FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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PEOPLES HERITAGE FINANCIAL GROUP INC

CIK:**829750**| IRS No.: **010137770** | State of Incorp.:**ME** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-16947** | Film No.: **96662594**
SIC: **6022** State commercial banks

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the Quarterly Period Ended September 30, 1996

OR

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

COMMISSION FILE NUMBER: 0-16947

PEOPLES HERITAGE FINANCIAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

Maine	01-0137770
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

One Portland Square, Portland, Maine	04112
(Address of principal executive offices)	(Zip Code)

(207) 761-8500
(Registrant's telephone number, including area code)

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

The number of shares outstanding of each of the Registrant's classes of common stock as of November 1, 1996 is:

Common stock, par value $.01 per share	22,734,434
(Class)	(Outstanding)

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PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES

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PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Number of Shares and Per Share Data)
(Unaudited)

<CAPTION>

<S>	September 30, 1996 <C>	December 31, 1995 <C>
Assets		
Cash and due from banks	$ 211,162	$ 190,436
Federal funds sold	41,000	100,255
Securities available for sale, at market value	758,920	766,648
Loans held for sale, market value $91,450 and $71,872, respectively	89,747	70,979
Loans and leases:		
Residential real estate mortgages	1,030,897	798,076
Commercial real estate mortgages	813,559	797,686
Commercial business loans and leases	430,794	408,592
Consumer loans and leases	904,006	774,229
	3,179,256	2,778,583
Less: Allowance for loan and lease losses	61,663	60,975
Net loans and leases	3,117,593	2,717,608
Bank premises and equipment	57,302	56,021
Goodwill and other intangibles	37,822	22,792
Mortgage servicing rights	26,710	20,309
Other real estate and repossessed assets owned	11,246	14,232
Deferred income taxes	32,194	32,972
Interest and dividends receivable	29,799	30,726
Other assets	42,749	35,148
	$4,456,244	$4,058,126

Liabilities and Shareholders' Equity		
Deposits:		
Regular savings	$ 595,353	$ 557,896
Money market access accounts	503,681	490,575
Certificates of deposit (including certificates of $100 or more of $173,646 and $116,472, respectively)	1,441,327	1,363,095
NOW accounts	357,435	351,481
Demand deposits	487,409	434,091
Total deposits	3,385,205	3,197,138
Federal funds purchased	16,814	1,500
Securities sold under repurchase agreements	182,114	180,957
Borrowings from Federal Home Loan Bank of Boston	413,938	252,446
Other borrowings	19,838	22,029
Deferred income taxes	11,222	12,577
Other liabilities	50,102	36,554
Total liabilities	4,079,233	3,703,201
Shareholders' Equity:		
Preferred stock (par value $0.01 per share, 5,000,000 shares authorized, none issued)	-0-	-0-
Common stock (par value $0.01 per share, 100,000,000 shares and 30,000,000 shares authorized, respectively, 25,596,550 shares issued)	256	256
Paid-in capital	224,267	224,267
Retained earnings	159,100	134,444
Net unrealized gain (loss) on securities available for sale	(704)	3,763
Treasury stock at cost (396,655 shares and 524,062 shares, respectively)	(5,908)	(7,805)
Total shareholders' equity	377,011	354,925
	$4,456,244	$4,058,126

See accompanying Notes to Consolidated Financial Statements.
</TABLE>

<TABLE>
PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Number of Shares and Per Share Data)
(Unaudited)
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Interest and dividend income:				
Interest on loans and leases (1)	$72,715	$65,548	$211,937	$187,165
Interest on mortgage-backed investments	4,706	3,262	12,213	9,420
Interest on other investments	7,606	10,103	24,804	27,609
Dividends on equity securities	479	485	1,391	1,474
Total interest and dividend income	85,506	79,398	250,345	225,668
Interest expense:				
Interest on deposits	29,477	28,949	88,833	78,514
Interest on borrowed funds	8,085	6,395	21,598	20,526
Total interest expense	37,562	35,344	110,431	99,040
Net interest income	47,944	44,054	139,914	126,628
Provision for loan losses	-0-	1,080	900	3,150
Net interest income after				

provision for loan losses	47,944	42,974	139,014	123,478
Noninterest income:				
Customer services	3,986	3,174	10,902	8,851
Mortgage banking services	3,315	3,113	9,850	7,959
Trust and investment advisory services	1,930	1,474	5,454	4,279
Loan related services	549	590	1,455	1,442
Net securities gains (losses)	(1)	42	503	(107)
Other noninterest income	25	33	305	662
	9,804	8,426	28,469	23,086
Noninterest expenses:				
Salaries and employee benefits	18,388	17,721	54,019	49,998
Occupancy	2,923	2,552	9,322	7,855
Data processing	3,126	2,242	8,895	6,379
Equipment	2,204	1,786	6,195	4,899
Advertising and marketing	901	1,091	2,900	3,440
Deposit and other assessments	2,270	165	2,939	3,876
Collection and carrying costs of nonperforming assets	502	757	1,384	1,981
Merger expenses	-0-	658	5,105	1,258
Other noninterest expenses	5,942	4,938	19,665	15,373
	36,256	31,910	110,424	95,059
Income before income tax	21,492	19,490	57,059	51,505
Income tax expense	7,300	6,701	20,118	17,445
Net income	$14,192	$12,789	$ 36,941	$ 34,060
Weighted average shares outstanding	25,191,163	25,009,519	25,163,246	24,573,433
Earnings per share	$ 0.56	$ 0.51	$ 1.47	$ 1.39

(1) Interest on loans and leases includes interest on loans held for sale.

See accompanying Notes to Consolidated Financial Statements.
</TABLE>

<TABLE>

PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands, Except Number of Shares and Per Share Data)
(Unaudited)

<CAPTION>

<S>	Par Value <C>	Paid in Capital <C>	Retained Earnings <C>	Net Unrealized Gain (loss) <C>	Treasury Stock <C>	Total <C>
Balances at December 31, 1994	$256	$224,267	$ 99,955	$(9,079)	$(10,960)	$304,439
Treasury stock purchased (646,600 shares at an average price of $12.84)	--	--	--	--	(8,301)	(8,301)
Treasury stock issued for employee benefit plans (105,227 shares at an average price of $10.66)	--	--	(387)	--	1,508	1,121
Reissuance of treasury stock pursuant to acquisition (751,600 shares at $15.00)	--	--	1,710	--	9,564	11,274
Change in unrealized gains (losses) on securities available for sale, net of tax	--	--	--	9,844	--	9,844
Net income	--	--	34,060	--	--	34,060
Cash dividends $0.37	--	--	(8,034)	--	--	(8,034)
Balances at September 30, 1995	$256	$224,267	$127,304	$ 765	$ (8,189)	$344,403

