

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1994-03-18** | Period of Report: **1993-12-31**
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FILER

NORTHEAST FEDERAL CORP

CIK: **863517** | IRS No.: **061288154** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **001-10571** | Film No.: **94516729**
SIC: **6035** Savings institution, federally chartered

Business Address
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HARTFORD CT 06103
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to _____

FILE NUMBER: 1-10571

NORTHEAST FEDERAL CORP.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 06-1288154
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
INCORPORATION OF ORGANIZATION)
50 STATE HOUSE SQUARE 06103
HARTFORD, CONNECTICUT (ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
203/280-1000

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act

Not Applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by non-affiliates of the registrant as of February 4, 1994.

Common Stock, \$.01 par value--\$65,851,232

The number of shares outstanding for each of the registrant's classes of common stock issued and outstanding as of February 4, 1994.

Common Stock, \$.01 par value--13,507,945

DOCUMENTS INCORPORATED BY REFERENCE:

Part III--Portions of Proxy Statement for Annual Meeting of Stockholders,
May 20, 1994

This amendment to Form 10-K is being filed in order to properly align the columns in the Consolidated Statement of Financial Condition. Item 8 of Form 10-K is being refiled in its entirety.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

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MANAGEMENT'S REPORT

To the Stockholders:

Financial Statements

The management of Northeast Federal Corp. (the Company) is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts based on informed judgments and estimates made by management.

The financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of stockholders, the board of directors and committees of the board. Management believes that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report is presented on page 93.

Internal Control

Management is responsible for establishing and maintaining an effective internal control structure over financial reporting presented in conformity with both generally accepted accounting principles and, as pertaining to Northeast Savings, F.A., the Office of Thrift Supervision Instructions for Thrift Financial Reports (TFR instructions). The structure contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any structure of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control structure can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of an internal control structure may vary over time.

Management assessed the institution's internal control structure over

financial reporting presented in conformity with both generally accepted accounting principles and TFR instructions as of December 31, 1993. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that the Company maintained an effective internal control structure over financial reporting presented in conformity with both generally accepted accounting principles and TFR instructions, as of December 31, 1993.

The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of the Company's management; it includes members with banking or related management experience, has access to its own outside counsel, and does not include any large customers of the institution. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial accounting and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of the internal control structure for financial reporting and any other matters which they believe should be brought to the attention of the Committee.

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MANAGEMENT'S REPORT
(CONTINUED)

Compliance with Laws and Regulations

Management is also responsible for ensuring compliance with the federal laws and regulations concerning loans to insiders and the federal and state laws and regulations concerning dividend restrictions, both of which are designated by the FDIC as safety and soundness standards.

Management assessed its compliance with the designated safety and soundness laws and regulations and has maintained records of its determinations and assessments as required by the FDIC. Based on this assessment, management believes that the Company has complied, in all material respects, with the designated safety and soundness laws and regulations for the year ended December 31, 1993.

/s/ Kirk W. Walters

January 21, 1994

Kirk W. Walters
President and Chief Executive
Officer

/s/ Lynne M. Carcia

January 21, 1994

Lynne M. Carcia
Controller and Chief Accounting
Officer

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders of Northeast Federal Corp.:

We have audited the accompanying consolidated statement of financial condition of Northeast Federal Corp. and subsidiaries (the Company) as of December 31, 1993, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing

standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Federal Corp. and subsidiaries at December 31, 1993 and the consolidated results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 1, the Company changed its method of accounting for securities as of December 31, 1993.

Deloitte & Touche

Hartford, Connecticut
January 21, 1994
(February 9, 1994 as to Note 26)

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REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and Stockholders of
Northeast Federal Corp.

We have audited the accompanying consolidated statements of financial condition of Northeast Federal Corp. as of December 31 and March 31, 1992, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the nine months ended December 31, 1992 and each of the two years in the period ended March 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Federal Corp. as of December 31 and March 31, 1992 and the consolidated results of its operations and its cash flows for the nine months ended December 31, 1992 and each of the two years in the period ended March 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, the Company changed its method of accounting for income taxes for the fiscal year ended March 31, 1992.

Coopers & Lybrand

Hartford, Connecticut
January 18, 1993

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NORTHEAST FEDERAL CORP.

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	NINE MONTHS ENDED DECEMBER 31, 1992	YEAR ENDED MARCH 31, 1992
<S>	<C>	<C>	<C>
Interest income:			
Loans.....	\$145,127	\$129,038	\$225,132
Mortgage-backed securities.....	54,205	37,924	78,175
Investment securities.....	10,970	15,313	20,786
Rhode Island covered assets.....	8,989	9,932	--
Other.....	1,085	4,138	2,853
Total interest income.....	220,376	196,345	326,946
Interest expense:			
Deposits.....	121,163	123,924	219,122
Federal Home Loan Bank advances.....	13,230	3,056	12,572
Other borrowings.....	13,575	5,930	12,451
Total interest expense.....	147,968	132,910	244,145
Net interest income.....	72,408	63,435	82,801
Provision for loan losses.....	23,300	16,300	10,200
Net interest income after provi- sion for loan losses.....	49,108	47,135	72,601
Non-interest income:			
Fees for services.....	10,181	7,112	12,815
Gain on sale of securities, net.....	5,625	4,100	1,991
Gain on sale of loans, net.....	1,939	1,870	2,532
Other non-interest income (loss)....	(6)	(41)	(1,221)
Total non-interest income.....	17,739	13,041	16,117
Non-interest expenses:			
Compensation and benefits.....	32,324	23,126	27,635
Occupancy and equipment, net.....	15,399	11,057	14,810
Other general and administrative....	19,436	15,872	19,065
Amortization of supervisory good- will.....	--	2,002	3,971
Supervisory goodwill valuation ad- justment.....	--	56,568	--
SAIF insurance fund and OTS assess- ments.....	8,414	6,222	8,130
Real estate and other assets ac- quired in settlement of loans.....	17,606	9,652	5,702
Total non-interest expenses.....	93,179	124,499	79,313
Income (loss) before income taxes and extraordinary items..	(26,332)	(64,323)	9,405
Income tax expense (benefit).....	(12,193)	(5,089)	4,915
Income (loss) before extraordi- nary items and cumulative ef- fect of change in accounting principle.....	(14,139)	(59,234)	4,490
Extraordinary items, net of income taxes.....	--	--	95
Income (loss) before cumulative effect of change in accounting principle.....	(14,139)	(59,234)	4,585
Cumulative effect of change in ac- counting principle.....	--	--	1,022
Net income (loss).....	\$ (14,139)	\$ (59,234)	\$ 5,607
Preferred stock dividend require- ments.....	\$ 4,501	\$ 4,652	\$ 8,506
Net loss applicable to common stock- holders.....	\$ (18,640)	\$ (63,886)	\$ (2,899)

Loss per common share before extraordinary items:			
Primary and fully diluted.....	\$ (1.75)	\$ (11.16)	\$ (.70)
Loss per common share before cumulative effect of change in accounting principle:			
Primary and fully diluted.....	\$ (1.75)	\$ (11.16)	\$ (.69)
Cumulative effect of change in accounting principle:			
Primary and fully diluted.....	\$ --	\$ --	\$.18
Net loss per common share:			
Primary and fully diluted.....	\$ (1.75)	\$ (11.16)	\$ (.51)

See accompanying Notes to the Consolidated Financial Statements

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NORTHEAST FEDERAL CORP.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(IN THOUSANDS EXCEPT SHARE AMOUNTS)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
<S>	<C>	<C>
ASSETS		
Cash and due from banks.....	\$ 51,705	\$ 57,158
Interest-bearing deposits.....	--	615
Federal funds sold.....	23,510	32,815
Securities purchased under agreements to resell.....	60,000	--
Investment securities, net (market value of \$42,525 and \$116,341).....	42,612	111,791
Investment securities, available-for-sale, net (market value of \$131,127 at December 31, 1992).....	162,854	129,899
Mortgage-backed securities, net (market value of \$1,336,970 and \$837,681).....	1,330,886	829,772
Mortgage-backed securities, available-for-sale, net (market value of \$57,684 at December 31, 1992).....	12,886	55,474
Loans, net.....	1,876,181	2,278,873
Loans available-for-sale, net.....	46,076	32,237
Rhode Island covered assets.....	105,625	151,828
Interest and dividends receivable.....	17,540	21,342
Real estate and other assets acquired in settlement of loans.....	74,962	99,376
Premises and equipment, net.....	32,368	34,201
Prepaid expenses and other assets.....	82,822	74,723
	-----	-----
Total assets.....	\$3,920,027	\$3,910,104
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Retail deposits.....	\$2,952,082	\$3,205,654
Brokered deposits.....	25,135	25,135
Federal Home Loan Bank advances.....	373,000	140,000
Securities sold under agreements to repurchase.....	294,809	291,014
Uncertificated debentures.....	38,442	34,990
Convertible subordinated debentures.....	--	560
Advance payments by borrowers for taxes and insurance..	28,337	21,734
Other liabilities.....	75,709	53,444
	-----	-----
Total liabilities.....	3,787,514	3,772,531
	-----	-----
Commitments and Contingencies		
Stockholders' equity:		
Serial preferred stock, \$.01 par value, 15,000,000 shares authorized:		
\$2.25 Cumulative Convertible Preferred Stock Series A, 1,610,000 shares issued and outstanding at December 31, 1992.....	--	16

\$8.50 Cumulative Preferred Stock, Series B, 394,199 shares at December 31, 1993 and 351,700 shares at December 31, 1992 issued and outstanding.....	4	4
Common stock, \$.01 par value, 25,000,000 shares authorized: 13,499,078 shares at December 31, 1993 and 5,729,579 shares at December 31, 1992 issued and outstanding.....	135	57
Additional paid-in capital.....	185,960	182,804
Net unrealized gains on debt and equity securities available-for-sale.....	9,462	--
Accumulated deficit.....	(59,557)	(40,330)
Stock dividend distributable.....	838	--
Unallocated employee stock ownership plan shares.....	(4,329)	(4,978)
	-----	-----
Total stockholders' equity.....	132,513	137,573
	-----	-----
	\$3,920,027	\$3,910,104
	=====	=====

</TABLE>

See accompanying Notes to the Consolidated Financial Statements

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NORTHEAST FEDERAL CORP.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(IN THOUSANDS)

<TABLE>

<CAPTION>

	SERIAL PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	NET UNREAL- IZED GAIN (LOSS) ON SECURITIES*	RETAINED EARNINGS (ACCUMULATED DEFICIT) SUBSTANTIALLY RESTRICTED	STOCK DIVIDEND DISTRIBUTABLE	UNALLOCATED EMPLOYEE STOCK OWNER- SHIP PLAN SHARES	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at March 31, 1991.....	\$28	\$ 57	\$181,158	\$ (1,125)	\$ 13,297	\$ --	\$ (10,583)	\$182,832
Net income.....	--	--	--	--	5,607	--	--	5,607
Proceeds from exercise of stock options.....	--	--	2	--	--	--	--	2
Unallocated employee stock ownership plan shares.....	--	--	--	--	--	--	1,458	1,458
Net unrealized recovery on equity securities..	--	--	--	1,125	--	--	--	1,125
	---	---	---	---	---	---	---	---
Balance at March 31, 1992.....	28	57	181,160	--	18,904	--	(9,125)	191,024
Net loss.....	--	--	--	--	(59,234)	--	--	(59,234)
Issuance of 351,700 shares of \$8.50 Cumulative Preferred Stock, Series B.....	4	--	35,166	--	--	--	--	35,170
Repurchase of 1,202,916 shares of Adjustable Rate Cumulative Preferred Stock, Series A.....	(12)	--	(33,538)	--	--	--	--	(33,550)
Proceeds from exercise of stock options.....	--	--	16	--	--	--	--	16
Unallocated employee stock ownership plan shares.....	--	--	--	--	--	--	4,147	4,147
	---	---	---	---	---	---	---	---
Balance at December 31, 1992.....	20	57	182,804	--	(40,330)	--	(4,978)	137,573
Net loss.....	--	--	--	--	(14,139)	--	--	(14,139)
Proceeds from issuance of shares to 401-K								

plan.....	--	--	223	--	--	--	--	223
Proceeds from exercise of stock options.....	--	1	146	--	--	--	--	147
Conversion of 1,610,000 shares of \$2.25 Cumulative Convertible Preferred Stock, Series A into 7,647,500 shares of common stock.....	(16)	77	(1,463)	--	--	--	--	(1,402)
Stock dividend distributable, 50,876 shares of \$8.50 Cumulative Preferred Stock, Series B.....	--	--	--	--	(5,088)	5,088	--	--
Preferred stock dividend payment in kind..	--	--	4,250	--	--	(4,250)	--	--
Unallocated employee stock ownership plan shares.....	--	--	--	--	--	--	649	649
Net unrealized gains on debt and equity securities available-for-sale.....	--	--	--	9,462	--	--	--	9,462
Balance at December 31, 1993.....	\$ 4	\$135	\$185,960	\$ 9,462	\$ (59,557)	\$ 838	\$ (4,329)	\$132,513
	===	====	=====	=====	=====	=====	=====	=====

</TABLE>

*Changes during the year ended December 31, 1993 reflect the Company's implementation of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

See accompanying Notes to the Consolidated Financial Statements

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NORTHEAST FEDERAL CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	NINE MONTHS ENDED DECEMBER 31, 1992	YEAR ENDED MARCH 31, 1992
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss).....	\$ (14,139)	\$ (59,234)	\$ 5,607
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	4,860	3,361	4,693
Amortization of fees, discounts, and premiums, net.....	1,697	(6,820)	405
Amortization of and other adjustments to supervisory goodwill.....	--	59,553	24,867
Provision for loan losses.....	23,300	16,300	10,200
Provision for losses on REO.....	9,493	3,823	--
Gain on sale of securities.....	(5,651)	(4,100)	(1,991)
Gain on sale of loans.....	(1,939)	(1,870)	(2,532)
(Gain) loss on sale of other assets.....	466	(253)	674
(Gain) loss on early extinguishment of debt.....	--	--	(204)
Decrease in interest and dividends receivable.....	3,802	2,792	13,895
Loans available-for-sale originated and purchased.....	(244,950)	(148,397)	(166,697)

