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

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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	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 Equity[1]	8.30	%	10.02	%
Return on Average Tangible Equity[1,2]	9.68	%	11.43	%
Return on Average Assets[1]	0.84	%	0.90	%
Average Equity to Average Assets	10.95	%	10.76	%
Average Tangible Equity to Average Assets[2]	8.98	%	8.80	%
Net Interest Margin Tax-Equivalent[1,2]	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 Ratio[2]	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	Real Estate	Commercial Construction	Other	Municipal	Residential Term	Construction	Home Equity Line of Credit	Cons
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	-	$-	$-
Construction	-	-	-
Other	4	667,000	44,000
Municipal	-	-	-
Residential			
Term	7	1,591,000	29,000
Construction	-	-	-
Home equity line of credit	-	-	-
Consumer	-	-	-
Unallocated	-	-	-
	11	$2,258,000	$73,000

In the first three months of 2012, 14 loans were placed on TDR status with an outstanding balance of $3,007,000. These were considered to be TDRs because concessions had been granted to borrowers experiencing financial difficulties. Concessions include reductions in interest rates, principal and/or interest forbearance, payment extensions, or combinations thereof. The following table shows loans placed on TDR status by class of loan and the associated specific reserve included in the allowance for loan losses as of March 31, 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserves
Commercial				
Real estate	7	$ 2,438,000	$ 2,404,000	$-
Construction	-	-	-	-
Other	3	12,000	12,000	-
Municipal	-	-	-	-
Residential				
Term	4	557,000	557,000	16,000
Construction	-	-	-	-
Home equity line of credit	-	-	-	-
Consumer	-	-	-	-
Unallocated	-	-	-	-
	14	$ 3,007,000	$ 2,973,000	$16,000

As of March 31, 2012, Management is aware of 6 loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $1,021,000. As of March 31, 2012, there were 19 loans with an outstanding balance of $3,160,000 that were classified as TDRs and on non-accrual status.

Note 5 – Stock Options and Stock-Based Compensation

At the 2010 Annual Meeting, shareholders approved the 2010 Equity Incentive Plan (the “2010 Plan”). This reserves 400,000 shares of common stock for issuance in connection with stock options, restricted stock awards and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees and non-employee Directors and promote the success of our business. Such grants and awards will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2010 Plan will qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2010 Plan will qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and will satisfy NASDAQ guidelines relating to equity compensation.
As of March 31, 2012, 19,727 shares of restricted stock had been granted under the 2010 Plan, as detailed in the following table:

Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)
2011	4.0	1,500	2.9
2011	5.0	5,500	3.9
2012	3.0	2,027	2.9
2012	4.0	2,704	3.9
2012	5.0	7,996	4.9
		19,727	4.1

The compensation cost related to these restricted stock grants was $302,000 and will be recognized over the vesting terms of each grant. In the first quarter of 2012, $24,000 of expense was recognized for these restricted shares, leaving $256,000 in unrecognized expense as of March 31, 2012. In the first quarter of 2011, $6,000 of expense was recognized for these restricted shares, leaving $105,000 in unrecognized expense as of March 31, 2011.

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

The Company applies the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 "Compensation – Stock Compensation", to stock-based employee compensation. As of March 31, 2012, all outstanding options were fully vested and all compensation cost for options had been recognized. A summary of the status of outstanding stock options as of March 31, 2012 and changes during the three-month period then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2011	51,000	$16.47		
Granted in 2012	-	-		
Exercised in 2012	(9,000)	$9.33		$59,000
Forfeited in 2012	-	-		
Outstanding at March 31, 2012	42,000	$18.00	2.8	-
Exercisable at March 31, 2012	42,000	$18.00	2.8	-

Note 6 – Preferred and Common Stock

Preferred Stock

On January 9, 2009, the Company issued $25 million in Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, to the U.S. Treasury under the Capital Purchase Program ("the CPP Shares"). The CPP Shares call for cumulative dividends at a rate of 5.0% per year for the first five years, and at a rate of 9.0% per year in following years, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year.

On August 24, 2011, the Company repurchased $12.5 million of the CPP Shares. The repurchase transaction was approved by the Federal Reserve Bank of Boston, the Company's primary regulator, as well as the Bank's primary regulator, the Office of the Comptroller of the Currency, based on continued strong capital ratios after the repayment. Almost all of the repayment was made from retained earnings accumulated since the preferred stock was issued in 2009. After the repurchase, $12.5 million of the CPP shares remains outstanding. The Company may redeem the remaining CPP Shares at any time using any funds available, subject to the prior approval of the Federal Reserve Bank of Boston. The CPP Shares are "perpetual" preferred stock, which means that neither Treasury nor any subsequent holder would have a right to require that the Company redeem any of the shares.

Incident to such issuance, the Company issued to the U.S. Treasury warrants (the "Warrants") to purchase up to 225,904 shares of the Company's common stock at a price per share of $16.60 (subject to adjustment). The CPP Shares and the related Warrants (and any shares of common stock issuable pursuant to the Warrants) are freely transferable by Treasury to third parties and the Company has filed a registration statement with the Securities and Exchange Commission to allow for possible resale of such securities. The CPP Shares qualify as Tier 1 capital on the Company's books for regulatory purposes and rank senior to the Company's common stock and senior or at an equal level in the Company's capital structure to any other shares of preferred stock the Company may issue in the future.

