First Bancorp, Inc /ME/
Form 10-Q
August 05, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended June 30, 2010

Commission File Number 0-26589

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

MAINE	01-0404322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

MAIN STREET, DAMARISCOTTA, MAINE	04543
(Address of principal executive offices)	(Zip code)

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

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

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of August 5, 2010
Common Stock: 9,763,241 shares

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Part I. Financial Information

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

In thousands of dollars except for per share amounts	For the six months ended June 30, 2010		For the six months ended June 30, 2009		For the quarters ended June 30, 2010		For the quarters ended June 30, 2009	
Summary of Operations								
Interest Income	$28,348		$32,869		$14,215		$16,251	
Interest Expense	8,370		10,359		4,258		4,814	
Net Interest Income	19,978		22,510		9,957		11,437	
Provision for Loan Losses	4,500		4,600		2,100		2,950	
Non-Interest Income	4,457		5,549		2,282		2,963	
Non-Interest Expense	12,177		13,021		5,895		6,234	
Net Income	5,844		7,490		3,160		3,762	
Per Common Share Data								
Basic Earnings per Share	$0.53		$0.72		$0.29		$0.35	
Diluted Earnings per Share	0.53		0.72		0.29		0.35	
Cash Dividends Declared	0.390		0.390		0.195		0.195	
Book Value per Common Share	12.89		12.51		12.89		12.51	
Tangible Book Value per Common Share	10.05		9.66		10.05		9.66	
Market Value	13.13		19.47		13.13		19.47	
Financial Ratios								
Return on Average Equity1	9.38	%	12.48	%	10.05	%	12.29	%
Return on Average Tangible Equity1,2	12.03	%	16.18	%	12.87	%	15.86	%
Return on Average Assets1	0.88	%	1.10	%	0.94	%	1.09	%
Average Equity to Average Assets	11.25	%	10.54	%	11.21	%	10.61	%
Average Tangible Equity to Average Assets2	9.18	%	8.52	%	9.15	%	8.62	%
Net Interest Margin Tax-Equivalent1,2	3.41	%	3.68	%	3.35	%	3.69	%
Dividend Payout Ratio	73.58	%	54.17	%	67.24	%	55.71	%
Allowance for Loan Losses/Total Loans	1.52	%	1.20	%	1.52	%	1.20	%
Non-Performing Loans to Total Loans	2.53	%	1.57	%	2.53	%	1.57	%
Non-Performing Assets to Total Assets	2.14	%	1.36	%	2.14	%	1.36	%
Efficiency Ratio2	47.46	%	40.78	%	45.86	%	41.40	%
At Period End								
Total Assets	$1,326,275		$1,369,986		$1,326,275		$1,369,986	
Total Loans	932,010		982,336		932,010		982,336	
Total Investment Securities	294,584		298,292		294,584		298,292	
Total Deposits	949,501		913,949		949,501		913,949	
Total Shareholders’ Equity	150,445		146,198		150,445		146,198	

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

Item 1 – Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of June 30, 2010 and 2009 and for the three-month and six-month periods then ended. These financial statements are the responsibility of the Company's management.

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

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

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine
August 5, 2010

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

In thousands of dollars	June 30, 2010	December 31, 2009	June 30, 2009
Assets			
Cash and due from banks	$22,219	$15,332	$18,575
Overnight funds sold	-	-	-
Securities available for sale	149,249	81,838	35,972
Securities to be held to maturity (fair value of $134,249 at June 30, 2010, $192,838 at December 31, 2009 and $247,100 at June 30, 2009)	129,892	190,537	247,627
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,443	15,443	14,693
Loans held for sale	3,426	2,876	3,162
Loans	932,010	952,492	982,336
Less allowance for loan losses	14,165	13,637	11,752
Net loans	917,845	938,855	970,584
Accrued interest receivable	6,536	4,889	7,140
Premises and equipment	18,739	18,331	18,610
Other real estate owned	4,794	5,345	2,797
Goodwill	27,684	27,684	27,684
Other assets	30,448	30,264	23,142
Total assets	$1,326,275	$1,331,394	$1,369,986
Liabilities			
Demand deposits	$62,821	$66,317	$63,266
NOW deposits	112,256	114,955	100,283
Money market deposits	77,231	94,425	104,803
Savings deposits	95,686	90,873	86,305
Certificates of deposit	237,757	212,893	202,039
Certificates $100,000 to $250,000	313,908	287,051	306,996
Certificates $250,000 and over	49,842	56,153	50,257
Total deposits	949,501	922,667	913,949
Borrowed funds	213,944	249,778	297,361
Other liabilities	12,385	11,011	12,478
Total Liabilities	1,175,830	1,183,456	1,223,788
Shareholders' equity			
Preferred stock	24,655	24,606	24,557
Common stock	98	97	97
Additional paid-in capital	45,298	45,121	44,958
Retained earnings	79,864	78,450	77,320
Net unrealized gain/(loss) on securities available-for-sale	732	(125)	(472)
Net unrealized loss on postretirement benefit costs	(202)	(211)	(262)
Total shareholders' equity	150,445	147,938	146,198
Total liabilities & shareholders' equity	$1,326,275	$1,331,394	$1,369,986
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,758,218	9,744,170	9,722,204
Book value per common share	$12.89	$12.66	$12.51

See Report of Independent Registered Public Accounting Firm.

