CHICOPEE BANCORP, INC.
Form 10-Q
May 09, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________________ to _________________

Commission File Number: 000-51996

CHICOPEE BANCORP, INC.
(Exact name of registrant as specified in its charter)

Massachusetts	20-4840562
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
70 Center Street, Chicopee, Massachusetts	01013
(Address of principal executive offices)	(Zip Code)

(413) 594-6692
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ]	Accelerated Filer [X]
Non-Accelerated Filer [ ]	Smaller Reporting Company [ ]

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

As of May 7, 2012, there were 5,588,224 shares of the Registrant's Common Stock outstanding.

CHICOPEE BANCORP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars In Thousands)

ASSETS	March 31, 2012 (Unaudited)	December 31, 2011
Cash and due from banks	$ 14,309	$ 10,665
Federal funds sold	41,265	50,457
Total cash and cash equivalents	55,574	61,122
Securities available-for-sale, at fair value	626	613
Securities held-to-maturity, at cost (fair value $68,309 and $80,607 at March 31, 2012 and December 31, 2011, respectively)	62,353	73,852
Federal Home Loan Bank stock, at cost	4,277	4,489
Loans, net of allowance for loan losses ($4,448 at March 31, 2012 and $4,576 at December 31, 2011)	449,550	443,471
Loans held for sale	1,604	1,635
Other real estate owned	901	913
Mortgage servicing rights	385	344
Bank owned life insurance	13,523	13,427
Premises and equipment, net	9,818	9,853
Accrued interest and dividends receivable	1,562	1,527
Deferred income tax asset	2,888	2,893
FDIC prepaid insurance	730	824
Other assets	1,270	1,343
Total assets	$ 605,061	$ 616,306
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	$ 63,378	$ 68,799
Interest-bearing	385,239	384,578
Total deposits	448,617	453,377
Securities sold under agreements to repurchase	9,883	12,340
Advances from Federal Home Loan Bank	56,373	59,265
Accrued expenses and other liabilities	445	542
Total liabilities	515,318	525,524
Stockholders' equity		
Common stock (no par value, 20,000,000 shares authorized, 7,439,368 shares issued at March 31, 2012 and December 31, 2011)	72,479	72,479

Treasury stock, at cost (1,831,654 shares at March 31, 2012 and 1,703,065 shares at December 31, 2011)		(24,039)		(22,190)
Additional paid-in-capital		2,939		2,800
Unearned compensation (restricted stock awards)		(354)		(546)
Unearned compensation (Employee Stock Ownership Plan)		(4,092)		(4,166)
Retained earnings		42,805		42,408
Accumulated other comprehensive income (loss)		5		(3)
Total stockholders' equity		89,743		90,782
Total liabilities and stockholders' equity	$	605,061	$	616,306

See accompanying notes to unaudited consolidated financial statements.

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CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except for Number of Shares and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Interest and dividend income:		
Loans, including fees	$ 5,685	$ 5,809
Interest and dividends on securities	414	367
Other interest-earning assets	19	12
Total interest and dividend income	6,118	6,188
Interest expense:		
Deposits	1,146	1,374
Securities sold under agreements to repurchase	5	10
Other borrowed funds	365	438
Total interest expense	1,516	1,822
Net interest income	4,602	4,366
Provision for loan losses	7	233
Net interest income after provision for loan losses	4,595	4,133
Non-interest income:		
Service charges, fees and commissions	540	466
Loan sales and servicing, net	153	148
Net gain on sales of securities available-for-sale	-	12
Net loss on other real estate owned	(108)	(63)
Income from bank owned life insurance	96	98
Total non-interest income	681	661
Non-interest expenses:		
Salaries and employee benefits	2,771	2,839
Occupancy expenses	395	447
Furniture and equipment	279	250
FDIC insurance assessment	94	102
Data processing	314	293
Professional fees	165	142
Advertising	149	126
Stationery, supplies and postage	108	83
Other non-interest expense	555	464
Total non-interest expenses	4,830	4,746
Income before income taxes	446	48
Income tax expense	49	5
Net income	$ 397	$ 43

Earnings per share: (1)				
Basic	$	0.08	$	0.01
Diluted	$	0.08	$	0.01
Adjusted weighted average shares outstanding:				
Basic		5,070,119		5,421,684
Diluted		5,119,446		5,454,160

(1) Common stock equivalents were excluded from the computation of diluted net income per share for the three months ended March 31, 2012 and 2011, since the inclusion of such equivalents would be anti-dilutive.

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 397	$ 43
Other comprehensive income, net of tax		
Unrealized gains on securities:		
Unrealized holding gains arising during period	12	6
Less: reclassification adjustments for gains included in net income	-	(12)
Tax effect	(4)	2
Other comprehensive income (loss)	8	(4)
Comprehensive income	$ 405	$ 39

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2012 and 2011
(Dollars In Thousands)
(Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation (restricted stock awards)	Unearned Compensation (Employee Stock Ownership Plan)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2011	$ 72,479	$ (22,190)	$ 2,800	$ (546)	$ (4,166)	$ 42,408	$ (3)	$ 90,782
Comprehensive income:								
Net income	-	-	-	-	-	397	-	397
Change in net unrealized loss on securities available-for-sale (net of deferred income taxes of $4)	-	-	-	-	-	-	8	8
Total comprehensive income								405
Treasury stock purchased (128,589 shares)	-	(1,849)	-	-	-	-	-	(1,849)
Change in unearned compensation:								
Stock option expense (net of income tax benefit of $22)	-	-	108	-	-	-	-	108
Restricted stock award expense	-	-	-	192	-	-	-	192
Common stock held by ESOP committed to be released	-	-	31	-	74	-	-	105
Balance at March 31, 2012	$ 72,479	$ (24,039)	$ 2,939	$ (354)	$ (4,092)	$ 42,805	$ 5	$ 89,743
Balance at December 31, 2010	$ 72,479	$ (18,295)	$ 2,255	$ (1,431)	$ (4,463)	$ 41,308	$ 29	$ 91,882
Comprehensive income:								
Net income	-	-	-	-	-	43	-	43