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

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

Common Stock

As a consequence of the Company's issuance of securities under the U.S. Treasury's Capital Purchase Program, its ability to repurchase stock while such securities remain outstanding is restricted to purchases from employee benefit plans. In the first three months of 2012, the Company repurchased no common stock.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2012 and 2011:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the quarter ended March 31, 2012			
Net income as reported	$ 2,913,000		
Less dividends and amortization of premium on preferred stock	181,000		
Basic EPS: Income available to common shareholders	2,732,000	9,817,029	$0.28
Effect of dilutive securities: restricted stock		11,196	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,732,000	9,828,225	$0.28
For the quarter ended March 31, 2011			
Net income as reported	$ 3,143,000		
Less dividends and amortization of premium on preferred stock	337,000		
Basic EPS: Income available to common shareholders	2,806,000	9,778,756	$0.29
Effect of dilutive securities: incentive stock options and restricted stock		8,527	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,806,000	9,787,283	$0.29

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

The following table presents the number of options and warrants outstanding as of March 31, 2012 and 2011 and the amount which are above or below the strike price:

	Outstanding	In-the-Money	Out-of-the-Money
As of March 31, 2012			
Incentive stock options	42,000	-	42,000
Warrants issued to U.S. Treasury	225,904	-	225,904
Total	267,904	-	267,904
As of March 31, 2011			
Incentive stock options	55,500	13,500	42,000
Warrants issued to U.S. Treasury	225,904	-	225,904
Total	281,404	13,500	267,904

Note 8 – Employee Benefit Plans

401(k) Plan
The Bank has a defined contribution plan available to substantially all employees who have completed 3 months of service. Employees may contribute up to $17,000 of their compensation if under age 50 and $22,500 if age 50 or over, and the Bank may match employee contributions not to exceed 3.0% of compensation depending on contribution level. Subject to a vote of the Board of Directors, the Bank may also make a profit-sharing contribution to the Plan. Such contribution equaled 2.0% of each eligible employee's compensation in 2011. The amount for 2012 has not been established. The expense related to the 401(k) plan was $92,000 and $102,000 for the three months ended March 31, 2012 and 2011, respectively.

Supplemental Retirement Benefits
The Bank also provides unfunded, non-qualified supplemental retirement benefits for certain officers, payable in installments over 20 years upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a postretirement plan. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental retirement benefits was $77,000 and $73,000 for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, the associated accrued liability included in other liabilities in the balance sheet was $1,911,000 compared to $1,847,000 and $1,656,000 at December 31, 2011 and March 31, 2011, respectively.

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

	At or for the three months ended March 31, 2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	$1,848,000	$1,796,000
Service cost	17,000	4,000
Interest cost	28,000	29,000
Benefits paid	(34,000)	(39,000)
Benefit obligation at end of period	1,859,000	1,790,000
Funded status		
Benefit obligation at end of period	(1,859,000)	(1,790,000)
Accrued benefit cost at end of period	$(1,859,000)	$(1,790,000)

The following table sets forth the net periodic pension cost:

	For the three months ended March 31, 2012	2011
Components of net periodic benefit cost		
Service cost	$17,000	$4,000
Interest cost	28,000	29,000
Amortization of unrecognized transition obligation	7,000	7,000
Amortization of accumulated losses	3,000	5,000
Net periodic benefit cost	$55,000	$45,000

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

	March 31, 2012	December 31, 2011	March 31, 2011
Unamortized net actuarial loss	$(100,000)	$(100,000)	$(49,000)
Unrecognized transition obligation	(27,000)	(34,000)	(56,000)
	(127,000)	(134,000)	(105,000)
Deferred tax benefit at 35%	45,000	47,000	37,000
Net unrecognized postretirement benefits included in accumulated other comprehensive income (loss)	$(82,000)	$(87,000)	$(68,000)

A weighted average discount rate of 7.0% was used in determining the accumulated benefit obligation and the net periodic benefit cost. The assumed health care cost trend rate is 7.0%. The measurement date for benefit obligations was as of year-end for prior years presented. The expected benefit payments for the second quarter of 2012 are $34,000 and the expected benefit payments for all of 2012 are $136,000. Plan expense for 2012 is estimated to be $165,000. A 1% change in trend assumptions would create an approximate change in the same direction of $100,000 in the accumulated benefit obligation, $7,000 in the interest cost and $1,400 in the service cost.

Note 9 – Goodwill and Other Intangible Assets

As of December 31, 2011, in accordance FASB ASC Topic 350 “Intangibles – Goodwill and Other,” the Company completed its annual review of goodwill and determined there has been no impairment.

