CONSUMER PORTFOLIO SERVICES INC
Form SC 13D/A
June 18, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934
(Amendment No. 15)*

CONSUMER PORTFOLIO SERVICES, INC.

(Name of Issuer)

Common Stock, no par value per share

(Title of Class of Securities)

210502 100

(CUSIP Number)

Arthur E. Levine **Levine Leichtman Capital Partners IV, L.P.** **335 N. Maple Drive, Suite 240** **Beverly Hills, CA 90210** **(310) 275-5335**	**Anthony H. Schouten** **Pillsbury Winthrop Shaw Pittman LLP** **1540 Broadway** **New York, NY 10036** **(212) 858-1000**

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

June 16, 2014

(Date of Event, Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 210502 100

1. Names of Reporting Persons
Levine Leichtman Capital Partners IV, L.P.

2. Check the Appropriate Box if a Member of a Group (See Instructions)
(a) o
(b) o

3. SEC Use Only

4. Source of Funds
OO (See Item 3)

5. Check Box if Disclosure of Legal Proceedings Is Required Pursuant to Item 2(e) or 2(f) o

6. Citizenship or Place of Organization
State of Delaware

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power -0- shares
	8.	Shared Voting Power 1,619,404 shares (see Item 5)
	9.	Sole Dispositive Power -0- shares
	10.	Shared Dispositive Power 1,619,404 shares (see Item 5)

11. Aggregate Amount Beneficially Owned by Each Reporting Person
1,619,404 shares (see Item 5)

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares o

13. Percent of Class Represented by Amount in Row (11)
6.52%

14. Type of Reporting Person
PN

CUSIP No. 210502 100

1. Names of Reporting Persons
LLCP Partners IV GP, LLC

2. Check the Appropriate Box if a Member of a Group (See Instructions)
(a) o
(b) o

3. SEC Use Only

4. Source of Funds
OO

5. Check Box if Disclosure of Legal Proceedings Is Required Pursuant to Item 2(e) or 2(f) o

6. Citizenship or Place of Organization
State of Delaware

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power -0- shares
	8.	Shared Voting Power 1,619,404 shares (see Item 5)
	9.	Sole Dispositive Power -0- shares
	10.	Shared Dispositive Power 1,619,404 shares (see Item 5)

11. Aggregate Amount Beneficially Owned by Each Reporting Person
1,619,404 shares (see Item 5)

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares o

13. Percent of Class Represented by Amount in Row (11)
6.52%

14. Type of Reporting Person
OO

CUSIP No. 210502 100

1. Names of Reporting Persons
Levine Leichtman Capital Partners, Inc.

2. Check the Appropriate Box if a Member of a Group (See Instructions)
(a) o
(b) o

3. SEC Use Only

4. Source of Funds
OO

5. Check Box if Disclosure of Legal Proceedings Is Required Pursuant to Item 2(e) or 2(f) o

6. Citizenship or Place of Organization
State of California

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power -0- shares
	8.	Shared Voting Power 1,619,404 shares (see Item 5)
	9.	Sole Dispositive Power -0- shares
	10.	Shared Dispositive Power 1,619,404 shares (see Item 5)

11. Aggregate Amount Beneficially Owned by Each Reporting Person
1,619,404 shares (see Item 5)

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares o

13. Percent of Class Represented by Amount in Row (11)
6.52%

14. Type of Reporting Person
CO

CUSIP No. 210502 100

1. Names of Reporting Persons
Arthur E. Levine

2. Check the Appropriate Box if a Member of a Group (See Instructions)
(a) o
(b) o

3. SEC Use Only

4. Source of Funds
OO

5. Check Box if Disclosure of Legal Proceedings Is Required Pursuant to Item 2(e) or 2(f) o

6. Citizenship or Place of Organization
United States of America

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power -0- shares
	8.	Shared Voting Power 1,619,404 shares (see Item 5)
	9.	Sole Dispositive Power -0-
	10.	Shared Dispositive Power 1,619,404 shares (see Item 5)

11. Aggregate Amount Beneficially Owned by Each Reporting Person
1,619,404 shares (see Item 5)

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares o

13. Percent of Class Represented by Amount in Row (11)
6.52%

14. Type of Reporting Person
IN

CUSIP No. 210502 100

1. Names of Reporting Persons
   Lauren B. Leichtman

2. Check the Appropriate Box if a Member of a Group (See Instructions)
   (a) o
   (b) o

3. SEC Use Only

4. Source of Funds
   OO

5. Check Box if Disclosure of Legal Proceedings Is Required Pursuant to Item 2(e) or 2(f) o

6. Citizenship or Place of Organization
   United States of America

Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power -0-
	8.	Shared Voting Power 1,619,404 shares (see Item 5)
	9.	Sole Dispositive Power -0-
	10.	Shared Dispositive Power 1,619,404 shares (see Item 5)

11. Aggregate Amount Beneficially Owned by Each Reporting Person
    1,619,404 shares (see Item 5)

12. Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares o

13. Percent of Class Represented by Amount in Row (11)
    6.52%

14. Type of Reporting Person
    IN

Explanatory Statement

Pursuant to Rule 13d-2(a) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), Levine Leichtman Capital Partners IV L.P., a Delaware limited partnership (the Partnership), LLCP Partners IV GP, LLC, a Delaware limited liability company (the General Partner), Levine Leichtman Capital Partners, Inc., a California corporation (Capital Corp.), Arthur E. Levine (Mr. Levine) and Lauren B. Leichtman (Ms. Leichtman and, together with the Partnership, the General Partner, Capital Corp. and Mr. Levine, the Reporting Persons), hereby file this Amendment No. 15 to Schedule 13D (this Amendment) with the Securities and Exchange Commission (the Commission).

This Amendment amends and supplements the Schedule 13D originally filed by or on behalf of the Reporting Persons with the Commission on July 9, 2008 (the Original Schedule 13D), as amended by Amendment No. 1 to Schedule 13D filed with the Commission on September 26, 2008 (Amendment No. 1), Amendment No. 2 to Schedule 13D filed with the Commission on July 28, 2009 (Amendment No. 2), Amendment No. 3 to Schedule 13D filed with the Commission on December 23, 2010 (Amendment No. 3), Amendment No. 4 to Schedule 13D filed with the Commission on November 9, 2011 (Amendment No. 4), Amendment No. 5 to Schedule 13D filed with the Commission on February 13, 2013 (Amendment No. 5), Amendment No. 6 to Schedule 13D filed with the Commission on February 20, 2013 (Amendment No. 6), Amendment No. 7 to Schedule 13D filed with the Commission on March 6, 2013 (Amendment No. 7), Amendment No. 8 to Schedule 13D filed with the Commission on March 14, 2013 (Amendment No. 8), Amendment No. 9 to Schedule 13D filed with the commission on May 6, 2013 (Amendment No. 9), Amendment No. 10 to Schedule 13D filed with the commission on July 29, 2013 (Amendment No. 10), Amendment No. 11 to Schedule 13D filed with the Commission on September 27, 2013 (Amendment No. 11), Amendment No. 12 to Schedule 13D filed with the Commission on November 13, 2013 (Amendment No. 12), Amendment No. 13 to Schedule 13D filed with the Commission on November 22, 2013 (Amendment No. 13), and Amendment No. 14 to Schedule 13D filed with the Commission on April 18, 2014 (Amendment No. 14). The Original Schedule 13D, as amended by Amendment No. 1, Amendment No. 2, Amendment No. 3, Amendment No. 4, Amendment No. 5, Amendment No. 6, Amendment No. 7, Amendment No. 8, Amendment No. 9, Amendment No. 10, Amendment No. 11, Amendment No. 12, Amendment No.13 and Amendment No. 14 is referred to herein as the Amended Schedule 13D .

The Amended Schedule 13D and this Amendment relate to the common stock, no par value per share (Common Stock) of Consumer Portfolio Services, Inc., a California corporation (the Issuer).

This Amendment is being filed pursuant to a Joint Reporting Agreement dated July 9, 2008, a copy of which is attached as Exhibit 99.1 to the Original Schedule 13D, among and on behalf of the Reporting Persons. Capitalized terms used in this Amendment and not otherwise defined herein have the meanings set forth in the Amended Schedule 13D. The item numbers and responses thereto below are in accordance with the requirements of Schedule 13D. All Rule citations used in this Amendment are to the rules and regulations promulgated under the Exchange Act.

Item 5. Interest in Securities of the Issuer.
Item 5 of Amended Schedule 13D is hereby amended and restated to read as follows:

(a) Each Reporting Person may be deemed to be the beneficial owner (within the meaning of Rule 13d-3(a) of the Exchange Act) of an aggregate of 1,619,404 shares of Common Stock. Such aggregate number of shares beneficially owned by the Reporting Persons constituted, as of June 17, 2014, approximately 6.52% of the shares of such class (calculated in accordance with Rule 13d-3(d)(1)(i) of the Exchange Act), assuming that 24,829,994 shares of Common Stock were issued and outstanding as of such date. The 24,829,994 share figure is the number of shares of Common Stock issued and outstanding as of April 25, 2014, as reported by the Issuer in its Form 10-Q dated April 30, 2014.

In addition, the Reporting Persons may be deemed to be the beneficial owners, solely for purposes of electing or appointing the LLCP Representative to the Board under the Investor Rights Agreement as described in Items 4 and 6, of the shares of Common Stock beneficially owned by Mr. Bradley. The Reporting Persons have no pecuniary interest in the shares of Common Stock beneficially owned by Mr. Bradley and disclaim beneficial ownership of such shares.

(b) The Partnership may be deemed to have (i) sole voting and dispositive power with respect to no shares of Common Stock and (ii) shared voting and dispositive power with all other Reporting Persons with respect to 1,619,404 shares of Common Stock.

By virtue of being the sole general partner of the Partnership, the General Partner may be deemed to have (i) sole voting and dispositive power with respect to no shares of Common Stock and (ii) shared voting and dispositive power with all other Reporting Persons with respect to 1,619,404 shares of Common Stock.

By virtue of being the manager of the General Partner, Capital Corp. may be deemed to have (i) sole voting and dispositive power with respect to no shares of Common Stock and (ii) shared voting and dispositive power with all other Reporting Persons with respect to 1,619,404 shares of Common Stock.

By virtue of being the sole directors and shareholders, and executive officers, of Capital Corp., each of Mr. Levine and Ms. Leichtman may be deemed to have (i) sole voting and dispositive power with respect to no shares of Common Stock and (ii) shared voting and dispositive power with all other Reporting Persons with respect to 1,619,404 shares of Common Stock.

(c) During the past 60 days, the Partnership sold the following shares of Common Stock listed below, each in the open market:

Trade Date	No. of Shares	Price/Share($)
4/21/14	4,181	7.65
4/21/14	100	7.655
4/21/14	500	7.66
4/21/14	67	7.67
4/21/14	33	7.68
4/21/14	41	7.69
4/21/14	1,159	7.7
4/21/14	1,500	7.705
4/21/14	200	7.7075
4/21/14	100	7.71
4/21/14	1,705	7.65
4/21/14	200	7.655
4/21/14	300	7.665
4/21/14	700	7.675
4/21/14	3,500	7.68
4/21/14	400	7.685
4/21/14	3,040	7.69
4/21/14	2,402	7.695
4/21/14	100	7.699
4/21/14	5,900	7.7
4/21/14	392	7.71
4/21/14	1,300	7.715
4/21/14	61	7.72
4/22/14	4,740	7.65
4/22/14	300	7.6501
4/22/14	414	7.66
4/22/14	400	7.6601
6/10/14	97,583	7.6
6/10/14	20,200	7.61
6/10/14	1,300	7.615
6/10/14	188	7.62
6/10/14	200	7.625
6/10/14	529	7.63
6/11/14	21,136	7.6
6/11/14	500	7.605
6/11/14	100	7.6075
6/11/14	36,339	7.61
6/11/14	100	7.615
6/11/14	2,713	7.62
6/11/14	400	7.625
6/11/14	100	7.63
6/11/14	1,100	7.635
6/11/14	2,100	7.64
6/11/14	100	7.645
6/11/14	997	7.65
6/11/14	100	7.66
6/11/14	200	7.67

6/11/14	400	7.68
6/12/14	3,261	7.55
6/12/14	2	7.6
6/16/14	67,005	7.6
6/16/14	100	7.605
6/16/14	2,344	7.61
6/16/14	1,700	7.615
6/16/14	5,400	7.62
6/16/14	100	7.625
6/16/14	300	7.63
6/16/14	100	7.635
6/17/14	50,612	7.6
6/17/14	1,000	7.605
6/17/14	1,702	7.61

(d) Not applicable.

