NORTHEAST BANCORP /ME/
Form 424B1
May 16, 2012
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Filed Pursuant to Rule 424(b)(1)
Registration No. 333-180215

PROSPECTUS

5,369,037 Shares of Voting Common Stock

880,963 Shares of Non-Voting Common Stock

We are offering 6,250,000 shares of common stock. Our common stock consists of voting common stock, $1.00 par value per share, and non-voting common stock, $1.00 par value per share. You may elect or be obligated to hold shares of non-voting common stock under the terms of our articles of incorporation. See Description of Capital Stock Description of Common Stock Restrictions on Ownership.

Our voting common stock is currently listed on the NASDAQ Global Market under the symbol NBN. Our non-voting common stock is not listed on an exchange, and we do not intend to list the non-voting common stock on an exchange. On May 15, 2012, the closing price of our voting common stock on the NASDAQ Global Market was $10.06 per share.

Investing in our voting common stock and/or non-voting common stock (collectively, the common stock) involves risks. See Risk Factors beginning on page 12.

	Per Share	*Total*
Public offering price	$8.00	$50,000,000
Placement agent fees	$0.20	$188,692
Underwriting discounts and commissions	$0.20	$1,061,308
Proceeds to us, before expenses	$7.80	$48,750,000

5,306,537 shares of common stock are being offered through the underwriter on a firm commitment basis. We have granted the underwriter a 30-day option to purchase up to 795,980 additional shares of common stock at the same price, and on the same terms, solely to cover over-allotments, if any. We are offering 943,463 shares of common stock on a reasonable efforts basis to certain institutional and private investors, including one of our directors, and have retained Sandler O Neill & Partners, L.P. as exclusive placement agent.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The shares of common stock are not savings accounts, deposits or other obligations of our bank subsidiary or any of our non-banking subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other government agency.

The underwriter expects to deliver the shares of common stock in book-entry form only, through the facilities of The Depository Trust Company against payment on or about May 21, 2012, subject to customary closing conditions. The placement agent is not purchasing or selling any of the 943,463 shares of common stock that we are offering to certain institutional and private investors, including one of our directors, and we expect that delivery of those shares will be made on or about May 21, 2012.

The date of this prospectus is May 16, 2012

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and documents incorporated by reference herein contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, such as statements relating to use of proceeds, including the redemption of Series A preferred stock, our financial condition, prospective results of operations, future performance or expectations, plans, objectives, prospects, loan loss allowance adequacy, simulation of changes in interest rates, capital spending, finance sources and revenue sources. These statements relate to expectations concerning matters that are not historical facts. Accordingly, statements that are based on management s projections, estimates, assumptions, and judgments constitute forward-looking statements. These forward looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology such as believe, expect, estimate, anticipate, continue, plan, approximately, intend, objective, goal, project, or other similar terms or variations on those terms, or the conditional verbs such as will, may, should, could, and would.

Such forward-looking statements reflect our current views and expectations based largely on information currently available to our management, and on our current expectations, assumptions, plans, estimates, judgments, and projections about our business and our industry, and they involve inherent risks and uncertainties. Although we believe that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, contingencies, and other factors. Accordingly, we cannot give you any assurance that our expectations will in fact occur or that our estimates or assumptions will be correct. We caution you that actual results could differ materially from those expressed or implied by such forward-looking statements as a result of, among other factors, the factors referenced in this prospectus under the heading Risk Factors ; changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of a continuing deterioration in general economic conditions on a national basis or in the local markets in which we operate, including changes which adversely affect borrowers ability to repay our loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; increasing government regulation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act ; changes in the rules of participation for the Troubled Asset Relief Program, or TARP, Capital Purchase Program promulgated by the U.S. Department of the Treasury, or the U.S. Treasury, under the Emergency Economic Stabilization Act of 2008, which may be changed unilaterally and restrictively by legislative or regulatory actions; establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations; the risk that we may not be successful in the implementation of our business strategy; and changes in assumptions used in making such forward-looking statements. These forward-looking statements speak only as of the date of this prospectus, or if such statement is included in a document incorporated by reference into this prospectus, as of the date of such other document, and we do not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events.

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in or incorporated by reference into this prospectus and any free writing prospectus we authorize to be delivered to you. We have not, and the underwriter and placement agent has not, authorized anyone to provide you with additional information or information different from that contained in or incorporated by reference into this prospectus and any free writing prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. To the extent information in this prospectus and any free writing prospectus is inconsistent with any of the documents incorporated by reference into this prospectus and any free writing prospectus, you should rely on this prospectus and any free writing prospectus. We are offering to sell, and seeking offers to buy, our common stock only in states where those offers and sales are permitted. You should assume that the information contained in or incorporated by reference into this prospectus and any free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

You should read this prospectus, all of the information incorporated by reference into this prospectus and the additional information about us described in the section entitled Where You Can Find More Information before making your investment decision.

No action is being taken in any jurisdiction outside the United States to permit a public offering of our common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about, and to observe, any restrictions as to the offering and the distribution of this prospectus applicable to those jurisdictions.

Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus assumes that the underwriter will not exercise its option to purchase additional shares of our common stock to cover over-allotments, if any.