Balances at December 31, 1995	$256	$224,267	$134,444	$ 3,763	$ (7,805)	$354,925
Treasury stock issued for employee benefit plans (127,407 shares at an average price of $13.43)	--	--	(186)	--	1,897	1,711
Change in unrealized gains (losses) on securities available for sale, net of tax	--	--	--	(4,467)	--	(4,467)
Net income	--	--	36,941	--	--	36,941
Cash dividends $0.48	--	--	(12,099)	--	--	(12,099)
Balances at September 30, 1996	$256	$224,267	$159,100	$ (704)	$ (5,908)	$377,011

See accompanying Notes to Consolidated Financial Statements.
</TABLE>

<TABLE>
PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 1996	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 36,941	$ 34,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	900	3,150
Provision for depreciation	5,442	4,712
Provision for losses and writedowns (credits) of other real estate owned	-0-	(983)
Amortization of goodwill and other intangibles	3,200	1,614
Amortization of servicing rights	3,001	2,802
Net decrease in net deferred tax assets	1,816	3,481
Net losses realized from sales of other real estate owned	243	838
Net (gains) realized from sales of securities and consumer loans	(503)	(98)
Net (gains) realized from sales of loans held for sale (a component of mortgage banking services)	(5,150)	(3,052)
Proceeds from sales of loans held for sale	740,748	353,569
Residential loans originated and purchased for sale	(754,366)	(403,575)
Net increase in interest and dividends receivable and other assets	(6,674)	(3,121)
Net increase (decrease) in other liabilities	13,548	(3,060)
Net cash provided (used) by operating activities	$ 39,146	$ (9,663)
Cash flows from investing activities:		
Maturities of investment securities	$ -0-	$ 124,266
Purchases of investment securities	-0-	(113,368)
Proceeds from sales of securities available for sale	31,385	11,066
Proceeds from maturities and principal		

repayments of securities available for sale	356,961	75,640
Purchases of securities available for sale	(386,975)	(150,752)
Net increase in loans and leases	(401,724)	(124,422)
Purchase of mortgage servicing rights	(11,984)	(5,097)
Sale of mortgage servicing rights	2,582	-0-
Premiums paid on deposits purchased	(18,230)	(4,290)
Net additions to premises and equipment	(6,723)	(10,684)
Proceeds from sales of other real estate owned	3,670	10,826
Net increase decrease in repossessed assets owned	(88)	167
Net cash used by investing activities	$ (431,126)	$ (186,648)

See accompanying Notes to Consolidated Financial Statements.
</TABLE>

<TABLE>

PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(In Thousands)
(Unaudited)

<CAPTION>

	Nine Months Ended September 30,	
	1996	1995
<S>	<C>	<C>
Cash flows from financing activities:		
Net increase in deposits	$ 188,067	$ 278,477
Net increase in securities sold under repurchase agreements	1,157	19,526
Advances from Federal Home Loan Bank of Boston borrowings	401,998	274,498
Payments on Federal Home Loan Bank of Boston borrowings	(240,506)	(361,000)
Net increase (decrease) in other borrowings	(2,191)	13,809
Sale of treasury stock	1,711	1,121
Purchase of treasury stock	-0-	(8,301)
Issuance of treasury stock for acquisition	-0-	11,274
Cash dividends paid to shareholders	(12,099)	(8,034)
Net cash provided by financing activities	$ 338,137	$ 221,370
Increase (decrease) in cash and cash equivalents	$ (53,843)	$ 25,059
Cash and cash equivalents at beginning of period	289,191	220,103
Cash and cash equivalents at end of period	$ 235,348	$ 245,162
Supplemental disclosures of information:		
Interest paid on deposits and borrowings	$ 108,623	$ 97,136
Income taxes paid	16,334	9,855
Income tax refunds	580	2,900
Noncash investing transactions:		
Loans transferred to other real estate owned	2,599	9,761
Loans originated to finance the sales of other real estate owned	1,720	4,801
Increases (decreases) resulting from SFAS No. 115:		
Securities available for sale	6,860	15,449
Deferred income taxes - liabilities	2,393	5,605

Net unrealized gain on securities available for sale	4,467	9,844

See accompanying Notes to Consolidated Financial Statements.

</TABLE>

PEOPLES HERITAGE FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the consolidated financial statements have been included. The results of operations and other data for the three and nine months ended September 30, 1996 are not necessarily indicative of results that may be expected for any other interim period or the entire year ending December 31, 1996. Certain amounts in prior periods have been reclassified to conform to the current presentation.

On April 2, 1996, Peoples Heritage Financial Group, Inc. (the "Company") acquired Bank of New Hampshire Corporation ("BNHC"). The acquisition was accounted for as a pooling of interests and, accordingly, the financial information for all prior periods presented has been restated to present the combined financial condition and results of operations as if the combination had been in effect for all periods presented.

Subsequent to the acquisition of BNHC, the Company merged its other New Hampshire-based banking subsidiary - The First National Bank of Portsmouth ("Portsmouth") - into Bank of New Hampshire ("BNH") under the pooling-of-interests method of accounting.

On January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-Lived Assets to be Disposed of." The implementation of this Statement did not have a material effect on the Company's results of operations or financial condition.

On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." The Company has elected to continue to follow the accounting under Accounting Principal Board ("APB") Opinion No. 25. SFAS No. 123 requires companies which elect to continue to follow APB Opinion No. 25 to disclose in the notes to their financial statements the pro forma net income and earnings per share as if the value based method established under SFAS 123 had been applied.

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

General
Peoples Heritage Financial Group, Inc. (the "Company") is a multi-bank holding company which is incorporated under the laws of the State of Maine and headquartered in Portland, Maine. The Company's direct subsidiaries, both of which are wholly-owned, are Peoples Heritage Bank (the "Bank") and Bank of New Hampshire Corporation ("BNHC"), which wholly owns the Bank of New Hampshire ("BNH").

The Bank conducts business from its headquarters in Portland, Maine and 61 additional offices located throughout the State of Maine. At September 30, 1996, the Bank had total assets of $2.7 billion and total shareholder's equity of $174.4 million.

BNH conducts business from its headquarters in Manchester, New Hampshire and 43 additional offices located throughout the State of New Hampshire. At September 30, 1996, BNH had total assets of $1.8 billion and total shareholder's equity of $133.8 million.

On February 16, 1996, five branch offices and $160.9 million in related deposits located in New Hampshire were acquired by Portsmouth from Fleet Bank NH (the "Branch Acquisition"). In addition to various assets related to the acquired branches, approximately $216.4 million of loans were purchased in connection with this transaction, which consisted primarily of $178.6 million of single-family residential loans.