Note 10 – Mortgage Servicing Rights

FASB ASC Topic 940 "Financial Services – Mortgage Banking," requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company's servicing assets and servicing liabilities are reported using the amortization method and carried at the lower of amortized cost or fair value by strata. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a 3 month moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of March 31, 2012, the prepayment assumption using the PSA model was 513, which translates into an anticipated prepayment rate of 30.76%. The discount rate is the quarterly average 10 year U.S. Treasury plus 4.91%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.
For the three months ended March 31, 2012 and 2011, servicing rights capitalized totaled $11,000 and $198,000, respectively. Servicing rights amortized for the three month periods ended March 31, 2012 and 2011, were $172,000 and $154,000, respectively. The fair value of servicing rights was $994,000, $1,581,000 and $2,205,000 at March 31, 2012, December 31, 2011 and March 31, 2011, respectively. The Bank serviced loans for others totaling $221,694,000, $238,221,000 and $254,519,000 at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. Mortgage servicing rights are included in other assets and detailed in the following table:

	March 31, 2012	December 31, 2011	March 31, 2011
Mortgage servicing rights	$6,110,000	$6,099,000	$5,927,000
Accumulated amortization	(5,009,000)	(4,837,000)	(4,417,000)
Impairment reserve	(300,000)	(61,000)	(20,000)
	$801,000	$1,201,000	$1,490,000

Note 11 – Income Taxes

FASB ASC Topic 740 "Income Taxes," defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2009 through 2011.

Note 12- Certificates of Deposit

The following table represents the breakdown of Certificates of Deposit at March 31, 2012 and 2011, and at December 31, 2011:

	March 31, 2012	December 31, 2011	March 31, 2011
Certificates of deposit < $100,000	$248,582,000	$216,836,000	$308,127,000
Certificates $100,000 to $250,000	349,643,000	309,841,000	337,018,000
Certificates $250,000 and over	32,548,000	22,499,000	35,440,000
	$630,773,000	$549,176,000	$680,585,000

Note 13 – Reclassifications

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

Note 14 – Fair Value

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

The most significant instruments that the Company fair values include securities which fall into Level 2 in the fair value hierarchy. The securities in the available for sale portfolio are priced by independent providers. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities.
The following table presents the balances of assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2012, December 31, 2011 and March 31, 2011.

	At March 31, 2012			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$-	$-	$-

Mortgage-backed securities	-	232,115,000	-	232,115,000
State and political subdivisions	-	83,162,000	-	83,162,000
Other equity securities	-	1,834,000	-	1,834,000
Total assets	$-	$317,111,000	$-	$317,111,000

	At December 31, 2011			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$-	$-	$-
Mortgage-backed securities	-	198,232,000	-	198,232,000
State and political subdivisions	-	85,726,000	-	85,726,000
Corporate securities	-	811,000	-	811,000
Other equity securities	-	1,433,000	-	1,433,000
Total assets	$-	$286,202,000	$-	$286,202,000

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

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

Mortgage Servicing Rights. Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans and observable inputs for its assumptions. As such, the Company classifies mortgage servicing rights as nonrecurring Level 2.
Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as nonrecurring Level 2.
Other Real Estate Owned. Real estate acquired through foreclosure is initially recorded at market value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.
Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral or present value of expected cash flows. As such, the Company records impaired loans as nonrecurring Level 2.
The following tables includes asset measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Other real estate owned is presented net of an allowance of $367,000, $436,000, and $108,000 at March 31, 2012, December 31, 2011, and March 31, 2011, respectively. Impaired loans measured at fair value only include impaired loans with a related specific allowance for loan losses and are presented net of specific allowances of $2,348,000, $2,058,000 and $1,621,000 at March 31, 2012, December 31, 2011, and March 31, 2011, respectively.

	At March 31, 2012			
	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$994,000	$-	$994,000
Loans held for sale	-	184,000	-	184,000

Other real estate owned	-	4,214,000	-	4,214,000
Impaired loans	-	12,082,000	-	12,082,000
Total assets	$-	$17,474,000	$-	$17,474,000

	At December 31, 2011			
	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$1,581,000	$-	$1,581,000
Loans held for sale	-	-	-	-
Other real estate owned	-	4,094,000	-	4,094,000
Impaired loans	-	12,165,000	-	12,165,000
Total assets	$-	$17,840,000	$-	$17,840,000

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

Fair Value of Financial Instruments

FASB ASC Topic 825 “Financial Instruments”, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The estimated fair values for financial instruments as of March 31, 2012 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$12,123,000	$12,123,000	$12,123,000	$-	$-
Interest bearing deposits in other banks	1,532,000	1,532,000	1,532,000	-	-
Securities available for sale	317,111,000	317,111,000	-	317,111,000	-
Securities to be held to maturity	137,606,000	144,633,000	-	144,633,000	-
Federal Reserve Bank stock	1,411,000	1,411,000	-	1,411,000	-
Federal Home Loan Bank stock	13,412,000	13,412,000	-	13,412,000	-
Loans held for sale	184,000	184,000	-	184,000	-
Loans (net of allowance for loan losses)					
Commercial					
Real estate	247,962,000	248,737,000	-	-	248,737,000
Construction	30,018,000	30,018,000	-	-	30,018,000
Other	83,021,000	83,529,000	-	-	83,529,000
Municipal	15,939,000	17,471,000	-	-	17,471,000
Residential					
Term	356,971,000	368,682,000	-	-	368,682,000
Construction	6,383,000	6,385,000	-	-	6,385,000
Home equity line of credit	102,587,000	102,581,000	-	-	102,581,000
Consumer	15,057,000	16,049,000	-	-	16,049,000
Total loans	857,938,000	873,452,000	-	-	873,452,000
Mortgage servicing rights	801,000	994,000	-	994,000	-
Accrued interest receivable	5,690,000	5,690,000	-	5,690,000	-
Financial liabilities					
Demand deposits	$69,520,000	$67,807,000	$-	$67,807,000	$-
NOW deposits	120,844,000	111,703,000	-	111,703,000	-
Money market deposits	75,752,000	64,795,000	-	64,795,000	-
Savings deposits	118,946,000	107,036,000	-	107,036,000	-
Local certificates of deposit	215,013,000	220,572,000	-	220,572,000	-
National certificates of deposit	415,760,000	420,850,000	-	420,850,000	-
Total deposits	1,015,835,000	992,763,000	-	992,763,000	-
Repurchase agreements	89,990,000	89,990,000	-	89,990,000	-

