First Bancorp, Inc /ME/
Form 10-Q
November 06, 2009
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 September 30, 2009

Commission File Number 0-26589

THE FIRST BANCORP, INC.

(Exact name of Registrant as specified in its charter) **MAINE 01-0404322**

(State or other jurisdiction of incorporation or organization)(I.R.S. Employer Identification No.)

MAIN STREET, DAMARISCOTTA, MAINE 04543

(Address of principal executive offices) (Zip code)

(207) 563-3195

Registrant s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No[_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer x Non-accelerated filer [_]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes [_] No x

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of November 4, 2009

Common Stock: 9,743,070 shares

Table of Contents

Part I. Financial Information 1
Selected Financial Data (Unaudited) 1
Item 1 Financial Statements 2
Report of Independent Registered Public Accounting Firm 2
Consolidated Balance Sheets (Unaudited) 3
Consolidated Statements of Income (Unaudited) 4
Consolidated Statements of Changes in Shareholders Equity (Unaudited) 5
Consolidated Statements of Cash Flows (Unaudited) 6
Notes to Consolidated Financial Statements 7
Note 1 Basis of Presentation 7
Note 2 Investment Securities 8
Note 3 Loans 11
Note 4 Stock Options 12
Note 5 Preferred Stock 13
Note 6 Common Stock 13
Note 7 Earnings Per Share 14
Note 8 Employee Benefit Plans 15
Note 9 Goodwill and Other Intangible Assets 17
Note 10 Mortgage Servicing Rights 17
Note 11 Income Taxes 17
Note 12 Reclassifications 17
Note 13 Fair Value Disclosures 18
Note 14 Impact of Recently Issued Accounting Standards 22
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations 23
Forward-Looking Statements 23
Critical Accounting Policies 23
Use of Non-GAAP Financial Measures 24
Executive Summary 26
Net Interest Income 26
Average Daily Balance Sheets 29
Non-Interest Income 30
Non-Interest Expense 30
Income Taxes 30
Investments 30
Impaired Securities 30
Federal Home Loan Bank Stock 32
Lending Activities 33
Loan Concentrations 34
Loans Held for Sale 34
Credit Risk Management and Allowance for Loan Losses 35
Non-Performing Loans 39
Troyubled Debt Restructures 40
Potential Problem Loanss 40
Other Real Estate Owned 41
Goodwill 41
Liquidity Management 41
Deposits 42
Borrowed Funds 42
Shareholders Equity 42
Contractual Obligations 43
Item 3 Quantitative and Qualitative Disclosures About Market Risk 44
Market-Risk Management 44
Asset/Liability Management 44
Interest Rate Risk Management 45
Item 4: Controls and Procedures 46
Part II Other Information 47
Item 1 Legal Proceedings 47
Item 1a Risk Factors 47
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds 48
Item 3 Default Upon Senior Securities 49

Item 4 Submission of Matters to a Vote of Security Holders 49
Item 5 Other Information 49

Item 6 Exhibits 50
Signatures 51

Part I. Financial Information

Selected Financial Data (Unaudited)

The First Bancorp, Inc. and Subsidiary

Dollars in thousands, except for per share amounts	**For the nine months ended September 30**		**For the quarters ended September 30**	
	2009	2008	**2009**	2008
Summary of Operations				
Interest Income	**$ 48,093**	$ 53,735	**$ 15,224**	$ 17,891
Interest Expense	**14,768**	26,353	**4,409**	8,268
Net Interest Income	**33,325**	27,382	**10,815**	9,623
Provision for Loan Losses	**7,660**	2,314	**3,060**	875
Non-Interest Income	**8,525**	7,550	**2,977**	2,878
Non-Interest Expense	**19,892**	17,158	**6,872**	6,306
Net Income	**10,380**	11,026	**2,890**	3,832
Per Common Share Data				
Basic Earnings per Share	**$ 0.98**	$ 1.14	**$ 0.26**	$ 0.40
Diluted Earnings per Share	**0.98**	1.13	**0.26**	0.39
Cash Dividends Declared	**0.585**	0.570	**0.195**	0.195
Book Value	**12.65**	11.96	**12.65**	11.96
Tangible Book Value [2]	**9.80**	9.10	**9.80**	9.10
Market Value	**18.60**	19.60	**18.60**	19.60
Financial Ratios				
Return on Average Equity [1]	**11.40%**	12.67%	**9.28%**	12.98%
Return on Average Tangible Equity [1,2]	**14.76%**	16.63%	**11.96%**	16.95%
Return on Average Assets [1]	**1.02%**	1.17%	**0.85%**	1.17%
Average Equity to Average Assets	**10.69%**	9.19%	**11.01%**	9.02%
Average Tangible Equity to Average Assets [2]	**8.66%**	7.01%	**8.95%**	6.91%
Net Interest Margin Tax-Equivalent [1,2]	**3.65%**	3.27%	**3.59%**	3.31%
Dividend Payout Ratio	**59.69%**	50.00%	**75.00%**	48.75%
Allowance for Loan Losses/Total Loans	**1.31%**	0.86%	**1.31%**	0.86%
Non-Performing Loans to Total Loans	**1.80%**	0.78%	**1.80%**	0.78%
Non-Performing Assets to Total Assets	**1.58%**	0.74%	**1.58%**	0.74%
Efficiency Ratio [2]	**43.01%**	46.73%	**47.54%**	48.03%
At Period End				
Total Assets	**$1,331,842**	$1,311,262	**$1,331,842**	$1,311,262
Total Loans	**973,823**	960,897	**973,823**	960,897
Total Investment Securities	**265,052**	261,057	**265,052**	261,057
Total Deposits	**960,072**	918,992	**960,072**	918,992
Total Shareholders Equity	**147,614**	115,872	**147,614**	115,872

[1]Annualized using a 365-day basis in 2009 and a 366-day basis in 2008

[2]These 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 September 30, 2009 and 2008 and for the three-month and nine-month periods then ended. These financial statements are the responsibility of the Company s management.

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

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

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine

November 6, 2009

Consolidated Balance Sheets (Unaudited)

The First Bancorp, Inc. and Subsidiary

In thousands of dollars	**September 30, 2009**	December 31, 2008	September 30, 2008
Assets			
Cash and due from banks	**$ 16,421**	$ 16,856	$ 21,667
Overnight funds sold	**7,500**	-	-
Securities available for sale	**38,575**	13,072	20,613
Securities to be held to maturity			
(fair value $216,921 at September 30, 2009, $229,460 at December 31, 2008 and $219,483 at September 30, 2008)	**211,784**	234,767	225,751
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	**14,693**	14,693	14,693
Loans held for sale (fair value approximates cost)	**2,794**	1,298	1,203
Loans	**973,823**	979,273	960,897
Less: allowance for loan losses	**12,800**	8,800	8,303
Net loans	**961,023**	970,473	952,594
Accrued interest receivable	**5,648**	5,783	6,785
Premises and equipment	**18,357**	16,028	16,301
Other real estate owned	**2,995**	2,428	2,168
Goodwill	**27,684**	27,684	27,684
Other assets	**24,368**	22,662	21,803
Total Assets	**$1,331,842**	$1,325,744	$1,311,262
Liabilities			
Demand deposits	**$ 74,049**	$ 68,399	$ 75,753
NOW deposits	**112,087**	108,188	110,365
Money market deposits	**101,352**	129,333	123,157
Savings deposits	**93,363**	82,867	85,230
Certificates of deposit under $100,000	**228,835**	246,152	413,913
Certificates $100,000 and over	**350,386**	290,797	110,574
Total deposits	**960,072**	925,736	918,992
Borrowed funds	**213,061**	272,074	264,617
Other liabilities	**11,095**	10,753	11,781
Total Liabilities	**1,184,228**	1,208,563	1,195,390
Shareholders Equity			
Preferred stock	**24,582**	-	-
Common stock	**97**	97	97
Additional paid-in capital	**45,003**	44,117	43,995
Retained earnings	**78,000**	74,057	72,939
Accumulated other comprehensive income (loss)			
Net unrealized gain (loss) on securities available for sale	**189**	(819)	(899)
Net unrealized loss on postretirement benefit costs	**(257)**	(271)	(260)
Total Shareholders Equity	**147,614**	117,181	115,872
Total Liabilities & Shareholders Equity	**$1,331,842**	$1,325,744	$1,311,262
Common Stock			
Number of shares authorized	**18,000,000**	18,000,000	18,000,000
Number of shares issued and outstanding	**9,725,405**	9,696,397	9,689,711
Book value per share	**$ 12.65**	$ 12.09	$ 11.96

See Report of Independent Registered Public Accounting Firm.

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

Consolidated Statements of Income (Unaudited)

The First Bancorp, Inc. and Subsidiary

	For the nine months ended		**For the quarters ended**	
	September 30,		**September 30,**	
In thousands of dollars	**2009**	2008	**2009**	2008
Interest income				
Interest and fees on loans	**$37,704**	$44,219	**$12,171**	$14,570
Interest on deposits with other banks	**1**	-	**1**	-
Interest and dividends on investments	**10,388**	9,516	**3,052**	3,321
Total interest income	**48,093**	53,735	**15,224**	17,891
Interest expense				
Interest on deposits	**9,403**	18,041	**2,709**	5,692
Interest on borrowed funds	**5,365**	8,312	**1,700**	2,576
Total interest expense	**14,768**	26,353	**4,409**	8,268
Net interest income	**33,325**	27,382	**10,815**	9,623
Provision for loan losses	**7,660**	2,314	**3,060**	875
Net interest income after provision for loan losses	**25,665**	25,068	**7,755**	8,748
Non-interest income				
Investment management and fiduciary income	**998**	1,138	**320**	358
Service charges on deposit accounts	**1,754**	2,191	**596**	703
Net securities gains	**-**	6	**1**	-
Mortgage origination and servicing income	**1,913**	370	**370**	154
Other operating income	**3,860**	3,845	**1,690**	1,663
Total non-interest income	**8,525**	7,550	**2,977**	2,878
Non-interest expense				
Salaries and employee benefits	**7,994**	8,625	**2,842**	2,945
Occupancy expense	**1,182**	1,150	**348**	376
Furniture and equipment expense	**1,700**	1,508	**562**	566
FDIC insurance premiums	**1,276**	266	**315**	128
Net securities losses	**147**	-	**-**	22
Other than temporary impairment charge	**916**	-	**-**	-
Amortization of identified intangibles	**213**	213	**71**	71
Other operating expense	**6,464**	5,396	**2,734**	2,198
Total non-interest expense	**19,892**	17,158	**6,872**	6,306
Income before income taxes	**14,298**	15,460	**3,860**	5,320
Applicable income taxes	**3,918**	4,434	**970**	1,488
NET INCOME	**$10,380**	$11,026	**$ 2,890**	$ 3,832
Less preferred stock dividends and premium amortization	**824**	-	**337**	-
Net income available to common shareholders	**$ 9,556**	$11,026	**$ 2,553**	$ 3,832
Earning per common share				
Basic earnings per share	**$0.98**	$1.14	**$0.26**	$0.40
Diluted earnings per share	**$0.98**	$1.13	**$0.26**	$0.39
Weighted average number of shares outstanding	**9,716,129**	9,703,901	**9,723,757**	9,689,053
Incremental shares	**26,808**	20,103	**52,629**	21,290
Cash dividends declared per share	**$0.585**	$0.570	**$0.195**	$0.195

See Report of Independent Registered Public Accounting Firm.