On July 1, 1995, Bankcore, Inc. ("Bankcore"), the New Hampshire-based holding company for North Conway Bank, was acquired and North Conway Bank was merged into Portsmouth. At the time of acquisition, Bankcore had $132.8 million in total assets and shareholders' equity of $17.8 million. The Bankcore acquisition was treated as a purchase for accounting purposes and, accordingly, the Company's financial statements reflect the acquisition from the time of purchase only. As a result of the transaction, $3.4 million of goodwill was created, which is being amortized over 15 years.

On June 15, 1995, the Company purchased all the branches and associated deposits, as well as certain loans, of Fleet Bank of Maine located in Aroostook County, Maine. Five of the seven branches purchased were merged with and into existing branches of the Bank. The purchase resulted in the transfer of $46.1 million in deposits and $17.1 million in loans.

Results of Operations
The Company reported net income of $14.2 million and $36.9 million for the three and nine months ended September 30, 1996, respectively, compared with $12.8 million and $34.1 million for the comparable period in 1995. The results for the three and nine month periods in 1996 were impacted by a one-time after-tax Savings Association Insurance Fund ("SAIF") assessment of $1.2 million. The results for the nine month period ended September 30, 1996 were also impacted by after-tax merger related expenses associated with BNHC of $3.9 million. Excluding both SAIF assessment

expenses and the BNHC merger related expenses, the Company would have reported net income of $15.4 million and $42.1 million for the three and nine months ended September 30, 1996, respectively. The improved results in 1996 were primarily attributable to the improvement in net interest income as a result of an increase in earning assets and increased noninterest income, which were offset in part by higher noninterest expenses.

Net Interest Income

The following tables set forth, for the periods indicated, information regarding (i) the total dollar amount of interest income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest rate spread; and (v) net interest margin. For purposes of the tables and the following discussion, (i) income from interest-earning assets and net interest income is presented on a fully-taxable equivalent basis primarily by adjusting income and yields earned on tax-exempt interest received on loans to qualifying borrowers and on certain of the Company's equity securities to make them equivalent to income and yields earned on fully-taxable investments, assuming a federal income tax rate of 35% and (ii) nonaccrual loans have been included in the appropriate average balance loan category, but unpaid interest on nonaccrual loans has not been included for purposes of determining interest income. Information is based on average daily balances during the indicated periods.

<TABLE>
<CAPTION>

	Three Months Ended September 30, 1996			Three Months Ended September 30, 1995		
	Average Balance	Interest	Yield/(1) Rate	Average Balance	Interest	Yield/(1) Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans and leases (2):						
Residential real estate mortgages	$1,117,953	$22,105	7.91%	$ 880,267	$17,941	8.15%
Commercial real estate mortgages	820,851	20,127	9.75	769,090	19,643	10.13
Commercial loans and leases	428,292	10,236	9.51	393,401	9,954	10.04
Consumer loans and leases	867,533	20,422	9.36	756,285	18,200	9.55
Total loans and leases	3,234,629	72,890	8.96	2,799,043	65,738	9.32
Investment securities (3)	799,857	12,668	6.30	813,607	12,671	6.18
Federal funds sold	16,129	186	4.59	88,397	1,300	5.83
Total earning assets	4,050,615	85,744	8.42	3,701,047	79,709	8.54
Nonearning assets	343,924			251,927		
Total assets	$4,394,539			$3,952,974		
Interest-bearing deposits:						
Regular savings	599,793	4,089	2.71	586,688	4,195	2.84
NOW accounts	357,741	1,086	1.21	339,118	1,201	1.41
Money market access accounts	502,154	4,521	3.58	442,830	4,285	3.84
Certificates of deposit	1,403,091	19,781	5.50	1,351,530	19,268	5.66
Total interest-bearing deposits	2,889,779	29,477	4.06	2,720,166	28,949	4.22
Borrowed funds	602,873	8,085	5.34	446,055	6,397	5.69
Total interest bearing liabilities	3,492,652	37,562	4.28	3,166,221	35,346	4.43
Demand deposits	463,251			400,987		
Other liabilities (3)	65,805			50,847		
Shareholders' equity (3)	372,831			334,919		
Total liabilities and shareholders' equity	$4,394,539			$3,952,974		
Net earning assets	$ 557,963			$ 534,826		
Net interest income (fully-taxable equivalent)		48,182			44,363	
Less: fully-taxable equivalent adjustments		(238)			(309)	
Net interest income		$47,944			44,054	
Net interest rate spread (fully-taxable						

equivalent)			4.14%			4.11%
Net interest margin (fully-taxable equivalent)			4.73%			4.76%

(1) Annualized.
(2) Loans and leases includes loans available for sale.
(3) Excludes effect of unrealized gains or losses on investment securities.
</TABLE>

<TABLE>
<CAPTION>

	Nine Months Ended September 30, 1996			Nine Months Ended September 30, 1995		
	Average Balance	Interest	Yield/(1) Rate	Average Balance	Interest	Yield/(1) Rate
	(Dollars in Thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Loans and leases (2):						
Residential real estate mortgages	$1,067,562	$ 63,836	7.97%	$ 838,858	$ 51,418	8.17%
Commercial real estate mortgages	819,274	60,058	9.79	753,468	55,854	9.91
Commercial loans and leases	419,256	30,333	9.66	363,017	27,393	10.09
Consumer loans and leases	826,286	58,179	9.41	742,871	53,022	9.54
Total loans and leases	3,132,378	212,406	9.06	2,698,214	187,687	9.30
Investment securities (3)	776,392	36,707	6.32	763,157	35,204	6.17
Federal funds sold	50,019	1,872	5.00	80,869	3,608	5.97
Total earning assets	3,958,789	250,985	8.47	3,542,240	226,499	8.55
Nonearning assets	281,821			254,297		
Total assets	$4,240,610			$3,796,537		
Interest-bearing deposits:						
Regular savings	590,270	12,082	2.73	596,117	12,706	2.85
NOW accounts	352,814	3,263	1.24	322,742	3,486	1.44
Money market access accounts	503,374	13,621	3.61	390,736	10,642	3.64
Certificates of deposit	1,433,043	59,867	5.58	1,279,669	51,680	5.40
Total interest-bearing deposits	2,879,501	88,833	4.12	2,589,264	78,514	4.05
Borrowed funds	546,887	21,598	5.28	478,781	20,526	5.73
Total interest bearing liabilities	3,426,388	110,431	4.31	3,068,045	99,040	4.32
Demand deposits	427,250			358,441		
Other liabilities (3)	21,897			47,496		
Shareholders' equity (3)	365,075			322,555		
Total liabilities and shareholders' equity	$4,240,610			$3,796,537		
Net earning assets	$ 532,401			$ 474,195		
Net interest income (fully-taxable equivalent)		140,554			127,459	
Less: fully-taxable equivalent adjustments		(640)			(528)	
Net interest income		$139,914			$126,628	
Net interest rate spread (fully-taxable equivalent)			4.16%			4.23%
Net interest margin (fully-taxable equivalent)			4.74%			4.81%

(1) Annualized.
(2) Loans and leases includes loans available for sale.
(3) Excludes effect of unrealized gains or losses on investment securities.
</TABLE>

Net interest income on a fully-taxable equivalent basis increased by $3.8 million and $13.1 million for the three and nine months ended September 30, 1996, respectively, compared with the same periods in 1995. The increase was attributable to an increase in the level of net earning assets, which was offset somewhat by a decrease in the Company's net interest margin.

