UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2011.

o 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: 0-21815

FIRST MARINER BANCORP

(Exact name of registrant as specified in its charter)

Maryland		**52-1834860**
(State of Incorporation)		(I.R.S. Employer Identification Number)
1501 South Clinton Street, Baltimore, MD	**21224**	**410-342-2600**
(Address of principal executive offices)	(Zip Code)	(Telephone Number)

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such report, and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o (Not Applicable)

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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

The number of shares of common stock outstanding as of August 5, 2011 is 18,860,482 shares.

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FIRST MARINER BANCORP AND SUBSIDIARIES

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of our statements contained in, or incorporated by reference into, this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of invoking these safe harbor provisions. Forward-looking statements are not guarantees of performance or results. When we use words like may, plan, contemplate, anticipate, believe, intend, con expect, project, predict, estimate, target, could, is likely, should, would, will, and similar expressions, you should consider the forward-looking statements, although we may use other phrasing. These forward-looking statements involve risks and uncertainties and are based on our beliefs and assumptions and on the information available to us at the time that these disclosures were prepared. These forward-looking statements involve risks and uncertainties and may not be realized due to a variety of factors, including, but not limited to, the following:

- the unfavorable effects of future economic conditions, including inflation, recession, or a continuing decrease in real estate values;
- the failure of assumptions underlying the establishment of our allowance for loan losses that may prove to be materially incorrect or may not be borne out by subsequent events;
- the success and timing of our business strategies and our ability to effectively carry out our business plan;
- our inability to realize the benefits from our cost saving initiatives;
- our ability to continue to operate as a going concern;
- our ability to satisfy all closing conditions under the Purchase Agreement with Priam and under the securities purchase agreement;
- increased loan delinquencies;
- an escalation in problem assets and foreclosures;

- a decline in demand for our products and services;

- a reduction in the value of the collateral for loans made by us, especially real estate, which, in turn would likely reduce our customers borrowing power and the value of assets and collateral associated with our existing loans;

- a reduction in the value of certain assets held by us;

- an inability to meet our liquidity needs;

- an inability to attract and retain deposits;

- an inability to raise sufficient capital to comply with the requirements of our regulators and for continued support of operations;

- adverse changes in the securities markets;

- continued listing of our Common Stock on the NASDAQ Capital Market;

- the effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission, the Financial Accounting Standards Board, or other accounting standards setters;

- the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Federal Reserve Board, inflation, interest rate, market, and monetary fluctuations;

- the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities, and interest sensitive assets and liabilities;

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- the imposition of additional enforcement actions by bank regulatory authorities upon First Mariner Bank or First Mariner Bancorp;
- unanticipated regulatory or judicial proceedings;
- changes in consumer spending and savings habits;
- our ability to effectively manage market risk, credit risk, and operational risk;
- the effects of competition from other commercial banks, thrifts, mortgage-banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market, and other mutual funds, and other financial institutions operating in our market area and elsewhere, including institutions operating regionally, nationally, and internationally, together with competitors offering banking products and services by mail, telephone, and the Internet;
- our ability to successfully implement our capital plan;
- our ability to successfully implement our plan to reduce First Mariner Bank s risk exposure to problem assets;
- our ability to successfully implement our liquidity contingency plan;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;
- the timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;

- the effect of any mergers, acquisitions, or other transactions to which we or our subsidiary may from time to time be a party; and

- the risks described in this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the three months ended March 31, 2011, and our Annual Report on Form 10-K as of and for the year ended December 31, 2010.

All written or oral forward-looking statements attributable to us are expressly qualified in their entirety by this Cautionary Note. Our actual results may differ significantly from those we discuss in these forward-looking statements. For other factors, risks, and uncertainties that could cause our actual results to differ materially from estimates and projections contained in these forward-looking statements, please read the Risk Factors in Item 1A in Part II of this Quarterly Report on Form 10-Q and in Item 1A in Part I of our Annual Report on Form 10-K as of and for the year ended December 31, 2010. Any forward-looking statement speaks only as of the date which such statement was made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

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PART I FINANCIAL INFORMATION

Item 1 Financial Statements

First Mariner Bancorp and Subsidiary

Consolidated Statements of Financial Condition

(dollars in thousands, except per share data)