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

Consolidated Statements of Changes in Shareholders Equity (Unaudited)

The First Bancorp, Inc. and Subsidiary

In thousands of dollars, except number of shares	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, 2007	$ -	**9,732,493**	**$ 44,859**	**$ 67,432**	**$ 162**	**$ 112,453**
Net income	-	-	-	11,026	-	11,026
Net unrealized loss on securities available for sale, net of tax benefit of $719	-	-	-	-	(1,335)	(1,335)
Unrecognized transition obligation for postretirement benefits, net of taxes of $8	-	-	-	-	14	14
Comprehensive income	-	-	-	11,026	(1,321)	9,705
Dividends declared on common stock	-	-	-	(5,527)	-	(5,527)
Equity compensation expense	-	-	28	-	-	28
Payment to repurchase common stock	-	(84,868)	(1,347)	-	-	(1,347)
Proceeds from sale of common stock	-	42,086	552	-	-	552
Tax benefit of disqualifying disposition of incentive stock option shares	-	-	-	8	-	8
Balance at September 30, 2008	**$ -**	**9,689,711**	**$ 44,092**	**$ 72,939**	**$ (1,159)**	**$ 115,872**
Balance at December 31, 2008	**$ -**	**9,696,397**	**$ 44,214**	**$ 74,057**	**$ (1,090)**	**$ 117,181**
Net income	-	-	-	10,380	-	10,380
Net unrealized gain on securities available for sale, net of taxes of $543	-	-	-	-	1,008	1,008
Unrecognized transition obligation for postretirement benefits, net of taxes of $7	-	-	-	-	14	14
Comprehensive income	-	-	-	10,380	1,022	11,402
Dividends declared on common stock	-	-	-	(5,687)	-	(5,687)
Dividends declared on preferred stock	-	-	-	(750)	-	(750)
Equity compensation expense	-	-	28	-	-	28
Proceeds from sale of preferred stock	25,000	-	-	-	-	25,000
Premium on issuance of preferred stock	(493)	-	493	-	-	-
Amortization of premium for preferred stock issuance	75	-	(75)	-	-	-
Payment to repurchase common stock	-	(7,685)	(138)	-	-	(138)
Proceeds from sale of common stock	-	36,693	578	-	-	578
Balance at September 30, 2009	**$ 24,582**	**9,725,405**	**$ 45,100**	**$ 78,000**	**$ (68)**	**$ 147,614**

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 nine months ended	
	September 30,	
In thousands of dollars	**2009**	2008
Cash flows from operating activities		
Net income	**$ 10,380**	$ 11,026
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**1,112**	923
Provision for loan losses	**7,660**	2,314
Loans originated for resale	**(98,868)**	(16,543)
Proceeds from sales and transfers of loans	**97,372**	17,157
Net loss (gain) on sale or call of investment securities	**147**	(6)
Other-then-temporary impairment charge	**916**	-
Equity compensation expense	**28**	28
Net increase in other assets and accrued interest	**(2,146)**	(4,313)
Net increase (decrease) in other liabilities	**243**	(2,734)
Net amortization of premiums on investments	**(2,359)**	(3,496)
Net acquisition amortization	**126**	180
Provision for losses on other real estate owned	**412**	-
Net loss on disposal of assets	**3**	2
Net cash provided by operating activities	**15,026**	4,538
Cash flows from investing activities		
Sale of overnight funds	**(7,500)**	-
Proceeds from maturities, payments and calls of securities available for sale	**6,128**	4,641
Proceeds from sales of securities available for sale	**2,914**	-
Proceeds from maturities, payments and calls of securities to be held to maturity	**162,389**	83,831
Proceeds from sales of other real estate owned	**568**	-
Purchases of securities available for sale	**(32,917)**	(1,463)
Purchases of securities to be held to maturity	**(138,187)**	(124,803)
Net decrease (increase) in loans	**243**	(42,885)
Capital expenditures	**(3,444)**	(745)
Net cash used by investing activities	**(9,806)**	(81,424)
Cash flows from financing activities		
Net increase (decrease) in demand, savings, and money market accounts	**(7,936)**	21,544
Net increase in certificates of deposit	**42,281**	116,184
Advances on long-term borrowings	**-**	50,000
Repayment on long-term borrowings	**(27,000)**	-
Net change in short-term borrowings	**(32,006)**	(102,085)
Proceeds from issuance of preferred stock	**25,000**	-
Payments to repurchase common stock	**(138)**	(1,347)
Proceeds from sale of common stock	**578**	552
Dividends paid	**(6,434)**	(3,549)
Net cash (used) provided by financing activities	**(5,655)**	81,299
Net (decrease) increase in cash and cash equivalents	**(435)**	4,413
Cash and cash equivalents at beginning of year	**16,856**	17,254
Cash and cash equivalents at end of period	**$ 16,421**	$ 21,667
Interest paid	**$ 12,551**	$ 26,122
Income taxes paid	**$ 4,634**	$ 5,346
Non-cash transactions		
Change in net unrealized (loss) gain on available for sale securities, net of tax	**$ (1,008)**	$ 1,335
Net transfer from loans to other real estate owned	**$ 1,547**	$ 1,341

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). At the Company s Annual Meeting of Shareholders on April 30, 2008, the Company s name was changed from First National Lincoln Corporation to The First Bancorp, Inc. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2009 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard which established Accounting Standards Codification (the Codification or ASC) to become the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities, with the exception of guidance issued by the U.S. Securities and Exchange Commission (the SEC) and its staff. All guidance contained in the Codification carries an equal level of authority. The Codification is not intended to change GAAP, but rather is expected to simplify accounting research by reorganizing current GAAP into approximately 90 accounting topics. The Company adopted this accounting standard in preparing the Consolidated Financial Statements for the period ended September 30, 2009. The adoption of this accounting standard, which was subsequently codified into ASC Topic 105, Generally Accepted Accounting Principles, had no impact on retained earnings and will have no impact on the Company s consolidated financial statements.

Subsequent Events

Events occurring subsequent to September 30, 2009, have been evaluated as to their potential impact to the Financial Statements through the date of issuance, November 6, 2009.

Note 2 Investment Securities

The following table summarizes the amortized cost and estimated fair value of investment securities at September 30, 2009:

In thousands of dollars	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$ 10,339	$ 65	$ -	$ 10,404
Mortgage-backed securities	16,484	123	(10)	16,597
State and political subdivisions	9,599	525	-	10,124
Corporate securities	1,567	-	(389)	1,178
Other equity securities	295	5	(28)	272
	$ 38,284	$ 718	$ (427)	$ 38,575
Securities to be held to maturity				
U.S. Treasury and agency	$ 44,036	$ 171	$ (17)	$ 44,190
Mortgage-backed securities	105,259	2,124	(158)	107,225
State and political subdivisions	62,339	3,184	(167)	65,356
Corporate securities	150	-	-	150
	$211,784	$5,479	$ (342)	$216,921

The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2008:

In thousands of dollars	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$ 900	$ 22	$ -	$ 922
State and political subdivisions	8,571	339	-	8,910
Corporate securities	4,566	-	(1,589)	2,977
Other equity securities	295	2	(34)	263
	$ 14,332	$ 363	$ (1,623)	$ 13,072
Securities to be held to maturity				
U.S. Treasury and agency	$ 110,513	$ 74	$ (5,871)	$ 104,716
Mortgage-backed securities	60,774	640	(297)	61,117
State and political subdivisions	62,330	952	(684)	62,598
Corporate securities	1,150	-	(121)	1,029
	$ 234,767	$1,666	$ (6,973)	$ 229,460

The following table summarizes the contractual maturities of investment securities at September 30, 2009:

	Securities available for sale		**Securities to be held to maturity**	
In thousands of dollars	**Amortized Cost**	**Fair Value (Estimated)**	**Amortized Cost**	**Fair Value (Estimated)**
Due in 1 year or less	$ 326	$ 326	$ 339	$ 345
Due in 1 to 5 years	3,081	3,318	7,674	7,973
Due in 5 to 10 years	4,099	4,245	15,826	16,736
Due after 10 years	30,483	30,414	187,945	191,867
Equity securities	295	272	-	-
	$38,284	$38,575	$211,784	$216,921

The following table summarizes the contractual maturities of investment securities at December 31, 2008:

	Securities available for sale		**Securities to be held to maturity**	
In thousands of dollars	**Amortized Cost**	**Fair Value (Estimated)**	**Amortized Cost**	**Fair Value (Estimated)**
Due in 1 year or less	$ 1,063	$ 935	$ 935	$ 936
Due in 1 to 5 years	5,251	4,408	7,210	7,369
Due in 5 to 10 years	5,935	6,162	21,856	22,199
Due after 10 years	1,788	1,304	204,766	198,956
Equity securities	295	263	-	-
	$14,332	$13,072	$234,767	$229,460

At September 30, 2009, securities with a fair value of $176.0 million were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a fair value of $153.6 million as of December 31, 2008 pledged for the same purpose.

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 nine months ended September 30, 2009 and the year ended December 31, 2008:

	For the nine months ended	For the year ended
In thousands of dollars	**September 30, 2009**	December 31, 2008
Proceeds from sales	$ 2,914	$14,192
Gross gains	$ 9	$ 123
Gross losses	(156)	(212)
Net loss	$ (147)	$ (89)
Related income taxes	$ (55)	$ (31)

Management reviews securities with unrealized losses for other than temporary impairment. As of September 30, 2009, there were 19 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 eight had been temporarily impaired for 12 months or more. During the first quarter 2009, the Company took an after-tax charge of $596,000 for other-than-temporary impairment related to one automotive company corporate security in the investment portfolio. In Management s opinion, no additional writedown for other-than-temporary impairment is warranted.

Information regarding securities temporarily impaired as of September 30, 2009 is summarized below:

	Less than 12 months		**12 months or more**		**Total**	
In thousands of dollars	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$ 5,574	$ (17)	$ -	$ -	$ 5,574	$ (17)
Mortgage-backed securities	20,558	(168)	12	-	20,570	(168)
State and political subdivisions	-	-	1,504	(167)	1,504	(167)
Corporate securities	326	(1)	732	(388)	1,058	(389)
Other equity securities	-	-	36	(28)	36	(28)
	$26,458	$(186)	$2,284	$(583)	$28,742	$(769)

Information regarding securities temporarily impaired as of December 31, 2008 is summarized below:

	Less than 12 months		**12 months or more**		**Total**	
In thousands of dollars	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$64,951	$(4,610)	$10,043	$(1,261)	$ 74,994	$(5,871)
Mortgage-backed securities	12,498	(110)	3,534	(187)	16,032	(297)
State and political subdivisions	13,592	(573)	2,165	(111)	15,757	(684)
Corporate securities	1,821	(187)	1,709	(1,523)	3,530	(1,710)
Other equity securities	-	-	32	(34)	32	(34)
	$92,862	$(5,480)	$17,483	$(3,116)	$110,345	$(8,596)

The Bank is a member of the Federal Home Loan Bank (FHLB) of Boston. The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of September 30, 2009 and December 31, 2008, the Company s investment in FHLB stock totaled $14.0 million.

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

The FHLB has announced that dividend payments for 2009 are unlikely. The Company will likely have no dividend income on its FHLB stock in 2009. On April 10, 2009, the FHLB reiterated to its members that, while it currently is meeting all its regulatory capital requirements, it is focusing on preserving capital in response to ongoing market volatility including the suspension of its quarterly dividend and the extension of a moratorium on excess stock repurchases. On October 29, 2009, the FHLB announced a net loss of $105.4 million for the third quarter of 2009 and noted that the primary challenge for the FHLB continues to be losses due to the other-than-temporary impairment of its investments in private-label mortgage-backed securities resulting in a credit loss of $174.2 million during the quarter. The associated non-credit loss on these securities is $1.6 million and results in an accumulated other comprehensive loss of $1.0 billion at September 30, 2009. Retained earnings were $136.3 million at September 30, 2009, down from $241.7 million at June 30, 2009. The FHLB remained in compliance with all regulatory capital ratios as of September 30, 2009

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through September 30, 2009. The Bank will continue to monitor its investment in FHLB stock.

Note 3 Loans

The following table shows the composition of the Company s loan portfolio as of September 30, 2009, December 31, 2008 and September 30, 2008:

In thousands of dollars	**September 30, 2009**		December 31, 2008		September 30, 2008	
Commercial						
Real estate	**$236,807**	**24.3%**	$219,057	22.3%	$213,957	22.3%
Construction	**50,601**	**5.2%**	48,182	4.9%	45,035	4.7%
Other	**118,151**	**12.1%**	118,109	12.1%	120,608	12.6%
Municipal	**55,889**	**5.7%**	34,832	3.6%	25,018	2.6%
Residential						
Term	**381,718**	**39.3%**	431,520	44.0%	432,632	45.0%
Construction	**17,056**	**1.8%**	26,235	2.7%	23,499	2.4%
Heloc	**88,830**	**9.1%**	77,206	7.9%	74,850	7.8%
Consumer	**24,771**	**2.5%**	24,132	2.5%	25,298	2.6%
Total loans	**$973,823**	**100.0%**	$979,273	100.0%	$960,897	100.0%

Loan balances include net deferred loan costs of $1.9 million as of September 30, 2009 and $1.4 million as of December 31, 2008. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $337.9 million at September 30, 2009 and $357.0 million at December 31, 2008, were used to collateralize borrowings from the Federal Home Loan Bank of Boston.

Transactions in the allowance for loan losses were as follows:

In thousands of dollars	**September 30, 2009**	December 31, 2008	September 30, 2008
Balance at beginning of year	**$ 8,800**	$ 6,800	$ 6,800
Provision charged to operating expenses	**7,660**	4,700	2,314
	16,460	11,500	9,114
Loans charged off	**(3,817)**	(2,941)	(982)
Recoveries on loans	**157**	241	171
Net loans charged off	**(3,660)**	(2,700)	(811)
Balance at end of year	**$ 12,800**	$ 8,800	$ 8,303

Loans on non-accrual status totaled $17.6 million at September 30, 2009, $12.4 million at December 31, 2008 and $7.6 million at September 30, 2008. Loans past due greater than 90 days which are accruing interest totaled $4.6 million at September 30, 2009, $5.0 million at December 31, 2008 and $2.8 million at September 30, 2008. The Company continues to accrue interest on these loans because it believes collection of principal and interest is reasonably assured. Information regarding impaired loans is as follows:

In thousands of dollars	**September 30, 2009**	December 31, 2008	September 30, 2008
Balance of impaired loans	**$17,571**	$12,449	$ 7,563
Less portion for which no allowance for loan losses is allocated	**(8,081)**	(4,805)	(1,954)
Portion of impaired loan balance for which an allowance for loan losses is allocated	**9,490**	7,644	5,609
Portion of allowance for loan losses allocated to the impaired loan balance	**$ 2,810**	$ 1,957	$ 1,596

Note 4 Stock Options

The Company established a shareholder-approved stock option plan in 1995, under which the Company may grant options to its employees for up to 600,000 shares of common stock. The Company believes that such awards align the interests of its employees with those of its shareholders. Only incentive stock options may be granted under the plan. The option price of each option grant is determined by the Options Committee of the Board of Directors, and in no instance shall be less than the fair market value on the date of the grant. An option s maximum term is 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 this plan had been granted.

