Bangor Bancorp, MHC, Parent of Bangor Savings Bank

Consolidated Financial Statements
March 31, 2011 and 2010

Bangor Bancorp, MHC, Parent of Bangor Savings Bank
Table of Contents
March 31, 2011 and 2010

Page(s)

Independent Auditors' Report 1

Consolidated Financial Statements

Balance Sheets 2

Statements of Income 3

Statements of Changes in Retained Earnings 4

Statements of Cash Flows 5

Notes to Financial Statements 6–31

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Bangor Bancorp, MHC

We have audited the accompanying consolidated balance sheets of Bangor Bancorp, MHC (the Company), Parent of Bangor Savings Bank, as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bangor Bancorp, MHC, Parent of Bangor Savings Bank, as of March 31, 2011 and 2010, and the consolidated results of its operations and its consolidated cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion regarding Bangor Savings Bank's internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 10, 2011 expressed an unqualified opinion thereon.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
June 10, 2011

Bangor Bancorp, MHC, Parent of Bangor Savings Bank
Consolidated Balance Sheets
March 31, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Assets (Note 15)		
Cash and due from banks (Notes 9 and 10)	$ 29,248	$ 34,228
Federal funds sold	-	7,000
Total cash and cash equivalents	29,248	41,228
Investment securities available for sale at market value (amortized cost of $643,310 and $496,796, respectively) (Notes 2 and 10)	656,202	511,939
Loans, net (Notes 3 and 10)	1,660,386	1,630,239
Less allowance for loan losses (Note 4)	27,176	23,860
Net loans	1,633,210	1,606,379
Premises and equipment, net (Notes 6 and 7)	46,401	43,575
Bank owned life insurance	49,767	48,229
Goodwill, net of amortization	29,633	29,633
Other assets (Notes 5, 8, and 16)	37,204	41,240
Total assets	**$ 2,481,665**	**$ 2,322,223**
Liabilities and Retained Earnings		
Liabilities (Note 15)		
Deposits (Notes 5 and 9)	$ 1,802,992	$ 1,676,626
Borrowed funds (Notes 2 and 10)	378,865	364,461
Other liabilities (Notes 12, 13, and 16)	32,007	29,342
Total liabilities	**2,213,864**	**2,070,429**
Commitments and contingent liabilities (Notes 7, 11, 13, 14, and 16)		
Retained earnings		
Retained earnings (Note 14)	258,921	241,241
Accumulated other comprehensive income (Notes 2 and 12)	8,880	10,553
Total retained earnings	**267,801**	**251,794**
Total liabilities and retained earnings	**$ 2,481,665**	**$ 2,322,223**

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

Bangor Bancorp, MHC, Parent of Bangor Savings Bank
Consolidated Statements of Income
Years Ended March 31, 2011 and 2010

(in thousands of dollars)	2011	2010
Interest and dividend income		
Interest on loans	$ 89,273	$ 95,996
Interest and dividends on investment securities	18,292	19,689
Total interest and dividend income	**107,565**	**115,685**
Interest expense		
Interest on deposits	19,558	23,491
Interest on borrowed funds	6,900	11,735
Total interest expense	**26,458**	**35,226**
Net interest income	**81,107**	**80,459**
Provision for loan losses (Note 4)	**6,600**	**11,200**
Net interest income after provision for loan losses	**74,507**	**69,259**
Non-interest income		
Deposit and branch services	9,347	9,623
Card services	6,124	4,930
Mortgage services (Note 5)	4,431	4,505
Trust, brokerage, and insurance services	4,218	3,885
Payroll services	3,787	3,358
Bank owned life insurance	1,538	1,557
Loan services	1,205	1,151
Other fees and income (Note 16)	120	174
Total non-interest income	**30,770**	**29,183**
Net gains on sales of investment securities (Note 2)	**416**	**2,068**
Non-interest expense		
Compensation and benefits (Note 12)	46,287	43,299
Occupancy and equipment (Note 7)	10,910	10,230
Data and card processing	5,526	5,306
Regulatory assessments	2,710	3,666
Community support and marketing	2,838	2,387
Customer ATM rebates	1,696	1,424
Other expenses (Notes 6, 8, and 16)	10,285	9,972
Total non-interest expense	**80,252**	**76,284**
Income before income tax expense	**25,441**	**24,226**
Income tax expense (Note 13)	**7,761**	**7,337**
Net income	**$ 17,680**	**$ 16,889**

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

Bangor Bancorp, MHC, Parent of Bangor Savings Bank
Consolidated Statements of Changes in Retained Earnings
Years Ended March 31, 2011 and 2010

(in thousands of dollars)	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, March 31, 2009	$ 224,361	$ 11,061	$ 235,422
Adjustment for ASC Topic 715	(9)	-	(9)
Net income	16,889	-	16,889
Other comprehensive loss			
Unrealized losses on cash flow hedges	-	(352)	(352)
Unrealized losses on securities available for sale	-	(65)	(65)
Unrealized losses on postretirement plans	-	(91)	(91)
Total comprehensive income	16,889	(508)	16,381
Balance, March 31, 2010	241,241	10,553	251,794
Net income	17,680	-	17,680
Other comprehensive loss			
Unrealized losses on cash flow hedges	-	(88)	(88)
Unrealized losses on securities available for sale	-	(1,463)	(1,463)
Unrealized losses on postretirement plans	-	(122)	(122)
Total comprehensive income	17,680	(1,673)	16,007
Balance, March 31, 2011	$ 258,921	$ 8,880	$ 267,801

The following table shows the components of other comprehensive loss for the years ended:

	Before-Tax Amount	Tax Benefit (Provision)	Net-of-Tax Amount
March 31, 2010			
Reclassification adjustment for net gains on cash flow hedges realized in net income	$ (542)	$ 190	$ (352)
Unrealized losses on securities available for sale			
Unrealized holding gains arising from securities during period	1,968	(689)	1,279
Reclassification adjustment for net gains realized in net income	(2,068)	724	(1,344)
Unrealized losses on postretirement plans	(140)	49	(91)
Other comprehensive loss	$ (782)	$ 274	$ (508)
March 31, 2011			
Reclassification adjustment for net gains on cash flow hedges realized in net income	$ (135)	$ 47	$ (88)
Unrealized losses on securities available for sale			
Unrealized holding losses arising from securities during period	(1,835)	642	(1,193)
Reclassification adjustment for net gains realized in net income	(416)	146	(270)
Unrealized losses on postretirement plans	(188)	66	(122)
Other comprehensive loss	$ (2,574)	$ 901	$ (1,673)

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

Bangor Bancorp, MHC, Parent of Bangor Savings Bank
Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010

(in thousands of dollars)	**2011**	**2010**
Cash flows from operating activities		
Net income	$ 17,680	$ 16,889
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation of premises and equipment	4,964	4,750
Amortization of intangible assets	331	331
Provision for loan losses	6,600	11,200
Increase in cash surrender value of bank owned life insurance	(1,538)	(1,557)
Net gains on sales of investment securities	(416)	(2,068)
Net amortization (accretion) of premiums and discounts on available for sale securities	170	(326)
Deferred income tax provision	19	17
Net increase in deferred loan fees	181	221
Net decrease (increase) in loan servicing rights	89	(528)
Accretion of hedging instruments	(135)	(542)
Decrease (increase) in prepaid FDIC assessment	2,203	(7,591)
Net decrease in other assets	1,479	1,078
Net increase in other liabilities	3,358	119
Net cash provided by operating activities	34,985	21,993
Cash flows from investing activities		
Proceeds from sales and calls of securities available for sale	187,341	94,832
Proceeds from maturities and prepayments of securities available for sale	71,051	67,302
Purchases of securities available for sale	(404,659)	(241,359)
Net (increase) decrease in loans	(33,679)	26,004
Net purchases of premises and equipment	(7,789)	(5,470)
Net cash used by investing activities	(187,735)	(58,691)
Cash flows from financing activities		
Net increase in deposits	126,366	136,902
Net increase (decrease) in short-term borrowed funds	69,561	(43,642)
Long-term borrowed funds advanced	-	800
Long-term borrowed funds repaid	(55,157)	(50,610)
Net cash provided by financing activities	140,770	43,450
Net (decrease) increase in cash and cash equivalents	(11,980)	6,752
Cash and cash equivalents at beginning of year	41,228	34,476
Cash and cash equivalents at end of year	$ 29,248	$ 41,228
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest	$ 26,352	$ 35,276
Income taxes	6,098	7,970
Noncash transactions		
Transfer from loans to other real estate owned	$ 1,486	$ 650
Transfer from other real estate owned to loans	104	324
Transfer from premises and equipment to other real estate owned	245	-

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

(in thousands of dollars)

1. Summary of Significant Accounting Policies

Basis of Presentation

Effective May 2007, Bangor Savings Bank reorganized from a mutual savings bank to a mutual holding company and changed its name to Bangor Bancorp, MHC. Concurrently, Bangor Bancorp, MHC (the "Company") established a wholly-owned Maine-chartered stock universal bank named Bangor Savings Bank (the "Bank") and contributed a substantial majority of its assets and liabilities thereto.

The accounting and reporting policies of Bangor Bancorp, MHC conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practice within the banking industry. The accompanying consolidated financial statements include the accounts of Bangor Bancorp, MHC and its wholly-owned subsidiary, Bangor Savings Bank. All significant intercompany balances and transactions have been eliminated in consolidation. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and income and expenses for the period. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, the value of loan servicing rights, classification of unrealized losses on investment securities, and goodwill and intangible asset valuations.

Business

Bangor Bancorp, MHC is subject to supervision and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). It files reports with the Federal Reserve on a quarterly basis.

Bangor Savings Bank is subject to supervision and examination by the Federal Deposit Insurance Corporation (the "FDIC") and the State of Maine Bureau of Financial Institutions. It files reports with the FDIC on a quarterly basis.

The Company provides various services to individuals, including checking, NOW, savings, money markets, and time deposit accounts; electronic banking; Internet banking; secured and unsecured consumer and personal loans; mortgage loans; indirect auto financing; other credit services; investment management and trust services; brokerage services; and insurance services.

The Company provides various services to businesses and governmental units, including demand, savings, money market, and time deposit accounts; electronic banking; Internet banking; merchant credit card services; payroll services; cash management and payment solution services; investment management and trust services; brokerage services; insurance services; and also originates commercial real estate and other types of commercial loans.

The Company's primary market area covers the State of Maine.

Cash and Cash Equivalents

The Company's due from bank accounts, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

(in thousands of dollars)

Investment Securities
Investment securities are classified in three categories and accounted for as follows: debt securities that the Company has the positive intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading and reported at fair value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity or trading are classified as available for sale and reported at fair value with unrealized gains and losses excluded from earnings and reported as other comprehensive income (loss), net of tax.

Premiums and discounts on investment securities are amortized or accreted to income over the expected life of the investment using a method that approximates the level yield method. Gains and losses on the sale of securities are recognized on a specific identification basis. Declines in the fair value of individual equity securities that are deemed to be other than temporary are reflected in earnings when identified. For individual debt securities where the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Derivative Instruments and Hedging Activities
Accounting Standards Codification ("ASC" or "Codification") Topic 815, "Derivatives and Hedging," establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by ASC Topic 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss), outside of earnings, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transactions. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

The Company's objective in using derivatives is to add stability to interest income and to manage its exposure to adverse interest rate movements or other identified risks. To accomplish this objective, the Company uses interest rate caps and floors as part of its cash flow hedging strategy. Interest rate caps and floors designated as cash flow hedges protect the Company against

(in thousands of dollars)

movements in interest rates above or below the instruments' strike rates over the life of the agreements.