As used in this prospectus, the terms Northeast, we, our, and us refer to Northeast Bancorp and its subsidiaries, unless the context indicates otherwise. The term common stock refers collectively to our voting common stock and non-voting common stock.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in, or incorporated by reference into, this prospectus. As a result, it does not contain all of the information that may be important to you or that you should consider before investing in our common stock. Before making an investment decision, you should read this entire prospectus, including the Risk Factors section, and the documents incorporated by reference into this prospectus, which are described under Incorporation of Certain Information by Reference.

Our Business

Northeast Bancorp is the holding company for Northeast Bank, a Maine-chartered bank organized in 1872 and headquartered in Lewiston, Maine. We are focused on gathering retail deposits through our Community Banking Division s banking offices in Maine and through our online affinity deposit program, ableBanking; originating loans through our Community Banking Division; and purchasing performing commercial real estate loans at a discount through our Loan Acquisition and Servicing Group. We operate our Community Banking Division, with ten full-service branches, four investment centers and three loan production offices, from our headquarters in Lewiston, Maine. We operate ableBanking and the Loan Acquisition and Servicing Group from our offices in Boston, Massachusetts.

We are registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and our common stock is listed on the NASDAQ Global Market under the symbol NBN.

As of March 31, 2012, we had 3,312,173 shares of voting common stock outstanding, and 195,351 shares of non-voting common stock outstanding. At that date, we had total assets of $595.0 million; total loans, including loans held for sale, of $352.1 million; total deposits of $403.7 million and total stockholders equity of $64.9 million.

Our Recent History

On December 29, 2010, we completed a merger with FHB Formation LLC, a Delaware limited liability company. As a result of the merger, we received a capital contribution of $16.2 million (in addition to the approximately $13.1 million in cash consideration paid to former shareholders), and the former members of FHB Formation LLC collectively acquired approximately 60% of our outstanding common stock.

The transaction also resulted in changes to our management. Richard Wayne became our President and Chief Executive Officer, Claire Bean became our Chief Financial Officer and Chief Operating Officer, and Heather Campion became our Chief Administrative Officer. Our former management team continues in our Community Banking Division: James Delamater, our former President and Chief Executive Officer, is President and Chief Executive Officer of our Community Banking Division; Marcel Blais, our former Chief Operating Officer, is Chief Operating Officer of our Community Banking Division; and Robert Johnson, our former Chief Financial Officer, is Treasurer of our Community Banking Division. Pender Lazenby remains as our Chief Risk Officer.

In connection with the transaction, as part of the regulatory approval process, we made certain commitments to the Board of Governors of the Federal Reserve System, or the Federal Reserve, and the Maine Bureau of Financial Institutions, the most significant of which are (i) to maintain a Tier 1 leverage ratio of at least 10%, (ii) to maintain a total risk-based capital ratio of at least 15%, (iii) to limit purchased loans to 40% of total loans, (iv) to fund 100% of our loans with core deposits (defined as non-maturity deposits and non-brokered insured time deposits), and (v) to hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital.

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We are currently in compliance with our commitments to the Federal Reserve and the Maine Bureau of Financial Institutions. At March 31, 2012, we had $396.4 million in core deposits gathered through our Community Banking Division, and $168.4 million in commercial real estate loans, with capacity to hold a total of $212.1 million in commercial real estate loans.

Our Business Strategy

Our goal is to prudently grow our franchise, while maintaining sound operations and risk management, by implementing the following strategies:

Measured growth of our purchased loan portfolio. Our Loan Acquisition and Servicing Group purchases performing commercial real estate loans, on a nationwide basis, at a discount from their outstanding principal balances, producing yields higher than those normally achieved on our originated loan portfolio. Since the inception of the Loan Acquisition and Servicing Group through March 31, 2012, we have purchased loans for an aggregate investment of $60.5 million. For the nine-month period ended March 31, 2012, purchased loans produced a yield of 14.2%, including accelerated interest income associated with unscheduled loan payoffs during the period, compared to a yield of 6.0% for the same period on loans originated by the Community Banking Division.

Loans are purchased on a nationwide basis from a variety of sources, including banks, insurance companies, investment funds and government agencies, either directly or indirectly through a broker. Of the loans purchased by our Loan Acquisition and Servicing Group that were outstanding as of March 31, 2012, $53.3 million, or 93.7%, consisted of commercial real estate loans. The unpaid principal balance of purchased loans (on a relationship basis) has ranged from $71 thousand to $6.2 million, with an average of $946 thousand, and were secured by retail, industrial, mixed use, multi-family and office properties in 16 states. We expect that loans purchased by our Loan Acquisition and Servicing Group will, subject to compliance with applicable regulatory commitments, represent an increasing percentage of our total loan portfolio in the future.

Focus on core deposits. We offer a full line of deposit products to customers in the Community Banking Division s market area through our ten-branch network. Our retail banking team successfully completed a campaign generating over $25 million in new deposits from the date of the merger to the end of our 2011 fiscal year. In addition, we recently launched, in the Boston area, the pilot of our online affinity deposit program, ableBanking, a division of Northeast Bank. One of our strategic goals is for ableBanking to provide an additional channel for us to raise core deposits to fund the acquisition of loans by our Loan Acquisition and Servicing Group.