	June 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$ 179,479	$ 169,557
Federal funds sold and interest-bearing deposits	9,120	48,404
Securities available for sale, at fair value	56,549	27,826
Loans held for sale, at fair value	64,205	140,343
Loans receivable	736,611	811,687
Allowance for loan losses	(14,115)	(14,115)
Loans, net	722,496	797,572
Real estate acquired through foreclosure	28,066	21,185
Restricted stock investments	7,011	7,095
Premises and equipment, net	39,683	41,068
Accrued interest receivable	3,840	3,844
Bank-owned life insurance	36,856	36,188
Prepaid expenses and other assets	16,722	16,555
Total assets	$ 1,164,027	$ 1,309,637
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 109,290	$ 103,450
Interest-bearing	885,818	1,018,439
Total deposits	995,108	1,121,889
Short-term borrowings	68,484	84,399
Long-term borrowings	48,809	33,888
Junior subordinated deferrable interest debentures	52,068	52,068
Accrued expenses and other liabilities ($162 and $137 at fair value, respectively)	12,977	13,647
Total liabilities	1,177,446	1,305,891
Stockholders (deficit) equity:		
Common stock, $.05 par value; 75,000,000 shares authorized; 18,860,482 and 18,050,117 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	939	902
Additional paid-in capital	79,997	79,667
Retained deficit	(91,519)	(73,210)
Accumulated other comprehensive loss	(2,836)	(3,613)
Total stockholders (deficit) equity	(13,419)	3,746

Total liabilities and stockholders (deficit) equity	$	1,164,027	$	1,309,637

See accompanying notes to the consolidated financial statements

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First Mariner Bancorp and Subsidiary

Consolidated Statements of Operations

(dollars in thousands except per share data)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(unaudited)		(unaudited)	
Interest income:				
Loans	$ 10,946	$ 12,817	$ 22,645	$ 26,261
Investments and other earning assets	706	675	1,196	1,436
Total interest income	11,652	13,492	23,841	27,697
Interest expense:				
Deposits	4,088	5,452	8,591	11,062
Short-term borrowings	68	86	171	133
Long-term borrowings	846	1,004	1,624	2,651
Total interest expense	5,002	6,542	10,386	13,846
Net interest income	6,650	6,950	13,455	13,851
Provision for loan losses	5,780	4,350	6,580	6,540
Net interest income after provision for loan losses	870	2,600	6,875	7,311
Noninterest income:				
Total other-than-temporary impairment (OTTI) charges	(92)	(177)	(28)	(307)
Less: Portion included in other comprehensive income (pre-tax)	(45)	(133)	(109)	(126)
Net OTTI charges on securities available for sale	(137)	(310)	(137)	(433)
Mortgage-banking revenue	2,398	2,188	3,333	4,695
ATM fees	788	799	1,559	1,534
Gain on debt exchange		958		958
Service fees on deposits	742	1,116	1,477	2,176
Gain on financial instruments carried at fair value		483		1,330
Gain on sale of securities available for sale	143	54	143	54
Gain on sale of premises and equipment	1	38	1	190
Commissions on sales of nondeposit investment products	154	126	272	271
Income from bank-owned life insurance	334	360	668	713
Other	323	269	491	435
Total noninterest income	4,746	6,081	7,807	11,923
Noninterest expense:				
Salaries and employee benefits	5,859	6,312	12,129	12,908
Occupancy	2,029	2,195	4,205	4,566
Furniture, fixtures, and equipment	446	603	931	1,215
Professional services	1,318	591	2,482	1,311
Advertising	115	89	250	267
Data processing	389	481	844	883
ATM servicing expenses	230	224	438	428
Write-downs, losses, and costs of real estate acquired through foreclosure	1,658	2,859	3,417	4,544
FDIC insurance premiums	1,539	964	2,512	1,898
Service and maintenance	625	514	1,277	1,197