Federal Home Loan Bank advances	150,161,000	157,589,000	-	157,589,000	-
Total borrowed funds	240,151,000	247,579,000	-	247,579,000	-
Accrued interest payable	644,000	644,000	-	644,000	-

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

	December 31, 2011		March 31, 2011	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents	$14,115,000	$14,115,000	$13,700,000	$13,700,000
Interest-bearing deposits in other banks	-	-	100,000	100,000
Securities available for sale	286,202,000	286,202,000	325,451,000	325,451,000
Securities to be held to maturity	122,661,000	130,677,000	109,936,000	114,051,000
Federal Home Loan Bank and Federal Reserve Bank stock	15,443,000	15,443,000	15,443,000	15,443,000
Loans held for sale	-	-	450,000	450,000
Loans (net of allowance for loan losses)	851,988,000	866,442,000	880,684,000	885,204,000
Mortgage servicing rights	1,201,000	1,581,000	1,490,000	2,205,000
Accrued interest receivable	4,835,000	4,835,000	6,236,000	6,236,000
Financial liabilities				
Deposits	$941,333,000	$921,388,000	$1,050,257,000	$998,261,000
Borrowed funds	265,663,000	273,568,000	217,534,000	222,498,000
Accrued interest payable	734,000	734,000	814,000	814,000

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

Cash and Cash Equivalents and Due from Banks
The carrying values of cash and cash equivalents and due from banks approximate their relative fair values. As such, the Company classifies cash and cash equivalents as Level 1.

Investment Securities
The fair values of investment securities are estimated by independent providers. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of restricted equity securities approximate fair values. As such, the Company classifies investment securities as Level 2.

Loans Held for Sale.
Loans held for sale are recorded at the lower of carrying value or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as nonrecurring Level 2.

Loans
Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of

the effect of current economic and lending conditions, and the effects of estimated prepayments. Fair values for significant non-performing loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, Management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale. As such, the Company classifies loans as Level 3.

Mortgage Servicing Rights.
Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans and observable inputs for its assumptions. As such, the Company classifies mortgage servicing rights as nonrecurring Level 2.

Accrued Interest Receivable
The fair value estimate of this financial instrument approximates the carrying value as this financial instrument has a short maturity. It is the Company’s policy to stop accruing interest on loans for which it is probable that the interest is not collectible. Therefore, this financial instrument has been adjusted for estimated credit loss. As such, the Company classifies accrued interest receivable as Level 2.

Deposits
The fair value of deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company’s net assets could increase. As such, the Company classifies deposits as Level 2.

Borrowed Funds
The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities. As such, the Company classifies borrowed funds as Level 2.

Accrued Interest Payable
The fair value estimate approximates the carrying amount as this financial instrument has a short maturity. As such, the Company classifies accrued interest payable as Level 2.

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

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at
one time the Company’s entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on Management’s judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial

instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Note 15 – Impact of Recently Issued Accounting Standards

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU clarifies how to measure fair value, but does not require additional fair value measurement and is not intended to affect current valuation practices outside of financial reporting. However, additional information and disclosure will be required for transfers between Level 1 and Level 2, the sensitivity of a fair value measurement categorized as Level 3, and the categorization of items that are not measured at fair value by level of the fair value hierarchy. The guidance is effective during interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU requires that all nonowner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Other than the manner of presentation, the adoption of this new guidance did not have a material effect on the Company's consolidated financial statements.

In August 2011, the FASB issued ASU No. 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The guidance is effective for fiscal years ending after December 15, 2011, with early adoption permitted. The Company believes the adoption of this new guidance will not have a material effect on the Company's consolidated financial statements.

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

Forward-Looking Statements

This report contains statements that are “forward-looking statements.” We may also make written or oral forward-looking statements in other documents we file with the Secutities and Exchange Commission (“SEC”), in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “outlook,” “will,” “should,” and other expressions that predict or indicate future e and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.
Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectability, default and charge-off rates, changes in the size and nature of the Company’s competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the SEC, may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this quarterly report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.
Although The First Bancorp, Inc. believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company, which attempt to advise interested parties of the facts that affect the Company’s business.

