First Bancorp, Inc /ME/
Form 10-Q
August 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 June 30, 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 August 9, 2011
Common Stock: 9,797,850 shares

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Part I. Financial Information

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

Dollars in thousands, except for per share amounts	For the six months ended June 30, 2011		For the six months ended June 30, 2010		For the quarters ended June 30, 2011		For the quarters ended June 30, 2010	
Summary of Operations								
Interest Income	$28,251		$28,348		$13,997		$14,215	
Interest Expense	7,523		8,370		3,774		4,258	
Net Interest Income	20,728		19,978		10,223		9,957	
Provision for Loan Losses	4,100		4,500		2,000		2,100	
Non-Interest Income	4,511		4,457		2,234		2,282	
Non-Interest Expense	12,738		12,177		6,250		5,895	
Net Income	6,336		5,844		3,193		3,160	
Per Common Share Data								
Basic Earnings per Share	$0.58		$0.53		$0.29		$0.29	
Diluted Earnings per Share	0.58		0.53		0.29		0.29	
Cash Dividends Declared	0.390		0.390		0.195		0.195	
Book Value per Common Share	13.42		12.89		13.42		12.89	
Tangible Book Value per Common Share	10.60		10.05		10.60		10.05	
Market Value	14.86		13.13		14.86		13.13	
Financial Ratios								
Return on Average Equity1	9.90	%	9.38	%	9.78	%	10.05	%
Return on Average Tangible Equity1,2	11.26	%	10.64	%	11.09	%	11.50	%
Return on Average Assets1	0.90	%	0.88	%	0.89	%	0.94	%
Average Equity to Average Assets	10.78	%	11.25	%	10.80	%	11.21	%
Average Tangible Equity to Average Assets2	8.84	%	9.18	%	8.88	%	9.15	%
Net Interest Margin Tax-Equivalent1,2	3.31	%	3.41	%	3.22	%	3.35	%
Dividend Payout Ratio	67.24	%	73.58	%	67.24	%	67.24	%
Allowance for Loan Losses/Total Loans	1.70	%	1.52	%	1.70	%	1.52	%
Non-Performing Loans to Total Loans	2.49	%	2.53	%	2.49	%	2.53	%
Non-Performing Assets to Total Assets	2.10	%	2.14	%	2.10	%	2.14	%
Efficiency Ratio2	47.47	%	47.46	%	46.66	%	45.86	%
At Period End								
Total Assets	$1,417,690		$1,326,275		$1,417,690		$1,326,275	
Total Loans	886,929		932,010		886,929		932,010	
Total Investment Securities	442,691		294,584		442,691		294,584	
Total Deposits	998,838		949,501		998,838		949,501	
Total Shareholders’ Equity	156,210		150,445		156,210		150,445	

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 June 30, 2011 and 2010 and for the three-month and six-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
August 9, 2011