The ableBanking savings platform is designed to give customers the ability to generate payments to benefit non-profit organizations of their choice. When a new customer opens a savings or time deposit account with ableBanking, we will remit $25 to a non-profit organization of the customer s choice. Thereafter we will remit, annually, 25 basis points of a customer s average annual deposit balance to a non-profit organization of the customer s choice. As part of the ableBanking pilot, we have formed partnerships with six non-profit organizations in the Boston area, which are featured on the ableBanking website at *www.ablebanking.com*, to highlight the needs in the Boston community and to show how $25 can make a difference. We estimate that the Boston-based pilot of ableBanking will continue for approximately six months, after which we will seek to expand our marketing outreach to other regions of the country.

Continuing our community banking tradition. Our Community Banking Division retains a high degree of local autonomy and operational flexibility to better serve its customers, and our former management team continues to play an important role in the Community Banking Division. The Community Banking Division s focus on sales and service has allowed us to attract and retain core deposits, and the recent efforts of our residential mortgage origination team in the Community Banking Division increased overall mortgage originations to $151.5 million for the year ended June 30, 2011, from $107.6 million in the prior year.

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Our Competitive Strengths

We believe that we distinguish ourselves from our competitors through the following competitive strengths:

Proven ability to execute loan purchasing strategies. The Loan Acquisition and Servicing Group includes a team of credit analysts, real estate analysts, servicing specialists and legal counsel with extensive experience in the loan acquisition business. Four of our Managing Directors of the Loan Acquisition and Servicing Group worked with our Chief Executive Officer, Richard Wayne, at Capital Crossing Bank, in Boston, Massachusetts, a national leader in the acquisition and management of commercial loans.

Strong position in bidding for performing commercial loans. Our Loan Acquisition and Servicing Group competes with regional banks, private equity funds operating nationwide and a limited number of community banks when bidding for performing commercial loans. Many private equity funds do not compete for small balance commercial loans and only pursue transactions where the investment amount would exceed $20 million or more. We believe that we have a competitive advantage in bidding against many banks that purchase commercial loans in the secondary market because we have a specialized group with experience in purchasing commercial real estate loans. In addition, most banks we compete against are community banks seeking to acquire loans in their market; these banks usually have specific criteria for their acquisition activities and do not pursue pools with collateral or geographic diversity. No member of the Loan Acquisition and Servicing Group is compensated directly based upon the number or dollar amount of loans that we purchase.

Innovative online affinity deposit gathering strategy. We believe that various ableBanking features, including the program s association with non-profit organizations, will enable us to attract more customers and cost-effectively obtain additional core deposits, which in turn will support our growth, especially the growth of our purchased loan portfolio.

Experienced management team and committed board of directors. Our management and board of directors combine extensive experience in growing a community bank franchise on a profitable and sound basis. The management team has an established track record in the loan acquisition business. Our team has also successfully developed and implemented innovative client- and community-focused strategies that have delivered organic growth in the Community Banking Division. Our team has worked extensively with state and federal bank regulators and has developed an understanding and capability of managing a depository institution in challenging economic and business cycles.

Our Management Team

The members of our senior management team each have significant experience in the financial services sector.

Richard Wayne has been Chief Executive Officer of Northeast and a director of Northeast and Northeast Bank since December 29, 2010. Mr. Wayne is responsible for all of Northeast s business divisions, including the Community Banking Division, ableBanking, and the Loan Acquisition and Servicing Group. Prior to joining Northeast, Mr. Wayne co-founded Capital Crossing Bank, in Boston, Massachusetts, where he served as its President and Co-Chief Executive Officer from 1991 until its sale in February 2007. Capital Crossing Bank was a national leader in the acquisition and management of commercial loans, purchasing over $2 billion of loans.

Claire Bean has been the Chief Financial Officer and Chief Operating Officer of Northeast since December 29, 2010. Ms. Bean has responsibility for Northeast s finance, accounting, technology and operations. She has a 25-year record in financial services in the Greater Boston area, with experience focused in balance sheet management, strategic planning, financial management, commercial credit oversight, operations and information technology. Most recently, she served as Executive Vice President and Chief Financial Officer of

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Benjamin Franklin Bancorp, where she managed the company s initial public offering and simultaneous acquisition of Chart Bank in 2005. In the 1990s, Ms. Bean was Chief Operating Officer and Treasurer of Grove Bank in Chestnut Hill, Massachusetts, and subsequently co-founded and served as Chief Operating Officer of Lighthouse Bank, an Internet bank based in Waltham, Massachusetts.

Heather Campion has been the Chief Administrative Officer of Northeast since December 29, 2010. Ms. Campion is responsible for Northeast s marketing, communications, community relations and human resources functions. Ms. Campion has an extensive background at leading institutions in both the public and private sectors. From 1998 until 2007, she was the Group Executive Vice President and Director of Corporate Affairs at Citizens Financial Group, Inc., one of the ten largest commercial bank holding companies in the United States, and was a member of the company s Executive Management Committee. Between 1981 and 1998, Ms. Campion held numerous positions at Harvard University s John F. Kennedy School of Government, including serving as the director of the John F. Kennedy Jr. Forum, associate director of the Institute of Politics, and director of the Kennedy School s Public Liaison Office.

Pender Lazenby is the Chief Risk Officer of Northeast. Mr. Lazenby has been with Northeast since 2005. He has over 35 years of commercial banking experience, having been a senior officer at FleetBoston, BankBoston, and Casco Northern Bank, specializing in corporate lending, risk management and finance.

In addition, the Managing Directors of the Loan Acquisition and Servicing Group each have significant experience in the loan purchasing and servicing business.

