First Bancorp, Inc /ME/
Form 10-Q
May 10, 2012

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, 2012

Commission File Number 0-26589

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

MAINE (State or other jurisdiction of incorporation or organization)	01-0404322 (I.R.S. Employer Identification No.)
MAIN STREET, DAMARISCOTTA, MAINE (Address of principal executive offices)	04543 (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 1, 2012
Common Stock: 9,840,586 shares

Table of Contents

Part I. Financial Information

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

Dollars in thousands, except for per share amounts	As of and for the three months ended March 31, 2012	2011
Summary of Operations		
Interest Income	$13,106	$14,254
Interest Expense	3,300	3,749
Net Interest Income	9,806	10,505
Provision for Loan Losses	2,100	2,100
Non-Interest Income	2,168	2,277
Non-Interest Expense	6,178	6,488
Net Income	2,913	3,143
Per Common Share Data		
Basic Earnings per Share	$0.28	$0.29
Diluted Earnings per Share	0.28	0.29
Cash Dividends Declared	0.195	0.195
Book Value per Common Share	14.15	12.96
Tangible Book Value per Common Share	11.34	10.13
Market Value	14.83	15.25
Financial Ratios		
Return on Average Equity1	8.30 %	10.02 %
Return on Average Tangible Equity1,2	9.68 %	11.43 %
Return on Average Assets1	0.84 %	0.90 %
Average Equity to Average Assets	10.95 %	10.76 %
Average Tangible Equity to Average Assets2	8.98 %	8.80 %
Net Interest Margin Tax-Equivalent1,2	3.22 %	3.40 %
Dividend Payout Ratio	69.64 %	67.24 %
Allowance for Loan Losses/Total Loans	1.49 %	1.56 %
Non-Performing Loans to Total Loans	2.81 %	2.51 %
Non-Performing Assets to Total Assets	2.01 %	1.89 %
Efficiency Ratio2	50.40 %	48.28 %
At Period End		
Total Assets	$1,423,792	$1,431,038
Total Loans	870,892	894,684
Total Investment Securities	469,540	450,830
Total Deposits	1,015,835	1,050,257
Total Shareholders' Equity	151,593	151,544

1Annualized using a 366-day basis in 2012 and 365-day basis in 2011
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, 2012 and 2011 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 consolidated 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 10, 2012

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

	March 31, 2012	December 31, 2011	March 31, 2011
Assets			
Cash and cash equivalents	$12,123,000	$14,115,000	$13,700,000
Interest bearing deposits in other banks	1,532,000	-	100,000
Securities available for sale	317,111,000	286,202,000	325,451,000
Securities to be held to maturity (fair value of $144,633,000 at March 31, 2012, $130,677,000 at December 31, 2011 and $114,051,000 at March 31, 2011)	137,606,000	122,661,000	109,936,000
Federal Reserve Bank stock, at cost	1,411,000	1,411,000	1,411,000
Federal Home Loan Bank stock, at cost	13,412,000	14,032,000	14,032,000
Loans held for sale	184,000	-	450,000
Loans	870,892,000	864,988,000	894,684,000
Less allowance for loan losses	12,954,000	13,000,000	14,000,000
Net loans	857,938,000	851,988,000	880,684,000
Accrued interest receivable	5,690,000	4,835,000	6,236,000
Premises and equipment, net	18,722,000	18,842,000	18,685,000
Other real estate owned	4,214,000	4,094,000	4,575,000
Goodwill	27,684,000	27,684,000	27,684,000
Other assets	26,165,000	27,003,000	28,094,000
Total assets	$1,423,792,000	$1,372,867,000	$1,431,038,000
Liabilities			
Demand deposits	$69,520,000	$75,750,000	$67,502,000
NOW deposits	120,844,000	122,775,000	120,045,000
Money market deposits	75,752,000	79,015,000	73,766,000
Savings deposits	118,946,000	114,617,000	108,359,000
Certificates of deposit	630,773,000	549,176,000	680,585,000
Total deposits	1,015,835,000	941,333,000	1,050,257,000
Borrowed funds – short term	109,990,000	135,500,000	87,366,000
Borrowed funds – long term	130,161,000	130,163,000	130,168,000
Other liabilities	16,213,000	15,013,000	11,703,000
Total liabilities	1,272,199,000	1,222,009,000	1,279,494,000
Shareholders' equity			
Preferred stock, $1,000 preference value per share	12,328,000	12,303,000	24,729,000
Common stock, one cent par value per share	98,000	98,000	98,000
Additional paid-in capital	46,011,000	45,829,000	45,551,000
Retained earnings	86,150,000	85,314,000	82,623,000
Accumulated other comprehensive income (loss)			
Net unrealized gain (loss) on securities available-for-sale	7,088,000	7,401,000	(1,389,000)
Net unrealized loss on postretirement benefit costs	(82,000)	(87,000)	(68,000)
Total shareholders' equity	151,593,000	150,858,000	151,544,000
Total liabilities & shareholders' equity	$1,423,792,000	$1,372,867,000	$1,431,038,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,839,760	9,812,180	9,786,964
Book value per common share	$14.15	$14.12	$12.96
Tangible book value per common share	$11.34	$11.30	$10.13