Proceeds from sales of loans available-for-sale.....	231,153	184,325	135,063
Decrease in accrued interest payable on deposits.....	(1,078)	(3,185)	(8,296)
Increase in prepaid expenses and other assets.....	(8,099)	(14,347)	(28,236)
Increase (decrease) in other liabilities.....	19,125	(10,259)	5,401
	-----	-----	-----
Total adjustments.....	32,179	80,923	(12,758)
	-----	-----	-----
Net cash provided by (used in) operating activities.....	18,040	21,689	(7,151)
	-----	-----	-----
Cash flows from investing activities:			
Loans originated and purchased.....	(513,239)	(461,063)	(318,573)
Proceeds from sales of loans.....	48,541	8,116	16,680
Principal collected on loans.....	412,166	398,469	480,198
Net decrease in Rhode Island covered assets.....	46,203	26,308	--
Purchases of mortgage-backed securities.....	(361,464)	(383,401)	--
Proceeds from sales of mortgage-backed securities.....	--	--	23,512
Purchases of mortgage-backed securities available-for-sale.....	--	--	(114,911)
Proceeds from sales of mortgage-backed securities available-for-sale.....	39,831	44,727	587,225
Principal collected on mortgage-backed securities.....	237,339	136,995	211,115
Purchases of investment securities.....	--	(64,667)	(51,516)
Proceeds from sales of investment securities.....	16,347	506	48,332
Proceeds from redemption of FHLB stock.....	554	8,283	1,478
Proceeds from maturities of investment securities.....	12,580	19,404	18,371
Purchases of investment securities available-for-sale.....	(239,426)	(204,458)	(263,160)
Proceeds from sales of investment securities available-for-sale.....	142,592	158,033	306,979
Proceeds from maturities of investment securities available-for-sale.....	121,347	71,622	24,799
Proceeds from sales of real estate and other assets acquired in settlement of loans.....	76,549	23,563	16,052
Net increase in deposits due to acquisition of branches.....	--	--	404,643
Net purchases of premises and equipment.....	(3,294)	(7,086)	(12,157)
	-----	-----	-----
Net cash provided by (used in) investing activities.....	36,626	(224,649)	1,379,067
	-----	-----	-----
Cash flows from financing activities:			
Net decrease in retail deposits....	(252,494)	(568,741)	(227,021)
Acquisition of Rhode Island deposits.....	--	136,319	--
Net decrease in brokered deposits..	--	--	(87,751)
Increase (decrease) in advance payments by borrowers for taxes and insurance.....	6,603	1,461	(13,327)
Increase (decrease) in securities sold under agreements to repurchase.....	3,795	278,267	(354,035)
Net increase (decrease) in short-term FHLB advances.....	40,000	99,250	(310,000)
Proceeds from long-term FHLB advances.....	228,000	--	--
Repayments of long-term FHLB			

advances.....	(35,000)	(2,500)	(142,000)
Proceeds from issuance of uncertificated sinking fund debentures.....	--	33,450	--
Retirement of convertible subordinated debentures.....	(560)	--	(266)
Reduction of ESOP debt guarantee...	649	4,147	1,458
Preferred stock conversion costs...	(1,402)	--	--
Retirement of series A adjustable preferred stock.....	--	(33,550)	--
Proceeds from issuance of Series B preferred stock.....	--	35,170	--
Issuance of 401K stock shares.....	223	--	--
Proceeds from exercise of stock options.....	147	16	2
	-----	-----	-----
Net cash used in financing activities.....	(10,039)	(16,711)	(1,132,940)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	44,627	(219,671)	238,976
Cash and cash equivalents at beginning of period.....	90,588	310,259	71,283
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 135,215	\$ 90,588	\$ 310,259
	=====	=====	=====

</TABLE>

See accompanying Notes to the Consolidated Financial Statements

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Northeast Federal Corp. and its wholly-owned subsidiary, Northeast Savings, F.A. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior years' financial statements to conform to the 1993 presentation.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, cash and due from banks, interest-bearing deposits with original maturities of ninety days or less, and federal funds sold are considered as cash and cash equivalents. Federal Reserve Board regulations require the Association to maintain non-interest-bearing reserves against certain of its transaction accounts. For total transaction account deposits of \$51.9 million or less, regulations require a reserve of 3%. For total transaction account deposits in excess of \$51.9 million, a 10% reserve is required.

Securities Purchased Under Agreements to Resell

The Association invests in securities purchased under agreements to resell (repurchase agreements) for short-term cash management. The Association takes physical possession of the collateral for these agreements, which normally consists of U.S. Treasury securities, collateralized mortgage obligations, or mortgage-backed securities guaranteed by agencies of the U.S. government.

Investment Securities

Investment securities include U.S. Government, agency, and corporate bonds, collateralized mortgage obligations, and asset-backed securities. Those securities which management has the intent and ability to hold until maturity are classified as held-to-maturity and are carried at amortized cost, adjusted for amortization of premiums and accretion of discounts into interest income using the level-yield method. Premiums are amortized to the earlier of the call

or maturity date and discounts are accreted to the maturity date. Investment securities which have been identified as assets for which there is not a positive intent to hold to maturity, including all marketable equity securities, are classified as available-for-sale. SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," requires that available-for-sale securities be reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. The Company implemented SFAS 115 as of December 31, 1993. SFAS 115 may not be applied retroactively.

Gains and losses on sales of investment securities are computed on a specific identification cost basis. Investment securities which have experienced an other than temporary decline are written down to fair value as a new cost basis with the amount of the writedown included in earnings as a realized loss. The new cost basis is not changed for subsequent recoveries in fair value. Factors which management considers in determining whether an impairment in value of an investment is other than temporary include the issuer's financial performance and near term prospects, the financial conditions and prospects of the issuer's geographic region and industry, and recoveries in market value subsequent to the balance sheet date.

Mortgage-Backed Securities

Mortgage-backed securities which management has the intent and ability to hold until maturity are classified as held-to-maturity, and are carried at amortized cost, adjusted for premiums and discounts which

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

are amortized or accreted into interest income using the level-yield method over the remaining contractual life of the securities, adjusted for actual prepayments. Mortgage-backed securities for which there is not a positive intent to hold to maturity are classified as available-for-sale. As indicated above, SFAS 115, implemented by the Company as of the end of the year ended December 31, 1993, requires that available-for-sale securities be reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity. Gains and losses on sales of mortgage-backed securities are computed on a specific identification cost basis.

Loans

Loans are generally recorded at the contractual amounts owed by borrowers, less unearned discounts, deferred origination fees, the undisbursed portion of any loans in process, and the allowance for loan losses. Interest on loans is credited to income as earned to the extent it is deemed collectible. Discounts on loans purchased are accreted into interest income using the level-yield method over the contractual lives of the loans, adjusted for actual prepayments.

Single-family residential real estate loans that were originated with the intent to sell in the secondary mortgage market or those loans which have been identified as assets for which there is not a positive intent to hold to maturity are classified as available-for-sale and carried at the lower of cost or fair value. The amount by which the aggregate cost of loans available-for-sale exceeds market value is charged to gain (loss) on sale of loans, net.

The Company adopted SFAS 114, "Accounting by Creditors for Impairment of a Loan," as of January 1, 1993. Loans which are identified for evaluation and which are deemed to be impaired under the guidance of SFAS 114 are measured at the fair value of the collateral. Substantially all of the Association's loans are collateral dependent. If the fair value of the collateral is less than the recorded investment in the loan, the allowance for loan losses is adjusted with a corresponding charge to the provision for loan losses. The fair value of the collateral, based on a current appraisal, often changes from one reporting period to the next. If the fair value of the collateral decreases, such decrease is reported as a charge to the provision for loan losses. If the fair value increases, the provision for loan losses is reduced. Impaired loans are included in nonperforming assets as non-accrual loans or troubled debt restructurings, as appropriate. The Company had previously measured loan impairment pursuant to the methods prescribed in SFAS 114. As a result, no

additional reserves were required by early adoption of the pronouncement.

Loan Fees

Loan origination fees, commitment fees, and certain direct loan origination costs are deferred and recognized over the lives of the related loans as an adjustment of the loans' yields using the level-yield method. Calculation of the level-yield is based upon weighted average contractual payment terms which are adjusted for actual prepayments. Amortization of deferred fees is discontinued for non-accrual loans.

Loans Serviced for Others

Northeast Savings services real estate and consumer loans for others which are not included in the accompanying consolidated financial statements. Fees earned for servicing loans owned by others are reported as income when the related mortgage loan payments are collected. Loan servicing costs are charged to expense as incurred. Costs associated with acquiring the right to service certain loans are capitalized and amortized in proportion to and deducted from the estimated future net servicing income.

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Prior to 1986, the Association sold certain loans with limited recourse requirements. In addition, in the normal course of business, loans are sold to various agencies which have recourse on standard documentation representations and warranties. Such loans are included in loans serviced for others. Estimated probable loan losses and related costs of collection and repossession are provided for at the time of such sales and are periodically reevaluated. The Company evaluates the credit risk of loans sold with recourse in conjunction with its evaluation of the adequacy of allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is established and maintained through a periodic review and evaluation of various factors which affect the loans' collectibility and results in provisions for loan losses which are charged to expense. Numerous factors are considered in the evaluation, including a review of certain borrowers' current financial status, credit standing, available collateral, management's judgment regarding economic conditions, the impact of those conditions on property values, historical loan loss experience in relation to outstanding loans, the diversification and size of the loan portfolio, the results of the most recent regulatory examinations available to the Association, the overall loan portfolio quality, and other relevant factors.

Non-Accrual Loans

Interest accruals on loans are normally discontinued and previously accrued interest is reversed whenever the payment of interest or principal is more than 90 days past due, or earlier when conditions warrant it. A non-accrual loan may be restored to an accrual basis when principal and interest payments are current and full payment of principal and interest is expected.

Real Estate and Other Assets Acquired in Settlement of Loans

Real estate and other assets acquired in settlement of loans is recorded at the lower of the recorded investment in the loan or fair value minus estimated costs to sell. The lower of the recorded investment in the loan or fair value less estimated costs to sell becomes the new cost basis for REO. Any excess of the recorded investment over the fair value less estimated costs to sell is charged off. Subsequent valuations of REO are at the lower of the new cost basis or fair value less estimated costs to sell.

Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the respective lease terms or the estimated useful life, whichever is shorter.

Interest Rate Swap Agreements

Northeast Savings is a party to interest rate swap agreements in managing its interest rate exposure. The net amounts received or paid in accordance with the interest rate swap agreements are charged or credited to interest expense on other borrowings. Generally, gains and losses on terminated interest rate swap agreements are amortized over the lesser of the remaining terms of the agreements or the remaining lives of the assets or liabilities hedged.

Pension Plan

Pension costs are funded on a current basis in compliance with the requirements of the Employee Retirement Income Security Act and are accounted for in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions."

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Retirement Benefits Other Than Pensions

SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," focuses principally on postretirement health care benefits and significantly changed the practice of accounting for postretirement benefits on a pay-as-you-go (cash) basis by requiring accrual of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents during the years that the employee renders the necessary service. SFAS 106 became effective for the Association in 1993. The Company implemented SFAS 106 during the quarter ended March 31, 1993 and is amortizing the estimated \$444,000 expense over the twelve year life expectancy of the participants.

Income Taxes

Northeast Federal Corp. and subsidiaries file a federal consolidated income tax return. In February 1992, the FASB issued SFAS 109, "Accounting For Income Taxes," which requires an asset and liability approach for financial accounting and reporting for income taxes. One requirement of SFAS 109 is that the tax benefit related to acquired deductible temporary differences and pre-acquisition net operating loss carryforwards shall first be applied to reduce to zero goodwill related to that acquisition. Accordingly, goodwill has been reduced as a result of the tax benefits related to these items.

The Company elected to adopt SFAS 109 effective April 1, 1991. The effect of initially applying the new standard was reported as the effect of a change in accounting principle. The cumulative effect of this change is reported separately in the Consolidated Statement of Operations for the year ended March 31, 1992. As required, first, second, and third quarters of the year ended March 31, 1992 were restated for the effect of this change.

Income (Loss) Per Common Share

Income (loss) per common share is based on the weighted average number of common shares outstanding and (if dilutive) common stock equivalents (i.e., stock options and warrants) outstanding in each year. The 8% Convertible Subordinated Debentures do not meet the criteria for a common stock equivalent. Income (loss) per common share has been restated to give effect to the two 2% common stock dividends declared in fiscal 1990. Net income (loss) applicable to common stockholders and income (loss) per common share are calculated after deducting preferred stock dividend requirements which include \$4,652,000 and \$8,506,000 of accumulated and unpaid preferred dividends for the nine-month period ended December 31, 1992 and the year ended March 31, 1992, respectively. There were no accumulated and unpaid preferred dividends at December 31, 1993. Accumulated and unpaid dividends totaled \$12,802,000 and \$19,364,000 at December 31, 1992 and March 31, 1992, respectively. On May 8, 1992, \$11.2 million of accumulated and unpaid dividends were eliminated as a result of the Company's repurchase of its adjustable rate preferred stock plus accumulated dividends from the FRF administered by the FDIC. On May 14, 1993, \$12.2 million of accumulated and unpaid dividends were eliminated as a result of the conversion of 1,610,000 of \$2.25 Cumulative Convertible Preferred Stock, Series

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 2: CHANGE IN FISCAL YEAR

In July 1992, the Company changed its reporting period from a fiscal year ended March 31 to a calendar year. Accordingly, results of operations for the transition period ended December 31, 1992 cover a nine-month period. The following statements of operations present financial data for the nine months ended December 31, 1993 and the comparable nine months of the prior years. These statements are for comparative purposes only.

NORTHEAST FEDERAL CORP.

CONSOLIDATED STATEMENT OF OPERATIONS

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED DECEMBER 31,		
	1993	1992	1991
	(UNAUDITED)		(UNAUDITED)
<S>	<C>	<C>	<C>
Interest income:			
Loans.....	\$106,574	\$129,038	\$175,232
Mortgage-backed securities.....	41,357	37,924	63,484
Investment securities.....	7,494	15,313	16,499
Rhode Island covered assets.....	6,743	9,932	--
Other.....	886	4,138	1,762
Total interest income.....	163,054	196,345	256,977
Interest expense:			
Deposits.....	88,812	123,924	171,396
Federal Home Loan Bank advances.....	11,127	3,056	11,613
Other borrowings.....	10,334	5,930	11,831
Total interest expense.....	110,273	132,910	194,840
Net interest income.....	52,781	63,435	62,137
Provision for loan losses.....	18,450	16,300	7,400
Net interest income after provision for loan losses.....	34,331	47,135	54,737
Non-interest income:			
Fees for services.....	7,346	7,112	10,273
Gain on sale of securities, net.....	1,764	4,100	330
Gain on sale of loans, net.....	1,617	1,870	1,937
Other non-interest income (loss).....	(23)	(41)	(56)
Total non-interest income.....	10,704	13,041	12,484
Non-interest expenses:			
Compensation and benefits.....	24,124	23,126	20,290
Occupancy and equipment, net.....	11,370	11,057	11,309
Other general and administrative.....	14,519	15,872	13,872
Amortization of supervisory goodwill.....	--	2,002	2,978
Supervisory goodwill valuation adjustment...	--	56,568	--
SAIF insurance fund and OTS assessments.....	6,631	6,222	6,094
Real estate and other assets acquired in settlement of loans.....	14,979	9,652	3,650
Total non-interest expenses.....	71,623	124,499	58,193
Income (loss) before income taxes and			

extraordinary items.....	(26,588)	(64,323)	9,028
Income tax expense (benefit).....	(12,308)	(5,089)	4,717
	-----	-----	-----
Income (loss) before extraordinary items and cumulative effect of change in accounting principle.....	(14,280)	(59,234)	4,311
Extraordinary items, net of income taxes.....	--	--	77
	-----	-----	-----
Income (loss) before cumulative effect of change in accounting principle.....	(14,280)	(59,234)	4,388
Cumulative effect at April 1, 1991 of change in accounting principle.....	--	--	1,022
	-----	-----	-----
Net income (loss).....	\$ (14,280)	\$ (59,234)	\$ 5,410
	=====	=====	=====
Preferred stock dividend requirements.....	\$ 2,848	\$ 4,652	\$ 6,435
Net loss applicable to common stockholders...	\$ (17,128)	\$ (63,886)	\$ (1,025)
Loss per common share before extraordinary items:			
Primary and fully diluted.....	\$ (1.40)	\$ (11.16)	\$ (.37)
Loss per common share before cumulative effect of change in accounting principle:			
Primary and fully diluted.....	\$ (1.40)	\$ (11.16)	\$ (.36)
Cumulative effect of change in accounting principle:			
Primary and fully diluted.....	\$ --	\$ --	\$.18
Net loss per common share:			
Primary and fully diluted.....	\$ (1.40)	\$ (11.16)	\$ (.18)

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 3: SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

For purposes of the Consolidated Statement of Cash Flows, cash and due from banks, interest-bearing deposits with original maturities of ninety days or less, and federal funds sold are considered as cash and cash equivalents.