The Company applies the fair value recognition provisions of FASB ASC Topic 718 Compensation Stock Compensation , to stock-based employee compensation. As a result, $28,000 in compensation cost is included in the Company s financial statements for the first nine months of 2009. The unrecognized compensation cost to be amortized over a weighted average remaining vesting period of 1.25 years is $46,000, which is for 21,000 options granted in 2005. The weighted average fair market value per share was $4.41 at the time of grant. The fair market value was estimated using the Black-Scholes option pricing model and the following assumptions: quarterly dividends of $0.12, risk-free interest rate of 4.20%, volatility of 25.81%, and an expected life of ten years, the options maximum term. Volatility is based on the actual volatility of the Company s stock during the quarter in which the options were granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of the option grant. The following table summarizes the non-vested options as of September 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	21,000	$4.41
Granted in 2009	-	-
Vested in 2009	-	-
Forfeited in 2009	-	-
Non-vested at September 30, 2009	21,000	$4.41

During 2009, 3,000 options were exercised, with proceeds paid to the Company of $22,000. The excess of the fair value of the stock issued upon exercise over the exercise price was $32,000. A summary of the status of the Stock Option Plan as of September 30, 2009 and changes during the nine-month period then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2008	76,500	$13.27		
Granted in 2009	-	-		
Vested in 2009	-	-		
Exercised in 2009	(3,000)	7.50		
Forfeited in 2009	-	-		
Outstanding at September 30, 2009	73,500	$13.51	3.5	$374
Exercisable at September 30, 2009	52,500	$11.71	2.8	$361

Note 5 Preferred Stock

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

The Company may redeem the CPP Shares at any time using any funds available to the Company, and any redemption would be subject to the prior approval of the Federal Reserve Bank of Boston. The minimum amount that may be redeemed is 25% of the original CPP investment. The CPP Shares are perpetual preferred stock, which means that neither Treasury nor any subsequent holder would have a right to require that the Company redeem any of the shares.

During the first three years following the Company s sale of the CPP Shares, the Company is required to obtain Treasury s consent to increase the dividend per share paid on the Company s common stock unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties. Also during the first three years following the Company s sale of the CPP Shares, the Company is required to obtain Treasury s consent in order to repurchase any shares of its outstanding stock of any type (other than purchases of common stock or preferred stock ranking junior to the CPP Shares in the ordinary course of the Company s business and consistent with the Company s past practices in connection with a benefit plan) unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties.

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

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

Note 6 Common Stock

On August 16, 2007, the Company announced that its Board of Directors had authorized a program for the repurchase of up to 300,000 shares of the Company s common stock or approximately 3.1% of the outstanding shares. This program ended on August 16, 2009, and under the program the Company repurchased 182,869 shares at an average price of $15.63 and at a total cost of $2.9 million. As a consequence of the Company s issuance of securities under the U.S. Treasury s CPP program, its ability to repurchase stock while such securities remain outstanding is restricted to

purchases from employee benefit plans. In the first nine months of 2009, the Company repurchased 7,685 shares from employee benefit plans at an average price of $17.88 per share and for total proceeds of $138,000.

Note 7 Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the nine months ended September 30, 2009 and 2008:

In thousands, except number of shares and per share data	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the nine months ended September 30, 2009			
Net income as reported	$10,380		
Less dividends and amortization of premium on preferred stock	824		
Basic EPS: Income available to common shareholders	9,556	9,716,129	$0.98
Effect of dilutive securities: incentive stock options and warrants		26,808	
Diluted EPS: Income available to common shareholders plus assumed conversions	$9,556	9,742,937	$0.98
For the nine months ended September 30, 2008			
Net income as reported	$11,026		
Basic EPS: Income available to common shareholders	11,026	9,703,901	$1.14
Effect of dilutive securities: incentive stock options		20,103	
Diluted EPS: Income available to common shareholders plus assumed conversions	$11,026	9,724,004	$1.13

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the quarters ended September 30, 2009 and 2008:

In thousands, except number of shares and per share data	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the quarter ended September 30, 2009			
Net income as reported	$ 2,890		
Less dividends and amortization of premium on preferred stock	337		
Basic EPS: Income available to common shareholders	2,553	9,723,757	$0.26
Effect of dilutive securities: incentive stock options and warrants		52,629	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,553	9,776,386	$0.26
For the quarter ended September 30, 2008			
Net income as reported	$ 3,832		
Basic EPS: Income available to common shareholders	3,832	9,689,053	$0.40
Effect of dilutive securities: incentive stock options		21,290	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 3,832	9,710,343	$0.39

All earnings per share calculations have been made using the weighted average number of shares outstanding during the period. The dilutive securities are incentive stock options granted to certain key members of Management and warrants granted to the U.S. Treasury under the Capital Purchase program. The dilutive number of shares has been calculated using the treasury method, assuming that all granted options and warrants were exercisable at the end of each period.

Note 8 Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed nine months of service. Employees may contribute up to $16,500 of their compensation if under age 50 and $22,000 if age 50 or over, and the Bank may provide a match to 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 2008. The amount for 2009 has not been established. The expense related to the 401(k) plan was $254,000 for the nine months ended September 30, 2009 and 2008.

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 $147,000 and $123,000 for the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, the associated accrued liability was $1,370,000 compared to $1,265,000 and $1,238,000 at December 31, 2008 and September 30, 2008, respectively.

Post-Retirement Benefit Plans

The Bank sponsors two post-retirement benefit plans. One plan currently provides a subsidy for health insurance premiums to certain retired employees and a future subsidy for seven active employees who were age 50 and over in 1996. These subsidies are based on years of service and range between $40 and $1,200 per month per person. The other plan provides life insurance coverage to certain retired employees. The Bank also provides health insurance for retired directors. None of these plans are pre-funded.

The Company utilizes FASB ASC Topic 712 Compensation Nonretirement Postemployment Benefits to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer 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 of a business entity. The Bank sponsors postretirement benefit plans which provide certain life insurance and health insurance benefits for certain retired employees and health insurance for retired directors. None of these plans are pre-funded. The following table sets forth the accumulated postretirement benefit obligation and funded status:

In thousands of dollars	**September 30, 2009**	September 30, 2008
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 1,990**	$1,949
Service cost	**15**	12
Interest cost	**101**	102
Benefits paid	**(117)**	(131)
Benefit obligation at end of period	**1,989**	1,932
Funded status		
Benefit obligation at end of period	**(1,989)**	(1,932)
Accrued benefit cost	**$(1,989)**	$(1,932)

The following table sets forth the net periodic pension cost:

	For nine months ended		For three months ended	
	September 30,		September 30,	
In thousands of dollars	**2009**	2008	**2009**	2008
Components of net periodic benefit cost				
Service cost	**$ 15**	$ 12	**$ 7**	$ 4
Interest cost	**101**	102	**33**	31
Amortization of unrecognized transition obligation	**21**	21	**7**	8
Amortization of prior service credit	**(2)**	(3)	**-**	(1)
Amortization of accumulated losses	**15**	2	**5**	1
Net periodic benefit cost	**$150**	$ 134	**$52**	$ 43

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

	At September 30,	
In thousands of dollars	**2009**	2008
Unamortized prior service credit	**$ -**	$ 3
Unamortized net actuarial loss	**(295)**	(274)
Unrecognized transition obligation	**(100)**	(129)
	(395)	(400)
Deferred tax benefit at 35%	**138**	140
Net unrecognized postretirement benefits included in accumulated other comprehensive loss	**$ (257)**	$ (260)

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 fourth quarter of 2009 are $39,000 and the expected benefit payments for all of 2009 are $157,000. There is no expected contribution for 2009. Plan expense for 2009 is estimated to be $175,000. A 1% change in trend assumptions would create an approximate change in the same direction of approximately $100,000 in the accumulated benefit obligation, $7,000 in the interest cost and $1,400 in the service cost.

Note 9 Goodwill and Other Intangible Assets

As of December 31, 2008, 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. Servicing assets and servicing liabilities are reported using the amortization method or the fair value measurement method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of September 30, 2009, the prepayment assumption using the PSA model was 286, which translates into an anticipated prepayment rate of 17.19%. The discount rate is the quarterly average ten-year U.S. Treasuries plus 5.0%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

For the nine months ended September 30, 2009 and 2008, servicing rights capitalized totaled $1,083,000 and $236,000, respectively. Servicing rights capitalized for the three month periods ended September 30, 2009 and 2008, were $217,000 and $72,000 respectively. Servicing rights amortized for the nine month periods ended September 30, 2009 and 2008, were $688,000 and $338,000, respectively. Servicing rights amortized for the three month periods ended September 30, 2009 and 2008, were $121,000 and $101,000, respectively. The fair value of servicing rights was $1,205,000, $1,161,000 and $1,170,000 at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. At September 30, 2009 and 2008, the Bank serviced loans for others totaling $213.8 million and $170.0 million, respectively. Mortgage servicing rights are included in other assets and detailed in the following table:

			September 30,
In thousands of dollars	**September 30, 2009**	December 31, 2008	2008
Mortgage servicing rights	**$ 4,911**	$ 4,239	$ 3,989
Accumulated amortization	**(3,715)**	(3,412)	(3,247)
Impairment reserve	**(71)**	(224)	(26)
	$ 1,125	$ 603	$ 716

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. Effective January 1, 2007, the Company has adopted these provisions and there was no material effect on the financial statements, and no cumulative effect. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2006 through 2008.

Note 12 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 13 Fair Value Disclosures

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company s quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale are recorded at fair value on a recurring basis. Other assets, such as, mortgage servicing rights, loans held for sale, and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with level 1 considered highest and level 3 considered lowest). A brief description of each level follows.

Level 1 Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation includes use of discounted cash flow models and similar techniques.

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities. The following table presents the balances of assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2009 and December 31, 2008.

	At September 30, 2009			
In thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale				
U.S. Treasury and agency	$ -	$ 10,404	$ -	$ 10,404
Mortgage-backed securities	-	16,597	-	16,597
State and political subdivisions	-	10,124	-	10,124
Corporate securities	-	1,178	-	1,178
Other equity securities	-	272	-	272
Total assets	$ -	$ 38,575	$ -	$ 38,575

	At December 31, 2008			
In thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale				
U.S. Treasury and agency	$ -	$ -	$ -	$ -
Mortgage-backed securities	-	922	-	922
State and political subdivisions	-	8,910	-	8,910
Corporate securities	-	2,977	-	2,977
Other equity securities	-	263	-	263
Total assets	$ -	$ 13,072	$ -	$ 13,072

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 or the fair value measurement method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as nonrecurring Level 2.

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

Other Real Estate Owned. Real estate acquired through foreclosure is recorded at market value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral. As such, the Company records impaired loans as nonrecurring Level 2.

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition at March 31, 2008. Other real estate owned is presented net of an allowance of $675,000. Impaired loans are presented net of a related specific allowance for loan losses of $2.8 million.

	At September 30, 2009			
In thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Mortgage servicing rights	$ -	$ 1,205	$ -	$ 1,205
Loans held for sale	-	2,794	-	2,794
Other real estate owned	-	2,995	-	2,995
Impaired loans	-	14,761	-	14,761
Total assets	$ -	$ 21,755	$ -	$ 21,755

	At December 31, 2008			
In thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Mortgage servicing rights	$ -	$ 1,161	$ -	$ 1,161
Loans held for sale	-	1,298	-	1,298
Other real estate owned	-	2,428	-	2,428
Impaired loans	-	10,492	-	10,492
Total assets	$ -	$ 15,379	$ -	$ 15,379

ASC Topic 820 Fair Value Measurements and Disclosures 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. ASC Topic 820 Fair Value Measurements and Disclosures 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 September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009		December 31, 2008	
In thousands of dollars	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets				
Cash, cash equivalents and overnight funds sold	**$ 23,921**	**$ 23,921**	$ 16,856	$ 16,856
Securities available for sale	**38,575**	**38,575**	13,072	13,072
Securities to be held to maturity	**211,784**	**216,921**	234,767	229,460
Federal Home Loan Bank and Federal Reserve Bank stock	**14,693**	**14,693**	14,693	14,693
Loans held for sale	**2,794**	**2,794**	1,298	1,298
Loans (net of allowance for loan losses)	**961,023**	**966,928**	970,473	994,560
Cash surrender value of life insurance	**9,406**	**9,406**	9,148	9,148
Accrued interest receivable	**5,648**	**5,648**	5,783	5,783
Financial liabilities				
Deposits	**$ 960,072**	**$ 941,635**	$ 925,736	$904,926
Borrowed funds	**213,061**	**220,900**	272,074	290,336
Accrued interest payable	**895**	**895**	1,322	1,322

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

Cash and Cash Equivalents

The carrying values of cash equivalents, due from banks and overnight funds sold approximate their relative fair values.