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

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

	For the three months ended March 31, 2012	2011
Interest income		
Interest and fees on loans	$9,392,000	$10,173,000
Interest on deposits with other banks	-	2,000
Interest and dividends on investments	3,714,000	4,079,000
Total interest income	13,106,000	14,254,000
Interest expense		
Interest on deposits	2,193,000	2,563,000
Interest on borrowed funds	1,107,000	1,186,000
Total interest expense	3,300,000	3,749,000
Net interest income	9,806,000	10,505,000
Provision for loan losses	2,100,000	2,100,000
Net interest income after provision for loan losses	7,706,000	8,405,000
Non-interest income		
Investment management and fiduciary income	396,000	424,000
Service charges on deposit accounts	638,000	640,000
Net securities gains	523,000	-
Mortgage origination and servicing income, net of amortization	(156,000)	459,000
Other operating income	767,000	754,000
Total non-interest income	2,168,000	2,277,000
Non-interest expense		
Salaries and employee benefits	3,084,000	3,077,000
Occupancy expense	414,000	449,000
Furniture and equipment expense	573,000	550,000
FDIC insurance premiums	301,000	401,000
Amortization of identified intangibles	71,000	71,000
Other operating expense	1,735,000	1,940,000
Total non-interest expense	6,178,000	6,488,000
Income before income taxes	3,696,000	4,194,000
Applicable income taxes	783,000	1,051,000
NET INCOME	$2,913,000	$3,143,000
Basic earnings per common share	$0.28	$0.29
Diluted earnings per common share	$0.28	$0.29
Other comprehensive income (loss), net of tax		
Net unrealized gain (loss) on securities available for sale, net of tax benefit of $168,000 in 2012 and taxes of $363,000 in 2011	$(313,000)	$668,000
Unrecognized transition obligation for postretirement benefits, net of taxes of $2,000 in 2012 and $2,000 in 2011	5,000	5,000
Other comprehensive income (loss)	(308,000)	673,000
Comprehensive income	$2,605,000	$3,816,000

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, 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)	-	-	-
Proceeds from sale of common stock	-	13,939	95,000	-	-	95,000
Balance at March 31, 2011	$24,729,000	9,786,964	$45,649,000	$82,623,000	$ (1,457,000)	$151,544,000
Balance at December 31, 2011	$12,303,000	9,812,180	$45,927,000	$85,314,000	$ 7,314,000	$150,858,000
Net income	-	-	-	2,913,000	-	2,913,000
Net unrealized loss on securities available for sale, net of tax benefit of $168,000	-	-	-	-	(313,000)	(313,000)
Unrecognized transition obligation for postretirement benefits, net of taxes of $2,000	-	-	-	-	5,000	5,000
Comprehensive income	-	-	-	2,913,000	(308,000)	2,605,000
Cash dividends declared	-	-	-	(2,077,000)	-	(2,077,000)
Equity compensation expense	-	-	24,000	-	-	24,000
Amortization of premium for preferred stock issuance	25,000	-	(25,000)	-	-	-
	-	27,580	183,000	-	-	183,000

Proceeds from sale of common stock						
Balance at March 31, 2012	$12,328,000	9,839,760	$46,109,000	$86,150,000	$ 7,006,000	$151,593,000