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992	FOR THE YEAR ENDED MARCH 31, 1992

	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
CASH PAID DURING THE PERIODS FOR:			
Interest on retail deposits....	\$119,822	\$124,720	\$222,182
Interest on brokered deposits..	2,419	2,389	2,507
Interest on borrowings.....	23,695	6,704	32,664
Income taxes.....	2,180	1,352	3,479
CASH RECEIVED DURING THE PERIODS FOR:			
Interest and dividends.....	224,178	178,862	340,912
NON-CASH ITEMS:			
Loans securitized into mortgage-backed securities....	376,551	--	14,504
Loans securitized into mortgage-backed securities available-for-sale.....	--	2,564	--
Transfers of loans to available-for-sale.....	(964)	6,106	11,658
Transfers of mortgage-backed securities to available-for- sale.....	81	97,697	91,306
Transfers of investment securities to available-for- sale.....	40,809	112,045	15,139
Real estate and other assets			

acquired in settlement of loans.....	62,086	65,245	55,807
Payment in kind on uncertificated debentures.....	3,452	1,540	--
Payment in kind on Series B preferred stock.....	4,250	--	--
Loans and deposits acquired from Rhode Island transaction.	--	178,349	--
Conversion of \$2.25 cumulative convertible preferred stock...	38,339	--	--
Net unrealized gains on debt and equity securities available-for-sale.....	16,312	--	--

NOTE 4: SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The securities purchased under agreements to resell at December 31, 1993 were collateralized by federal agency mortgage-backed securities. There were no securities purchased under agreements to resell at December 31, 1992. The following table provides additional information on the agreements.

	DECEMBER 31, 1993	DECEMBER 31, 1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Carrying value of agreements to resell.....	\$60,000	\$ --
Par value of collateral.....	61,023	--
Market value of collateral.....	66,539	--
Maximum amounts of outstanding agreements at any month-end.....	60,000	250,000
Average amounts of outstanding agreements.....	644	92,200
Weighted average interest rate for the year.....	3.22%	3.75%
Weighted average interest on year-end balances.....	3.39%	--
Weighted average maturity of outstanding agreements (days).....	6	--

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

At December 31, 1993, the Association held only securities purchased under agreements to resell identical securities. The securities underlying the agreements were physically held by the Association until the maturity of the agreements.

NOTE 5: INVESTMENT SECURITIES

Investment securities consisted of the following:

	AT DECEMBER 31, 1993				AT DECEMBER 31, 1992			
	GROSS UNREALIZED			FAIR VALUE	GROSS UNREALIZED			FAIR VALUE
AMORTIZED COST	GAINS	LOSSES	AMORTIZED COST		GAINS	LOSSES		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	
U.S. Government and agency obligations:								
Available-for-sale.....	\$ --	\$ --	\$ --	\$ --	\$ 9,982	\$ 1	\$ --	
Obligations of states and political subdivisions.....	432	--	4	428	466	--	12	
Corporate securities:								
Fixed.....	4,254	56	--	4,310	13,566	32	398	

Available-for-sale.....	60	2	--	62	120	9	--	129
Bank and finance securities:								
Variable.....	--	--	--	--	14,479	--	113	14,366
Asset-backed securities:								
Available-for-sale.....	38,299	--	100	38,199	26,637	1	16	26,622
Collateralized mortgage obligations:								
Fixed.....	4,784	--	155	4,629	9,526	--	214	9,312
Variable.....	1,319	16	--	1,335	2,156	69	--	2,225
Available-for-sale.....	66,915	217	249	66,883	93,160	1,254	21	94,393
Federal Home Loan Bank stock.....	31,800	--	--	31,800	32,354	--	--	32,354
Marketable equity securities:								
Equity investments.....	23	--	--	23	39,244	5,186	--	44,430
Available-for-sale.....	42,102	15,608	--	57,710	--	--	--	--
Total investment securities.....	\$189,988	\$ 15,899	\$ 508	\$205,379	\$241,690	\$ 6,552	\$ 774	\$247,468

</TABLE>

At December 31, 1993, the net unrealized holding gain, net of tax effect, on available-for-sale securities that was included in the separate component of stockholders' equity was \$8,978,000 exclusive of mortgage-backed securities available-for-sale. Proceeds, gains, and losses from sales of investment securities were as follows:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993			FOR THE NINE MONTHS ENDED DECEMBER 31, 1992			FOR THE YEAR ENDED MARCH 31, 1992		
	PROCEEDS	GROSS REALIZED GAINS	LOSSES	PROCEEDS	GROSS REALIZED GAINS	LOSSES	PROCEEDS	GROSS REALIZED GAINS	LOSSES
	(IN THOUSANDS)								
Investment securities... Investment securities available-for-sale.....	\$ 16,347*	\$ 1,629	\$ 146	\$ 506*	\$ 1,517	\$ 633	\$ 48,332	\$ 807	\$ 7,252
Total.....	\$158,939	\$ 3,767	\$ 188	\$ 158,539	\$ 2,912	\$ 970	\$355,311	\$ 5,922	\$ 8,679

</TABLE>

- - - - -

* Sales were due to credit concerns.

For the periods ended December 31, 1993 and 1992, gains and losses on investment securities which management has the positive intent and ability to hold until maturity resulted primarily from the recognition

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

of realized capital gains and losses allocated to the Association by two limited partnerships in which the Association has invested. In addition, for the year ended March 31, 1992, \$5.8 million of these losses resulted from sales of corporate debt securities due to credit concerns.

The weighted average interest yields on investment securities were 5.13% and 6.09% at December 31, 1993 and 1992, respectively. Accrued interest and dividends receivable related to investment securities outstanding at December 31, 1993 and 1992 were \$1,680,000 and \$1,718,000, respectively.

The contractual maturities of Northeast Savings' held-to-maturity investment securities are summarized in the following table. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

<TABLE>
<CAPTION>

	DECEMBER 31, 1993			DECEMBER 31, 1992		
	PERCENT OF		ESTIMATED MARKET VALUE	PERCENT OF		ESTIMATED MARKET VALUE
	AMORTIZED COST	TOTAL AMORTIZED COST		AMORTIZED COST	TOTAL AMORTIZED COST	
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Bonds and collateralized mortgage obligations:						
1-5 years.....	\$ 2,506	5.88%	\$ 2,530	\$ 15,681	14.03%	\$ 15,571
5-10 years.....	271	.64	274	9,360	8.37	9,094
10-20 years.....	1,909	4.48	1,934	3,469	3.10	3,354
Over 20 years.....	6,103	14.32	5,964	11,683	10.45	11,538
Federal Home Loan Bank stock.....	31,800	74.63	31,800	32,354	28.94	32,354
Marketable equity securities.....	23	.05	23	39,244	35.11	44,430
Total held-to-maturity investment securities..	\$42,612	100.00%	\$42,525	\$111,791	100.00%	\$116,341

</TABLE>

The contractual maturities of the Association's available-for-sale investment securities are summarized below. Actual maturities may differ from contractual maturities because certain issues have the right to call or prepay obligations with or without call premiums.

<TABLE>
<CAPTION>

	DECEMBER 31, 1993			DECEMBER 31, 1992		
	PERCENT OF		ESTIMATED MARKET VALUE	PERCENT OF		ESTIMATED MARKET VALUE
	AMORTIZED COST	TOTAL AMORTIZED COST		AMORTIZED COST	TOTAL AMORTIZED COST	
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Bonds and collateralized mortgage obligations:						
0-1 year.....	\$ 18,038	12.24%	\$ 18,035	\$ 21,982	16.92%	\$ 21,968
1-5 years.....	87,236	59.19	87,109	107,917	83.08	109,159
5-10 years.....	--	--	--	--	--	--
10-20 years.....	--	--	--	--	--	--
Over 20 years.....	--	--	--	--	--	--
Marketable equity securities.....	42,102	28.57	57,710	--	--	--
Total available-for-sale investment securities..	\$147,376	100.00%	\$162,854	\$129,899	100.00%	\$131,127

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 6: MORTGAGE-BACKED SECURITIES

Mortgage-backed securities consisted of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993		DECEMBER 31, 1992	
	AMORTIZED	GROSS UNREALIZED FAIR	AMORTIZED	GROSS UNREALIZED FAIR

	COST	GAINS	LOSSES	VALUE	COST	GAINS	LOSSES	VALUE
	(IN THOUSANDS)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Government National Mortgage Association (GNMA):								
Fixed.....	\$ --	\$ --	\$ --	\$ --	\$ 81	\$ 13	\$ --	\$ 94
Adjustable.....	33,583	46	188	33,441	19,589	169	63	19,695
Available-for-sale.....	9,855	744	34	10,565	12,732	844	246	13,330
Federal Home Loan Mortgage Corporation (FHLMC):								
Fixed.....	3,184	154	--	3,338	5,810	230	--	6,040
Adjustable.....	171,675	2,142	602	173,215	135,195	1,565	168	136,592
Available-for-sale.....	2,197	129	5	2,321	42,742	1,612	--	44,354
Federal National Mortgage Association (FNMA):								
Fixed.....	29,650	546	--	30,196	23,330	1,286	--	24,616
Adjustable.....	142,904	2,542	1,529	143,917	157,492	3,394	935	159,951
Private Issuers:								
Fixed.....	8,323	191	--	8,514	14,957	436	--	15,393
Adjustable.....	941,567	5,547	2,765	944,349	473,318	2,506	524	475,300
Total mortgage-backed securities.....	\$1,342,938	\$ 12,041	\$ 5,123	\$1,349,856	\$885,246	\$ 12,055	\$ 1,936	\$895,365

</TABLE>

At December 31, 1993, the net unrealized holding gain on available-for-sale mortgage-backed securities that was included in the separate section of stockholders' equity was \$484,000, net of tax effect, exclusive of investment securities available-for-sale. Proceeds, gains, and losses from sales of mortgage-backed securities were as follows:

	FOR THE YEAR ENDED DECEMBER 31, 1993			FOR THE NINE MONTHS ENDED DECEMBER 31, 1992			FOR THE YEAR ENDED MARCH 31, 1992		
	GROSS REALIZED			GROSS REALIZED			GROSS REALIZED		
	PROCEEDS	GAINS	LOSSES	PROCEEDS	GAINS	LOSSES	PROCEEDS	GAINS	LOSSES
	(IN THOUSANDS)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Mortgage-backed securities.....	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 23,512	\$ 1,129	\$ 392
Mortgage-backed securities available- for-sale.....	39,831	2,046	--	44,727	2,158	--	587,225	6,173	2,162
Total proceeds.....	\$39,831	\$ 2,046	\$ --	\$ 44,727	\$ 2,158	\$ --	\$610,737	\$ 7,302	\$ 2,554

</TABLE>

Included in results of operations for the year ended March 31, 1992 are gains of approximately \$107,000 on sales of mortgage-backed securities acquired in savings and loan association acquisitions accounted for under the purchase method of accounting.

The weighted average yields on mortgage-backed securities were 5.30% and 6.27% at December 31, 1993 and 1992, respectively. Accrued interest receivable related to mortgage-backed securities outstanding at December 31, 1993 and 1992 was \$6,783,000, and \$5,597,000, respectively.

At December 31, 1993, mortgage-backed securities having a carrying value of \$306,344,000 and a market value of \$308,839,000 were pledged to collateralize securities sold under agreements to repurchase and other items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 7: LOANS

The Association's primary lending business is the origination of single-family residential mortgage loans in the northeastern United States and Colorado. These loans are collateralized by residential properties and are made with strict adherence to Association policy which limits the loan-to-value ratio on residential mortgage loans to 80%, or 95% with private mortgage insurance. In certain geographic areas of the country, the Association has limited the loan-to-value ratio to even less than 80%.

Loans consisted of the following:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	1993	1992
	(IN THOUSANDS)	
<S>	<C>	<C>
Single-family residential real estate loans:		
Adjustable rate.....	\$1,695,527	\$2,073,986
Fixed rate.....	104,187	96,751
Available-for-sale.....	46,076	32,237
	-----	-----
Total single-family residential real estate loans.....	1,845,790	2,202,974
	-----	-----
Consumer loans:		
Equity loans.....	15,507	26,434
Collateralized by deposits.....	8,709	9,633
Equity lines of credit.....	5,886	6,942
Overdraft protection.....	2,110	2,435
Education.....	43	91
Other personal.....	2,424	2,826
	-----	-----
Total consumer loans.....	34,679	48,361
	-----	-----
Income property loans.....	79,284	90,546
	-----	-----
Commercial.....	77	266
	-----	-----
Total loans, gross.....	1,959,830	2,342,147
	-----	-----
Less:		
Allowance for loan losses.....	28,271	21,020
Undisbursed portion of loans in process.....	6,097	4,779
Unearned discounts.....	2,822	3,625
Deferred origination fees.....	383	1,613
	-----	-----
	37,573	31,037
	-----	-----
Total loans, net.....	\$1,922,257	\$2,311,110
	=====	=====

</TABLE>

Accrued interest receivable related to loans outstanding at December 31, 1993 and 1992 was \$9,076,000 and \$12,652,000, respectively. For the year ended December 31, 1993, the nine months ended December 31, 1992 and the year ended March 31, 1992, the Association recognized net gains on sales of loans of \$1,939,000, \$1,870,000 and \$2,532,000, respectively.

At December 31, 1993, the recorded investment in loans for which impairment has been recognized under the guidance of SFAS 114 totaled \$1.6 million. There was no specific reserve on these loans at December 31, 1993. However, their impairment was considered in the allowance for loan losses at December 31, 1993. Such loans are included in non-accrual loans (see below) or troubled debt restructurings, as appropriate. At December 31, 1993 and 1992, loans totaling \$67,462,000 and \$94,989,000, respectively, were contractually delinquent ninety days or more. Interest accruals on loans are discontinued whenever the payment of interest or principal is more than 90 days past due or earlier when conditions warrant it and any previously accrued interest is reversed. The

total interest income that would have been recorded for the year ended December 31, 1993, had these loans been current in accordance with their original terms, or since the date of origination if outstanding for only part of the year, was \$4,810,000. The amount of interest income which was included in net income for the year ended December 31, 1993 on those loans was \$1,341,000.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The following table summarizes the Association's gross loan portfolio and non-accrual loans as a percentage of gross loans by state and property type at December 31, 1993:

<TABLE>
<CAPTION>

	SINGLE-FAMILY RESIDENTIAL REAL ESTATE		CONSUMER		INCOME PROPERTY		COMMERCIAL		TOTAL	
	GROSS LOANS	NON- ACCRUAL LOAN RATIO	GROSS LOANS	NON- ACCRUAL LOAN RATIO	GROSS LOANS	NON- ACCRUAL LOAN RATIO	GROSS LOANS	NON- ACCRUAL LOAN RATIO	GROSS LOANS	NON- ACCRUAL LOAN RATIO
(DOLLARS IN THOUSANDS)										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
California.....	\$ 903,540	3.98%	\$ 1,094	--%	\$16,584	--%	\$ --	--%	\$ 921,218	3.90%
Connecticut.....	260,947	2.68	5,186	6.27	20,878	1.79	--	--	287,011	2.68
New York.....	221,067	6.05	18,237	3.10	22,111	--	--	--	261,415	5.33
Massachusetts.....	158,968	1.64	7,174	.49	12,387	.03	77	--	178,606	1.48
New Jersey.....	56,915	6.66	308	--	--	--	--	--	57,223	6.62
Florida.....	42,745	2.42	363	--	--	--	--	--	43,108	2.40
New Hampshire.....	3,860	2.27	343	2.11	3,249	--	--	--	7,452	1.27
Other.....	197,748	.97	1,974	19.44	4,075	--	--	--	203,797	1.12
Total.....	\$1,845,790	3.56%	\$34,679	3.79%	\$79,284	.48%	\$ 77	--%	\$1,959,830	3.44%

</TABLE>

The level of single-family residential non-accrual loans is due primarily to continuing poor general economic conditions in the Association's primary market areas, particularly the recessions in New England and California.