(e) Not applicable.

Item 7. Material to be Filed as Exhibits.

None.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: June 18, 2014

LEVINE LEICHTMAN CAPITAL PARTNERS IV, L.P.,
a Delaware limited partnership

By: LLCP Partners IV GP, LLC,
a Delaware limited partnership, its General Partner

By: Levine Leichtman Capital Partners, Inc.,
a California corporation, its General Partner

By: /s/ Steven E. Hartman
Steven E. Hartman
Vice President

LLCP PARTNERS IV GP, LLC,
a Delaware limited liability company

By: Levine Leichtman Capital Partners, Inc.,
a California corporation, its General Partner

By: /s/ Steven E. Hartman
Steven E. Hartman
Vice President

LEVINE LEICHTMAN CAPITAL PARTNERS, INC.,
a California corporation

By: /s/ Steven E. Hartman
Steven E. Hartman
Vice President

/s/ Arthur E. Levine
ARTHUR E. LEVINE

/s/ Lauren B. Leichtman
LAUREN B. LEICHTMAN

font>

$224,553

$ ---

$224,553

US Government agencies

$ ---

$ 56,943

$ ---

$ 56,943

Private label

$ ---

$ 20,830

$ ---

$ 20,830

Obligations of states and
political subdivisions thereof

$ ---

$ 54,522

$ ---

$ 54,522

The following table summarizes financial assets and financial liabilities measured at fair value during the quarter, on a non-recurring basis as of March 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Principal Balance as of 3/31/11	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value as of 3/31/11
Mortgage servicing rights	$ 193	$ ---	$193	$ ---	$278
Collateral dependent impaired loans	$1,138	$ ---	$ ---	$1,138	$988

The following table summarizes financial assets and financial liabilities measured at fair value on a non-recurring basis as of December 31, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Principal Balance as of 12/31/10	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value as of 12/31/10
Mortgage servicing rights	$ 210	$ ---	$210	$ ---	$ 262
Collateral dependent impaired loans	$1,957	$ ---	$ ---	$1,957	$1,444

The Company had total collateral dependent impaired loans with a carrying value of approximately $3,815 and $3,294, which had specific reserves included in the allowance of $513 and $513, at March 31, 2011, and December 31, 2010, respectively.

Note 9: Fair Value of Financial Instruments

The Company discloses fair value information about financial instruments for which it is practicable to estimate fair value. Fair value estimates are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. In other cases, fair values are based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates. Derived fair value estimates cannot be substantiated by comparison to independent markets and, in certain cases, could not be realized in an immediate sale of the instrument.

Fair value estimates are based on existing 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. Accordingly, the aggregate fair value amounts presented do not purport to represent the underlying market value of the Company.

The following describes the methods and significant assumptions used by the Company in estimating the fair values of significant financial instruments:

Cash and Cash Equivalents:

For cash and cash equivalents, including cash and due from banks and other short-term investments with maturities of 90 days or less, the carrying amounts reported on the consolidated balance sheet approximate fair values.

Loans:

For variable rate loans that re-price frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

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 wholesale funding products of similar 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 ("deposit base intangibles").

Borrowings:

For borrowings that mature or re-price in 90 days or less, carrying value approximates fair value. The fair value of the Company s remaining borrowings is estimated by using discounted cash flows based on current rates available for similar types of borrowing arrangements taking into account any optionality.

Accrued Interest Receivable and Payable:

The carrying amounts of accrued interest receivable and payable approximate their fair values.

Off-Balance Sheet Financial Instruments

: The Company s off-balance sheet instruments consist of loan commitments and standby letters of credit. Fair values for standby letters of credit and loan commitments were insignificant.

A summary of the carrying values and estimated fair values of the Company s significant financial instruments at March 31, 2011, and December 31, 2010, follows:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 8,626	$ 8,626	$ 12,815	$ 12,815
Loans, net	718,565	723,081	692,170	696,515
Interest receivable	4,960	4,960	4,159	4,159
Securities, available for sale	379,585	379,585	357,882	357,882
Financial liabilities:				
Deposits (with no stated maturity)	343,567	343,567	354,754	354,754
Time deposits	360,976	368,433	353,574	361,481
Borrowings	347,500	365,199	300,014	309,561
Interest payable	996	996	1,078	1,078

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

Management s discussion and analysis, which follows, focuses on the factors affecting the Company s consolidated results of operations for the three months ended March 31, 2011 and 2010, and financial condition at March 31, 2011, and December 31, 2010, and where appropriate, factors that may affect future financial performance. The following discussion and analysis of financial condition and results of operations of the Company and its subsidiaries should be read in conjunction with the consolidated financial statements and notes thereto, and selected financial and statistical information appearing elsewhere in this report on Form 10-Q.

Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation.

Unless otherwise noted, all dollars are expressed in thousands except share data.

Use of Non-GAAP Financial Measures:

Certain information discussed below is presented on a fully taxable equivalent basis. Specifically, included in first quarter 2011 and 2010 interest income was $790 and $879, respectively, of 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 totals discussed in certain sections of this Management s Discussion and Analysis, representing tax equivalent adjustments of $379 and $416 in the first quarter of 2011 and 2010, respectively, which increased net interest income accordingly. The analysis of net interest income tables included in this report on Form 10-Q provide a reconciliation of tax equivalent financial information to the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles.

Management believes the disclosure of tax equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another institution, as each will have a different proportion of tax-exempt interest from their earning asset portfolios. 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.

FORWARD LOOKING STATEMENTS DISCLAIMER

Certain statements, as well as certain other discussions contained in this quarterly report on Form 10-Q, or incorporated herein by reference, contain statements which may be considered to be forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these forward-looking statements by the use of words like "strategy," "expects," "plans," "believes," "will," "estimates," "intends," "projects," "goals," "targets," and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

Investors are cautioned that forward-looking statements are inherently uncertain. Forward-looking statements include, but are not limited to, those made in connection with estimates with respect to the future results of operation, financial condition, and the business of the Company which are subject to change based on the impact of various factors that could cause actual results to differ materially from those projected or suggested due to certain risks and uncertainties. Those factors include but are not limited to:

(i) The Company's success is dependent to a significant extent upon general economic conditions in Maine, and Maine's ability to attract new business, as well as factors that affect tourism, a major source of economic activity in the Company s immediate market areas;

(ii) The Company's earnings depend to a great extent on the level of net interest income (the difference between interest income earned on loans and investments and the interest expense paid on deposits and borrowings) generated by the Company s wholly-owned banking subsidiary, Bar Harbor Bank & Trust (the "Bank"), and thus the Company s results of operations may be adversely affected by increases or decreases in interest rates;

(iii) The banking business is highly competitive and the profitability of the Company depends on the Bank's ability to attract loans and deposits in Maine, where the Bank competes with a variety of traditional banking and non-traditional institutions, such as credit unions and finance companies;

(iv) A significant portion of the Bank's loan portfolio is comprised of commercial loans and loans secured by real estate, exposing the Company to the risks inherent in financings based upon analysis of credit risk, the value of underlying collateral, and other intangible factors which are considered in making commercial loans and, accordingly, the Company's profitability may be negatively impacted by judgment errors in risk analysis, by loan defaults, and the ability of certain borrowers to repay such loans during a downturn in general economic conditions;

(v) A significant delay in, or inability to execute strategic initiatives designed to increase revenues and or control expenses;

(vi) The potential need to adapt to changes in information technology systems, on which the Company is highly dependent, could present operational issues or require significant capital spending;

(vii) Significant changes in the Company s internal controls, or internal control failures;

(viii) Acts or threats of terrorism and actions taken by the United States or other governments as a result of such threats, including military action, could further adversely affect business and economic conditions in the United States generally and in the Company s markets, which could have an adverse effect on the Company s financial performance and that of borrowers and on the financial markets and the price of the Company s common stock;

(ix) Significant changes in the extensive laws, regulations, and policies governing bank holding companies and their subsidiaries could alter the Company's business environment or affect its operations;

(x) Changes in general, national, international, regional or local economic conditions and credit markets which are less favorable than those anticipated by Company management that could impact the Company's securities portfolio, quality of credits, or the overall demand for the Company's products or services; and

(xi) The Company s success in managing the risks involved in all of the foregoing matters.

You should carefully review all of these factors as well as the risk factors set forth in Item 1A. Risk Factors contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. There may be other risk factors that could cause differences from those anticipated by management.

The forward-looking statements contained herein represent the Company's judgment as of the date of this quarterly report on Form 10-Q and the Company cautions readers not to place undue reliance on such statements. The Company disclaims any obligation to publicly update or revise any forward-looking statement contained in the succeeding discussion, or elsewhere in this quarterly report on Form 10-Q, except to the extent required by federal securities laws.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company s significant accounting policies are more fully enumerated in Note 1 to the Consolidated Financial Statements included in Item 8 of its December 31, 2010, report on Form 10-K. The reader of the financial statements should review these policies to gain a greater understanding of how the Company s financial performance is reported.

Management s discussion and analysis of the Company s financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in accordance with U.S. generally accepted accounting principles. 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. Management evaluates its estimates on an ongoing basis. Management bases its estimates on historical experience and 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. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, other than temporary impairment on securities, income tax estimates, and the evaluation of intangible assets. The use of these estimates is more fully described in Part I, Item 1, Note 2 of the consolidated financial statements in this quarterly report on Form 10-Q.

SUMMARY FINANCIAL RESULTS

Summary Results of Operations

For the three months ended March 31, 2011 the Company reported net income available to common shareholders of $2,869, compared with $2,398 in the first quarter of 2010, representing an increase of $471, or 19.6%. The Company s diluted earnings per share amounted to $0.74 for the quarter compared with $0.63 in the first quarter of 2010, representing an increase of $0.11, or 17.5%.

The Company s annualized return on average shareholders equity amounted to 11.14% for the quarter, compared with 11.24% in the first quarter of 2010. The Company s first quarter return on average assets amounted to 1.03%, compared with 1.16% in the first quarter of 2010.

A large contributing factor underlying the first quarter increases in net income available to common shareholders and diluted earnings per share was the Company s repurchase of all shares of its Preferred Stock from the U.S. Department of the Treasury (the "Treasury") in the first quarter of 2010. The Preferred Stock was sold to the Treasury in the first quarter of 2009 as part of the Emergency Economic Stabilization Act of 2008. As a result of the repurchase, in the first quarter of 2010 the Company accelerated the accretion of $496 in preferred stock discount, reducing net income available to common shareholders and diluted earnings per share by $496 and $0.13, respectively. Total preferred stock dividends and accretion of discount amounted to $653 in the first quarter of 2010, compared with none in the current quarter.