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, 2012	March 31, 2011
Cash flows from operating activities		
Net income	$2,913,000	$3,143,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	333,000	341,000
Change in deferred taxes	(644,000)	(238,000)
Provision for loan losses	2,100,000	2,100,000
Loans originated for resale	(1,704,000)	(15,794,000)
Proceeds from sales and transfers of loans	1,520,000	18,150,000
Net gain on sale or call of securities	(523,000)	-
Net loss on sale of other real estate owned	43,000	46,000
Provision for losses on other real estate owned	-	68,000
Equity compensation expense	24,000	6,000
Net (increase) decrease in other assets and accrued interest	417,000	(147,000)
Net increase in other liabilities	1,393,000	262,000
Net loss on disposal of premises and equipment	-	5,000
Net amortization of premiums on investments	697,000	914,000
Amortization of investment in limited partnership	119,000	97,000
Net acquisition amortization	32,000	32,000
Net cash provided by operating activities	6,720,000	8,985,000
Cash flows from investing activities		
Decrease in interest-bearing deposits in other banks	(1,532,000)	-
Proceeds from maturities, payments and calls of securities available for sale	11,656,000	17,365,000
Proceeds from sales of securities available for sale	10,943,000	-
Proceeds from maturities, payments and calls of securities to be held to maturity	5,924,000	6,074,000
Proceeds from sales of other real estate owned	268,000	779,000
Purchases of securities available for sale	(54,096,000)	(49,309,000)
Purchases of securities to be held to maturity	(20,936,000)	(8,794,000)
Redemption of Federal Home Loan Bank stock	620,000	-
Net increase in loans	(8,481,000)	(9,043,000)
Capital expenditures	(213,000)	(51,000)
Net cash used in investing activities	(55,847,000)	(42,979,000)
Cash flows from financing activities		
Net increase (decrease) in demand, savings, and money market accounts	(7,095,000)	3,343,000
Net increase in certificates of deposit	81,629,000	72,428,000
Net decrease in short-term borrowings	(25,505,000)	(39,789,000)
Proceeds from sale of common stock	183,000	95,000
Dividends paid	(2,077,000)	(2,221,000)
Net cash provided by financing activities	47,135,000	33,856,000
Net decrease in cash and cash equivalents	(1,992,000)	(138,000)
Cash and cash equivalents at beginning of period	14,115,000	13,838,000
Cash and cash equivalents at end of period	$12,123,000	$13,700,000
Interest paid	$3,390,000	$3,861,000
Income taxes paid	-	-
Non-cash transactions		

Net transfer from loans to other real estate owned	$431,000	$539,000

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 2012 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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, 2011.

Subsequent Events
Events occurring subsequent to March 31, 2012, 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, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$-	$-	$-	$-
Mortgage-backed securities	226,671,000	5,805,000	(361,000)	232,115,000
State and political subdivisions	77,672,000	5,540,000	(50,000)	83,162,000
Corporate securities	-	-	-	-
Other equity securities	1,863,000	44,000	(73,000)	1,834,000
	$306,206,000	$11,389,000	$(484,000)	$317,111,000
Securities to be held to maturity				
U.S. Treasury and agency	$39,694,000	$37,000	$(435,000)	$39,296,000
Mortgage-backed securities	52,185,000	3,638,000	-	55,823,000
State and political subdivisions	45,427,000	3,941,000	(154,000)	49,214,000
Corporate securities	300,000	-	-	300,000
	$137,606,000	$7,616,000	$(589,000)	$144,633,000
Non-marketable securities				
Federal Home Loan Bank Stock	$13,412,000	$-	$-	$13,412,000
Federal Reserve Bank Stock	1,411,000	-	-	1,411,000
	$14,823,000	$-	$-	$14,823,000

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$-	$-	$-	$-
Mortgage-backed securities	191,924,000	6,486,000	(178,000)	198,232,000
State and political subdivisions	80,259,000	5,484,000	(17,000)	85,726,000
Corporate securities	1,098,000	-	(287,000)	811,000
Other equity securities	1,535,000	37,000	(139,000)	1,433,000
	$274,816,000	$12,007,000	$(621,000)	$286,202,000
Securities to be held to maturity				
U.S. Treasury and agency	$19,390,000	$132,000	$-	$19,522,000
Mortgage-backed securities	56,800,000	3,900,000	(3,000)	60,697,000
State and political subdivisions	46,171,000	4,159,000	(172,000)	50,158,000
Corporate securities	300,000	-	-	300,000
	$122,661,000	$8,191,000	$(175,000)	$130,677,000
Non-marketable securities				
Federal Home Loan Bank Stock	$14,032,000	$-	$-	$14,032,000
Federal Reserve Bank Stock	1,411,000	-	-	1,411,000
	$15,443,000	$-	$-	$15,443,000