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

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

	For the six months ended June 30,		For the quarters ended June 30,	
In thousands of dollars	2010	2009	2010	2009
Interest income				
Interest and fees on loans	$22,206	$25,533	$11,056	$12,606
Interest on deposits with other banks	2	-	-	-
Interest and dividends on investments	6,140	7,336	3,159	3,645
Total interest income	28,348	32,869	14,215	16,251
Interest expense				
Interest on deposits	5,051	6,694	2,571	3,049
Interest on borrowed funds	3,319	3,665	1,687	1,765
Total interest expense	8,370	10,359	4,258	4,814
Net interest income	19,978	22,510	9,957	11,437
Provision for loan losses	4,500	4,600	2,100	2,950
Net interest income after provision for loan losses	15,478	17,910	7,857	8,487
Non-interest income				
Investment management and fiduciary income	787	678	376	353
Service charges on deposit accounts	1,505	1,158	796	600
Net securities gains	2	-	-	-
Mortgage origination and servicing income	613	1,543	335	862
Other operating income	1,550	2,170	775	1,148
Total non-interest income	4,457	5,549	2,282	2,963
Non-interest expense				
Salaries and employee benefits	5,553	5,152	2,808	2,563
Occupancy expense	776	834	382	393
Furniture and equipment expense	1,121	1,138	540	569
FDIC insurance premiums	952	961	477	599
Net securities losses	-	148	-	6
Other than temporary impairment charge	-	916	-	-
Amortization of identified intangibles	142	142	71	71
Other operating expense	3,633	3,730	1,617	2,033
Total non-interest expense	12,177	13,021	5,895	6,234
Income before income taxes	7,758	10,438	4,244	5,216
Applicable income taxes	1,914	2,948	1,084	1,454
NET INCOME	$5,844	$7,490	$3,160	$3,762
Less dividends and amortization of premium on preferred stock	674	488	337	337
Net income available to common shareholders	$5,170	$7,002	$2,823	$3,425
Basic earnings per common share	$0.53	$0.72	$0.29	$0.35
Diluted earnings per common share	$0.53	$0.72	$0.29	$0.35
Weighted average number of shares outstanding	9,753,500	9,712,252	9,756,907	9,718,650
Incremental shares	5,009	16,951	5,128	21,626
Cash dividends declared per share	$0.390	$0.390	$0.195	$0.195

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

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

In thousands of dollars, except number of shares	Preferred stock	Common stock and additional paid-in capital Shares	Common stock and additional paid-in capital Amount	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2008	$-	9,696,397	$44,214	$74,057	$ (1,090)	$ 117,181
Net income	-	-	-	7,490	-	7,490
Net unrealized gain on securities available for sale, net of taxes of $186	-	-	-	-	347	347
Unrecognized transition obligation for postretirement benefits, net of taxes of $6	-	-	-	-	9	9
Comprehensive income	-	-	-	7,490	356	7,846
Cash dividends declared	-	-	-	(4,227)	-	(4,227)
Equity compensation expense	-	-	19	-	-	19
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	50	-	(50)	-	-	-
Payment to repurchase common stock	-	(2,637)	(39)	-	-	(39)
Proceeds from sale of common stock	-	28,444	418	-	-	418
Balance at June 30, 2009	$24,557	9,722,204	$45,055	$77,320	$ (734)	$ 146,198
Balance at December 31, 2009	$24,606	9,744,170	$45,218	$78,450	$ (336)	$ 147,938
Net income	-	-	-	5,844	-	5,844
Net unrealized gain on securities available for sale, net of taxes of $461	-	-	-	-	857	857
Unrecognized transition obligation for postretirement benefits, net of taxes of $6	-	-	-	-	9	9
Comprehensive income	-	-	-	5,844	866	6,710
Cash dividends declared	-	-	-	(4,430)	-	(4,430)
Equity compensation expense	-	-	19	-	-	19
Amortization of premium for preferred stock issuance	49	-	(49)	-	-	-
Proceeds from sale of common stock	-	14,048	208	-	-	208
Balance at June 30, 2010	$24,655	9,758,218	$45,396	$79,864	$ 530	$ 150,445

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

In thousands of dollars	For the six months ended June 30, 2010	June 30, 2009
Cash flows from operating activities		
Net income	$5,844	$7,490
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	726	746
Change in deferred income taxes	192	-
Provision for loan losses	4,500	4,600
Loans originated for resale	(21,553)	(80,646)
Proceeds from sales and transfers of loans	21,003	78,782
Net (gain) loss on sale or call of securities held-to-maturity	(2)	148
Write-down of securities available for sale	-	916
Net gain on sale of other real estate owned	(19)	-
Provision for losses on other real estate owned	164	126
Equity compensation expense	19	19
Net increase in other assets and accrued interest	(2,429)	(2,161)
Net increase in other liabilities	895	1,731
Net amortization of premiums on investments	(203)	(1,862)
Amortization of investment in limited partnership	150	-
Net acquisition amortization	244	126
Net cash provided by operating activities	9,531	10,015
Cash flows from investing activities		
Proceeds from maturities, payments and calls of securities available for sale	35,132	3,154
Proceeds from sales of securities available for sale	202	2,914
Proceeds from maturities, payments and calls of securities to be held to maturity	60,755	126,174
Proceeds from sales of other real estate owned	1,963	20
Purchases of securities available for sale	(101,332)	(28,485)
Purchases of securities to be held to maturity	-	(138,187)
Net (increase) decrease in loans	14,953	(5,226)
Capital expenditures	(1,134)	(3,331)
Net cash provided (used) in investing activities	10,539	(42,967)
Cash flows from financing activities		
Net decrease in demand, savings, and money market accounts	(18,576)	(34,130)
Net increase in certificates of deposit	45,442	22,352
Advances on long-term borrowings	10,000	-
Repayment on long-term borrowings	-	(12,000)
Net change in short-term borrowings	(45,827)	37,294
Proceeds from issuance of preferred stock	-	25,000
Payments to repurchase common stock	-	(39)
Proceeds from sale of common stock	208	418
Dividends paid	(4,430)	(4,224)
Net cash (used) provided by financing activities	(13,183)	34,671
Net increase in cash and cash equivalents	6,887	1,719
Cash and cash equivalents at beginning of year	15,332	16,856
Cash and cash equivalents at end of period	$22,219	$18,575
Interest paid	$8,313	$10,531

Income taxes paid	$1,210	$2,569
Non-cash transactions		
Change in net unrealized gain (loss) on available for sale securities, net of tax	$(857)	$347
Net transfer from loans to other real estate owned	$1,557	$515

See Report of Independent Registered Public Accounting Firm.