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

	June 30, 2011	December 31, 2010	June 30, 2010
Assets			
Cash and cash equivalents	$14,322,000	$13,838,000	$22,219,000
Time deposits in other banks	100,000	100,000	-
Securities available for sale	304,278,000	293,229,000	149,249,000
Securities to be held to maturity (fair value of $128,426,000 at June 30, 2011, $110,366,000 at December 31, 2010 and $134,249,000 at June 30, 2010)	122,970,000	107,380,000	129,892,000
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	419,000	2,806,000	3,426,000
Loans	886,929,000	887,596,000	932,010,000
Less allowance for loan losses	15,034,000	13,316,000	14,165,000
Net loans	871,895,000	874,280,000	917,845,000
Accrued interest receivable	6,511,000	5,263,000	6,536,000
Premises and equipment	18,351,000	18,980,000	18,739,000
Other real estate owned	7,723,000	4,929,000	4,794,000
Goodwill	27,684,000	27,684,000	27,684,000
Other assets	27,994,000	29,870,000	30,448,000
Total assets	$1,417,690,000	$1,393,802,000	$1,326,275,000
Liabilities			
Demand deposits	$71,517,000	$74,032,000	$62,821,000
NOW deposits	117,064,000	119,823,000	112,256,000
Money market deposits	69,681,000	71,604,000	77,231,000
Savings deposits	107,278,000	100,870,000	95,686,000
Certificates of deposit	633,298,000	608,189,000	601,507,000
Total deposits	998,838,000	974,518,000	949,501,000
Borrowed funds – short term	119,170,000	127,160,000	103,771,000
Borrowed funds – long term	130,166,000	130,170,000	110,173,000
Other liabilities	13,306,000	12,106,000	12,385,000
Total Liabilities	1,261,480,000	1,243,954,000	1,175,830,000
Shareholders' equity			
Preferred stock, $1,000 preference value per share	24,754,000	24,705,000	24,655,000
Common stock, one cent par value per share	98,000	98,000	98,000
Additional paid-in capital	45,629,000	45,474,000	45,298,000
Retained earnings	83,594,000	81,701,000	79,864,000
Accumulated other comprehensive income (loss)			
Net unrealized gain (loss) on securities available-for-sale	2,198,000	(2,057,000)	732,000
Net unrealized loss on postretirement benefit costs	(63,000)	(73,000)	(202,000)
Total shareholders' equity	156,210,000	149,848,000	150,445,000
Total liabilities & shareholders' equity	$1,417,690,000	$1,393,802,000	$1,326,275,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,793,706	9,773,025	9,758,218
Book value per common share	$13.42	$12.80	$12.89
Tangible book value per common share	$10.60	$9.97	$10.05

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 six months ended June 30,		For the quarters ended June 30,	
	2011	2010	2011	2010
Interest income				
Interest and fees on loans	$20,128,000	$22,206,000	$9,955,000	$11,056,000
Interest on deposits with other banks	3,000	2,000	1,000	-
Interest and dividends on investments	8,120,000	6,140,000	4,041,000	3,159,000
Total interest income	28,251,000	28,348,000	13,997,000	14,215,000
Interest expense				
Interest on deposits	5,081,000	5,051,000	2,518,000	2,571,000
Interest on borrowed funds	2,442,000	3,319,000	1,256,000	1,687,000
Total interest expense	7,523,000	8,370,000	3,774,000	4,258,000
Net interest income	20,728,000	19,978,000	10,223,000	9,957,000
Provision for loan losses	4,100,000	4,500,000	2,000,000	2,100,000
Net interest income after provision for loan losses	16,628,000	15,478,000	8,223,000	7,857,000
Non-interest income				
Investment management and fiduciary income	782,000	787,000	358,000	376,000
Service charges on deposit accounts	1,351,000	1,505,000	711,000	796,000
Net securities gains	229,000	2,000	229,000	-
Mortgage origination and servicing income	652,000	613,000	193,000	335,000
Other operating income	1,497,000	1,550,000	743,000	775,000
Total non-interest income	4,511,000	4,457,000	2,234,000	2,282,000
Non-interest expense				
Salaries and employee benefits	6,005,000	5,553,000	2,928,000	2,808,000
Occupancy expense	827,000	776,000	378,000	382,000
Furniture and equipment expense	1,111,000	1,121,000	561,000	540,000
FDIC insurance premiums	806,000	952,000	405,000	477,000
Amortization of identified intangibles	141,000	142,000	70,000	71,000
Other operating expense	3,848,000	3,633,000	1,908,000	1,617,000
Total non-interest expense	12,738,000	12,177,000	6,250,000	5,895,000
Income before income taxes	8,401,000	7,758,000	4,207,000	4,244,000
Applicable income taxes	2,065,000	1,914,000	1,014,000	1,084,000
NET INCOME	$6,336,000	$5,844,000	$3,193,000	$3,160,000
Less dividends & premium amortization on preferred stock	674,000	674,000	337,000	337,000
Net income available to common shareholders	$5,662,000	$5,170,000	$2,856,000	$2,823,000
Basic earnings per common share	$0.58	$0.53	$0.29	$0.29
Diluted earnings per common share	$0.58	$0.53	$0.29	$0.29
Weighted average number of common shares outstanding	9,781,766	9,753,500	9,784,743	9,756,907
Incremental shares	10,399	5,009	12,238	5,128
Cash dividends declared per common share	$0.390	$0.390	$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 Shares	Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2009	$24,606,000	9,744,170	$45,218,000	$78,450,000	$ (336,000)	$147,938,000
Net income	-	-	-	5,844,000	-	5,844,000
Net unrealized gain on securities available for sale, net of taxes of $461,000	-	-	-	-	857,000	857,000
Unrecognized transition obligation for postretirement benefits, net of taxes of $6,000	-	-	-	-	9,000	9,000
Comprehensive income	-	-	-	5,844,000	866,000	6,710,000
Cash dividends declared	-	-	-	(4,430,000)	-	(4,430,000)
Equity compensation expense	-	-	19,000	-	-	19,000
Amortization of premium for preferred stock issuance	49,000	-	(49,000)	-	-	-
Proceeds from sale of common stock	-	14,048	208,000	-	-	208,000
Balance at June 30, 2010	$24,655,000	9,758,218	$45,396,000	$79,864,000	$ 530,000	$150,445,000
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	-	-	-	6,336,000	-	6,336,000
Net unrealized gain on securities available for sale, net of taxes of $2,291,000	-	-	-	-	4,255,000	4,255,000
Unrecognized transition obligation for postretirement benefits, net of taxes of $5,000	-	-	-	-	10,000	10,000
Comprehensive income	-	-	-	6,336,000	4,265,000	10,601,000
Cash dividends declared	-	-	-	(4,443,000)	-	(4,443,000)
Equity compensation expense	-	-	11,000	-	-	11,000
Amortization of premium for preferred stock issuance	49,000	-	(49,000)	-	-	-
Proceeds from sale of common stock	-	20,681	193,000	-	-	193,000