Loans serviced for others by Northeast Savings totaled approximately \$1,888,863,000 and \$1,783,365,000 at December 31, 1993 and 1992, respectively, which includes loans serviced with recourse to Northeast Savings of \$69,124,000 and \$6,371,000 at the same respective dates. In connection with loans serviced for others, at December 31, 1993 and 1992, respectively, Northeast Savings had \$3,623,000 and \$4,389,000 in excess servicing assets and \$5,794,000 and \$7,903,000 in capitalized purchased mortgage servicing. Loan servicing fees totaled \$2,627,000, \$793,000, and \$4,928,000 for the year ended December 31, 1993, the nine months ended December 31, 1992 and the year ended March 31, 1992, respectively.

The following summarizes activity in the allowance for loan losses.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	NINE MONTHS ENDED DECEMBER 31, 1992	YEAR ENDED MARCH 31, 1992
(IN THOUSANDS)			
<S>	<C>	<C>	<C>
Balance, beginning of period.....	\$ 21,020	\$ 17,084	\$14,305
Provision for loan losses.....	23,300	16,300	10,200
Charge-offs:			
Single-family residential real estate loans.....	(14,835)	(12,305)	(6,264)
Consumer loans.....	(393)	(373)	(846)
Income property loans.....	(1,395)	--	(652)

Commercial loans.....	--	--	(389)
Total charge-offs.....	(16,623)	(12,678)	(8,151)
Recoveries:			
Single-family residential real estate loans.....	176	8	29
Consumer loans.....	398	306	459
Income property loans.....	--	--	183
Commercial loans.....	--	--	59
Total recoveries.....	574	314	730
Net charge-offs.....	(16,049)	(12,364)	(7,421)
Balance, end of period.....	\$ 28,271	\$ 21,020	\$17,084

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 8: RHODE ISLAND COVERED ASSETS

As discussed in Note 23: Acquisitions, on May 8, 1992, the Association acquired certain assets of four Rhode Island financial institutions which were in receivership proceedings. The Association is protected against losses relative to all loans acquired from the institutions, including loans foreclosed upon by the Association subsequent to acquisition. Accordingly, as discussed below, these covered assets have been segregated from the Association's remaining portfolios of loans and REO. At December 31, 1993, total Rhode Island covered assets and non-accrual Rhode Island covered assets as a percentage of gross covered assets were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31,			
	1993		1992	
	NON-ACCRUAL ASSETS	ASSET RATIO	NON-ACCRUAL ASSETS	ASSET RATIO
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Single-family residential real estate loans:				
Adjustable rate.....	\$ 12,607	8.00%	\$ 15,494	3.72%
Fixed rate.....	22,112	7.73	31,062	9.97
Total single-family residential real estate loans.....	34,719	7.83	46,556	7.89
Consumer loans:				
Equity lines of credit.....	12,805	4.36	15,913	6.08
Equity loans.....	7,025	6.23	10,283	8.27
Collateralized by deposits.....	36	--	82	--
Overdraft protection.....	168	--	228	1.75
Education.....	8	--	17	--
Other personal.....	1,534	3.19	4,029	5.14
Total consumer loans.....	21,576	4.84	30,552	6.64
Income property loans.....	39,135	10.59	71,272	19.45
Commercial.....	893	3.25	2,212	29.48
Total loans, gross.....	96,323	8.24%	150,592	13.43%
Adjustments:				
Contra accounts.....	340		(218)	

Interest rate adjustment.....	1,060	1,645
Unallocated credit adjustment.....	1,082	(4,423)
	-----	-----
Total loans, net.....	98,805	147,596
	-----	-----
Real estate owned.....	6,820	4,232
	-----	-----
Total Rhode Island covered assets.....	\$105,625	\$151,828
	=====	=====

</TABLE>

In the above table, the principal balance of individual loans for which a specific credit adjustment has been determined by independent valutors has been reduced by the amount of that credit adjustment. The unallocated credit adjustment represents amounts applied to pools of loans.

In connection with the acquisition of the Rhode Island assets, the Association entered into an Acquisition Agreement with the receivers of the Rhode Island financial institutions. Pursuant to this agreement, DEPCO was required to pay a balancing consideration to the Association. The balancing consideration was the amount by which the deposits issued by the Association plus other assumed liabilities

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

exceeded the fair value of the acquired assets. The estimate of the fair value of the acquired assets (the valuation) was determined by independent valutors in accordance with a detailed methodology outlined in the Acquisition Agreement. The balancing consideration of \$59.0 million was paid to the Association in the quarter ended December 31, 1992.

As part of the valuation process in determining the balancing consideration, a credit adjustment was made which was specifically related to the Rhode Island covered assets and which was intended to establish the amount by which the value of the loans must be adjusted in determining their fair value for reasons of collectibility. This initial credit adjustment was determined by the valutors pursuant to the methodology for credit adjustments set forth in the Acquisition Agreement. The methodology required the reappraisal of underlying collateral and/or an individual evaluation of loans meeting specific delinquency and/or size criteria as well as the application of credit adjustment percentages to loans which were not individually reviewed. In general, for purposes of loan valuation, residential and consumer loans were valued in pools and commercial loans were valued individually. With the exception of certain adjustable rate consumer, commercial, and delinquent loans, all acquired loans were also subject to an interest rate adjustment in order to adjust the yield on those loans to a market rate of interest as of the closing date.

Subsequent to the initial valuation and payment of the balancing consideration, the credit adjustment account will be adjusted for all charge-offs and recoveries on acquired loans and gains and losses from the disposition of assets received in lieu of repayment which occur prior to the seventh anniversary of the closing date, at which time the remaining balance in the credit adjustment account will be reevaluated for adequacy and adjusted accordingly, utilizing the same criteria as the initial valuation methodology. On the seventh anniversary, if there is a negative balance in the credit adjustment account, the Association can claim the amount of such balance from an escrow established by DEPCO. To the extent escrow funds are not available, DEPCO is required to pay the amount of any negative remaining balance to the Company. Conversely, if there is a positive balance in the credit adjustment account, Northeast Savings will be required to pay that balance to DEPCO.

The terms of the Acquisition Agreement also provide the Association with the right to put back loans to DEPCO for a period of one year from the date of acquisition if the Association determines that the property securing any loan has an environmentally hazardous condition. In addition, for a period of seven years, Northeast Savings is indemnified against losses resulting from environmentally hazardous materials deposited on the security property prior to the closing date, as well as against losses suffered on account of breaches in the representations and warranties provided by the receivers and DEPCO with

regard to the acquired assets. Northeast Savings is also indemnified against claims, damages, losses, costs, and expenses that may arise from a variety of conditions related to the acquisition including claims against the former institutions, their officers, agents, or employees. As security for the obligations of DEPCO to pay the balancing consideration, to repurchase certain loans, and to indemnify the Association for certain matters, DEPCO placed \$59 million in treasury securities in escrow and granted to the Association a first priority security interest in such funds. Of such \$59 million, \$49 million was essentially placed in escrow for a one-year period to cover the balancing consideration and the repurchase of loans based on environmentally hazardous conditions. The remaining \$10 million is in a seven-year escrow to cover the general indemnification obligations and the credit adjustment obligation. As of December 31, 1992, the \$49 million in the one-year escrow account had been used totally in connection with payment of the \$59 million balancing consideration. The seven-year escrow retains its \$10 million.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 9: REAL ESTATE AND OTHER ASSETS ACQUIRED IN SETTLEMENT OF LOANS

The following table presents Northeast Savings' REO by property type at the dates indicated.

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Single-family residential.....	\$ 57,165	\$ 83,605
Hotels.....	6,453	6,408
Apartment buildings.....	5,270	4,464
Office, retail, industrial complexes; land.....	3,357	2,499
Real estate brokerage operations.....	1,744	1,544
Residential subdivisions.....	973	856
REO, net.....	\$ 74,962	\$ 99,376
Percent of total assets.....	1.91%	2.54%

</TABLE>

The activity in the Association's REO is presented in the following table:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992
	(IN THOUSANDS)	
<S>	<C>	<C>
Beginning balance.....	\$ 99,376	\$ 61,208
Foreclosures, net.....	61,228	66,377
Capitalized expenses.....	2,226	1,333
Less:		
Sales.....	(77,120) *	(22,448)
Valuation adjustments.....	(10,082)	(3,823)
Mortgage insurance receipts.....	(558)	(806)
Other.....	(108)	(2,465)
Ending balance.....	\$ 74,962	\$ 99,376

</TABLE>

* During the quarter ended September 30, 1993, \$30.3 million of REO was sold in a single transaction. The total loss on the sale was \$6.8 million,

including a provision of \$6.0 million recorded in June in anticipation of the sale. Excluding this sale, sales of REO for the year ended December 31, 1993 totaled \$52.8 million.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 10: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
	(IN THOUSANDS)	
<S>	<C>	<C>
Land.....	\$ 3,371	\$ 3,371
Office building and leasehold improvements.....	37,522	36,365
Furniture, fixtures, and equipment.....	22,728	21,570
	63,621	61,306
Less accumulated depreciation and amortization.....	31,253	27,105
	\$32,368	\$34,201

</TABLE>

At December 31, 1993, Northeast Savings was obligated under various non-cancelable leases for premises and equipment. The leases generally contain renewal options and escalation clauses providing for increased rent expense in future periods. Rent expense for the year ended December 31, 1993, the nine months ended December 31, 1992 and the year ended March 31, 1992 was \$7,717,000, \$5,440,000 and \$6,681,000, respectively.

Northeast Savings leases certain office space for its headquarters and three of its branch banking offices from corporations or partnerships in which Directors of the Company or their immediate families are the principal beneficial owners. The leases were entered into either prior to the nomination and election to the position of director or with the written approval of the Association's OTS District Director. Virtually all lease terms end by 1996 and rents paid for such leases were \$3,319,000 for the year ended December 31, 1993, \$2,555,000 for the nine months ended December 31, 1992, and \$3,426,000 for the year ended March 31, 1992.

All future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 1993 are as follows:

<TABLE>
<CAPTION>

	AMOUNT	
	(IN THOUSANDS)	
YEARS ENDING DECEMBER 31:		
<S>	<C>	
1994.....	\$ 6,518	
1995.....	4,057	
1996.....	2,751	
1997.....	1,940	
1998.....	1,706	
Thereafter.....	2,733	
	\$19,705	
	\$19,705	

</TABLE>

In February 1992, the Association purchased an office building for \$9.6

million in cash in Farmington, Connecticut and leased it back to the previous owners until 1994. Management anticipates moving a significant portion of the Association's operations to that facility in 1995.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 11: DEPOSITS

Deposits consisted of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,			
	1993		1992	
	WEIGHTED AVERAGE AMOUNT	INTEREST RATE	WEIGHTED AVERAGE AMOUNT	INTEREST RATE
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Demand deposits.....	\$ 35,865	-- %	\$ 35,644	-- %
NOW accounts.....	145,655	1.22	160,821	2.00
Super NOWs.....	51,040	1.47	53,758	2.00
Regular savings.....	583,209	2.20	695,674	2.74
Money market savings.....	401,135	2.67	443,692	3.09
Total non-certificate accounts.....	1,216,904	2.14	1,389,589	2.67
Certificates maturing in the year ending:				
1993.....	--	--	1,034,621	4.70
1994.....	1,218,031	4.37	502,882	5.94
1995.....	193,092	5.00	51,531	7.21
1996.....	46,249	5.85	28,990	6.84
1997.....	56,834	5.80	57,683	5.80
Thereafter.....	246,107	6.70	165,493	7.17
Total certificates.....	1,760,313	4.85	1,841,200	5.40
Total deposits.....	\$2,977,217	3.74%	\$3,230,789	4.22%

</TABLE>

At both December 31, 1993 and 1992, certificates include brokered deposits of approximately \$25,135,000. Included in deposits is accrued interest payable of \$1,965,000 and \$3,043,000 at December 31, 1993 and 1992, respectively. Interest expense on deposits consisted of the following:

<TABLE>
<CAPTION>

	YEAR ENDED		
	DECEMBER 31,	NINE MONTHS ENDED	YEAR ENDED
	1993	DECEMBER 31,	MARCH 31,
		1992	1992
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Brokered deposits.....	\$ 2,419	\$ 1,816	\$ 3,296
Retail deposits:			
Regular savings.....	15,146	18,694	21,985
NOWs, Super NOWs and money market savings.....	15,399	15,356	27,356
Certificates.....	88,199	88,058	166,485
Total interest expense on deposits.....	\$121,163	\$123,924	\$219,122

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 12: FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

FHLB advances and other borrowings are summarized as follows:

	DECEMBER 31,	
	1993	1992
	(IN THOUSANDS)	
<S>	<C>	<C>
FHLB advances.....	\$373,000	\$140,000
Securities sold under agreements to repurchase.....	294,809	291,014
Uncertificated debentures.....	38,442	34,990
Convertible subordinated debentures.....	--	560
Total FHLB advances and other borrowings.....	\$706,251	\$466,564

</TABLE>

Federal Home Loan Bank Advances

FHLB advances consisted of the following:

	DECEMBER 31,			
	1993		1992	
DUE IN YEARS ENDING DECEMBER 31:	WEIGHTED AVERAGE AMOUNT	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE AMOUNT	WEIGHTED AVERAGE INTEREST RATE
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
1993.....	\$ --	-- %	\$140,000	5.07%
1994.....	165,000	3.43	--	--
1995.....	55,000	3.63	--	--
1996.....	98,000	3.53	--	--
1997.....	15,000	3.38	--	--
1998.....	40,000	6.05	--	--
	\$373,000	3.76%	\$140,000	5.07%

</TABLE>

At December 31, 1993, all of the outstanding advances were fixed rate advances. Accrued interest payable on advances outstanding at December 31, 1993 and 1992 was \$1,135,000 and \$485,000, respectively. At December 31, 1993, Northeast Savings' ability to borrow from the Federal Home Loan Bank of Boston under its Advances Program was limited to the value of qualified collateral that had not been pledged to outside sources. At December 31, 1993, mortgage loans having a carrying value of \$568,139,000 and a collateral value of \$426,104,000 were pledged to collateralize the above advances. Based on the Federal Home Loan Bank of Boston's Credit Policy, mortgage loans are assigned a collateral value equal to 75% of the current unpaid principal balance. At December 31, 1993, the Association's remaining borrowing capacity from the FHLB totaled \$1.8 billion.