For the three months ended March 31, 2011, net interest income on a tax-equivalent basis amounted to $8,713, representing an increase of $239 or 2.8% compared with the first quarter of 2010. The increase in first quarter net interest income compared with the first quarter of 2010 was attributed to average earning asset growth of $72,429, offset in part by a 13 basis point decline in the net interest margin to 3.21%. The decline in the net interest margin was principally attributed to declining earning asset yields.

For the three months ended March 31, 2011, total non-interest income amounted to $1,732, down $178 or 9.3%, compared with the first quarter of 2010. The decline in first quarter non-interest income was principally attributed to a decline in securities gains net of other-than-temporary impairment ("OTTI") losses. Total first quarter securities gains, net of other-than-temporary impairment losses, amounted to $220 compared with $554 in the first quarter of 2010, representing a decline of $334, or 60.3%.

For the three months ended March 31, 2011, total non-interest expense amounted to $5,535, up $330, or 6.3%, compared with the first quarter of 2010. The increase in non-interest expense was largely attributed to salaries and employee benefits, which were up $165 or 5.6% compared with the first quarter of 2010. The increase in salaries and employee benefits was principally attributed to normal increases in base salaries, as well as changes in staffing levels and mix.

Summary Financial Condition

The Company s total assets ended the quarter at $1,162,484, representing an increase of $44,551, or 4.0%, compared with December 31, 2010. Asset growth was attributed to both loans and securities, which were up $26,988 and $21,703, or 3.9% and 6.1%, respectively.

Asset quality remained relatively stable during the first quarter with non-performing loans declining slightly to $13,606. The Bank enjoyed very low loan loss experience during the first quarter with recoveries on previously charged off loans exceeding total loans charged off by $93, or 0.05% of average loans outstanding. For the three months ended March 31, 2011, the Bank recorded a provision for loan losses of $500, unchanged compared with the first quarter of 2010.

Total deposits ended the first quarter at $704,543, down $3,785, or 0.5%, compared with December 31, 2010. Demand deposits and NOW accounts experienced a combined seasonal decline of $13,644, or 9.5%. This decline was largely offset by a $2,457 or 1.2% increase in savings and money market accounts, and a $7,402 or 2.1% increase in time deposits.

At March 31, 2011, the Company and the Bank continued to exceed regulatory requirements for "well-capitalized" financial institutions. Under the capital adequacy guidelines administered by the Bank s principal regulators, "well-capitalized" institutions are those with Tier I Leverage, Tier I Risk-based, and Total Risk-based ratios of at least 5%, 6% and 10%, respectively. At March 31, 2011, the Company s Tier I Leverage, Tier I Risk-based, and Total Risk-based capital ratios were 9.03%, 13.39% and 15.25%, respectively. At March 31, 2011, the Company s tangible common equity ratio stood at 8.78%, down from 9.01% at December 31, 2010, which was principally attributed to significant first quarter earning asset growth.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the principal component of the Company's income stream and represents the difference or spread between interest generated from earning assets and the interest expense paid on deposits and borrowed funds. Net interest income is entirely generated by the Bank. Fluctuations in market interest rates as well as volume and mix changes in earning assets and interest bearing liabilities can materially impact net interest income.

Total Net Interest Income:

For the three months ended March 31, 2011, net interest income on a tax equivalent basis amounted to $8,713, compared with $8,474 in the first quarter of 2010, representing an increase of $239, or 2.8%. As more fully discussed below, the increase in first quarter 2011 tax-equivalent net interest income compared with the first quarter of 2010 was principally attributed to average earning asset growth of $72,429, or 7.0%, offset in part by a 13 basis point decline in the net interest margin.

Factors contributing to the changes in net interest income and the net interest margin are more fully enumerated in the following discussion and analysis.

Net Interest Income Analysis:

The following table summarizes the Company s average balance sheets and components of net interest income, including a reconciliation of tax equivalent adjustments, for the three months ended March 31, 2011 and 2010:

AVERAGE BALANCE SHEET AND
ANALYSIS OF NET INTEREST INCOME
THREE MONTHS ENDED
MARCH 31, 2011 AND 2010

	2011			2010		
	Average Balance	Interest	Weighted Average Rate	Average Balance	Interest	Weighted Average Rate
Interest Earning Assets:						
Loans (1,3)	$ 700,987	$ 8,516	4.93%	$ 669,602	$ 8,614	5.22%
Securities (2,3)	383,067	4,529	4.79%	341,973	4,756	5.64%
Federal Home Loan Bank stock	16,068	12	0.30%	16,068	---	0.00%

Fed funds sold, money market funds, and time						
deposits with other banks	2	---	0.00%	52	---	0.00%
Total Earning Assets	1,100,124	13,057	4.81%	1,027,695	13,370	5.28%
Non-Interest Earning Assets:						
Cash and due from banks	6,869			5,886		
Allowance for loan losses	(8,851)			(8,157)		
Other assets (2)	36,449			39,145		
Total Assets	$1,134,591			$1,064,569		
Interest Bearing Liabilities:						
Deposits	$ 660,577	$ 2,214	1.36%	$ 611,445	$ 2,478	1.64%
Borrowings	307,239	2,130	2.81%	286,558	2,418	3.42%
Total Interest Bearing Liabilities	967,816	4,344	1.82%	898,003	4,896	2.21%
Rate Spread			2.99%			3.07%
Non-Interest Bearing Liabilities:						
Demand and other non-interest bearing deposits	57,237			51,124		
Other liabilities	5,087			5,317		
Total Liabilities	1,030,140			954,444		
Shareholders' equity	104,451			110,125		
Total Liabilities and Shareholders' Equity	$1,134,591			$1,064,569		
Net interest income and net interest margin (3)		8,713	3.21%		8,474	3.34%
Less: Tax Equivalent adjustment		(379)			(416)	
Net Interest Income		$ 8,334	3.07%		$ 8,058	3.18%

(1) For purposes of these computations, non-accrual loans are included in average loans.
(2) For purposes of these computations, unrealized gains (losses) on available for sale securities are recorded in other assets.
(3) For purposes of these computations, interest income, net interest income and net interest margin are reported on a tax equivalent basis.

Net Interest Margin:

The net interest margin, expressed on a tax equivalent basis, represents the difference between interest and dividends earned on interest-earning assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets.

The net interest margin is determined by dividing tax equivalent net interest income by average interest-earning assets. The interest rate spread represents the difference between the average tax equivalent yield earned on interest earning-assets and the average rate paid on interest bearing liabilities. The net interest margin is generally higher than the interest rate spread due to the additional income earned on those assets funded by non-interest bearing liabilities, primarily demand deposits and shareholders equity.

For the three months ended March 31, 2011, the tax equivalent net interest margin amounted to 3.21%, compared with 3.34% in the first quarter of 2010, representing a decline of 13 basis points. The decline in the net interest margin from the first quarter of 2010 was largely attributed to weighted average earning asset yields, which declined 47 basis points, whereas the weighted average cost of interest bearing liabilities declined only 39 basis points.

A variety of factors contributed to the weighted average earning asset yield decline since the first quarter of 2010, including the replacement of accelerated cash flows from the Bank s mortgage-backed securities portfolio during a period of historically low interest rates. The decline in the weighted average earning asset yield was also attributed to the ongoing origination and competitive re-pricing of certain commercial loans during a period of historically low interest rates. Likewise, the replacement of cash flows from the Bank s residential mortgage loan portfolio, also contributed to the earning asset yield decline.

The first quarter net interest margin decline compared with the first quarter of 2010 was also impacted by a continuing shift from short-term funding to higher cost, long-term funding on the Bank s balance sheet. Considering the current near zero percent short-term funding rates and the shape of the U.S. Treasury yield curve, the Bank s interest rate risk management strategy has been focused on protecting net interest income over a long-term horizon, particularly in a rising interest rate environment. While this strategy pressures earnings in the near-term, Company management believes the long term-risks associated with funding the balance sheet short outweigh the short-term rewards. At March 31, 2011, Company management believes the Bank s balance sheet has been positioned such that future levels of net interest income are largely insulated from rising interest rates.

The following table summarizes the net interest margin components, on a quarterly basis, over the past two years. Factors contributing to the changes in the net interest margin are further enumerated in the following discussion and analysis.

NET INTEREST MARGIN ANALYSIS
FOR QUARTER ENDED

WEIGHTED AVERAGE RATES	2011	2010				2009		
Quarter:	1	4	3	2	1	4	3	2
Interest Earning Assets:								
Loans (1,3)	4.93%	5.00%	5.14%	5.20%	5.22%	5.16%	5.27%	5.35%
Securities (2,3)	4.79%	4.73%	5.04%	4.93%	5.64%	5.70%	5.90%	6.14%
Federal Home Loan Bank stock	0.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fed Funds sold, money market funds, and time deposits with other banks	0.00%	0.00%	0.27%	0.00%	0.00%	0.00%	1.33%	0.00%
Total Earning Assets	4.81%	4.83%	5.01%	5.03%	5.28%	5.26%	5.40%	5.55%
Interest Bearing Liabilities:								
Demand and other non-interest bearing deposits	1.36%	1.50%	1.56%	1.57%	1.64%	1.73%	1.79%	1.84%
Borrowings	2.81%	3.22%	3.39%	3.24%	3.42%	3.34%	3.19%	2.90%
Total Interest Bearing Liabilities	1.82%	2.03%	2.13%	2.10%	2.21%	2.27%	2.29%	2.24%
Rate Spread	2.99%	2.80%	2.88%	2.93%	3.07%	2.99%	3.11%	3.31%
Net Interest Margin (3)	3.21%	3.06%	3.15%	3.17%	3.34%	3.27%	3.38%	3.54%
Net Interest Margin without Tax Equivalent Adjustments	3.07%	2.92%	3.00%	3.01%	3.18%	3.10%	3.23%	3.39%

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available for sale securities are recorded in other assets.

(3) For purposes of these computations, interest income, net interest income and net interest margin are reported on a tax equivalent basis.

The weighted average cost of interest bearing liabilities amounted to 1.82% in the first quarter of 2011, compared with 2.21% in the first quarter of 2010, representing a decline of 39 basis points and largely reflecting the gathering and or re-pricing of certain deposits and borrowings in a historically low interest rate environment. The weighted average yield on average earning assets amounted to 4.81% in the first quarter of 2011, compared with 5.28% in the first quarter of 2010, representing a decline of 47 basis points and attributed to reasons discussed immediately above. In summary, since the first quarter of 2010 the decline in the Bank s weighted average yield on its earning asset portfolios exceeded the decline in the weighted average cost of interest bearing liabilities by 8 basis points.

Should interest rates continue at current levels, Company management anticipates the net interest margin will remain relatively stable in 2011, as assets and liabilities are generally expected to re-price or be replaced proportionally into the current low interest rate environment.

The Bank s interest rate sensitivity position is more fully described below in Part I, Item 3 of this report on Form 10-Q, *Quantitative and Qualitative Disclosures About Market Risk.*

Interest and Dividend Income:

For the three months ended March 31, 2011, total interest and dividend income on a tax-equivalent basis amounted to $13,057, compared with $13,370 in the first quarter of 2010, representing a decline of $313, or 2.3%. The decline in interest and dividend income was principally attributed to a 47 basis point decline in the weighted average earning asset yield, largely offset by average earning asset growth of $72,429, or 7.0%.

