First Bancorp, Inc /ME/
Form 10-Q
May 09, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended March 31, 2011

Commission File Number 0-26589

THE FIRST BANCORP, INC.
(Exact name of Registrant as specified in its charter)

MAINE	01-0404322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
MAIN STREET, DAMARISCOTTA, MAINE	04543
(Address of principal executive offices)	(Zip code)

(207) 563-3195
Registrant’s telephone number, including area code

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes [_] No [X]

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of May 9, 2011
Common Stock: 9,791,424 shares

Table of Contents

Part I. Financial Information	1
Selected Financial Data (Unaudited)	1
Item 1 – Financial Statements	2
Report of Independent Registered Public Accounting Firm	2
Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements of Income (Unaudited)	4
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)	5
Consolidated Statements of Cash Flows (Unaudited)	6
Notes to Consolidated Financial Statements	7
Note 1 – Basis of Presentation	7
Note 2 –Investment Securities	7
Note 3 – Loans	10
Note 4 – Allowance for Loan Losses	15
Note 5 – Stock Options and Stock and Stock Based Compensation	20
Note 6 – Preferred and Common Stock	21
Note 7 – Earnings Per Share	22
Note 8 – Employee Benefit Plans	22
Note 9 – Goodwill and Other Intangible Assets	24
Note 10 – Mortgage Servicing Rights	24
Note 11 – Income Taxes	25
Note 12 - Certificates of Deposit	25
Note 13 – Reclassifications	25
Note 14 – Fair Value Disclosures	25
Note 15 – Impact of Recently Issued Accounting Standards	29
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Forward-Looking Statements	30
Critical Accounting Policies	30
Use of Non-GAAP Financial Measures	31
Executive Summary	33
Net Interest Income	34
Average Daily Balance Sheets	35
Non-Interest Income	36
Non-Interest Expense	36
Income Taxes	36
Investments	36
Impaired Securities	38
Federal Home Loan Bank Stock	40
Loans and Loans Held for Sale	40
Credit Risk Management and Allowance for Loan Losses	42
Non-Performing Loans and Troubled Debt Restructured	46
Impaired Loans	48
Past Due Loans	48
Potential Problem Loans and Loans in Process of Foreclosure	49
Other Real Estate Owned	50
Goodwill	51
Liquidity Management	51

Deposits	51
Borrowed Funds	51
Shareholders' Equity	52
Off-Balance-Sheet Financial Instruments and Contractual Obligations	52
Item 3 – Quantitative and Qualitative Disclosures About Market Risk	53
Market-Risk Management	53
Asset/Liability Management	53
Interest Rate Risk Management	54
Item 4: Controls and Procedures	55
Part II – Other Information	56
Item 1 – Legal Proceedings	56
Item 1a – Risk Factors	56
Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 3 – Default Upon Senior Securities	56
Item 4 – Other Information	56
Item 5 – Exhibits	57
Signatures	58

Part I. Financial Information

Selected Financial Data (Unaudited)
The First Bancorp, Inc. and Subsidiary

Dollars in thousands, except for per share amounts	For the three months ended March 31, 2011		2010	
Summary of Operations				
Interest Income	$14,254		$14,133	
Interest Expense	3,749		4,112	
Net Interest Income	10,505		10,021	
Provision for Loan Losses	2,100		2,400	
Non-Interest Income	2,277		2,175	
Non-Interest Expense	6,488		6,282	
Net Income	3,143		2,684	
Per Common Share Data				
Basic Earnings per Share	$0.29		$0.24	
Diluted Earnings per Share	0.29		0.24	
Cash Dividends Declared	0.195		0.195	
Book Value	12.96		12.71	
Tangible Book Value2	10.13		9.87	
Market Value	15.25		15.94	
Financial Ratios				
Return on Average Equity1	10.02	%	8.69	%
Return on Average Tangible Equity1,2	11.43	%	11.15	%
Return on Average Assets1	0.90	%	0.82	%
Average Equity to Average Assets	10.76	%	11.30	%
Average Tangible Equity to Average Assets2	8.80	%	9.22	%
Net Interest Margin Tax-Equivalent1,2	3.40	%	3.51	%
Dividend Payout Ratio	67.24	%	81.25	%
Allowance for Loan Losses/Total Loans	1.56	%	1.53	%
Non-Performing Loans to Total Loans	2.51	%	2.46	%
Non-Performing Assets to Total Assets	1.89	%	2.20	%
Efficiency Ratio2	48.28	%	49.06	%
At Period End				
Total Assets	$1,431,038		$1,336,544	
Total Loans	894,684		935,008	
Total Investment Securities	450,830		311,908	
Total Deposits	1,050,257		939,180	
Total Shareholders’ Equity	151,544		148,542	

1Annualized using a 365-day basis
2These ratios use non-GAAP financial measures. See Management’s Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.

Item 1 – Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
The First Bancorp, Inc.

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of March 31, 2011 and 2010 and for the three-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry Dunn McNeil & Parker, LLC

Portland, Maine
May 9, 2011

Consolidated Balance Sheets (Unaudited)
The First Bancorp, Inc. and Subsidiary

	March 31, 2011	December 31, 2010	March 31, 2010
Assets			
Cash and cash equivalents	$13,700,000	$13,838,000	$11,731,000
Time deposits in other banks	100,000	100,000	-
Securities available for sale	325,451,000	293,229,000	131,441,000
Securities to be held to maturity (fair value of $114,051,000 at March 31, 2011, $110,366,000 at December 31, 2010 and $166,964,000 at March 31, 2010)	109,936,000	107,380,000	165,024,000
Federal Reserve Bank stock, at cost	1,412,000	1,412,000	1,412,000
Federal Home Loan Bank stock, at cost	14,031,000	14,031,000	14,031,000
Loans held for sale	450,000	2,806,000	4,152,000
Loans	894,684,000	887,596,000	935,008,000
Less allowance for loan losses	14,000,000	13,316,000	14,283,000
Net loans	880,684,000	874,280,000	920,725,000
Accrued interest receivable	6,236,000	5,263,000	6,110,000
Premises and equipment	18,685,000	18,980,000	18,069,000
Other real estate owned	4,575,000	4,929,000	6,351,000
Goodwill	27,684,000	27,684,000	27,684,000
Other assets	28,094,000	29,870,000	29,814,000
Total assets	$1,431,038,000	$1,393,802,000	$1,336,544,000
Liabilities			
Demand deposits	$67,502,000	$74,032,000	$61,371,000
NOW deposits	120,045,000	119,823,000	111,965,000
Money market deposits	73,766,000	71,604,000	84,694,000
Savings deposits	108,359,000	100,870,000	94,833,000
Certificates of deposit	680,585,000	608,189,000	586,317,000
Total deposits	1,050,257,000	974,518,000	939,180,000
Borrowed funds – short term	87,366,000	127,160,000	136,738,000
Borrowed funds – long term	130,168,000	130,170,000	100,175,000
Other liabilities	11,703,000	12,106,000	11,909,000
Total Liabilities	1,279,494,000	1,243,954,000	1,188,002,000
Shareholders' equity			
Preferred stock, $1,000 preference value per share	24,729,000	24,705,000	24,631,000
Common stock, one cent par value per share	98,000	98,000	98,000
Additional paid-in capital	45,551,000	45,474,000	45,209,000
Retained earnings	82,623,000	81,701,000	78,919,000
Accumulated other comprehensive loss			
Net unrealized loss on securities available-for- sale	(1,389,000)	(2,057,000)	(108,000)
Net unrealized loss on postretirement benefit costs	(68,000)	(73,000)	(207,000)
Total shareholders' equity	151,544,000	149,848,000	148,542,000
Total liabilities & shareholders' equity	$1,431,038,000	$1,393,802,000	$1,336,544,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,786,964	9,773,025	9,751,474
Book value per common share	$12.96	$12.80	$12.71
Tangible book value per common share	$10.13	$9.97	$9.87

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income (Unaudited)
The First Bancorp, Inc. and Subsidiary