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

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

Note 1 – Basis of Presentation

The First Bancorp, Inc. (the Company) is a financial holding company that owns all of the common stock of The First, N.A. (the Bank). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2010 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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, 2009.

Subsequent Events
Events occurring subsequent to June 30, 2010, have been evaluated as to their potential impact to the Financial Statements.

Note 2 – Investment Securities

The following table summarizes the amortized cost and estimated fair value of investment securities at June 30, 2010:

In thousands of dollars	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$50,556	$895	$-	$51,451
Mortgage-backed securities	66,777	824	(617)	66,984
State and political subdivisions	29,259	459	(129)	29,589
Corporate securities	1,116	-	(299)	817
Other equity securities	415	12	(19)	408
	$148,123	$2,190	$(1,064)	$149,249
Securities to be held to maturity				
U.S. Treasury and agency	$7,973	$39	$(184)	$7,828
Mortgage-backed securities	69,756	2,947	(126)	72,577
State and political subdivisions	52,013	2,007	(326)	53,694
Corporate securities	150	-	-	150
	$129,892	$4,993	$(636)	$134,249

The following table summarizes the amortized cost and estimated fair value at December 31, 2009:

In thousands of dollars	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Treasury and agency	$31,022	$90	$(153)	$30,959
Mortgage-backed securities	31,254	133	(239)	31,148
State and political subdivisions	18,219	414	(119)	18,514
Corporate securities	1,120	-	(302)	818
Other equity securities	414	6	(21)	399
	$82,029	$643	$(834)	$81,838
Securities to be held to maturity				
U.S. Treasury and agency	$39,099	$142	$(554)	$38,687
Mortgage-backed securities	90,193	1,839	(363)	91,669
State and political subdivisions	61,095	1,603	(366)	62,332
Corporate securities	150	-	-	150
	$190,537	$3,584	$(1,283)	$192,838

The following table summarizes the contractual maturities of investment securities at June 30, 2010:

	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	$-	$-	$1,200	$1,217
Due in 1 to 5 years	3,506	3,721	6,014	6,343
Due in 5 to 10 years	2,680	2,746	15,226	15,981
Due after 10 years	141,522	142,374	107,452	110,708
Equity securities	415	408	-	-
	$148,123	$149,249	$129,892	$134,249

The following table summarizes the contractual maturities of investment securities at December 31, 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	$-	$-	$330	$335
Due in 1 to 5 years	18,144	18,381	7,934	8,245
Due in 5 to 10 years	3,671	3,783	15,020	15,591
Due after 10 years	59,800	59,275	167,253	168,667
Equity securities	414	399	-	-
	$82,029	$81,838	$190,537	$192,838

At June 30, 2010, securities with a fair value of $109.1 million were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a fair value of $154.0 million as of December 31, 2009 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 six months ended June 30, 2010 and 2009:

In thousands of dollars	For the six months ended June 30, 2010	For the six months ended June 30, 2009
Proceeds from sales	$202	$2,914
Gross gains	$2	$18
Gross losses	-	(166)
Net gain/(loss)	$2	$(148)
Related income taxes	$1	$(52)

Management reviews securities with unrealized losses for other than temporary impairment. As of June 30, 2010, there were 44 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 nine had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted. Information regarding securities temporarily impaired as of June 30, 2010 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	$5,659	$(184)	$-	$-	$5,659	$(184)
Mortgage-backed securities	28,511	(704)	2,339	(39)	30,850	(743)
State and political subdivisions	12,266	(140)	1,410	(315)	13,676	(455)
Corporate securities	-	-	817	(299)	817	(299)
Other equity securities	-	(1)	47	(18)	47	(19)
	$46,436	$(1,029)	$4,613	$(671)	$51,049	$(1,700)

During the first quarter of 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. As of December 31, 2009, there were 45 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. Information regarding securities temporarily impaired as of December 31, 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	$19,999	$(707)	$-	$-	$19,999	$(707)
Mortgage-backed securities	47,509	(602)	-	-	47,509	(602)
State and political subdivisions	9,396	(147)	1,350	(338)	10,746	(485)
Corporate securities	-	-	818	(302)	818	(302)
Other equity securities	-	-	44	(21)	44	(21)

$76,904	$(1,456)	$2,212	$(661)	$79,116	$(2,117)

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston. The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England States. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the FHLB for much of its wholesale funding needs. As of June 30, 2010 and December 31, 2009, the Bank's investment in FHLB stock totaled $14.0 million.