Balance at June 30, 2011	$24,754,000	9,793,706	$45,727,000	$83,594,000	$ 2,135,000	$156,210,000

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 six months ended June 30, 2011	June 30, 2010
Cash flows from operating activities		
Net income	$6,336,000	$5,844,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	681,000	726,000
Change in deferred taxes	(374,000)	192,000
Provision for loan losses	4,100,000	4,500,000
Loans originated for resale	(20,502,000)	(21,553,000)
Proceeds from sales and transfers of loans	22,889,000	21,003,000
Net gain on sale or call of securities available for sale	(229,000)	(2,000)
Net loss (gain) on sale of other real estate owned	47,000	(19,000)
Provision for losses on other real estate owned	145,000	164,000
Equity compensation expense	11,000	19,000
Net increase in other assets and accrued interest	(482,000)	(2,429,000)
Net increase in other liabilities	66,000	895,000
Net loss on disposal of premises and equipment	5,000	-
Net amortization (accretion) of premiums on investments	2,048,000	(203,000)
Amortization of investment in limited partnership	195,000	150,000
Net acquisition amortization	103,000	244,000
Net cash provided by operating activities	15,039,000	9,531,000
Cash flows from investing activities		
Proceeds from sales of securities available for sale	75,176,000	202,000
Proceeds from maturities, payments and calls of securities available for sale	26,723,000	35,132,000
Proceeds from maturities, payments and calls of securities to be held to maturity	10,441,000	60,755,000
Proceeds from sales of other real estate owned	992,000	1,963,000
Purchases of securities available for sale	(107,910,000)	(101,332,000)
Purchases of securities to be held to maturity	(26,342,000)	-
Net (increase) decrease in loans	(5,693,000)	14,953,000
Capital expenditures	(57,000)	(1,134,000)
Net cash provided by (used in) investing activities	(26,670,000)	10,539,000
Cash flows from financing activities		
Net decrease in demand, savings, and money market accounts	(789,000)	(18,576,000)
Net increase in certificates of deposit	25,141,000	45,442,000
Advances on long-term borrowings	-	10,000,000
Net decrease in short-term borrowings	(7,987,000)	(45,827,000)
Proceeds from sale of common stock	193,000	208,000
Dividends paid	(4,443,000)	(4,430,000)
Net cash provided (used) by financing activities	12,115,000	(13,183,000)
Net increase in cash and cash equivalents	484,000	6,887,000
Cash and cash equivalents at beginning of year	13,838,000	15,332,000
Cash and cash equivalents at end of period	$14,322,000	$22,219,000
Interest paid	$7,594,000	$8,313,000
Income taxes paid	1,297,000	1,210,000
Non-cash transactions		
Transfer from loans to other real estate owned	3,978,000	1,557,000