As of March 31, 2011, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes. The derivatives not designated as hedges as of March 31, 2011, are not speculative, but are used to manage the Company's exposure to interest rate movements and other identified risks, and do not meet the strict hedge accounting requirements of ASC Topic 815.

Commitments to Extend Credit
In the ordinary course of business, the Company has entered into commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Loans Held for Sale
Residential mortgage loans originated for sale are classified as held for sale. These loans are specifically identified and carried at the lower of cost or estimated market value. Market value is estimated based on outstanding investor commitments or, in the absence of such commitments, current investor yield requirements. Gains and losses from sales of residential mortgages held for sale are recognized on the trade date and recorded as mortgage banking services in non-interest income.

Loans
Loans are reported at their principal amount outstanding, net of any unearned discount or deferred loan fees and costs.

Interest on loans is taken into income using methods which report income earned in relation to the balances of loans outstanding. The accrual of interest income on problem loan accounts ceases when collectibility within a reasonable period of time becomes doubtful. Cash payments received on non-accrual loans, which includes impaired loans, are applied to reduce the loan's principal balance until the remaining principal is deemed collectible, after which interest is recognized when collected. Nonaccrual loans may be returned to accrual status when principal and interest payments are not delinquent and the risk characteristics of the loan have improved to the extent that there no longer exists a concern as to the collectibility of principal.

Loan origination fees and certain direct origination costs are deferred and recognized in interest income as an adjustment to the yield over the life of the related loans. The Company amortizes these amounts using the effective yield method. When loans are sold or paid off, the remaining unamortized fees and costs are transferred to interest income.

Allowance for Loan Losses
The allowance for loan losses is maintained at a level determined to be adequate by management to absorb future charge-offs of loans previously deemed partially or wholly uncollectible. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The main considerations in this evaluation are prior loan loss experience, the

(in thousands of dollars)

characteristics and size of the loan portfolio, business and economic conditions and trends in loan delinquencies, and net charge-offs. Although management uses available information to establish the allowance for losses on loans, future additions to the allowance may be necessary based on estimates that are susceptible to significant change as a result of changes in economic conditions and other factors. In addition, periodic review of the Company's allowance for loan losses is performed by various regulatory agencies as part of their examination process. These agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Impaired loans are commercial, commercial real estate, and individually significant residential mortgage and consumer loans for which it is probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement or the loan is delinquent 90 days. Loans less than 90 days delinquent are deemed to have an insignificant delay in payment and are generally not considered impaired based on their delinquent status. Loans more than 30 days past due are considered delinquent. Creditors are generally required to account for impaired loans, except those loans that are accounted for at fair value or at lower of cost or fair value, at the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair market value of collateral. If appropriate, a valuation reserve is established to recognize the difference between the recorded investment and the present value. Impairment of troubled debt restructurings is measured using the rate of interest of the original loan.

Premises and Equipment
Premises and equipment are stated at cost less accumulated depreciation. Buildings, leasehold improvements, equipment and furniture and fixtures are depreciated under the straight-line method over the estimated lives of the assets.

Expenditures for premises, equipment, renewals and betterments that extend the useful life of assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When items are disposed, the cost and accumulated depreciation are eliminated and gains or losses are included in income.

Bank Owned Life Insurance (BOLI)
BOLI represents life insurance on the lives of certain employees who have provided positive consent allowing the Company to be the beneficiary of such policies. Increases in the cash value of the policies, net of insurance costs, as well as insurance proceeds received, are recorded in non-interest income, and are not subject to income taxes. The cash value is included in assets.

Goodwill
In connection with acquisitions of other companies, the Company records as an asset on its financial statements goodwill, an intangible asset which is equal to the excess of the purchase price which it pays for another company over the estimated fair value of the net assets acquired. The Company adopted the provisions of ASC Topic 805, “Business Combinations,” and ASC Topic 350, "Intangibles–Goodwill and Other,” as of April 1, 2002. ASC Topic 805 revised accounting standards and disclosure requirements for business combinations. ASC Topic 805 requires, in part, that goodwill be initially recognized as an asset in the financial statements and that an acquired intangible asset be recognized apart from goodwill if that asset arises from contractual or other legal rights. ASC Topic 350, as amended, requires that most goodwill not be amortized, but rather

(in thousands of dollars)

that it be tested at least annually, or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable, for impairment.

Intangible Assets

In accordance with ASC Topic 805, "Business Combinations," the Company records acquired intangible assets (other than goodwill) with finite lives as an asset on its financial statements. These intangible assets include customer relationships acquired in connection with the acquisition of other companies. The value of identifiable intangible assets is determined using historical financial results, estimated valuation multiple factors, and other management estimates, all of which are subject to change based on changes in economic conditions and other factors. Intangible assets are amortized to expense under the straight-line method over their estimated economic useful lives ranging from 7 to 15 years, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable.

Loan Servicing Rights

Loan servicing rights are initially recorded at fair value and amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of loan servicing rights is assessed based on the fair value of those rights. Fair values are estimated using a discounted cash flow model based on a current market interest rate. For purposes of measuring impairment, the rights are stratified by institutional investor and take into consideration the following predominant risk characteristics of the underlying loans: interest rate, term, period of origination, and prepayment speed. The most recent valuation model utilizes a discount rate of 12% and prepayment assumptions based on Bloomberg long term projections as of February 28, 2011. The amount of impairment recognized is the amount by which the capitalized loan servicing rights for a stratum exceed their fair value.

Other Real Estate Owned

Other real estate owned is comprised of properties or other assets acquired through (i) foreclosure proceedings, or (ii) acceptance of a deed or title in lieu of foreclosure. Other real estate owned is initially recorded at fair value of the collateral less estimated costs to sell. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses are charged to operations while gains and losses upon disposition are reflected in earnings.