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	$14,032,000	$-	$-	$14,032,000
Federal Reserve Bank Stock	1,411,000	-	-	1,411,000
	$15,443,000	$-	$-	$15,443,000

The following table summarizes the contractual maturities of investment securities at March 31, 2012:

	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	$5,894,000	$5,948,000	$4,663,000	$4,710,000
Due in 1 to 5 years	59,887,000	60,971,000	12,173,000	12,940,000
Due in 5 to 10 years	13,014,000	13,442,000	35,563,000	38,100,000
Due after 10 years	225,548,000	234,916,000	85,207,000	88,883,000
Equity securities	1,863,000	1,834,000	-	-
	$306,206,000	$317,111,000	$137,606,000	$144,633,000

The following table summarizes the contractual maturities of investment securities at December 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	$6,617,000	$6,773,000	$5,179,000	$5,227,000
Due in 1 to 5 years	18,792,000	19,473,000	10,085,000	10,654,000
Due in 5 to 10 years	23,219,000	24,065,000	23,027,000	24,694,000
Due after 10 years	224,653,000	234,458,000	84,370,000	90,102,000
Equity securities	1,535,000	1,433,000	-	-
	$274,816,000	$286,202,000	$122,661,000	$130,677,000

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

At March 31, 2012, securities with a fair value of $136,156,000 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 $141,506,000 as of December 31, 2011 and $121,143,000 at March 31, 2011, 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, 2012 and 2011:

	For the three months	For the three

	ended March 31, 2012	months ended March 31, 2011
Proceeds from sales	$10,943,000	$-
Gross gains	$812,000	$-
Gross losses	$(289,000)	$-
Net gain	$523,000	$-
Related income taxes	$183,000	$-

Management reviews securities with unrealized losses for other than temporary impairment. As of March 31, 2012, there were 42 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 8 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, 2012 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	$33,514,000	$(435,000)	$-	$-	$33,514,000	$(435,000)
Mortgage-backed securities	35,242,000	(280,000)	6,608,000	(81,000)	41,850,000	(361,000)
State and political subdivisions	4,924,000	(204,000)	-	-	4,924,000	(204,000)
Corporate securities	-	-	-	-	-	-
Other equity securities	-	-	253,000	(73,000)	253,000	(73,000)
	$73,680,000	$(919,000)	$6,861,000	$(154,000)	$80,541,000	$(1,073,000)

As of December 31, 2011, there were 29 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 11 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 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	$-	$-	$-	$-	$-	$-
Mortgage-backed securities	12,489,000	(25,000)	6,780,000	(156,000)	19,269,000	(181,000)
State and political subdivisions	1,984,000	(17,000)	1,667,000	(172,000)	3,651,000	(189,000)
Corporate securities	-	-	811,000	(287,000)	811,000	(287,000)
Other equity securities	154,000	(120,000)	34,000	(19,000)	188,000	(139,000)
	$14,627,000	$(162,000)	$9,292,000	$(634,000)	$23,919,000	$(796,000)

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. 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)

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston, a cooperatively owned wholesale bank for housing and finance in the 6 New England States. 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, 2012 and 2011, and December 31, 2011, the Bank's investment in FHLB stock totaled $13.4 million and $14.0 million, respectively. FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value.

Note 3 – Loans

The following table shows the composition of the Company's loan portfolio as of March 31, 2012 and 2011 and at December 31, 2011:

	March 31, 2012			December 31, 2011			March 31, 2011		
Commercial									
Real estate	$254,708,000	29.3	%	$255,424,000	29.5	%	$263,800,000	29.5	%
Construction	30,828,000	3.5	%	32,574,000	3.8	%	29,316,000	3.3	%
Other	85,467,000	9.8	%	86,982,000	10.1	%	101,762,000	11.4	%
Municipal	15,961,000	1.8	%	16,221,000	1.9	%	20,834,000	2.3	%
Residential									
Term	358,394,000	41.2	%	341,286,000	39.5	%	340,841,000	38.1	%
Construction	6,451,000	0.7	%	10,469,000	1.2	%	13,370,000	1.5	%
Home equity line of credit	103,372,000	11.9	%	105,244,000	12.1	%	106,172,000	11.8	%
Consumer	15,711,000	1.8	%	16,788,000	1.9	%	18,589,000	2.1	%
Total	$870,892,000	100.0	%	$864,988,000	100.0	%	$894,684,000	100.0	%