Patrick Dignan manages all underwriting and due diligence activities for the Loan Acquisition and Servicing Group. Mr. Dignan has over 17 years of experience in the loan purchasing and servicing business, including serving as a Senior Vice President and Director of Real Estate at Capital Crossing Bank.

David Ellingrud focuses on sourcing and underwriting loan acquisition and servicing opportunities in the Loan Acquisition and Servicing Group. Mr. Ellingrud has over ten years of experience in the loan purchasing and servicing business.

Christopher Hickey oversees all aspects of our commercial and managed loan portfolios nationwide. With over 22 years of experience in banking and asset management, including serving as a Senior Vice President and Director of Asset Management at Capital Crossing Bank, he has an extensive loan servicing background and experience in foreclosure, liquidation and bankruptcy proceedings.

James Krumsiek, Esq. has over ten years of experience in the loan purchasing and servicing business, and has practiced law in Massachusetts for over 20 years. Prior to joining Northeast Bank in 2011, Mr. Krumsiek was in private practice in Boston with the firm of Perry, Krumsiek and Jack, LLP, where his practice focused primarily on commercial transactions, including acquisitions, refinances, and restructuring of debt secured by real and/or personal property. Prior to joining Perry, Krumsiek and Jack, LLP, Mr. Krumsiek was in-house counsel to Capital Crossing Bank.

Blackwell Taylor evaluates loan purchasing opportunities and managing all aspects of the loan purchasing transaction process. Mr. Taylor has over 11 years of experience in the loan purchasing and servicing business, including serving as Senior Vice President and Director of Investment Strategy and Analytics at Capital Crossing Bank.

Justin Wahls focuses on sourcing and underwriting loan acquisition and servicing opportunities in the Loan Acquisition and Servicing Group. Mr. Wahls has over six years of experience in the loan purchasing and servicing business.

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Our Community Banking Division management also has significant experience in the financial services sector.

James Delamater is the President and Chief Executive Officer of our Community Banking Division. He served as the President and Chief Executive Officer of Northeast and Northeast Bank from 1981 to December 2010. Long active in civic and community organizations, Mr. Delamater is a member of the loan committee for the Androscoggin Valley Council of Governments and is Chair of the Western Maine Economic Development Council.

Marcel Blais is responsible for the retail banking, loan administration and operational departments of our Community Banking Division. Mr. Blais joined Northeast Bank in 1997 and has over 34 years of banking experience, formerly with Casco Northern Bank and Bank of Boston.

Corporate Information

Our principal executive offices are located at 500 Canal Street, Lewiston, Maine, 04240, and our telephone number is (207) 786-3245. Our website address is *www.northeastbank.com*. The information on our website is not part of this prospectus, and no information provided on our website is incorporated by reference into this prospectus.

Risk Factors

An investment in our common stock involves certain risks. For more information on these risks, please carefully review all of the information under the heading Risk Factors beginning on page 12 of this prospectus. You should carefully review and consider all of this information before making an investment decision.

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The Offering

Issuer	Northeast Bancorp
Offering price	$8.00 per share
Common stock offered by us	6,250,000 shares of common stock (1)
Non-voting common stock	Investors may elect or be obligated to hold shares of non-voting common stock under the terms of our articles of incorporation, as described in more detail below and in Description of Capital Stock Description of Common Stock Restrictions on Ownership.
	Our articles of incorporation include certain provisions under which shares of voting common stock may automatically convert to shares of non-voting common stock.
	For investors that are registered bank holding companies, shares of voting common stock held by such investor (together with the shares of voting common stock held by any party whose shares of voting common stock must be aggregated for purposes of the Bank Holding Company Act of 1956, as amended, or the BHCA) that represent in excess of 4.99% of the outstanding shares of our voting common stock will automatically convert into non-voting common stock.
	Investors that are not bank holding companies may elect, with the consent of Northeast s board of directors, that shares of voting common stock held or deemed to be beneficially owned by such investor that represent in excess of 4.99% of the outstanding shares of our voting common stock will automatically convert into non-voting common stock.
	Investors that are not bank holding companies also may elect that shares of voting common stock held by such holder (together with the shares of voting common stock held by any party whose shares of voting common stock must be aggregated for purposes of the BHCA or the Change in Bank Control Act) that represent in excess of 9.99% of the outstanding shares of our voting common stock will automatically convert into non-voting common stock.
	Until presented and surrendered for cancellation following such conversion, each certificate representing shares of voting common stock that have been converted into non-voting common stock in accordance with the articles of incorporation is deemed to represent the number of shares of non-voting common stock into which such shares have been converted, and upon presentation and surrender of such certificate, the holder shall be entitled to receive, at no cost to the holder, a new certificate for the appropriate number of shares of non-voting common stock.
Common stock outstanding after the offering	9,757,524 shares of common stock (2)