Securities Sold Under Agreements to Repurchase

Securities sold under repurchase agreements are treated as collateralized financing transactions and are reported at the amounts at which the securities will be subsequently repurchased, plus accrued interest. The value of securities is monitored, and additional collateral may be pledged when considered appropriate to protect Company creditors against credit exposure.

Income Taxes

The Company recognizes taxes under the asset and liability method of accounting. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that

(in thousands of dollars)

some portion or all of the deferred tax assets will not be realized.

Postretirement Benefits
The Company accrues for postretirement benefits other than pensions during the years that employees render service, instead of when benefits are paid.

Comprehensive Income
Comprehensive income represents the change in retained earnings of the Company during the period. Comprehensive income includes all changes in retained earnings including the impact of net income.

Accumulated other comprehensive income consists of the following, net of applicable income taxes, as of March 31:

	2011	2010
Unrealized gains on securities available for sale	$ 8,379	$ 9,842
Unrealized gains on postretirement plans	501	623
Unrealized gains on cash flow hedges	-	88
	$ 8,880	$ 10,553

Consolidated Statements of Cash Flows
For purposes of the consolidated statements of cash flows, the Company considers cash on hand, amounts due from banks, federal funds sold, and other short-term investments as cash and cash equivalents. Generally, federal funds are purchased and sold for one-day periods.

Reclassifications
Certain amounts in the 2010 consolidated financial statements have been reclassified to conform with the current year's presentation. Such reclassifications had no effect on previously reported net income.

Legal Contingencies
Various legal claims may arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements
In June 2009, the Financial Accounting Standards Board (“FASB”) issued a change to ASC Topic 860, "Transfers and Servicing," to improve the reporting for the transfer of financial assets resulting from 1) practices that have developed since the issuance of a previous FASB statement that are not consistent with the original intent and key requirements of that statement and 2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This change must be applied as of the beginning of each reporting entity’s first annual reporting period that begins after November 15, 2009. Earlier application is prohibited. The adoption of this Statement did not have a material impact on the Company’s consolidated financial statements.

(in thousands of dollars)

In June 2009, the FASB issued a change to ASC Topic 810, "Consolidation," to amend certain requirements of consolidation of variable interest entities, to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. The change is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for annual reporting periods thereafter. Earlier application is prohibited. The adoption of this Statement did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-6, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements," to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the 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 roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective with the reporting period beginning April 1, 2010, except for the disclosure on the roll forward activities for any Level 3 fair value measurements, which will become effective with the reporting period beginning April 1, 2011. Other than requiring additional disclosures, adoption of this new guidance will 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 refines the scope of the reissuance disclosure requirements to include revised financial statements only. The adoption of this update did not have an 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, 2011. 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.

In April 2011, the FASB issued ASU 2011-02, "A Creditors Determination of whether a Restructuring Is a Troubled Debt Restructuring." The new guidance clarifies when a loan modification or restructuring is considered a troubled debt restructuring ("TDR") in order to address current diversity in practice and lead to more consistent application of accounting principles generally accepted in the United States of America. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Additionally, the guidance clarifies that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables (paragraph 470-60-55-10) when evaluating whether a restructuring constitutes a TDR. The guidance is effective for interim and annual reporting periods ending after

(in thousands of dollars)

December 15, 2012. The Company has not yet evaluated whether the clarifications provided in ASU 2011-02 will change the amount of loan modifications or restructurings classified as TDR.

In April 2011, the FASB issued ASU No. 2011-03, "Transfer and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements." This ASU removes from the assessment of effective control the criterion relating to the transferor's ability to repurchase or redeem financial assets on substantially the agreed terms, even in the event of default by the transferee. The guidance is effective for interim and annual reporting periods ending after December 15, 2011. The Company believes the adoption of this new guidance will not have a material effect on the Company's consolidated financial statements.

Subsequent Events
For purposes of the preparation of these financial statements in conformity with GAAP, the Company has considered transactions or events occurring through June 10, 2011, which was the date the financial statements were available to be issued.

2. Investment Securities

A summary of securities available for sale as of March 31, 2011, follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government and government sponsored enterprise (GSE) obligations				
Maturing within 1 year	$ 5,000	$ 4	$ -	$ 5,004
Maturing after 1 year but within 5 years	237,734	2,084	(1,051)	238,767
Maturing after 5 years but within 10 years	56,502	785	(349)	56,938
Maturing after 10 years but within 20 years	1,008	33	-	1,041
Other bonds and obligations				
Maturing within 1 year	978	17	-	995
Maturing after 1 year but within 5 years	4,901	234	(2)	5,133
Maturing after 5 years but within 10 years	13,483	256	(47)	13,692
Maturing after 10 years but within 20 years	3,834	60	(20)	3,874
Mortgage-backed securities				
Government and GSE issued and guaranteed	305,051	11,240	(801)	315,490
Equity securities				
Federal Home Loan Bank of Boston stock	12,533	-	-	12,533
Marketable equity securities	2,286	476	(27)	2,735
	$ 643,310	$ 15,189	$ (2,297)	$ 656,202

Issuers may have the right to call or prepay obligations with or without call or prepayment penalties. This right may cause actual maturities to differ from the contractual maturities summarized above. As of March 31, 2011, the book value of the Company's investment securities with call or prepayment features was $528,243.

(in thousands of dollars)

Within the available for sale investment securities portfolio, net proceeds from the sales and calls of investment securities for the year ended March 31, 2011, were $187,341. The resulting realized gains and losses for the year ended March 31, 2011, were $732 and $316, respectively.

As of March 31, 2011, securities with a book value of $343,829 were pledged to secure borrowed funds, public deposits, and for other purposes as compared with $313,434 as of March 31, 2010.

As of March 31, 2011, investments with unrealized losses and the length of time they have been in a continuous loss position are as follows:

	Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and GSE obligations	$ 109,636	$ (1,400)	$ -	$ -
Other bonds and obligations	4,384	(69)	-	-
Mortgage-backed securities	68,508	(801)	-	-
Marketable equity securities	346	(18)	80	(9)
	$ 182,874	$ (2,288)	$ 80	$ (9)

The aggregate decline in the market value of these securities has been deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include changes in market interest rates, credit ratings, overall financial health of the investee and other pertinent information.