	For the three months ended March 31,	
	2011	2010
Interest and dividend income		
Interest and fees on loans	$10,173,000	$11,150,000
Interest on deposits with other banks	2,000	2,000
Interest and dividends on investments	4,079,000	2,981,000
Total interest and dividend income	14,254,000	14,133,000
Interest expense		
Interest on deposits	2,563,000	2,480,000
Interest on borrowed funds	1,186,000	1,632,000
Total interest expense	3,749,000	4,112,000
Net interest income	10,505,000	10,021,000
Provision for loan losses	2,100,000	2,400,000
Net interest income after provision for loan losses	8,405,000	7,621,000
Non-interest income		
Investment management and fiduciary income	424,000	411,000
Service charges on deposit accounts	640,000	709,000
Net securities gains	-	2,000
Mortgage origination and servicing income	459,000	278,000
Other operating income	754,000	775,000
Total non-interest income	2,277,000	2,175,000
Non-interest expense		
Salaries and employee benefits	3,077,000	2,745,000
Occupancy expense	449,000	394,000
Furniture and equipment expense	550,000	581,000
FDIC insurance premiums	401,000	475,000
Amortization of identified intangibles	71,000	71,000
Other operating expense	1,940,000	2,016,000
Total non-interest expense	6,488,000	6,282,000
Income before income taxes	4,194,000	3,514,000
Applicable income taxes	1,051,000	830,000
NET INCOME	$3,143,000	$2,684,000
Less dividends and amortization of premium on preferred stock	337,000	337,000
Net income available to common shareholders	$2,806,000	$2,347,000
Basic earnings per common share	$0.29	$0.24
Diluted earnings per common share	$0.29	$0.24
Weighted average number of shares outstanding	9,778,756	9,750,056
Incremental shares	8,527	4,888
Cash dividends declared per share	$0.195	$0.195

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
The First Bancorp, Inc. and Subsidiary

	Preferred stock	Common stock and additional paid-in capital		Retained earnings	Accumulated other comprehensive Income (loss)	Total shareholders' equity
		Shares	Amount			
Balance at December 31, 2009	$24,606,000	9,744,170	$45,218,000	$78,450,000	$ (336,000)	$147,938,000
Net income	-	-	-	2,684,000	-	2,684,000
Net unrealized gain on securities available for sale, net of taxes of $8,000	-	-	-	-	17,000	17,000
Unrecognized transition obligation for postretirement benefits, net of taxes of $2,000	-	-	-	-	4,000	4,000
Comprehensive income	-	-	-	2,684,000	21,000	2,705,000
Cash dividends declared	-	-	-	(2,215,000)	-	(2,215,000)
Equity compensation expense	-	-	9,000	-	-	9,000
Amortization of premium for preferred stock issuance	25,000	-	(25,000)	-	-	-
Proceeds from sale of common stock	-	7,304	105,000	-	-	105,000
Balance at March 31, 2010	$24,631,000	9,751,474	$45,307,000	$78,919,000	$ (315,000)	$148,542,000
Balance at December 31, 2010	$24,705,000	9,773,025	$45,572,000	$81,701,000	$ (2,130,000)	$149,848,000
Net income	-	-	-	3,143,000	-	3,143,000
Net unrealized gain on securities available for sale, net of taxes of $363,000	-	-	-	-	668,000	668,000
Unrecognized transition obligation for postretirement benefits, net of taxes of $2,000	-	-	-	-	5,000	5,000
Comprehensive income	-	-	-	3,143,000	673,000	3,816,000
Cash dividends declared	-	-	-	(2,221,000)	-	(2,221,000)
Equity compensation expense	-	-	6,000	-	-	6,000
Amortization of premium for preferred stock issuance	24,000	-	(24,000)	-	-	-
	-	13,939	95,000	-	-	95,000

Proceeds from sale of common stock						
Balance at March 31, 2011	$24,729,000	9,786,964	$45,649,000	$82,623,000	$ (1,457,000)	$151,544,000

See Report of Independent Registered Public Accounting Firm.

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)
The First Bancorp, Inc. and Subsidiary

	For the three months ended March 31,	
	2011	2010
Cash flows from operating activities		
Net income	$3,143,000	$2,684,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	341,000	369,000
Change in deferred taxes	(238,000)	192,000
Provision for loan losses	2,100,000	2,400,000
Loans originated for resale	(15,794,000)	(10,122,000)
Proceeds from sales and transfers of loans	18,150,000	8,846,000
Net gain on sale or call of securities held-to-maturity	-	(2,000)
Net loss on sale of other real estate owned	46,000	-
Provision for losses on other real estate owned	68,000	156,000
Equity compensation expense	6,000	9,000
Net increase in other assets and accrued interest	(147,000)	(1,082,000)
Net increase in other liabilities	262,000	867,000
Net loss on disposal of premises and equipment	5,000	-
Net amortization (accretion) of premiums on investments	914,000	(100,000)
Amortization of investment in limited partnership	97,000	75,000
Net acquisition amortization	32,000	70,000
Net cash provided by operating activities	8,985,000	4,362,000
Cash flows from investing activities		
Proceeds from maturities, payments and calls of securities available for sale	17,365,000	3,715,000
Proceeds from sales of securities available for sale	-	202,000
Proceeds from maturities, payments and calls of securities to be held to maturity	6,074,000	25,597,000
Proceeds from sales of other real estate owned	779,000	202,000
Purchases of securities available for sale	(49,309,000)	(53,477,000)
Purchases of securities to be held to maturity	(8,794,000)	-
Net (increase) / decrease in loans	(9,043,000)	14,366,000
Capital expenditures	(51,000)	(107,000)
Net cash used in investing activities	(42,979,000)	(9,502,000)
Cash flows from financing activities		
Net increase (decrease) in demand, savings, and money market accounts	3,343,000	(13,707,000)
Net increase in certificates of deposit	72,428,000	30,221,000
Net decrease in short-term borrowings	(39,789,000)	(12,865,000)
Proceeds from sale of common stock	95,000	105,000
Dividends paid	(2,221,000)	(2,215,000)
Net cash provided by financing activities	33,856,000	1,539,000
Net decrease in cash and cash equivalents	(138,000)	(3,601,000)
Cash and cash equivalents at beginning of year	13,838,000	15,332,000
Cash and cash equivalents at end of period	$13,700,000	$11,731,000
Interest paid	$3,861,000	$4,170,000
Income taxes paid	-	-
Non-cash transactions		
Transfer from loans to other real estate owned	539,000	1,364,000

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements
The First Bancorp, Inc. and Subsidiary

Note 1 – Basis of Presentation

The First Bancorp, Inc. (the Company) is a financial holding company that owns all of the common stock of The First, N.A. (the Bank). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2011 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2011. For further information, refer to the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

Subsequent Events
Events occurring subsequent to March 31, 2011, have been evaluated as to their potential impact to the Financial Statements.

Note 2 – Investment Securities

The following table summarizes the amortized cost and estimated fair value of investment securities at March 31, 2011:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$15,352,000	$591,000	$-	$15,943,000
Mortgage-backed securities	255,703,000	1,138,000	(3,731,000)	253,110,000
State and political subdivisions	55,040,000	577,000	(536,000)	55,081,000
Corporate securities	1,108,000	-	(185,000)	923,000
Other equity securities	385,000	18,000	(9,000)	394,000
	$327,588,000	$2,324,000	$(4,461,000)	$325,451,000
Securities to be held to maturity				
U.S. Treasury and agency	$2,936,000	$-	$(292,000)	$2,644,000
Mortgage-backed securities	59,063,000	3,348,000	(76,000)	62,335,000
State and political subdivisions	47,787,000	1,641,000	(506,000)	48,922,000
Corporate securities	150,000	-	-	150,000
	$109,936,000	$4,989,000	$(874,000)	$114,051,000
Non-marketable securities				
Federal Home Loan Bank Stock	$14,031,000	$-	$-	$14,031,000
Federal Reserve Bank Stock	1,412,000	-	-	1,412,000
	$15,443,000	$-	$-	$15,443,000

The following table summarizes the amortized cost and estimated fair value at December 31, 2010:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$15,380,000	$665,000	$-	$16,045,000
Mortgage-backed securities	236,126,000	1,024,000	(2,736,000)	234,414,000
State and political subdivisions	43,404,000	171,000	(2,051,000)	41,524,000
Corporate securities	1,113,000	-	(247,000)	866,000
Other equity securities	371,000	19,000	(10,000)	380,000
	$296,394,000	$1,879,000	$(5,044,000)	$293,229,000
Securities to be held to maturity				
U.S. Treasury and agency	$2,190,000	$35,000	$-	$2,225,000
Mortgage-backed securities	55,710,000	2,656,000	(144,000)	58,222,000
State and political subdivisions	49,330,000	1,102,000	(663,000)	49,769,000
Corporate securities	150,000	-	-	150,000
	$107,380,000	$3,793,000	$(807,000)	$110,366,000
Non-marketable securities				
Federal Home Loan Bank Stock	$14,031,000	$-	$-	$14,031,000
Federal Reserve Bank Stock	1,412,000	-	-	1,412,000
	$15,443,000	$-	$-	$15,443,000

The following table summarizes the contractual maturities of investment securities at March 31, 2011:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$212,000	$218,000	$1,072,000	$1,084,000
Due in 1 to 5 years	2,818,000	2,964,000	5,629,000	5,948,000
Due in 5 to 10 years	4,774,000	4,916,000	16,974,000	17,737,000
Due after 10 years	319,399,000	316,959,000	86,261,000	89,282,000
Equity securities	385,000	394,000	-	-
	$327,588,000	$325,451,000	$109,936,000	$114,051,000

The following table summarizes the contractual maturities of investment securities at December 31, 2010:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$-	$-	$1,195,000	$1,203,000
Due in 1 to 5 years	2,950,000	3,099,000	5,475,000	5,749,000
Due in 5 to 10 years	2,385,000	2,404,000	13,838,000	14,435,000
Due after 10 years	290,688,000	287,346,000	86,872,000	88,979,000
Equity securities	371,000	380,000	-	-
	$296,394,000	$293,229,000	$107,380,000	$110,366,000

At March 31, 2011, securities with a fair value of $121.1 million were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a fair value of $113.0 million as of December 31, 2010 pledged for the same purposes.

