

Dear Shareholders,

Where do I begin? These are tough times for our economy, for our communities and our families. With investment portfolios shrinking by as much as 50%, there is no question that we are in a recession and that this chapter is as challenging as any in our history. Now is not the time, however, to sit back and wait it out.

Here at Northeast, we are taking on today's challenges with unprecedented fervor. We're focused, now more than ever, on diversifying revenue streams through continued expansion, record mortgage originations and investments in cutting-edge technologies and marketing strategies. As the President & CEO of your company since 1981, I have always kept you, our shareholders, well-informed and armed with the facts. My letters to you over the past nine or so quarters have been nothing if not consistent—to the point of tedium—as I voiced my concern over continued declines in net interest margins, irrational pricing and underwriting in the credit markets, and the proliferation of easy credit. Many of those banks that did not share these concerns are now plagued with questionable loan portfolios, deep reductions in margins, and capital positions that may threaten the very health of our financial system.

I am proud to say that Northeast did not partake in offering subprime mortgages, pricing and booking loans irrationally or relaxing historic, common-sense underwriting guidelines. Instead, we stuck to our long-term strategic plan of corporate growth through a very high level of product and income diversity.

Unfortunately, the banking industry as a whole is taking it on the chin, with the media and even professional analysts painting all banks with the same brush. But Northeast is not like other banks that rely solely on net interest income. Over 40% of our revenue comes from non-interest income which includes insurance, investments and mortgage loan sales. We have experienced 50% growth in insurance revenues alone. This is

directly attributed to our aggressive expansion over the past 24 months, as well as a solid branch referral and follow-up program with an average 25% to 30% success rate of quoted to actual sale.

Even with the markets at historic lows, our professional financial consultants are seeing an increase in visits, as customers realign their financial plans for long-term growth. Our position as *trusted advisor* remains paramount to that process.

On the lending front there is no credit crunch at Northeast Bank—and there never has been. Our customers can borrow money to support any worthwhile need. We believe that if individuals can demonstrate the ability to repay their debt and if the debt is appropriate to their personal or business financial objectives, then it is our responsibility to help them find the most attractive option. Conversely, it is in no one's best interest to borrow more money than he or she can afford to repay, and we have no problem advising a client to hold off in such a situation.

I am pleased to report that we are seeing unprecedented mortgage originations. To support this demand, we announced the opening of a Loan Production Office in New Hampshire this quarter. The new office expands our stable of leading mortgage loan originators and is part of our plan that also includes a new technology platform to support our enhanced online mortgage center.

In addition, Northeast Bancorp was accepted into the Capital Purchase Program (CPP), initiated by the U.S. Treasury Department. This voluntary program, designed for healthy, public banks was launched to encourage community lending. In December 2008, Northeast Bank tapped approximately \$4.2 million in additional capital, made available at very favorable rates through the CPP, which we have put right back into our communities in the form of new loans. In return for the funds, the U.S. Treasury now has a small ownership in Northeast Bancorp in the form of preferred stock and a warrant to acquire shares of common stock (NASDAQ: NBN).

This quarter also saw the launch of new mobile banking capabilities that give our customers access to online banking from any Web-enabled device. We have determined that we must be at the forefront of technology, offering the tools and services that maturing younger generations demand.

Our marketing efforts are realigning with our evolving markets as well. We launched a new e-newsletter and we are experimenting with social media channels and examining new strategies that keep Northeast top of mind.

We experienced an uptick this quarter in earnings over last, though we are still off from last year's numbers. We continue to believe that we have taken the right steps, made the right decisions and are well-positioned to take advantage of market opportunities.

As for our stock price, we have been negatively affected by the fact that some shareholders were forced to sell their investment in order to raise cash or to establish a tax loss. We hope that this sort of forced selling is behind us and we continue to believe that our organization remains undervalued.

We believe that we will report an increase in earnings in the upcoming months and believe that our decision to develop and deliver a high level of product and income diversity will pay off.

As always, we thank you for your support. Please feel free to call or e-mail me at anytime, if you have questions or desire additional information. My email is jdelamater@northeastbank.com and my office number is 800-284-5989, ext. 3569.

Sincerely,



Jim Delamater
President & CEO

Northeast Bancorp & Subsidiary
Consolidated Statement of Financial Condition

As of December 31, 2008 (Unaudited)

ASSETS	<i>(In Thousands)</i>
Cash and due from banks	\$ 6,159
Interest-bearing deposits	4,233
Available-for-sale securities	157,834
Loans and loans held for sale	409,601
Allowance for loan losses	(5,721)
Premises and equipment, net	9,099
FHLB and FRB stock	5,361
Goodwill and intangibles	12,451
Other assets	<u>19,636</u>
TOTAL ASSETS	<u>\$618,653</u>
LIABILITIES	
Deposits	364,991
Structured repurchase agreements	60,000
Short term borrowings	39,765
Advances from the Federal Home Loan Bank	65,895
Junior Subordinated Notes	16,496
Fed Disc.Window Borrower-in-Custody	15,000
Other Liabilities	<u>8,593</u>
TOTAL LIABILITIES	<u>\$570,740</u>
STOCKHOLDERS' EQUITY	
Preferred Stock	4
Common stock	2,321
Warrants	133
Additional paid-in capital	6,711
Retained earnings	36,625
Accumulated other comprehensive income	<u>2,119</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 47,913</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$618,653</u>

Consolidated Statement of Income

Six months ended December 31, 2008 (Unaudited)

	<i>(In Thousands except for per share data)</i>
Total interest & dividend income	\$17,248
Total interest & dividend expense	<u>(8,980)</u>
Net interest income	8,268
Provision for loan losses	(1,024)
Non-interest income	5,311
Non-interest expense	<u>(12,230)</u>
Loss before income taxes	325
Income tax benefit	<u>38</u>
NET INCOME	<u>\$ 363</u>
Earnings per common share	
Basic	\$0.15
Diluted	\$0.15

Northeast Bancorp Officers

James Delamater, *President and CEO*
Pender J. Lazenby, *SVP, Chief Risk Officer*
Robert Johnson, *SVP, Chief Financial Officer*
Marcel Blais, *SVP, Chief Operating Officer*
Craig Sargent
President, Northeast Bank Insurance Group, Inc.
Leslie Couper
SVP & Manager, Northeast Financial
Suzanne Carney, *VP, Shareholder Relations*

Board of Directors

Judith W. Kelley, *Chairperson*
John Rosmarin, *Vice Chairperson*
Conrad L. Ayotte
James Day
James D. Delamater
Ronald J. Goguen
Philip C. Jackson
Pender J. Lazenby
John C. Orestis
John Schiavi
Stephen W. Wight

Note: This communication piece contains certain “forward-looking statements.” Although the Company believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors. These statements speak only as of the date of this report, and the Company undertakes no obligation to publicly release the results of any updates or revisions to any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. For a more complete discussion of certain risks and uncertainties affecting the Company, please see Form 10-K for the year ended June 30, 2008.

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Second Quarter 2009
Report to
Shareholders