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 ("GAAP") 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 GAAP 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 June 30, 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 June 30, 2011:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$15,324,000	$799,000	$-	$16,123,000
Mortgage-backed securities	220,245,000	2,548,000	(1,269,000)	221,524,000
State and political subdivisions	63,696,000	1,573,000	(107,000)	65,162,000
Corporate securities	1,105,000	-	(169,000)	936,000
Other equity securities	527,000	26,000	(20,000)	533,000
	$300,897,000	$4,946,000	$(1,565,000)	$304,278,000
Securities to be held to maturity				
U.S. Treasury and agency	$12,970,000	$-	$(186,000)	$12,784,000
Mortgage-backed securities	60,836,000	3,626,000	(37,000)	64,425,000
State and political subdivisions	48,864,000	2,399,000	(346,000)	50,917,000
Corporate securities	300,000	-	-	300,000
	$122,970,000	$6,025,000	$(569,000)	$128,426,000
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 June 30, 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	$5,032,000	$4,941,000	$227,000	$227,000
Due in 1 to 5 years	7,623,000	7,904,000	10,633,000	11,147,000
Due in 5 to 10 years	25,845,000	26,099,000	23,562,000	24,623,000
Due after 10 years	261,870,000	264,801,000	88,548,000	92,429,000
Equity securities	527,000	533,000	-	-
	$300,897,000	$304,278,000	$122,970,000	$128,426,000

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 June 30, 2011, securities with a fair value of $132.8 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 six months ended June 30, 2011 and 2010:

	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Proceeds from sales	$75,176,000	$202,000
Gross gains	$957,000	$2,000
Gross losses	(728,000)	-
Net gain	$229,000	$2,000
Related income taxes	$80,000	$1,000

Management reviews securities with unrealized losses for other than temporary impairment. As of June 30, 2011, there were 65 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 11 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 June 30, 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	$12,784,000	$(186,000)	$-	$-	$12,784,000	$(186,000)
Mortgage-backed securities	71,157,000	(1,044,000)	3,681,000	(262,000)	74,838,000	(1,306,000)
State and political subdivisions	12,050,000	(142,000)	1,489,000	(311,000)	13,539,000	(453,000)
Corporate securities	-	-	936,000	(169,000)	936,000	(169,000)
Other equity securities	247,000	(15,000)	48,000	(5,000)	295,000	(20,000)
	$96,238,000	$(1,387,000)	$6,154,000	$(747,000)	$102,392,000	$(2,134,000)

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)
State and political subdivisions	44,513,000	(2,307,000)	1,355,000	(407,000)	45,868,000	(2,714,000)

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 June 30, 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 each of the first and second quarters of 2011, FHLB's board of directors declared a dividend equal to an annual yield of 0.30 percent. 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 June 30, 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 June 30, 2011 and 2010 and at December 31, 2010:

	June 30, 2011			December 31, 2010			June 30, 2010		
Commercial									
Real estate	$263,337,000	29.7	%	$245,540,000	27.7	%	$260,799,000	28.0	%
Construction	29,386,000	3.3	%	41,869,000	4.7	%	35,932,000	3.9	%
Other	102,499,000	11.6	%	101,462,000	11.4	%	113,831,000	12.2	%
Municipal	19,974,000	2.3	%	21,833,000	2.5	%	23,795,000	2.6	%
Residential									
Term	335,807,000	37.9	%	337,927,000	38.1	%	359,774,000	38.4	%
Construction	11,063,000	1.2	%	15,512,000	1.7	%	18,302,000	2.0	%
Home equity line of credit	107,224,000	12.0	%	105,297,000	11.9	%	100,450,000	10.8	%
Consumer	17,639,000	2.0	%	18,156,000	2.0	%	19,127,000	2.1	%
Total loans	$886,929,000	100.0	%	$887,596,000	100.0	%	$932,010,000	100.0	%

Loan balances include net deferred loan costs of $1.4 million as of June 30, 2011 and $1.3 million as of December 31, 2010. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $180.8 million at June 30, 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 $329.7 million at June 30, 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 $22.0 million at June 30, 2011, $21.2 million at December 31, 2010 and $23.6 million at June 30, 2010. Loans past due 90 days or greater which are accruing interest totaled $355,000 at June 30, 2011, $1,116,000 at December 31, 2010 and $1,394,000 at June 30, 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 June 30, 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	$2,227,000	$4,051,000	$6,278,000	$257,059,000	$263,337,000	$-
Construction	117,000	-	117,000	29,269,000	29,386,000	-
Other	544,000	997,000	1,541,000	100,958,000	102,499,000	38,000
Municipal	-	-	-	19,974,000	19,974,000	-
Residential						
Term	6,093,000	9,916,000	16,009,000	319,798,000	335,807,000	309,000
Construction	-	334,000	334,000	10,729,000	11,063,000	-
Home equity line of credit	868,000	740,000	1,608,000	105,616,000	107,224,000	-
Consumer	258,000	8,000	266,000	17,373,000	17,639,000	8,000
Total	$10,107,000	$16,046,000	$26,153,000	$860,776,000	$886,929,000	$355,000

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 June 30, 2011 and 2010 and at December 31, 2010 is presented in the following table:

	June 30, 2011	December 31, 2010	June 30, 2010
Commercial			
Real estate	$6,746,000	$5,946,000	$7,333,000
Construction	771,000	937,000	472,000
Other	2,095,000	1,753,000	2,505,000
Municipal	-	-	-
Residential			
Term	11,260,000	8,347,000	9,865,000
Construction	334,000	3,567,000	2,936,000
Home Equity Line of Credit	740,000	519,000	170,000
Consumer	103,000	106,000	326,000
Total	$22,049,000	$21,175,000	$23,607,000

Information regarding impaired loans is as follows:

	June 30, 2011	December 31, 2010	June 30, 2010
Balance of impaired loans	$26,981,000	$25,283,000	$26,599,000
Less portion for which no allowance for loan losses is allocated	(19,368,000)	(15,773,000)	(16,644,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	$7,613,000	$9,510,000	$9,955,000
Portion of allowance for loan losses allocated to the impaired loan balance	$1,965,000	$1,256,000	$2,062,000

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 and for the three- and six-month periods ended June 30, 2011, is presented in the following table:

				For six months ended June 30, 2011		For the quarter ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Un-Recognized Interest Income	Average Recorded Investment	Un-Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate	$5,841,000	$5,841,000	$-	$5,151,000	$ 143,000	$5,738,000	$ 80,000
Construction	772,000	772,000	-	617,000	22,000	790,000	14,000
Other	1,056,000	1,056,000	-	1,118,000	41,000	1,064,000	20,000
Municipal	-	-	-	-	-	-	-
Residential							
Term	10,818,000	10,818,000	-	8,957,000	226,000	9,785,000	126,000
Construction	334,000	334,000	-	1,641,000	47,000	348,000	4,000
Heloc	509,000	509,000	-	417,000	6,000	516,000	4,000
Consumer	38,000	38,000	-	40,000	3,000	38,000	1,000
	$19,368,000	$19,368,000	$-	$17,941,000	$ 488,000	$18,279,000	$ 249,000
With an Allowance Recorded							
Commercial							
Real estate	$905,000	$905,000	$613,000	$2,021,000	$ 52,000	$1,785,000	$ 24,000
Construction	-	-	-	227,000	8,000	3,000	-
Other	1,039,000	1,039,000	857,000	652,000	21,000	754,000	11,000
Municipal	-	-	-	-	-	-	-
Residential							
Term	5,373,000	5,373,000	265,000	5,254,000	65,000	4,978,000	31,000
Construction	-	-	-	192,000	5,000	192,000	2,000
Heloc	231,000	231,000	165,000	256,000	4,000	281,000	2,000
Consumer	65,000	65,000	65,000	69,000	2,000	65,000	1,000
	$7,613,000	$7,613,000	$1,965,000	$8,671,000	$ 157,000	$8,058,000	$ 71,000
Total							
Commercial							
Real estate	$6,746,000	$6,746,000	$613,000	$7,171,000	$ 195,000	$7,521,000	$ 104,000
Construction	772,000	772,000	-	844,000	29,000	793,000	13,000
Other	2,095,000	2,095,000	857,000	1,770,000	63,000	1,816,000	31,000
Municipal	-	-	-	-	-	-	-
Residential							
Term	16,191,000	16,191,000	265,000	14,210,000	290,000	14,761,000	156,000
Construction	334,000	334,000	-	1,833,000	52,000	539,000	6,000
Heloc	740,000	740,000	165,000	673,000	10,000	797,000	6,000
Consumer	103,000	103,000	65,000	109,000	5,000	103,000	2,000
	$26,981,000	$26,981,000	$1,965,000	$26,610,000	$ 644,000	$26,330,000	$ 318,000

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 June 30, 2011, and December 31, 2010, by loan segment and allowance element, is presented in the following tables:

As of June 30, 2011	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 613,000	$ 2,463,000	$ 3,851,000	$ -	$ 6,927,000
Construction	-	274,000	428,000	-	702,000
Other	857,000	962,000	1,504,000	-	3,323,000
Municipal	-	-	19,000	-	19,000
Residential					
Term	265,000	505,000	586,000	-	1,356,000
Construction	-	16,000	19,000	-	35,000
Home Equity Line of Credit	165,000	85,000	402,000	-	652,000
Consumer	65,000	264,000	335,000	-	664,000
Unallocated	-	-	-	1,356,000	1,356,000
	$ 1,965,000	$ 4,569,000	$ 7,144,000	$ 1,356,000	$ 15,034,000

As of December 31, 2010	Specific Reserves on Loans 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 30.0% of capital are well under the regulatory guidance of 100.0% of capital. Construction and non-owner-occupied commercial real estate loans are at 90.0% 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 June 30, 2011:

	Commercial Construction	Commercial Real Estate	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$ -	$ 29,000	$ 467,000	$ 2,341,000	$ 2,837,000
2 Above Average	10,000	21,021,000	3,657,000	10,772,000	35,460,000
3 Satisfactory	1,616,000	40,346,000	15,714,000	3,985,000	61,661,000
4 Average	12,894,000	114,124,000	41,208,000	2,876,000	171,102,000
5 Watch	6,293,000	38,095,000	15,042,000	-	59,430,000
6 OAEM	4,015,000	19,572,000	6,338,000	-	29,925,000
7 Substandard	4,558,000	30,150,000	20,067,000	-	54,775,000
8 Doubtful	-	-	6,000	-	6,000
9 Loss	-	-	-	-	-
Total	$ 29,386,000	$ 263,337,000	$ 102,499,000	$ 19,974,000	$ 415,196,000

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	-	-	-	-	-