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

The FHLB has announced that dividend payments for 2010 are unlikely and the Company will likely have no dividend income on its FHLB stock in 2010. FHLB's net income for the second quarter of 2010 was $18.7 million, a $22.9 million increase from a net loss of $4.2 million in the second quarter of 2009. The increase was primarily due to a $40.1 million decrease in the credit-related other-than-temporary impairment charges on certain private-label mortgage-backed securities, partially offset by factors including a $9.6 million decrease in net interest income after provision for credit losses, a $4.7 million increase in REFCorp assessments, and a $2.1 million increase in Affordable Housing Program contributions. Credit-related other-than-temporary impairment charges on certain private-label mortgage-backed securities were $30.4 million for the second quarter of 2010, a $40.1 million, or 56.8 percent, decrease from the $70.5 million recorded in the second quarter of 2009. The reduction in credit losses attributable to other-than-temporary impairment, compared with the second quarter of 2009, primarily reflects the relative stabilization in factors, such as home prices and unemployment rates, that affect the expected performance of the mortgage loans underlying FHLB's private-label mortgage-backed securities.

The Bank periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through June 30, 2010. The Bank will continue to monitor its investment in FHLB stock.

Note 3 – Loans

The following table shows the composition of the Company's loan portfolio as of June 30, 2010, December 31, 2009 and June 30, 2009:

In thousands of dollars	June 30, 2010			December 31, 2009			June 30, 2009		
Commercial									
Real estate	$260,799	28.0	%	$240,178	25.2	%	$241,291	24.6	%
Construction	35,932	3.9	%	48,714	5.1	%	49,768	5.1	%
Other	113,831	12.2	%	114,486	12.0	%	128,597	13.1	%
Municipal	23,795	2.6	%	45,952	4.8	%	44,004	4.5	%
Residential									
Term	359,774	38.4	%	367,267	38.7	%	391,475	39.7	%
Construction	18,302	2.0	%	17,361	1.8	%	18,691	1.9	%
Home equity line of credit	100,450	10.8	%	94,324	9.9	%	87,079	8.9	%
Consumer	19,127	2.1	%	24,210	2.5	%	21,431	2.2	%
Total loans	$932,010	100.0	%	$952,492	100.0	%	$982,336	100.0	%

Loan balances include net deferred loan costs of $1.4 million as of June 30, 2010 and December 31, 2009. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $284.7 million at June 30, 2010 and $295.1 million at December 31, 2009, were used to collateralize borrowings from the FHLB.

Transactions in the allowance for loan losses for the six months ended June, 2010 and 2009 were as follows:

In thousands of dollars	June 30, 2010	June 30, 2009
Balance at beginning of year	$13,637	$8,800
Provision charged to operating expenses	4,500	4,600
	18,137	13,400
Loans charged off	(4,138)	(1,724)
Recoveries on loans	166	76
Net loans charged off	(3,972)	(1,648)
Balance at end of period	$14,165	$11,752

Loans on non-accrual status totaled $23.6 million at June 30, 2010, $18.6 million at December 31, 2009 and $15.4 million at June 30, 2009. Loans past due greater than 90 days which are accruing interest totaled $1.4 million at June 30, 2010, $1.2 million at December 31, 2009 and $4.5 million at June 30, 2009. 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	June 30, 2010	December 31, 2009	June 30, 2009
Balance of impaired loans	$26,599	$25,843	$15,409
Less portion for which no allowance for loan losses is allocated	(16,644)	(13,682)	(5,689)
Portion of impaired loan balance for which an allowance for loan losses is allocated	9,955	12,161	9,720
Portion of allowance for loan losses allocated to the impaired loan balance	$2,062	$2,196	$2,689

Note 4 – Stock Options and Stock-Based Compensation

At the 2010 Annual Meeting, shareholders approved the 2010 Equity Incentive Plan (the "2010 Plan"). This reserves 400,000 shares of Common Stock for issuance in connection with stock options, restricted stock awards and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees and non-employee Directors and promote the success of our business. Such grants and awards will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2010 Plan will qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2010 Plan will qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and will satisfy NASDAQ guidelines relating to equity compensation. As of June 30, 2010, no awards had been granted under the 2010 Plan.

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

The Company applies the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 "Compensation – Stock Compensation", to stock-based employee compensation. As a result, $19,000 in compensation cost is included in the Company's financial statements for the first six months of 2010 for options granted under the 1995 Plan. The unrecognized compensation cost to be amortized over a weighted average remaining vesting period of six months is $19,000, 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 June 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2009	21,000	$4.41
Granted in 2010	-	-
Vested in 2010	(21,000)	4.41
Forfeited in 2010	-	-
Non-vested at June 30, 2010	-	$-

During 2010, no options have been exercised. A summary of the status of the Stock Option Plan as of June 30, 2010 and changes during the six-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, 2009	55,500	$15.89		
Granted in 2010	-	-		
Exercised in 2010	-	-		
Forfeited in 2010	-	-		
Outstanding at June 30, 2010	55,500	$15.89	3.8	$51
Exercisable at June 30, 2010	55,500	$15.89	3.8	$51

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

As a consequence of the Company's issuance of securities under the U.S. Treasury's Capital Purchase Program ("the CPP"), its ability to repurchase stock while such securities remain outstanding is restricted to purchases from employee benefit plans. In the first six months of 2010, the Company repurchased no common stock.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the six months ended June 30, 2010 and 2009:

In thousands, except number of shares and per share data	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the six months ended June 30, 2010			
Net income as reported	$ 5,844		
Less dividends and amortization of premium on preferred stock	674		
Basic EPS: Income available to common shareholders	5,170	9,753,500	$0.53
Effect of dilutive securities: incentive stock options and warrants		5,009	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 5,170	9,758,509	$0.53
For the six months ended June 30, 2009			
Net income as reported	$ 7,490		
Less dividends and amortization of premium on preferred stock	488		
Basic EPS: Income available to common shareholders	7,002	9,712,252	$0.72
Effect of dilutive securities: incentive stock options		16,951	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 7,002	9,729,203	$0.72