Gains and losses on the sale of securities available for sale are computed by subtracting the amortized cost at the time of sale from the security's selling price, net of accrued interest to be received. The following table shows securities gains and losses for the three months ended March 31, 2011 and 2010:

	For the three months ended March 31, 2011	For the three months ended March 31, 2010
Proceeds from sales	$-	$202,000
Gross gains	$-	$2,000
Gross losses	$-	-
Net gain	$-	$2,000
Related income taxes	$-	$1,000

Management reviews securities with unrealized losses for other than temporary impairment. As of March 31, 2011, there were 104 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair market value, of which 12 had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted. Information regarding securities temporarily impaired as of March 31, 2011 is summarized below:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$2,645,000	$(292,000)	$-	$-	$2,645,000	$(292,000)
Mortgage-backed securities	187,278,000	(3,471,000)	6,757,000	(336,000)	194,035,000	(3,807,000)
State and political subdivisions	29,835,000	(659,000)	1,398,000	(383,000)	31,233,000	(1,042,000)
Corporate securities	-	-	922,000	(185,000)	922,000	(185,000)
Other equity securities	10,000	(2,000)	47,000	(7,000)	57,000	(9,000)
	$219,768,000	$(4,424,000)	$9,124,000	$(911,000)	$228,892,000	$(5,335,000)

As of December 31, 2010, there were 136 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 13 had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted. Information regarding securities temporarily impaired as of December 31, 2010 is summarized below:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$-	$-	$-	$-	$-	$-
Mortgage-backed securities	160,767,000	(2,654,000)	5,348,000	(226,000)	166,115,000	(2,880,000)
	44,513,000	(2,307,000)	1,355,000	(407,000)	45,868,000	(2,714,000)

State and political subdivisions						
Corporate securities	-	-	866,000	(247,000)	866,000	(247,000)
Other equity securities	-	-	56,000	(10,000)	56,000	(10,000)
	$205,280,000	$(4,961,000)	$7,625,000	$(890,000)	$212,905,000	$(5,851,000)

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston. The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount

of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the FHLB for much of its wholesale funding needs. As of March 31, 2011 and December 31, 2010, the Bank's investment in FHLB stock totaled $14.0 million.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Bank has no intention of terminating its FHLB membership.

In February 2011, FHLB's board of directors declared a dividend equal to an annual yield of 0.30 percent, based on average stock outstanding for the fourth quarter of 2010, to be paid on March 2, 2011. FHLB's board of directors anticipates that it will continue to declare modest cash dividends through 2011, but cautioned that adverse events such as a negative trend in credit losses on the FHLB's private-label mortgage-backed securities or mortgage portfolio, a meaningful decline in income, or regulatory disapproval could lead to reconsideration of this plan.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through March 31, 2011. The Bank will continue to monitor its investment in FHLB stock.

Note 3 – Loans

The following table shows the composition of the Company's loan portfolio as of March 31, 2011 and 2010 and at December 31, 2010:

	March 31, 2011			December 31, 2010			March 31, 2010		
Commercial									
Real estate	$263,800,000	29.5	%	$245,540,000	27.7	%	$242,017,000	25.9	%
Construction	29,316,000	3.3	%	41,869,000	4.7	%	49,026,000	5.2	%
Other	101,762,000	11.4	%	101,462,000	11.4	%	121,669,000	13.0	%
Municipal	20,834,000	2.3	%	21,833,000	2.5	%	24,203,000	2.6	%
Residential									
Term	340,841,000	38.1	%	337,927,000	38.1	%	362,459,000	38.8	%
Construction	13,370,000	1.5	%	15,512,000	1.7	%	17,879,000	1.9	%
Home equity line of credit	106,172,000	11.8	%	105,297,000	11.9	%	98,241,000	10.5	%
Consumer	18,589,000	2.1	%	18,156,000	2.0	%	19,514,000	2.1	%
Total loans	$894,684,000	100.0	%	$887,596,000	100.0	%	$935,008,000	100.0	%

Loan balances include net deferred loan costs of $1.4 million as of March 31, 2011 and $1.3 million as of December 31, 2010. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $201.0 million at March 31, 2011 and $192.9 million at December 31, 2010, were used to collateralize borrowings from the Federal Home Loan Bank of Boston. In addition, commercial, construction and home equity loans totaling $346.4 million at March 31, 2011 and $342.9 million at December 31, 2010 were used to collateralize a standby line of credit at the Federal Reserve Bank of Boston that is currently unused.

Loans on non-accrual status totaled $22.5 million at March 31, 2011, $21.2 million at December 31, 2010 and $23.0 million at March 31, 2010. Loans past due 90 days or greater which are accruing interest totaled $291,000 at March 31, 2011, $1,116,000 at December 31, 2010 and $16,000 at March 31, 2010. The Company continues to accrue interest on these loans because it believes collection of principal and interest is reasonably assured.

Information on the past-due status of loans as of March 31, 2011, is presented in the following table:

	30-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial						
Real estate	$682,000	$6,431,000	$7,113,000	$256,687,000	$263,800,000	$270,000
Construction	65,000	256,000	321,000	28,995,000	29,316,000	-
Other	858,000	563,000	1,421,000	100,341,000	101,762,000	2,000
Municipal	-	-	-	20,834,000	20,834,000	-
Residential						
Term	5,456,000	8,623,000	14,079,000	326,762,000	340,841,000	-
Construction	-	2,247,000	2,247,000	11,123,000	13,370,000	-
Home equity line of credit	759,000	604,000	1,363,000	104,809,000	106,172,000	-
Consumer	250,000	19,000	269,000	18,320,000	18,589,000	19,000
Total	$8,070,000	$18,743,000	$26,813,000	$867,871,000	$894,684,000	$291,000

Information on the past-due status of loans as of December 31, 2010, is presented in the following table:

	30-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial						
Real estate	$2,055,000	$4,000,000	$6,055,000	$239,485,000	$245,540,000	$-
Construction	120,000	937,000	1,057,000	40,812,000	41,869,000	-
Other	3,070,000	1,370,000	4,440,000	97,022,000	101,462,000	524,000
Municipal	-	-	-	21,833,000	21,833,000	-
Residential						
Term	4,535,000	7,696,000	12,231,000	325,696,000	337,927,000	585,000
Construction	104,000	1,724,000	1,828,000	13,684,000	15,512,000	-
Home equity line of credit	1,564,000	474,000	2,038,000	103,259,000	105,297,000	-
Consumer	259,000	7,000	266,000	17,890,000	18,156,000	7,000
Total	$11,707,000	$16,208,000	$27,915,000	$859,681,000	$887,596,000	$1,116,000

Loans are placed on non-accrual status when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Information on nonaccrual loans as of March 31, 2011 and 2010 and at December 31, 2010 is presented in the following table:

	March 31, 2011	December 31, 2010	March 31, 2010
Commercial			
Real estate	$7,482,000	$5,946,000	$7,345,000
Construction	813,000	937,000	459,000
Other	1,615,000	1,753,000	2,901,000
Municipal	-	-	-
Residential			
Term	9,632,000	8,347,000	8,907,000
Construction	2,247,000	3,567,000	3,176,000
Home Equity Line of Credit	604,000	519,000	161,000
Consumer	105,000	106,000	69,000
Total	$22,498,000	$21,175,000	$23,018,000

Information regarding impaired loans is as follows:

	March 31, 2011	December 31, 2010	March 31, 2010
Balance of impaired loans	$26,814,000	$25,283,000	$26,086,000
Less portion for which no allowance for loan losses is allocated	(18,191,000)	(15,773,000)	(16,706,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	$8,623,000	$9,510,000	$9,380,000
Portion of allowance for loan losses allocated to the impaired loan balance	$1,621,000	$1,256,000	$2,115,000

Impaired loans include restructured loans and loans placed on non-accrual status when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. These loans are measured at the present value of expected future cash flows discounted at the loan’s effective interest rate or at the fair value of the collateral if the loan is collateral dependent. If the measure of an impaired loan is lower than the recorded investment in the loan and estimated selling costs, a specific reserve is established for the difference.