Change in net unrealized gain on securities available-for-sale (net of deferred income taxes of $2)	-	-	-	-	-	-	(4)	(4)
Total comprehensive income								39
Treasury stock purchased (32,100 shares)	-	(419)	-	-	-	-	-	(419)
Change in unearned compensation:								
Stock option expense (net of income tax benefit of $21)	-	-	91	-	-	-	-	91
Restricted stock award expense	-	-	-	307	-	-	-	307
Common stock held by ESOP committed to be released	-	-	27	-	74	-	-	101
Balance at March 31, 2011	$ 72,479	$ (18,714)	$ 2,373	$ (1,124)	$ (4,389)	$ 41,351	$ 25	$ 92,001

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2012	2011
	(In Thousands)	
Cash flows from operating activities:		
Net income	$ 397	$ 43
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	235	241
Provision for loan losses	7	233
Increase in cash surrender value of life insurance	(96)	(98)
Net realized gain on sales of securities available-for-sale	-	(12)
Realized gains on sales of mortgage loans	(54)	(48)
Decrease (increase) in other assets	46	(874)
(Increase) decrease in accrued interest and dividends receivable	(36)	154
Decrease in FDIC prepaid insurance	94	103
Net change in loans originated for resale	31	1,777
Net loss on sales of other real estate owned	108	63
Decrease in other liabilities	(97)	(75)
Change in unearned compensation	405	499
Net cash provided by operating activities	1,040	2,006
Cash flows from investing activities:		
Additions to premises and equipment	(163)	(80)
Loan originations and principal collections, net	(6,182)	(12,937)
Proceeds from sales of other real estate owned	-	162
Proceeds from sales of securities available-for-sale	-	17
Purchases of securities held-to-maturity	(3,004)	(14,725)
Maturities of securities held-to-maturity	14,009	18,725
Proceeds from principal paydowns of securities held-to-maturity	496	699
Proceeds from sale of FHLB stock	213	-
Net cash provided (used) by investing activities	5,369	(8,139)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(4,760)	12,160
Net decrease in securities sold under agreements to repurchase	(2,457)	(1,018)
Payments on long-term FHLB advances	(2,891)	(3,183)
Stock purchased for treasury	(1,849)	(419)
Net cash (used) provided by financing activities	(11,957)	7,540
Net (decrease) increase in cash and cash equivalents	(5,548)	1,407
Cash and cash equivalents at beginning of period	61,122	35,873
Cash and cash equivalents at end of period	$ 55,574	$ 37,280
Supplemental cash flow information:		

Interest paid on deposits	$ 1,146	$ 1,374
Interest paid on borrowings	398	367
Income taxes paid	-	57
Transfers from loans to other real estate owned	97	377

See accompanying notes to unaudited consolidated financial statements.

CHICOPEE BANCORP, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements
March 31, 2012 and 2011

1. Basis of Presentation

Chicopee Bancorp, Inc. (the "Corporation") has no significant assets other than all of the outstanding shares of its wholly-owned subsidiaries, Chicopee Savings Bank (the "Bank") and Chicopee Funding Corporation (collectively, the "Company"). The Corporation was formed on March 14, 2006 and became the holding company for the Bank upon completion of the Bank's conversion from a mutual savings bank to a stock savings bank. The conversion of the Bank was completed on July 19, 2006. The accounts of the Bank include its wholly-owned subsidiaries and a 99% owned subsidiary. The consolidated financial statements of the Company as of March 31, 2012 and for the periods ended March 31, 2012 and 2011 included herein are unaudited. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation of the financial condition, results of operations, changes in stockholders' equity and cash flows, as of and for the periods covered herein, have been made. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K.

The results for the three month interim period ended March 31, 2012 are not necessarily indicative of the operating results for a full year.

2. Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the adjusted weighted-average number of common shares outstanding during the period. The adjusted outstanding common shares equals the gross number of common shares issued less average treasury shares, unallocated shares of the Chicopee Savings Bank Employee Stock Ownership Plan ("ESOP"), and average dilutive restricted stock awards under the 2007 Equity Incentive Plan. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and certain stock awards and are determined using the treasury stock method.

Earnings per share is computed as follows:

	Three Months Ended March 2012	2011
Net income (in thousands)	$ 397	$ 43
Weighted average number of common shares issued	7,439,368	7,439,368
Less: average number of treasury shares	(1,897,395)	(1,453,446)
Less: average number of unallocated ESOP shares	(416,605)	(446,363)
Less: average number of dilutive restricted stock awards	(55,249)	(117,875)
Adjusted weighted average number of common shares outstanding	5,070,119	5,421,684
Plus: dilutive outstanding restricted stock awards	49,327	32,476
Plus: dilutive outstanding stock options	-	-
	5,119,446	5,454,160

Weighted average number of diluted shares outstanding				
Earnings per share:				
Basic- common stock	$	0.08	$	0.01
Basic- unvested share-based payment awards	$	0.08	$	0.01
Diluted- common stock	$	0.08	$	0.01
Diluted- unvested share-based payment awards	$	0.08	$	0.01

There were 619,198 and 562,698 stock options that were not included in the calculation of diluted earnings per share for the three months ended March 31, 2012 and 2011, respectively, because their effect was anti-dilutive.