For the quarter ended March 31, 2011, interest income from the securities portfolio amounted to $4,529, representing a decline of $227, or 4.8%, compared with the first quarter of 2010. The decline in interest income from securities was principally attributed to an 85 basis point decline in the weighted average yield, largely offset by average securities portfolio growth of $41,094, or 12.0%. The decline in securities income from the first quarter of 2010 was largely attributed to the ongoing replacement of accelerated portfolio cash flows in a historically low interest rate environment, combined with incremental securities purchases at low prevailing market yields. Accelerated cash flows were principally attributed to increased securitized loan refinancing activity and defaults, as well as the previously reported cash flow impact of the Fannie Mae and Freddie Mac securitized loan buyouts. These cumulative buyouts of seriously delinquent loans were completed during the second quarter of 2010.

For the quarter ended March 31, 2011, interest income from the loan portfolio amounted to $8,516, representing a decline of $98, or 1.1%, compared with the first quarter of 2010. While the average loan portfolio increased $31,385 or 4.7%, the impact of this increase was more than offset by a 29 basis point decline in the weighted average yield on the loan portfolio.

As depicted on the rate/volume analysis table below, comparing the three months ended March 31, 2011 with the same quarter in 2010, the impact of the lower weighted average earning asset yield contributed $1,246 to the decline in total tax-equivalent interest income, largely offset by a $933 increase attributed to the increased volume of total average earning assets.

Interest Expense:

For the three months ended March 31, 2011, total interest expense amounted to $4,344, compared with $4,896 in the first quarter of 2010, representing a decline of $552, or 11.3%. The decline in interest expense was principally attributed to a 39 basis point decline in the weighted average cost of interest bearing liabilities, the impact of which was partially offset by a $69,813 or 7.8% increase in total average interest bearing liabilities, compared with the first quarter of 2010. The decline in the average cost of interest bearing liabilities was principally attributed to prevailing, historically low short-term and long-term market interest rates, with maturing time deposits and borrowings being added or replaced at a lower cost and other interest bearing deposits re-pricing into the lower interest rate environment.

For the three months ended March 31, 2011, the total weighted average cost of interest bearing liabilities amounted to 1.82%, compared with 2.21% for the same quarter in 2010, representing a decline of 39 basis points. The weighted average cost of interest bearing deposits declined 28 basis points to 1.36%, compared with the first quarter of 2010, while the weighted average cost of borrowed funds declined 61 basis points to 2.81%.

As depicted on the rate/volume analysis table below, comparing the three months ended March 31, 2011 with the same quarter in 2010, the impact of the lower weighted average rate paid on interest bearing liabilities contributed $926 to the decline in interest expense, while the impact of the increased volume of average interest bearing liabilities contributed $374.

ANALYSIS OF VOLUME AND RATE CHANGES ON NET INTEREST INCOME
THREE MONTHS ENDED MARCH 31, 2011 VERSUS MARCH 31, 2010
INCREASES (DECREASES) DUE TO:

	Average Volume	Average Rate	Total Change
Loans (1,3)	$ 405	$ (503)	$ (98)
Securities (2,3)	528	(755)	(227)
Investment in Federal Home Loan Bank stock	---	12	12
TOTAL EARNING ASSETS	$ 933	$(1,246)	$(313)
Interest bearing deposits	199	(463)	(264)
Borrowings	175	(463)	(288)
TOTAL INTEREST BEARING LIABILITIES	$ 374	$ (926)	$(552)
NET CHANGE IN NET INTEREST INCOME	$ 559	$ (320)	$ 239

(1) For purposes of these computations, non-accrual loans are included in average loans.
(2) For purposes of these computations, unrealized gains (losses) on available for sale securities are recorded in other assets.
(3) For purposes of these computations, net interest income and net interest margin are reported on a tax equivalent basis.

Provision for Loan Losses

The provision for loan losses (the "provision") reflects the amount necessary to maintain the allowance for loan losses at a level that, in management s judgment, is appropriate for the amount of inherent risk of probable loss in the Bank s current loan portfolio.

The credit quality of the Bank s loan portfolio remained relatively stable during the first quarter. First quarter loan loss experience was very low, with recoveries on previously charged off loans actually exceeding loans charged off by $93. And, while still at elevated levels, the Bank s non-performing loans were down slightly from December 31, 2010.

For the three months ended March 31, 2011, the provision for loan losses amounted to $500, unchanged compared with the first quarter of 2010. The first quarter 2011 provision continued to be higher than historical experience, largely reflecting significant first quarter loan growth and continued elevated levels of non-performing and potential problem loans, and an increase in delinquent loans as of quarter-end.

Refer below to Item 2 of this Part I, Financial Condition, Loans, *Non-Performing Loans, Potential Problem Loans* and *Allowance for Loan Losses,* in this report on Form 10-Q for further discussion and analysis related to the provision for loan losses.

Non-interest Income

In addition to net interest income, non-interest income is a significant source of revenue for the Company and an important factor in its results of operations.

For the three months ended March 31, 2011, total non-interest income amounted to $1,732, compared with $1,910 for the same quarter in 2010, representing a decline of $178 or 9.3%.

The more significant factors contributing to the changes in non-interest income are enumerated in the following discussion and analysis:

Trust and Other Financial Services:

Income from trust and other financial services is principally derived from fee income based on a percentage of the market value of client assets under management and held in custody and, to a lesser extent, revenue from brokerage services conducted through Bar Harbor Financial Services, an independent third-party broker.

For the three months ended March 31, 2011, income from trust and other financial services amounted to $779, compared with $640 for the same quarter in 2010, representing an increase of $139, or 21.7%. The increase in fee income from trust and financial services was largely attributed to increases in the market values of assets under management, new client relationships, as well as increased brokerage activity.

Reflecting additional new business and further recovery in the equity markets, quarter-end assets under management stood at $321,334, representing an increase of $44,741 or 16.2% compared with March 31, 2010.

Service Charges on Deposits:

This income is principally derived from deposit account overdraft fees and, to a lesser extent, monthly deposit account maintenance and activity fees, and a variety of other deposit account related service charges.

For the three months ended March 31, 2011, income from service charges on deposit accounts amounted to $289, compared with $314 for the same quarter in 2010, representing a decline of $25 or 8.0%. The decline in service charges on deposit accounts was principally attributed to a decline in deposit account overdraft fees, reflecting reduced overdraft activity and the impact of new regulations.

On November 12, 2009, the Federal Reserve issued amendments to Regulation E implementing certain provisions of the Electronic Fund Transfer Act. The new rules, which became effective on July 1, 2010, limit the ability of a bank to offer overdraft protection to deposit customers without their consent and to derive fees from overdraft programs.

Mortgage Banking Activities:

This income is principally derived from gains on sales of residential mortgage loans into the secondary market and ongoing retained mortgage loan servicing fees.

For the three months ended March 31, 2011, income from mortgage banking activities amounted to $21, compared with $25 in the first quarter of 2010. During the first quarter of 2011 and 2010 substantially all residential mortgage loan originations were held in the Bank s loan portfolio. Management s decision to hold residential mortgage loan originations in the loan portfolio in part reflects a relative scarcity of alternative earning assets of comparable quality and yield, and the fact that these loans could be funded with long-term interest bearing liabilities at historically low interest rates.

Credit and Debit Card Service Charges and Fees:

This income is principally derived from the Bank s Visa debit card product, merchant credit card processing fees and fees associated with Visa credit cards.

For the three months ended March 31, 2011, credit and debit card service charges and fees amounted to $288, compared with $252 in the first quarter of 2010, representing an increase of $36, or 14.3%.

The increases in credit and debit card service charges and fees were principally attributed to continued growth of the Bank s demand deposits and NOW accounts, higher levels of merchant credit card processing volumes, and continued success with a program that offers rewards for certain debit card transactions.

In July 2010, Congress enacted regulatory reform legislation known as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which the President signed into law on July 21, 2010. Pursuant to the Dodd-Frank Act, the FRB has issued a proposed rule governing the interchange fees charged on debit cards. The proposed rule would cap the fee a bank could charge on a debit card transaction and shifts such interchange fees from a percentage of the transaction amount to a per transaction fee. Although the proposed rule does not directly apply to institutions with less than $10 billion in assets, market forces may result in debit card issuers of all sizes adopting fees that comply with this rule. If adopted, the proposed rule would likely result in a decrease in the fee income the Bank earns from debit cards.

Net Securities Gains:

For the three months ended March 31, 2011, total net securities gains amounted to $785, compared with $852 in the first quarter of 2010, representing a decline of $67, or 7.9%. The total securities gains recorded in the first quarter of 2011 and 2010 were comprised entirely of realized gains on the sale of securities.

Net Other-than-temporary Impairment Losses Recognized in Earnings:

During the first quarter of 2011 the Company determined that certain available-for-sale securities were other-than-temporarily impaired ("OTTI") because the Company could no longer conclude that it was probable it would recover all of its amortized cost and interest on these securities.

For the three months ended March 31, 2011, net OTTI losses recognized in earnings amounted to $565, compared with $298 in the first quarter of 2010, representing an increase of $267, or 89.6%. The $565 charge resulted from an increase in projected losses on the collateral underlying certain private-label mortgage-backed securities. The OTTI losses recorded in the first quarter of 2011 related to seven, available for sale, private-label MBS, all of which the Company had previously determined to be other-than-temporarily impaired. In all cases the OTTI losses represented management s best estimate of additional credit losses on the mortgage loan collateral underlying these securities. The $565 in estimated credit losses, net of taxes, were previously recorded in unrealized gains or losses on securities available for sale within accumulated other comprehensive income or loss, a component of total shareholders equity on the Company s consolidated balance sheet.

The increase in credit losses attributable to OTTI, compared with the first quarter of 2010, principally reflected an increase in the loss severity assumptions resulting from declining real estate values and extended foreclosure timelines that affect the expected performance of the mortgage loans underlying the Bank s private-label mortgage-backed securities.

Further information regarding impaired securities, other-than-temporarily impaired securities, and evaluation of securities for impairment is incorporated by reference to Notes 2 and 4 of the consolidated financial statements in Part I, Item 1 of this quarterly report on Form 10-Q.

Non-interest Expense

For the three months ended March 31, 2011, total non-interest expense amounted to $5,535, compared with $5,205 in the first quarter of 2010, representing an increase of $330, or 6.3%.

The more significant factors contributing to the changes in non-interest expense are enumerated in the following discussion and analysis.

Salaries and Employee Benefit Expenses:

For the three months ended March 31, 2011, total salaries and employee benefits expense amounted to $3,108, compared with $2,943 for the same quarter in 2010, representing an increase of $165, or 5.6%. The increase in salaries and employee benefits expense was principally attributed to normal increases in base salaries, as well as changes in staffing levels and mix.

Occupancy Expenses:

For the three months ended March 31, 2011, total occupancy expenses amounted to $431, compared with $372 for the same quarter in 2010, representing an increase of $59, or 15.9%. The increase in occupancy expense was largely attributed to higher utilities and grounds keeping costs in the first quarter compared with the first quarter of 2010.

Furniture and Equipment Expenses:

For the three months ended March 31, 2011, furniture and equipment expenses amounted to $418, compared with $352 in the first quarter of 2010, representing an increase of $66, or 18.8%. The increase in furniture and equipment expenses was principally attributed to higher levels of depreciation expense and maintenance contract expenses, which were related to a variety of technology upgrades and new technology systems and applications.

FDIC Insurance Assessments:

For the three months ended March 31, 2011, FDIC insurance assessments amounted to $264, unchanged compared with the first quarter of 2010.