Interest income earned on loans and leases increased by $7.1 million and $24.7 million, or 10.9% and 13.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same respective periods in 1995. These increases in interest income on loans were attributable to loan growth from purchases and acquisitions as well as internal loan growth, which were offset somewhat by a decrease in the weighted average yield on loans. The weighted average yield on loans decreased in 1996 due to an increase in the percentage of lower yielding residential mortgage loans relative to other loan portfolios, as well as increased competition for both consumer and commercial loans.

Interest expense on deposits increased by $528 thousand and $10.3 million, or 1.8% and 13.1%, for the three and nine months ended September 30, 1996, respectively, as compared with the same respective periods in 1995. These increases in interest expense paid on deposits were primarily attributable to deposit growth from purchases and acquisitions during the second half of 1995 and the first quarter of 1996. Total average interest-bearing deposits increased by $169.6 million and $290.2 million, or 6.2% and 11.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same respective periods in 1995. The weighted average rate paid on interest-bearing deposits decreased from 4.22% for the three months ended September 30, 1995 to 4.06% for the three months ended September 30, 1996. The weighted average rate paid on interest-bearing deposits increased from 4.05% for the nine months ended September 30, 1995 to 4.12% for the nine months ended September 30, 1996.

Interest expense on borrowed funds increased by $1.7 million and $1.1 million, or 26.4% and 5.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same respective periods in 1995. The increases were primarily attributable to an increase in the average outstanding balances of borrowed funds, which was offset in part by a decrease in the weighted average rate paid. The outstanding average balances on borrowed funds increased by $156.8 million and $68.1 million, or 35.2% and 14.2%, respectively, as compared with the same respective periods in 1995. The weighted average rate paid decreased from 5.69% and 5.73% for the three and nine months ended September 30, 1995, respectively, to 5.34% and 5.28% for the same respective periods in 1996.

The Company's net interest rate spread increased from 4.11% for the three months ended September 30, 1995 to 4.14% for the three months ended September 30, 1996. The increase was attributable to a decrease in the yield on interest-bearing liabilities and an increase in the yield on investment securities, which were offset in part by a decrease in the yield on loans and leases.

For the nine months ended September 30, 1996, the Company's net interest rate spread decreased to 4.16% as compared with 4.23% for the nine months ended September 30, 1995. This decrease was attributable to increased rates on interest-bearing deposits and a decreased rate on loans and leases, which were offset in part by higher yields on investment securities and lower rates on borrowed funds.

The net interest margin decreased from 4.76% for the three months ended September 30, 1995 to 4.73% for the three months ended September 30, 1996. This decrease was primarily attributable to an increase in the percentage of interest-bearing liabilities as a percentage of earning assets, which was offset in part by an increase in the net interest rate spread.

The net interest margin decreased from 4.81% for the nine months ended September 30, 1995 to 4.74% for the nine months ended September 30, 1996. This decrease was primarily attributable to the decreased net interest rate spread.

Provision for Loan Losses

The provision for loan losses of $-0- and $900 thousand for the three and nine months ended September 30, 1996 decreased $1.1 million and $2.3 million compared to the same respective periods in 1995. The lower provisions resulted from management's ongoing evaluation of the adequacy of the allowance for loan losses after taking into account recent trends in nonperforming loans, delinquent loans and net loan chargeoffs, as well as other asset quality factors. See "Financial Condition - Nonperforming Assets" below.

Although management utilizes its judgment in providing for possible losses, there can be no assurance that the Company will not have to increase its provisions for loan and lease losses in the future as a result of changing markets for real estate and economic conditions in the Company's primary market area, future changes in nonperforming assets or for other reasons, which would affect the Company's results of operations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan and lease losses. Such agencies may require the Company to recognize changes to the allowance for loan and lease losses based on their judgments about information available to them at the time of the examination.

Noninterest Income

Noninterest income increased $1.4 million, or 16.4%, for the three months ended September 30, 1996 compared with the same period in 1995, and increased $5.4 million, or 23.3%, for the nine months ended September 30, 1996 compared with the same period in 1995. The more significant changes to the components of noninterest income are more fully described below.

The following table sets forth certain information relating to mortgage banking services income for the periods indicated:
<TABLE>
<CAPTION>

	At or for the Three Months Ended September 30,		At or for the Nine Months Ended September 30,	
	1996	1995	1996	1995
	(In Thousands)			
<S>	<C>	<C>	<C>	<C>
Residential mortgages serviced for investors at end of period	$2,953,213	$2,476,389	$2,953,213	$2,476,389
Residential mortgage sales income	$ 2,068	$ 1,477	$ 5,151	$ 3,027
Residential mortgage servicing income	1,247	1,636	4,699	4,932
Total	$ 3,315	$ 3,113	$ 9,850	$ 7,959

</TABLE>
The Company's portfolio of residential mortgages serviced for investors increased by $476.8 million, net of amortization and prepayments, or 19.3%, from September 30, 1995 to September 30, 1996. The Company's portfolio of mortgages serviced for others continues to increase as a result of its strategy to originate and sell primarily fixed rate residential mortgages to the secondary market while

retaining the rights to service these loans for the investors purchasing them. In addition, the outstanding amount of residential mortgages serviced for investors is impacted, from time to time, by the purchase and sale of mortgage servicing rights for portfolios of residential mortgage loans.

Residential mortgage sales income increased $589 thousand, or 39.9%, and $2.1 million, or 70.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. The increase in residential sales income reflects the lower interest rate environment that existed during most of the nine month period ended September 30, 1996 as compared with the same period in 1995, which resulted in an increase in direct originations by the subsidiary banks of the Company as well as an increase in the volume of loans originated indirectly through the Bank's correspondent network. Residential real estate mortgage originations from correspondent lenders increased $31.1 million, or 22.6%, and $199.0 million, or 85.4%, for the three and nine months ended September 30, 1996, respectively, compared with the same periods in 1995.