Critical Accounting Policies

Management’s discussion and analysis of the Company’s financial condition is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, goodwill, the valuation of mortgage servicing rights, and other-than-temporary impairment on securities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from Management's estimates and assumptions under different assumptions or conditions.

Allowance for Loan Losses. Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and therefore regularly evaluates it to determine the appropriate level by taking into consideration factors such as prior loan loss experience, the character and size of the loan portfolio, business and economic conditions and Management's estimation of potential losses. The use of different estimates or assumptions could produce different provisions for loan losses.

Goodwill. Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of goodwill as required under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350 "Intangibles – Goodwill and Other." In addition, goodwill from a purchase acquisition is subject to ongoing periodic impairment tests, which include an evaluation of the ongoing assets, liabilities and revenues from the acquisition and an estimation of the impact of business conditions.

Mortgage Servicing Rights. The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 0.25% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized at fair value when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The rights are subsequently carried at the lower of amortized cost or fair value. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value which is recorded on the balance sheet. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed results in lower valuations of mortgage servicing rights. The valuation also includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

Other-Than-Temporary Impairment on Securities. One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairments. The evaluation of securities for other-than-temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities' market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest when due.

Use of Non-GAAP Financial Measures

Certain information in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management uses these "non-GAAP" measures in its analysis of the Company's performance and believes that these non-GAAP financial

measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods as well as demonstrating the effects of significant gains and charges in the current period. The Company believes that a meaningful analysis of its financial performance requires an understanding of the factors underlying that performance. Management believes that investors may use these non-GAAP financial measures to analyze financial performance without the impact of unusual items that may obscure trends in the Company’s underlying performance. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are
they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

In several places net interest income is presented on a fully taxable equivalent basis. Specifically included in interest income was tax-exempt interest income from certain investment securities and loans. An amount equal to the tax benefit derived from this tax exempt income has been added back to the interest income total, which adjustments increased net interest income accordingly. Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax-equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another, as each will have a different proportion of tax-exempt interest from its earning assets. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices. The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements prepared in accordance with GAAP. A 35.0% tax rate was used in both 2012 and 2011.

	For the three months ended March 31,	
Dollars in thousands	2012	2011
Net interest income as presented	$9,806	$10,505
Effect of tax-exempt income	763	609
Net interest income, tax equivalent	$10,569	$11,114

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

	For the three months ended March 31,	
Dollars in thousands	2012	2011
Non-interest expense, as presented	$6,178	$6,488
Net interest income, as presented	9,806	10,505
Effect of tax-exempt income	763	609
Non-interest income, as presented	2,168	2,277
Effect of non-interest tax-exempt income	43	47
Net securities gains	(523)	-
Adjusted net interest income plus non-interest income	$12,257	$13,438
Non-GAAP efficiency ratio	50.40%	48.28%
GAAP efficiency ratio	51.60%	50.76%

The Company presents certain information based upon tangible average shareholders' equity instead of total average shareholders' equity. The difference between these measures is the Company's intangible assets, specifically goodwill from prior acquisitions. Management, banking regulators and many stock analysts use the tangible common equity ratio and the tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method in accounting for mergers and acquisitions. The following table provides a reconciliation of tangible average shareholders' equity to the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles:

	For the three months ended March 31,	
Dollars in thousands	2012	2011
Average shareholders' equity as presented	$153,544	$151,969
Less average preferred stock	(12,304)	(24,705)
Less average intangible assets	(27,684)	(27,684)
Average tangible common shareholders' equity	$113,556	$99,580

Executive Summary

Net income for the first three months of 2012 was $2.9 million, down $230,000 or 7.3% from the same period in 2011. Earnings per common share on a fully diluted basis were $0.28 for the three months ended March 31, 2012, down $0.01 or 3.4% from the $0.29 posted for the same period in 2011. Compared to the previous quarter, net income was down $109,000 or 3.6% and earnings per common share on a fully diluted basis were down $0.01 or 3.4%.
Two factors continue to affect The First Bancorp's performance: the continued weak global economy and extremely low interest rates. Economic weakness has resulted in higher credit losses while low interest rates have created margin compression and lower net interest income. Despite these factors, our quarterly results over the past two years have been very consistent, with net income varying less than 9% between the lowest and highest quarter. Similar results can be seen in many other metrics, including non-performing assets, which have ranged from 1.87% to 2.32% over the past two years and dropped in the first quarter to 2.01% of total assets.
Compared to the same period in 2011, net interest income on a tax-equivalent basis declined $545,000 or 4.9%. Compared to the previous quarter, however, net interest income on a tax-equivalent basis was down only $203,000 or 1.9%. Compression can be seen in our net interest margin, which dropped from 3.40% for the first three months of 2011 to 3.22% for same period in 2012. This is the result of the low interest rate environment, with a higher volume of assets continuing to reprice downward without the opportunity to reprice a comparable volume of liabilities.
Non-interest income in the first quarter was $109,000 or 4.8% lower than in the first quarter of 2011. This was attributable to a decline in mortgage origination income, partially related to a $239,000 impairment charge for mortgage-servicing rights as a result of low interest rates and higher levels of mortgage refinancing. Non-interest expense was $310,000 or 4.8% lower than in the same period in 2011, with lower premiums for FDIC Insurance and lower costs related to collections and other real estate owned.
The weak economy continues to impact employment and housing prices, which in turn impact credit quality for the Bank. Net loan chargeoffs for the quarter ended March 31, 2012, were $2.1 million or 0.99% of average loans on an annualized basis. This was up $730,000 from net chargeoffs of $1.4 million or 0.64% of average loans on an annualized basis for the first three months of 2011. We provisioned $2.1 million for loan losses in the first quarter of 2012, equal to the amount provisioned in the first quarter of 2011. Although the allowance for loan losses decreased $46,000 between December 31, 2011 and March 31, 2012, year-to-date the allowance as a percentage of loans outstanding declined by only one basis point to 1.49%. Total past-due loans were 3.04% of total loans as of March 31, 2012, slightly below 3.07% of total loans as of December 31, 2011, and just above 3.00% of total loans as of March 31, 2011.
Total assets have increased $50.9 million or 3.7% year-to-date. The loan portfolio increased $5.9 million in the first three months of 2012 and was down $23.8 million from a year ago. The investment portfolio has increased $45.2 million or 10.7% year-to-date and $18.7 million or 4.2% over the past year. On the liability side of the balance sheet, low-cost deposits have increased $13.4 million or 4.5% year-over-year, which is above our normal seasonal pattern. Local certificates of deposit decreased $4.9 million and wholesale CDs increased $87.5 million year-to-date.