Pursuant to the Dodd-Frank Act which was enacted in July 2010, the FDIC has amended the deposit insurance assessment by changing the calculation of deposit assessments. Under the new calculation, deposit premiums will be based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank will compute the base amount on its average consolidated assets less its average tangible equity (which the FDIC proposes to be defined as the amount of Tier 1 capital) and its applicable assessment rate. The new assessment formula will become effective on April 1, 2011, and will be used to calculate the June 30, 2011 assessment. Future expenses will be based on asset levels, Tier 1 capital levels, assessment rates, CAMELS ratings, and whether there are any future special assessments by the FDIC. The Bank is unable to predict the effect of the changes to the calculation of its deposit insurance assessment, but expects that its aggregate FDIC-deposit insurance premium payable June 30, 2011 will be lower than its March 31, 2011, payment.

Income Taxes

For the three months ended March 31, 2011, total income taxes amounted to $1,162, compared with $1,212 in the first quarter of 2010, representing a decline of $50, or 4.1%.

The Company's effective tax rate for the three months ended March 31, 2011 amounted to 28.8%, compared with 28.4% for the first quarter of 2010. The income tax provisions for these periods were less than the expense that would result from applying the federal statutory rate of 35% to income before income taxes, principally because of the impact of tax exempt interest income on certain investment securities, loans and bank owned life insurance.

Fluctuations in the Company s effective tax rate are generally attributed to changes in the relationship between non-taxable income and non-deductible expense, and income before income taxes, during any given reporting period.

FINANCIAL CONDITION

Total Assets

The Company s assets principally consist of loans and securities, which at March 31, 2011 represented 62.6% and 32.7% of total assets, compared with 62.7% and 32.0% at December 31, 2010, respectively.

At March 31, 2011, the Company s total assets amounted to $1,162,484, compared with $1,117,933 at December 31, 2010, representing an increase of $44,551, or 4.0%.

Securities

The securities portfolio is comprised of Mortgage-backed securities ("MBS") issued by U.S. government agencies, U.S. government sponsored enterprises, and other non-agency, private label issuers. The portfolio also includes tax-exempt obligations of state and political subdivisions, and debt obligations of other U.S. government sponsored enterprises. At March 31, 2011, the securities portfolio did not contain any pools of sub-prime MBS, collateralized debt obligations or commercial MBS. Additionally, the Bank did not own any equity securities or have any corporate debt exposure in its securities portfolio, nor did it own any perpetual preferred stock in FHLMC or FNMA, or any interests in pooled trust preferred securities or auction rate securities.

Bank management considers securities as a relatively attractive means to effectively leverage the Bank s strong capital position, as securities are typically assigned a significantly lower risk weighting compared with the Bank s other earning assets for the purpose of calculating the Bank s and the Company s risk-based capital ratios. The overall objectives of the Bank s strategy for the securities portfolio include maintaining appropriate liquidity reserves, diversifying earning assets, managing interest rate risk, leveraging the Bank s strong capital position, and generating acceptable levels of net interest income.

The securities portfolio represented 34.8% of the Company s average earning assets during the three months ended March 31, 2011 and generated 34.7% of total tax equivalent interest and dividend income, compared with 33.3% and 35.6% for the same quarter in 2010, respectively.

Securities available for sale represented 100% of total securities at March 31, 2011, and December 31, 2010. Securities available for sale are reported at their fair value with unrealized gains or losses, net of taxes, excluded from earnings but shown separately as a component of shareholders equity. At March 31, 2011, total net unrealized securities losses amounted to $803, compared with net unrealized gains of $515 at December 31, 2010.

Total Securities:

At March 31, 2011, total securities amounted to $379,585, compared with $357,882 at December 31, 2010, representing an increase of $21,703, or 6.1%. Securities purchased during the first quarter of 2011 consisted of mortgage-backed securities issued and guaranteed by U.S. Government agencies and sponsored-enterprises.

The following tables summarize the securities available for sale portfolio as of March 31, 2011 and December 31, 2010:

March 31, 2011		Gross	Gross	
Available for Sale:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Obligations of US Government sponsored enterprises	$ 1,000	$ 28	$ ---	$ 1,028
Mortgage-backed securities:				
US Government-sponsored enterprises	237,461	6,280	989	242,752
US Government agency	61,575	1,300	329	62,546
Private label	19,644	568	2,449	17,763
Obligations of states and political subdivisions thereof	60,708	650	5,862	55,496
Total	$380,388	$8,826	$9,629	$379,585

December 31, 2010 **Available for Sale:**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of US Government sponsored enterprises	$ 1,000	$ 34	$ ---	$ 1,034
Mortgage-backed securities:				
US Government-sponsored enterprises	217,319	7,812	578	224,553
US Government agency	56,083	1,216	356	56,943
Private label	22,720	311	2,201	20,830
Obligations of states and political subdivisions thereof	60,245	327	6,050	54,522
Total	$357,367	$9,700	$9,185	$357,882

Impaired Securities:

The securities portfolio contains certain securities where amortized cost exceeds fair value, which at March 31, 2011, amounted to an excess of $9,629, or 2.5% of the amortized cost of the total securities portfolio. At December 31, 2010 this amount represented an excess of $9,185, or 2.6% of the total securities portfolio. As of March 31, 2011, unrealized losses on securities in a continuous unrealized loss position more than twelve-months amounted to $6,466, compared with $6,618 at December 31, 2010.

As a part of the Company s ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. If a decline in the fair value of an available for sale security is judged to be other-than-temporary, a charge is recorded in pre-tax earnings equal to the estimated credit losses inherent in the security.

Further information regarding impaired securities, other-than-temporarily impaired securities and evaluation of securities for impairment is incorporated by reference to above Notes 2 and 4 of the interim consolidated financial statements in Part I, Item 1 of this report on Form 10-Q.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of Boston (the "FHLB"). 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 most of its wholesale funding needs.

At March 31, 2011, the Bank s investment in FHLB stock totaled $16,068, unchanged compared with December 31, 2010.

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. This moratorium continued throughout 2010 and the first quarter of 2011. 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.

In the first quarter of 2009, the FHLB advised its members that it was focusing on preserving capital in response to other-than-temporary impairment losses it had sustained, declining capital ratios and ongoing market volatility. Accordingly, dividend payments for all of 2009 were suspended and that continued to be the case throughout 2010. Following five consecutive quarters of profitability, the FHLB s board of directors declared first and second quarter 2011 cash dividends equal to an annual yield of 0.30% and 0.31%, respectively, based on the average stock outstanding. The FHLB s board of directors anticipates it will continue to declare modest cash dividends through 2011, but cautioned that adverse events such as a negative trend in credit losses on the FHLB s private-label MBS or mortgage loan portfolio, a meaningful decline in income, or regulatory disapproval could lead to reconsideration of this plan.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The FHLB recently reported that it remained in compliance with all regulatory capital ratios as of March 31, 2011, and, in the most recent information available, was classified "adequately capitalized" by its regulator, the Federal Housing Finance Agency. The FHLB also reported a total regulatory capital-to-asset ratio of 7.2% at March 31, 2011, exceeding the regulatory minimum requirement of 4.0%, and its permanent capital was $4.0 billion, exceeding its $1.2 billion minimum regulatory risk-based capital requirement.

The FHLB has the capacity to issue additional debt if necessary to raise cash. If needed, the FHLB also has the ability to secure funding available to government-sponsored enterprises through the U.S. Treasury. Based on the capital adequacy, liquidity position and return to profitability of the FHLB, management believes there is no impairment related to the carrying amount of the Bank s FHLB stock as of March 31, 2011. The Bank will continue to monitor its investment in FHLB stock.

Loans

Total Loans:

At March 31, 2011, total loans stood at $727,658, compared with $700,670 at December 31, 2010, representing an increase of $26,988, or 3.9%.

The loan portfolio is primarily secured by real estate in the counties of Hancock, Washington and Knox, Maine. The following table summarizes the components of the Bank's loan portfolio as of the dates indicated.

LOAN PORTFOLIO SUMMARY

	March 31, 2011	December 31, 2010
Commercial real estate mortgages	$257,981	$260,357
Commercial and industrial	86,883	80,765
Commercial construction and land development	31,702	32,114
Agricultural and other loans to farmers	24,243	24,359
Total commercial loans	400,809	397,595
Residential real estate mortgages	230,501	231,434
Home equity loans	54,216	54,289
Consumer loans	28,408	4,417
Total consumer loans	313,125	290,140
Tax exempt loans	12,956	12,126
Deferred origination costs(fees), net	768	809
Total loans	727,658	700,670
Allowance for loan losses	(9,093)	(8,500)
Total loans net of allowance for loan losses	$718,565	$692,170

Commercial Loans:

At March 31, 2011, total commercial loans amounted to $400,809, compared with $397,595 at December 31, 2010, representing an increase of $3,214, or 0.8%. Commercial loan growth has been challenged by a troubled economy, declining loan demand, and strong competition for quality loans. Bank management attributes the continued growth in commercial loans to an effective business banking team, deep local market knowledge, sustained new business development efforts, and a local economy that has fared better than the nation as a whole.

At March 31, 2011, commercial loans represented 55.1% of the Bank s total loan portfolio, compared with 56.7% at December 31, 2010.

Consumer Loans:

At March 31, 2011, total consumer loans, which principally consisted of residential real estate mortgage loans, amounted to $313,125, compared with $290,140 at December 31, 2010, representing an increase of $22,985, or 7.9%.

The first quarter increase in consumer loans was attributed to the end-of-quarter purchase of a Maine-based, seasoned portfolio of prime consumer loans amounting to $23,522. The underlying collateral supporting these consumer loans consists of recreational vehicles and vessels (i.e. pleasure boats), and none of the loans purchased had any history of delinquency. Based on the weighted average note rate of this portfolio, the purchase premium paid, and the approximate weighted average life of 3.5 years, the Bank anticipates this portfolio will generate an earning asset yield of approximately 6.60%.

At March 31, 2011, the Bank s residential mortgage loan portfolio totaled $230,501, compared with $231,434 at December 31, 2010, representing a decline of $933, or 0.4%. Residential mortgage loan origination activity continued at a slow pace during the first quarter of 2011, largely reflecting current economic conditions and uncertainties with respect to further real estate declines in the communities served by the Bank. During the first quarter of 2011, loans originated and closed by the Bank were essentially offset by cash flows and principal pay-downs from the existing residential real estate loan portfolio.

Tax Exempt Loans:

At March 31, 2011, tax exempt loans, amounted to $12,956, compared with $12,126 at December 31, 2010, representing an increase of $830, or 6.8%.

Tax-exempt loans principally include loans to local government municipalities and, to a lesser extent, not-for-profit organizations. Government municipality loans typically have short maturities (e.g., tax anticipation notes). Government municipality loans are normally originated through a bid process among local financial institutions and are typically priced aggressively, thus generating relatively narrow net interest margins.

Subprime Mortgage Lending:

Subprime mortgage lending, which has been the riskiest sector of the residential housing market, is not a market that Bank management has ever actively pursued. In general, the industry does not apply a uniform definition of what actually constitutes "subprime" lending. In referencing subprime lending activities, Bank management relies upon several sources, including Maine s predatory lending law enacted January 1, 2008, and the "statement of subprime mortgage lending" issued by the federal bank regulatory agencies (the "agencies") on June 29, 2007, which further references the expanded guidance for subprime lending programs (the "expanded guidance"), issued by the agencies by press release dated January 31, 2001.