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the quarters ended June 30, 2010 and 2009:

In thousands, except number of shares and per share data	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the quarter ended June 30, 2010			
Net income as reported	$ 3,160		
Less dividends and amortization of premium on preferred stock	337		
Basic EPS: Income available to common shareholders	2,823	9,756,907	$0.29
Effect of dilutive securities: incentive stock options		5,128	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 2,823	9,762,035	$0.29
For the quarter ended June 30, 2009			
Net income as reported	$ 3,762		
Less dividends and amortization of premium on preferred stock	337		
Basic EPS: Income available to common shareholders	3,425	9,718,650	$0.35
Effect of dilutive securities: incentive stock options		21,626	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 3,425	9,740,276	$0.35

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

The following table presents the number of options and warrants outstanding as of June 30, 2010 and 2009 and the amount which are above or below the strike price:

	Outstanding	In-the-Money	Out-of-the-Money
As of June 30, 2010			
Incentive stock options	55,500	13,500	42,000
Warrants issued to U.S. Treasury	225,904	-	225,904
Total dilutive securities	281,404	13,500	267,904
As of June 30, 2009			
Incentive stock options	73,500	73,500	-
Warrants issued to U.S. Treasury	225,904	225,904	-
Total dilutive securities	299,404	299,404	-

Note 8 – Employee Benefit Plans

401(k) Plan

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

Such contribution equaled 2.0% of each eligible employee’s compensation in 2009. The amount for 2010 has not been established. The expense related to the 401(k) plan was $169,000 for each of the six month periods ended June 30, 2010 and 2009.

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 $114,000 and $88,000 for the six months ended June 30, 2010 and 2009, respectively. As of June 30, 2010, the associated accrued liability was $1,509,000 compared to $1,418,000 and $1,325,000 at December 31, 2009 and June 30, 2009, respectively.

Post-Retirement Benefit Plans

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

	For the six months ended June 30,	
In thousands of dollars	2010	2009
Change in benefit obligation		
Benefit obligation at beginning of year	$1,962	$1,990
Service cost	11	8
Interest cost	67	68
Benefits paid	(74)	(78)
Benefit obligation at end of period	1,966	1,988
Funded status		
Benefit obligation at end of period	(1,966)	(1,988)
Accrued benefit cost at end of period	$(1,966)	$(1,988)

The following table sets forth the net periodic pension cost:

	For six months ended June 30,		For three months ended June 30,	
In thousands of dollars	2010	2009	2010	2009
Components of net periodic benefit cost				
Service cost	$11	$8	$6	$4
Interest cost	67	68	33	34
Amortization of unrecognized transition obligation	14	14	7	7
Amortization of prior service credit	(1)	(2)	-	(1)
Amortization of accumulated losses	12	10	7	5
Net periodic benefit cost	$103	$98	$53	$49

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

In thousands of dollars	June 30, 2010	December 31, 2009	June 30, 2009
Unamortized net actuarial loss	$(233)	$(233)	$(296)
Unrecognized transition obligation	(78)	(92)	(107)
	(311)	(325)	(403)
Deferred tax benefit at 35%	109	114	141
Net unrecognized postretirement benefits included in accumulated other comprehensive income (loss)	$(202)	$(211)	$(262)

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 third quarter of 2010 are $37,000 and the expected benefit payments for all of 2010 are $148,000. There is no expected contribution for 2010. Plan expense for 2010 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, 2009, in accordance FASB ASC Topic 350 “Intangibles – Goodwill and Other,” the Company completed its annual review of goodwill and determined there has been no impairment.

Note 10 – Mortgage Servicing Rights

FASB ASC Topic 940 “Financial Services – Mortgage Banking”, requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company’s servicing assets and servicing liabilities are reported using the amortization method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of June 30, 2010, the prepayment assumption using the PSA model was 259, which translates into an anticipated prepayment rate of 15.54%. The discount rate is the quarterly average ten-year U.S. Treasuries plus 5.0%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.
For the six months ended June 30, 2010 and 2009, servicing rights capitalized totaled $237,000 and $866,000, respectively. Servicing rights capitalized for the three month periods ended June 30, 2010 and 2009, were $118,000 and $580,000 respectively. Servicing rights amortized for the six month periods ended June 30, 2010 and 2009, were $199,000 and $567,000, respectively. Servicing rights amortized for the three month periods ended June 30, 2010 and 2009, were $99,000 and $430,000, respectively. The fair value of servicing rights was $1,250,000, $1,199,000 and $1,026,000 at June 30, 2010, December 31, 2009 and June 30, 2009, respectively. At June 30, 2010 and 2009, the Bank serviced loans for others totaling $236.4 million and $206.2 million, respectively. Mortgage servicing rights are included in other assets and detailed in the following table:

In thousands of dollars	June 30, 2010	December 31, 2009	June 30, 2009
Mortgage servicing rights	$5,323	$5,086	$4,694
Accumulated amortization	(4,013)	(3,814)	(3,594)
Impairment reserve	(60)	(73)	(74)
	$1,250	$1,199	$1,026

Note 11 – Income Taxes

FASB ASC Topic 740 "Income Taxes" defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2007 through 2009.

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 June 30, 2010 and December 31, 2009.