A summary of securities available for sale as of March 31, 2010, follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. government and GSE obligations				
Maturing within 1 year	$ 141,931	$ 1,315	$ (75)	$ 143,171
Maturing after 1 year but within 5 years	69,968	1,408	(14)	71,362
Maturing after 5 years but within 10 years	1,016	28	-	1,044
Other bonds and obligations				
Maturing within 1 year	230	3	-	233
Maturing after 1 year but within 5 years	6,864	338	-	7,202
Maturing after 5 years but within 10 years	9,061	255	(29)	9,287
Maturing after 10 years but within 20 years	14,829	195	(142)	14,882
Mortgage-backed securities				
Government and GSE issued and guaranteed	238,378	11,866	(208)	250,036
Equity securities				
Federal Home Loan Bank of Boston stock	12,533	-	-	12,533
Marketable equity securities	1,986	219	(16)	2,189
	$ 496,796	$ 15,627	$ (484)	$ 511,939

Within the available for sale investment securities portfolio, net proceeds from the sales and calls of investment securities for the year ended March 31, 2010, were $94,832. The resulting realized gains and losses for the year ended March 31, 2010, were $2,193 and $125, respectively.

(in thousands of dollars)

As of March 31, 2010, investments with unrealized losses and the length of time they have been in a continuous loss position are as follows:

	Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and GSE obligations	$ 59,906	$ (89)	$ -	$ -
Other bonds and obligations	7,266	(171)	-	-
Mortgage-backed securities	22,465	(208)	-	-
Marketable equity securities	199	(11)	110	(5)
	$ 89,836	$ (479)	$ 110	$ (5)

The aggregate decline in the market value of these securities has been deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include changes in market interest rates, credit ratings, overall financial health of the investee and other pertinent information.

3. Loans

A summary of the composition of the Company's loan portfolio as of March 31 follows:

	2011	2010
Mortgage loans		
Residential		
Fixed rate	$ 465,915	$ 416,347
Adjustable rate	44,993	43,700
Construction	6,875	10,553
Commercial	395,496	387,141
Total mortgage loans	913,279	857,741
Indirect consumer auto loans	68,961	143,241
Indirect commercial auto loans	8,268	19,425
Commercial loans	175,154	147,398
Consumer loans	76,387	79,525
Small business loans	200,095	164,571
Revolving credit loans	218,962	218,602
	1,661,106	1,630,503
Net deferred fees and unearned discounts	(720)	(264)
	$ 1,660,386	$ 1,630,239

Certain trustees and officers of the Company, including their related interests, are borrowers of the Company. Such loans are made in the ordinary course of business at the Company's normal credit terms, including interest rates and collateralization.

(in thousands of dollars)

An analysis of aggregate loan activity to these related parties for the years ended March 31 follows:

	2011	2010
Beginning balance	$ 43,094	$ 47,439
Loans made/advanced and additions	2,768	2,099
Repayments and reductions	(3,299)	(6,444)
Ending balance	$ 42,563	$ 43,094

As of March 31, 2011, all loans to related parties were performing in accordance with their contractual terms.

As of March 31, 2011 and 2010, impaired loans totaled $13,756 and $14,319, respectively. All impaired loans are on nonaccrual status. Included in the allowance for loan losses were specific valuation reserves totaling $737 and $1,807 for impaired loans as of March 31, 2011 and 2010, respectively. The principal balance of impaired loans for which no specific reserve had been established was $2,282 and $3,099 as of March 31, 2011 and 2010, respectively. Average balances on impaired loans for the years ended March 31, 2011 and 2010, were $15,168 and $14,482, respectively. No income was recognized on nonaccrual loans for the years ended March 31, 2011 and 2010. Income recognized on impaired loans for the years ended March 31, 2011 and 2010, was $18 and $145, respectively.

The Company grants residential, commercial, and consumer loans to customers located throughout Maine. Collateral on these loans typically consists of residential or commercial real estate, or personal property. Although the loan portfolio is diversified, the ability of the Company's customers to honor their contracts is largely dependent on economic conditions in the area, especially in the real estate sector.

4. Allowance for Loan Losses

Activity in the allowance for loan losses of the Company for the years ended March 31 is as follows:

	2011	2010
Beginning balance	$ 23,860	$ 20,623
Provision for loan losses	6,600	11,200
Loans charged off	(5,820)	(10,291)
Recoveries on loans	2,536	2,328
Ending balance	$ 27,176	$ 23,860

(in thousands of dollars)

5. Loan Servicing

The components of capitalized loan servicing rights as of March 31 are as follows:

	2011	2010
Beginning balance	$ 1,526	$ 998
Net additions	295	324
Amortization	(353)	(377)
Additions to (reductions in) impairment reserve	(31)	581
Ending balance	$ 1,437	$ 1,526

Loans serviced for others are not included on the accompanying consolidated balance sheets of the Company. The unpaid principal balance of loans serviced for others was $234,144 and $241,704 as of March 31, 2011 and 2010, respectively.

Custodial escrow balances, including those maintained in connection with the foregoing loan servicing, were $1,281 and $1,408 as of March 31, 2011 and 2010, respectively, and are included in savings accounts.

6. Premises and Equipment

Premises and equipment consisted of the following as of March 31:

	2011	2010
Land	$ 5,124	$ 5,092
Premises	40,799	37,663
Furniture and equipment	31,204	30,173
Leasehold improvements	3,100	2,672
Construction-in-progress	1,243	209
Total premises and equipment	81,470	75,809
Less accumulated depreciation	35,069	32,234
	$ 46,401	$ 43,575

7. Lease Commitments

The Company leases copier equipment under capital lease agreements with original lease terms of three years. A summary of leased capital assets included in premises and equipment as of March 31, is as follows:

(in thousands of dollars)

	2011	**2010**
Equipment	$ 111	$ -
Less: Accumulated depreciation	18	-
	$ 93	$ -

The Company is obligated under a number of noncancelable operating leases for branch and operations locations. Total rent expense incurred under all operating leases for the years ended March 31, 2011 and 2010, was $1,667 and $1,486, respectively.