In the expanded guidance, the agencies indicated that subprime lending does not refer to individual subprime loans originated and managed, in the ordinary course of business, as exceptions to prime risk selection standards. The agencies recognize that many prime loan portfolios will contain such accounts. The agencies also excluded prime loans that develop credit problems after origination and community development loans from the subprime arena. According to the expanded guidance, subprime loans are other loans to borrowers that display one or more characteristics of reduced payment capacity. Five specific criteria, which are not intended to be exhaustive and are not meant to define specific parameters for all subprime borrowers and may not match all markets or institutions specific subprime definitions, are set forth, including having a FICO (credit) score of 660 or lower. Based on the definitions and exclusions described above, Bank management considers the Bank as a prime lender. Within the Bank s residential mortgage loan portfolio there are loans that, at the time of origination, had FICO scores of 660 or below. However, as a portfolio lender, the Bank reviews all credit underwriting data including all data included in borrower credit reports and does not base its underwriting decisions solely on FICO scores. Bank management believes the aforementioned loans, when made, were amply collateralized and documented, and otherwise conformed to the Bank s prime lending standards.

Credit Risk:

Credit risk is managed through loan officer authorities, loan policies, and oversight from the Bank s Senior Credit Officer, the Bank's Senior Loan Officers Committee, the Director's Loan Committee, and the Bank's Board of Directors. Management follows a policy of continually identifying, analyzing and grading credit risk inherent in the loan portfolio. An ongoing independent review, subsequent to management's review, of individual credits is performed by an independent loan review consulting firm, which reports to the Audit Committee of the Board of Directors.

As a result of management s ongoing review of the loan portfolio, loans are placed on non-accrual status, either due to the delinquent status of principal and/or interest, or a judgment by management that, although payments of principal and or interest are current, such action is prudent because collection in full of all outstanding principal and interest is in doubt. Loans are generally placed on non-accrual status when principal and or interest is 90 days overdue, or sooner if judged appropriate by management. Consumer loans are generally charged-off when principal and/or interest payments are 120 days overdue, or sooner if judged appropriate by management.

Non-performing Loans:

Non-performing loans include loans on non-accrual status, loans that have been treated as troubled debt restructurings and loans past due 90 days or more and still accruing interest. During the first quarter of 2011, there were no troubled debt restructurings in the loan portfolio. The following table sets forth the details of non-performing loans as of the dates indicated:

TOTAL NON-PERFORMING LOANS

	March 31, 2011	December 31, 2010
Commercial real estate mortgages	$ 3,433	$3,572
Commercial construction and land development	5,893	5,899
Commercial and industrial loans	959	778
Agricultural and other loans to farmers	235	254
Total commercial loans	10,520	10,503
Residential real estate mortgages	2,933	3,022
Home equity loans	134	146
Consumer loans	19	---
Total consumer loans	3,086	3,168
Total non-accrual loans	13,606	13,671

Accruing loans contractually past due 90 days or more	---	6
Total non-performing loans	$13,606	$13,677
Allowance for loan losses to non-performing loans	67%	62%
Non-performing loans to total loans	1.87%	1.95%
Allowance to total loans	1.25%	1.21%

At March 31, 2011, total non-performing loans amounted to $13,606, compared with $13,677 at December 31, 2010, representing a decline of $71, or 0.5%.

One commercial real estate loan to a local, non-profit housing authority in support of an affordable housing project accounted for $5,235, or 38.5% of total non-performing loans at March 31, 2011. This loan is principally secured by the housing units from the project and there are no guarantees associated with this loan. The project is fully constructed and there is no further construction risk. The primary source of repayment is the sale of the housing units, as well as the sale of certain affordability covenants associated with the project. Sales of both the housing units and the affordability covenants have continued over the past fifteen months and are expected to continue in the future. This loan is impaired and was put on non-accrual status in 2010. Based on an analysis of the present value of expected future cash flows, the Bank has in place a specific loss allocation of $850 for this loan as of March 31, 2011.

Non-performing commercial real estate mortgages amounted to $3,433 at March 31, 2011, representing a decrease of $139, or 3.9%, compared with December 31, 2010. At March 31, 2011, non-performing commercial real estate mortgages were represented by eleven business relationships, with outstanding balances ranging from $51 to $879.

Non-performing residential real estate mortgages totaled $2,933 at March 31, 2011, compared with $3,022 at December 31, 2010, representing a decline of $89, or 2.9%. At March 31, 2011, non-performing residential real estate loans were represented by 35, conventional, 1-4 family mortgage loans, with outstanding balances ranging from $6 to $448.

While the level and mix of non-performing loans continued to reflect favorably on the overall quality of the Bank s loan portfolio at March 31, 2011, Bank management is cognizant of the weakened real estate market, elevated unemployment rates and depressed economic conditions overall. Bank management recognizes that the current credit cycle has yet to reach a definitive turning point and it may be some time before the overall level of credit quality in the Bank s loan portfolio shows lasting improvement. Future levels of non-performing loans may be influenced by economic conditions, including the impact of those conditions on the Bank s customers, including debt service levels, declining collateral values, tourism activity, consumer confidence and other factors existing at the time. Management believes the economic activity and conditions in the local real estate markets will continue to be significant determinants of the quality of the loan portfolio in future periods and, thus, the Company s results of operations and financial condition.

Delinquencies and Potential Problem Loans:

In addition to the non-performing loans discussed above, the Bank also has loans that are 30 to 89 days delinquent. These loans amounted to $6,019 and $3,749 at March 31, 2011 and December 31, 2010, or 0.82% and 0.54% of total loans, respectively, net of any loans classified as non-performing that are within these delinquency categories. These loans and delinquency trends in general are considered in the evaluation of the allowance for loan losses and the related determination of the provision for loan losses.

Periodically, the Bank reviews the commercial loan portfolio for evidence of potential problem loans. Potential problem loans are loans that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the borrower causes doubt about the ability of the borrower to comply with the loan payment terms and may result in disclosure of such loans as non-performing at some time in the future.

At March 31, 2011, the Bank identified twenty-one commercial relationships totaling $5,517 as potential problem loans, or 0.76% of total loans. At December 31, 2010, the Bank identified eighteen commercial relationships totaling $4,886 as potential problem loans, or 0.70% of total loans. Factors such as payment history, value of supporting collateral, and personal or government guarantees led the Bank to conclude that the current risk exposure on these potential problem loans did not warrant accounting for the loans as non-performing. Although in a performing status as of quarter-end, these loans exhibited certain risk factors, which have the potential to cause them to become non-performing at some point in the future.

Allowance for Loan Losses

: At March 31, 2011, the allowance for loan losses (the "allowance") stood at $9,093, compared with $8,500 at December 31, 2010, representing an increase of $593, or 7.0%. At March 31, 2011, the allowance expressed as a percentage of total loans stood at 1.25%, up from 1.21% at December 31, 2010. The increase in the allowance was largely attributed to significant loan growth during the first quarter, including the purchase of a $23,522 consumer loan portfolio. The increase in the allowance was also attributed to continued elevated levels of non-performing and potential problem loans, and an increase in delinquent loans at quarter-end.

The allowance is available to absorb probable losses on loans. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated quarterly based on review of loans, with particular emphasis on non-performing and other loans that management believes warrant special consideration.

The allowance is maintained at a level that, in management s judgment, is appropriate for the amount of risk inherent in the current loan portfolio, and adequate to provide for estimated, probable losses. Allowances are established for specific impaired loans, a pool of reserves based on historical net loan charge-offs by loan types, and supplemental reserves that adjust historical net loss experience to reflect current economic conditions, industry specific risks, and other qualitative and environmental considerations impacting the inherent risk of loss in the current loan portfolio.

Specific allowances for impaired loans are determined based upon a discounted cash flows analysis, or as expedient, a collateral shortfall analysis. The amount of collateral dependent impaired loans totaled $3,815 as of March 31, 2011, compared with $3,294 as of December 31, 2010. The related allowances for loan losses on these loans amounted to $513 as of March 31, 2011, compared with $513 as of December 31, 2010.

Management recognizes that early and accurate recognition of risk is the best means to reduce credit losses. The Bank employs a comprehensive risk management structure to identify and manage the risk of loss. For consumer loans, the Bank identifies loan delinquency beginning at 10-day delinquency and provides appropriate follow-up by written correspondence or personal contact. Non-residential mortgage consumer loan losses are recognized no later than the point at which a loan is 120 days past due. Residential mortgage losses are recognized during the foreclosure process, or sooner, when that loss is quantifiable and reasonably assured. For commercial loans, the Bank applies a risk grading system, which stratifies the portfolio and allows management to focus appropriate efforts on the highest risk components of the portfolio. The risk grades include ratings that correlates substantially with regulatory definitions of "Pass," "Other Assets Especially Mentioned," "Substandard," "Doubtful," and "Loss."

While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank s allowance, which also may necessitate future additions or reductions to the allowance, based on information available to them at the time of their examination.

The following table details changes in the allowance and summarizes loan loss experience by loan type for the three-month periods ended March 31, 2011 and 2010.

ALLOWANCE FOR LOAN LOSSES
THREE MONTHS ENDED
MARCH 31, 2011 AND 2010

	2011	2010
Balance at beginning of period	$ 8,500	$ 7,814
Charge offs:		
Commercial real estate mortgages	---	5
Commercial and industrial	5	27
Commercial construction and land development	---	167
Agricultural and other loans to farmers	---	---
Residential real estate mortgages	18	---
Consumer loans	7	17
Residential construction and land development	---	---
Home equity loans	---	60
Tax exempt loans	---	---
Total charge-offs	30	276
Recoveries:		
Commercial real estate mortgages	1	---
Commercial and industrial loans	76	---
Commercial construction and land development	---	---
Agricultural and other loans to farmers	34	---
Residential real estate mortgages	---	78
Consumer loans	12	10
Residential construction and land development	---	---
Home equity loans	---	40
Tax exempt loans	---	---
Total recoveries	123	128

Net (recoveries) charge-offs	(93)	148
Provision charged to operations	500	500
Balance at end of period	$ 9,093	$ 8,166
Average loans outstanding during period	$700,987	$669,602
Annualized net (recoveries) charge-offs to average loans outstanding	(0.05%)	0.09%

The Bank s loan loss experience was very low during three months ended March 31, 2011, with recoveries on previously charged off loans exceeding total loans charged off by $93, or 0.05% of average loans outstanding. Total loans charged off during the quarter amounted to $30. In the first quarter of 2010, total net charge-offs amounted to $148, or 0.09% of average loans outstanding.

General allowances for loan losses account for the risk and estimated loss inherent in certain pools of industry and geographic loan concentrations within the loan portfolio. There were no material changes in loan concentrations during the first quarter of 2011.

Based upon the process employed and giving recognition to all attendant factors associated with the loan portfolio, Company management believes the allowance for loan losses at March 31, 2011, is appropriate for the amount of risk inherent in the current loan portfolio and adequate to provide for estimated probable losses.

Further information regarding loans and the allowance for loan losses, is incorporated by reference to above Notes 5, Loans and Allowance for Loan Losses, of the interim consolidated financial statements in Part I, Item 1 of this report on Form 10-Q.

Other Real Estate Owned:

Real estate acquired in satisfaction of a loan is reported in other assets. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to other real estate owned ("OREO") and recorded at the lower of cost or fair market value less estimated costs to sell based on appraised value at the date actually or constructively received. Loan losses arising from the acquisition of such property are charged against the allowance for loan losses. Subsequent reductions in fair value below the carrying value are charged to other operating expenses.

At March 31, 2011, the Bank s OREO totaled $840 compared with $656 at December 31, 2010. Three residential and two commercial proprieties comprised the March 31, 2011 balance of OREO.

Deposits

During the three months ended March 31, 2011, the most significant funding source for the Bank s earning assets continued to be retail deposits, gathered through its network of twelve banking offices throughout downeast and midcoast Maine.

Historically, the banking business in the Bank s market area has been seasonal, with lower deposits in the winter and spring and higher deposits in summer and autumn. These seasonal swings have been fairly predictable and have not had a materially adverse impact on the Bank. Seasonal swings in deposits have been typically absorbed by the Bank s strong liquidity position, including borrowing capacity from the FHLB of Boston, brokered certificates of deposit obtained from the national market and cash flows from the securities portfolio.