Investment Securities

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

Loans

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.

Cash Surrender Value of Life Insurance

The fair value is based on the actual cash surrender value of life insurance policies.

Accrued Interest Receivable

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

Deposits

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

Borrowed Funds

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

Accrued Interest Payable

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

Off-Balance-Sheet Instruments

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

Limitations

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

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

Note 14 Impact of Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 166 (not incorporated into the Codification yet), Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, to improve the reporting for the transfer of financial assets resulting from 1) practices that have developed since the issuance of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of SFAS No. 166 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167 (not incorporated into the Codification yet). Amendments to FASB Interpretation No. 46(R), to amend certain requirements of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The Statement is effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Company will review the requirements of SFAS No. 167 and comply with its requirements. The Company does not expect that the adoption of this Statement will have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. This change initiated by this statement is now included in the Codification as FASB ASC 105-10. Under the Statement, the FASB Codification became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ended after September 15, 2009. In the FASB s view, the issuance of this Statement and the Codification will not change GAAP, except for those nonpublic nongovernmental entities that must now apply the American Institute of Certified Public Accountants Technical Inquiry Service Section 5100, Revenue Recognition, paragraphs 38 76, now part of FASB ASC Topic 985. Management adopted FASB ASC 105-10 in the third quarter of 2009 and there was no material impact on the financial statements of the Company.

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 indica 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 collectibility, 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, 2008, as filed with the SEC, may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this quarterly report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Although The First Bancorp, Inc. believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company, which attempt to advise interested parties of the facts that affect the Company s business.

Critical Accounting Policies

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

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

significant estimate and therefore regularly evaluates it for adequacy by taking into consideration factors such as prior loan loss experience, the

character and size of the loan portfolio, business and economic conditions and Management s estimation of potential losses. The use of different estimates or assumptions could produce different provisions for loan losses.

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

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

Other-Than-Temporary Impairment on Securities. One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairments. The evaluation of securities for other-than- temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if an 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 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 institution, 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, which have been prepared in accordance with U.S. generally accepted accounting principles. A 35.0% tax rate was used in both 2009 and 2008.

	For the nine months ended September 30		**For the quarters ended September 30**	
In thousands of dollars	**2009**	2008	**2009**	2008
Net interest income as presented	**$33,325**	$27,382	**$10,815**	$9,623
Effect of tax-exempt income	**1,787**	1,642	**617**	535
Net interest income, tax-equivalent	**$35,112**	$29,024	**$11,432**	$10,158

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 of between the GAAP and non-GAAP efficiency ratio:

	For the nine months ended		**For the quarters ended**	
In thousands of dollars	**September 30, 2009**	September 30, 2008	**September 30, 2009**	September 30, 2008
Non-interest expense, as presented	**$19,892**	$17,158	**$6,872**	$6,306
Net securities losses	**(147)**	-	**-**	(22)
Other than temporary impairment charge	**(916)**	-	**-**	-
Adjusted non-interest expense	**18,829**	17,158	**6,872**	6,284
Net interest income, as presented	**33,325**	27,382	**10,815**	9,623
Effect of tax-exempt income	**1,787**	1,642	**617**	535
Non-interest income, as presented	**8,525**	7,550	**2,977**	2,878
Effect of non-interest tax-exempt income	**138**	138	**46**	46
Net securities gains	**-**	6	**1**	-
Adjusted net interest income plus non-interest income	**$43,775**	$36,718	**$14,456**	$13,082
Non-GAAP efficiency ratio	**43.01%**	46.73%	**47.54%**	48.03%
GAAP efficiency ratio	**47.53%**	49.12%	**49.83%**	50.44%

The Company presents certain information based upon tangible average shareholders equity instead of total average shareholders equity. The difference between these two 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 nine months ended September 30		For the quarters ended September 30	
In thousands of dollars	**2009**	2008	**2009**	2008
Average shareholders equity as presented	**$145,990**	$115,888	**$148,094**	$117,085
Intangible assets	**27,684**	27,584	**27,684**	27,385
Tangible average shareholders equity	**$118,306**	$88,304	**$120,410**	$89,700

Executive Summary

Net income for the first nine months of 2009 was $10.4 million, down $646,000 or 5.9% from the $11.0 million posted for the same period in 2008. Earnings per common share on a fully diluted basis were $0.98 for the nine months ended September 30, 2009, down $0.15 or 13.3% from the $1.13 posted for the same period in 2008. For the quarter ended September 30, 2009, net income was $2.9 million, a decrease of $942,000 or 24.6% from the third quarter of 2008 and down $872,000 or 23.2% from the previous quarter. Earnings per common share on a fully diluted basis were $0.26 for the quarter ended September 30, 2009, down $0.13 or 33.3% from the third quarter of 2008 and down $0.09 or 25.7% from the previous quarter.

The core business of The First Bancorp continues to be the spread business from traditional banking services the difference between what we earn from loans and investments and what we pay for deposits and borrowed funds. This approach has done extremely well in 2009. With low interest rates and a steep yield curve, net interest income for the nine months ended September 30, 2009 is up $5.9 million or 21.7% over the first nine months of 2008 and the net interest margin widened from 3.27% for the first nine months of 2008 to 3.65% for the first nine months of 2009.

At the same time, we continue to be in the longest and worst recession since the Great Depression of the 1930 s. With weakening credit quality, the provision for loan losses is significantly higher in 2009 than in 2008. The slump in the housing market is continuing and unemployment is at 9.8%. Fortunately, the unemployment rate in Maine, at 8.5%, is somewhat better than the national average. These unemployment numbers, however, do not reflect the number of people who have experienced reduced incomes from wage cutbacks and loss of overtime. In Maine, many people who are self-employed are also experiencing a decline in business revenues impacting their individual incomes as well.

Total assets are up $6.1 million or 0.5% year-to-date. The loan portfolio is down $5.5 million or 0.6%, with excellent growth in commercial loans and municipal loans offset by a decline in mortgages, and the investment portfolio is up $2.5 million or 1.0% year-to-date. On the liability side of the balance sheet, low-cost deposits are up $20.0 million or 7.7% year-to-date, which is in line with our normal seasonal pattern.

We also added $25.0 million in preferred stock in the first quarter under the U.S. Treasury Capital Purchase Program. Our participation in the program provides us with greater ability to ride out the current economic storm, especially if conditions worsen, and also provides greater ability to work with individuals and businesses as they also struggle through these adverse economic conditions. We continue to be considered well-capitalized by FDIC standards with total risk-based capital at 15.05%, well above the well-capitalized threshold of 10.00% set by the FDIC.

Net Interest Income

Total interest income of $48.1 million for the nine months ended September 30, 2009 is a 10.5% decrease from total interest income of $53.7 million in the comparable period of 2008. Total interest expense of $14.8 million for the first nine months of 2009 is a 44.0% decrease from total interest expense of $26.4 million for the first nine months of 2008. As a result, net interest income increased 21.7% or $5.9 million to $33.3 million for the nine months ended September 30, 2009, from the $27.4 million reported for the same period in 2008.

The Company s net interest margin on a tax-equivalent basis increased from 3.27% in the first nine months of 2008 to 3.65% for the nine months ended September 30, 2009. This increase was due to a combination of lower interest rates and growth in earning assets. Tax-exempt interest income amounted to $3.3 million for the nine months ended September 30, 2009 and 2008.

Total interest income of $15.2 million for the quarter ended September 30, 2009 is a 14.9% decrease from total interest income of $17.9 million in the comparable period of 2008. Total interest expense of $4.4 million for the quarter ended September 30, 2009 is a 46.7% decrease from total interest expense of $8.3 million for the same period in 2008. As a result, net interest income increased 12.4% or $1.2 million to $10.8 million for the quarter ended September 30, 2009, from the $9.6 million reported for the same period in 2008.

The Company s net interest margin on a tax-equivalent basis increased from 3.31% for the quarter ended September 30, 2008 to 3.59% for the quarter ended September 30, 2009. This increase was due to a combination of lower interest rates and growth in earning assets. Tax-exempt interest income amounted to $1,146,000 and $1,079,000 for the quarters ended September 30, 2009 and 2008, 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 nine months and the quarters ended September 30, 2009 and 2008. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2009 and 2008.

Nine months ended September 30,	**2009**		2008	
Dollars in thousands	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate
Interest on earning assets				
Interest-bearing deposits	**$ 1**	**4.95%**	$ -	0.00%
Investments	**11,585**	**5.21%**	10,637	5.99%
Loans held for sale	**45**	**2.41%**	102	6.13%
Loans	**38,249**	**5.19%**	44,638	6.31%
Total interest-earning assets	**49,880**	**5.19%**	55,377	6.24%
Interest-bearing liabilities				
Deposits	**9,403**	**1.41%**	18,041	3.10%
Other borrowings	**5,365**	**2.84%**	8,312	3.73%
Total interest-bearing liabilities	**14,768**	**1.72%**	26,353	3.27%
Net interest income	**$35,112**		$29,024	
Interest rate spread		**3.46%**		2.97%
Net interest margin		**3.65%**		3.27%

Quarter ended September 30,	**2009**		2008	
Dollars in thousands	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate
Interest on earning assets				
Interest-bearing deposits	**$ 1**	**4.84%**	$ -	0.00%
Investments	**3,454**	**4.97%**	3,710	5.78%
Loans held for sale	**22**	**2.25%**	34	6.11%
Loans	**12,364**	**4.99%**	14,682	6.07%
Total interest-earning assets	**15,841**	**4.97%**	18,426	6.01%
Interest-bearing liabilities				
Deposits	**2,709**	**1.21%**	5,692	2.73%
Other borrowings	**1,700**	**2.95%**	2,576	3.71%
Total interest-bearing liabilities	**4,409**	**1.57%**	8,268	2.98%
Net interest income	**$11,432**		$10,158	
Interest rate spread		**3.41%**		3.02%
Net interest margin		**3.59%**		3.31%

The following tables present changes in interest income and expense attributable to changes in interest rates and volume for interest-earning assets and interest-bearing liabilities for the nine months and quarters ended September 30, 2009 compared to 2008. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2009 and 2008.

Nine months ended September 30, 2009 compared to 2008

Dollars in thousands	Volume	Rate	Rate/Volume[1]	Total
Interest on earning assets				
Interest-bearing deposits	$ -	$ 1	$ -	$ 1
Investment securities	2,734	(1,421)	(365)	948
Loans held for sale	10	(38)	(5)	(33)
Loans	2,048	(8,091)	(371)	(6,414)
Total interest income	4,792	(9,549)	(741)	(5,498)
Interest expense				
Deposits	2,724	(9,871)	(1,491)	(8,638)
Other borrowings[2]	(1,248)	(1,999)	300	(2,947)
Total interest expense	1,476	(11,870)	(1,191)	(11,585)
Change in net interest income	$ 3,316	$ 2,321	$ 450	$ 6,087

Quarters ended September 30, 2009 compared to 2008

Dollars in thousands	Volume	Rate	Rate/Volume[1]	Total
Interest on earning assets				
Interest-bearing deposits	$ -	$ 1	$ -	$ 1
Investment securities	308	(521)	(43)	(256)
Loans held for sale	30	(27)	(21)	(18)
Loans	370	(2,616)	(66)	(2,312)
Total interest income	708	(3,163)	(130)	(2,585)
Interest expense				
Deposits	428	(3,172)	(239)	(2,983)
Other borrowings[2]	(440)	(526)	90	(876)
Total interest expense	(12)	(3,698)	(149)	(3,859)
Change in net interest income	$ 720	$ 535	$ 19	$ 1,274

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

[2] Includes federal funds purchased.

Average Daily Balance Sheets

The following table shows the Company s average daily balance sheets for the nine-month periods and quarters ended September 30, 2009 and 2008.