Residential mortgage servicing income decreased $389 thousand and $233 thousand, or 23.8% and 4.7% for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. During the three months ended September 30, 1996 the Company reclassified the amortization expense of the CMT floors (discussed below) to residential mortgage servicing income from other non-interest expenses, which resulted in a $356 thousand decrease in mortgage servicing income in the three and nine months ended September 30, 1996 as compared with the same respective periods in 1995. In addition, the Company accelerated the amortization of the carrying value of the CMT floors by $200 thousand during the three months ended

September 30, 1996 to reflect the underlying market value of the CMT floors. Excluding the CMT floor amortization expense recorded in 1996 as an offset to mortgage servicing income, mortgage servicing income would have been $1.8 million and $5.3 million for the three and nine months ended September 30, 1996, respectively, or $167 thousand and $323 thousand greater than the same respective periods in 1995. The core increases in mortgage servicing income relate to the increase in the size of the portfolio of residential mortgages serviced for others. Residential mortgage servicing income has lagged increases in the portfolio of mortgages serviced for investors as a result of the impact of the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 122 in 1995, which effectively accelerates mortgage servicing income into the current period as a component of capitalized mortgage servicing rights. The mortgage servicing rights that have been created as a result of the adoption of SFAS No. 122 are amortized and recorded as an offset to mortgage servicing income.

In order to mitigate the prepayment risk associated with mortgage servicing rights and protect economic value, the Company has purchased constant maturity treasury floors ("CMT"). The value of a CMT is inversely related to movements in interest rates. As interest rates decline, the value of a CMT floor increases. Market interest rate movements also influence the behavior of borrowers, which impacts the value of mortgage servicing rights as a result of an increase or decrease on mortgage loan prepayment speeds. The value of mortgage servicing rights generally increases as market interest rates increase and decreases as market interest rates decrease. While not accorded hedge accounting treatment due to the uncertainty of strict correlation, in the event that interest rates fall, any resulting increase in the value of the CMTs are intended to offset, in part, the prospective impairment to mortgage servicing rights. The CMT floors are included in other assets on the Company's balance sheet at September 30, 1996 at amortized cost of $406 thousand.

The following table shows the composition of net gains (losses) on the sales of securities for the periods indicated:

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
	(In Thousands)			
Securities losses	$ (1)	$ 42	$ (10)	$(188)
Securities gains	-0-	-0-	513	81
	(1)	42	$ 503	$(107)

The generation of mortgage sales income and the recognition of net gains on the sales of securities are dependent on market and economic conditions and, accordingly, there can be no assurance that the income and net gains reported in prior periods can be achieved in the future or that there will not be significant inter-period variations in the results from such activities.

Customer services income increased $812 thousand, or 25.6%, and $2.1 million, or 23.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. The increase in customer services income reflects the Company's focus on increasing the number and volume of transaction accounts, the increased use of and fees generated by ATM machines and the increased volume associated with the Branch Acquisition, the purchase of Bankcore and the purchase of all of the branches of Fleet Bank of Maine located in Aroostook County.

Trust and investment advisory services income increased $456 thousand, or 30.9%, and $1.2 million, or 27.5%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. The increase in trust and investment advisory income in 1996 as compared with 1995 reflects primarily the growth of the trust department at the Bank, which was started during the first quarter of 1995, as well as increased fee based income from the sale of mutual fund and annuity products.

Noninterest Expenses

Total noninterest expenses increased $4.3 million, or 13.6%, and $15.4 million, or 16.2%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. Excluding merger expenses and the one-time assessment of all SAIF-insured deposits to recapitalize the SAIF, total noninterest expenses increased $3.2 million, or 9.2%, and $9.7 million, or 10.3%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995.

Salaries and employee benefits increased $667 thousand, or 3.8%, and $4.0 million, or 8.0%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. These increases were principally the result of the employment of additional employees in connection with the expansion of the retail franchise, increased mortgage banking activities and trust services, as well as normal salary and wage increases.

Occupancy expenses increased $371 thousand, or 14.5%, and $1.5 million, or 18.7%, for the three and nine months ended

September 30, 1996, respectively, compared with the same periods in 1995. These increases were primarily attributable to the expansion of the Company's branch network, which resulted in higher rent, depreciation, utilities and maintenance expenses.

Data processing expenses increased $884 thousand, or 39.4%, and $2.5 million, or 39.4%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. The increases in data processing expenses were primarily attributable to BNH, which in 1995 processed checks in-house as opposed to outsourcing check processing in 1996. Consequently, the cost to outsource check processing is included in data processing in 1996, with no equivalent charge in 1995. In addition to the above, the increase in transaction accounts, a larger retail delivery system, the expanded mortgage banking operation and expanded operational capabilities to support new product offerings and services are the other factors accounting for the increase in data processing costs in 1996 as compared with 1995. Effective July 1, 1996, the computer systems and other back office functions of BNH were merged with those of the Bank.

Equipment expenses increased $418 thousand, or 23.4%, and $1.3 million, or 26.5%, for the three and nine months ended September 30, 1996, respectively, as compared with the same periods in 1995. The increases in equipment expenses were primarily attributable to increased investment in alternative delivery systems, office automation equipment and a larger branch network.

Deposit and other assessment expenses of $2.3 million and $2.9 million for the three and nine months ended September 30, 1996, respectively, include a Congressionally mandated one-time SAIF assessment of all SAIF-insured deposits, which amounted to $1.9 million in the case of the Company. Excluding the one-time SAIF assessment, deposit and other assessment expenses increased $253 thousand for the three months ended September 30, 1996 as compared with the same period in 1995 and decreased by $2.8 million for the nine months ended September 30, 1996 as compared with the same period in 1995. Included in the three month period ended September 30, 1995 was a refund of pre-paid deposit premiums due to a retroactive adjustment of the Bank Insurance Fund ("BIF") deposit premium rate. The decrease in deposit premium expense for the nine month period ended September 30, 1996 (excluding the one-time SAIF assessment) was directly attributable to the reduction in deposit insurance premiums paid by the Bank and BNH to the BIF from $0.23 per $100.00 of deposits to $0.04 per $100.00 of deposits in June, 1995 and then to the minimum annual amount of $2,000 starting January, 1996. During this period the Company continued to pay $0.23 per $100.00 of deposits for the approximately 11% of its deposits that are insured by the SAIF.

Merger expenses of $5.1 million for the nine month period in 1996 related to the acquisition of BNHC by the Company. Significant BNHC related merger expenses included employee severance costs, professional fees, branch consolidation costs and operational consolidation costs. Merger expenses during the three and nine month periods in 1995 related to the acquisition of Bankcore by the Company.