Loan balances include net deferred loan costs of $1,520,000 as of March 31, 2012 and $1,386,000 as of December 31, 2011, and $1,366,000 as of March 31, 2011. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $229,448,000 at March 31, 2012, $211,597,000 at December 31, 2011, and $201,069,000 at March 31, 2011, were used to collateralize borrowings from the Federal Home Loan Bank of Boston. In addition, commercial, construction and home equity loans totaling $227,022,000 at March 31, 2012, $218,417,000 at December 31, 2011, and $346,424,000 at March 31, 2011, 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 $24,438,000 at March 31, 2012, $27,806,000 at December 31, 2011 and $22,498,000 at March 31, 2011. Loans past due 90 days or greater which are accruing interest totaled $1,955,000 at March 31, 2012, $1,170,000 at December 31, 2011 and $291,000 at March 31, 2011. 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 by class of financing receivable as of March 31, 2012, 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	$623,000	$4,526,000	$5,149,000	$249,559,000	$254,708,000	$1,025,000
Construction	1,951,000	35,000	1,986,000	28,842,000	30,828,000	-
Other	1,578,000	1,869,000	3,447,000	82,020,000	85,467,000	563,000
Municipal	-	-	-	15,961,000	15,961,000	-
Residential						
Term	3,324,000	9,299,000	12,623,000	345,771,000	358,394,000	359,000
Construction	492,000	1,454,000	1,946,000	4,505,000	6,451,000	-
Home equity line of credit	86,000	1,156,000	1,242,000	102,130,000	103,372,000	-
Consumer	173,000	8,000	181,000	15,530,000	15,711,000	8,000
Total	$8,227,000	$18,347,000	$26,574,000	$844,318,000	$870,892,000	$1,955,000

Information on the past-due status of loans by class of financing receivable as of December 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	$2,872,000	$3,992,000	$6,864,000	$248,560,000	$255,424,000	$-
Construction	174,000	1,603,000	1,777,000	30,797,000	32,574,000	-
Other	1,431,000	1,192,000	2,623,000	84,359,000	86,982,000	52,000
Municipal	-	-	-	16,221,000	16,221,000	-
Residential						
Term	3,331,000	8,843,000	12,174,000	329,112,000	341,286,000	1,118,000
Construction	-	1,198,000	1,198,000	9,271,000	10,469,000	-
Home equity line of credit	480,000	1,134,000	1,614,000	103,630,000	105,244,000	-
Consumer	331,000	16,000	347,000	16,441,000	16,788,000	-
Total	$8,619,000	$17,978,000	$26,597,000	$838,391,000	$864,988,000	$1,170,000

Information on the past-due status of loans by class of financing receivable 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

For all classes, 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, 2012 and 2011 and at December 31, 2011 is presented in the following table:

	March 31, 2012	December 31, 2011	March 31, 2011
Commercial			
Real estate	$7,160,000	$7,064,000	$7,482,000
Construction	946,000	2,350,000	813,000
Other	2,634,000	5,784,000	1,615,000
Municipal	-	-	-
Residential			
Term	10,893,000	10,194,000	9,632,000
Construction	1,454,000	1,198,000	2,247,000
Home equity line of credit	1,336,000	1,163,000	604,000
Consumer	15,000	53,000	105,000
Total	$24,438,000	$27,806,000	$22,498,000

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 class of financing receivable as of March 31, 2012, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$10,704,000	$10,704,000	$-	$8,445,000	$40,000
Construction	1,362,000	1,362,000	-	2,983,000	13,000
Other	2,811,000	2,811,000	-	2,981,000	8,000
Municipal	-	-	-	-	-
Residential					
Term	9,930,000	9,930,000	-	10,001,000	30,000
Construction	1,120,000	1,120,000	-	718,000	-
Home equity line of credit	774,000	774,000	-	776,000	-
Consumer	-	-	-	12,000	-
	$26,701,000	$26,701,000	$-	$25,916,000	$91,000
With an Allowance Recorded					
Commercial					
Real estate	$3,591,000	$3,591,000	$944,000	$4,278,000	$10,000
Construction	731,000	731,000	117,000	597,000	-
Other	1,075,000	1,075,000	480,000	2,223,000	5,000
Municipal	-	-	-	-	-
Residential					
Term	8,124,000	8,124,000	592,000	7,449,000	59,000
Construction	334,000	334,000	49,000	598,000	-
Home equity line of credit	562,000	562,000	156,000	519,000	-
Consumer	15,000	15,000	10,000	15,000	-
	$14,432,000	$14,432,000	$2,348,000	$15,679,000	$74,000
Total					
Commercial					
Real estate	$14,295,000	$14,295,000	$944,000	$12,723,000	$50,000
Construction	2,093,000	2,093,000	117,000	3,580,000	13,000
Other	3,886,000	3,886,000	480,000	5,204,000	13,000
Municipal	-	-	-	-	-
Residential					
Term	18,054,000	18,054,000	592,000	17,450,000	89,000
Construction	1,454,000	1,454,000	49,000	1,316,000	-
Home equity line of credit	1,336,000	1,336,000	156,000	1,295,000	-
Consumer	15,000	15,000	10,000	27,000	-
	$41,133,000	$41,133,000	$2,348,000	$41,595,000	$165,000