	For the nine months ended		**For the quarters ended**	
In thousands of dollars	**September 30, 2009**	September 30, 2008	**September 30, 2009**	September 30, 2008
Assets				
Cash and due from banks	**$ 14,345**	$ 15,263	**$ 16,869**	$ 17,133
Overnight funds sold	**27**	22	**82**	64
Securities available for sale	**22,707**	24,070	**35,288**	22,047
Securities to be held to maturity	**259,863**	197,717	**226,015**	218,085
Federal Reserve Bank and				
Federal Home Loan Bank stock, at cost	**14,693**	14,693	**14,693**	14,693
Loans held for sale (fair value approximates cost)	**2,493**	2,215	**3,884**	2,207
Loans	**986,196**	942,960	**983,613**	959,428
Allowance for loan losses	**(10,617)**	(7,405)	**(12,325)**	(7,963)
Net loans	**975,579**	935,555	**971,288**	951,464
Accrued interest receivable	**6,368**	7,148	**6,002**	6,957
Premises and equipment	**17,906**	16,231	**18,531**	16,134
Other real estate owned	**2,538**	1,541	**2,533**	1,744
Goodwill	**27,684**	27,584	**27,684**	27,385
Other assets	**21,139**	18,318	**22,799**	20,688
Total Assets	**$1,365,342**	$1,260,357	**$1,345,668**	$1,298,601
Liabilities & Stockholders Equity				
Demand deposits	**$ 63,531**	$ 61,738	**$ 70,108**	$ 70,387
NOW deposits	**105,323**	103,784	**107,684**	111,811
Money market deposits	**111,601**	123,573	**103,697**	120,314
Savings deposits	**86,514**	87,044	**90,916**	89,412
Certificates of deposit	**231,472**	360,683	**227,109**	402,674
Certificates $100,000 and over	**358,131**	100,821	**358,716**	101,831
Total deposits	**956,572**	837,643	**958,230**	896,429
Borrowed funds	**252,270**	296,842	**228,328**	275,334
Dividends payable	**932**	830	**1,015**	860
Other liabilities	**9,578**	9,154	**10,001**	8,893
Total Liabilities	**1,219,352**	1,144,469	**1,197,574**	1,181,516
Shareholders Equity:				
Preferred stock	**24,267**	-	**24,558**	-
Common stock	**97**	97	**97**	97
Additional paid-in capital	**44,713**	44,265	**44,985**	43,991
Retained earnings	**77,631**	71,609	**79,013**	73,371
Accumulated other comprehensive income (loss)				
Net unrealized gains (losses) on securities available for sale	**(452)**	186	**(298)**	(109)
Net unrealized loss on postretirement benefit costs	**(266)**	(269)	**(261)**	(265)
Total shareholders equity	**145,990**	115,888	**148,094**	117,085
Total Liabilities & Shareholders Equity	**$1,365,342**	$1,260,357	**$1,345,668**	$1,298,601

Non-Interest Income

Non-interest income was $8.5 million for the nine months ended September 30, 2009, an increase of 12.9% from the $7.6 million reported for the first nine months of 2008. This increase was attributable to mortgage origination and servicing income, which increased $1.5 million or 417.0% as a result of a high volume of residential mortgages refinancing and these loans being sold to the secondary market. For the quarter ended September 30, 2009, non-interest income was $3.0 million, up 3.4% from the $2.9 million posted for the same period in 2008. As with our year-to-date results, the increase for the second quarter was attributable to residential mortgage refinancing. Non-Interest Expense

Non-interest expense of $19.9 million for the nine months ended September 30, 2009 is an increase of 15.9% compared to non-interest expense of $17.2 million for the same period in 2008. This majority of the increase was attributable to an other-than- temporary impairment charge of $916,000 and a $1.0 million increase in FDIC insurance assessments. For the quarter ended September 30, 2009, non-interest expense was $6.9 million, an increase of 9.0% over the $6.3 million posted for the same period in 2008. This increase was attributable to higher FDIC insurance assessments and increased credit-related expenses. Despite these increases in non-interest expense, the Company s efficiency ratio improved considerably in the first nine months of 2009 43.01% compared to 46.73% for the first nine months of 2008. For the quarter ended September 30, 2008, the efficiency ratio was 47.54% compared to 48.03% for the same period in 2008. The improvement in the efficiency ratio for both the quarter and year-to-date was the result of the increase in both net interest income and non-interest income previously discussed.

Income Taxes

Income taxes on operating earnings were $3.9 million for the nine months ended September 30, 2009, down from $4.4 million for the same period in 2008, and $1.0 million for the three months ended September 30, 2009, down from $1.5 million for the same period in 2008. This is in line with the decrease in the Company s level of income before 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. Effective January 1, 2007, the Company has adopted these provisions and there was no material effect on the financial statements, and no cumulative effect. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2006 through 2008.

Investments

The Company s investment portfolio increased by $2.5 million or 1.0% to $265.1 million between December 31, 2008, and September 30, 2009. The growth in the portfolio in the first nine months of 2009 was in GNMA mortgage-backed securities. At September 30, 2009, the Company s available for sale portfolio had an unrealized gain, net of taxes, of $189,000. Between September 30, 2008 and September 30, 2009, the Company s investment portfolio increased by $4.0 million or 1.5%.

Impaired Securities

The securities portfolio contains certain securities the amortized cost of which exceeds fair value, which at September 30, 2009 amounted to an excess of $6.2 million, or 2.5% of the amortized cost of the total securities portfolio. At December 31, 2008 this amount represented an excess of $2.0 million, or 0.8% 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 an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized securities losses equal to the difference between the fair value and cost or amortized cost basis of the security.

The Company s evaluation of securities for impairments 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.

Based on the foregoing evaluation criteria, during the first quarter of 2009, the Company concluded that unrealized losses on one available-for-sale corporate security with an amortized cost of $1.0 million was other-than-temporarily impaired, because the Company could no longer conclude that it is probable that it will recover 100% of the investment. Accordingly, the Company recorded an other-than-temporary impairment charge of $916,000. Management believes this loss was attributable to potential bankruptcy of the issuer of the security, which ultimately happened in the second quarter of 2009. While recording this impairment charge is consistent with current U.S. GAAP accounting standards, Management estimates that the ultimate economic losses that may be realized for other securities in the portfolio may be meaningfully less than the current mark-to-market losses. Management believes that the difference between the expected losses and current mark-to-market losses is largely attributable to current market illiquidity conditions, de-leveraging, and the historical disruption in the financial markets in general. In Management s opinion, no additional writedown for other-than-temporary impairment is required.

As of September 30, 2009, the Company had temporarily impaired securities with a fair value of $28.7 million and unrealized losses of $769,000, as identified in the table below. Securities in a continuous unrealized loss position more than twelve-months amounted to $2.3 million as of September 30, 2009, compared with $17.5 million at December 31, 2008. 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 September 30, 2009.

	Less than 12 months		**12 months or more**		**Total**	
In thousands of dollars	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$ 5,574	$ (17)	$ -	$ -	$ 5,574	$ (17)
Mortgage-backed securities	20,558	(168)	12	-	20,570	(168)
State and political subdivisions	-	-	1,504	(167)	1,504	(167)
Corporate securities	326	(1)	732	(388)	1,058	(389)
Other equity securities	-	-	36	(28)	36	(28)
	$26,458	$(186)	$2,284	$(583)	$28,742	$(769)

For securities with unrealized losses, the following information was considered in determining that the securities were not other-than-temporarily impaired:

Securities issued by the U.S. Treasury and U.S. Government-sponsored agencies and enterprises. As of September 30, 2009, the total unrealized losses on these securities amounted to $17,000, compared with $5.9 million at December 31, 2008. All of these securities were credit rated AAA by the major credit rating agencies. Management believes that securities issued by the U.S. Treasury bear no credit risk because they are backed by the full faith and credit of the United States and that securities issued by U.S. Government-sponsored agencies and enterprises have minimal credit risk, as these agencies and enterprises play a vital role in the nation s financial markets. Management believes that the unrealized losses at September 30, 2009 were attributed to changes in current market yields and

spreads since the date the underlying securities were purchased, and does not consider these securities to be other-than-temporarily impaired at September 30, 2009. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises. As of September 30, 2009, the total unrealized losses on these securities amounted to $168,000, compared with $297,000 at December 31, 2008. All of these securities were credit rated AAA by the major credit rating agencies. Management believes that securities issued by U.S. Government agencies bear no credit risk because they are backed by the full faith and credit of the United States and that securities issued by U.S. Government-sponsored enterprises have minimal credit risk, as these agencies enterprises play a vital role in the nation s financial markets. Management believes that the unrealized losses at September 30, 2009 were attributable to changes in current market yields and spreads since the date the underlying securities were purchased, and does not consider these securities to be other-than-temporarily impaired at September 30, 2009. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Obligations of state and political subdivisions. As of September 30, 2009, the total unrealized losses on municipal securities amounted to $167,000, compared with $684,000 at December 31, 2008. Municipal securities are supported by the general taxing authority of the municipality and, in the cases of school districts, are supported by state aid. At September 30, 2009 all municipal bond issuers were current on contractually obligated interest and principal payments. The Company attributes the unrealized losses at September 30, 2009 to changes in prevailing market yields and pricing spreads since the date the underlying securities were purchased, combined with current market liquidity conditions and the disruption in the financial markets in general. Accordingly, the Company does not consider these municipal securities to be other-than-temporarily impaired at September 30, 2009. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Corporate securities. As of September 30, 2009, the total unrealized losses on corporate securities amounted to $389,000, compared with $1.7 million at December 31, 2008. Corporate securities are dependent on the operating performance of the issuers. At September 30, 2009 all corporate bond issuers were current on contractually obligated interest and principal payments. The Company attributes the unrealized losses at September 30, 2009 to changes in prevailing market yields and pricing spreads since the date the underlying securities were purchased, combined with current market liquidity conditions and the disruption in the financial markets in general. Accordingly, The Company does not consider these corporate securities to be other-than-temporarily impaired at September 30, 2009. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity. The previously discussed security which was designated as other-than-temporarily impaired in the first quarter of 2009 evaluated separately because the fair value exceeded the impaired value at September 30, 2009.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) of Boston. The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of September 30, 2009 and December 31, 2008, the Company s investment in FHLB stock totaled $14.0 million.

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

The FHLB has announced that dividend payments for 2009 are unlikely. The Company will likely have no dividend income on its FHLB stock in 2009. On April 10, 2009, the FHLB reiterated to its members that, while it currently is meeting all its regulatory capital requirements, it is

focusing on preserving capital in response to ongoing market volatility including the suspension of its quarterly dividend and the extension of a moratorium on excess stock repurchases. On October 29, 2009, the FHLB announced a net loss of $105.4 million for the third quarter of 2009 and

noted that the primary challenge for the FHLB continues to be losses due to the other-than-temporary impairment of its investments in private-label mortgage-backed securities resulting in a credit loss of $174.2 million during the quarter. The associated non-credit loss on these securities is $1.6 million and results in an accumulated other comprehensive loss of $1.0 billion at September 30, 2009. Retained earnings were $136.3 million at September 30, 2009, down from $241.7 million at June 30, 2009. The FHLB remained in compliance with all regulatory capital ratios as of September 30, 2009

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through September 30, 2009. The Bank will continue to monitor its investment in FHLB stock.

Lending Activities

The loan portfolio experienced negative growth in the first nine months of 2009, with total loans at $973.8 million at September 30, 2009, down $5.4 million or 0.6% from total loans of $979.3 million at December 31, 2008. While commercial loans increased $20.2 million or 5.2% between December 31, 2008 and September 30, 2009, residential term loans decreased by $49.8 million or 11.5% during the same period as a result of borrowers refinancing home mortage loans which were sold to the secondary market. At the same time, municipal loans posted growth of $21.1 million or 60.5%.

Commercial loans are comprised of three major categories, commercial real estate loans, commercial construction loans and other commercial loans. Commercial real estate is primarily comprised of loans to small businesses collateralized by owner-occupied real estate, while other commercial is primarily comprised of loans to small businesses collateralized by plant and equipment, commercial fishing vessels and gear, and limited inventory-based lending. Commercial real estate loans typically have a maximum loan-to-value of 75% based upon current appraisal information at the time the loan is made. Land development loans typically have a maximum loan-to-value of 65% based upon current appraisal information at the time the loan is made. Commercial construction loans comprise a very small portion of the portfolio, and at 34.3% of capital are well under the regulatory guidance of 100.0% of capital. Commercial real estate loans are at 160.1% of capital, well under the regulatory guidance of 300.0% of capital. Municipal loans are comprised of loans to municipalities in the State of 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.

Residential loans are also comprised of two categories, term loans, which include traditional amortizing home mortgages and home equity loans and lines of credit, 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. Consumer loans are primarily short-term amortizing loans to individuals collateralized by automobiles, pleasure craft and recreations vehicles, 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.

The following table summarizes the loan portfolio as of September 30, 2009 and 2008 and December 31, 2008.

In thousands of dollars	**September 30, 2009**		December 31, 2008		September 30, 2008	
Commercial						
Real estate	**$236,807**	**24.3%**	$219,057	22.3%	$213,957	22.3%
Construction	**50,601**	**5.2%**	48,182	4.9%	45,035	4.7%
Other	**118,151**	**12.1%**	118,109	12.1%	120,608	12.6%
Municipal	**55,889**	**5.7%**	34,832	3.6%	25,018	2.6%
Residential						
Term	**381,718**	**39.3%**	431,520	44.0%	432,632	45.0%
Construction	**17,056**	**1.8%**	26,235	2.7%	23,499	2.4%
Heloc	**88,830**	**9.1%**	77,206	7.9%	74,850	7.8%
Consumer	**24,771**	**2.5%**	24,132	2.5%	25,298	2.6%
Total loans	**$973,823**	**100.0%**	$979,273	100.0%	$960,897	100.0%

The following table sets forth certain information regarding the contractual maturities of the Bank s loan portfolio as of September 30, 2009:

In thousands of dollars	< 1 Year	1 - 5 Years	5 - 10 Years	> 10 Years	Total
Commercial					
Real estate	$ 11,520	$ 8,237	$ 22,298	$194,752	$236,807
Construction	19,927	2,490	3,983	24,201	50,601
Other	21,196	23,819	34,317	38,819	118,151
Municipal	26,964	11,645	6,896	10,384	55,889
Residential					
Term	8,421	9,301	37,328	326,668	381,718
Construction	10,427	168	-	6,461	17,056
Heloc	1,205	1,234	1,296	85,095	88,830
Consumer	7,538	10,471	1,554	5,208	24,771
Total loans	$107,198	$67,365	$107,672	$691,588	$973,823

The following table provides a listing of loans by category, excluding loans held for sale, between variable and fixed rates as of September 30, 2009.