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Net proceeds	We estimate the net proceeds from this offering to us, after deducting the placement agent fees, the underwriting discount and our estimated expenses, will be approximately $47.9 million, or approximately $54.1 million if the underwriter exercises its over-allotment option in full.
Use of proceeds	We intend to use the net proceeds of the offering to contribute to the capital of Northeast Bank for general corporate purposes, including leveraging Northeast Bank s balance sheet to allow for loan purchases, organic loan growth and investment in securities in a manner consistent with our commitments to the Federal Reserve and the Maine Bureau of Financial Institutions. See Business Our Recent History. A portion of the net proceeds may be used for our general corporate purposes, including the redemption of some or all of the 4,227 shares of Series A preferred stock issued to the U.S. Treasury in connection with our participation in the TARP Capital Purchase Program and the pursuit of strategic opportunities that may be presented to us. The Series A preferred stock has a redemption price of $1,000 per share, plus accrued but unpaid dividends. We do not currently have any agreements or commitments with respect to any acquisitions. Initially, we intend to invest the net proceeds in short-term investments and government agency backed mortgage-backed securities, as well as investment-grade debt securities. While it is our plan to repurchase the Series A preferred stock as soon as practicable, in order to repurchase such securities, in whole or in part, we must establish to our regulators satisfaction that we have met all of the conditions to repurchase and must obtain the approval of the Federal Reserve, which we have not yet sought. If we do redeem all of the Series A preferred stock, we may also negotiate a repurchase of the TARP warrant. See Use of Proceeds.
Trading market	Our voting common stock is listed on the NASDAQ Global Market under the symbol NBN. Our non-voting common stock is not listed on an exchange, and we do not intend to list the non-voting common stock on an exchange. See Market for Voting Common Stock and Dividend Information.
Dividends	We currently pay a $0.09 per share quarterly dividend on our shares of common stock, and we currently intend to continue to pay a quarterly dividend after the offering, subject to our capital requirements, financial condition, results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. In addition, because of our participation in the TARP Capital Purchase Program, our ability to declare or pay dividends on shares of common stock is limited to $0.09 per share per quarter and we may be unable to declare or pay dividends in certain circumstances. See Market for Voting Common Stock and Dividend Information.

(1) The number of shares of common stock offered assumes that the underwriter s allotment option is not exercised. If the over-allotment option is exercised in full, we would issue 795,980 additional shares of common stock in the offering.

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(2) There will be 8,681,210 shares of voting common stock and 1,076,314 shares of non-voting common stock outstanding after this offering. The total number of shares of common stock outstanding after this offering excludes: (i) 795,980 shares issuable pursuant to the exercise of the underwriter s over-allotment option; (ii) 796,049 shares issuable upon exercise of outstanding stock options as of March 31, 2012, with a weighted average exercise price of $13.98; (iii) 979 shares authorized for issuance for potential future equity awards under our equity compensation plans; and (iv) 67,958 shares issuable upon the exercise of the warrant issued to the U.S. Treasury in connection with the TARP Capital Purchase Program at an exercise price of $9.33 per share.

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected historical consolidated financial information (i) as of March 31, 2012 and 2011, (ii) for the nine months ended March 31, 2012 and (iii) for the 93 days ended March 31, 2011, and (a) as of June 30, 2011, 2010, 2009, 2008 and 2007, (b) for the 184 days ended June 30, 2011, (c) for the 181 days ended December 28, 2010, and (d) for the years ended June 30, 2010, 2009, 2008 and 2007, derived from our audited consolidated financial statements. The unaudited financial information has been prepared on the same basis as our audited financial statements and includes, in the opinion of management, all adjustments necessary to fairly present the data for such periods.

On December 29, 2010, FHB Formation LLC merged with and into Northeast, with Northeast as the surviving company. We have applied the acquisition method of accounting, as described in Accounting Standards Codification 805, *Business Combinations*, to this transaction, which represents an acquisition by FHB Formation LLC of Northeast, with Northeast as the surviving company. As a result of application of the acquisition method of accounting to Northeast s balance sheet, Northeast s financial statements from the periods prior to the transaction date are not directly comparable to the financial statements for periods subsequent to the transaction date. To make this distinction, we have labeled balances and results of operations prior to the transaction date as Predecessor Company and balances and results of operations for periods subsequent to the transaction date as Successor Company. The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. To denote this lack of comparability, a heavy black line has been placed between the Successor Company and Predecessor Company columns in our Consolidated Financial Statements and in Selected Consolidated Financial Information presented herein.

The results of operations for the nine months ended March 31, 2012 are not necessarily indicative of the results of operations to be expected for the full year or any future period. You should read this information in conjunction with our Consolidated Financial Statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, as amended, and in our Quarterly Reports on Form 10-Q for the quarters ended September 30, 2011, December 31, 2011, and March 31, 2012, which are incorporated by reference into this prospectus. See Incorporation of Certain Information by Reference.