	At June 30, 2010			
In thousands of dollars	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$51,451	$-	$51,451
Mortgage-backed securities	-	66,984	-	66,984
State and political subdivisions	-	29,589	-	29,589
Corporate securities	-	817	-	817
Other equity securities	-	408	-	408
Total assets	$-	$149,249	$-	$149,249

	At December 31, 2009			
In thousands of dollars	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Treasury and agency	$-	$30,959	$-	$30,959
Mortgage-backed securities	-	31,148	-	31,148
State and political subdivisions	-	18,514	-	18,514
Corporate securities	-	818	-	818
Other equity securities	-	399	-	399
Total assets	$-	$81,838	$-	$81,838

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

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

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

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

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

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Other real estate owned is presented net of an allowance of $588,000 at June 30, 2010 and $583,000 at December 31, 2009. Impaired loans are presented net of a related specific allowance for loan losses of $2.1 million at June 30, 2010 and $2.2 million at December 31, 2009.

	At June 30, 2010			
In thousands of dollars	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$1,250	$-	$1,250
Loans held for sale	-	3,426	-	3,426

Other real estate owned	-	4,794	-	4,794
Impaired loans	-	7,893	-	7,893
Total assets	$-	$17,363	$-	$17,363

	At December 31, 2009			
In thousands of dollars	Level 1	Level 2	Level 3	Total
Mortgage servicing rights	$-	$1,199	$-	$1,199
Loans held for sale	-	2,876	-	2,876
Other real estate owned	-	5,345	-	5,345
Impaired loans	-	9,965	-	9,965
Total assets	$-	$19,385	$-	$19,385

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

The estimated fair values for financial instruments as of June 30, 2010 and December 31, 2009 were as follows:

	June 30, 2010		December 31, 2009	
In thousands of dollars	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents	$22,219	$22,219	$15,332	$15,332
Securities available for sale	149,249	149,249	81,838	81,838
Securities to be held to maturity	129,892	134,249	190,537	192,838
Federal Home Loan Bank and Federal Reserve Bank stock	15,443	15,443	15,443	15,443
Loans held for sale	3,426	3,426	2,876	2,876
Loans (net of allowance for loan losses)	917,845	927,497	938,855	938,095
Accrued interest receivable	6,536	6,536	4,889	4,889
Financial liabilities				
Deposits	$949,501	$942,458	$922,667	$877,883
Borrowed funds	213,944	220,746	249,778	255,292
Accrued interest payable	1,135	1,135	1,078	1,078

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

Cash and Cash Equivalents

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

Investment Securities

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

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

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

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

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

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

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

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

have not been considered in any of the estimates.

Note 14 – Impact of Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board ("FASB") issued guidance (incorporated in the FASB Accounting Standards Codification ("ASC") via Accounting Standards Update ("ASU") 2009-16, Transfers and Servicing: Accounting for Transfers of Financial Assets, in December 2009) which provides amended guidance relating to transfers of financial assets that eliminates the concept of a qualifying special-purpose entity. This guidance 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. This guidance must be applied to transfers occurring on or after its effective date. On and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. The new guidance also changed the requirements which must be satisfied in order for an entity to treat a loan participation as a sale. The disclosure provisions were also amended and apply to transfers that occurred both before and after the effective date of this guidance. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

In June 2009, the FASB issued guidance (incorporated in the FASB ASC via ASU 2009-17, Consolidations: Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, in December 2009) which provides amended guidance for consolidation of a variable interest entity by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity. The amended guidance uses an approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. This guidance 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. The adoption of this update did not have a significant impact on the Company's consolidated financial statements.

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

In February 2010, the FASB issued ASU 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements, related to events that occur after the balance sheet date but before financial statements are issued. This guidance amends existing standards to address potential conflicts with Securities and Exchange Commission ("SEC") guidance and refines the scope of the reissuance disclosure requirements to include revised financial statements only. Under this guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated. The adoption of this update did not have a material effect on the Company's consolidated financial statements.

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

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

Forward-Looking Statements

This report contains statements that are "forward-looking statements." We may also make written or oral forward-looking statements in other documents we file with the Secutities and Exchange Commission ("SEC"), in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "outlook," "will," "should," and other expressions that predict or indicate future e and trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.
Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan 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, 2009, 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." 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. The most important assumption is the anticipated loan prepayment rate. The valuation 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 or 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, as each will have a different proportion of tax-exempt interest from its earning assets. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices. The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements prepared in accordance with GAAP. A 35.0% tax rate was used in both 2010 and 2009.

	For the six months ended June 30,		For the quarters ended June 30,	
In thousands of dollars	2010	2009	2010	2009
Net interest income, as presented	$19,978	$22,510	$9,957	$11,437
Effect of tax-exempt income	1,127	1,170	567	596
Net interest income, tax equivalent	$21,105	$23,680	$10,524	$12,033

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

	For the six months ended June 30,		For the quarters ended June 30,	
In thousands of dollars	2010	2009	2010	2009
Non-interest expense, as presented	$12,177	$13,021	$5,895	$6,234
Net securities losses	-	(148)	-	(6)
Other than temporary impairment charge	-	(916)	-	-
Adjusted non-interest expense	12,177	11,957	5,895	6,228
Net interest income, as presented	19,978	22,510	9,957	11,437
Effect of tax-exempt income	1,127	1,170	567	596
Non-interest income, as presented	4,457	5,549	2,282	2,963
Effect of non-interest tax-exempt income	94	92	47	46
Net securities gains	2	-	-	-
Adjusted net interest income plus non-interest income	$25,658	$29,321	$12,853	$15,042
Non-GAAP efficiency ratio	47.46%	40.78%	45.86%	41.40%
GAAP efficiency ratio	49.83%	46.41%	48.17%	43.29%