	Fixed-Rate		Adjustable-Rate		Total	
In thousands of dollars	Amount	% of total	Amount	% of total	Amount	% of total
Commercial						
Real estate	$ 54,621	5.6%	$182,186	18.7%	$236,807	24.3%
Construction	17,249	1.8%	33,352	3.4%	50,601	5.2%
Other	57,417	5.9%	60,734	6.2%	118,151	12.1%
Municipal	51,817	5.3%	4,072	0.4%	55,889	5.7%
Residential						
Term	131,635	13.5%	250,083	25.7%	381,718	39.2%
Construction	6,562	0.7%	10,494	1.1%	17,056	1.8%
Heloc	2,187	0.2%	86,643	8.9%	88,830	9.1%
Consumer	20,492	2.1%	4,279	0.4%	24,771	2.5%
Total loans	$341,980	35.1%	$631,843	64.9%	$973,823	100.0%

Loan Concentrations

As of September 30, 2009, the Bank did not have any concentration of loans in one particular industry that exceeded 10% of its total loan portfolio.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value, with a balance of $2.8 million at September 30, 2009 compared with $1.3 million at December 31, 2008 and $1.2 million at September 30, 2008. No recourse obligations have been incurred in connection with the sale of loans. Due to refinancing activity, $97.4 million of residential mortgages were sold into the secondary market during the nine months ended September 30, 2009, much higher than the $17.2 million sold in the comparable period in 2008. This resulted in non-interest income for mortgage origination and servicing for the nine months ended September 30, 2009 being up $1.5 million or 417.0% compared to the same period in 2008.

Credit Risk Management and Allowance for Loan Losses

Credit risk is the risk of loss arising from the inability of a borrower to meet its obligations. We manage credit risk by evaluating the risk profile of the borrower, repayment sources, the nature of the underlying collateral, and other support given current events, conditions, and expectations. We attempt to manage the risk characteristics of our loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits, and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. However, we seek to rely primarily on the cash flow of our borrowers as the principal source of repayment. Although credit policies and evaluation processes are designed to minimize our risk, Management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of our loan portfolio, as well as general and regional economic conditions.

We provide for loan losses through the establishment of an allowance for loan losses which represents an estimated reserve for existing losses in the loan portfolio. We deploy a systematic methodology for determining our allowance that includes a quarterly review process, risk rating, and adjustment to our allowance. We classify our portfolios as either consumer or commercial and monitor credit risk separately as discussed below. We evaluate the adequacy of our allowance continually based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that we believe require special attention.

The allowance consists of three elements: (1) specific reserves and valuation allowances for individual credits; (2) general reserves for types or portfolios of loans based on historical loan loss experience, judgmentally adjusted for current conditions and credit risk concentrations; and (3) unallocated reserves. Combined specific reserves and general reserves by loan type are considered allocated reserves. All outstanding loans are considered in evaluating the adequacy of the allowance.

Adequacy of the allowance for loan losses is determined using a consistent, systematic methodology, which analyzes the risk inherent in the loan portfolio. In addition to evaluating the collectibility of specific loans when determining the adequacy of the allowance for loan losses, Management also takes into consideration other factors such as changes in the mix and size of the loan portfolio, historic loss experience, the amount of delinquencies and loans adversely classified, economic trends, changes in credit policies, and experience, ability and depth of lending management. The adequacy of the allowance for loan losses is assessed by an allocation process whereby specific loss allocations are made against certain adversely classified loans, and general loss allocations are made against segments of the loan portfolio which have similar attributes. The Company s historical loss experience, industry trends, and the impact of the local and regional economy on the Company s borrowers, were considered by Management in determining the adequacy of the allowance for loan losses.

The allowance for loan losses is increased by provisions charged against current earnings. Loan losses are charged against the allowance when Management believes that the collectibility of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance. While Management uses available information to assess possible losses on loans, future additions to the allowance may be necessary based on increases in non-performing loans, changes in economic conditions, growth in loan portfolios, or for other reasons. Any future additions to the allowance would be recognized in the period in which they were determined to be necessary. In addition, various regulatory agencies periodically review the Company s allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to record additions to the allowance based on judgments different from those of Management.

Commercial

Our commercial portfolio includes all secured and unsecured loans to borrowers for commercial purposes, including commercial lines of credit and commercial real estate. Our process for evaluating commercial loans includes performing updates on loans that we have rated for risk. Our non-performing commercial loans are generally reviewed individually to determine impairment, accrual status, and the need for specific reserves. Our methodology incorporates a variety of risk considerations, both qualitative and quantitative. Quantitative factors include our historical loss experience by loan type, collateral values, financial condition of borrowers, and other factors. Qualitative factors include judgments concerning general economic conditions that may affect credit quality, credit concentrations, the pace of portfolio growth, and delinquency levels; these qualitative factors are also considered in connection with our unallocated portion of our allowance for loan losses.

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. Our methodology employs Management s judgment as to the level of future losses on existing loans based on our internal review of the loan portfolio, including an analysis of the borrowers current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers and or lines of business. In determining our ability to collect certain loans, we also consider the fair value of any underlying collateral. We also evaluate credit risk concentrations, including trends in large dollar exposures to related borrowers, industry and geographic concentrations, and economic and environmental factors.

Residential and Consumer

Consumer and residential mortgage loans are generally segregated into homogeneous pools with similar risk characteristics. Trends and current conditions in consumer and residential mortgage pools are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for the consumer and residential mortgage portfolios are consistent with those for the commercial portfolios. Certain loans in the consumer and residential portfolios identified as having the potential for further deterioration are analyzed individually to confirm the appropriate risk rating and accrual status, and to determine the need for a specific reserve. Consumer loans that are greater than 120 days past due are generally charged off. Residential loans that are greater than 90 days past due are evaluated for collateral adequacy and if deficient are placed on non-accrual status. In general, the foreclosure process is also begun at this time.

Unallocated

The unallocated portion of the allowance is intended to provide for losses that are not identified when establishing the specific and general portions of the allowance and is based upon Management s evaluation of various conditions that are not directly measured in the determination of the portfolio and loan specific allowances. Such conditions include general economic and business conditions affecting our lending area, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examination results, findings of external loan review examiners, and Management s judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Management reviews these conditions quarterly. We have risk management practices designed to ensure timely identification of changes in loan risk profiles; however, undetected losses may exist inherently within the loan portfolio. The judgmental aspects involved in applying the risk grading criteria, analyzing the quality of individual loans, and assessing collateral values can also contribute to undetected, but probable, losses.

The allowance for loan losses includes reserve amounts to assigned individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when Management believes it is probable that the Company will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Under this method, loans are selected for evaluation based on internal risk ratings or non-accrual status. A specific reserve is allocated to an individual loan when that loan has been deemed impaired and when the amount of a probable loss is estimable on the basis of its collateral value, the present value of anticipated future cash flows, or its net realizable value. At September 30, 2009, impaired loans with specific reserves totaled $9.5 million (all of these loans were on non-accrual status) and the amount of such reserves was $2.8 million. This compares to impaired loans with specific reserves of $7.6 million at December 31, 2008 (all of these loans were on non-accrual status) and the amount of such reserves was $2.0 million.

All of these analyses are reviewed and discussed by the Directors Loan Committee, and recommendations from these processes provide Management and the Board of Directors with independent information on loan portfolio condition. Our total allowance at September 30, 2009 is considered by Management to be adequate to address the credit losses inherent in the current loan portfolio. Management views the level of the allowance for loan losses as adequate. However, our determination of the appropriate allowance level is based upon a number of assumptions we make about future events, which we believe are reasonable, but which may or may not prove valid. Thus, there can be no assurance that our charge-offs in future periods will not exceed our allowance for loan losses or that we will not need to make additional increases in our allowance for loan losses.

The allowance for loan losses totaled $12.8 million at September 30, 2009, compared to $8.8 million and $8.3 million as of December 31, 2008 and September 30, 2008, respectively. The increase in the allowance reflects Management s ongoing application of its methodologies to establish the allowance, which included increases in the allowance for collateral dependent impaired loans (specific reserves), which increased $0.8 million in the first nine

months of 2009 from $2.0 million at December 31, 2008 to $2.8 million at September 30, 2009. The specific loans that make up those categories change from period to period. Impairment on those loans, which would be reflected in the allowance for loan losses, might or might not exist, depending on the specific circumstances of each loan. Increases to reflect negative market trends and other qualitative factors (unallocated reserves) increased $1.3 million in the first nine months of 2009 from $676,000 on December 31, 2008 to $1.9 million on September 30, 2009.

The following table summarizes our allocation of allowance by loan type as of September 30, 2009 and 2008 and December 31, 2008. The percentages are the portion of each loan type to total loans.

In thousands of dollars	**September 30, 2009**		December 31, 2008		September 30, 2008	
Commercial						
Real estate	**$ 4,822**	24.3%	$ 2,958	22.3%	$ 2,512	22.3%
Construction	**752**	5.2%	650	4.9%	529	4.7%
Other	**2,950**	12.1%	2,595	12.1%	2,270	12.6%
Municipal	**22**	5.7%	20	3.6%	20	2.6%
Residential						
Term	**1,100**	39.3%	713	44.0%	637	45.0%
Construction	**40**	1.8%	44	2.7%	34	2.4%
Heloc	**534**	9.1%	482	7.9%	489	7.8%
Consumer	**646**	2.5%	662	2.5%	780	2.6%
Unallocated	**1,934**	**0.0%**	676	0.0%	1,032	0.0%
Total	**$12,800**	**100.0%**	$ 8,800	100.0%	$ 8,303	100.0%

Based upon Management s evaluation, provisions are made to maintain the allowance as a best estimate of inherent losses within the portfolio. The provision for loan losses to maintain the allowance was $7.7 million for the first nine months of 2009 as compared to $2.3 million for the first nine months of 2008. Net chargeoffs were $3.7 million in the first nine months of 2009 compared to net chargeoffs of $811,000 in the first nine months of 2008. Our allowance as a percentage of outstanding loans has increased from 0.90% as of December 31, 2008 to 1.31% as of September 30, 2009, reflecting the changes in our loss estimates and the increases resulting from the application of our loss estimate methodology.

The following table summarizes the activities in our allowance for loan losses:

Dollars in thousands	**9/30/2009**	12/31/2008	9/30/2008
Balance at beginning of year	**$8,800**	$6,800	$6,800
Loans charged off:			
Commercial			
Real estate	**1,405**	3	3
Construction	**-**	-	-
Other	**1,058**	1,997	440
Municipal	**-**	-	-
Residential			
Term	**696**	113	113
Construction	**47**	-	-
Heloc	**117**	83	83
Consumer	**494**	745	343
Total	**3,817**	2,941	982
Recoveries on loans previously charged off			
Commercial			
Real estate	**-**	-	-
Construction	**-**	-	-
Other	**72**	32	28
Municipal	**-**	-	-
Residential	**-**		
Term	**3**	5	4
Construction	**-**	-	-
Heloc	**-**	-	-
Consumer	**82**	204	139
Total	**157**	241	171
Net loans charged off	**3,660**	2,700	811
Provision for loan losses	**7,660**	4,700	2,314
Balance at end of period	**$12,800**	$8,800	$8,303
Ratio of net loans charged off to average loans outstanding	**0.49%**	0.28%	0.12%
Ratio of allowance for loan losses to total loans outstanding	**1.31%**	0.90%	0.86%

Management believes the allowance for loan losses is adequate as of September 30, 2009. In Management s opinion, the increase in provision for loan losses and the corresponding increase in the allowance for loan losses is directionally consistent with the deterioration in credit quality of our loan portfolio and corresponding increased levels of specific reserves and unallocated reserves, as well as with the performance of the national and local economies, higher levels of unemployment and the outlook for the recession continuing for some time to come.

Nonperforming Loans

Nonperforming loans are comprised of loans which have been determined to be impaired 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. A loan is not considered impaired during a minimal period of delay in payment if we expect to collect all amounts due, including past-due interest. When a loan becomes nonperforming (generally 90 days past due), it is evaluated for collateral dependency based upon the most recent appraisal. If the collateral value is lower than the outstanding loan balance plus accrued interest and estimated selling costs, the loan is placed on non-accrual status, all accrued interest is reversed from interest income, and a specific reserve is established for the difference between the loan balance and the collateral value less selling costs. At the same time, a new independent, third-party appraisal may be ordered, based on the currency of the most recent appraisal and the size of the loan, and upon receipt of the revised appraisal typically 30 days for residential loans and 60-90 days for commercial loans the loan may have an additional specific reserve or write down based upon the new appraisal information.