A breakdown of impaired loans by category as of March 31, 2011, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Unrecognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$5,354,000	$5,354,000	$-	$4,557,000	63,000
Construction	813,000	813,000	-	442,000	8,000
Other	1,033,000	1,033,000	-	1,173,000	21,000
Municipal	-	-	-	-	-
Residential	-				
Term	8,907,000	8,907,000	-	8,120,000	100,000
Construction	1,672,000	1,672,000	-	2,948,000	43,000
Home Equity Line of Credit	373,000	373,000	-	317,000	2,000
Consumer	39,000	39,000	-	42,000	2,000
	$18,191,000	$18,191,000	$-	$17,599,000	$ 239,000
With an Allowance Recorded					
Commercial					
Real estate	$2,128,000	$2,128,000	$593,000	$2,260,000	$ 28,000
Construction	-	-	-	453,000	8,000
Other	571,000	571,000	326,000	549,000	10,000
Municipal	-	-	-	-	-
Residential			-		
Term	5,041,000	5,041,000	381,000	5,533,000	34,000
Construction	576,000	576,000	106,000	192,000	3,000
Home Equity Line of Credit	231,000	231,000	139,000	231,000	2,000
Consumer	76,000	76,000	76,000	73,000	1,000
	$8,623,000	$8,623,000	$1,621,000	$9,291,000	$ 86,000
Total					
Commercial					
Real estate	$7,482,000	$7,482,000	$593,000	$6,817,000	$ 91,000
Construction	813,000	813,000	-	895,000	16,000
Other	1,604,000	1,604,000	326,000	1,722,000	31,000
Municipal	-	-	-	-	-
Residential	-				
Term	13,948,000	13,948,000	381,000	13,653,000	134,000
Construction	2,248,000	2,248,000	106,000	3,140,000	46,000
Home Equity Line of Credit	604,000	604,000	139,000	548,000	4,000
Consumer	115,000	115,000	76,000	115,000	3,000
	$26,814,000	$26,814,000	$1,621,000	$26,890,000	$ 325,000

A breakdown of impaired loans by category as of December 31, 2010, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Unrecognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$3,531,000	$3,531,000	$-	$3,967,000	$ 232,000
Construction	257,000	257,000	-	271,000	20,000
Other	1,256,000	1,256,000	-	1,484,000	104,000
Municipal	-	-	-	-	-
Residential					
Term	6,804,000	6,804,000	-	7,814,000	436,000
Construction	3,567,000	3,567,000	-	2,573,000	134,000
Home Equity Line of Credit	319,000	319,000	-	196,000	6,000
Consumer	39,000	39,000	-	20,000	3,000
	$15,773,000	$15,773,000	$-	$16,325,000	$ 935,000
With an Allowance Recorded					
Commercial					
Real estate	$2,415,000	$2,415,000	$192,000	$2,925,000	$ 157,000
Construction	680,000	680,000	152,000	305,000	22,000
Other	497,000	497,000	291,000	912,000	60,000
Municipal	-	-	-	-	-
Residential					
Term	5,651,000	5,651,000	432,000	4,869,000	134,000
Construction	-	-	-	281,000	14,000
Home Equity Line of Credit	200,000	200,000	122,000	87,000	3,000
Consumer	67,000	67,000	67,000	132,000	9,000
	$9,510,000	$9,510,000	$1,256,000	$9,511,000	$ 399,000
Total					
Commercial					
Real estate	$5,946,000	$5,946,000	$192,000	$6,892,000	$ 389,000
Construction	937,000	937,000	152,000	576,000	42,000
Other	1,753,000	1,753,000	291,000	2,396,000	164,000
Municipal	-	-	-	-	-
Residential					
Term	12,455,000	12,455,000	432,000	12,683,000	570,000
Construction	3,567,000	3,567,000	-	2,854,000	148,000
Home Equity Line of Credit	519,000	519,000	122,000	283,000	9,000
Consumer	106,000	106,000	67,000	152,000	12,000
	$25,283,000	$25,283,000	$1,256,000	$25,836,000	$ 1,334,000

Note 4. Allowance for Loan Losses

The Company provides for loan losses through the establishment of an allowance for loan losses which represents an estimated reserve for existing losses in the loan portfolio. A systematic methodology is used for determining the allowance that includes a quarterly review process, risk rating changes, and adjustments to the allowance. The loan portfolio is classified in eight segments and credit risk is evaluated separately in each segment. The adequacy of the allowance is evaluated continually based on a review of significant loans, with a particular emphasis on nonaccruing, past due, and other loans that may require special attention. Other factors include general conditions in local and national economies; loan portfolio composition and asset quality indicators; and internal factors such as changes in underwriting policies, credit administration practices, experience, ability and depth of lending management, among others. The allowance consists of four elements: (1) specific reserves for loans evaluated individually for impairment; (2) general reserves for types or portfolios of loans based on historical loan loss experience, (3) qualitative reserves judgmentally adjusted for local and national economic conditions, concentrations, portfolio composition, volume and severity of delinquencies and nonaccrual loans, trends of criticized and classified loans, changes in credit policies, and underwriting standards, credit administration practices, and other factors as applicable; and (4) unallocated reserves. All outstanding loans are considered in evaluating the adequacy of the allowance. A breakdown of the allowance for loan losses as of March 31, 2011, and December 31, 2010, by loan segment and allowance element, is presented in the following tables:

As of March 31, 2011	Specific Reserves Evaluated Individually for Impairment	General Reserves Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 593,000	$ 2,536,000	$ 3,181,000	$ -	$ 6,310,000
Construction	-	284,000	355,000	-	639,000
Other	326,000	980,000	1,229,000	-	2,535,000
Municipal	-	-	19,000	-	19,000
Residential					
Term	381,000	457,000	567,000	-	1,405,000
Construction	106,000	18,000	22,000	-	146,000
Home Equity Line of Credit	139,000	67,000	472,000	-	678,000
Consumer	76,000	380,000	257,000	-	713,000
Unallocated	-	-	-	1,555,000	1,555,000
	$ 1,621,000	$ 4,722,000	$ 6,102,000	$ 1,555,000	$ 14,000,000

As of December 31, 2010	Specific Reserves Evaluated Individually for Impairment	General Reserves Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 192,000	$ 2,183,000	$ 2,885,000	$ -	$ 5,260,000
Construction	152,000	370,000	490,000	-	1,012,000
Other	291,000	899,000	1,187,000	-	2,377,000

Municipal	-	-	19,000	-	19,000
Residential					
Term	432,000	401,000	575,000	-	1,408,000
Construction	-	18,000	26,000	-	44,000
Home Equity Line of Credit	122,000	72,000	476,000	-	670,000
Consumer	67,000	324,000	255,000	-	646,000
Unallocated	-	-	-	1,880,000	1,880,000
	$ 1,256,000	$4,267,000	$5,913,000	$1,880,000	$13,316,000

Commercial loans are comprised of three major categories, commercial real estate loans, commercial construction loans and other commercial loans. Commercial real estate is primarily comprised of loans to small businesses collateralized by owner-occupied real estate, while other commercial is primarily comprised of loans to small businesses collateralized by plant and equipment, commercial fishing vessels and gear, and limited inventory-based lending. Commercial real estate loans typically have a maximum loan-to-value of 75% based upon current appraisal information at the time the loan is made. Construction loans comprise a very small portion of the portfolio, and at 32.0% of capital are well under the regulatory guidance of 100.0% of capital. Construction and non-owner-occupied commercial real estate loans are at 92.0% of total capital, well under regulatory guidance of 300.0% of capital.
Municipal loans are comprised of loans to municipalities in Maine for capitalized expenditures, construction projects or tax-anticipation notes. All municipal loans are considered general obligations of the municipality and as such are collateralized by the taxing ability of the municipality for repayment of debt.
The process of establishing the allowance with respect to our commercial loan portfolio begins when a loan officer initially assigns each loan a risk rating, using established credit criteria. Approximately 50% of our outstanding loans and commitments are subject to review and validation annually by an independent consulting firm, as well as periodically by our internal credit review function. The methodology employs Management's judgment as to the level of losses on existing loans based on our internal review of the loan portfolio, including an analysis of a borrowers' current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers and or lines of business. In determining our ability to collect certain loans, we also consider the fair value of underlying collateral. The risk rating system has nine levels, defined as follows:

1 Strong
Credits rated "1" are characterized by borrowers fully responsible for the credit with excellent capacity to pay principal and interest. Loans rated "1" may be secured with acceptable forms of liquid collateral.
2 Above Average
Credits rated "2" are characterized by borrowers that have better than average liquidity, capitalization, earnings and/or cash flow with a consistent record of solid financial performance.
3 Satisfactory
Credits rated "3" are characterized by borrowers with favorable liquidity, profitability and financial condition with adequate cash flow to pay debt service.
4 Average
Credits rated "4" are characterized by borrowers that present risk more than 1, 2 and 3 rated loans and merit an ordinary level of ongoing monitoring. Financial condition is on par or somewhat below industry averages while cash flow is generally adequate to meet debt service requirements.
5 Watch
Credits rated "5" are characterized by borrowers that warrant greater monitoring due to financial condition or unresolved and identified risk factors.
6 Other Assets Especially Mentioned (OAEM)
Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. OAEM have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date.
7 Substandard
Loans in this category are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank may sustain some loss if the deficiencies are not corrected.
8 Doubtful
Loans classified "Doubtful" have the same weaknesses as those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an

estimated loss is deferred until its more exact status may be determined.

9 Loss

Loans classified "Loss" are considered uncollectable and of such little value that their continuance as bankable assets is not warranted.

The following table summarizes the risk ratings for the Company's commercial construction, commercial real estate, commercial other, and municipal loans as of March 31, 2011:

	Commercial Construction	Commercial Real Estate	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$ -	$ 30,000	$ 462,000	$ 2,448,000	$ 2,940,000
2 Above Average	10,000	21,270,000	4,399,000	11,417,000	37,096,000
3 Satisfactory	10,000	45,331,000	17,258,000	4,023,000	66,622,000
4 Average	14,650,000	120,462,000	40,071,000	2,946,000	178,129,000
5 Watch	5,896,000	26,660,000	12,425,000	-	44,981,000
6 OAEM	3,948,000	18,797,000	6,700,000	-	29,445,000
7 Substandard	4,802,000	31,250,000	20,447,000	-	56,499,000
8 Doubtful	-	-	-	-	-
9 Loss	-	-	-	-	-
Total	$ 29,316,000	$ 263,800,000	$ 101,762,000	$ 20,834,000	$ 415,712,000

The following table summarizes the risk ratings for the Company's commercial construction, commercial real estate, commercial other, and municipal loans as of December 31, 2010:

	Commercial Construction	Commercial Real Estate	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$ -	$ 48,000	$ 395,000	$ 2,481,000	$ 2,924,000
2 Above Average	10,000	20,365,000	4,483,000	11,453,000	36,311,000
3 Satisfactory	4,694,000	42,600,000	16,052,000	4,900,000	68,246,000
4 Average	22,177,000	107,167,000	41,972,000	2,999,000	174,315,000
5 Watch	6,347,000	27,898,000	12,203,000	-	46,448,000
6 OAEM	3,715,000	19,496,000	6,463,000	-	29,674,000
7 Substandard	4,926,000	27,966,000	19,894,000	-	52,786,000
8 Doubtful	-	-	-	-	-
9 Loss	-	-	-	-	-
Total	$ 41,869,000	$ 245,540,000	$ 101,462,000	$ 21,833,000	$ 410,704,000

Residential loans are comprised of two categories: term loans, which include traditional amortizing home mortgages, and construction loans, which include loans for owner-occupied residential construction. Residential loans typically have a 75% to 80% loan to value based upon current appraisal information at the time the loan is made. Home equity loans and lines of credit are typically written to the same underwriting standards. Consumer loans are primarily amortizing loans to individuals collateralized by automobiles, pleasure craft and recreation vehicles, typically with a maximum loan to value of 80%-90% of the purchase price of the collateral. Consumer loans also include a small amount of unsecured short-term time notes to individuals.

Residential loans, consumer loans and home equity lines of credit are segregated into homogeneous pools with similar risk characteristics. Trends and current conditions are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for these segments are consistent with those for the commercial and municipal segments. Certain loans in the residential, home equity lines of credit and consumer segments identified as having the potential for further deterioration are analyzed individually to confirm impairment status, and to determine the need for a specific reserve, however there is no formal rating system used for these segments. Consumer loans greater than 120 days past due are generally charged off. Residential loans 90 days or more past due are placed on non-accrual status unless the loans are both well secured and in the process of collection.

Allowance for loan losses transactions for the quarters ended March 31, 2011 and 2010 and for the year ended December 31, 2010 were as follows:

For the three months ended March 31, 2011	Commercial			Municipal	Residential		Home Equity	Cons
	Real Estate	Construction	Other		Term	Construction	Line of Credit	
Allowance for loan losses:								
Beginning balance	$5,260,000	$1,012,000	$2,377,000	$19,000	$1,408,000	$44,000	$670,000	$646,
Charge offs	289,000	-	161,000	-	457,000	505,000	1,000	100,
Recoveries	5,000	-	17,000	-	3,000	-	-	72,0
Provision	1,334,000	(373,000)	302,000	-	451,000	607,000	9,000	95,0
Ending balance	$6,310,000	$639,000	$2,535,000	$19,000	$1,405,000	$146,000	$678,000	$713,
Ending balance specifically evaluated for impairment	$593,000	$-	$326,000	$-	$381,000	$106,000	$139,000	$76,0
Ending balance collectively evaluated for impairment	$5,717,000	$639,000	$2,209,000	$19,000	$1,024,000	$40,000	$539,000	$637,
Related loan balances:								
Ending balance	$263,800,000	$29,316,000	$101,762,000	$20,834,000	$340,841,000	$13,370,000	$106,172,000	$18,5
Ending balance specifically evaluated for impairment	$7,482,000	$813,000	$1,604,000	$-	$13,948,000	$2,248,000	$604,000	$115,
Ending balance collectively evaluated for impairment	$256,318,000	$28,503,000	$100,158,000	$20,834,000	$326,893,000	$11,122,000	$105,568,000	$18,4

For the three	Commercial	Municipal	Residential	Home Equity	Consu

months ended March 31, 2010	Real Estate	Construction	Other		Term	Construction	Line of Credit	
Allowance for loan losses:								
Beginning balance	$4,986,000	$807,000	$3,363,000	$23,000	$1,198,000	$174,000	$515,000	$717,0
Charge offs	779,000	175,000	316,000	-	271,000	-	-	316,0
Recoveries	-	-	22,000	-	1,000	-	-	80,00
Provision	795,000	293,000	40,000	(2,000)	321,000	313,000	(23,000)	175,0
Ending balance	$5,002,000	$925,000	$3,109,000	$21,000	$1,249,000	$487,000	$492,000	$656,0
Ending balance specifically evaluated for impairment	$510,000	$23,000	$854,000	$-	$199,000	$436,000	$24,000	$69,00
Ending balance collectively evaluated for impairment	$4,492,000	$902,000	$2,255,000	$21,000	$1,050,000	$51,000	$468,000	$587,0
Related loan balances:								
Ending balance	$242,017,000	$49,026,000	$121,669,000	$24,203,000	$362,459,000	$17,879,000	$98,241,000	$19,51
Ending balance specifically evaluated for impairment	$7,345,000	$459,000	$2,901,000	$-	$11,975,000	$3,176,000	$161,000	$69,00
Ending balance collectively evaluated for impairment	$234,672,000	$48,567,000	$118,768,000	$24,203,000	$350,484,000	$14,703,000	$98,080,000	$19,44

For the year ended December 31, 2010		Commercial		Municipal	Residential		Home Equity	Cons
	Real Estate	Construction	Other		Term	Construction	Line of Credit	
Allowance for loan losses:								
Beginning balance	$4,986,000	$807,000	$3,363,000	$23,000	$1,198,000	$174,000	$515,000	$717,
Charge offs	4,005,000	175,000	1,125,000	-	392,000	2,361,000	8,000	951,
Recoveries	4,000	-	69,000	-	4,000	-	-	219,
Provision	4,275,000	380,000	70,000	(4,000)	598,000	2,231,000	163,000	661,
Ending balance	$5,260,000	$1,012,000	$2,377,000	$19,000	$1,408,000	$44,000	$670,000	$646,
Ending balance specifically evaluated for impairment	$192,000	$152,000	$291,000	$-	$432,000	$-	$122,000	$67,0
Ending balance collectively evaluated for impairment	$5,068,000	$860,000	$2,086,000	$19,000	$976,000	$44,000	$548,000	$579,
Related loan balances:								
Ending balance	$245,540,000	$41,869,000	$101,462,000	$21,833,000	$337,927,000	$15,512,000	$105,297,000	$18,1
Ending balance specifically evaluated for impairment	$5,946,000	$937,000	$1,753,000	$-	$12,455,000	$3,567,000	$519,000	$106,
Ending balance collectively evaluated for impairment	$239,594,000	$40,932,000	$99,709,000	$21,833,000	$325,472,000	$11,945,000	$104,778,000	$18,0

A troubled debt restructured ("TDR") constitutes a restructuring of debt if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, Management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender, and
- The Bank has granted a concession; common concession types include maturity date extension, interest rate adjustments to below market pricing, and deferment of payments.