Substantially all interest income recognized on impaired loans for all classes of financing receivables was recognized on a cash basis as received.

A breakdown of impaired loans by class of financing receivable as of December 31, 2011, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$5,584,000	$5,584,000	$-	$5,212,000	$23,000
Construction	5,172,000	5,172,000	-	1,071,000	143,000
Other	6,022,000	6,022,000	-	1,919,000	28,000
Municipal	-	-	-	-	-
Residential					
Term	9,875,000	9,875,000	-	9,493,000	54,000
Construction	468,000	468,000	-	961,000	-
Home equity line of credit	739,000	739,000	-	646,000	-
Consumer	37,000	37,000	-	39,000	-
	$27,897,000	$27,897,000	$-	$19,341,000	$248,000
With an Allowance Recorded					
Commercial					
Real estate	$4,557,000	$4,557,000	$808,000	$2,307,000	$103,000
Construction	530,000	530,000	33,000	247,000	-
Other	1,020,000	1,020,000	402,000	681,000	19,000
Municipal	-	-	-	-	-
Residential					
Term	6,946,000	6,946,000	478,000	5,628,000	228,000
Construction	730,000	730,000	235,000	244,000	-
Home equity line of credit	424,000	424,000	91,000	272,000	-
Consumer	16,000	16,000	11,000	57,000	-
	$14,223,000	$14,223,000	$2,058,000	$9,436,000	$350,000
Total					
Commercial					
Real estate	$10,141,000	$10,141,000	$808,000	$7,519,000	$126,000
Construction	5,702,000	5,702,000	33,000	1,318,000	143,000
Other	7,042,000	7,042,000	402,000	2,600,000	47,000
Municipal	-	-	-	-	-
Residential					
Term	16,821,000	16,821,000	478,000	15,121,000	282,000
Construction	1,198,000	1,198,000	235,000	1,205,000	-
Home equity line of credit	1,163,000	1,163,000	91,000	918,000	-
Consumer	53,000	53,000	11,000	96,000	-
	$42,120,000	$42,120,000	$2,058,000	$28,777,000	$598,000

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$5,354,000	$5,354,000	$-	$4,557,000	$6,000
Construction	813,000	813,000	-	442,000	36,000
Other	1,033,000	1,033,000	-	1,173,000	7,000
Municipal	-	-	-	-	-
Residential					
Term	8,907,000	8,907,000	-	8,120,000	14,000
Construction	1,672,000	1,672,000	-	2,948,000	-
Home equity line of credit	373,000	373,000	-	317,000	-
Consumer	39,000	39,000	-	42,000	-
	$18,191,000	$18,191,000	$-	$17,599,000	$63,000
With an Allowance Recorded					
Commercial					
Real estate	$2,128,000	$2,128,000	$593,000	$2,260,000	$26,000
Construction	-	-	-	453,000	-
Other	571,000	571,000	326,000	549,000	5,000
Municipal	-	-	-	-	-
Residential					
Term	5,041,000	5,041,000	381,000	5,533,000	57,000
Construction	576,000	576,000	106,000	192,000	-
Home equity line of credit	231,000	231,000	139,000	231,000	-
Consumer	76,000	76,000	76,000	73,000	-
	$8,623,000	$8,623,000	$1,621,000	$9,291,000	$88,000
Total					
Commercial					
Real estate	$7,482,000	$7,482,000	$593,000	$6,817,000	$32,000
Construction	813,000	813,000	-	895,000	36,000
Other	1,604,000	1,604,000	326,000	1,722,000	12,000
Municipal	-	-	-	-	-
Residential					
Term	13,948,000	13,948,000	381,000	13,653,000	71,000
Construction	2,248,000	2,248,000	106,000	3,140,000	-
Home equity line of credit	604,000	604,000	139,000	548,000	-
Consumer	115,000	115,000	76,000	115,000	-
	$26,814,000	$26,814,000	$1,621,000	$26,890,000	$151,000