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	Successor Company (1)			Predecessor Company (2)				
	Nine Months Ended Mar. 31, 2012	93 Days Ended Mar. 31, 2011	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010	Twelve Months Ended June 30, 2010	Twelve Months Ended June 30, 2009	Twelve Months Ended June 30, 2008	Twelve Months Ended June 30, 2007
	(Dollars in thousands, except per share data)							
Selected operations data:								
Interest and dividend income	$ 18,659	$ 6,846	$ 13,304	$ 14,378	$ 31,262	$ 33,766	$ 35,398	$ 35,682
Interest expense	4,711	1,662	3,207	5,877	13,314	16,718	20,789	20,032
Net interest income	13,948	5,184	10,097	8,501	17,948	17,048	14,609	15,650
Provision for loan losses	634	49	707	912	1,864	2,100	836	989
Noninterest income (3)	6,126	16,900	18,982	4,214	5,701	4,640	5,127	5,536
Net securities gains (losses)	1,111	47	1,200	17	(18)	268	293	42
Noninterest expense (4)	20,782	10,438	17,148	9,455	19,473	18,598	17,105	17,113
(Loss) income before income taxes	(231)	11,644	12,424	2,365	2,294	1,258	2,088	3,126
Income tax (benefit) expense	(209)	(233)	(83)	698	782	130	398	810
Net (loss) income from continuing operations	(22)	11,877	12,507	1,667	1,512	1,128	1,690	2,316
Net income (loss) from discontinued operations	1,137	114	45	129	207	(169)	241	(429)
Net income	$ 1,115	$ 11,991	$ 12,552	$ 1,796	$ 1,719	$ 959	$ 1,931	$ 1,887
Net income available to common stockholders	$ 821	$ 11,891	$ 12,355	$ 1,677	$ 1,476	$ 825	$ 1,931	$ 1,887
Consolidated per share data:								
Earnings:								
Basic:								
Continuing operations	$ (0.09)	$ 3.36	$ 3.51	$ 0.66	$ 0.55	$ 0.43	$ 0.72	$ 0.94
Discontinued operations	0.32	0.03	0.01	0.06	0.09	(0.07)	0.10	(0.17)
Net income	$ 0.23	$ 3.39	$ 3.52	$ 0.72	$ 0.64	0.36	$ 0.82	$ 0.77

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	Successor Company (1)			Predecessor Company (2)				
	Nine Months Ended Mar. 31, 2012	93 Days Ended Mar. 31, 2011	184 Days Ended June 30, 2011	181 Days Ended Dec. 28, 2010	Twelve Months Ended June 30, 2010	Twelve Months Ended June 30, 2009	Twelve Months Ended June 30, 2008	Twelve Months Ended June 30, 2007
	(Dollars in thousands, except per share data)							
Diluted:								
Continuing operations	$ (0.09)	$ 3.30	$ 3.46	$ 0.66	$ 0.54	$ 0.43	$ 0.72	$ 0.94
Discontinued operations	0.32	0.03	0.01	0.05	0.09	(0.07)	0.10	(0.18)
Net income	$ 0.23	$ 3.33	$ 3.47	$ 0.71	$ 0.63	$ 0.36	$ 0.82	$ 0.76
Cash dividends	$ 0.27	$ 0.09	$ 0.18	$ 0.18	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Book value	17.29	17.33	17.33	19.79	20.08	18.63	17.40	16.68
Tangible book value (5)	15.94	13.52	13.58	15.05	15.19	13.05	11.85	13.83
Selected balance sheet data:								
Total assets	$ 594,952	$ 607,374	$ 596,393	$ 627,984	$ 622,607	$ 598,148	$ 598,274	$ 556,801
Loans receivable	345,777	313,056	309,913	367,284	382,309	393,651	409,194	425,571
Deposits	403,735	401,364	401,118	374,617	384,197	385,386	363,374	364,554
Borrowings	122,058	137,804	126,706	199,326	183,025	162,389	186,830	147,564
Total stockholders equity	64,870	64,889	64,954	50,366	50,906	47,317	40,273	40,850
Other ratios:								
Return on average assets	0.25%	7.67%	4.09%	0.57%	0.28%	0.16%	0.33%	0.34%
Return on average equity	2.26%	72.57%	38.23%	7.03%	3.47%	2.14%	4.63%	4.59%
Efficiency ratio	98.10%	47.16%	56.63%	74.26%	82.40%	84.71%	85.40%	80.62%
Average equity to average total assets	11.08%	10.57%	10.69%	8.18%	8.10%	7.35%	7.23%	7.37%
Common dividend payout ratio	115.23%	2.64%	5.02%	25.02%	56.64%	101.14%	44.10%	46.77%
Tier 1 leverage capital ratio	11.85%	10.15%	10.35%	N/A	8.40%	8.12%	7.31%	9.07%
Total risk-based capital ratio	19.49%	18.51%	18.99%	N/A	14.09%	13.23%	11.91%	13.97%

(1) Successor Company means Northeast Bancorp and its subsidiary after the closing of the merger with FHB Formation LLC on December 29, 2010.

(2) Predecessor Company means Northeast Bancorp and its subsidiary before the closing of the merger with FHB Formation LLC on December 29, 2010.

(3) Includes primarily fees for deposits, investment brokerage and trust services to customers, and gains on the sale of loans. In the 93 days ended March 31, 2011 and the 184 days ended June 30, 2011, the total further includes a bargain purchase gain of $15.2 million and $15.4 million, respectively.

(4) Includes salaries, employee benefits, occupancy and equipment, and other expenses. In the 93 days ended March 31, 2011 and the 184 days ended June 30, 2011, the total further includes merger expenses totaling $3.2 million.

(5)

Tangible book value per share represents total stockholders equity less the sum of preferred stock and intangible assets divided by common shares outstanding.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with all other information in this prospectus, including our consolidated financial statements and related notes, before investing in our common stock. Any of the risk factors we describe below could adversely affect our business, financial condition or results of operations. The trading price of our voting common stock could decline if one or more of these risks or uncertainties actually occurs, causing you to lose all or part of your investment. Certain statements below are forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements.

Risks Associated With Our Business

We may not be successful in the implementation of our business strategy.