3. Equity Incentive Plan

Stock Options

Under the Company's 2007 Equity Incentive Plan (the "Plan") approved by the Company's stockholders at the annual meeting of the Company's stockholders on May 30, 2007, the Company may grant options to directors, officers and employees for up to 743,936 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price for each option is equal to the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. The stock options vest over five years in five equal installments on each anniversary of the date of grant.

The Company recognizes compensation expense over the vesting period, based on the grant-date fair value of the options granted. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for options granted during the year ended December 31, 2011, and the three months ended March 31, 2012:

	Three Months Ended March 31, 2012		Year Ended December 31, 2011	
Expected dividend yield	0.86	%	0.86	%
Weighted average expected term	6.5 years		6.5 years	
Weighted average expected volatility	23.27	%	25.37	%
Weighted average risk-free interest rate	1.40	%	2.92	%

Expected volatility is based on the historical volatility of the Company's stock and other factors. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company uses historical data, such as option exercise and employee termination rates, to calculate the expected option life.

A summary of options under the Plan as of March 31, 2012, and changes during the three months then ended, is as follows:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value (000's)
Outstanding at December 31, 2011	556,198	$	14.23	5.74	$	25
Granted	63,000		14.20	9.83		-
Exercised	-		-	-		-
Forfeited or expired	-		-	-		-
Outstanding at March 31, 2012	619,198	$	14.23	5.93	$	167
Exercisable at March 31, 2012	429,357	$	14.26	5.38	$	102
Exercisable at March 31, 2011	320,417	$	14.25	6.17	$	41

The Company granted 63,000 stock options in the three months ended March 31, 2012 with a fair value of $3.32. The weighted-average grant-date fair value of options granted during 2011 was $4.07, respectively. The weighted average grant-date fair value of the options outstanding and exercisable at March 31, 2012 and December 31, 2011 was $3.84 and $3.91, respectively. For the three months ended March 31, 2012 and 2011, share based compensation expense applicable to options granted under the Plan was $108,000 and $91,000 and the related tax benefit was $22,000 and $21,000, respectively. As of March 31, 2012, unrecognized stock-based compensation expense related to non-vested options amounted to $408,000. This amount is expected to be recognized over a period of 3.12 years.

Stock Awards

Under the Company's 2007 Equity Incentive Plan, the Company may grant stock awards to its directors, officers and employees for up to 297,574 shares of common stock. The stock awards vest 20% per year beginning on the first anniversary of the date of grant. The fair market value of the stock awards, based on the market price at the date of grant, is recorded as unearned compensation. Unearned compensation is amortized over the applicable vesting period. The weighted-average grant-date fair value of stock awards as of March 31, 2012 is $14.28. The Company recorded compensation cost related to stock awards of approximately $192,000 and $307,000 in the three months ended March 31, 2012 and 2011, respectively. Stock awards with a fair value of $910,000, and $651,000 have vested during the years ended December 31, 2011 and 2010, respectively. No stock awards were granted prior to July 1, 2007. The Company granted 2,000 stock awards during the year ended December 31, 2011 with a grant price of $14.08. There were no awards granted by the company during the three months ended March 31, 2012. As of March 31, 2012, unrecognized stock-based compensation expense related to non-vested restricted stock awards amounted to $266,000. This amount is expected to be recognized over a period of 0.62 years.

A summary of the status of the Company's stock awards as of March 31, 2012, and changes during the three months ended March 31, 2012, is as follows:

Nonvested Shares	Number of Shares		Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2011	55,346	$	14.28
Granted	-		-
Vested	400		14.08
Forfeited	-		-
Outstanding at March 31, 2012	54,946	$	14.28

4. Long-term Incentive Plan

On March 13, 2012, the Company adopted the Chicopee Bancorp, Inc. 2012 Phantom Stock Unit Award and Long-Term Incentive Plan (the "Plan"), effective as of January 1, 2012, to promote the long-term financial success of the Company and its subsidiaries by providing a means to attract, retain and reward individuals who contribute to such success and to further align their interest with those of the Company's shareholders.

A total of 150,000 phantom stock units will be available for awards under the Plan. The only Awards that may be granted under the Plan are Phantom Stock Units. A Phantom Stock Unit represents the right to receive a cash payment on the determination date equal to the book value of a share of the Company's stock on the determination date. The settlement of a Phantom Stock Unit on the determination date shall be in cash. The Plan year shall be January 1, 2012 to December 31, 2012. Unless the Compensation Committee of the Board of Directors of the Company determines otherwise, the required period of service for full vesting will be three years. The Company's total expense under the Plan for the three months ended March 31, 2012 amounted to $13,000.

5. Recent Accounting Pronouncements (Applicable to the Company)

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

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

In April 2011, the FASB issued ASU No. 2011-02, “A Creditor’s Determination of whether a Restructuring Is a Troubled Debt Restructuring”. The new guidance clarifies when a loan modification or restructuring is a TDR in order to address current diversity in practice and lead to more consistent application of accounting principles generally accepted in the United States of America. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Additionally, the guidance clarifies that a creditor is precluded from using the effective interest rate test in the debtor’s guidance on restructuring of payables when evaluating whether a restructuring constitutes a TDR. The guidance was effective for interim and annual reporting periods beginning on or after June 15, 2011. The adoption of this new guidance did not have a material effect on the Company’s consolidated financial statements.