As of March 31, 2011 we had 36 loans with a value of $6.0 million that have been restructured. This compares to 28 loans with a value of $4.4 million classified as TDRs as of March 31, 2010. As of March 31, 2011, nine of the loans classified as TDRs with a total balance of $1.5 million were more than 30 days past due. There are no bankruptcy cases in the current TDRs that Management is aware of.

Note 5 – Stock Options and Stock-Based Compensation

At the 2010 Annual Meeting, shareholders approved the 2010 Equity Incentive Plan (the "2010 Plan"). This reserves 400,000 shares of common stock for issuance in connection with stock options, restricted stock awards and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees and non-employee Directors and promote the success of our business. Such grants and awards will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2010 Plan will qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2010 Plan will qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and will satisfy NASDAQ guidelines relating to equity compensation.

As of March 31, 2011, 7,500 shares of restricted stock had been granted under the 2010 Plan. All of the shares granted will vest five years from the date of grant, and the related compensation cost of $111,000 will be recognized on a straight-line basis over five years. In the first quarter of 2011, $6,000 of expense was recognized for these restricted shares, leaving $105,000 in unrecognized expense as of March 31, 2011. There were no shares granted under the 2010 Plan as of March 31, 2010.

The Company established a shareholder-approved stock option plan in 1995 (the "1995 Plan"), under which the Company granted options to employees for 600,000 shares of common stock. Only incentive stock options were granted under the 1995 Plan. The option price of each option grant was determined by the Options Committee of the Board of Directors, and in no instance was less than the fair market value on the date of the grant. An option's maximum term was ten years from the date of grant, with 50% of the options granted vesting two years from the date of grant and the remaining 50% vesting five years from date of grant. As of January 16, 2005, all options under the 1995 Plan had been granted.

The Company applies the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 "Compensation – Stock Compensation", to stock-based employee compensation. As of December 31, 2010, all outstanding options were fully vested and all compensation cost for options had been recognized. A summary of the status of outstanding stock options as of March 31, 2011 and changes during the three-month period then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2010	55,500	$15.89		

Granted in 2011	-	-		
Exercised in 2011	-	-		
Forfeited in 2011	-	-		
Outstanding at March 31, 2011	55,500	$15.89	3.8	$51
Exercisable at March 31, 2011	55,500	$15.89	3.8	$51

Note 6 – Preferred and Common Stock

Preferred Stock

On January 9, 2009, the Company received $25 million from preferred stock issuance under the U.S. Treasury Capital Purchase Program (the “CPP Shares”) at a purchase price of $1,000 per share. The CPP Shares call for cumulative dividends at a rate of 5.0% per year for the first five years, and at a rate of 9.0% per year in following years, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Incident to such issuance, the Company issued to the U.S. Treasury warrants (the “Warrants”) to purchase up to 225,904 shares of the Company’s common stock at a price per share of $16.60 (subject to adjustment). The CPP Shares and the related Warrants (and any shares of common stock issuable pursuant to the Warrants) are freely transferable by Treasury to third parties and the Company has filed a registration statement with the Securities and Exchange Commission to allow for possible resale of such securities. The CPP Shares qualify as Tier 1 capital on the Company’s books for regulatory purposes and rank senior to the Company’s common stock and senior or at an equal level in the Company’s capital structure to any other shares of preferred stock the Company may issue in the future.

The Company may redeem the CPP Shares at any time using any funds available to the Company, and any redemption would be subject to the prior approval of the Federal Reserve Bank of Boston. The minimum amount that may be redeemed is 25% of the original CPP investment. The CPP Shares are “perpetual” preferred stock, which means that neither Treasury nor any subsequent holder would have a right to require that the Company redeem any of the shares. During the first three years following the Company’s sale of the CPP Shares, the Company is required to obtain Treasury’s consent to increase the dividend per share paid on the Company’s common stock unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties. Also during the first three years following the Company’s sale of the CPP Shares, the Company is required to obtain Treasury’s consent in
order to repurchase any shares of its outstanding stock of any type (other than purchases of common stock or preferred stock ranking junior to the CPP Shares in the ordinary course of the Company’s business and consistent with the Company’s past practices in connection with a benefit plan) unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties.

As a condition to Treasury’s purchase of the CPP Shares, during the time that Treasury holds any equity or debt instrument the Company issued, the Company is required to comply with certain restrictions and other requirements relating to the compensation of the Company’s chief executive officer, chief financial officer and three other most highly compensated executive officers. These restrictions include a prohibition on severance payments to those executive officers upon termination of their employment and a $500,000 limit on the tax deductions the Company can take for compensation expense for each of those executive officers in a single year as well as a prohibition on bonus compensation to such officers other than limited amounts of long-term restricted stock.

In conjunction with the sale of the CPP Shares, the Company also issued warrants to Treasury giving it the right to purchase from the Company 225,904 shares of the Company’s common stock at a price of $16.60 per share. The Warrants have a term of ten years and could be exercised by Treasury or a subsequent holder at any time or from time to time during their term. To the extent they had not previously been exercised, the Warrants would expire after ten years. Treasury will not vote any shares of common stock it receives upon exercise of the Warrants, but that restriction would not apply to third parties to whom Treasury transferred the Warrants. The Warrants (and any common stock issued upon exercise of the Warrants) could be transferred to third parties separately from the CPP Shares. The proceeds from the sale of the CPP Shares were allocated between the CPP Shares and Warrants based on their relative fair values on the issue date. The fair value of the Warrants was determined using the Black-Scholes model which includes the following assumptions: common stock price of $16.60 per share, dividend yield of 4.70%, stock price volatility of 24.43%, and a risk-free interest rate of 2.01%. The discount on the CPP Shares was based on the value that was allocated to the Warrants upon issuance, and is being accreted back to the value of the CPP Shares over a five-year period (the expected life of the shares upon issuance) on a straight-line basis.

Common Stock

As a consequence of the Company's issuance of securities under the U.S. Treasury's Capital Purchase Program ("the CPP"), its ability to repurchase stock while such securities remain outstanding is restricted to purchases from employee benefit plans. In the first three months of 2011, the Company repurchased no common stock.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2011 and 2010:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the three months ended March 31, 2011			
Net income as reported	$ 3,143,000		
Less dividends and amortization of premium on preferred stock	337,000		
Basic EPS: Income available to common shareholders	2,806,000	9,778,756	$0.29
Effect of dilutive securities:			
incentive stock options and restricted stock		8,527	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,806,000	9,787,283	$0.29
For the three months ended March 31, 2010			
Net income as reported	$ 2,684,000		
Less dividends and amortization of premium on preferred stock	337,000		
Basic EPS: Income available to common shareholders	2,347,000	9,750,056	$0.24
Effect of dilutive securities: incentive stock options		4,888	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,347,000	9,754,944	$0.24

All earnings per share calculations have been made using the weighted average number of shares outstanding during the period. The potentially dilutive securities are incentive stock options and unvested shares of restricted stock granted to certain key members of Management and warrants granted to the U.S. Treasury under the CPP. The number of dilutive shares is calculated using the treasury method, assuming that all options and warrants were exercisable at the end of each period. Options and warrants that are out-of-the-money are not considered in the calculation of dilutive earnings per share as the effect would be anti-dilutive.
The following table presents the number of options and warrants outstanding as of March 31, 2011 and 2010 and the amount which are above or below the strike price:

	Outstanding	In-the-Money	Out-of-the-Money
As of March 31, 2011			
Incentive stock options	55,500	13,500	42,000
Warrants issued to U.S. Treasury	225,904	-	225,904
Total dilutive securities	281,404	13,500	267,904
As of March 31, 2010			
Incentive stock options	55,500	13,500	42,000
Warrants issued to U.S. Treasury	225,904	-	225,904
Total dilutive securities	281,404	13,500	267,904

Note 8 – Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed nine months of service. Employees may contribute up to $16,500 of their compensation if under age 50 and $22,000 if age 50 or over, and the Bank may match employee contributions not to exceed 3.0% of compensation depending on contribution level. Subject to a vote of the Board of Directors, the Bank may also make a profit-sharing contribution to the Plan. Such contribution equaled 2.0% of each eligible employee's compensation in 2010. The amount for 2011 has not been

established. The expense related to the 401(k) plan was $102,000 and $96,000 for the three months ended March 31, 2011 and 2010, respectively.