NORTHEAST FEDERAL CORP.

Securities sold under agreements to repurchase were wholesale repurchase agreements and consisted of the following:

<TABLE>
 <CAPTION>

		DECEMBER 31,							
		1993				1992			
		(DOLLARS IN THOUSANDS)							
		WEIGHTED AVERAGE		COLLATERAL		WEIGHTED AVERAGE		COLLATERAL	
REPURCHASE LIABILITY	INTEREST RATE	BOOK VALUE	MARKET VALUE	REPURCHASE LIABILITY	INTEREST RATE	BOOK VALUE	MARKET VALUE	REPURCHASE LIABILITY	INTEREST RATE
Within 30 days.....	3.45%	\$205,996	\$206,046	\$233,785	3.43%	\$242,114	\$244,631	\$197,541	3.43%
31--90 days.....	3.39	102,475	102,793	57,229	3.59	60,358	60,422	97,268	3.46%
								\$294,809	3.46%
		\$308,471	\$308,839	\$291,014		\$302,472	\$305,053		

</TABLE>

* Book value includes accrued interest of \$2,126,000 and \$2,441,000 at December 31, 1993 and 1992, respectively.

Wholesale repurchase agreements mature or reprice on average every 33 days and were collateralized at December 31, 1993 and 1992 by mortgage-backed securities. All wholesale repurchase agreements were to repurchase the same securities.

Securities sold under agreements to repurchase are considered short-term borrowings. The average balance of repurchase agreements outstanding during the year ended December 31, 1993 and the nine months ended December 31, 1992 was \$290,112,000 and \$153,150,000, respectively. The maximum amount outstanding at any month-end was \$311,385,000 for the year ended December 31, 1993 and \$330,317,000 for the nine months ended December 31, 1992. Interest expense on repurchase agreements totaled \$9,866,000 for the year ended December 31, 1993, \$4,111,000 for the nine months ended December 31, 1992, and \$12,395,000 for the year ended March 31, 1992, respectively. Accrued interest payable on repurchase agreements outstanding at December 31, 1993 and 1992 was \$3,693,000 and \$1,384,000, respectively. The weighted average interest rates during the year ended December 31, 1993 and the nine months ended December 31, 1992 were 3.40% and 3.56%, respectively.

Uncertificated Debentures

In conjunction with the Association's acquisition of \$315.0 million in assets from four Rhode Island financial institutions and the issuance of deposit accounts in the Association to depositors in those institutions, the Company issued and sold \$28.95 million of 9% Sinking Fund Uncertificated Debentures, due in 2012 to the receivers for the four institutions. These debentures have been transferred from the receivers to certain of the depositors in the Rhode Island institutions in consideration of a portion of their deposit claims against the receiverships. The Company has the right to pay the first five years of interest on the 9% Debentures by the issuance of additional 9% Debentures (a payment in kind). For further information on the Association's acquisition of the Rhode Island institutions, see Note 23: Acquisitions.

In addition, in connection with the repurchase of its adjustable rate preferred stock, the Company issued \$7.0 million in 9% Debentures to the FRF. The debentures issued to the FRF have a market value of \$4.5 million, based on the value attributable to the debentures by the FRF, as determined by its investment bankers. Implicit in the \$4.5 million valuation is a discount rate of 14.4%, which was consistent with market yields on high-yield securities at the time. These debentures have the same terms as those transferred to the depositors in the Rhode Island institutions. In meeting its interest obligation on all of the 9% Debentures,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

the Company has issued an additional \$5.0 million of 9% Debentures, which are included in the debentures outstanding at December 31, 1993. For additional information on the Company's repurchase of its adjustable rate preferred stock, and the conversion of its convertible preferred stock into common stock, see Note 13: Stockholders' Equity.

Convertible Subordinated Debentures

The 8% Convertible Subordinated Debentures were due on February 15, 2011, and were convertible at any time into shares of the Company's common stock at a conversion price of \$20.79 per share. The total Debentures originally issued amounted to \$57.5 million, of which none were outstanding at December 31, 1993 and \$560,000 were outstanding at December 31, 1992. Realized gains, net of income taxes, on the repurchase and retirement of \$470,000 of 8% Debentures for the year ended March 31, 1992 are reflected as extraordinary items in the Consolidated Statement of Operations. See Note 17: Extraordinary Items.

Other Borrowings

Other borrowings, when outstanding, consist of Tax Advantaged Variable Rate ESOP Notes, Series 1987, which were issued by the Association's ESOP and guaranteed by Northeast Savings. Initially, the notes were subject to mandatory redemption through the operation of a sinking fund commencing on the interest payment date originally beginning September 1988 and on each September thereafter to 1997. Effective August 31, 1992, the mandatory redemption of the notes was extended an additional three years. The notes may be redeemed earlier under certain circumstances. The interest rate on the notes at December 31, 1993 and 1992 was 3.40% and 3.98%, respectively. The proceeds of this issue were used by the Association's ESOP to purchase 1,010,326 outstanding shares of the Company's common stock, adjusted for stock dividends. As of December 31, 1993 and 1992, Northeast Savings had invested in the ESOP notes at an amount equal to the principal outstanding, thus acquiring all outstanding notes. Correspondingly, the notes were not reported as other borrowings at either December 31, 1993 or 1992. Mandatory redemptions of the ESOP notes in the amounts of \$1,110,000 are due each fiscal year from 1994 through 2000.

At December 31, 1993, mortgage-backed securities having a carrying value of \$13,846,000 and a market value of \$13,800,000 were pledged to collateralize a Letter of Credit supporting the ESOP notes, which honors demands for payment by the Note Trustee presented in accordance with the terms of the Letter of Credit. Also, the Association had an available, but unused, line of credit in the amount of \$25,000,000 at December 31, 1993.

NOTE 13: STOCKHOLDERS' EQUITY

Regulatory Matters

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, which was signed into law on August 9, 1989, provided for a comprehensive reorganization of the regulatory structure of the thrift industry. Northeast Savings is required to maintain certain levels of capital in accordance with FIRREA and OTS regulations. In addition, on November 7, 1991, the United States Congress passed the Federal Deposit Insurance Corporation Improvement Act of 1991, which became effective on December 19, 1991. While the primary focus of the legislation is to recapitalize the Bank Insurance Fund, FDICIA also adopted numerous mandatory measures which affect all depository institutions, including savings associations such as Northeast Savings, and which are designed to reduce the cost to the deposit funds of resolving problems presented by undercapitalized institutions.

The OTS regulations implementing the FIRREA capital standards established three measures of capital compliance: tangible core capital, core capital, and risk-based capital. Associations which failed to meet any

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

of the three capital standards on December 7, 1989, were subject to certain restrictions which included growth restrictions and a limitation on capital distributions. These thrifts were also required to develop and submit to the

OTS by January 8, 1990, acceptable capital restoration plans which demonstrate the strategies to be utilized to meet the capital standards. At December 7, 1989, Northeast Savings did not meet the capital standards set forth in FIRREA and the OTS regulations implementing the FIRREA capital standards. Northeast Savings filed its capital restoration plan with the OTS, as required by FIRREA, which was approved and accepted by the OTS on March 9, 1990. On March 23, 1990, the Association accepted the conditions imposed upon it by the OTS approval of its capital plan. Northeast Savings also filed an application to form a holding company, Northeast Federal Corp., which was approved by the OTS on April 16, 1990. The holding company reorganization was completed in July 1990, upon approval of the holders of voting stock of Northeast Savings. Under this reorganization Northeast Savings' capital stock was exchanged for capital stock of Northeast Federal Corp. and the capital of Northeast Federal Corp. was downstreamed to Northeast Savings in the form of common stock which qualified as regulatory capital. At such time, the Association came into compliance with all then-applicable regulatory capital requirements. The Association subsequently met all of the conditions of the capital plan and has been released from it by the OTS.

Although Northeast Savings is in compliance with all fully phased-in regulatory capital requirements, the ability of the Company to make capital distributions is restricted by the limited cash resources of the Company and the ability of the Company to receive a dividend from the Association. The Association's payment of dividends is subject to regulatory limitations, particularly the prompt corrective action regulation which prohibits the payment of a dividend if such payment would cause the Association to become undercapitalized. In addition, the Company and the OTS entered into a Dividend Limitation Agreement as part of the holding company approval process which prohibits the payment of dividends to the holding company without prior written OTS approval if the Association's capital is below its fully phased-in capital requirement or if the payment of such dividends would cause its capital to fall below its fully phased-in capital requirement. The OTS Capital Distribution Regulation also restricts the amount of capital distributions that an association may make without obtaining prior OTS approval. Consequently, the Company anticipates that it will not pay any cash dividends on its Series B preferred stock or common stock for the foreseeable future. Due to the restrictions of the Dividend Limitation Agreement and the Capital Distribution Regulation combined with management's decision in 1990 to suspend cash dividend payments in order to preserve capital, management considers that essentially all of the Company's net assets are restricted from dividend payments.

The following table reflects the regulatory capital requirements and the Association's regulatory capital.

<TABLE>
<CAPTION>

REGULATORY CAPITAL REQUIREMENT	DECEMBER 31, 1993		DECEMBER 31, 1992	
	ACTUAL REGULATORY CAPITAL	FULLY PHASED-IN REGULATORY CAPITAL REQUIRED	ACTUAL REGULATORY CAPITAL	FULLY PHASED-IN REGULATORY CAPITAL REQUIRED
(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
Tangible core capital...	\$167,244	\$ 58,750	\$170,394	\$ 58,607
Percent.....	4.27%	1.50%	4.36%	1.50%
Core capital.....	\$167,795	\$156,688	\$171,163	\$156,317
Percent.....	4.28%	4.00%	4.38%	4.00%
Risk-based capital.....	\$189,330	\$137,287	\$191,465	\$153,208
Percent.....	11.03%	8.00%	10.00%	8.00%

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
Conversion to Stock Association

On September 22, 1983, Northeast Savings converted from a mutual to a stock association. At the time of the conversion, eligible deposit account holders were granted priority in the event of future liquidation by the establishment of a "liquidation account" equal to net worth at June 30, 1983. No dividends

may be paid to stockholders if such dividends reduce stockholders' equity below the amount required for the liquidation account, which was approximately \$13.0 million at December 31, 1993.

\$2.25 Cumulative Convertible Preferred Stock, Series A

In October 1985, Northeast Savings issued 1,610,000 shares of \$2.25 Cumulative Convertible Preferred Stock, Series A (the convertible preferred stock) at \$25 per share, par value \$.01 per share which generated net proceeds of \$38,341,000. Dividends on the convertible preferred stock were payable quarterly and were cumulative from the date of issue.

Each share of the convertible preferred stock was convertible into 1.473 shares of common stock at any time at the conversion price of \$16.97. The convertible preferred stock was redeemable at any time, at the option of the Company, at \$26.35 per share prior to October 1, 1990 and at prices declining annually thereafter to \$25.00 per share on and after October 1, 1995. In February 1990, the Board of Directors suspended the quarterly cash dividend on the convertible preferred stock. At January 1, 1993, accumulated and unpaid quarterly dividends on the convertible preferred stock were \$.56 per share or \$906,000, while total dividends were \$6.75 per share or \$10.9 million in the aggregate.

On May 7, 1993, at a Special Meeting of Stockholders, the Company's stockholders approved a reclassification of the convertible preferred stock into common stock at a ratio of 4.75 shares of common stock for each share of convertible preferred stock. Effective May 14, 1993, the 1,610,000 shares of convertible preferred stock were converted into 7,647,500 shares of common stock. As a result, all of the powers, privileges and special and relative rights of the convertible preferred stock were eliminated including the then accumulated and unpaid dividends, the liquidation priority, the right, at the option of the holder, to convert each share of convertible preferred stock into 1.473 shares of common stock (and retain the right to receive, when as, and if, declared and paid by the Company, the accumulated and unpaid dividends at the time of such conversion on each such share of convertible preferred stock) and the right to elect two directors to the Company's Board so long as six full quarterly dividends are in arrears.

\$8.50 Cumulative Preferred Stock, Series B.

In connection with the Association's acquisition of assets of four Rhode Island financial institutions, and the issuance of deposit accounts in the Association to depositors in those institutions, the Company issued and sold to the Rhode Island Depositors Economic Protection Corporation, 351,700 shares of a new class of preferred stock, the \$8.50 Cumulative Preferred Stock, Series B. Accordingly, the Certificate of Incorporation of the Company was amended by adding a new Certificate of Designation for the Series B preferred stock. The Certificate of Designation authorizes the issuance of a total of 540,000 shares of the Series B preferred stock.

Under the Stock and Warrant Purchase Agreement (the Stock Purchase Agreement) entered into with DEPCO in connection with the acquisition, DEPCO has the right to transfer its interest in the Series B preferred stock to another instrumentality or agency of the State of Rhode Island and such entity would be a "Nominee" within the meaning of the Stock Purchase Agreement. On June 24, 1992, the Company was advised by DEPCO that it had transferred its interest in the Series B preferred stock to the Rhode Island State Investment Commission (RISIC). On September 28, 1993, RISIC transferred its interest in the Series B preferred stock to DEPCO.

The Certificate of Designation for the Series B preferred stock increases the Company's Board of Directors by two and gives DEPCO or any Nominee as defined in the Stock Purchase Agreement the right to elect two directors so long as DEPCO or a Nominee holds at least 211,020 shares of the Series B preferred stock (one director if DEPCO or the Nominee holds less than that number but at least 105,510 of the Series B preferred stock). Two directors were elected by the RISIC and seated at the meeting of the directors on July 24, 1992. The same two individuals continue to serve as directors.

So long as DEPCO or its Nominee beneficially owns the requisite number of shares such that, pursuant to the Series B preferred stock Certificate of Designation, DEPCO or such Nominee is entitled to elect one director of the Company, then, in the event of a change in control of the Company, the Company agrees to and shall, not less than forty-five days after such change in control, make an offer to redeem or repurchase all of the shares of the Series B preferred stock then outstanding at the Redemption Price plus accumulated and unpaid dividends thereon (whether or not declared) through the date fixed for such repurchase. Such repurchase obligation of the Company is limited to the extent the Company has available funds which, in general, are funds of the Company which can be obtained by a permissible dividend from the Association and which are not required for the payment of debt or senior obligations and the payment of which would not violate Delaware law or any regulatory obligation. A Change in Control shall be deemed to have occurred under the terms of the Stock Purchase Agreement in the event that any person acquires the right to vote or dispose of 25% or greater of the Company's then-outstanding common stock or such amount of securities of the Company as shall enable such person to exercise, or acquire securities and thereupon exercise rights to vote 25% or greater of the total outstanding voting rights in the Company or to elect more than 25% of the directors of the Company.

Dividends on the Series B preferred stock payable on or prior to July 1, 1997, whether or not paid on or prior to that date shall be paid at the election of the Company in cash or in shares of Series B preferred stock. No dividends or other distribution shall be paid or declared or set aside for the common stock of the Company nor may any shares of common stock be purchased or redeemed by the Company or any subsidiary thereof unless all cumulative dividends on all outstanding shares of the Series B preferred stock have been paid in full to the holders of the shares of Series B preferred stock.