On an ongoing basis, if a non-performing loan is collateral dependent as its source of repayment, we may have an independent appraisal done periodically, based on the currency of the most recent appraisal and the size of the loan, and an additional specific reserve or write down based upon the new appraisal information will be made if needed. Once a loan is placed on nonaccrual, it remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. All payments made on nonaccrual loans are applied to the principal balance of the loan.

Nonperforming loans, expressed as a percentage of total loans, totaled 1.80% at September 30, 2009 compared to 1.27% at December 31, 2008 and 0.78% at September 30, 2008. The following table shows the distribution of nonperforming assets and loans greater than 90 days past due as of September 30, 2009 and 2008 and December 31, 2008:

In thousands of dollars	**September 30, 2009**	December 31, 2008	September 30, 2008
Commercial			
Real estate	**$ 6,706**	$7,477	$ 4,087
Construction	**485**	-	-
Other	**2,955**	2,908	2,683
Municipal	**-**	-	-
Residential	**-**	-	-
Term	**8,523**	6,594	3,423
Construction	**3,182**	-	-
Heloc	**203**	313	249
Consumer	**99**	137	3
Total loans 90 or more days past due	**$22,153**	$17,429	$10,445
Impaired loans included in above total	**$17,572**	$12,449	$ 7,571

Impaired loans have increased $6.4 million from December 31, 2008 to September 30, 2009, with the number of loans increasing by 45 from 81 to 126 during the same period. Impaired commercial loans decreased $74,000 from December 31, 2008 to September 30, 2009. The specific allowance for impaired commercial loans increased from $2.3 million at December 31, 2008 to $2.4 million as of September 30, 2009, which represented the fair value deficiencies for those loans for which the net fair value of the collateral was estimated at less than our carrying amount of the loan. Impaired residential loans increased $5.1 million from December 31, 2008 to September 30, 2009, with the recession and resulting higher unemployment leading to higher levels of delinquent borrowers. Impaired consumer loans were up slightly from December 31, 2008 to September 30, 2009.

Troubled Debt Restructures

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

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

As of September 30, 2009 we had 37 loans with a value of $5.6 million that have been restructured due to the borrower s inability to maintain a current status on the loan that were classified as TDRs. This compares to no loans classified as TDRs as of December 31, 2008 and September 30, 2008. As of September 30, 2009, five of the loans classified as TDRs with a total balance of $622,099 were greater than 30 days past due. There are no bankruptcy cases in the current TDRs that Management is aware of.

Potential Problem Loans

Potential problem loans consist of classified accruing commercial and commercial real estate loans that were between 30 and 89 days past due. Such loans are characterized by weaknesses in the financial condition of borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve due to changes in collateral values or the financial condition of the borrowers, while the credit quality of other loans may deteriorate, resulting in some amount of loss. These loans are not included in the analysis of non-accrual loans above. At September 30, 2009, there were 34 potential problem loans with a balance of $4.0 million or 0.4% of total loans. This compares to 26 loans with a balance of $2.0 million or 0.2% of total loans at December 31, 2008.

As of September 30, 2009, there were 43 loans in the process of foreclosure with a total balance of $10.7 million.

Past Due Loans

The Bank s overall loan delinquency ratio was 2.89% at September 30, 2009, versus 2.99% at December 31, 2008 and 3.01% at September 30, 2008. Loans 90 days delinquent and accruing decreased from $5.0 million at December 31, 2008 to $4.6 million as of September 30, 2009. This total is made up of 40 loans, with the largest loan totaling $1.0 million. We expect to collect all amounts due on these loans, including interest.

The following table sets forth loan delinquencies as of September 30, 2009 and 2008 and December 31, 2008:

Dollars in thousands	**September 30, 2009**	December 31, 2008	September 30, 2008
Commercial			
Real estate	**$9,732**	$10,446	$10,063
Construction	**574**	584	73
Other	**4,309**	4,713	6,285
Municipal	**-**	-	-
Residential	**-**	-	-
Term	**11,034**	11,526	10,952
Construction	**1,818**	-	25
Heloc	**357**	1,423	751
Consumer	**298**	609	757
Total	**$28,122**	$29,301	$28,906
Loans 30-89 days past due to total loans	**0.98%**	1.21%	1.92%

Loans 90+ days past due and accruing to total loans	**0.47%**	0.51%	0.30%
Loans 90+ days past due on non-accrual to total loans	**1.44%**	1.27%	0.79%
Total past due loans to total loans	**2.89%**	2.99%	3.01%

Other Real Estate Owned

Other real estate owned and repossessed assets (OREO) are comprised of properties or other assets acquired through a foreclosure proceeding, or acceptance of a deed or title in lieu of foreclosure. Real estate acquired through foreclosure is carried at the lower of fair value less estimated cost to sell or the cost of the asset and is not included as part of the allowance for loan loss totals. At September 30, 2009, there were ten properties owned with a net OREO balance of $3.0 million, net of an allowance for losses of $0.7 million, compared to December 31, 2008 when there were nine properties owned with a net OREO balance of $2.4 million, net of an allowance for losses of $0.3 million and September 30, 2008 when there were six properties owned with a net OREO balance of $2.2 million, net of an allowance for losses of $0.3 million.

The following table presents the composition of other real estate owned:

	September 30, 2009			December 31, 2008			September 30, 2008		
Dollars in thousands	**Value**	**Allow-ance**	**Net Value**	Value	Allow-ance	Net Value	Value	Allow-ance	Net Value
Commercial									
Real estate	**$ -**	**$ -**	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -
Construction	**1,152**	**477**	**675**	1,172	324	848	1,152	325	827
Other	**1,528**	**143**	**1,385**	731	-	731	731	-	731
Municipal	**-**	**-**	**-**	-	-	-	-	-	-
Residential	**-**	**-**	**-**	-	-	-	-	-	-
Term	**990**	**56**	**934**	849	-	849	610	-	610
Construction	**-**	**-**	**-**	-	-	-	-	-	-
Heloc	**-**	**-**	**-**	-	-	-	-	-	-
Consumer	**-**	**-**	**-**	-	-	-	-	-	-
Total	**$3,670**	**$ 676**	**$2,994**	$2,752	$ 324	$2,428	$2,493	$ 325	$2,168

Goodwill

On January 14, 2005, the Company completed the acquisition of FNB Bankshares of Bar Harbor, Maine, and its subsidiary, The First National Bank of Bar Harbor, which was merged into the Bank. The total value of the transaction was $48.0 million, and all of the voting equity interest of FNB Bankshares was acquired in the transaction. As of December 31, 2008, the Company completed its annual review of goodwill and determined there has been no impairment.

Liquidity Management

As of September 30, 2009 the Bank had primary sources of liquidity of $264.1 million. It is Management s opinion this is adequate. On October 11, 2009, the Federal Reserve Bank of Boston approved $150.0 million of loans as collateral under its Borrower in Custody program, bring the Bank s primary sources of liquidity to $414.1 million. The Asset/Liability Committee (ALCO) establishes guidelines for liquidity in its Asset/Liability policy and monitors internal liquidity measures to manage liquidity exposure. Based on its assessment of the liquidity considerations described above, Management believes the Company s sources of funding will meet anticipated funding needs.

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. The Bank s primary source of liquidity is deposits, which funded approximately 70% of total average assets in 2008. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and other borrowings), cash flows from the securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs although Management has no intention to do so at this time.

The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. Management has developed quantitative models to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of business as usual cash flows. In Management s estimation, risks are concentrated in two major categories: runoff of in-market

deposit balances and the inability to renew wholesale sources of funding. Of the two categories, potential runoff of deposit balances would have the most significant impact on contingent liquidity. Our modeling attempts to quantify deposits at risk over selected time horizons. In addition to these unexpected outflow risks, several other business as usual factors enter into the calculation of the adequacy of contingent liquidity including payment proceeds from loans and investment securities, maturing debt obligations and maturing time deposits. The Bank has established collateralized borrowing capacity with the Federal Reserve Bank of Boston and also maintains additional collateralized borrowing capacity with the FHLB in excess of levels used in the ordinary course of business as well as Fed Funds lines with two correspondent banks.

Deposits

During the first nine months of 2009, total deposits increased by $34.3 million or 3.7% from December 31, 2008 levels. Low-cost deposits (demand, NOW, and savings accounts) increased by $20.00 million or 7.7% in the first nine months of 2009, and during the same period, certificates of deposit increased $42.3 million or 7.9%. Between September 30, 2008 and September 30, 2009, deposits increased by 4.5%, or $41.1 million. Certificates of deposit increased by $54.7 million, while low-cost deposits increased by $8.2 million and money market accounts decreased $21.8 million or 17.7%. The majority of the change in certificates of deposit, both year-to-date and year-over-year, was primarily from wholesale and brokered sources, resulting from a shift in funding between borrowed funds and certificates of deposit. The increase in low-cost deposits in the first half of 2009 is typical of the seasonality we experience each year in our marketplace.

Borrowed Funds

The Company uses funding from the Federal Home Loan Bank of Boston, the Federal Reserve Bank of Boston and repurchase agreements, enabling it to grow its balance sheet and its revenues. This funding may also be used to balance seasonal deposit flows or to carry out interest rate risk management strategies, and is increased to replace or supplement other sources of funding, including core deposits and certificates of deposit. During the nine months ended September 30, 2009, borrowed funds decreased $59.0 million or 21.7% from December 31, 2008, as a result of a shift between wholesale certificates of deposit and Federal Home Loan Bank advances. Between September 30, 2008 and September 30, 2009, borrowed funds decreased by $51.6 million or 19.5%.

Shareholders Equity

Shareholders equity as of September 30, 2009 was $147.6 million, compared to $117.2 million as of December 31, 2008 and $115.9 million as of September 30, 2008. The Company s earnings in the first nine months of 2009 net of dividends paid, plus participation in the U.S. Treasury Capital Purchase Program (CPP), added to shareholders equity. The net unrealized gain on available-for-sale securities, presented in accordance with FASB ASC Topic 740 Investments Debt and Equity Securities , increased by $1.0 million from December 31, 2008.

In 2009, a cash dividend of 19.5 cents per share was declared in the third quarter compared to 19.5 cents in the third quarter of 2008. The dividend payout ratio, which is calculated by dividing dividends declared per share by diluted earnings per share, was 75.00% in the third quarter of 2009 compared to 48.75% in the third quarter of 2008. Total dividends declared in the first nine months of 2009 were 58.5 cents per share compared to 57.0 cents per share for the same period in 2008. The dividend payout ratio was 59.69% in the first nine months of 2009 compared to 50.00% in the first nine months of 2008. The higher dividend payout ratio in 2009 was due to lower earnings and the result of the reduction to net income that preferred stock dividends and amortization had in net income available to common shareholders and the resulting impact on earnings per common share.

In determining future dividend payout levels, the Board of Directors carefully analyzes capital requirements and earnings retention, as set forth in the Company s Dividend Policy. The ability of the Company to pay cash dividends to its shareholders depends on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net profits as the Bank s directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. The amount available for dividends in 2009 is this year s net income plus $12.3 million.

On November 21, 2008, the Company received approval for a $25 million preferred stock investment by the U.S. Treasury under the Capital Purchase Program. The Company completed the CPP investment transaction on January 9, 2009. 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. The CPP Shares qualify as Tier 1 capital on the Company s books for regulatory purposes and will 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. During the first three years these securities remain outstanding, the Company may increase the dividend on shares of its common stock only with the consent of the U.S. Treasury.

On August 16, 2007, the Company announced that its Board of Directors had authorized a program for the repurchase of up to 300,000 shares of the Company s common stock or approximately 3.1% of the outstanding shares. This program ended on August 16, 2009, and under the program the Company repurchased 182,869 shares at an average price of $15.63 and at a total cost of $2.9 million. As a consequence of the Company s issuance of securities under the U.S. Treasury s CPP program, its ability to repurchase stock during the first three years such securities remain outstanding is restricted to purchases from employee benefit plans. In the first nine months of 2009, the Company repurchased 7,685 shares from employee benefit plans at an average price of $17.88 per share and for total proceeds of $138,000.

Regulatory leverage capital ratios for the Company were 9.16% and 7.07% at September 30, 2009 and December 31, 2008, respectively. The Company had a tier one risk-based capital ratio of 13.80% and a tier two risk-based capital ratio of 15.05% at September 30, 2009, compared to 10.11% and 11.13%, respectively, at December 31, 2008. The increase in capital ratios is the result of issuance of $25 million of preferred stock to the U.S. Treasury under the Capital Purchase Program and a reduction in the Company s level of risk-based assets. These ratios are comfortably above the standards to be rated well-capitalized by regulatory authorities qualifying the Company for lower deposit-insurance premiums.

Off-Balance Sheet Financial Instruments

No material off-balance sheet risk exists that requires a separate liability presentation.