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

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

In December 2011, the FASB issued ASU No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05”, which defers the effective date of a requirement in ASU 2011-05 related to reclassifications of items out of accumulated other comprehensive income. The deferral in the effective date was made to allow the FASB time to redilberate whether to require presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented.

6. Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the current period’s presentation. These reclassifications had no effect on the net income previously reported.

7. Investment Securities

The following table sets forth, at the dates indicated, information regarding the amortized cost and fair values, with gross unrealized gains and losses of the Company's investment securities:

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	March 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities	$ 618	$ 25	$ (17)	$ 626
Total securities available-for-sale	$ 618	$ 25	$ (17)	$ 626
Securities held-to-maturity				
U.S. Treasury securities	$ 16,000	-	-	$ 16,000
Corporate and industrial revenue bonds	31,367	5,861	-	37,228
Certificates of deposit	13,210	3	-	13,213
Collateralized mortgage obligations	1,776	92	-	1,868
Total securities held-to-maturity	$ 62,353	$ 5,956	$ -	$ 68,309
Non-marketable securities				
Federal Home Loan Bank stock	$ 4,277	-	-	$ 4,277
Banker's Bank stock	183	-	-	183
Total non-marketable securities	$ 4,460	$ -	$ -	$ 4,460

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Securities available-for-sale				
Marketable equity securities	$ 618	$ 28	$ (33)	$ 613
Total securities available-for-sale	$ 618	$ 28	$ (33)	$ 613
Securities held-to-maturity				
U.S. Treasury securities	$ 26,998	$ 1	$ (1)	$ 26,998
Corporate and industrial revenue bonds	31,576	6,643	-	38,219
Certificates of deposit	13,206	7	-	13,213
Collateralized mortgage obligations	2,072	105	-	2,177
Total securities held-to-maturity	$ 73,852	$ 6,756	$ (1)	$ 80,607
Non-marketable securities				
Federal Home Loan Bank stock	$ 4,489	-	-	$ 4,489
Banker's Bank stock	183	-	-	183
Total non-marketable securities	$ 4,672	$ -	$ -	$ 4,672

At March 31, 2012 and December 31, 2011, securities with an amortized cost of $14.9 million and $25.5 million, respectively, were pledged as collateral to support securities sold under agreements to repurchase.

The amortized cost and estimated fair value of debt securities by contractual maturity at March 31, 2012 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. The collateralized mortgage obligations are allocated to maturity categories according to final maturity date.

	Held-to-Maturity	
	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$ 29,209	$ 29,212
From 1 to 5 years	3,026	3,404
From 5 to 10 years	10,045	11,067
Over 10 years	20,073	24,626
	$ 62,353	$ 68,309

Unrealized Losses on Investment Securities
Management conducts, at least on a monthly basis, a review of its investment portfolio including available-for-sale and held-to-maturity securities to determine if the value of any security has declined below its cost or amortized cost and whether such security is other-than-temporarily impaired ("OTTI"). Securities are evaluated individually based on guidelines established by the FASB and the internal policy of the Company and include but are not limited to: (1) intent and ability of the Company to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value; (2) percentage and length of time which an issue is below book value; (3) financial condition and near-term prospects of the issuer; (4) whether the debtor is current on contractually obligated interest and principal payments; (5) the volatility of the market price of the security; and (6) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest due.

As of March 31, 2012 and December 31, 2011, management determined that there were no securities other-than-temporarily impaired.

The following table presents the fair value of investments with continuous unrealized losses as of March 31, 2012 and December 31, 2011:

	March 31, 2012					
	Less Than Twelve Months		Twelve Months and Over		Total	
	(In Thousands)					
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Marketable equity securities	$237	$(17)	$-	$-	$237	$(17)
Total temporarily impaired securities	$237	$(17)	$-	$-	$237	$(17)

	December 31, 2011					
	Less Than Twelve Months		Twelve Months and Over		Total	
	(In Thousands)					
	Fair	Gross Unrealized	Fair	Gross Unrealized	Fair	Gross Unrealized

	Value	Losses	Value	Losses	Value	Losses
Marketable equity securities	$221	$(33)	$-	$-	$221	$(33)
U.S. Treasury securities	13,998	(1)	-	-	13,998	(1)
Total temporarily impaired securities	$14,219	$(34)	$-	$-	$14,219	$(34)

U.S. Treasury Securities

There were no unrealized losses within the U.S. Treasury securities portfolio as of March 31, 2012. At December 31, 2011, unrealized losses related to five U.S. Treasury securities of which all were for less than 12 months.

Collateralized Mortgage Obligations (“CMO”)
As of March 31, 2012, the Company has 12 CMO bonds, or 13 individual issues, with an aggregate book value of $1.8 million, which included four bonds, or six individual issues, with FICO scores less than 650. This risk is mitigated by loan-to-value ratios of less than 65%. Since the purchase of these bonds, interest payments have been current and the Company expects to receive all principal and interest due.

Marketable Equity Securities
Unrealized losses within the marketable equity securities portfolio at March 31, 2012 and December 31, 2011, related to three securities issued by one company in the financial industry. In reviewing these marketable securities for OTTI, it was determined there was no impairement. As of March 31, 2012, and December 31, 2011, none of the three securities had losses for more than 12 months.