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

In thousands of dollars	For the six months ended June 30, 2010	2009	For the quarters ended June 30, 2010	2009
Average shareholders' equity, as presented	$150,289	$144,927	$150,759	$147,343
Intangible assets	27,684	27,684	27,684	27,684
Tangible average shareholders' equity	$122,605	$117,243	$123,075	$119,659

Executive Summary

Net income for the first six months of 2010 was $5.8 million, down $1.6 million or 22.0% from the $7.5 million posted for the same period in 2009. Earnings per common share on a fully diluted basis were $0.53 for the six-months ended June 30, 2010, down $0.19 or 26.4% from the $0.72 posted for the same period in 2009. For the quarter ended June 30, 2010, net income was $3.2 million, down $0.6 million or 16.0% from the $3.8 million posted for the same period in 2009. Earnings per common share on a fully diluted basis were $0.29 for the quarter ended June 30, 2010, down $0.06 or 17.1% from the $0.35 posted for the same period in 2009. Although the quarterly and year-to-date earnings are below the comparable periods last year, the Company saw a $476,000 increase in earnings from the previous quarter, making net income posted for the quarter ended June 30, 2010, the highest since the second quarter of 2009.

Net interest income was down $1.5 million in the second quarter of 2010 compared to the same period in 2009, however it was down only slightly from the previous quarter. Year-to-date, net interest income is down $2.5 million from the same period in 2009. The variance for both the quarter and year-to-date when compared to 2009 was primarily due to multiple factors which resulted in a decline in our net interest margin. On the asset side of the balance sheet, interest income has been lower as loans and investments continue to reprice downward in this prolonged low-rate environment. Our earning assets in the loan portfolio have declined as mortgages which refinanced to very low fixed rates have been sold to the secondary market. On the liability side, we took advantage of historically low interest rates and extended the maturity of wholesale funding to reduce interest rate risk, resulting in higher interest expense.

While we continue to be in the longest and worst economic downturn since the Great Depression of the 1930’s, the Company feels that the deteriorating trend in credit quality experienced during the past two years has somewhat stabilized in the past two quarters. Non-performing loans stood at 2.53% on June 30, 2010 compared to 2.46% of total loans on March 31, 2010 and 1.95% on December 31, 2009. This compares favorably to nonperforming loans at 3.65% for our peer group as of March 31, 2010, the latest peer data available. Net chargeoffs were $4.0 million or 0.86% of average loans on an annualized basis for the first six months of 2010. This compares to net chargeoffs of $1.6 million or 0.34% of average loans on an annualized basis for the first six months of 2009.

The slump in the housing market is continuing and unemployment is at 9.5%. Fortunately, the unemployment rate in Maine, at 8.0%, is somewhat better than the national average. Unemployment numbers, however, do not reflect the number of people experiencing 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. We provisioned $4.5 million for loan losses in the first half of 2010, down $100,000 from the $4.6 million provision made in the first half of 2009. As a result, the allowance for loan losses has increased $528,000 or 3.9% year-to-date and now stands at 1.52% of outstanding loans compared to 1.43% at December 31, 2009 and 1.20% at June 30, 2009.

Total assets have decreased $5.1 million or 0.4% year-to-date. The loan portfolio is down $20.5 million or 2.2%, with a drop due to refinancing of mortgages to very low fixed rates that have been sold to the secondary market. The investment portfolio is up $6.8 million or 2.4% year-to-date. On the liability side of the balance sheet, low-cost deposits have increased $20.9 million or 8.4% year-over-year, which is above our normal seasonal pattern. Local certificates of deposit are up $9.6 million or 4.2%

Remaining well capitalized remains a top priority for The First Bancorp. In the past year and a half, the Company's total risk-based capital has increased from 11.13% to 15.37%, well above the well-capitalized threshold of 10.0% set by the FDIC. In Management's view, participating in the U.S. Treasury Capital Purchase Program was the right decision for The First Bancorp. The Company obtained additional capital at a relatively low cost and it provides us with greater ability to ride out the current economic storm and allows us more flexibility to work with individuals and businesses as they too struggle through these adverse economic conditions.

The Company's operating ratios remain good, with a return on average tangible common equity of 12.87% for the quarter ended June 30, 2010 compared to 15.86% for the same period in 2009. Based upon March 31, 2010 data, our return on average equity was in the top 30% of all banks in our peer group, which had an average return of 3.28%. Our efficiency ratio continues to be an important component in our overall performance; it slipped to 45.86% for the second quarter compared to 41.40% for the same period in 2009. This was the result of lower revenues and not due to a significant increase in operating expenses. As of March 31, 2010, the average efficiency ratio for our peer group was 67.67%, which put us in the top 10% of all banks in the peer group.

Net Interest Income

Total interest income of $28.3 million for the six months ended June 30, 2010 is a 13.8% decrease from total interest income of $32.9 million in the comparable period of 2009. Total interest expense of $8.4 million for the first six months of 2010 is a 19.2% decrease from total interest expense of $10.4 million for the first six months of 2009. As a result, net interest income decreased 11.2% or $2.5 million to $20.0 million for the six months ended June 30, 2010, from the $22.5 million reported for the same period in 2009. The Company's net interest margin on a tax-equivalent basis decreased from 3.68% in the first six months of 2009 to 3.41% for the six months ended June 30, 2010. This decrease was due to lower interest income as loans and investments continue to reprice downward, the previously noted decline in the mortgage loan portfolio, and extended maturities in wholesale funding. Tax-exempt interest income amounted to $2.1 million and $2.2 million for the six months ended June 30, 2010 and 2009, respectively. Total interest income of $14.2 million for the quarter ended June 30, 2010 is a 12.5% decrease from total interest income of $16.3 million in the same period in 2009. Total interest expense of $4.3 million for the quarter ended June 30, 2010 is a 11.5% decrease from total interest expense of $4.8 million in the comparable period of 2009. As a result, net interest income decreased 12.9% or $1.5 million to $10.0 million for the quarter ended June 30, 2010, from the $11.4 million reported for the same period in 2009. The Company's net interest margin on a tax-equivalent basis decreased from 3.69% for the quarter end June 30, 2009 to 3.35% for the quarter ended June 30, 2010. Tax-exempt interest income amounted to $1.1 million for the quarters ended June 30, 2010 and 2009.
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 six months and quarters ended June 30, 2010 and 2009. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2010 and 2009.