Following our merger with FHB Formation LLC in December 2010, we substantially revised our business strategy to include the building of a Loan Acquisition and Servicing Group to grow our loan portfolio and the introduction of an online affinity savings program, known as ableBanking, to grow our core deposits. Our ability to develop and offer new products and services depends, in part, on whether we can hire and retain enough suitably experienced and talented employees, identify suitable loans for purchase at attractive prices, identify enough suitable deposit customers, successfully build the systems and obtain the other resources necessary for creating the new product and service offerings. We may not be able to do so, or, doing so may be more expensive, or take longer, than we expect. Our experience with each of these initiatives is limited. Since the inception of the Loan Acquisition and Servicing Group through March 31, 2012, we have purchased loans with unpaid principal balances of $74.7 million for aggregate purchase price of $60.5 million. In addition, we recently launched the pilot of ableBanking in the Boston area.

We are subject to regulatory conditions that could constrain our ability to grow our loan acquisition business.

In conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10%, fund 100% of our loans with core deposits, limit purchased loans to 40% of total loans and hold commercial real estate loans (including owner-occupied commercial real estate) to within 300% of total risk-based capital. Core deposits, for purposes of this commitment, are defined as non-brokered non-maturity deposits and non-brokered insured time deposits. At March 31, 2012, the ratio of our loans to core deposits was 89%. Our ability to grow our loan portfolio will be dependent on our ability to raise additional core deposit funding. To the extent our ability to gather core deposits is constrained by market forces or for any other reason, our ability to achieve loan growth would be similarly constrained. Our ability to grow our loan portfolio in general, and our purchased loan portfolio in particular, will also be dependent upon the amount of net proceeds we raise in the offering, which will directly affect our Tier 1 and total risk-based capital levels. See Capitalization.

We may not be able to grow our core deposits through ableBanking, or doing so may be more expensive or take longer than we expect.

We recently launched the pilot of our online affinity deposit program, ableBanking, in the Boston area. We believe that certain features of ableBanking, including the program s association with non-profit organizations, will allow us to attract customers and provide an additional channel to obtain core deposits. However, our strategy with regard to ableBanking is untested and there can be no assurance that we will be able to grow core deposits through ableBanking at the rate we anticipate, or that in obtaining such deposits, we will not be forced to price products on less advantageous terms to retain or attract clients, which would adversely affect our profitability. One of the commitments that we made in connection with securing the regulatory approvals for our merger with FHB Formation LLC is that we must fund 100% of our loans with core deposits. To the extent that we are unable to grow our core deposits, our ability to achieve loan growth would be constrained.

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We may not be able to attract and retain qualified key employees, which could adversely affect our business prospects, including our competitive position and results of operations.

Our success in implementing our business plan, especially our loan purchasing business, is dependent upon our ability to attract and retain highly skilled individuals. There is significant competition for those individuals with the experience and skills required to conduct many of our business activities. We may not be able to hire or retain the key personnel that we depend upon for success. Since our merger with FHB Formation LLC in December 2010, we have hired ten senior employees to work in our Loan Acquisition and Servicing Group. The unexpected loss of services of one or more of these or other key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel. In addition, we must comply with the executive compensation and corporate governance standards applicable to participants in the TARP Capital Purchase Program for as long as the U.S. Treasury holds any Series A preferred stock. The restrictions on our ability to compensate senior executives may limit our ability to recruit and retain senior executives.

If our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance, our financial condition and results of operations could be adversely affected.

We are exposed to the risk that our borrowers may default on their obligations. A borrower s default on its obligations under one or more loans of Northeast Bank may result in lost principal and interest income and increased operating expenses as a result of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, Northeast Bank may have to write off the loan in whole or in part. In such situations, Northeast Bank may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan exceeds the value of the assets acquired.

We periodically make a determination of an allowance for loan losses based on available information, including, but not limited to, our historical loss experience, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral, expected cash flows from purchased loans, and the level of non-accruing and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, previously incorrect assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed those estimated in our determination of our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

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A significant portion of loans held in our loan portfolio were originated by third parties, and such loans may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans.

At March 31, 2012, 16% of the loans held in our loan portfolio were originated by third parties, and therefore may not have been subject to the same level of due diligence that Northeast Bank would have conducted had it originated the loans. Although the Loan Acquisition and Servicing Group conducts a comprehensive review of all loans that it purchases, loans originated by third parties may lack current financial information and may have incomplete legal documentation and outdated appraisals. As a result, the Loan Acquisition and Servicing Group may not have information with respect to an acquired loan which, if known at the time of acquisition, would have caused it to reduce its bid price or not bid for the loan at all. This may adversely affect our yield on loans or cause us to increase our provision for loan losses.

Our experience with loans held in our loan portfolio that were originated by third parties is limited.

At March 31, 2012, the 16% of the loans held in our loan portfolio that were originated by third parties had been held by us for 138 days, calculated on a weighted average basis. Consequently, we have had only a relatively short period of time to evaluate the performance of those loans and the price at which we purchased them. Further experience with these loans may provide us with information that could cause us to increase our provision for loan losses.

Our loan portfolio includes commercial loans, which are generally riskier than other types of loans.

At March 31, 2012, our commercial real estate mortgage and commercial business loan portfolios comprised 53% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans, and purchased loans in particular, may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.

In the course of business, we may acquire, through foreclosure, properties securing loans we have originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

We are subject to liquidity risk.

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources which include Federal Home Loan Bank advances, the Federal Reserve s Borrower-in-Custody program, securities sold under repurchase agreements, federal funds purchased and brokered certificates of deposit less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

We are subject to security and operational risks relating to our use of technology.