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 appropriate level 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 each portfolio segment 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 for each portfolio segment; and (4) unallocated reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance. A breakdown of the allowance for loan losses as of March 31, 2012, December 31, 2011, and March 31, 2011, by class of financing receivable and allowance element, is presented in the following tables:

As of March 31, 2012	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	$ 944,000	$ 2,648,000	$ 2,270,000	$ -	$ 5,862,000
Construction	117,000	316,000	271,000	-	704,000
Other	480,000	886,000	759,000	-	2,125,000
Municipal	-	-	19,000	-	19,000
Residential					
Term	592,000	185,000	459,000	-	1,236,000
Construction	49,000	2,000	8,000	-	59,000
Home equity line of credit	156,000	176,000	350,000	-	682,000
Consumer	10,000	319,000	239,000	-	568,000
Unallocated	-	-	-	1,699,000	1,699,000
	$ 2,348,000	$ 4,532,000	$ 4,375,000	$ 1,699,000	$ 12,954,000

As of December 31, 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	$ 808,000	$2,578,000	$2,273,000	$-	$5,659,000
Construction	33,000	332,000	293,000	-	658,000
Other	402,000	883,000	778,000	-	2,063,000
Municipal	-	-	19,000	-	19,000
Residential					
Term	478,000	222,000	459,000	-	1,159,000
Construction	235,000	6,000	14,000	-	255,000
Home equity line of credit	91,000	149,000	355,000	-	595,000
Consumer	11,000	331,000	242,000	-	584,000
Unallocated	-	-	-	2,008,000	2,008,000
	$ 2,058,000	$4,501,000	$4,433,000	$2,008,000	$13,000,000

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

Commercial loans are comprised of three major classes, 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. 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.

Construction loans, both commercial and residential, comprise a very small portion of the portfolio, and at 35.0% of capital are well under the regulatory guidance of 100.0% of capital. Construction loans and non-owner-occupied commercial real estate loans are at 99.0% of total capital, well under regulatory guidance of 300.0% of capital.

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 borrower’s 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 eight 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.

The following table summarizes the risk ratings for the Company's commercial real estate, commercial construction, commercial other, and municipal loans as of March 31, 2012:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$23,000	$-	$486,000	$1,911,000	$2,420,000
2 Above Average	19,788,000	-	4,418,000	7,602,000	31,808,000
3 Satisfactory	32,903,000	1,396,000	12,183,000	3,819,000	50,301,000
4 Average	105,446,000	19,130,000	31,412,000	2,629,000	158,617,000
5 Watch	42,680,000	3,530,000	19,473,000	-	65,683,000
6 OAEM	18,302,000	538,000	4,644,000	-	23,484,000
7 Substandard	34,887,000	6,234,000	12,158,000	-	53,279,000
8 Doubtful	679,000	-	693,000	-	1,372,000
Total	$254,708,000	$30,828,000	$85,467,000	$15,961,000	$386,964,000

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

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$23,000	$-	$465,000	$2,158,000	$2,646,000
2 Above Average	21,334,000	-	4,229,000	7,509,000	33,072,000
3 Satisfactory	33,119,000	1,365,000	10,981,000	3,861,000	49,326,000
4 Average	106,171,000	17,125,000	31,600,000	2,693,000	157,589,000
5 Watch	44,215,000	3,287,000	17,893,000	-	65,395,000
6 OAEM	18,309,000	2,320,000	5,303,000	-	25,932,000
7 Substandard	31,575,000	7,323,000	16,362,000	-	55,260,000
8 Doubtful	678,000	1,154,000	149,000	-	1,981,000
Total	$255,424,000	$32,574,000	$86,982,000	$16,221,000	$391,201,000

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

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

Commercial loans are generally charged off when all or a portion of the principal amount is determined to be uncollectable. This determination is based on circumstances specific to a borrower including repayment ability, analysis of collateral and other factors as applicable.

Residential loans are comprised of two classes: 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 classes. Certain loans in the residential, home equity lines of credit and consumer classes 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 classes. 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.