On May 21, 1993, the Company's Board of Directors voted to declare a stock dividend payable on July 1, 1993 on the Series B preferred stock of one share of Series B Preferred stock for each \$100 of the amount of dividends payable on July 1, 1993 and accumulated and unpaid as of that date, to holders of record on June 14, 1993. On July 1, 1993, the Company paid all then accumulated and payable dividends on the Series B preferred stock, an aggregate of \$3.4 million, through the issuance of 34,296 shares of Series B preferred stock. On September 24, 1993, the Company's Board of Directors voted to declare a quarterly stock dividend on the Series B preferred stock payable on October 1, 1993 to holders of record on September 24, 1993. On October 1, 1993, the Company paid \$820,000 of dividends payable on the Series B preferred stock through the issuance of an additional 8,203 shares of Series B preferred stock. On December 17, 1993, the Company's Board of Directors voted to declare a quarterly stock dividend on the Series B preferred stock payable on January 1, 1994 to holders of record on December 17, 1993. On January 1, 1994, the Company paid \$838,000 of dividends payable on the Series B preferred stock through the issuance of an additional 8,377 shares of Series B preferred stock.

The Company also issued to DEPCO a warrant to purchase 600,000 shares of the Company's common stock exercisable at \$2.50 per share and a warrant to purchase 200,000 shares of the Company's common stock exercisable at \$4.25 per share. These warrants may be exercised by DEPCO (or by any Rhode Island state agency to which DEPCO may transfer the warrants) as to all, but not less than all, of the applicable shares during the period beginning ninety days from the closing date of May 8, 1992 and ending ten years

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
from May 8, 1992. Common stock received by DEPCO upon the exercise of such warrants is restricted as to its sale. During each twelve month period beginning upon the exercise of the warrants and expiring on May 8, 1997, DEPCO is entitled to sell 120,000 shares of common stock acquired from the exercise of the warrants.

Adjustable Rate Cumulative Preferred Stock, Series A

In March 1987, Northeast Savings issued 1,202,916 shares of Adjustable Rate Cumulative Preferred Stock, Series A, at a stated value of \$50 per share, par value \$.01 per share, to the FSLIC in exchange for the FSLIC's cancellation of a \$50,000,000 income capital certificate and a portion of the related

accumulated income payments, the sum of which totaled \$60,145,000. When the FSLIC was terminated, the adjustable rate preferred stock was transferred to the FSLIC Resolution Fund which is administered by the FDIC. Dividends on the adjustable rate preferred stock were cumulative and payable quarterly based on the highest of the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate. The dividend rate at March 31, 1992 was 7.75%. In February 1990, the Board of Directors suspended the quarterly cash dividend on the adjustable rate preferred stock. Thus, the quarterly dividend of \$1.2 million or \$.97 per share which normally would have been payable April 1, 1992, was not declared by the Board of Directors of the Company and was in arrears at March 31, 1992. At March 31, 1992, total accumulated dividends on the adjustable rate preferred stock were \$9.32 per share or \$11.2 million. On May 8, 1992, also in conjunction with the aforementioned acquisition of assets of the Rhode Island financial institutions, the Company repurchased the adjustable rate preferred stock plus accumulated dividends from the FSLIC Resolution Fund for \$28.0 million in cash and \$7.0 million in 9% Sinking Fund Uncertificated Debentures, due 2012 for a total fair value of \$32.5 million. The 9% Debentures issued to the FRF had a market value of \$4.5 million based on the value attributable to those debentures by the FRF, as determined by its investment banker.

Unallocated Employee Stock Ownership Plan Shares

In connection with the funding of the ESOP, stockholders' equity has been reduced net of tax to reflect the guarantee of Northeast Savings. See Note 12: Federal Home Loan Bank Advances and Other Borrowings.

NOTE 14: EMPLOYEE BENEFIT PLANS

Retirement Plan

The Retirement Plan for Employees of Northeast Savings, F.A. and Subsidiaries (the Plan) is a defined benefit plan which covers substantially all employees of Northeast Savings. Employees are vested in the Plan after seven years of service and benefits are based on a percentage of each year's compensation. Plan assets are under the control of a trustee and invested in pooled funds.

Net pension expense consisted of the following:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992	FOR THE YEAR ENDED MARCH 31, 1992

	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Service cost (benefits earned during the period)..	\$ 431	\$ 235	\$ 312
Interest cost on projected benefit obligation.....	380	249	290
Actual return on Plan assets.....	(297)	(345)	(336)
Net amortization and deferrals.....	(80)	88	21
	-----	-----	-----
	\$ 434	\$ 227	\$ 287
	=====	=====	=====

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

According to the Association's actuary, the following table sets forth the Plan's funded status at the dates indicated.

<TABLE>
<CAPTION>

	DECEMBER 31, 1993	DECEMBER 31, 1992
	-----	-----

(IN THOUSANDS)

<S>	<C>	<C>
Actuarial present value of benefit obligations:		
Vested benefits.....	\$4,680	\$4,089
Nonvested benefits.....	287	236
	-----	-----
Accumulated benefit obligation.....	4,967	4,325
Effect of future compensation increases.....	94	58
	-----	-----
Projected benefit obligation.....	5,061	4,383
Plan assets at fair value.....	5,215	4,341
	-----	-----
Projected benefit obligation in excess of (less than) Plan assets.....	(154)	42
Unrecognized net transition asset.....	214	230
Unrecognized prior service cost.....	(130)	--
Unrecognized net loss.....	(592)	(296)
	-----	-----
Unfunded accrued (prepaid) pension costs.....	\$ (662)	\$ (24)
	=====	=====

</TABLE>

Assumptions used in actuarial computations were:

<TABLE>

<CAPTION>

	1993	1992
	----	----
<S>	<C>	<C>
Discount rate.....	7.00%	7.75%
Rate of increase in future compensation levels.....	5.00	6.00
Expected long-term rate of return on assets.....	7.50	8.25

</TABLE>

401(k) Thrift and Profit Sharing Plan

Northeast Savings maintains a 401(k) thrift and profit sharing plan to encourage systematic savings by employees. Substantially all employees are eligible and can contribute up to 6% of their base salary, on a tax-deferred basis, 50% of which is matched by Northeast Savings. Employees are vested in this plan after five years of service. Thrift plan expense amounted to \$524,000, \$318,000 and \$396,000 for the year ended December 31, 1993, the nine months ended December 31, 1992, and the year ended March 31, 1992, respectively.

Employee Stock Ownership Plan

Northeast Savings also maintains an employee stock ownership plan to provide the opportunity for substantially all employees of Northeast Savings to also become stockholders. The ESOP was funded through the issuance of Tax Advantaged Variable Rate ESOP Notes, Series 1987. The proceeds of the notes were used to purchase outstanding shares of Northeast Savings' common stock and the notes are guaranteed by Northeast Savings. When Northeast Savings was reorganized into the holding company, Northeast Federal Corp., the common stock of the Association was exchanged for the common stock of the holding company. The ESOP requires Northeast Savings to contribute the amount necessary for the ESOP to discharge its current obligations which include principal and interest payments on the notes. For the year ended December 31, 1993 and the nine months ended December 31, 1992, respectively, Northeast Savings' contribution to the ESOP amounted to \$1,512,000 and \$383,000, of which \$267,000 and \$260,000 was interest expense on the ESOP notes. For the year ended March 31, 1992, the contribution totaled \$2,108,000 of which \$561,000 was interest expense. Further information regarding these notes may be found in Note 12: Federal Home Loan Bank Advances and Other Borrowings.

Stock Option Plans

The stock option plans provide for the granting of options to Directors,

officers, and other key employees to purchase common stock of Northeast Federal Corp. at a price not less than the fair market value of the Company's stock on the date of grant. The stock option plans provide for the option and sale in the aggregate of 2,250,000 shares of the Company's common stock. The maximum option term is 10 years. At December 31, 1993 and 1992, respectively, there were 571,613 and 352,676 shares which were fully vested and exercisable.

Changes in the status of stock options are summarized as follows:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993		FOR THE NINE MONTHS ENDED DECEMBER 31, 1992	
	NUMBER OF SHARES	WEIGHTED AVERAGE OPTION PRICE	NUMBER OF SHARES	WEIGHTED AVERAGE OPTION PRICE
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period.....	453,317	\$ 1.91	447,717	\$ 1.84
Issued.....	1,006,676	4.86	15,000	3.83
Exercised.....	(81,701)	(1.80)	(9,400)	(1.73)
Canceled.....	(6,000)	1.69	--	--
Balance, end of period.....	1,372,292	\$ 4.08	453,317	\$ 1.91

</TABLE>

Deferred Compensation Plan

The Deferred Compensation Plan allows key executives to defer receipt of compensation otherwise currently payable to them by the Association or any subsidiary of the Association for a period of two to ten years. The Association will match 60% of the first 5% an executive elects to defer. The deferred funds will be invested during the deferral period in either a Guaranteed Rate Investment Account or in common stock of Northeast Federal Corp. at a price not less than the monthly average fair market value of the Company's stock for the last ten days of each month.

Directors' Deferred Fee Plan

The Deferred Fee Plan provides the members of the Board of Directors of the Association the opportunity to defer receipt of fees otherwise currently payable to them by the Association for a period up to ten years. The deferred fees will be invested during the deferral period in either the Guaranteed Rate Investment Account or in common stock of Northeast Federal Corp. at a price not less than the monthly average fair market value of the Company's stock.

The Deferred Compensation Plan and the Deferred Fee Plan provide for a total of 250,000 shares of company stock to be purchased.

NOTE 15: INCOME TAXES

As discussed in Note 1, the Company adopted SFAS 109 as of April 1, 1991. SFAS 109 establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting for income taxes. In accordance with this implementation, the Company recorded an additional \$1.0 million in income as the cumulative effect of a change in accounting principle for the year ended March 31, 1992. In addition, a valuation allowance of \$3.7 million was established which reduced the deferred tax assets as of April 1, 1991. Due to the Company's utilization of all net operating loss

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)
carryforwards, the valuation reserve, which was related to those carryforwards, was eliminated as of December 31, 1992. Also in accordance with the

implementation of SFAS 109, the Company applied \$20.9 million at April 1, 1991 and another \$1.0 million at December 31, 1992 to reduce the balance of its supervisory goodwill. The cumulative effect of this change is reported separately in the March 31, 1992 Consolidated Statement of Income and prior years' financial statements have not been restated.

In accordance with SFAS 109, deferred income tax assets and liabilities at December 31, 1993 and 1992 reflect the impact of temporary differences between values recorded as assets and liabilities for financial reporting purposes and values utilized for remeasurement in accordance with tax laws.

A reconciliation of the statutory income tax rate to the consolidated effective income tax rate as well as a reconciliation of the recorded income tax expense (benefit) and the amount of income tax expense (benefit) computed by applying the statutory federal corporate tax rate to income (loss) before income taxes and extraordinary items follow:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993		FOR THE NINE MONTHS ENDED DECEMBER 31, 1992		FOR THE YEAR ENDED MARCH 31, 1992	
	----- (DOLLARS IN THOUSANDS) -----					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Federal income tax expense (benefit) at statutory rate.....	\$ (8,953)	(34.00)%	\$ (21,870)	(34.00)%	\$ 3,198	34.00%
Increase (decrease) resulting from:						
Supervisory goodwill..	--	--	19,994	31.08	1,350	14.35
State taxes, net of federal tax benefit..	(3,290)	(12.49)	(461)	(.72)	1,039	11.05
Other permanent items, net.....	50	.19	9	.01	(659)	(7.05)
Elimination of valuation allowance.....	--	--	(2,752)	(4.27)	--	--
Tax exempt interest income.....	--	--	(9)	(.01)	(13)	(.10)
	-----	-----	-----	-----	-----	-----
Income tax expense (benefit) per financial statements.....	\$ (12,193)	(46.30)%	\$ (5,089)	(7.91)%	\$ 4,915	52.25%
	=====	=====	=====	=====	=====	=====

</TABLE>

The components of the income tax expense (benefit) are as follows:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993		FOR THE NINE MONTHS ENDED DECEMBER 31, 1992		FOR THE YEAR ENDED MARCH 31, 1992	
	----- (IN THOUSANDS) -----					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current provision:						
State.....	\$ 184		\$ 2,454		\$ 466	
Net change in valuation allowances.....	4,000		(2,752)		--	
Net change in temporary differences.....	(16,377)		(4,791)		4,449	
	-----		-----		-----	
Total income tax expense (benefit).....	\$ (12,193)		\$ (5,089)		\$ 4,915	
	=====		=====		=====	

</TABLE>

The tax effect of the temporary differences giving rise to the Company's deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 1993		DECEMBER 31, 1992	
	ASSET	LIABILITY	ASSET	LIABILITY
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Allowance for loan losses.....	\$36,075	\$ --	\$20,649	\$ --
Reserve for uncollected interest.....	2,305	--	4,111	--
Purchase accounting discount.....	1,339	--	1,984	--
Deferred service fee.....	--	1,522	--	1,844
Other.....	2,006	1,670	2,578	1,056
	-----	-----	-----	-----
Total deferred income taxes.....	\$41,725	\$3,192	\$29,322	\$2,900
	=====	=====	=====	=====

</TABLE>

In addition, as of December 31, 1993, a valuation allowance of \$4.0 million was established which reduced the deferred tax assets, since it is more likely than not that a portion of these assets will not be realized. Also, the Company has recorded deferred tax assets at December 31, 1993 related to alternative minimum tax credit carryforwards and the ESOP guarantee of \$3.3 million and \$3.1 million, respectively.

For federal tax return purposes, Northeast Federal Corp. files a consolidated tax return with its subsidiaries on a calendar year-end basis. Northeast Savings, a subsidiary of Northeast Federal Corp., has been audited by the Internal Revenue Service with respect to tax returns through 1979.

Under the Internal Revenue Code (the Code), Northeast Savings is allowed a special bad debt deduction based on a percentage of taxable income (8%) before such deduction, or based on specified experience formulas. Through 1979, Northeast Savings consistently computed its annual addition to the tax bad debt reserve using the percentage of taxable income method. Subsequent to 1979, such annual addition has been computed under an experience formula because of operating losses incurred for federal income tax purposes.

At December 31, 1993, Northeast Savings' base year tax bad debt reserve totaled approximately \$2.0 million for which a deferred tax liability is not required to be recognized under SFAS 109. If in the future, earnings allocated to this bad debt reserve and deducted for federal income tax purposes are used for payment of cash dividends or other distributions to stockholders, including distributions in redemption or in dissolution or liquidation, an amount up to approximately 1 3/4 times the amount actually distributed to the stockholders will be includable in Northeast Federal Corp.'s taxable income and be subject to tax.

Earnings and profits include taxable income net of federal income taxes and adjustments for items of income which are not taxable and expenses which are not deductible. For the tax year ended December 31, 1993, Northeast Federal Corp. and subsidiaries had current earnings and profits. Any dividends paid with respect to Northeast Savings, F.A.'s stock in excess of current or accumulated earnings and profits at year-end for federal tax purposes or any other stockholder distribution will be treated as paid out of the tax bad debt reserves and will increase taxable income as noted in the preceding paragraph.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 16: GAIN (LOSS) ON SALE OF INTEREST-EARNING ASSETS, NET

Gains (losses) are summarized in the following table. For the year ended December 31, 1993 and the nine months ended December 31, 1992, virtually all sales of investments and mortgage-backed securities were either from the available-for-sale portfolios or were due to credit concerns.