Non-Marketable Securities
The Company is a member of the Federal Home Loan Bank (“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 Company must own a minimum required amount of FHLB stock, calculated periodically based primarily on the Company’s level of borrowings from the FHLB. The Company uses the FHLB for much of its wholesale funding needs. As of March 31, 2012 and December 31, 2011, the Company’s investment in FHLB stock totaled $4.3 million, and $4.5 million, respectively.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. However, in the first quarter of 2009 the FHLB announced a moratorium on such redemptions in order to preserve its capital in response to current market conditions and declining retained earnings. The minimum required shares are redeemable, subject to certain limitations, five years following termination of FHLB membership. The Company has no intention of terminating its FHLB membership. As of March 31, 2012 and December 31, 2011, the Company received $6,000, and $13,000, in dividend income from its FHLB stock investment, respectively. On February 22, 2012, the FHLB announced that the Board of Directors approved the repurchase of excess captial stock from its members. On March 9, 2012, the FHLB repurchased $213,000 representing 42,765 shares from the Company.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through March 31, 2012. The Company will continue to monitor its investment in FHLB stock.

Banker’s Bank Northeast stock is carried at cost and is evaluated for impairment based on an estimate of the ultimate recovery to par value. As of March 31, 2012 and December 31, 2011, the Company’s investment in Banker’s Bank totaled $183,000.

8. Loans and Allowance for Loan Losses

The following table sets forth the composition of the Company’s loan portfolio in dollar amounts and as a percentage of the respective portfolio.

	March 31, 2012		December 31, 2011	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars In Thousands)			
Real estate loans:				
Residential1	$ 122,409	27.0 %	$ 123,294	27.6 %
Home equity	29,983	6.6 %	29,790	6.7 %
Commercial	177,813	39.2 %	174,761	39.0 %
Total	330,205	72.8 %	327,845	73.3 %
Construction-residential	5,839	1.3 %	5,597	1.3 %
Construction-commercial	35,970	7.9 %	31,706	7.0 %
Total construction	41,809	9.2 %	37,303	8.3 %
Total real estate loans	372,014	82.0 %	365,148	81.6 %
Consumer loans	2,507	0.6 %	2,566	0.6 %
Commercial loans	78,562	17.4 %	79,412	17.8 %
Total loans	453,083	100.0 %	447,126	100.0 %
Deferred loan origination costs, net	915		921	
Allowance for loan losses	(4,448)		(4,576)	
Loans, net	$ 449,550		$ 443,471	

1 Excludes loans held for sale of $1.6 million at March 31, 2012 and December 31, 2011, respectively.

The Company has transferred a portion of its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as sales and therefore not included in the Company’s consolidated statements of financial condition. The Company and participating lenders share proportionally, based on participating agreements, any gains or losses the may result from the borrowers lack of compliance with the terms of the loan. The Company continues to service the loans on behalf of the participating lenders. At March 31, 2012 and December 31, 2011, the Company was servicing loans for participating lenders totaling $10.2 million and $8.8 million, respectively.

In accordance with the Company’s asset/liability management strategy and in an effort to reduce interest rate risk, the Company continues to sell fixed rate, low coupon residential real estate loans to the secondary market. The unpaid principal balance of mortgages that are serviced for others was $83.0 million and $80.7 million at March 31, 2012 and December 31, 2011, respectively. Servicing rights will continue to be retained on all loans written and sold in the secondary market.

Credit Quality

To evaluate the risk in the loan portfolio, internal credit risk ratings are used for the following loan segments: commercial real estate, commercial construction and commercial. The risks evaluated in determining an adequate credit risk rating, include the financial strength of the borrower and the collateral securing the loan. All commercial loans are rated from one through nine. Credit risk ratings one through five are considered pass ratings. Classified assets include credit risk ratings of special mention through loss. At least quarterly, classified assets are reviewed by management and by an independent third party. Credit risk ratings are updated as soon as information is obtained that indicates a change in the credit risk rating may be warranted.

The following describes the credit risk ratings:

Special mention. Assets that do not currently expose the Company to sufficient risk to warrant classification in one of the following categories but possess potential weaknesses.

Substandard. Assets that have one or more defined weaknesses and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Non-accruing loans are typically classified as substandard.

Doubtful. Assets that have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss.

Loss. Assets rated in this category are considered uncollectible and are charged off against the allowance for loan losses.

Residential real estate and residential construction loans are categorized into pass and substandard risk ratings. Substandard residential loans are loans that are on nonaccrual status and are individually evaluated for impairment.

Consumer loans are considered nonperforming when they are 90 days past due or have not returned to accrual status. Consumer loans are not individually evaluated for impairment.

Home equity loans are considered nonperforming whey they are 90 days past due or have not returned to accrual status. Each nonperforming home equity loan is individually evaluated for impairment.

The following table presents an analysis of total loans segregated by risk rating and segment as of March 31, 2012:

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$ 74,586	$ 23,906	$ 168,811	$ 267,303
Special mention	2,435	11,851	4,358	18,644
Substandard	1,541	213	4,644	6,398
Doubtful	-	-	-	-
Loss	-	-	-	-
Total commercial loans	$ 78,562	$ 35,970	$ 177,813	$ 292,345

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$ 120,829	$ 5,508	$ 126,337
Substandard (nonaccrual)	1,580	331	1,911
Total residential loans	$ 122,409	$ 5,839	$ 128,248

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$ 2,473	$ 29,639	$ 32,112
Nonperforming (nonaccrual)	34	344	378
Total consumer loans	$ 2,507	$ 29,983	$ 32,490

The following table presents an analysis of total loans segregated by risk rating and segment as of December 31, 2011:

	Commercial Credit Risk Exposure			
	Commercial	Commercial Construction	Commercial Real Estate	Total
	(In Thousands)			
Pass	$ 74,699	$ 19,904	$ 165,168	$ 259,771
Special mention	2,855	11,586	5,622	20,063
Substandard	1,858	216	3,971	6,045
Doubtful	-	-	-	-
Loss	-	-	-	-
Total commercial loans	$ 79,412	$ 31,706	$ 174,761	$ 285,879

	Residential Credit Risk Exposure		
	Residential Real Estate	Residential Construction	Total
	(In Thousands)		
Pass	$ 121,072	$ 5,597	$ 126,669
Substandard (nonaccrual)	2,222	-	2,222
Total residential loans	$ 123,294	$ 5,597	$ 128,891

	Consumer Credit Risk Exposure		
	Consumer	Home Equity	Total
	(In Thousands)		
Performing	$ 2,487	$ 29,484	$ 31,971
Nonperforming (nonaccrual)	79	306	385
Total consumer loans	$ 2,566	$ 29,790	$ 32,356

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: residential real estate, commercial real estate, commercial, consumer and home equity.

Management uses an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deems 36 months to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor is adjusted for the following qualitative factors for each portfolio segment: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and changes in lending policies, experience, ability, depth of lending management and staff; and national and local economic conditions. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

The qualitative factors are determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment are as follows:

Risk Characteristics

Residential real estate loans enable the borrower to purchase or refinance existing homes, most of which serve as the primary residence of the owner. Repayment is dependent on the credit quality of the borrower. Factors attributable to failure of repayment may include a weakened economy and/or unemployment, as well as possible personal considerations. While we anticipate adjustable-rate mortgages will better offset the potential adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment.

Commercial real estate loans are secured by commercial real estate and residential investment real estate and generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Risk in commercial real estate and residential investment lending are borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy.

Commercial and residential construction loans are generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction.

Commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Consumer and home equity loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

The Company does not disaggregate its portfolio segments into loan classes.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan by loan basis for residential real estate, commercial real estate and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The Company recognizes the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogenous loans are collectively evaluated for impairment, and the allowance resulting therefrom is reported as the general component, as described above.

Loans considered for impairment include all loan segments of commercial and residential, as well as home equity loans. The segments are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The Company may periodically agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDR's are classified as impaired.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer loans for impairment evaluation, except for home equity loans.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

There were no changes in the Company's accounting policies or methodology pertaining to the allowance for loan losses during the current period.

The following table presents the allowance for loan losses and select loan information as of March 31, 2012:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
Allowance for loan losses				(In Thousands)				
Balance as of December 31, 2011	$ 549	$ 89	$ 1,891	$ 526	$ 1,343	$ 47	$ 131	$ 4,576
Provision (reduction) for loan losses	(104)	14	26	46	6	15	4	7
Recoveries	-	-	-	-	-	6	-	6
Loans charged off	(69)	-	-	-	(48)	(24)	-	(141)
Balance as of March 31, 2012	$ 376	$ 103	$ 1,917	$ 572	$ 1,301	$ 44	$ 135	$ 4,448
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$ 337	$ 88	$ 1,856	$ 572	$ 1,026	$ 44	$ 122	$ 4,045
Individually evaluated for impairment	39	15	61	-	275	-	13	403
	$ 376	$ 103	$ 1,917	$ 572	$ 1,301	$ 44	$ 135	$ 4,448

Total loans ending balance								
Collectively evaluated for impairment	$ 120,475	$ 5,508	$ 173,478	$ 35,757	$ 77,104	$ 2,507	$ 29,640	$ 444,469
Individually evaluated for impairment	1,934	331	4,335	213	1,458	-	343	8,614
	$ 122,409	$ 5,839	$ 177,813	$ 35,970	$ 78,562	$ 2,507	$ 29,983	$ 453,083

The following table presents the allowance for loan losses and select loan information as of March 31, 2011:

	Residential Real Estate	Residential Construction	Commercial Real Estate	Commercial Construction	Commercial	Consumer Loans	Home Equity	Total
				(In Thousands)				
Allowance for loan losses								
Balance as of December 31, 2010	$ 513	$ 148	$ 1,783	$ 402	$ 1,429	$ 28	$ 128	4,431
Provision (reduction) for loan losses	(42)	(6)	238	14	10	31	(12)	233
Recoveries	-	-	-	-	-	6	-	6
Loans charged off	(34)	(13)	(164)	-	-	(17)	-	(228)
Balance as of March 31, 2011	$ 437	$ 129	$ 1,857	$ 416	$ 1,439	$ 48	$ 116	$ 4,442
Allowance for loan losses ending balance								
Collectively evaluated for impairment	$ 356	$ 67	$ 1,772	$ 388	$ 1,025	$ 48	$ 116	$ 3,772
Individually evaluated for impairment	81	62	85	28	414	-	-	670
	$ 437	$ 129	$ 1,857	$ 416	$ 1,439	$ 48	$ 116	$ 4,442
Total loans ending balance								
Collectively evaluated for impairment	$ 127,207	$ 5,107	$ 170,397	$ 24,126	$ 75,918	$ 2,860	$ 28,979	$ 434,594
Individually evaluated for impairment	2,793	219	3,181	1,725	3,510	-	113	11,541
	$ 130,000	$ 5,326	$ 173,578	$ 25,851	$ 79,428	$ 2,860	$ 29,092	$ 446,135

Impairment

The following table presents a summary of information pertaining to impaired loans by segment as of and for the three months ended March 31, 2012:

	Recorded Investment	Unpaid Balance	Average Recorded	Related Allowance	Interest Income

				Investment (In Thousands)		Recognized
Impaired loans without a valuation allowance:						
Residential real estate	$ 1,564	$ 1,564	$ 1,674	$ -	$ 10
Residential construction	-	-	-	-	-
Commercial real estate	3,990	4,315	3,039	-	58
Commercial construction	213	213	343	-	3
Commercial	589	589	832	-	11
Consumer	-	-	-	-	-
Home equity	308	308	160	-	1
Total	$ 6,664	$ 6,989	$ 6,048	$ -	$ 83
Impaired loans with a valuation allowance:					
Residential real estate	$ 370	$ 370	$ 551	$ 39	$ 5
Residential construction	331	331	119	15	-
Commercial real estate	345	345	596	61	8
Commercial construction	-	-	176	-	-
Commercial	869	869	1,686	275	1
Consumer	-	-	-	-	-
Home equity	35	35	21	13	-
Total	$ 1,950	$ 1,950	$ 3,149	$ 403	$ 14
Total impaired loans:					
Residential real estate	$ 1,934	$ 1,934	$ 2,225	$ 39	$ 15
Residential construction	331	331	119	15	-
Commercial real estate	4,335	4,660	3,635	61	66
Commercial construction	213	213	519	-	3
Commercial	1,458	1,458	2,518	275	12
Consumer	-	-	-	-	-
Home equity	343	343	181	13	1
Total	$ 8,614	$ 8,939	$ 9,197	$ 403	$ 97

The following table presents a summary of information pertaining to impaired loans by segment as of and for the year ended December 31, 2011:

	Recorded Investment	Unpaid Balance	Average Recorded Investment	Related Allowance	Interest Income Recognized
			(In Thousands)		
Impaired loans without a valuation allowance:					
Residential real estate	$1,127	$1,127	$1,816	$-	$32
Residential construction	-	-	19	-	-
Commercial real estate	3,424	3,749	2,710	-	191
Commercial construction	-	-	600	-	-
Commercial	580	580	791	-	21
Consumer	-	-	-	-	-
Home equity	271	271	139	-	15
Total	$5,402	$5,727	$6,075	$-	$259
Impaired loans with a valuation allowance:					
Residential real estate	$1,095	$1,095	$688	$183	$39
Residential construction	-	-	97	-	-
Commercial real estate	482	482	792	80	25
Commercial construction	216	216	222	22	14
Commercial	1,083	1,083	2,085	317	52
Consumer	-	-	-	-	-
Home equity	35	35	14	13	2
Total	$2,911	$2,911	$3,898	$615	$132
Total impaired loans:					
Residential real estate	$2,222	$2,222	$2,504	$183	$71
Residential construction	-	-	116	-	-
Commercial real estate	3,906	4,231	3,502	80	216
Commercial construction	216	216	822	22	14
Commercial	1,663	1,663	2,876	317	73
Consumer	-	-	-	-	-
Home equity	306	306	153	13	17
Total	$8,313	$8,638	$9,973	$615	$391

As of March 31, 2011, the total average recorded investment of impaired loans was $11.7 million. Interest income recognized on impaired loans was $140,000 for the three months ended March 31, 2012.

Delinquency and Nonaccrual

All loan segments past due greater than 30 days are considered delinquent. The Company calculates the number of days past due based on a 30 day month. Management continuously monitors delinquency and nonaccrual levels and trends.

It is the policy of the Company to discontinue the accrual of interest on all loan classes when principal or interest payments are delinquent 90 days or more. The accrual of interest is also discontinued for impaired loans that are delinquent 90 days or more or at management's discretion.

All interest accrued, but not collected, for all loan classes, including impaired loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest recognized on these loans is limited to interest payments received until qualifying for return to accrual. All loan classes are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table presents an aging analysis of past due loans as of March 31, 2012:

	31-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans	Nonaccrual Loans
				(In Thousands)			
Residential real estate	$1,302	$314	$657	$2,273	$120,136	$122,409	$1,580
Residential construction	-	-	331	331	5,508	5,839	331
Commercial real estate	981	183	481	1,645	176,168	177,813	481
Commercial construction	-	-	-	-	35,970	35,970	-
Commercial	229	609	737	1,575	76,987	78,562	972
Consumer	63	-	4	67	2,440	2,507	344
Home equity	147	40	306	493	29,490	29,983	34
Total	$2,722	$1,146	$2,516	$6,384	$446,699	$453,083	$3,742

The following table presents an aging analysis of past due loans as of December 31, 2011:

	31-59 Days Past Due	60-89 Days Past Due	Greater than 90 days	Total Past Due	Current	Total Loans	Nonaccrual Loans
				(In Thousands)			
Residential real estate	$1,693	$179	$1,379	$3,251	$120,043	$123,294	$2,222
Residential construction	-	331	-	331	5,266	5,597	-
Commercial real estate	738	565	672	1,975	172,786	174,761	798
Commercial construction	-	-	-	-	31,706	31,706	-
Commercial	79	298	849	1,226	78,186	79,412	1,306
Consumer	83	27	74	184	2,382	2,566	79
Home equity	189	-	306	495	29,295	29,790	306
Total	$2,782	$1,400	$3,280	$7,462	$439,664	$447,126	$4,711

Any loan with a payment more than 30 days past due will be considered delinquent.