Remaining well capitalized remains a top priority for The First Bancorp. Since December 31, 2008, the Company's total risk-based capital ratio has increased from 11.13% to 15.66%, well above the well-capitalized threshold of 10.0% set by the FDIC. In Management's view, participating in the U.S. Treasury Capital Purchase Program (the "CPP") was the right decision for The First Bancorp. The Company obtained additional capital at a relatively low cost and it provides us with greater ability to ride out the current economic storm and allows us more flexibility to work with individuals and businesses as they too struggle through these adverse economic conditions. During the quarter ended September 30, 2011, the Company repaid $12.5 million preferred stock issued by the U.S. Treasury under the CPP. After the repurchase, $12.5 million of CPP preferred stock remains outstanding.

The Company’s operating ratios remain good, with a return on average tangible common equity of 9.68% for the three months ended March 31, 2012 compared to 11.43% for the same period in 2011. Based upon December 31, 2011 data, our return on average tangible equity was in the top 40% of all banks in the UBPR peer group, which had an average return on equity of 7.26%. Our efficiency ratio continues to be an important component in our overall performance; and, was up slightly to 50.40% for the first three months of 2012 compared to 48.28% for the same period in 2011. As of December 31, 2011, the average efficiency ratio for our UBPR peer group was 66.26%, which put us in the top 12% of all banks in the UBPR peer group.

Net Interest Income

Total interest income of $13.1 million for the three months ended March 31, 2012, was a decrease of $1.1 million or 8.1% compared to total interest income of $14.3 for the same period of 2011. Total interest expense of $3.3 million for the first three months of 2012 is a $0.4 million or 12.0% decrease from total interest expense of $3.7 million for the first three months of 2011. As a result, net interest income decreased 6.7% or $0.7 million to $9.8 million for the three months ended March 31, 2012, from the $10.5 million reported for the same period in 2011. The Company’s net interest margin on a tax-equivalent basis decreased from 3.40% in the first three months of 2011 to 3.22% for the three months ended March 31, 2012. This is the result of the low interest rate environment with a higher volume of assets continuing to reprice downward without the opportunity to reprice a comparable volume of liabilities.
Tax-exempt interest income amounted to $1.4 million and $1.1 million for the three months ended March 31, 2012 and 2011, respectively.
The following tables present the amount of interest earned or paid, as well as the average yield or rate on an annualized basis, for each major category of assets or liabilities for the three months ended March 31, 2012 and 2011. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2012 and 2011.

	For the three months ended					
	March 31, 2012			March 31, 2011		
Dollars in thousands	Amount of interest	Average Yield/Rate		Amount of interest	Average Yield/Rate	
Interest on earning assets						
Interest-bearing deposits	$-	0.00	%	$-	0.25	%
Investments	4,385	3.93	%	4,595	4.34	%
Loans held for sale	1	4.05	%	17	4.46	%
Loans	9,483	4.39	%	10,251	4.64	%
Total interest-earning assets	13,869	4.23	%	14,863	4.55	%
Interest-bearing liabilities						
Deposits	2,193	0.96	%	2,563	1.09	%
Other borrowings	1,107	1.83	%	1,186	2.13	%
Total interest-bearing liabilities	3,300	1.14	%	3,749	1.29	%
Net interest income	$10,569			$11,116		
Interest rate spread		3.09	%		3.26	%
Net interest margin		3.22	%		3.40	%

The following tables present changes in interest income and expense attributable to changes in interest rates and volume for interest-earning assets and liabilities for the three months ended March 31, 2012 compared to 2011. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2012 and 2011.