At March 31, 2011, total deposits stood at $704,543, compared with $708,328 at December 31, 2010, representing a decline of $3,785, or 0.5%.

Principally reflecting the seasonality of the Bank s deposit base, demand deposits and NOW accounts declined $5,755 and $7,889, or 9.5% in each category, compared with December 31, 2010, respectively. The foregoing declines were largely offset by increases in savings and money market accounts and time deposits, which were up $2,457 and $7,402, or 1.2% and 2.1%, respectively.

A portion of the bank s time deposits include certificates of deposit obtained from the national market. This source of funds is generally utilized to help support the Bank s earning asset growth, while maintaining its strong on-balance-sheet liquidity position via secured borrowing lines of credit with the FHLB of Boston and the Federal Reserve Bank of Boston.

Bank management believes it has exercised restraint with respect to overly aggressive deposit pricing strategies, and has sought to achieve an appropriate balance between retail deposit growth and wholesale funding levels, while considering the associated impacts on the Bank s net interest margin and liquidity position. In offering time deposits, the Bank generally prices these deposits on a relationship basis. At March 31, 2011, the weighted average cost of time deposits was 2.03% compared with 2.07% at December 31, 2010. Given the current, historically low interest rate environment and continuing time deposit maturities, Company management anticipates that the weighted average cost of time deposits will continue to show declines for the balance of 2011.

Borrowed Funds

Borrowed funds principally consist of advances from the FHLB of Boston (the "FHLB") and, to a lesser extent, securities sold under agreements to repurchase, Fed fund purchased and borrowings from the Federal Reserve Bank of Boston. Advances from the FHLB are secured by stock in the FHLB, investment securities, blanket liens on qualifying mortgage loans and home equity loans, and certain commercial real estate loans. Borrowings from the Federal Reserve Bank of Boston are principally secured by municipal securities and liens on certain commercial real-estate loans.

The Bank utilizes borrowed funds in leveraging its strong capital position and supporting its earning asset portfolios. Borrowed funds are principally utilized to support the Bank s investment securities portfolio and, to a lesser extent, fund loan growth. Borrowed funds also provide a means to help manage balance sheet interest rate risk, given the Bank s ability to select desired amounts, terms and maturities on a daily basis.

At March 31, 2011, total borrowings amounted to $347,500, compared with $300,014 at December 31, 2010, representing an increase of $47,486, or 15.8%, compared with December 31, 2010. The increase in total borrowings was principally used to fund significant first quarter earning asset growth and, to a lesser extent, fund seasonal deposit outflows.

At March 31, 2011, total borrowings expressed as a percent of total assets amounted to 29.9%, compared with 26.8% December 31, 2010.

Capital Resources

Consistent with its long-term goal of operating a sound and profitable organization, at March 31, 2011, the Company maintained its strong capital position and continued to be a ""well-capitalized" financial institution according to applicable regulatory standards. Management believes this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

Capital Ratios:

The Company and the Bank are subject to the risk-based capital guidelines administered by the Company s and the Bank's principal regulators. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of risk-weighted assets and off-balance sheet items. The guidelines require all banks and bank holding companies to maintain a minimum ratio of total risk-based capital to risk-weighted assets of 8%, including a minimum ratio of Tier I capital to total risk-weighted assets of 4% and a Tier I capital to average assets of 4% ("Leverage Ratio"). Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on the Company's financial statements.

As of March 31, 2011, the Company and the Bank were considered *well-capitalized* under the regulatory framework for prompt corrective action. Under the capital adequacy guidelines, a *well-capitalized* institution must maintain a minimum total risk-based capital to total risk-weighted assets ratio of at least 10.0%, a minimum Tier I capital to total risk-weighted assets ratio of at least 6.0%, and a minimum Tier I Leverage ratio of at least 5.0%. At March 31, 2011 the Company s Total Risk-based, Tier I Risk-based, and Tier I Leverage ratios were 15.25%, 13.39% and 9.03%, respectively.

The following tables set forth the Company's and the Bank s regulatory capital at March 31, 2011 and December 31, 2010, under the rules applicable at that date.

					To be well	
					Capitalized under	
			For Capital		Prompt corrective	
	Consolidated		Adequacy Purposes		Action provisions	
	Actual		Required		Required	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2011						

Total Capital						
(To Risk-Weighted Assets)						
Consolidated	$116,353	15.25%	$61,043	8.0%	N/A	
Bank	$116,495	15.28%	$60,977	8.0%	$76,221	10.0%
Tier 1 Capital						
(To Risk-Weighted Assets)						
Consolidated	$102,185	13.39%	$30,522	4.0%	N/A	
Bank	$102,327	13.43%	$30,488	4.0%	$45,732	6.0%
Tier 1 Capital						
(To Average Assets)						
Consolidated	$102,185	9.03%	$45,250	4.0%	N/A	
Bank	$102,327	9.05%	$45,216	4.0%	$56,520	5.0%

	Consolidated		For Capital Adequacy Purposes		To be well Capitalized under Prompt corrective Action provisions	
	Actual Amount	Ratio	Required Amount	Ratio	Required Amount	Ratio
As of December 31, 2010						
Total Capital						
(To Risk-Weighted Assets)						
Consolidated	$113,741	15.41%	$59,065	8.0%	N/A	
Bank	$114,735	15.56%	$58,999	8.0%	$73,748	10.0%
Tier 1 Capital						
(To Risk-Weighted Assets)						
Consolidated	$100,166	13.57%	$29,532	4.0%	N/A	
Bank	$101,160	13.72%	$29,499	4.0%	$44,249	6.0%
Tier 1 Capital						
(To Average Assets)						
Consolidated	$100,166	9.01%	$44,493	4.0%	N/A	
Bank	$101,160	9.10%	$44,459	4.0%	$55,574	5.0%

Series A Fixed Rate Cumulative Perpetual Preferred Stock and Warrant:

As previously reported, on February 24, 2010 the Company redeemed all 18,751 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Preferred Stock") sold to the U.S. Department of the Treasury (the Treasury") in the first quarter of 2009 as part of the Capital Purchase Program ("CPP") established by the Treasury under the Emergency Economic Stabilization Act of 2008. The Company paid $18,774 to the Treasury to redeem the Preferred Stock, consisting of $18,751 of principal and $23 of accrued and unpaid dividends. In the fourth quarter of 2009, the warrant (the "Warrant") received by the Treasury to purchase up to 104,910 shares of the Company s common stock was reduced by one half to 52,455 shares with an exercise price of $26.81 per share. As previously announced, on July 28, 2010 the Company repurchased the Warrant in its entirety for $250,000. The repurchase of the Warrant did not have any effect on the Company s earnings or earnings per share. As a result of the Warrant repurchase, the Company has repurchased all securities issued to Treasury under the CPP.

Common Stock Offering:

In December 2009 the Company completed its previously announced offering of 800,000 shares of common stock to the public at $27.50 per share. The net proceeds from this offering, after deducting underwriting discounts and estimated expenses amounted to $20,412. As previously reported, in January 2010 the Company completed the closing of the underwriter s exercise of its over-allotment option to purchase an additional 82,021 shares of the Company s common stock at a purchase price to the public of $27.50 per share. The Company received total net proceeds from the offering, including the exercise of the over allotment option, after deducting underwriting discounts and expenses, amounting to approximately $22,411. All of the net proceeds from this offering are treated as Tier 1 capital for regulatory purposes. In February 2010, the Company used $18,751 of the net proceeds from this offering to repurchase all of its Preferred Stock sold to the U.S. Department of the Treasury.

Trends, Events or Uncertainties:

There are no known trends, events or uncertainties, nor any recommendations by any regulatory authority, that are reasonably likely to have a material effect on the Company s capital resources, liquidity, or financial condition.

Cash Dividends:

The Company's principal source of funds to pay cash dividends and support its commitments is derived from Bank operations.

The Company paid regular cash dividends of $0.27 per share of common stock in the first quarter of 2011, representing an increase of $0.01 or 3.8% compared with the dividend paid for the same quarter in 2010. The Company s Board of Directors recently declared a second quarter 2011 regular cash dividend of $0.27 per share of common stock, representing an increase of $0.01 or 3.8% compared with the second quarter of 2010. The dividend will be paid June 15, 2011 to shareholders of record as of the close of business on May 18, 2011.

Stock Repurchase Plan:

In August 2008, the Company s Board of Directors approved a program to repurchase up to 300,000 shares of the Company s common stock, or approximately 10.2% of the shares then currently outstanding. The new stock repurchase program became effective as of August 21, 2008 and was authorized to continue for a period of up to twenty-four consecutive months. In August of 2010, the Company s Board of Directors authorized the continuance of this program through August 19, 2012. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time, or from time to time, without prior notice and may be made in the open market or through privately negotiated transactions.

As of March 31, 2011, the Company had repurchased 76,782 shares of stock under this plan, at a total cost of $2,108 and an average price of $27.45 per share, though there were no shares repurchased under the plan during the quarter ending March 31, 2011. The Company recorded the repurchased shares as treasury stock.

Liquidity

Liquidity is measured by the Company s ability to meet short-term cash needs at a reasonable cost or minimal loss. The Company seeks to obtain favorable sources of liabilities and to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. Besides serving as a funding source for maturing obligations, liquidity provides flexibility in responding to customer-initiated needs. Many factors affect the Company s ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and credit standing in the marketplace, and general economic conditions.

The Bank actively manages its liquidity position through target ratios established under its asset liability management policy. Continual monitoring of these ratios, both historical and through forecasts under multiple rate scenarios, allows the bank to employ strategies necessary to maintain adequate liquidity. A portion of the Bank s deposit base has been historically seasonal in nature, with balances typically declining in the winter months through late spring, during which period the bank s liquidity position tightens.

The Bank uses a basic surplus model to measure its liquidity over 30 and 90-day time horizons. The relationship between liquid assets and short-term liabilities that are vulnerable to non-replacement are routinely monitored. The Bank s general policy is to maintain a liquidity position of at least 4.0% of total assets. At March 31, 2011, liquidity, as measured by the basic surplus/deficit model, was 5.0% over the 30-day horizon and 3.9% over the 90-day horizon.

At March 31, 2011, the Bank had unused lines of credit and net unencumbered qualifying collateral availability to support its credit line with the FHLB of Boston approximating $100 million. The Bank also had capacity to borrow funds on a secured basis utilizing the Borrower In Custody ("BIC") program at the Federal Reserve Bank of Boston. At March 31, 2011 the Bank s available secured line of credit at the Federal Reserve Bank of Boston stood at $167,436, or 14.4% of the Company s total assets. The Bank also has access to the national brokered deposit market, and has been using this funding source to bolster its on-balance sheet liquidity position.

The Bank maintains a liquidity contingency plan approved by the Bank s Board of Directors. This plan addresses the steps that would be taken in the event of a liquidity crisis, and identifies other sources of liquidity available to the Company. The Company believes that the level of liquidity is sufficient to meet current and future funding requirements. However, changes in economic conditions, including consumer savings habits and availability or access to the brokered deposit market could potentially have a significant impact on the Company s liquidity position.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and the accompanying Notes to the Consolidated Financial Statements presented elsewhere in this report have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike many industrial companies, substantially all of the assets and virtually all of the liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company s performance than the general level of inflation. Over short periods of time, interest rates and the U.S. Treasury yield curve may not necessarily move in the same direction or in the same magnitude as inflation.