Supplemental Retirement Benefits

The Bank also provides unfunded, non-qualified supplemental retirement benefits for certain officers, payable in installments over 20 years upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a postretirement plan. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental retirement benefits was $73,000 and $54,000 for the three months ended March 31, 2011 and 2010, respectively. As of March 31, 2011, the associated accrued liability included in other liabilities in the balance sheet was $1,656,000 compared to $1,596,000 and $1,463,000 at December 31, 2010 and March 31, 2010, respectively.

Post-Retirement Benefit Plans

The Bank sponsors two post-retirement benefit plans. One plan currently provides a subsidy for health insurance premiums to certain retired employees and a future subsidy for seven active employees who were age 50 and over in 1996. These subsidies are based on years of service and range between $40 and $1,200 per month per person. The other plan provides life insurance coverage to certain retired employees. The Bank also provides health insurance for retired directors. None of these plans are pre-funded. The Company utilizes FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits" to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. The following table sets forth the accumulated postretirement benefit obligation and funded status:

	At March 31,	
	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	$1,796,000	$1,962,000
Service cost	4,000	5,000
Interest cost	29,000	34,000
Benefits paid	(39,000)	(37,000)
Benefit obligation at end of period	1,790,000	1,964,000
Funded status		
Benefit obligation at end of period	(1,790,000)	(1,964,000)
Accrued benefit cost at end of period	$(1,790,000)	$(1,964,000)

The following table sets forth the net periodic pension cost:

	For three months ended March 31,	
	2011	2010
Components of net periodic benefit cost		
Service cost	$4,000	$5,000
Interest cost	29,000	34,000
Amortization of unrecognized transition obligation	7,000	7,000
Amortization of prior service credit	-	(1,000)
Amortization of accumulated losses	5,000	5,000
Net periodic benefit cost	$45,000	$50,000

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) are as follows:

	March 31, 2011	December 31, 2010	March 31, 2010
Unamortized net actuarial loss	$(49,000)	$(49,000)	$(233,000)
Unrecognized transition obligation	(56,000)	(63,000)	(85,000)
	(105,000)	(112,000)	(318,000)
Deferred tax benefit at 35%	37,000	39,000	111,000
Net unrecognized postretirement benefits included in accumulated other comprehensive income (loss)	$(68,000)	$(73,000)	$(207,000)

A weighted average discount rate of 7.0% was used in determining the accumulated benefit obligation and the net periodic benefit cost. The assumed health care cost trend rate is 7.0%. The measurement date for benefit obligations was as of year-end for prior years presented. The expected benefit payments for the second quarter of 2011 are $37,000 and the expected benefit payments for all of 2011 are $147,000. There is no expected contribution for 2011. Plan expense for 2011 is estimated to be $165,000. A 1% change in trend assumptions would create an approximate change in the same direction of approximately $100,000 in the accumulated benefit obligation, $7,000 in the interest cost and $1,400 in the service cost.

Note 9 – Goodwill and Other Intangible Assets

As of December 31, 2010, in accordance FASB ASC Topic 350 “Intangibles – Goodwill and Other,” the Company completed its annual review of goodwill and determined there has been no impairment.

Note 10 – Mortgage Servicing Rights

FASB ASC Topic 940 “Financial Services – Mortgage Banking”, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company’s servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of March 31, 2011, the prepayment assumption using the PSA model was 259, which translates into an anticipated prepayment rate of 15.54%. The discount rate is the quarterly average ten-year U.S. Treasuries plus 5.0%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.
For the three months ended March 31, 2011 and 2010, servicing rights capitalized totaled $198,000 and $119,000, respectively. Servicing rights amortized for the three month periods ended March 31, 2011 and 2010, were $154,000 and $99,000, respectively. The fair value of servicing rights was $2,205,000, $1,684,000 and $1,452,000 at March 31, 2011, December 31, 2010 and March 31, 2010, respectively. At March 31, 2011 and 2010, the Bank serviced loans for others totaling $254.5 million and $231.0 million, respectively. Mortgage servicing rights are included in other assets and detailed in the following table:

	March 31, 2011	December 31, 2010	March 31, 2010
Mortgage servicing rights	$5,927,000	$5,732,000	$5,205,000
Accumulated amortization	(4,417,000)	(4,265,000)	(3,913,000)
Impairment reserve	(20,000)	(23,000)	(68,000)
	$1,490,000	$1,444,000	$1,224,000

Note 11 – Income Taxes

FASB ASC Topic 740 “Income Taxes” defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company’s financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2008 through 2010.

Note 12- Certificates of Deposit

The following table represents the breakdown of Certificates of Deposits at March 31, 2011 and 2010, and at December 31, 2010:

	March 31, 2011	December 31, 2010	March 31, 2010
Certificates of deposit < $100,000	$308,127,000	$231,945,000	$228,670,000
Certificates $100,000 to $250,000	337,018,000	338,452,000	314,010,000
Certificates $250,000 and over	35,440,000	37,792,000	43,637,000
	$680,585,000	$608,189,000	$586,317,000

Note 13 – Reclassifications

Certain items from the prior year were reclassified in the financial statements to conform with the current year presentation. These do not have a material impact on the balance sheet or statement of income presentations.

Note 14 – Fair Value Disclosures

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company’s quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale are recorded at fair value on a recurring basis. Other assets, such as, mortgage servicing rights, loans held for sale, and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with level 1 considered highest and level 3 considered lowest). A brief description of each level follows.
Level 1 – Valuation is based upon quoted prices for identical instruments in active markets.
Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation includes use of discounted cash flow models and similar techniques.

The most significant instruments that the Company fair values include securities which fall into Level 2 in the fair value hierarchy. The securities in the available for sale portfolio are priced by independent providers. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to

develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities.
The following table presents the balances of assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010.

	At March 31, 2011			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$15,943,000	$-	$15,943,000
Mortgage-backed securities	-	253,110,000	-	253,110,000
State and political subdivisions	-	55,081,000	-	55,081,000
Corporate securities	-	923,000	-	923,000
Other equity securities	-	394,000	-	394,000
Total assets	$-	$325,451,000	$-	$325,451,000

	At December 31, 2010			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$16,045,000	$-	$16,045,000
Mortgage-backed securities	-	234,414,000	-	234,414,000
State and political subdivisions	-	41,524,000	-	41,524,000
Corporate securities	-	866,000	-	866,000
Other equity securities	-	380,000	-	380,000
Total assets	$-	$293,229,000	$-	$293,229,000

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

Mortgage Servicing Rights. Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as nonrecurring Level 2.
Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as nonrecurring Level 2.
Other Real Estate Owned. Real estate acquired through foreclosure is initially recorded at market value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.
Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral. As such, the Company records impaired loans as nonrecurring Level 2.

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Other real estate owned is presented net of an allowance of $108,000 at March 31, 2011 and $132,000 at December 31, 2010. Impaired loans measured at fair value only include impaired

loans with a related specific allowance for loan losses and are presented net of specific allowances of $1.6 million at March 31, 2011 and $1.3 million at December 31, 2010.

	At March 31, 2011			
	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$2,205,000	$-	$2,205,000
Loans held for sale	-	450,000	-	450,000
Other real estate owned	-	4,575,000	-	4,575,000
Impaired loans	-	7,002,000	-	7,002,000
Total assets	$-	$14,232,000	$-	$14,232,000

	At December 31, 2010			
	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$1,684,000	$-	$1,684,000
Loans held for sale	-	2,806,000	-	2,806,000
Other real estate owned	-	4,929,000	-	4,929,000
Impaired loans	-	8,254,000	-	8,254,000
Total assets	$-	$17,673,000	$-	$17,673,000

FASB ASC Topic 825 “Financial Instruments”, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The estimated fair values for financial instruments as of March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011		December 31, 2010	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents	$13,700,000	$13,700,000	$13,838,000	$13,838,000
Time deposits in other banks	100,000	100,000	100,000	100,000
Securities available for sale	325,451,000	325,451,000	293,229,000	293,229,000
Securities to be held to maturity	109,936,000	114,051,000	107,380,000	110,366,000
Federal Home Loan Bank and Federal Reserve Bank stock	15,443,000	15,443,000	15,443,000	15,443,000
Loans held for sale	450,000	450,000	2,806,000	2,806,000
Loans (net of allowance for loan losses)	880,684,000	885,204,000	874,280,000	878,856,000
Accrued interest receivable	6,236,000	6,236,000	5,263,000	5,263,000
Financial liabilities				
Deposits	$1,050,257,000	$998,261,000	$974,518,000	$924,903,000
Borrowed funds	217,534,000	222,498,000	257,330,000	262,984,000
Accrued interest payable	814,000	814,000	926,000	926,000

The fair value estimates, methods, and assumptions for the Company’s financial instruments are set forth below.