For the three months ended March 31, 2012 compared to 2011

Dollars in thousands	Volume	Rate	Rate/Volume1	Total
Interest on earning assets				
Interest-bearing deposits	$2	$-	$ (2)	$-
Investment securities	212	(403)	(19)	(210)
Loans held for sale	(16)	(1)	1	(16)
Loans	(285)	(497)	14	(768)
Total interest income	(87)	(901)	(6)	(994)
Interest expense				
Deposits	(98)	(283)	11	(370)
Other borrowings	93	(160)	(12)	(79)
Total interest expense	(5)	(443)	(1)	(449)
Change in net interest income	$(82)	$(458)	$ (5)	$(545)

1 Represents the change attributable to a combination of change in rate and change in volume.

Average Daily Balance Sheets

The following table shows the Company's average daily balance sheets for the three-month periods ended March 31, 2012 and 2011.

Dollars in thousands	For the three months Ended March 31, 2012	2011
Assets		
Cash and cash equivalents	$12,346	$16,208
Interest bearing deposits in other banks	1,848	100
Securities available for sale	304,867	309,105
Securities to be held to maturity	128,651	104,493
Federal Reserve Bank stock, at cost	1,411	1,411
Federal Home Loan Bank, at cost	13,875	14,032
Loans held for sale (fair value approximates cost)	67	1,545
Loans	869,224	894,068
Allowance for loan losses	(12,909)	(13,851)
Net loans	856,315	880,217
Accrued interest receivable	4,891	5,283
Premises and equipment, net of accumulated depreciation	18,870	18,887
Other real estate owned	4,217	5,000
Goodwill	27,684	27,684
Other assets	26,781	28,540
Total Assets	1,401,823	$1,412,505
Liabilities & Shareholders' Equity		
Demand deposits	$72,289	$69,766
NOW deposits	120,546	122,249
Money market deposits	78,477	75,518
Savings deposits	116,346	103,763
Certificates of deposit	602,734	653,092
Total deposits	990,392	1,024,388
Borrowed funds – short term	109,990	25,889
Borrowed funds – long term	133,453	199,778
Dividends payable	1,025	976
Other liabilities	13,419	9,505
Total Liabilities	1,248,279	1,260,536
Shareholders' Equity:		
Preferred stock	12,304	24,705
Common stock	98	98
Additional paid-in capital	45,970	45,536
Retained earnings	86,657	83,257
Net unrealized gain (loss) on securities available-for-sale	8,599	(1,557)
Net unrealized loss on postretirement benefit costs	(84)	(70)
Total Shareholders' Equity	153,544	151,969
Total Liabilities & Shareholders' Equity	$1,401,823	$1,412,505

Non-Interest Income

Non-interest income of $2.2 million for the three months ended March 31, 2012, is a decrease of $109,000 compared to the same period in 2011. This decrease was attributable to a decline in mortgage origination income partially related to a $239,000 impairment charge for mortgage-servicing rights as a result of low interest rates and higher levels of mortgage refinancing. It was offset, in part, by securities gains of $523,000.

Non-Interest Expense

Non-interest expense of $6.2 million for the three months ended March 31, 2012 is a decrease of 4.8% or $0.3 million compared to non-interest expense of $6.5 million for the same period in 2011. This decrease was attributable to lower premiums for FDIC Insurance and lower costs related to collections and other real estate owned. The Company's efficiency ratio was up slightly to 50.40% for the first three months of 2012 compared to 48.28% for the same period in 2011.

Income Taxes

Income taxes on operating earnings were $783,000 for the three months ended March 31, 2012, down $268,000 from the same period in 2011. This is in line with the decrease in the Company's level of income before taxes and a higher level of tax-exempt income.
FASB ASC Topic 740 "Income Taxes" defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2009 through 2011.

Investments

The Company's investment portfolio increased by $45.2 million or 10.7% between December 31, 2011, and March 31, 2012. The growth in the portfolio in the three months of 2012 was primarily in GNMA mortgage-backed securities and US Agency securities, which are fully backed by the U.S. Government and carry no credit risk. As of March 31, 2012, mortgage-backed securities had a carrying value of $284.3 million and a fair value of $287.9 million. Of this total, securities with a fair value of $264.1 million or 91.7% of the mortgage-backed portfolio were issued by GNMA and securities with a fair value of $23.9 million or 8.3% of the mortgage-backed portfolio were issued by FHLMC and FNMA.
The Company's investment securities are classified into two categories: securities available for sale and securities to be held to maturity. Securities available for sale consist primarily of debt securities which Management intends to hold for indefinite periods of time. They may be used as part of the Company's funds management strategy, and may be sold in response to changes in interest rates, prepayment risk and liquidity needs, to increase capital ratios, or for other similar reasons. Securities to be held to maturity consist primarily of debt securities that the Company has acquired solely for long-term investment purposes, rather than for trading or future sale. For securities to be categorized as held to maturity Management must have the intent and the Company must have the ability to hold such investments until their respective maturity dates. The Company does not hold trading account securities.
All investment securities are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy that investments for either portfolio be limited to government debt obligations, time deposits, and corporate bonds or commercial paper with one of the three highest ratings given by a nationally recognized rating agency. The portfolio is currently invested primarily in U.S. Government agency securities and tax-exempt obligations of states and political subdivisions. The individual securities have been selected

to enhance the portfolio's overall yield while not materially adding to the Company's level of interest rate risk.