<TABLE>

<CAPTION>

	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992	FOR THE YEAR ENDED MARCH 31, 1992
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Net gain (loss) on sales of:			
Investment securities..	\$3,579	\$1,942	\$(2,757)
Mortgage-backed securities.....	2,046	2,158	4,748
Loans.....	1,939	1,870	2,532
	Total.....	\$5,970	\$ 4,523
	=====	=====	=====

</TABLE>

NOTE 17: EXTRAORDINARY ITEMS

A summary of extraordinary items follows:

<TABLE>
<CAPTION>

	FOR THE YEAR ENDED MARCH 31, 1992
	(IN THOUSANDS)
<S>	<C>
Gain (loss) from early extinguishment of debt, net of income taxes:	
8% Convertible Subordinated Debentures.....	\$95

	\$95
	===

</TABLE>

Extraordinary items presented above are net of applicable taxes of \$109,000 for the year ended March 31, 1992. All federal income taxes were offset by the utilization of existing operating loss carryforwards.

NOTE 18: SUPPLEMENTARY EARNINGS PER SHARE

As required by Accounting Principles Board Opinion No. 15, "Earnings Per Share," supplementary earnings per share information is presented as if the conversion of the Company's \$2.25 Convertible Cumulative Preferred Stock, Series A, into common stock, which occurred on May 14, 1993, had taken place at the beginning of the period.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1993	1992
	(DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)	
<S>	<C>	<C>
Net loss.....	\$ (14,139)	\$ (59,037)
Preferred stock dividend requirements.....	(3,153)	(3,100)
	Net loss applicable to common stockholders.....	\$ (62,137)
	=====	=====
Average shares outstanding.....	13,464,163	13,371,372
Net loss per common share.....	\$ (1.28)	\$ (4.65)
	=====	=====

</TABLE>

The following table shows the computation of the weighted average shares used in the calculation of supplementary earnings per share:

	YEAR ENDED DECEMBER 31,	
	1993	1992
<S>	<C>	<C>
Actual weighted average shares outstanding		
excluding conversion shares.....	5,816,663	5,723,872
Conversion shares (assumed converted at the beginning of the period).....	7,647,500	7,647,500
	13,464,163	13,371,372

</TABLE>

NOTE 19: COMMITMENTS AND CONTINGENCIES

Outstanding commitments to originate adjustable rate and fixed rate mortgage loans amounted to \$15,429,000 and \$33,649,000, respectively, at December 31, 1993. With respect to residential mortgage loans, commitments generally expire within 10 to 180 days, depending upon the type and purpose of the loan. Also at December 31, 1993, commitments of \$3,497,000 were outstanding on existing single-family residential construction loans. In addition, at December 31, 1993, the Association had outstanding commitments of \$10,125,000 on consumer loans, which consisted primarily of available lines of credit. At December 31, 1993, the Association had entered into firm commitments to sell \$44,510,000 of mortgage loans from the available-for-sale portfolio. Finally, at December 31, 1993, the Association had entered into firm commitments to purchase \$76,689,000 of mortgage-backed securities.

On December 6, 1989, the Association filed a complaint in the United States District Court for the District of Columbia against the FDIC and the OTS, as successor regulatory agencies to the FSLIC and the Federal Home Loan Bank Board. It was the position of the Association in the litigation that the denial by the OTS and the FDIC of core capital treatment to the adjustable rate preferred stock and the elimination from capital, subject to limited inclusion during a phase-out period, of supervisory goodwill, constitutes a breach of contract, as well as a taking of the Association's property without just compensation or due process of law in violation of the Fifth Amendment to the United States Constitution. The Association sought a determination by the Court to this effect and the Association further sought to enjoin the defendants and their officers, agents, employees and attorneys and those persons in active concert or participation with them from enforcing the provisions of FIRREA and the OTS regulations or from taking other actions that are inconsistent with their contractual obligations to Northeast Savings. The suit sought an injunction requiring the OTS and FDIC to abide by their contractual agreements to recognize as regulatory capital the supervisory goodwill booked by Northeast Savings as a result of its 1982 acquisition from the FSLIC of three insolvent thrifts. On July 16, 1991, the district court ruled that it lacked jurisdiction over the action but that Northeast could bring a damages action against the government in the United States Claims Court.

On July 8, 1992, the Association moved to voluntarily dismiss its appeal of the July 16, 1991 district court decision dismissing its action seeking injunctive relief. This motion was made with a view toward refileing the Association's lawsuit against the government in the United States Claims Court, so as to seek damages against the United States rather than injunctive relief against the OTS and FDIC. This motion was made for two reasons. First, by virtue of the Association's improved financial and regulatory capital condition, including its compliance with all fully phased-in capital requirements, and its tangible capital position exceeding four percent, the Association determined that it was no longer in need of injunctive relief. Rather, the Association determined that it was now in its best interest to pursue a damages claim against the United States in the Claims Court. Second, the Association sought to dismiss its appeal and refile in the Claims Court because of the adverse decision of the Court of Appeals for the D.C. Circuit in another "supervisory goodwill"

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

case, TransOhio Savings Bank, et al. v. Director, OTS, et al. 967 F.2d 598 (June 12, 1992). Neither the OTS nor the FDIC opposed the Association's motion. The D.C. Circuit granted the Association's motion to voluntarily dismiss its appeal on July 9, 1992. On August 12, 1992, Northeast Savings refiled its action in the United States Claims Court, Northeast Savings, F.A. v. United States, No. 92-550c. Note that, effective October 29, 1992, the United States Claims Court was renamed the United States Court of Federal Claims. Northeast Savings' complaint seeks monetary relief against the United States on theories of breach of contract, taking of property without just compensation, and deprivation of property without due process of law. The United States has not yet filed an answer to the Complaint. On May 25, 1993, a three-judge panel of the Federal Circuit Court of Appeals ruled against the plaintiffs in three other consolidated "supervisory goodwill" cases, holding that the thrift institutions had not obtained an "unmistakable" promise from the government that it would not change the law in such a manner as to abrogate its contractual obligations and that the plaintiffs therefore bore the risk of such a change in the law. Winstar Corp. v. United States, No. 92-5164. On August 18, 1993, however, the full Federal Circuit, acting in response to a Petition for Rehearing with Suggestion for Rehearing In Banc filed by two of the three plaintiffs in these cases, vacated the May 25 panel decision, ordered the panel opinion withdrawn, and ordered that the case be reheard by the full Court. Oral argument in the Winstar case was held on February 10, 1994. On June 3, 1993, the Court of Federal Claims entered an order staying proceedings in Northeast Savings' case pending further action by the Federal Circuit in the Winstar case or any action taken by the Supreme Court on any petition for a writ of certiorari in that case.

The Association is also involved in litigation arising in the normal course of business. Although the legal responsibility and financial impact with respect to such litigation cannot presently be ascertained, the Association does not anticipate that any of these matters will result in the payment by the Association of damages that, in the aggregate, would be material in relation to the consolidated results of operations or financial position of the Company.

NOTE 20: FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK AND CONCENTRATION OF CREDIT RISK

In the normal course of business, Northeast Savings is a party to various financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit to meet the financing needs of customers, as well as interest rate swaps entered into as a means of reducing the Association's exposure to changes in interest rates.

To varying degrees, these instruments involve elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statement of Financial Condition. The following table shows the contract or notional amount of these instruments held by the Association.

<TABLE>
<CAPTION>

	DECEMBER 31,	
	-----	-----
	1993	1992
	-----	-----
	(IN THOUSANDS)	
	<C>	<C>
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Single-family residential real estate loans.....	\$ 49,078	\$75,506
Consumer loans.....	10,125	11,517
Income property loans.....	3,497	863
Loans serviced for others with recourse.....	69,124	6,371
	-----	-----
Total commitments to extend credit.....	\$131,824	\$94,257
	-----	-----
Financial instruments whose notional or contract amounts exceed the amount of credit risk:		
Interest rate swap agreements.....	\$ 15,739	\$46,080
	=====	=====

</TABLE>

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Commitments to extend credit are agreements to lend to a customer and are entered into in accordance with written, nondiscriminatory, underwriting guidelines established by the Board of Directors. Prior to extending credit, the Association appraises any property which will collateralize the loan and determines the borrower's ability to repay through review of detailed loan applications and credit reports. These commitments have fixed expiration dates or other termination clauses and may require payment of a fee. The total commitment amounts do not necessarily represent future cash requirements since some commitments may expire without being drawn upon.

The increase in loans serviced with recourse resulted from management's decision in 1993 to eliminate pool insurance on these loans. In reviewing the delinquency history of the loans, management determined that it was more costly to maintain insurance than to assume the credit risk directly. The loans are well-seasoned and generally have a loan-to-value ratio of 65% or less. At December 31, 1993, \$2.1 million were contractually delinquent. Of that amount, \$540,000 were delinquent for over 90 days. The risk of these loans is evaluated in conjunction with the evaluation of the adequacy of the allowance for loan losses.

At December 31, 1993, the Association's interest rate swap agreements on a market value basis were in a net loss position of \$231,000. Interest rate swaps involve the exchange of rates on interest payment obligations without the exchange of the underlying principal amounts. The primary risk associated with interest rate swaps is not credit risk but risk associated with movements in interest rates. While notional principal amounts express the volume of the interest rate swaps, the amounts potentially subject to credit risk are much smaller.

At December 31, 1993 and 1992, outstanding interest rate swaps totaled \$15,739,000 and \$46,080,000, respectively. During the year ended March 31, 1992, the Association voluntarily terminated \$275,000,000 of interest rate swap agreements. Interest payments related to interest rate swaps and caps are charged or credited to interest expense on other borrowings. Accrued interest receivable on swaps outstanding at December 31, 1993 and 1992, respectively, was \$70,000 and \$264,000.

The Association grants residential loans to customers primarily in the Northeast. In 1992, the Association also began originating loans through its recently-opened office in Colorado. In early 1994, the Association closed its loan origination office in California. Although the Association has a diversified portfolio, the ability of its borrowers to repay their loans is substantially dependent upon the general economic conditions of the region.

NOTE 21: DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other estimation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Such techniques and assumptions, as they apply to individual categories of the Company's financial instruments, are as follows:

- . Cash and short-term investments: The carrying amounts for cash and short-term investments is a reasonable estimate of those assets' fair value.
- . Investment securities, including mortgage-backed securities: Fair values for these securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

- . Loans receivable: For adjustable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on the market prices for securities collateralized by similar loans. For certain homogeneous categories of loans, such as some residential fixed rate mortgages, fair value is estimated using the quoted market price for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For the income property loan portfolio, due to its immateriality, i.e. approximately 2.0% of total assets, management concluded that it was not practicable to estimate its fair value and, accordingly, has valued it at its carrying amount.
- . Rhode Island covered assets: Since, relative to these assets, the Association is protected against credit losses, their carrying value is a reasonable estimate of their fair value.
- . Accrued interest receivable: The carrying amount of accrued interest approximates its fair value.
- . Deposit liabilities: The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date, that is, the carrying value. Fair values for fixed rate certificates of deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits of similar remaining maturities. SFAS 107 defines the fair value of demand deposits as the amount payable on demand, and prohibits adjusting fair value for any value derived from retaining those deposits for an expected future period of time. That component, commonly referred to as a deposit base intangible, is estimated to be between zero and 4.0% of total demand deposits at December 31, 1993 and is neither considered in the following fair value amounts nor recorded as an intangible asset in the balance sheet.
- . Federal Home Loan Bank advances: The fair value of these liabilities is estimated using the rates currently offered for liabilities of similar remaining maturities or, when available, quoted market prices.
- . Securities sold under agreements to repurchase: Securities sold under agreements to repurchase generally have an original term to maturity of less than thirty days and thus are considered short-term borrowings. Consequently, their carrying value is a reasonable estimate of fair value.
- . Long-term borrowings: The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.
- . Interest rate swap agreements: The fair value of the interest rate swaps is the estimated amount that would be received or paid to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.
- . Commitments to extend credit consist primarily of commitments to originate adjustable rate mortgage loans and generally expire within 10 to 180 days, depending upon the type and purpose of the loan. Due to the current nature of the commitments, management concluded that the contractual amount of the commitments is a reasonable estimate of their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The following table presents the Company's assets, liabilities, and

unrecognized financial instruments at both their respective carrying amounts and fair value. The Company's non-financial assets and liabilities are presented in both columns at their carrying amount.

<TABLE>
<CAPTION>

	DECEMBER 31, 1993		DECEMBER 31, 1992	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Financial assets:				
Cash and due from banks.....	\$ 51,705	\$ 51,705	\$ 57,158	\$ 57,158
Interest-bearing deposits.....	--	--	615	615
Federal funds sold....	23,510	23,510	32,815	32,815
Securities purchased under agreements to resell.....	60,000	60,000	--	--
Investment securities, net.....	42,612	42,525	111,791	116,341
Investment securities, available-for-sale, net.....	162,854	162,854	129,899	131,127
Mortgage-backed securities, net.....	1,330,886	1,336,970	829,772	837,681
Mortgage-backed securities, available-for-sale, net.....	12,886	12,886	55,474	57,684
Loans, net.....	1,876,181	1,908,259	2,278,873	2,351,023
Loans available-for-sale, net.....	46,076	46,119	32,237	32,844
Rhode Island covered assets.....	105,625	105,625	151,828	151,828
Interest and dividends receivable.....	17,470 (1)	17,540	21,078 (1)	21,342
Non-financial assets:				
Real estate and other assets acquired in settlement of loans..	74,962	74,962	99,376	99,376
Premises and equipment, net.....	32,368	32,368	34,201	34,201
Prepaid expenses and other assets.....	82,822	81,344	74,723	74,414
Total assets.....	\$3,919,957	\$3,956,667	\$3,909,840	\$3,998,449
Financial liabilities:				
Retail deposits.....	\$2,952,082	\$2,985,050	\$3,205,654	\$3,222,030
Brokered deposits....	25,135	25,414	25,135	26,015
Federal Home Loan Bank advances.....	373,000	374,340	140,000	140,141
Securities sold under agreements to repurchase.....	294,809	294,809	291,014	291,014
Uncertificated debentures.....	38,442	29,942	34,990	25,414
Convertible subordinated debentures.....	--	--	560	378
Non-financial liabilities:				
Advance payments by borrowers for taxes and insurance.....	28,337	28,337	21,734	21,734
Other liabilities.....	75,709	75,709	53,444	53,444
Total liabilities...	\$3,787,514	\$3,813,601	\$3,772,531	\$3,780,170
Unrecognized financial instruments:				
Interest rate swaps				

(notional amount of \$46.1 million):				
In a net receivable position.....	\$ 70	\$ (231)	\$ 264	\$ (215)
Commitments to extend credit.....	62,400	62,400	87,886	87,886
Loan servicing rights(2).....	--	4,980	--	*
	-----	-----	-----	-----
Total unrecognized financial instruments.....	\$ 62,470	\$ 67,149	\$ 88,150	\$ 87,671
	=====	=====	=====	=====

</TABLE>

(1) Excludes \$70,000 and \$264,000 at December 31, 1993 and 1992, respectively, of accrued interest receivable on interest rate swaps.

(2) Represents the fair value of uncapitalized servicing rights on loans serviced for others by Northeast Savings.

* Fair value at December 31, 1992 is not available.

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

As discussed earlier, the fair value estimate of financial instruments for which quoted market prices are unavailable is dependent upon the assumptions used. Consequently, those estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented in the above fair value table do not necessarily represent the underlying value of the Company.