There were no changes to the Company's accounting policies or methodology used to estimate the allowance for loan losses during the three months ended March 31, 2012. Allowance for loan losses transactions for the three months ended March 31, 2012 and 2011 and for the year ended December 31, 2011 were as follows:

For the three months ended March 31, 2012	Commercial			Municipal	Residential		Home Equity	Consu
	Real Estate	Construction	Other		Term	Construction	Line of Credit	
Allowance for loan losses:								
Beginning balance	$5,659,000	$658,000	$2,063,000	$19,000	$1,159,000	$255,000	$595,000	$584,00
Charge offs	-	-	2,002,000	-	239,000	-	49,000	180,00
Recoveries	-	246,000	2,000	-	1,000	-	-	75,000
Provision	203,000	(200,000)	2,062,000	-	315,000	(196,000)	136,000	89,000
Ending balance	$5,862,000	$704,000	$2,125,000	$19,000	$1,236,000	$59,000	$682,000	$568,00
Ending balance specifically evaluated for impairment	$944,000	$117,000	$480,000	$-	$592,000	$49,000	$156,000	$10,000
Ending balance collectively evaluated for impairment	$4,918,000	$587,000	$1,645,000	$19,000	$644,000	$10,000	$526,000	$558,00
Related loan balances:								
Ending balance	$254,708,000	$30,828,000	$85,467,000	$15,961,000	$358,394,000	$6,451,000	$103,372,000	$15,711
Ending balance specifically evaluated for impairment	$14,295,000	$2,093,000	$3,886,000	$-	$18,054,000	$1,454,000	$1,336,000	$15,000
Ending balance collectively evaluated for impairment	$240,413,000	$28,735,000	$81,581,000	$15,961,000	$340,340,000	$4,997,000	$102,036,000	$15,696

For the year ended	Commercial			Municipal	Residential		Home Equity	Consu

December 31, 2011	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	$646,0
Charge offs	1,619,000	346,000	6,492,000	-	1,421,000	505,000	415,000	381,0
Recoveries	23,000	-	60,000	-	7,000	-	1,000	222,0
Provision	1,995,000	(8,000)	6,118,000	-	1,165,000	716,000	339,000	97,00
Ending balance	$5,659,000	$658,000	$2,063,000	$19,000	$1,159,000	$255,000	$595,000	$584,0
Ending balance specifically evaluated for impairment	$808,000	$33,000	$402,000	$-	$478,000	$235,000	$91,000	$11,00
Ending balance collectively evaluated for impairment	$4,851,000	$625,000	$1,661,000	$19,000	$681,000	$20,000	$504,000	$573,0
Related loan balances:								
Ending balance	$255,424,000	$32,574,000	$86,982,000	$16,221,000	$341,286,000	$10,469,000	$105,244,000	$16,78
Ending balance specifically evaluated for impairment	$10,141,000	$5,702,000	$7,042,000	$-	$16,821,000	$1,198,000	$1,163,000	$53,00
Ending balance collectively evaluated for impairment	$245,283,000	$26,872,000	$79,940,000	$16,221,000	$324,465,000	$9,271,000	$104,081,000	$16,73

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

A troubled debt restructure ("TDR") constitutes a restructuring of debt if the Company, 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 Company 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, 2012, the Company had 71 loans with a value of $20,647,000 that have been classified as TDRs. This compares to 59 loans with a value of $22,858,000 and 36 loans with a value of $6,021,000 classified as TDRs as of December 31, 2011 and March 31, 2011, respectively. The impairment carried as a specific reserve in the allowance for loan losses is calculated by present valuing the cashflow modification on the loan, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell. The following table shows TDRs by class and the specific reserve as of March 31, 2012:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	12	$7,610,000	$271,000
Construction	1	1,148,000	-
Other	12	1,919,000	85,000
Municipal	-	-	-
Residential			
Term	46	9,970,000	250,000
Construction	-	-	-
Home equity line of credit	-	-	-
Consumer	-	-	-
Unallocated	-	-	-
	71	$20,647,000	$606,000

As of March 31, 2012, 11 of the loans classified as TDRs with a total balance of $2,258,000 were more than 30 days past due. Of these loans, 7 loans with an outstanding balance of $1,733,000 had been placed on TDR status in the previous 12 months. The following table shows these TDRs by class and the associated specific reserves included in the allowance for loan losses as of March 31, 2012:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	-	$-	