The following table sets forth the Company's investment securities at their carrying amounts as of March 31, 2012 and 2011 and December 31, 2011.

Dollars in thousands	March 31, 2012	December 31, 2011	March 31, 2011
Securities available for sale			
U.S. Treasury and agency	$-	$-	$15,943
Mortgage-backed securities	232,115	198,232	253,110
State and political subdivisions	83,162	85,726	55,081
Corporate securities	-	811	923
Other equity securities	1,834	1,433	394
	$317,111	$286,202	$325,451
Securities to be held to maturity			
U.S. Treasury and agency	$39,694	$19,390	$2,936
Mortgage-backed securities	52,185	56,800	59,063
State and political subdivisions	45,427	46,171	47,787
Corporate securities	300	300	150
	$137,606	$122,661	$109,936
Non-marketable securities			
Federal Home Loan Bank Stock	$13,412	$14,032	$14,032
Federal Reserve Bank Stock	1,411	1,411	1,411
	$14,823	$15,443	$15,443
Total securities	$469,540	$424,306	$450,830

The following table sets forth yields and expected maturities of the Company's investment securities as of March 31, 2012. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax rate of 35%. Mortgage-backed securities are presented according to their final contractual maturity date, while the calculated yield takes into effect the intermediate cash flows from repayment of principal which results in a much shorter average life.

Dollars in thousands	Available For Sale Fair Value	Available For Sale Yield to maturity	Held to Maturity Amortized Cost	Held to Maturity Yield to maturity
U.S. Treasury & Agency				
Due in 1 year or less	$-	0.00 %	$-	0.00 %
Due in 1 to 5 years	-	0.00 %	-	0.00 %
Due in 5 to 10 years	-	0.00 %	5,000	3.00 %
Due after 10 years	-	0.00 %	34,694	3.27 %
Total	-	0.00 %	39,694	3.24 %
Mortgage-Backed Securities				
Due in 1 year or less	4,933	1.50 %	3,177	2.52 %
Due in 1 to 5 years	59,180	2.81 %	4,583	3.54 %
Due in 5 to 10 years	12,123	2.88 %	7,641	4.76 %
Due after 10 years	155,879	3.12 %	36,784	4.58 %
Total	232,115	2.99 %	52,185	4.39 %
State & Political Subdivisions				
Due in 1 year or less	1,015	6.90 %	1,486	6.08 %
Due in 1 to 5 years	1,791	6.90 %	7,290	6.56 %
Due in 5 to 10 years	1,319	6.21 %	22,922	6.26 %
Due after 10 years	79,037	6.17 %	13,729	6.28 %
Total	83,162	6.20 %	45,427	6.31 %
Corporate Securities				
Due in 1 year or less	-	0.00 %	-	0.00 %
Due in 1 to 5 years	-	0.00 %	300	1.25 %
Due in 5 to 10 years	-	0.00 %	-	0.00 %
Due after 10 years	-	0.00 %	-	0.00 %
Total	-	0.00 %	300	1.25 %
Equity Securities	1,834	1.52 %	-	0.00 %
	$317,111	3.82 %	$137,606	4.68 %

Impaired Securities

The securities portfolio contains certain securities that the amortized cost of which exceeds fair value, which at March 31, 2012 amounted to $1.1 million, or 0.24% of the amortized cost of the total securities portfolio. At December 31, 2011 this amount was $0.8 million, or 0.19% of the total securities portfolio. As a part of the Company's ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. If a decline in the fair value of a debt security is judged to be other-than-temporary, the decline related to credit loss is recorded in net realized securities losses while the decline attributable to other factors is recorded in other comprehensive income or loss.

The Company's evaluation of securities for impairment is a quantitative and qualitative process intended to determine whether declines in the fair value of investment securities should be recognized in current period earnings. The primary factors considered in evaluating whether a decline in the fair value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity, and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred.

The Company’s best estimate of cash flows uses severe economic recession assumptions due to market uncertainty. The Company’s assumptions include but are not limited to delinquencies, foreclosure levels and constant default rates on the underlying collateral, loss severity ratios, and constant prepayment rates. If the Company does not expect to receive 100% of future contractual principal and interest, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral.

As of March 31, 2012, the Company had temporarily impaired securities with a fair value of $80.5 million and unrealized losses of $1.1 million, as identified in the table below. This was up from December 31, 2011 as a result of slight increase in interest rates and corresponding decrease in value of investment securities. Securities in a continuous unrealized loss position more than twelve-months amounted to $6.9 million as of March 31, 2012, compared with $9.3 million at December 31, 2011. The Company has concluded that these securities were not other-than-temporarily impaired. This conclusion was based on the issuer’s continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that the issuer will continue to do so, Management’s intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value which may be at maturity, the expectation that the Company will receive 100% of future contractual cash flows, as well as the evaluation of the fundamentals of the issuer’s financial condition and other objective evidence. The following table summarizes temporarily impaired securities and their approximate fair values at March 31, 2012.

	Less than 12 months		12 months or more		Total	
Dollars in thousands	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$33,514	$(435)	$-	$-	$33,514	$(435)
Mortgage-backed securities	35,242	(280)	6,608			