For the six months ended	June 30, 2010		June 30, 2009	
In thousands of dollars	Amount of interest	Average Yield/Rate	Amount of interest	Average Yield/Rate
Interest on earning assets				
Interest-bearing deposits	$2	0.00 %	$-	0.00 %
Investments	7,023	4.58 %	8,132	5.32 %
Loans held for sale	74	4.39 %	45	5.03 %
Loans	22,376	4.82 %	25,862	5.28 %
Total interest-earning assets	29,475	4.76 %	34,039	5.29 %
Interest-bearing liabilities				
Deposits	5,051	1.15 %	6,694	1.51 %
Other borrowings	3,319	2.91 %	3,665	2.79 %
Total interest-bearing liabilities	8,370	1.51 %	10,359	1.80 %
Net interest income	$21,105		$23,680	
Interest rate spread		3.24 %		3.49 %
Net interest margin		3.41 %		3.68 %

For the quarters ended	June 30, 2010		June 30, 2009	
In thousands of dollars	Amount of interest	Average Yield/Rate	Amount of interest	Average Yield/Rate
Interest on earning assets				
Interest-bearing deposits	$-	0.00%	$-	0.00%
Investments	3,607	4.53%	4,047	5.10%
Loans held for sale	41	4.47%	22	4.50%
Loans	11,134	4.77%	12,778	5.18%
Total interest-earning assets	14,782	4.71%	16,847	5.16%
Interest-bearing liabilities				
Deposits	2,571	1.15%	3,049	1.32%
Other borrowings	1,687	2.95%	1,765	2.88%
Total interest-bearing liabilities	4,258	1.52%	4,814	1.65%
Net interest income	$10,524		$12,033	
Interest rate spread		3.19%		3.51%
Net interest margin		3.35%		3.69%

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 six months and quarters ended June 30, 2010 compared to 2009. Tax-exempt income is calculated on a tax-equivalent basis, using a 35.0% tax rate in 2010 and 2009.

For the six months ended June 30, 2010 compared to 2009

In thousands of dollars	Volume	Rate	Rate/Volume1	Total
Interest on earning assets				
Interest-bearing deposits	$-	$-	$ 2	$2
Investment securities	28	(1,133)	(4)	(1,109)
Loans held for sale	40	(6)	(5)	29
Loans	(1,332)	(2,271)	117	(3,486)
Total interest income	(1,264)	(3,410)	110	(4,564)
Interest expense				
Deposits	(82)	(1,580)	19	(1,643)
Other borrowings2	(482)	156	(20)	(346)
Total interest expense	(564)	(1,424)	(1)	(1,989)
Change in net interest income	$(700)	$(1,986)	$ 111	$(2,575)

For the quarters ended June 30, 2010 compared to 2009

In thousands of dollars	Volume	Rate	Rate/Volume1	Total
Interest on earning assets				
Interest-bearing deposits	$-	$-	$ -	$-
Investment securities	9	(448)	(1)	(440)
Loans held for sale	19	-	-	19
Loans	(677)	(1,021)	54	(1,644)
Total interest income	(649)	(1,469)	53	(2,065)
Interest expense				
Deposits	(102)	(389)	13	(478)
Other borrowings2	(120)	45	(3)	(78)
Total interest expense	(222)	(344)	10	(556)
Change in net interest income	$(427)	$(1,125)	$ 43	$(1,509)

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 six-month periods and quarters ended June 30, 2010 and 2009.

	For the six months ended		For the quarters ended	
In thousands of dollars	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Assets				
Cash and due from banks	$14,456	$13,585	$13,535	$13,890
Overnight funds sold	-	-	-	-
Securities available for sale	128,387	16,313	149,171	19,595
Securities to be held to maturity	165,321	277,068	154,517	284,127
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	15,443	14,693	15,443	14,693
Loans held for sale (fair value approximates cost)	3,401	1,805	3,677	1,960
Loans	936,648	987,508	936,807	989,221
Allowance for loan losses	(14,484)	(9,745)	(14,741)	(10,216)
Net loans	922,164	977,763	922,066	979,005
Accrued interest receivable	5,674	6,554	5,987	6,772
Premises and equipment	18,261	17,588	18,302	18,764
Other real estate owned	5,639	2,540	5,625	2,612
Goodwill	27,684	27,684	27,684	27,684
Other assets	29,298	19,775	29,210	19,650
Total Assets	$1,335,728	$1,375,368	$1,345,217	$1,388,752
Liabilities & Stockholders' Equity				
Demand deposits	$61,138	$60,188	$60,518	$58,887
NOW deposits	114,886	104,124	114,588	105,229
Money market deposits	85,152	115,618	79,960	111,265
Savings deposits	93,674	84,277	94,442	86,177
Certificates of deposit	223,602	233,689	229,737	235,844
Certificates $100,000 to $250,000	317,357	307,577	325,802	336,426