A schedule by year of approximate future minimum rental payments required under noncancelable capital and operating leases as of March 31, 2011, is as follows:

	Capital Leases	Operating Leases
2012	$ 41	$ 1,506
2013	41	1,372
2014	14	1,285
2015	-	1,165
2016	-	1,158
Thereafter	-	7,795
	$ 96	$ 14,281

The rental agreements provide for renewal options upon expiration of the initial lease term. Additionally, the leases provide that the Company pay taxes, maintenance, insurance, and certain other operating expenses for the leased premises. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

8. Intangible Assets

The following table shows identifiable intangible asset balances, net of amortization, included in other assets as of March 31:

	2011	**2010**	**Estimated Amortization Period (in Years)**
Customer relationships	$ 2,265	$ 2,265	15
Customer deposits	1,380	1,380	7
Accumulated amortization	(2,040)	(1,709)	
	$ 1,605	$ 1,936	

(in thousands of dollars)

Amortization expense of intangibles included in other expenses for the years ended March 31, 2011 and 2010, was $331. For the intangible assets as of March 31, 2011, the approximate annual future amortization expense is estimated to be $331 for 2012 through 2014, and $199 in 2015, and $134 in 2016.

9. Deposits

The following table shows deposit balances as of March 31:

	2011	2010
Demand deposit accounts	$ 385,316	$ 314,396
NOW accounts	169,934	193,517
Savings accounts	268,608	240,104
Money market accounts	220,515	203,751
Time deposits	437,503	503,064
Time deposits - $100,000 or more	321,116	221,794
	$ 1,802,992	$ 1,676,626

Included within the table above are brokered deposits of $59,915 and $20,023 as of March 31, 2011 and 2010, respectively.

The following table summarizes time deposits by maturity as of March 31:

	2011	2010
Within 1 year	$ 587,530	$ 513,326
1 to 2 years	74,280	90,109
2 to 3 years	45,433	51,380
3 to 4 years	35,972	35,616
4 to 5 years	15,404	34,427
	$ 758,619	$ 724,858

The Federal Reserve Bank requires depository institutions to maintain available cash and, as necessary, noninterest-bearing reserves at specified levels against their transaction accounts (primarily depositor checking and NOW accounts). Aggregate cash reserves (in the form of deposits with the Federal Reserve Bank and vault cash) of $9,597 and $8,302 were maintained to satisfy regulatory requirements as of March 31, 2011 and 2010, respectively.

10. Borrowed Funds

The Company considers all advances from the Federal Home Loan Bank of Boston (FHLBB) and securities sold under agreements to repurchase (repurchase agreements) that have original maturities of less than one year to be short-term borrowed funds. Typically, customer repurchase

(in thousands of dollars)

agreements have maturities of 30 days or less and are collateralized by mortgage-backed securities and U.S. Government obligations.

The following table shows short-term borrowed funds as of March 31:

	2011		2010	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Customer repurchase agreements	$ 178,761	0.21%	$ 187,200	0.21%
Federal funds purchased	35,000	0.35	-	-
Short term advances from Federal Home Loan Bank	25,000	0.22	-	-
Daily cash manager from Federal Home Loan Bank	18,000	0.35	-	-
	$ 256,761	0.24%	$ 187,200	0.21%

Long-term advances from the FHLBB and term repurchase agreements with JP Morgan Chase consisted of the following maturities as of March 31:

	2011		2010	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Payable during year ending March 31,				
2011	$ -	-	$ 55,157	5.84%
2012	163	3.61%	163	3.61
2013	20,164	4.13	20,164	4.13
2014	50	2.73	50	2.73
2015	10,052	4.72	10,052	4.72
2016	25,054	4.60	25,054	4.60
Beyond 2016	66,621	4.20	66,621	4.20
	$ 122,104	4.31%	$ 177,261	4.79%

The FHLBB advances were collateralized by all of the Company's FHLBB stock, a blanket pledge of substantially all first lien mortgages against real property, certain pledged investment securities, and all funds placed in deposit accounts at the FHLBB.

The term repurchase agreements with JP Morgan Chase were collaterized by certain pledged investment securities.

11. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Company is party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to originate loans, commercial and standby letters of credit, interest rate cap contracts, and swap agreements entered into for the benefit of commercial customers. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated

(in thousands of dollars)

balance sheets. The contractual or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the above financial instruments is represented by the contractual amounts of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Financial instruments with off-balance-sheet risk as of March 31 are as follows:

	Approximate Contract or Notional Amount	
	2011	**2010**
Commitments to originate loans	$ 20,355	$ 20,008
Unused lines of credit		
Commercial	201,951	200,747
Home equity	141,299	139,533
Consumer/Standby	63,612	47,631
Overdraft protection	29,825	28,008
Commercial letters of credit	3,972	1,527
Financial standby letters of credit	4,618	4,061
Performance standby letters of credit	1,075	1,744
Gross notional amounts of swap contracts	52,988	56,206

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon the credit extension, is based on management's credit evaluation of the counterparty. Collateral held varies but may include residential and commercial real estate and, to a lesser degree, personal property, business inventory, and accounts receivable.

Commercial letters of credit are commitments to make payment on behalf of a customer. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

12. Employee Benefits

Defined Contribution Pension Plan

The Company has a defined contribution pension plan which covers substantially all employees. The total expense associated with this plan for the years ended March 31, 2011 and 2010, was $2,668 and $2,555, respectively.