Other categories of noninterest expenses include collection and carrying costs of nonperforming assets, which decreased $597 thousand for the nine months ended September 30, 1996, as compared to the same period in 1995, and advertising and marketing expenses, which decreased $540 thousand for the nine months ended September 30, 1996, as compared with the same period in 1995.

Other noninterest expenses increased $1.0 million, or 20.3%, and $4.3 million, or 27.9%, for the three and nine months ended September 30, 1996, respectively, compared with the same respective periods in 1995.

The following table sets forth information relating to other noninterest expenses during the periods indicated:

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
	(In Thousands)			
Telephone	$ 921	$ 601	$ 2,436	$ 1,702
Office supplies	755	666	2,109	1,900
Amortization of deposit premiums	742	93	1,900	198
Postage and freight	625	605	2,113	1,863
Amortization of goodwill	508	507	1,524	1,416
Other	2,391	2,466	9,583	8,294
	$ 5,942	$ 4,938	$19,665	$15,373

The increase in amortization of deposit premiums was attributable to the Branch Acquisition.

Income Tax Expense

Income tax expense was $7.3 million and $6.7 million for the three months ended September 30, 1996 and 1995, respectively, which amounted to effective income tax rates of 34.0% and 34.4%, respectively. Income tax expense was $20.1 million and $17.4 million for the nine months ended September 30, 1996 and 1995, respectively, which amounted to effective income tax rates of 35.3% and 33.9%, respectively.

Financial Condition

Set forth below is a discussion of the material changes in the Company's financial condition from December 31, 1995 to September 30, 1996.

Securities Available for Sale

Securities available for sale decreased $7.7 million, or 1.0%. Securities available for sale are reported at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity (net of related taxes). At September 30, 1996, $704 thousand of net unrealized loss (net of related taxes) was included in shareholders' equity. A summary of the carrying values of securities available for sale follows:

	September 30, 1996	December 31, 1995
	(In Thousands)	
U.S. Government obligations and obligations of U.S. Government agencies and corporations	$408,514	$526,576
Other bonds and notes	29,953	16,531
Mortgage-backed securities	288,925	195,823
Total debt securities	727,392	738,930
Equity securities	31,528	27,718
Total securities		

available for sale	$758,920	$766,648

</TABLE>

Loans Held for Sale

Loans held for sale, all of which were residential mortgage loans, increased $18.8 million. The outstanding dollar amount of loans held for sale can vary greatly from period to period as a result of mortgage origination levels, timing and delivery of loan sales, changes in market interest rates and asset/liability management strategies. The change in loans held for sale from December 31, 1995 to September 30, 1996 was primarily attributable to timing and delivery of loan sales.

Loans and Leases

Total loans and leases held for investment increased $400.7 million, or 14.4%, for the nine months ended September 30, 1996. The increase was primarily attributable to $216.4 million of loans acquired through the Branch Acquisition, as well as internal loan growth in the consumer and residential loan portfolios.

Residential real estate mortgages increased $232.8 million, or 29.2%, for the nine months ended September 30, 1996. This increase was primarily attributable to $177.6 million of residential mortgage loans that were acquired in conjunction with the Branch Acquisition. In addition, the increase reflects a decision by the Company to retain a portfolio of 15 year fixed rate residential mortgages and certain adjustable rate residential mortgages. While the Company generally originates fixed rate residential mortgages for sale in the secondary market, the Company will, from time to time, retain a portion of originated fixed rate residential mortgages in its loan portfolio.

Commercial real estate mortgages increased $15.9 million, or 2.0%, for the nine months ended September 30, 1996. This increase was attributable to $23.0 million of commercial mortgage loans that were acquired in conjunction with the Branch Acquisition. The Company's business plan is to continue to lend within its geographic markets to sound commercial businesses which collateralize their borrowings with commercial real estate properties.

Commercial business loans and leases increased $22.2 million, or 5.4%, for the nine months ended September 30, 1996. This increase was consistent with the Company's strategy to focus on lending to sound small and medium-sized business customers within its geographic market. The Company acquired $5.9 million in commercial business loans in conjunction with the Branch Acquisition.

Consumer loans increased $129.8 million, or 16.8%, for the nine months ended September 30, 1996. The growth in consumer loans was concentrated in home equity loans, automobile loans and educational loans. The Company acquired $11.6 million in consumer loans in conjunction with the Branch Acquisition.

<TABLE>

Nonperforming Assets

The following table sets forth information regarding nonperforming assets at the dates indicated:

<CAPTION>

	September 30, 1996	June 30, 1996	March 31, 1996	December 31, 1995
		(Dollars in Thousands)		
<S>	<C>	<C>	<C>	<C>
Residential real estate loans:				

Nonaccrual loans	$ 3,901	$ 5,032	$ 6,089	$ 5,713
Accruing loans which are 90 days overdue	3,528	2,238	3,800	3,728
Total	7,429	7,270	9,889	9,441
Commercial real estate mortgages:				
Nonaccrual loans	16,233	15,628	16,917	17,029
Accruing loans which are 90 days overdue	-0-	-0-	128	-0-
Troubled debt restructurings	1,691	1,878	1,793	3,186
Total	17,924	17,506	18,838	20,215
Commercial business loans and leases:				
Nonaccrual loans	7,688	7,567	5,631	6,735
Accruing loans which are 90 days overdue	-0-	-0-	111	25
Troubled debt restructurings	614	1,114	1,349	1,859
Total	8,302	8,681	7,091	8,619
Consumer loans and leases:				
Nonaccrual loans	4,505	4,368	4,099	3,586
Accruing loans which are 90 days overdue	1,595	602	1,051	659
Total	6,100	4,970	5,150	4,245
Total nonperforming loans:				
Nonaccrual loans	32,327	32,595	32,736	33,063
Accruing loans which are 90 days overdue	5,123	2,840	5,090	4,412
Troubled debt restructurings	2,305	2,992	3,142	5,045
Total	39,755	38,427	40,968	42,520
Other nonperforming assets:				
Other real estate owned, net of related reserves	9,674	10,033	11,089	12,679
Repossessions, net of related reserves	1,572	1,316	1,865	1,553
Total other nonperforming assets	11,246	11,349	12,954	14,232
Total nonperforming assets	$51,001	$49,776	$53,922	$56,752
Total nonperforming loans as a percentage of total loans (1)	1.25%	1.23%	1.36%	1.53%
Total nonperforming assets as a percentage of total assets	1.14%	1.14%	1.27%	1.40%
Total nonperforming assets as a percentage of total loans (1) and total other nonperforming assets	1.60%	1.59%	1.67%	2.03%

(1) Exclusive of loans held for sale.
</TABLE>

It is the policy of the Company to place all commercial real estate loans and commercial business loans which are 90 days or more past due, unless secured by sufficient cash or other assets immediately convertible to cash, on nonaccrual status. All such loans 90 days or more past due, whether on nonaccrual status or not, are considered as nonperforming loans. Residential real estate loans and consumer loans are placed on nonaccrual and nonperforming status generally when they are 90 days or more past due or when in management's judgment the collectibility of interest and/or principal is doubtful.