Cash and Cash Equivalents
The carrying values of cash equivalents and due from banks approximate their relative fair values.

Investment Securities
The fair values of investment securities are estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of restricted equity securities approximate fair values.

Loans and Loans Held for Sale
Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company’s historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments. Fair values for significant non-performing loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, Management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale.

Accrued Interest Receivable
The fair value estimate of this financial instrument approximates the carrying value as this financial instrument has a short maturity. It is the Company’s policy to stop accruing interest on loans for which it is probable that the interest is not collectible. Therefore, this financial instrument has been adjusted for estimated credit loss.

Deposits
The fair value of deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company’s net assets could increase.

Borrowed Funds
The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities.

Accrued Interest Payable
The fair value estimate approximates the carrying amount as this financial instrument has a short maturity.

Off-Balance-Sheet Instruments

Off-balance-sheet instruments include loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at
one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant

portion of the Company's financial instruments, fair value estimates are based on Management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Note 15 – Impact of Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board ("FASB") issued guidance (incorporated in the FASB Accounting Standards Codification ("ASC") via Accounting Standards Update ("ASU") 2010-06, Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements, to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures regarding transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a rollforward of activities, separately reporting purchases, sales, issuance, and settlements, for assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance is effective for annual reporting periods that begin after December 15, 2009, and for interim periods within those annual reporting periods except for the changes to the disclosure of rollforward activities for any Level 3 fair value measurements, which are effective for annual reporting periods that begin after December 15, 2010, and for interim periods within those annual reporting periods. Other than requiring additional disclosures, adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The guidance is effective for interim and annual reporting periods ending after December 15, 2010. Other than requiring additional disclosures, adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This ASU is intended to provide clarification in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. For public entities, this guidance is effective for the first interim or annual reporting period ending on or after June 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Item 2 – Management’s Discussion and Analysis of Financial Condition
and Results of Operations
The First Bancorp, Inc. and Subsidiary

Forward-Looking Statements

This report contains statements that are “forward-looking statements.” We may also make written or oral forward-looking statements in other documents we file with the Secutities and Exchange Commission (“SEC”), in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “outlook,” “will,” “should,” and other expressions that predict or indicate future e and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.
Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectability, default and charge-off rates, changes in the size and nature of the Company’s competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the SEC, may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this quarterly report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.
Although The First Bancorp, Inc. believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company, which attempt to advise interested parties of the facts that affect the Company’s business.

Critical Accounting Policies

Management’s discussion and analysis of the Company’s financial condition is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, goodwill, the valuation of mortgage servicing rights, and other-than-temporary impairment on securities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values

of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from Management's estimates and assumptions under different assumptions or conditions.

Allowance for Loan Losses. Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and

therefore regularly evaluates it for adequacy by taking into consideration factors such as prior loan loss experience, the character and size of the loan portfolio, business and economic conditions and Management's estimation of potential losses. The use of different estimates or assumptions could produce different provisions for loan losses.
Goodwill. Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of goodwill as required under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350 "Intangibles – Goodwill and Other." In addition, goodwill from a purchase acquisition is subject to ongoing periodic impairment tests, which include an evaluation of the ongoing assets, liabilities and revenues from the acquisition and an estimation of the impact of business conditions.
Mortgage Servicing Rights. The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 0.25% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value which is recorded on the balance sheet. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed results in lower valuations of mortgage servicing rights. The valuation also includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.
Other-Than-Temporary Impairment on Securities. One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairments. The evaluation of securities for other-than-temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities' market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest when due.

Use of Non-GAAP Financial Measures

Certain information in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management uses these "non-GAAP" measures in its analysis of the Company's performance and believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods as well as demonstrating the effects of significant gains and charges in the current period. The Company

believes that a meaningful analysis of its financial performance requires an understanding of the factors underlying that performance. Management believes that investors may use these non-GAAP financial measures to analyze financial performance without the impact of unusual items that may obscure trends in the Company's underlying performance. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are
they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

In several places net interest income is presented on a fully taxable equivalent basis. Specifically included in interest income was tax-exempt interest income from certain investment securities and loans. An amount equal to the tax benefit derived from this tax exempt income has been added back to the interest income total, which adjustments increased net interest income accordingly. Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax-equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another, as each will have a different proportion of tax-exempt interest from its earning assets. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices. The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements prepared in accordance with GAAP. A 35.0% tax rate was used in both 2011 and 2010.

	For the three months ended March 31,	
In thousands of dollars	2011	2010
Net interest income as presented	$10,505	$10,021
Effect of tax-exempt income	609	560
Net interest income, tax equivalent	$11,114	$10,581

The Company presents its efficiency ratio using non-GAAP information. The GAAP-based efficiency ratio is noninterest expenses divided by net interest income plus noninterest income from the Consolidated Statements of Income. The non-GAAP efficiency ratio excludes securities losses and other-than-temporary impairment charges from noninterest expenses, excludes securities gains from noninterest income, and adds the tax-equivalent adjustment to net interest income. The following table provides a reconciliation between the GAAP and non-GAAP efficiency ratio:

	For the three months ended March 31,	
In thousands of dollars	2011	2010
Non-interest expense, as presented	$6,488	$6,282
Net securities losses	-	-
Adjusted non-interest expense	6,488	6,282
Net interest income, as presented	10,505	10,021
Effect of tax-exempt income	609	560
Non-interest income, as presented	2,277	2,175
Effect of non-interest tax-exempt income	47	47
Net securities gains	-	2
Adjusted net interest income plus non-interest income	$13,438	$12,805
Non-GAAP efficiency ratio	48.28 %	49.06 %
GAAP efficiency ratio	50.76 %	51.51 %

The Company presents certain information based upon tangible average shareholders' equity instead of total average shareholders' equity. The difference between these measures is the Company's intangible assets, specifically goodwill from prior acquisitions. Management, banking regulators and many stock analysts use the tangible common equity

ratio and the tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method in accounting for mergers and acquisitions. The following table provides a reconciliation of tangible average shareholders' equity to the Company's consolidated
financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles:

In thousands of dollars	For the three months ended March 31, 2011	2010
Average shareholders' equity as presented	$151,969	$149,911
Less preferred stock	(24,705)	(24,606)
Less intangible assets	(27,684)	(27,684)
Average tangible common equity	$99,580	$97,621

Executive Summary

Net income for the first three months of 2011 was $3.1 million, up $459,000 or 17.1% from the $2.7 million posted for the same period in 2010. Earnings per common share on a fully diluted basis were $0.29 for the three-months ended March 31, 2011, up $0.05 or 20.8% from the $0.24 posted for the same period in 2010. The Company saw a $66,000 or 2.1% increase in earnings from the previous quarter and earnings per common share on a fully diluted basis were up $0.01 to $0.29 from $0.28.

Net interest income on a tax-equivalent basis was up $533,000 or 5.0% in the first quarter of 2011 compared to the same period in 2010. The increase was attributable to increased levels of earning assets. This was somewhat reduced, however, as a result of our interest margin slipping from 3.51% in 2010 to 3.40% in 2011. The yield on our assets dropped 32 bps year-over-year while our funding cost was down only 22 bps.

While we continue to be in the longest and worst economic downturn since the Great Depression of the 1930's, the Company feels that the deteriorating trend in credit quality experienced during the past three years has been relatively stable for the past three quarters. Non-performing loans stood at 2.51% of total loans as of March 31, 2011 compared to 2.46% as of March 31, 2010 and 2.39% as of December 31, 2010. This compares favorably to nonperforming loans at 3.39% for our peer group as of December 31, 2010, the latest data available from the Uniform Bank Performance Report ("UBPR peer group"). Net chargeoffs were $1.4 million or 0.64% of average loans on an annualized basis for the first three months of 2011, down from net chargeoffs of $1.8 million or 0.76% of average loans on an annualized basis for the first three months of 2010.

The slump in the housing market is continuing and the national unemployment rate is at 8.8% as of March 31, 2011. Fortunately, the unemployment rate in Maine, at