(in thousands of dollars)

Incentive Compensation Plan
The Company has an incentive compensation plan that covers all employees. Bonuses are awarded to employees based on preestablished financial performance goals. The expense associated with this plan for the years ended March 31, 2011 and 2010, was $3,974 and $3,987, respectively.

Supplemental Retirement Plan
In 2003, the Company established an unfunded, nonqualified supplemental retirement plan for certain key officers. The plan was primarily designed to offset the impact of contribution thresholds in the Company's defined contribution pension plan that statutorily limit the benefits for highly paid employees under qualified pension plans. The plan will generally provide the participants a benefit payable upon retirement, disability, or death, disbursed over a 20-year period. The expense associated with this plan for the years ended March 31, 2011 and 2010, was $993 and $890, respectively.

Postretirement Benefits
The Company sponsors a defined benefit postretirement plan that provides limited postretirement medical and life insurance benefits to certain full-time employees who retire after the age of 60 and have 10 years of service. The plan is noncontributory. The Company’s policy is to fund the cost of postretirement benefits in amounts determined at the discretion of management.

The estimated funded status of the plan for years ended March 31 is as follows:

	2011	2010
Reconciliation of Benefit Obligation		
Obligation at April 1,	$ 916	$ 891
Service cost	16	17
Interest cost	44	56
Benefit payments	(86)	(80)
Actuarial loss	95	32
Obligation and funded status at March 31,	$ 985	$ 916
Net Periodic Postretirement Benefit Credit		
Service cost	$ 16	$ 17
Interest cost	44	56
Amortization of prior service credit	(21)	(21)
Amortization of actuarial gain	(76)	(89)
Net periodic postretirement benefit credit	$ (37)	$ (37)

Assumptions used in determining the actuarial present value of the benefit obligation and net periodic postretirement benefit credit were as follows:

	2011	2010
Discount rate		
For measuring benefit obligation	5.00%	5.50%
For measuring net periodic postretirement benefit credit	5.50%	6.75%

(in thousands of dollars)

For measurement purposes, a 7.00% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012. The rate of increase was assumed to decrease gradually to 5.0% for 2020 and remain at that level thereafter. Other information regarding the plan is as follows:

	Postretirement Benefits	
	2011	**2010**
Employer contribution	$ 86	$ 80
Benefits paid	86	80

Expected benefit payments for the ten years following March 31, 2011 are as follows:

2012	$ 80
2013	76
2014	76
2015	75
2016	74
2017-2021	337

Management expects the Company's contribution to the plan in 2012 will approximate $80.

Amounts not yet reflected in net periodic benefit credit and included in accumulated other comprehensive income at March 31 are as follows:

	2011	**2010**
Net actuarial gain	$ 433	$ 604
Unamortized prior service credit	349	369
	$ 782	$ 973

The following amount was recognized in other comprehensive loss in 2011 and 2010:

	2011	**2010**
Amortization of prior service credit	$ 21	$ 21
Net actuarial loss and amortization of gain	167	119
	$ 188	$ 140

(in thousands of dollars)

The following amounts are expected to be reclassified from accumulated other comprehensive income and recognized in net periodic benefit credit in 2012:

Net actuarial gain	$	61
Amortization of prior service credit		21
	$	82

13. Income Taxes

A summary of income taxes applicable to income before income tax expense for the years ended March 31 follows:

		2011			2010	
	Federal	State	Total	Federal	State	Total
Current	$ 7,367	$ 375	$ 7,742	$ 6,964	$ 356	$ 7,320
Deferred	19	-	19	17	-	17
	$ 7,386	$ 375	$ 7,761	$ 6,981	$ 356	$ 7,337

The effective federal income tax rate differed from the statutory rate as follows:

	2011	2010
Statutory rate	35.0 %	35.0 %
Differences resulting from		
Net earnings on life insurance contracts	(2.1)%	(2.3)%
Municipal income	(1.9)%	(2.3)%
Tax credits, net of amortization	(1.9)%	(1.9)%
State income taxes, net of federal tax benefit	1.0 %	1.0 %
Other	0.4 %	0.8 %
Effective rate	30.5 %	30.3 %

(in thousands of dollars)

A summary of the tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of March 31 follows:

	2011	**2010**
Deferred tax assets		
Allowance for loan losses	$ 9,512	$ 8,351
Accrued benefit and compensation costs	2,852	2,579
Deferred compensation	578	547
Accrued expenses	972	761
Other	718	390
Net operating loss from acquisition	1,053	1,229
Gross deferred tax assets	15,685	13,857
Deferred tax liabilities		
Premises and equipment	(3,069)	(2,105)
Unrealized gains on investment securities available for sale	(4,512)	(5,301)
Loan origination costs	(1,391)	(1,349)
Intangibles/goodwill	(5,739)	(5,074)
Mortgage servicing rights	(305)	(275)
Other	(884)	(836)
Gross deferred tax liabilities	(15,900)	(14,940)
Net deferred tax liability	$ (215)	$ (1,083)

The allocation of deferred tax expense involving items allocated to current year income and items allocated directly to retained earnings (related solely to other comprehensive income (loss)) for the years ended March 31 follows:

	2011	**2010**
Deferred tax benefit allocated to retained earnings	$ (901)	$ (274)
Deferred tax cost allocated to operations	19	17
Total deferred tax benefit	$ (882)	$ (257)

The Company will only recognize a deferred tax asset when, based upon available evidence, realization is more likely than not.

For the years prior to 1996 the Company used the percentage of income bad debt deduction to calculate its bad debt expense for tax purposes as was permitted by the Internal Revenue Code. The cumulative effect of this deduction of approximately $13,773 is subject to recapture, if used for purposes other than to absorb loan losses. Deferred taxes of $4,820 have not been provided on this amount because the Company does not intend to use the tax reserve other than to absorb loan losses.

The Company has net operating loss carryforwards for tax purposes that may be deducted against future taxable income. These carryforwards total $3,010 and expire in the years 2026 through 2027.