Communication and information systems are critical to the conduct of our business because we use these systems to manage our customer relationships and process accounting and financial reporting information. Although we have established policies and procedures to prevent or limit the impact of system failures, interruptions and security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of our security systems could prevent customers from using our website and our online banking services, both of which involve the transmission of confidential information. Although we rely on security and processing systems to provide the security and authentication necessary to securely transmit data, these precautions may not protect our systems from compromises or breaches of security. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or expose us to civil litigation and possible financial liability, including the costs of customer notification and remediation efforts. Any of these occurrences could have an adverse effect on our financial condition and results of operations.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.

Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Internal controls may fail or be circumvented.

Effective controls over financial reporting are necessary to help ensure reliable financial reporting and prevent fraud. Management is responsible for maintaining an effective system of internal control and assessing system effectiveness. Our system of internal control is a process designed to provide reasonable, not absolute, assurance that system objectives are being met. Failure or circumvention of the system of internal control could have an adverse effect on our business, profitability, and financial condition, and could further result in regulatory actions and loss of investor confidence.

Our historical operating results may be of limited use to you in evaluating our historical performance and predicting our future results.

We applied the acquisition method of accounting, as described in Accounting Standards Codification 805, Business Combinations, to the merger of FHB Formation LLC with and into Northeast. As a result of application of the acquisition method of accounting to our balance sheet, our financial statements from the periods prior to December 29, 2010, the date that the merger was consummated, are not directly comparable to the financial statements for periods subsequent to December 29, 2010. The lack of comparability arises from the

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assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. In connection with the application of the acquisition method of accounting for the merger, the allowance for loan losses was reduced to zero when the loan portfolio was marked to its then current fair value. In addition, the accretion of fair value adjustments to certain interest-bearing assets and liabilities increased our net income for periods subsequent to the merger. The lack of comparability means that the periods being reported in the fiscal year ended June 30, 2011 in the statements and tables are not the same periods as reported for the fiscal year ended June 30, 2010, and, as a result, our historical operating results before December 29, 2010 are of limited relevance in evaluating our historical financial performance subsequent to December 29, 2010 and predicting our future operating results.

Deterioration in the Maine economy could adversely affect our financial condition and results of operations.

Our Community Banking Division primarily serves individuals and businesses located in western and south-central Maine and southeastern New Hampshire. As a result, a significant portion of our earnings are closely tied to the economy of Maine. Deterioration in the Community Banking Division s market in Maine could result in the following consequences:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer s borrowing power and reducing the value of collateral securing a loan; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Our future growth, if any, may require us to raise additional capital in the future, but that capital may not be available when we need it.

As a bank, we are required by regulatory authorities to maintain adequate levels of capital to support our operations. In addition, in conjunction with the regulatory approvals received for the merger with FHB Formation LLC, we committed to maintain a Tier 1 leverage ratio of at least 10% and a total risk-based capital ratio of at least 15%. We may need to raise additional capital to support our operations or our growth, if any. Our ability to raise additional capital will depend, in part, on conditions in the capital markets and our financial performance at that time. Accordingly, we may be unable to raise additional capital, if and when needed, on acceptable terms, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, investors interests could be diluted. Our failure to meet any applicable regulatory guideline related to our lending activities or any capital requirement otherwise imposed upon us or to satisfy any other regulatory requirement could subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

Risks Associated With The Industry

Difficult market conditions and economic trends in the real estate market have adversely affected our industry and our business.

We are particularly affected by downturns in the U.S. real estate market. Declines in the real estate market over the past several years, with decreasing property values and increasing delinquencies and

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foreclosures, may have a negative impact on the credit performance of commercial and construction, mortgage, and consumer loan portfolios resulting in significant write-downs of assets by many financial institutions as the values of real estate collateral supporting many loans have declined significantly. In addition, general downward economic trends and continued high levels of unemployment, among other factors, have led to erosion of customer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets have adversely affected our business, financial condition, results of operations and stock price. A worsening of these economic conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the industry. Our ability to properly assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. Accordingly, if these market conditions and trends continue, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

Competition in the financial services industry is intense and could result in us losing business or experiencing reduced margins.

Our future growth and success will depend on our ability to continue to compete effectively in the Community Banking Division s Maine market, in the markets in which the Loan Acquisition and Servicing Group invests and in the markets in which ableBanking will operate. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct our business. Some of our competitors have significantly greater financial resources and/or face fewer regulatory constraints. As a result of these various sources of competition, we could lose business to competitors or could be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect its profitability.

Changes in interest rates could adversely affect our net interest income and profitability.

The majority of our assets and liabilities are monetary in nature. As a result, our earnings and growth are significantly affected by interest rates, which are subject to the influence of economic conditions generally, both domestic and foreign, to events in the capital markets and also to the monetary and fiscal policies of the United States and its agencies, particularly the Federal Reserve. The nature and timing of any changes in such policies or general economic conditions and their effect on us cannot be controlled and are extremely difficult to predict. Changes in interest rates can affect our net interest income as well as the value of our assets and liabilities. Net interest income is the difference between (i) interest income on interest-earning assets, such as loans and securities, and (ii) interest expense on interest-bearing liabilities, such as deposits and borrowings. Changes in market interest rates, changes in the relationships between short-term and long-term market interest rates, or the yield curve, or changes in the relationshi