NOTE 22: RECONCILIATION OF REGULATORY REPORTS TO ACCOMPANYING CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of stockholders' equity and net income (loss) from regulatory reports furnished to the OTS to the accompanying consolidated financial statements:

<TABLE>

<CAPTION>

	STOCKHOLDERS' EQUITY		NET LOSS	
	DECEMBER 31, 1993	DECEMBER 31, 1992	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Balance reported to the OTS for Northeast Savings.....	\$ 169,670	\$ 171,539	\$ (11,980)	\$ (57,858)
Holding company net loss.....	(14,139)	(59,234)	(14,139)	(59,234)
Equity in undistributed income of Northeast Savings.....	11,980	57,858	11,980	57,858
Additional investment in Northeast Savings.....	(34,800)	(34,800)	--	--
Retirement of adjustable rate preferred stock...	--	(33,550)	--	--
Issuance of Series B preferred stock.....	--	35,170	--	--
Preferred stock conversion costs.....	(1,402)	--	--	--
Holding company paid-in capital and retained earnings.....	834	574	--	--
Exercised stock options.	147	16	--	--
401K shares issued.....	223	--	--	--
	-----	-----	-----	-----

Balance per accompanying consolidated financial statements.....	\$ 132,513	\$ 137,573	\$ (14,139)	\$ (59,234)
	=====	=====	=====	=====

</TABLE>

NOTE 23: ACQUISITIONS

During fiscal 1982 and fiscal 1983, Northeast Savings acquired three savings and loan associations in FSLIC-assisted supervisory mergers accounted for using the purchase method of accounting. Supervisory goodwill, the excess of cost over net assets acquired, related to these acquisitions totaled \$290,019,000.

In 1988, a portion of the supervisory goodwill related to 17 branch banking offices which were sold was eliminated and all goodwill related to Northeast Savings' 1987 non-supervisory acquisitions was eliminated in 1989 as a result of sales. In fiscal 1990, as a result of an analysis of the value of its remaining supervisory goodwill, Northeast Savings reduced supervisory goodwill by \$109.4 million. This reduction was precipitated by several factors that had diminished the value of the Association's Connecticut and Massachusetts franchises. The primary factor was the impact of OTS regulations promulgated pursuant to FIRREA which require the deduction of a substantial portion of goodwill in calculating regulatory capital. Other factors included the passage of the Connecticut Interstate Banking Law which was enacted March 14, 1990 and which greatly increased the opportunities for out-of-state banks to enter the state. Accordingly, Northeast Savings hired Kaplan, Smith & Associates, then a subsidiary of The First Boston Corporation, to perform an independent valuation of the Association's franchise rights in Connecticut and Massachusetts. This study was completed in May 1990 and supported the value of Northeast Savings' remaining goodwill at March 31, 1990.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The reduction in supervisory goodwill had no effect on Northeast Savings' regulatory capital or the treatment of the goodwill for regulatory accounting purposes.

A further analysis of the value of the Company's remaining supervisory goodwill completed in September 1992, resulted in an additional \$56.6 million reduction of supervisory goodwill. This reduction was also brought about by factors which had diminished the value of the Association's Connecticut and Massachusetts franchises. The principal factor was the adverse effect on the value of the Association's Connecticut and Massachusetts franchise rights of OTS regulations promulgated pursuant to FIRREA and the FDICIA as well as other positions taken by the OTS regarding regulatory capital requirements. For example, the prompt corrective action regulation issued by the federal banking agencies on September 29, 1992 finalized the 4% core capital requirement for institutions that are not rated MACRO 1, which thereby reduced prospective earnings which the Association could expect to realize from its Connecticut and Massachusetts franchise rights. Moreover, the OTS has verbally informed Northeast Savings that, inasmuch as Northeast Savings had recently achieved compliance with its fully phased-in capital standards, under OTS Regulatory Bulletin 3a-1, "Policy Statement on Growth for Savings Associations" (RB 3a-1), Northeast Savings may not grow its assets if such growth would cause it to fall below its fully phased-in capital requirements, even if the Company continued to exceed the applicable minimum capital standards previously established for the duration of the FIRREA phase-in period. This OTS position regarding the effect of RB 3a-1 further decreased the prospective earnings that Northeast had expected to realize from its Connecticut and Massachusetts franchise rights. Another significant factor included the implementation of the final rule issued by the OTS which permits federal savings associations to branch interstate to the full extent permitted by federal statute and which greatly increased opportunities for out-of-state institutions to enter these states. Thus, the Company again hired Kaplan Associates, Inc. to perform an independent valuation of the Association's franchise rights in Connecticut and Massachusetts. This study was completed during the quarter ended September 30, 1992 and supported the value of the Company's remaining supervisory goodwill at September 30, 1992. The reduction in supervisory goodwill had no effect on Northeast Savings' fully phased-in regulatory tangible, core, or risk-based capital.

The following summarizes transactions relating to the supervisory goodwill.

<TABLE>
<CAPTION>

	FOR THE NINE MONTHS ENDED DECEMBER 31, 1992	FOR THE YEAR ENDED MARCH 31, 1992

	(IN THOUSANDS)	
<S>	<C>	<C>
Balance, beginning of period.....	\$59,553	\$84,420
Amortization.....	(2,002)	(3,971)
Reduction for acquired net operating loss carryforward.....	(983)	(20,896)
Valuation adjustment.....	(56,568)	--
	-----	-----
Balance, end of period.....	\$ --	\$59,553
	=====	=====

</TABLE>

During the year ended March 31, 1992, the Association acquired a total of \$404.6 million in deposits from the RTC. All of the acquired deposits were in institutions which had been placed into receivership by the RTC.

Financial of Hartford

On June 19, 1991, Northeast Savings assumed the deposits of Financial of Hartford, F.S.B. from the RTC. Northeast Savings assumed \$10.5 million in deposits and accrued interest and received \$7.9 million in cash, \$2.6 million in securities, and \$70,000 in passbook secured loans. Northeast Savings closed the branch and now services the deposits through the eight branches in the Hartford area.

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

ComFed Savings Bank

On September 13, 1991, Northeast Savings assumed the insured deposits of eight branches of ComFed Savings Bank, F.A. from the RTC. Northeast Savings assumed \$210.9 million in deposits and accrued interest, at a premium of \$406,000, and received \$209 million in cash and \$567,000 in passbook secured loans. The branches acquired were located in the Springfield, Massachusetts area and in Pittsfield, Massachusetts. Northeast Savings closed four of the branches, keeping two open in Springfield and two open in Pittsfield.

FarWest Savings and Loan

On March 20, 1992, Northeast Savings assumed the insured deposits of four branches of FarWest Savings and Loan Association, F.A. from the RTC. Northeast Savings assumed \$183.2 million in deposits and accrued interest, at a premium of \$610,000, and received \$182 million in cash and \$176,000 in passbook secured loans. The four branches are in the San Diego, California area. Northeast Savings now operates the four branches as full service banking offices.

Rhode Island Acquisition

On May 8, 1992, the Association acquired \$315.0 million in assets of four Rhode Island financial institutions which were in receivership proceedings under the jurisdiction of the Superior Court of Providence County, Rhode Island. The following transactions were completed in conjunction with the acquisition of the assets of the Rhode Island institutions.

- . The Association issued \$315.0 million of insured deposit accounts in the Association to depositors in the Rhode Island institutions.
- . The Company issued and sold to the Rhode Island Depositors Economic Protection Corporation approximately \$35.2 million of a new class of preferred stock, the \$8.50 Cumulative Preferred Stock, Series B as well as warrants to purchase 600,000 shares of common stock of the Company at \$2.50 per share and 200,000 shares of common stock of the Company at \$4.25 per share. The Company contributed the net proceeds from this

issuance to the Association. The Company has the right to pay the first five years of dividends on the new preferred stock by the issuance of additional new preferred stock (a payment in kind).

. The Company issued and sold \$28.95 million of 9% Debentures to the receivers for the four institutions. These debentures have been distributed to certain of the depositors in the Rhode Island institutions in consideration of a portion of their deposit claims against the receiverships for the Rhode Island institutions. The Company has the right to pay the first five years of interest on the 9% Debentures by the issuance of additional 9% Debentures (a payment in kind).

. The Company repurchased its adjustable rate preferred stock plus accumulated dividends from the FRF for \$28.0 million in cash and \$7.0 million in 9% Debentures, for a total fair value of \$32.5 million. The 9% Debentures had a fair market value of \$4.5 million, which was based on the value attributed to those debentures by the FRF, as determined by its investment banker.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 24: PARENT COMPANY FINANCIAL INFORMATION

The condensed parent company Statement of Operations, Statement of Financial Condition, and Statement of Cash Flows are as follows:

STATEMENT OF OPERATIONS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	NINE MONTHS ENDED DECEMBER 31, 1992	YEAR ENDED MARCH 31, 1992
<S>	<C>	<C>	<C>
Interest income.....	\$ 57	\$ 43	\$ 32
Interest expense.....	(3,503)	(2,103)	--
Equity in undistributed income (loss) of Northeast Savings.....	(11,980)	(57,858)	5,726
Total income (loss).....	(15,426)	(59,918)	5,758
Operating expenses.....	276	314	254
Income (loss) before income taxes and extraordinary items.....	(15,702)	(60,232)	5,504
Income tax expense (benefit).....	(1,563)	(998)	103
Net income (loss).....	\$ (14,139)	\$ (59,234)	\$ 5,607

</TABLE>

STATEMENT OF FINANCIAL CONDITION
(IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1993	1992
<S>	<C>	<C>
ASSETS		
Cash and interest-bearing deposits.....	\$ 2,210	\$ 2,416
Investment in Northeast Savings.....	169,670	171,539
Other assets.....	685	--
Total assets.....	\$172,565	\$173,955

LIABILITIES AND STOCKHOLDERS' EQUITY		
Uncertificated debentures.....	\$ 38,442	\$ 34,990
Other liabilities.....	1,610	1,392
Stockholders' equity.....	132,513	137,573
	-----	-----
Total liabilities and stockholders' equity.....	\$172,565	\$173,955
	=====	=====

</TABLE>

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NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1993	NINE MONTHS ENDED DECEMBER 31, 1992	YEAR ENDED MARCH 31, 1992
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss).....	\$ (14,139)	\$ (59,234)	\$ 5,607
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Interest accrued and paid in kind on debentures.....	3,452	2,103	--
Equity in undistributed (income) loss of Northeast Savings.....	11,980	57,858	(5,726)
(Increase) decrease in other assets.....	(685)	135	(125)
Increase (decrease) in other liabilities.....	218	802	(5)
	-----	-----	-----
Net cash provided by (used in) operating activities.....	826	1,664	(249)
	-----	-----	-----
Cash flows from investing activities:			
Increase in investment in Northeast Savings.....	--	(34,800)	--
	-----	-----	-----
Net cash used in investing activities.....	--	(34,800)	--
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from exercise of stock options.....	147	16	2
Proceeds from issuance of 401K stock.....	223	--	--
Preferred stock conversion costs...	(1,402)	--	--
Retirement of Series A adjustable preferred stock.....	--	(33,550)	--
Proceeds from issuance of Series B preferred stock.....	--	35,170	--
Proceeds from issuance of uncertificated debentures.....	--	33,450	--
	-----	-----	-----
Net cash provided by (used in) financing activities.....	(1,032)	35,086	2
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(206)	1,950	(247)
Cash and cash equivalents at beginning of period.....	2,416	466	713
	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 2,210	\$ 2,416	\$ 466
	=====	=====	=====

</TABLE>

This information should be read in conjunction with other Notes to the Consolidated Financial Statements.

NORTHEAST FEDERAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 25: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<TABLE>

<CAPTION>

DECEMBER 31, 1993 AND FOR THE YEAR THEN ENDED

	Q1	Q2	Q3	Q4
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>
Total assets.....	\$ 3,979,720	\$ 4,006,969	\$ 3,942,721	\$3,920,027
Interest income.....	57,322	56,676	55,016	51,362
Net interest income.....	19,627	19,312	17,741	15,728
Provision for loan losses.	4,850	12,000	3,450	3,000
Gain on sale of securities, net.....	3,861	590	254	920
Gain on sale of loans, net.....	322	376	866	375
Non-interest income.....	2,852	2,321	2,612	2,390
Non-interest expenses.....	21,556	27,747	22,453	21,423
Net income (loss).....	141	(9,432)	(1,904)	(2,944)
Preferred stock dividend requirements.....	1,653	1,190	820	838
Net loss applicable to common shareholders.....	(1,512)	(10,622)	(2,724)	(3,782)
Net loss per common share:				
Primary and fully diluted.....	(0.26)	(1.08)	(0.20)	(0.28)
Market prices of common stock:				
High.....	7 1/2	6 3/8	5 5/8	5 7/8
Low.....	6	4 1/2	3 3/4	4

<CAPTION>

DECEMBER 31, 1992 AND FOR THE NINE MONTHS THEN ENDED

	Q1	Q2	Q3
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>
Total assets.....	\$ 3,971,630	\$ 3,891,389	\$ 3,910,104
Interest income.....	67,783	66,388	62,174
Net interest income.....	19,674	21,997	21,764
Provision for loan losses.	2,500	6,300	7,500
Gain on sale of securities, net.....	1,470	652	1,978
Gain on sale of loans, net.....	352	312	1,206
Non-interest income.....	3,205	1,595	2,271
Non-interest expenses.....	21,806	79,064	23,629
Net income (loss).....	158	(59,790)	398
Preferred stock dividend requirements.....	1,346	1,653	1,653
Net loss applicable to common shareholders.....	(1,188)	(61,443)	(1,255)
Net loss per common share:			
Primary and fully diluted.....	(.21)	(10.73)	(.22)
Market prices of common stock:			
High.....	6 3/4	5 3/8	7 1/8
Low.....	5	4	3

</TABLE>

NOTE 26: SUBSEQUENT EVENT

On February 9, 1994, the Company and another financial institution signed a definitive agreement for the sale by the Company of ten Northeast Savings branches located in eastern Massachusetts and in Rhode Island. Deposits held in these branches totaled approximately \$427 million as of December 31, 1993. The purchasing institution will pay a premium of three percent to Northeast Savings for deposits on hand at the time of closing. The transaction is expected to close by the end of the second quarter, and is subject to regulatory approval.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

NORTHEAST FEDERAL CORP.

(Registrant)

March 14, 1994

By: /s/ George P. Rutland

George P. Rutland
Chairman of the Board

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES INDICATED ON FEBRUARY 25, 1994.

By: /s/ George P. Rutland

George P. Rutland
Chairman of the Board

By: /s/ Kirk W. Walters

Kirk W. Walters
Chief Executive Officer,
President, Chief Operating
Officer, and Chief Financial
Officer

By: /s/ Lynne M. Carcia

Lynne M. Carcia
Senior Vice President,
Controller, and Principal
Accounting Officer

DIRECTORS

Gerald P. Carmen
David W. Clark, Jr.
George J. Fantini, Jr.
Richard H. Gaskill
Richard H. Gordon
Beverly L. Hamilton
Barbara C. Lawrence
Thomas P. O'Neill, III
George P. Rutland
George W. Sarney
Raymond T. Schuler
John R. Silber
Kirk W. Walters
Jerome F. Williams
Frederick W. Zuckerman

By: /s/ George P. Rutland

George P. Rutland