(in thousands of dollars)

In July 2006, the FASB issued an amendment to ASC Topic 740, "Income Taxes." The amendment clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

14. Regulatory Capital Requirements

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). As of March 31, 2011, management believes that the Company meets all capital adequacy requirements to which it is subject.

As of March 31, 2011, the most recent notification from the FDIC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes would cause a change in the Company's categorization.

The Company's actual capital amounts and ratios are presented in the following table:

(in thousands of dollars)

	Actual		For Capital Adequacy		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of March 31, 2011						
Total capital (to risk weighted assets)	$ 253,647	15.4 %	$ 131,873	8.0 %	$ 164,841	10.0 %
Tier I capital (to risk weighted assets)	232,758	14.1	65,937	4.0	98,905	6.0
Tier I leverage capital (to average assets)	232,758	9.8	94,863	4.0	118,579	5.0
As of March 31, 2010:						
Total capital (to risk weighted assets)	$ 234,428	14.5 %	$ 129,420	8.0 %	$ 161,775	10.0 %
Tier I capital (to risk weighted assets)	214,076	13.2	64,710	4.0	97,065	6.0
Tier I leverage capital (to average assets)	214,076	9.2	93,152	4.0	116,441	5.0

The Bank's regulatory capital requirements approximate those of the Company.

15. Fair Value

Effective April 1, 2008, the Company adopted ASC Topic 820, "Fair Value Measurements and Disclosures." ASC Topic 820 establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability.

ASC Topic 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions that the market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 — Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

(in thousands of dollars)

The following describes the methods and assumptions used by the Company in estimating its fair value measurements and disclosures for financial instruments:

Cash and Cash Equivalents and Accrued Interest
For these financial instruments, fair values approximate the carrying amounts reported on the consolidated balance sheets.

Investment Securities
Fair values of investment securities, excluding FHLBB stock, are based on quoted bid market prices, where available. Where quoted market prices for an instrument are not available, fair values are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued. The carrying value of FHLBB stock approximates fair value based on the redemption provisions of the FHLBB.

Loans
The fair values of commercial, commercial real estate, residential real estate, and certain consumer loans are estimated by discounting the contractual cash flows using interest rates currently being offered for loans with similar terms to borrowers of similar equity.

Loan Servicing Rights
The fair values of loan servicing rights are estimated using discounted cash flows based on a current market interest rate.

Interest Rate Swaps
The fair values of interest rate swaps are based on observable market prices for similar instruments or observable market interest rates.

Deposits
The fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of time deposits is based on the discounted value of contractual cash flows, applying interest rates currently being offered on time deposits with similar remaining maturities.

The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding.

Borrowed Funds
The fair value of borrowed funds is based on the discounted value of cash flows, applying interest rates currently being offered for similar instruments.

Off-Balance-Sheet Instruments
The Company's commitments to originate loans, unused lines of credit and outstanding letters of credit, and unadvanced portions of construction loans are substantially all at floating rates and, therefore, there is no fair value adjustment.

(in thousands of dollars)

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale				
US government and GSE obligations	$ 15,000	$ 286,750	$ -	$ 301,750
Other bonds and obligations	1,371	22,323	-	23,694
Mortgage-backed securities	33,689	281,801	-	315,490
Equity securities	15,268	-	-	15,268
Interest rate swaps	-	3,035	-	3,035
Liabilities				
Interest rate swaps	-	2,689	-	2,689

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Securities available for sale				
US government and GSE obligations	$ 15,009	$ 200,568	$ -	$ 215,577
Other bonds and obligations	-	31,604	-	31,604
Mortgage-backed securities	-	250,036	-	250,036
Equity securities	14,722	-	-	14,722
Interest rate swaps	-	2,837	-	2,837
Liabilities				
Interest rate swaps	-	2,437	-	2,437

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of March 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Mortgage servicing rights	$ -	$ 1,437	$ -	$ 1,437
Impaired loans	-	10,737	-	10,737
Other real estate owned	-	882	-	882

(in thousands of dollars)

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of March 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets				
Mortgage servicing rights	$ -	$ 1,526	$ -	$ 1,526
Impaired loans	-	9,413	-	9,413
Other real estate owned	-	696	-	696

Fair values of impaired loans and other real estate owned are estimated using the market method.

The following presents the carrying and fair values of the Company's financial instruments as of March 31:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 29,248	$ 29,248	$ 41,228	$ 41,228
Investment securities	656,202	656,202	511,939	511,939
Loans, net	1,633,210	1,657,257	1,606,379	1,628,556
Loan servicing rights	1,437	1,437	1,526	1,526
Accrued interest receivable	7,581	7,581	7,994	7,994
Interest rate swaps	3,035	3,035	2,837	2,837
Financial liabilities				
Deposits (with no stated maturity)	1,044,373	1,044,373	951,768	951,768
Time deposits	758,619	774,020	724,858	739,929
Borrowed funds	378,865	389,877	364,461	375,538
Interest rate swaps	2,689	2,689	2,437	2,437

16. Interest Rate Swaps

The Company enters into interest rate swap agreements executed with commercial banking customers to facilitate customer risk management strategies. In addition to the swap agreement with the borrower, the Company enters into a second "back-to-back" swap agreement with a third party; the general terms of this swap mirror those of the first swap agreement. In entering into this transaction, the Company has offset its interest rate risk exposure to the swap agreement with the borrower.

All interest rate swaps are valued at observable market prices.

(in thousands of dollars)

The following presents summary information regarding interest rate swaps which are included in other assets (liabilities) as of March 31:

	2011 Net Asset (Liability)	2010 Net Asset (Liability)
Swaps receive fixed	$ 3,035	$ 2,837
Swaps pay fixed	(2,689)	(2,437)
Net customer related swaps	$ 346	$ 400

The outstanding notional amounts of interest rate swaps entered into on behalf of customers at March 31 follow:

	2011	2010
Swaps receive fixed	$ 26,489	$ 28,103
Swaps pay fixed	26,489	28,103