It is also the policy of the Company to place on nonaccrual and nonperforming status loans currently performing in accordance with their terms but which in management's judgment are likely to present future principal and/or interest repayment problems and thus ultimately could be classified as nonperforming. At September 30, 1996, $8.1 million of commercial real estate and commercial business loans and leases, or 30.7%, of total nonperforming commercial real estate and commercial business loans, were on nonaccrual status and thus disclosed as nonperforming loans even though they were less than 90 days past due.

Effective January 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." These statements require changes in both the disclosure and impairment measurement of nonperforming loans. Certain loans which had previously been reported as nonperforming and certain in-substance foreclosures are currently required to be disclosed as impaired loans. At adoption, the Company reclassified $2.2 million of in-substance foreclosures and related reserves of $96 thousand to loans and the allowance for loan losses, respectively. Prior year balances were not reclassified, as management deemed the amounts to be immaterial.

Restructured accruing loans entered into subsequent to the adoption of these statements are reported as impaired loans. In the year subsequent to restructure, these loans may be removed from impaired loan status provided that the loan bears a market rate of interest at the time of restructure and is performing under the restructured terms. Restructured, accruing loans entered into prior to the adoption of these statements are not required to be reported as impaired loans unless such loans are not performing in accordance with the restructured terms.

Commercial business and commercial real estate loans are considered impaired when it is probable that the Company will not be able to collect all amounts due according to the original contractual terms of the loan agreement. The amount of impairment for impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original contractual interest rate, and its recorded value, or, in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral. The Company recognizes income on impaired loans also classified as nonperforming on a cash basis when the ability to collect the principal balance is not in doubt.

At September 30, 1996, total impaired loans were $27.9 million, of which $20.9 million had related allowances of $5.2 million. During the three months ended September 30, 1996, the income recognized related to impaired loans was $381 thousand and the average balance of outstanding impaired loans was $27.6 million. During the nine months ended September 30, 1996, the income recognized related to impaired loans was $1.1 million and the average balance of outstanding impaired loans was $28.4 million.

Real estate acquired by the Company as a result of foreclosure or by deed-in-lieu of foreclosure generally is classified as other real estate owned until it is sold. When property is acquired, it is recorded at the lower of carrying or fair value less estimated selling costs at the date of acquisition or classification and any writedown resulting therefrom is charged to the allowance for loan losses. Interest accrual ceases on the date of acquisition and all costs incurred from that date in maintaining the property and subsequent reductions in value are expensed.

Nonperforming assets at September 30, 1996 included $9.7 million of other real estate owned and $1.6 million of repossessed assets, in each case net of related reserves.

Potential Nonperforming Assets

At September 30, 1996, the Company had classified a total of $78.9 million of commercial real estate loans and commercial business loans and leases as substandard or lower on its risk rating system, as compared to $91.1 million at December 31, 1995. Included in this amount was the Company's $26.2 million of nonperforming commercial business and commercial real estate loans. In the opinion of management, the remaining $52.7 million of commercial real estate loans and commercial business loans and leases classified as substandard or lower at September 30, 1996 evidence one or more weaknesses or potential weaknesses and, depending on the regional economy and other factors, may become nonperforming assets in future periods. These loans are net of any previously established specific reserves which have resulted in chargeoffs, but not general reserves which have been established based on the Company's internal rating of such loans and evaluation of the adequacy of its allowance for loan losses.

<TABLE>
Allowance for Loan Losses

The following table sets forth information regarding activity in the allowance for loan losses for the three and nine months ended September 30, 1996 and 1995, as well as certain related ratios:
<CAPTION>

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Average loans and leases outstanding during the period	$3,234,629	$2,799,043	$3,132,378	$2,698,214
Allowance at beginning of period	$ 63,654	$ 58,383	$ 60,975	$ 63,675
Chargeoffs:				
Residential real estate loans	495	924	2,230	2,927
Commercial real estate loans	1,658	1,355	3,705	7,905
Commercial business loans and leases	249	383	1,782	1,619
Consumer loans and leases	722	722	2,417	1,961
Total loans and leases charged off	3,124	3,384	10,134	14,412
Recoveries:				
Residential real estate loans	93	155	410	330
Commercial real estate loans	591	1,705	3,820	3,583
Commercial business loans and leases	245	527	756	1,755
Consumer loans and leases	204	127	626	512
Total loans and leases recovered	1,133	2,514	5,612	6,180
Net chargeoffs	1,991	870	4,522	8,232
Additions charged to operating expenses	-0-	1,080	900	3,150
Additions due to purchase acquisition	-0-	2,314	4,310	2,314
Allowance at end of period	$ 61,663	$ 60,907	$ 61,663	$ 60,907
Ratio of net chargeoffs to average loans and leases outstanding during the period - annualized (1)	.25%	0.12%	0.19%	0.41%
Ratio of allowance to total loans and leases at end of period (2)	1.94%	2.21%	1.94%	2.21%
Ratio of allowance to nonperforming loans and leases at end of period	155.1%	126.3%	155.1%	126.3%

(1) Average loans and leases include portfolio loans and loans held for sale.
(2) Excludes loans held for sale.
</TABLE>

The following table sets forth the manner in which the Company's total allowance for loan losses was allocated by type of loan at the dates indicated:
<TABLE>
<CAPTION>

September 30, 1996   December 31, 1995

	Amount	Allowance as % of Total Loans by Category	Amount	Allowance as % of Total Loans by Category
	(Dollars in Thousands)			
<S>	<C>	<C>	<C>	<C>
Residential real estate loans	$ 7,407	0.72%	$10,118	1.27%
Commercial real estate loans	33,566	4.13	31,673	3.97
Commercial business loans and leases	11,427	2.65	9,491	2.32
Consumer loans and leases	9,263	1.02	9,693	1.25
	$61,663	1.94	$60,975	2.19

</TABLE>

Deposits and Borrowings

Total deposits increased by $188.1 million, or 5.9%, during the nine months ended September 30, 1996. This increase was principally attributable to the $160.9 million of deposits that were acquired in the Branch Acquisition, as described above. The increase in deposits resulted from an increase in certificates of deposit of $78.2 million, or 5.7%, an increase in regular savings of $37.5 million, or 6.7%, an increase in money market accounts of $13.1 million, or 2.7%, and a combined increase in NOW and demand deposits of $59.3 million, or 7.5%. The changes in deposit balances principally reflect the impact of the Branch Acquisition completed during February, 1996, as well as the Company's current strategy to emphasize relationship banking, cash management services and core deposits.