Contractual Obligations

The following table sets forth the contractual obligations of the Company as of September 30, 2009:

In thousands of dollars	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Borrowed funds	**$213,061**	82,882	50,000	20,000	60,179
Operating leases	**877**	207	324	132	214
Certificates of deposit	**579,221**	489,395	50,894	38,932	-
Total	**$793,159**	572,484	101,218	59,064	60,393
Unused line, collateralized by residential real estate	$ 78,083	78,083	-	-	-
Other unused commitments	$ 50,126	50,126	-	-	-
Standby letters of credit	$ 1,466	1,466	-	-	-
Commitments to extend credit	$ 20,869	20,869	-	-	-
Total loan commitments and unused lines of credit	**$124,295**	124,295	-	-	-

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Market-Risk Management

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates. The First Bancorp, Inc. s market risk is composed primarily of interest rate risk. The Bank s Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. All guidelines and policies established by ALCO have been approved by the Board of Directors.

Asset/Liability Management

The primary goal of asset/liability management is to maximize net interest income within the interest rate risk limits set by ALCO. Interest rate risk is monitored through the use of two complementary measures: static gap analysis and earnings simulation modeling. While each measurement has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships.

Static gap analysis measures the amount of repricing risk embedded in the balance sheet at a point in time. It does so by comparing the differences in the repricing characteristics of assets and liabilities. A gap is defined as the difference between the principal amount of assets and liabilities that reprice within a specified time period. The Bank s cumulative one-year gap at September 30, 2009 was +1.83% of total assets compared to 8.95% of total assets at December 31, 2008. Core deposits with non-contractual maturities are presented based upon historical patterns of balance attrition and pricing behavior, which are reviewed at least annually.

The gap repricing distributions include principal cash flows from residential mortgage loans and mortgage-backed securities in the time frames in which they are expected to be received. Mortgage prepayments are estimated by applying industry median projections of prepayment speeds to portfolio segments based on coupon range and loan age.

A summary of the Company s static gap, as of September 30, 2009, is presented in the following table:

	0-90 Days	**90-365 Days**	**1-5 Years**	**5+ Years**
Investment securities at amortized cost	$ 78,007	$ 53,450	$ 77,858	$ 55,446
Loans held for sale	-	-	-	2,794
Loans	425,338	151,985	299,940	96,560
Other interest-earning assets	7,500	9,406	-	-
Non-rate-sensitive assets	-	-	-	73,558
Total assets	510,845	214,841	377,798	228,358
Interest-bearing deposits	429,873	160,843	89,808	205,799
Borrowed funds	67,885	35,009	50,047	60,120
Non-rate-sensitive liabilities and equity	1,850	5,850	38,800	185,958
Total liabilities and equity	499,608	201,702	178,655	451,877
Period gap	$ 11,237	$ 13,139	$ 199,143	$(223,519)
Percent of total assets	0.84%	0.99%	14.95%	-16.78%
Cumulative gap (current)	$ 11,237	$ 24,376	$ 223,519	$ -
Percent of total assets	0.84%	1.83%	16.78%	0.00%

The earnings simulation model forecasts capture the impact of changing interest rates on one-year and two-year net interest income. The modeling process calculates changes in interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company s balance sheet. None of the assets used in the simulation are held for trading purposes. The modeling is

done for a variety of scenarios that incorporate changes in the absolute level of interest rates as well as basis risk, as represented by changes in the shape of the yield curve and changes in interest rate relationships. Management evaluates the effects on income of alternative interest rate scenarios against earnings in a stable interest rate environment. This analysis is also most useful in determining the

short-run earnings exposures to changes in customer behavior involving loan payments and deposit additions and withdrawals.

The Company s most recent simulation model projects net interest income would decrease by approximately 0.1% of stable-rate net interest income if short-term rates affected by Federal Open Market Committee actions fall gradually by one percentage point over the next year, and decrease by approximately 0.1% if rates rise gradually by two percentage points. Both scenarios are well within ALCO s policy limit of a decrease in net interest income of no more than 10.0% given a 2.0% move in interest rates, up or down. Management believes this reflects a reasonable interest rate risk position. In year two, and assuming no additional movement in rates, the model forecasts that net interest income would be higher than that earned in a stable rate environment by 1.2% in a falling-rate scenario, and lower than that earned in a stable rate environment by 0.8% in a rising rate scenario, when compared to the year-one base scenario. A summary of the Bank s interest rate risk simulation modeling, as of September 30, 2009 and December 31, 2008 is presented in the following table:

Changes in Net Interest Income	**September 30, 2009**	**December 31, 2008**
Year 1		
Projected change if rates decrease by 1.0%	-0.1%	+1.8%
Projected change if rates increase by 2.0%	-0.1%	-1.2%
Year 2		
Projected change if rates decrease by 1.0%	+1.2%	-0.5%
Projected change if rates increase by 2.0%	-0.8%	-6.4%

This dynamic simulation model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. Loans and deposits are projected to maintain stable balances. All maturities, calls and prepayments in the securities portfolio are assumed to be reinvested in similar assets. Mortgage loan prepayment assumptions are developed from industry median estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Non-contractual deposit volatility and pricing are assumed to follow historical patterns. The sensitivities of key assumptions are analyzed annually and reviewed by ALCO.

This sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, pricing decisions on loans and deposits, and reinvestment/ replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive ability of these assumptions, including how customer preferences or competitor influences might change.

Interest Rate Risk Management

A variety of financial instruments can be used to manage interest rate sensitivity. These may include investment securities, interest rate swaps, and interest rate caps and floors. Frequently called interest rate derivatives, interest rate swaps, caps and floors have characteristics similar to securities but possess the advantages of customization of the risk-reward profile of the instrument, minimization of balance sheet leverage and improvement of liquidity. As of September 30, 2009, the Company had a de diminimus interest rate cap for interest rate risk management.

The Company engages an independent consultant to periodically review its interest rate risk position, as well as the effectiveness of simulation modeling and reasonableness of assumptions used. As of September 30, 2009, there were no significant differences between the views of the independent consultant and Management regarding the Company s interest rate risk exposure. Management expects interest rates will remain stable in the next one-to-three quarters and believes that the current level of interest rate risk is acceptable.

Item 4: Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of September 30, 2009, the end of the quarter covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company s management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. There was no change in the Company s internal control over financial reporting that occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting. The Company reviews its disclosure controls and procedures, which may include its internal controls over financial reporting on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company s systems evolve with its business.

Part II Other Information

Item 1 Legal Proceedings

The Company was not involved in any legal proceedings requiring disclosure under Item 103 of Regulation S-K during the reporting period.

Item 1A Risk Factors

The following is an addition to the Risk Factors previously disclosed in Item 1A of the Company s Annual Report on Form 10-K for the period ended December 31, 2008.

There can be no assurance that the Emergency Economic Stabilization Act (EESA), the American Recovery and Reinvestment Act of 2009, and other initiatives undertaken by the United States government to restore liquidity and stability to the U.S. financial system will help stabilize the U.S. financial system. The EESA was enacted in response to the ongoing financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions. Pursuant to the EESA, the U.S. Treasury has authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, preferred equity and warrants, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Under its authority provided by EESA, the U.S. Treasury established the Capital Purchase Program, and the core provisions of the Financial Stability Plan. There can be no assurance regarding the actual impact that the EESA or the American Recovery and Reinvestment Act of 2009, or programs and other initiatives undertaken by the U.S. government will have on the financial markets; the extreme levels of volatility and limited credit availability currently being experienced may persist. The failure of the EESA or other government programs to help stabilize the financial markets and a continuation or worsening of current financial market conditions could have a material adverse effect on the Company. In the event that recent turmoil in the financial markets continues, we may experience a material adverse effect from (1) continued or accelerated disruption and volatility in financial markets, (2) continued capital and liquidity concerns regarding financial institutions generally and our transaction counterparties specifically, (3) limitations resulting from further governmental action to stabilize or provide additional regulation of the financial system, or (4) recessionary conditions that are deeper or last longer than currently anticipated.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

a. The Company issues shares to the Bank s 401k Investment and Savings Plan pursuant to an exemption from registration under the Securities Act of 1933, as amended (the Securities Act), contained in Section 3(a)(11) thereof and Rule 147 promulgated thereunder, as presented in the following table:

Month	Shares	Average Price	Proceeds
January 2009	385	$ 16.55	$ 6,378
February 2009	671	14.61	9,807
March 2009	1,513	16.36	24,759
April 2009	1,138	16.78	19,088
May 2009	633	15.60	9,880
June 2009	592	17.38	10,296
July 2009	577	19.05	10,990
August 2009	355	19.85	7,047
September 2009	400	18.69	7,477
Total	**6,264**	**$ 16.88**	**$105,722**

In addition, on January 9, 2009, the Company issued 25,000 shares of its Series A Preferred Stock, as well as warrants to purchase up to 225,904 shares of its common stock, to the U.S. Treasury for total proceeds of $25,000,000 pursuant to an exemption from registration under Section 4(2) of the Securities Act.

b. None

c. On August 16, 2007, the Company announced that its Board of Directors had authorized a program for the repurchase of up to 300,000 shares of the Company s common stock or approximately 3.1% of the outstanding shares. This program ended on August 16, 2009, under the program the Company repurchased 182,869 shares at an average price of $15.63 and at a total cost of $2.9 million. As a consequence of the Company s issuance of securities under the U.S. Treasury s CPP program, its ability to repurchase stock while such securities remain outstanding is restricted to purchases from employee benefit plans. In the first nine months of 2009, the Company repurchased 7,685 shares from employee benefit plans at an average price of $17.88 per share and for total proceeds of $138,000. Repurchase transactions from employee benefit plans in 2009 are detailed in the following table:

Month	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Pro
January 2009	1,077	16.49	1,077
February 2009	820	14.46	820
March 2009	666	13.93	666
April 2009	1	16.80	1
May 2009	75	16.21	75
June 2009	-	-	-
July 2009	4,717	19.25	4,717
August 2009	260	19.85	40
September 2009	69	19.09	-
Total	**7,685**	**17.88**	**7,396**

Item 3 Default Upon Senior Securities

None. **Item 4 Submission of Matters to a Vote of Security Holders**

None. **Item 5 Other Information**

A. None.

B. None.

Item 6 Exhibits

Exhibit 2.1 Agreement and Plan of Merger With FNB Bankshares Dated August 25, 2004, incorporated by reference to Exhibit 2.1 to the Company s Form 8-K dated August 25, 2004, filed under item 1.01 on August 27, 2004.

Exhibit 3.1 Conformed Copy of the Registrant s Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Form 8-K filed under item 5.03 on October 7, 2004). Exhibit 3.2 Amendment to the Registrant s Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company s Form 8-K filed under item 5.03 on May 1, 2008). Exhibit 3.3 Amendment to the Registrant s Articles of Incorporation (incorporated by reference to the Definitive Proxy Statement for the Company s 2008 Annual Meeting filed on March 14, 2008). Exhibit 3.4 Amendment to the Registrant s Articles of Incorporation authorizing issuance of preferred stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on December 29, 2008). Exhibit 3.5 Conformed Copy of the Company s Bylaws (incorporated by reference to Exhibit 3.2 to the Company s Form 8-K filed under item 5.03 on October 7, 2004). Exhibit 10.2(a) Specimen Employment Continuity Agreement entered into with Mr. McKim, incorporated by reference to Exhibit 10.2(a) to the Company s Form 8-K filed under item 1.01 on January 14, 2005.

Exhibit 10.2(b) Specimen Amendment to Employment Continuity Agreement entered into with Mr. McKim, incorporated by reference to Exhibit 10.2(b) to the Company s Form 8-K filed under item 1.01 on January 14, 2005.

Exhibit 10.2(c) Specimen Amendment to Employment Continuity Agreement entered into with Mr. McKim, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed under item 1.01 on January 31, 2006.

Exhibit 10.3(a) Specimen Split Dollar Agreement entered into with Mr. McKim with a death benefit of $250,000. Incorporated by reference to Exhibit 10.3(a) to the Company s Form 8-K filed under item 1.01 on January 14, 2005.

Exhibit 10.3(b) Specimen Amendment to Split Dollar Agreement entered into with Mr. McKim, incorporated by reference to Exhibit 10.3(b) to the Company s Form 8-K filed under item 1.01 on January 14, 2005.

Exhibit 10.4 Specimen Amendment to Supplemental Executive Retirement Plan entered into with Messrs. Daigneault and Ward changing the normal retirement age to receive the full benefit under the Plan from age 65 to age 63, incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed under item 1.01 on December 30, 2008.

Exhibit 14.1 Code of Ethics for Senior Financial Officers, adopted by the Board of Directors on September 19, 2003. Incorporated by reference to Exhibit 14.1 to the Company s Annual Report on Form 10-K filed on March 15, 2006.

Exhibit 14.2 Code of Business Conduct and Ethics, adopted by the Board of Directors on April 15, 2004. Incorporated by reference to Exhibit 14.2 to the Company s Annual Report on Form 10-K filed on March 15, 2006.

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

Page 50

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE FIRST BANCORP, INC.

/s/ Daniel R. Daigneault

Daniel R. Daigneault

President & Chief Executive Officer

Date: November 6, 2009

/s/ F. Stephen Ward

F. Stephen Ward

Executive Vice President & Chief Financial Officer

Date: November 6, 2009