While the financial nature of the Company s consolidated balance sheets and statements of income is more clearly affected by changes in interest rates than by inflation, inflation does affect the Company because as prices increase the money supply tends to increase, the size of loans requested tends to increase, total Company assets increase, and interest rates are affected by inflationary expectations. In addition, operating expenses tend to increase without a corresponding increase in productivity. There is no precise method, however, to measure the effects of inflation on the Company s financial statements. Accordingly, any examination or analysis of the financial statements should take into consideration the possible effects of inflation.

Recent Accounting Developments

The following information addresses new or proposed accounting standards that could have an impact on the Company s financial condition or results of operations.

Accounting Standards Update ("ASU") No. 2010-20, "Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses."

ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users evaluation of (i) the nature of credit risk inherent in the entity s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll-forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company s financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company s financial statements beginning on January 1, 2011. ASU 2011-01, "Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU 2011-02, "Receivables (Topic 310) - A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring," which is further discussed below.

ASU No. 2010-28, "Intangibles - Goodwill and Other (Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts."

ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 became effective for the Company on January 1, 2011 and did not have an impact on the Company s financial statements.

ASU No. 2011-02, "Receivables (Topic 310) - A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring."

ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 is not expected have a significant impact on the Company s financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk do not arise in the normal course of the Company s business activities.

Interest Rate Risk:

Interest rate risk can be defined as an exposure to movement in interest rates that could have an adverse impact on the Bank's net interest income. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank's balance sheet. The objectives in managing the Bank's balance sheet are to preserve the sensitivity of net interest income to actual or potential changes in interest rates, and to enhance profitability through strategies that promote sufficient reward for understood and controlled risk.

The Bank's interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of balance sheet and off balance sheet instruments as they relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on net interest income, is determined through the use of modeling and other techniques under multiple interest rate scenarios. Interest rate risk is evaluated in depth on a quarterly basis and reviewed by the Asset/Liability Committee ("ALCO") and the Bank s Board of Directors.

The Bank's Asset Liability Management Policy, approved annually by the Bank s Board of Directors, establishes interest rate risk limits in terms of variability of net interest income under rising, flat, and decreasing rate scenarios. It is the role of ALCO to evaluate the overall risk profile and to determine actions to maintain and achieve a posture consistent with policy guidelines.

The Bank utilizes an interest rate risk model widely recognized in the financial industry to monitor and measure interest rate risk. The model simulates the behavior of interest income and expense of all balance sheet and off-balance sheet instruments, under different interest rate scenarios together with a dynamic future balance sheet. Interest rate risk is measured in terms of potential changes in net interest income based upon shifts in the yield curve.

The interest rate risk sensitivity model requires that assets and liabilities be broken down into components as to fixed, variable, and adjustable interest rates, as well as other homogeneous groupings, which are segregated as to maturity and type of instrument. The model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. The model uses contractual re-pricing dates for variable products, contractual maturities for fixed rate products, and product specific assumptions for deposit accounts, such as money market accounts, that are subject to re-pricing based on current market conditions. Re-pricing margins are also determined for adjustable rate assets and incorporated in the model. Investment securities and borrowings with call provisions are examined on an individual basis in each rate environment to estimate the likelihood of a call. Prepayment assumptions for mortgage loans and mortgage backed securities are developed from industry median estimates of prepayment speeds, based upon similar coupon ranges and seasoning. Cash flows and maturities are then determined, and for certain assets, prepayment assumptions are estimated under different interest rate scenarios. Interest income and interest expense are then simulated under several hypothetical interest rate conditions including:

- A flat interest rate scenario in which current prevailing rates are locked in and the only balance sheet fluctuations that occur are due to cash flows, maturities, new volumes, and re-pricing volumes consistent with this flat rate assumption.
- A 200 basis point rise or decline in interest rates applied against a parallel shift in the yield curve over a twelve-month period together with a dynamic balance sheet anticipated to be consistent with such interest rate changes.
- Various non-parallel shifts in the yield curve, including changes in either short-term or long-term rates over a twelve-month horizon, together with a dynamic balance sheet anticipated to be consistent with such interest rate changes.
- An extension of the foregoing simulations to each of two, three, four and five year horizons to determine the interest rate risk with the level of interest rates stabilizing in years two through five. Even though rates remain stable during this two to five year time period, re-pricing opportunities driven by maturities, cash flow, and adjustable rate products will continue to change the balance sheet profile for each of the rate conditions.

Changes in net interest income based upon the foregoing simulations are measured against the flat interest rate scenario and actions are taken to maintain the balance sheet interest rate risk within established policy guidelines.

The following table summarizes the Bank's net interest income sensitivity analysis as of March 31, 2011, over one and two-year horizons and under rising and declining interest rate scenarios. In light of the Federal Funds rate of 0% - 0.25% and the two-year U.S. Treasury note of 0.82% on the date presented, the analysis incorporates a declining interest rate scenario of 100 basis points, rather than the 200 basis points, as would traditionally be the case.

INTEREST RATE RISK
CHANGE IN NET INTEREST INCOME FROM THE FLAT RATE SCENARIO
MARCH 31, 2011

	-100 Basis Points Parallel Yield Curve Shift	+200 Basis Points Parallel Yield Curve Shift
Year 1		
Net interest income change ($)	$(309)	$(738)
Net interest income change (%)	(0.82%)	(1.95%)
Year 2		
Net interest income change ($)	$(573)	$289
Net interest income change (%)	(1.51%)	0.76%

As more fully discussed below, the March 31, 2010 interest rate sensitivity modeling results indicate that the Bank s balance sheet was about evenly matched over the one and two-year horizons.

Assuming interest rates remain at or near their current levels and the Bank s balance sheet structure and size remain at current levels, the interest rate sensitivity simulation model suggests that net interest income will remain relatively stable over the one-year horizon and then begin to trend upward over the two-year horizon and beyond. The upward trend over the two-year horizon and beyond principally results from funding costs rolling over at lower prevailing rates while earning asset yields remain relatively stable.

Assuming short-term and long-term interest rates decline 100 basis points from current levels (i.e., a parallel yield curve shift) and the Bank s balance sheet structure and size remain at current levels, management believes net interest income will decline moderately over the one and two-year horizons as declining earning assets yields outpace reductions in funding costs. Should the yield curve steepen as rates fall, the model suggests that accelerated earning asset prepayments will slow, resulting in a more stabilized level of net interest income. Management anticipates that moderate to strong earning asset growth will be needed to meaningfully increase the Bank s current level of net interest income should both long-term and short-term interest rates decline in parallel.

Assuming the Bank s balance sheet structure and size remain at current levels and the Federal Reserve increases short-term interest rates by 200 basis points with the balance of the yield curve shifting in parallel with these increases, management believes net interest income will decline moderately over the one-year horizon and then trend steadily upward over the two-year horizon and beyond. The interest rate sensitivity simulation model suggests that as interest rates rise, the Bank s funding costs will initially re-price disproportionately with earning asset yields. As funding costs begin to stabilize late in the first year of the simulation, the model suggests that the earning asset portfolios will continue to re-price at prevailing interest rate levels and cash flows from the Bank s earning asset portfolios will be reinvested into higher yielding earning assets, resulting in a widening of spreads and increases in net interest income over the two year horizon and beyond. Management believes moderate to strong earning asset growth will be necessary to meaningfully increase the current level of net interest income over the one-year horizon should short-term and long-term interest rates rise in parallel. Over the two-year horizon and beyond, management believes low to moderate earning asset growth will be necessary to meaningfully increase the current level of net interest income.

Management believes the most significant ongoing factor affecting market risk exposure and the impact on net interest income continues to be the very slow recovery from the severe nationwide recession and the U.S. Government s extraordinary responses, including a variety of government stimulus programs and quantitative easing strategies. Interest rates plummeted during 2008 and have remained historically low ever since, as the global economy slowed at unprecedented levels, unemployment levels soared, delinquencies on all types of loans increased along with decreased consumer confidence and dramatic declines in housing prices. Net interest income exposure is also significantly affected by the shape and level of the U.S. Government securities and interest rate swap yield curve, and changes in the size and composition of the Bank s loan, investment and deposit portfolios. The spread between the two-year and the ten-year Treasury notes ended the quarter at a still historically high level of 265 basis points.

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

As market conditions vary from those assumed in the sensitivity analysis, actual results may also differ due to: prepayment and refinancing levels deviating from those assumed; the impact of interest rate change caps or floors on adjustable rate assets; the potential effect of changing debt service levels on customers with adjustable rate loans; depositor early withdrawals and product preference changes; and other such variables. The sensitivity analysis also does not reflect additional actions that the Bank s ALCO and board of directors might take in responding to or anticipating changes in interest rates, and the anticipated impact on the Bank s net interest income.

ITEM 4. CONTROLS AND PROCEDURES

Company management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this quarterly report. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations and are operating in an effective manner.

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1: Legal Proceedings

The Company and its subsidiaries are parties to certain ordinary routine litigation incidental to the normal conduct of their respective businesses, which in the opinion of management based upon currently available information will have no material effect on the Company's consolidated financial statements.

Item 1A: Risk Factors

There have been no material changes to the Risk Factors previously disclosed in Part I, Item 1A of the Company s Annual Report on Form 10-K for the year-ended December 31, 2010.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

(a) None

(b) None

(c) During the quarter ended March 31, 2011, there were no purchases made by or on behalf of the Company or any "affiliated purchaser," of shares of the Company s common stock pursuant to the Company s previously announced program to repurchase up to 300,000 shares of Company common stock.

Item 3: Defaults Upon Senior Securities None

Item 4: (Removed and Reserved)

Item 5: Other Information

(a) None

(b) None

Item 6: Exhibits

(a) Exhibits.

EXHIBIT NUMBER		
3.1	Articles of Incorporation, as amended to date	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 3.1, filed with the Commission on March 16, 2009.
3.2	Bylaws, as amended to date	Incorporated herein by reference to Form 8-K, Exhibit 3, filed with the Commission on December 17, 2008.
4	Instruments Defining Rights of Security Holders	
4.1	Certificate of Designations, Fixed Rate Cumulative Perpetual Preferred Stock, Series A	Incorporated herein by reference to Form 8-K, Exhibit 3.1, filed with the Commission on January 21, 2009
4.2	Form of Specimen Stock Certificate for Series A Preferred Sock	Incorporated by reference to Form 8-K, Exhibit 4.1, filed with the Commission on January 21, 2009
4.3	Debt Securities Purchase Agreement	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 4.5, filed with the commission on March 16, 2009.
4.4	Form of Subordinated Debt Security of Bar Harbor Bank & Trust	Incorporated herein by reference to Form 10-K, Part IV, Item 15, Exhibit 4.6, filed with the commission on March 16, 2009.
11.1	Statement re computation of per share earnings	Data required by SFAS No. 128, Earnings Per Share, is provided in Note 3 to the consolidated financial statements in this report on Form 10-Q.
31.1	Certification of the Chief Executive Officer under Rule 13a-14(a)/15d-14(a)	Filed herewith.
31.2		Filed herewith.

	Certification of the Chief Financial Officer under Rule 13a-14(a)/15d-14(a)	
32.1	Certification of Chief Executive Officer under 18 U.S.C. Section 1350	Filed herewith.
32.2	Certification of Chief Financial Officer under| 18 U.S.C. Section 1350	Filed herewith.

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

BAR HARBOR BANKSHARES
(Registrant)
/s/Joseph M. Murphy

Date: May 10, 2011

Joseph M. Murphy
President & Chief Executive Officer
/s/Gerald Shencavitz

Date: May 10, 2011

Gerald Shencavitz
Executive Vice President, Chief Financial Officer &
Principal Accounting Officer

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