Total borrowings increased by $175.8 million, or 38.5%, for the nine months ended September 30, 1996. The increase was primarily attributable to a $161.5 million increase in Federal Home Loan Bank borrowings. The increase in Federal Home Loan Bank borrowings was attributable to the Branch Acquisition and loan growth. At September 30, 1996, the Company estimates its additional available borrowing capacity from the Federal Home Loan Bank to be approximately $548 million.

Shareholders' Equity

Total shareholders' equity increased by $22.1 million, or 6.2%, during the nine months ended September 30, 1996. This increase was the result of $36.9 million of net income and $1.7 million of treasury stock sales related to various employee benefit plans of the Company, the effects of which were offset in part by cash dividends of $12.1 million and a $4.5 million reduction in the net unrealized gain (net of tax effect) in the market value of securities available for sale.

Regulatory Capital Requirements

At September 30, 1996, the Company and each of its banking subsidiaries were in compliance with all applicable regulatory capital requirements.

The following table sets forth the minimum regulatory capital requirements and the actual capital ratios of the Company and its banking subsidiaries at September 30, 1996:

<TABLE>
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	Required Minimums	Actual The Bank	Actual BNH	Actual The Company

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Risk-based capital ratios:				
Tier I	4%	9.59%	10.88%	12.14%
Total	8	10.85	12.14	13.40
Tier I leverage capital ratios	3 (1)	6.61	6.31	7.84

</TABLE>

(1) The federal banking agencies have indicated that the most highly-rated institutions which meet certain criteria will be subject to a 3% requirement and all other institutions will be required to maintain an additional 1% to 2% of capital. The federal banking agencies have not specified any requirements in this regard with respect to the Company and its subsidiaries.

Liquidity and Capital Resources

The Company's liquidity decreased during the nine months ended September 30, 1996. Net cash, short term and marketable assets amounted to $743.0 million, or 21.4% of net deposits and short term liabilities at September 30, 1996. This compares to a ratio of 26.5% at December 31, 1995. Liquidity is considered adequate by the Company to meet anticipated cash needs in the foreseeable future.

Asset and Liability Management

The Company analyzes the future impact on net interest income as a result of changing interest rates based on budget projections, including anticipated business activity, anticipated changes in interest rates and other variables which are adjusted periodically to reflect the interest rate environment and other factors. Based on this analysis and the information and assumptions in effect at September 30, 1996, management of the Company estimates that a 100 to 200 basis point gradual change in interest rates would not significantly affect the Company's annualized net interest income. This assessment is primarily based on management's ability to exert some control with respect to the extent and timing of the change in rates paid on the Company's interest-bearing liabilities and, therefore, to manage the effects somewhat of a negative or positive gap position on net interest income.

The Company's methods for analyzing the effects of changes in interest rates on its operations incorporate assumptions concerning, among other things, the amortization and prepayment of assets and liabilities. Management believes that these assumptions approximate actual experience and considers them reasonable, although the actual amortization and repayment of assets and liabilities may vary substantially.

Prospective Acquisition of Family Bancorp

The Company, Peoples Heritage Merger Corp. ("PHMC"), a newly-formed, wholly-owned subsidiary of the Company, and Family Bancorp ("Family") have entered into an Agreement and Plan of Merger, dated as of May 30, 1996, which provides, among other things, for (i) the merger of Family with and into PHMC (the "Family Merger") and (ii) the conversion of each share of Family Common Stock outstanding immediately prior to the Family Merger (other than any dissenting shares under Massachusetts law and certain shares held by the Company) into the right to receive 1.26 shares of Company Common Stock, subject to possible adjustment under certain circumstances, plus cash in lieu of any fractional share interest. At September 30, 1996, there were 4,309,709 shares of Family Common Stock outstanding. At September 30, 1996, Family had total assets of $917.8 million and shareholders' equity of $72.9 million. Consummation of the Family Merger is subject to, among other things, the receipt of all necessary regulatory and shareholder approvals and other customary conditions. All necessary regulatory and shareholder approvals have been obtained and, as a result of legislation enacted into law on September 30, 1996, the Company will not become a savings and loan holding company subject to regulation by the Office of Thrift Supervision as a result of its acquisition of Family. The acquisition of Family by the Company is expected to be completed by year end 1996.

Issuer Tender Offer

The Company purchased, pursuant to the terms of an issuer tender offer completed on October 7, 1996, 2,500,000 shares of Common Stock at $24.00 per share. The 2,500,000 shares represent approximately 9.9% of the Company's then outstanding Common Stock. The tender offer was conducted by the Company in connection with the proposed acquisition of Family. See "Prospective Acquisition of Family Bancorp" above.

Part II - Other Information

Item 1. Legal Proceedings:

The Company is involved in routine legal proceedings occurring in the ordinary course of business which in the aggregate are believed by management to be immaterial to the financial condition and results of operations of the Company.

Item 2. Changes in securities - not applicable.

Item 3. Defaults upon senior securities - not applicable.

Item 4. Submission of matters to a vote of security holders - none.

Item 5. Other Information.

Item 6. Exhibits and reports on Form 8-K.

(a) July 2, 1996, the Company filed a report on Form 8-K regarding (i) supplemental financial information, including restated supplemental consolidated financial statements, as of December 31, 1995 and 1994 and for the three years ended December 31, 1995 and (ii) supplemental financial information, including restated supplemental consolidated financial statements, as of March 31, 1996 and for the three months ended March 31, 1996 and 1995, in each case giving retroactive effect to the acquisition of BNHC for all periods presented.

(b) August 23, 1996, the Company filed a report on Form 8-K regarding the approval by shareholders of both the Company and Family of the prospective acquisition of Family by the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLES HERITAGE FINANCIAL GROUP, INC.

Date November 13, 1996   By:
William J. Ryan
Chairman, President and
Chief Executive Officer

Date November 13, 1996   By:
Peter J. Verrill
Executive Vice President,
Chief Operating Officer and
Chief Financial Officer
(principal financial and
accounting officer)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLES HERITAGE FINANCIAL GROUP, INC.

/s/ William J. Ryan
Date November 13, 1996   By:
William J. Ryan
Chairman, President and
Chief Executive Officer

/s/ Peter J. Verrill
Date November 13, 1996   By:
Peter J. Verrill
Executive Vice President,
Chief Operating Officer and

Chief Financial Officer
(principal financial and
accounting officer)

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