Troubled Debt Restructurings

The following is a summary of accruing and non-accruing TDR loans modified as TDRs by segment during the three months ended March 31, 2012:

	Number of Modifications	Recorded Investment	Recorded	Current Balance

		Pre-Modification (In Thousands)	Investment Post-Modification	
Residential real estate	1	$ 118	$ 127	$ 127
Residential construction	-	-	-	-
Commercial real estate	-	-	-	-
Commercial construction	-	-	-	-
Commercial	1	67	67	67
Consumer	1	27	27	27
Home equity	1	38	38	38
Total	4	$ 250	$ 259	$ 259

TDR loans consist of loans where the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that the Company would not otherwise consider. TDRs can take the form of a reduction in the stated interest rate, receipts of assets from a debtor in partial or full satisfaction of a loan, the extension of the maturity date, or the reduction of either the interest or principal. Once a loan has been identified as a TDR, it will continue to be reported as a TDR until the loan is paid in full.

During the three months ending March 31, 2012 there were four TDRs totaling $259,000 entered into with borrowers who were experiencing financial difficulty. The Company reviews TDRs on a loan by loan basis and applies specific reserves to loan balances in excess of collateral values if sufficient borrower cash flow cannot be identified. At March 31, 2012, the specific reserves related to TDRs were $15,000. The modifications granted did not result in a reduction of the recorded investment. TDRs granted in 2012 were primarily the result of concessions to reduce the interest rate or extension of the maturity date. At March 31, 2012, the Company had two troubled debt restructurings totaling $64,000 included in nonperforming loans. The two restructured loans continue to be reported on nonaccrual but have been performing as modified. For the three months ended March 31, 2012, the interest income recorded from the restructured loans amounted to approximately $4,000.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a TDR. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance and projections to assess repayment ability going forward.

9. Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value under U.S. generally accepted accounting principles ("GAAP").

The Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury Notes and U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities with inputs that are observable either directly or indirectly for substantially the full term or valuations obtained from third party pricing services based on quoted market prices for comparable assets or liabilities. Level 2 also includes assets and liabilities traded in inactive markets.

There were no transfers of assets and liabilities between Level 1 and Level 2 during the three months ended March 31, 2012.

Level 3 – Valuations for assets and liabilities with inputs that are unobservable, which are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using		
	March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (market approach)		(Dollars In Thousands)		
Securities available-for-sale				
Equity securities by industry type:				
Financial	$ 626	$ 626	$ -	$ -
Total equity securities	$ 626	$ 626	$ -	$ -

		Fair Value Measurements Using		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets (market approach)		(Dollars In Thousands)		
Securities available-for-sale				
Equity securities by industry type:				
Financial	$ 613	$ 613	$ -	$ -
Total equity securities	$ 613	$ 613	$ -	$ -

The Company may be required, from time to time, to measure certain other financial assets on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets:

		Fair Value Measurements Using		
	March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars In Thousands)		
Assets				
Impaired loans with a valuation allowance, net	$ 1,547	$ -	$ 1,547	$ -
Other real estate owned	901	-	901	-
Loans held for sale	1,604	-	1,604	-
Mortgage servicing rights	450	-	450	-

		Fair Value Measurements Using		
	December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars In Thousands)		
Assets				
Impaired loans with a valuation allowance, net	$ 2,296	$ -	$ 2,296	$ -
Other real estate owned	913	-	913	-
Loans held for sale	1,635	-	1,635	-
Mortgage servicing rights	360	-	360	-

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

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

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

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

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

A valuation reserve was included in the allowance for loan losses for the above impaired loans of $403,000 and $615,000 as of March 31, 2012 and December 31, 2011, respectively. The amount of impaired loans represents the carrying value, net of the related allowance for loan losses on impaired loans, for which adjustments are based on the appraised value of the collateral, which is based on the market approach of valuation. The market value approach is used to value OREO.

ASC Topic 825, Fair Value Measurements and Disclosures, requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

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

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

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

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

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

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

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

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

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

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	March 31, 2012				
			Fair Value Measurements Using		
	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars In Thousands)				
Financial assets:					
Cash and cash equivalents	$55,574	$55,574	$55,574	$-	$ -
Securities available-for-sale	626	626	626	-	-
Securities held-to-maturity	62,353	68,309	-	68,309	-
FHLB stock	4,277	4,277	-	4,277	-
Residential real estate	122,409	122,118	-	-	122,118
Residential construction	5,839	5,838	-	-	5,838
Commercial real estate	177,813	177,274	-	-	177,274
Commercial construction	35,970	36,273	-	-	36,273
Commercial	78,562	78,677	-	-	78,677
Consumer	2,507	2,537	-	-	2,537
Home equity	29,983	30,137	-	-	30,137
Total loans	453,083	452,854	-	-	452,854
Loans held for sale	1,604	1,604	-	1,604	-
Accrued interest receivable	1,562	1,562	-	1,562	-
Mortgage servicing rights	385	450	-	450	-

Financial liabilities:					
Deposits	$448,617	$443,105	$-	$443,105	$ -
Securities sold under agreements to repurchase	9,883	9,883	-	9,883	-
FHLB long term advances	56,373	58,466	-	58,466	-
Accrued interest payable	167	167	-	167	-

	December 31, 2011	
	Carrying Amount	Fair Value
Financial assets:	(Dollars In Thousands)	
Cash and cash equivalents	$ 6,122	$ 6,122
Securities available-for-sale	613	613
Securities held-to-maturity	73,852	80,607
FHLB stock	4,489	4,489
Total loans	443,471	448,781
Loans held for sale	1,635	1,635