$ 1.02

Exhibit 21. Subsidiaries 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 Bank, FSB (and its 100% owned subsidiary, Northeast Service Corp. and 62.5% owned second tier subsidiary, First New England Benefits, Inc.)	Maine	1987	100%

Consent of Independent Auditors

To the Board of Directors
Northeast Bancorp:

We consent to incorporation by reference in the registration statements (No. 33-32095), (No. 33-58538), (No.33-32096) and (No. 33-87976) on Form S-8 of Bethel Bancorp of our report dated August 16, 1996, relating to the consolidated statements of financial condition of Northeast Bancorp and Subsidiary (the assumed name of Bethel Bancorp and Subsidiaries) as of June 30, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the two-year period ended June 30, 1996, which report appears in the June 30, 1996 annual report on Form 10-K of Bethel Bancorp.

Portland, Maine

September 24, 1996

/s/ Baker Newman & Noyes
Limited Liability Company

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NORTHEAST BANCORP
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197,621
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169,850,924
2,549,000
222,289,615
145,195,369
35,665,158
1,554,846
21,723,000
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1,999,980
1,181,733
14,969,529
222,289,615
16,010,685
1,387,853
596,324
17,994,862
6,426,172
9,128,404
8,866,458
602,860
278,895
8,448,757
1,912,032
1,912,032
0
0
1,193,420
0.83
0.79
4.256
2,603,000
0
341,215
2,541,000
2,396,000
525,653
75,793
2,549,000
499,200
0
2,049,800