Other	2,408	2,306	4,506	4,210
Total noninterest expense	16,616	17,138	32,991	33,427
Net loss from continuing operations before income taxes and discontinued operations	(11,000)	(8,457)	(18,309)	(14,193)
Income tax benefit - continuing operations		(3,799)		(6,296)
Net loss from continuing operations	(11,000)	(4,658)	(18,309)	(7,897)
Loss from discontinued operations				(200)
Net loss	$ (11,000)	$ (4,658)	$ (18,309)	$ (8,097)

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First Mariner Bancorp and Subsidiary

Consolidated Statements of Operations (Continued)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(unaudited)		(unaudited)	
Net loss per common share from continuing operations:				
Basic	$ (0.59)	$ (0.28)	$ (0.99)	$ (0.68)
Diluted	$ (0.59)	$ (0.28)	$ (0.99)	$ (0.68)
Net loss per common share from discontinued operations:				
Basic	$	$	$	$ (0.02)
Diluted	$	$	$	$ (0.02)
Net loss per common share:				
Basic	$ (0.59)	$ (0.28)	$ (0.99)	$ (0.70)
Diluted	$ (0.59)	$ (0.28)	$ (0.99)	$ (0.70)

See accompanying notes to the consolidated financial statements.

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First Mariner Bancorp and Subsidiary

Consolidated Statements of Changes in Stockholders Equity

(dollars in thousands except per share data)

For the Six Months Ended June 30, 2011 (unaudited)	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders (Deficit) Equity	Comprehensive Loss
Balance at December 31, 2010	18,050,117	$ 902	$ 79,667	$ (73,210)	$ (3,613)	$ 3,746	
Net loss				(18,309)		(18,309)	$ (18,309)
Common stock issued, net of costs	810,365	37	221			258	
Stock-based compensation expense			5			5	
Change in fair value of warrants			104			104	
Changes in unrealized losses on securities, net of taxes					777	777	777
Comprehensive loss							$ (17,532)
Balance at June 30, 2011	18,860,482	$ 939	$ 79,997	$ (91,519)	$ (2,836)	$ (13,419)	

For the Six Months Ended June 30, 2010 (unaudited)	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity	Comprehensive Loss
Balance at December 31, 2009	6,452,631	$ 323	$ 56,771	$ (26,621)	$ (3,486)	$ 26,987	
Net loss				(8,097)		(8,097)	$ (8,097)
Common stock issued, net of costs	11,415,870	570	22,793			23,363	
Stock-based compensation expense			14			14	
Changes in unrealized losses on securities, net of taxes					599	599	599
Comprehensive loss							$ (7,498)
Balance at June 30, 2010	17,868,501	$ 893	$ 79,578	$ (34,718)	$ (2,887)	$ 42,866	

See accompanying notes to the consolidated financial statements.

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First Mariner Bancorp and Subsidiary

Consolidated Statements of Cash Flows

(dollars in thousands)

	Six Months Ended June 30, 2011	2010
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (18,309)	$ (8,097)
Adjustments to reconcile net loss to net cash from operating activities:		
Loss from discontinued operations		200
Stock-based compensation	5	14
Depreciation and amortization	1,677	1,998
Amortization of unearned loan fees and costs, net	290	25
Amortization (accretion) of premiums and discounts on mortgage-backed securities, net	15	(23)
Gain on financial instruments carried at fair value		(1,330)
Origination fees and gain on sale of mortgage loans	(2,777)	(3,574)
Gain on debt exchange		(958)
Net OTTI charges on securities available for sale	137	433
Gain on sale of securities available for sale	(143)	(54)
Decrease in accrued interest receivable	4	812
Provision for loan losses	6,580	6,540
Write-downs and losses on sale of real estate acquired through foreclosure	2,486	3,528
Gain on sale of premises and equipment	(1)	(190)
Increase in cash surrender value of bank-owned life insurance	(668)	(713)
Originations of mortgage loans held for sale (LHFS)	(398,580)	(487,643)
Proceeds from mortgage LHFS	476,517	497,702
Net decrease in accrued expenses and other liabilities	(297)	(1,176)
Net (increase) decrease in prepaids and other assets	(693)	1,695
Net cash provided by operating activities	66,243	9,189
Cash flows from investing activities:		
Loan principal repayments, net	55,413	15,311
Repurchase of loans previously sold	(435)	(593)
Sale of restricted stock investments	85	
Purchases of premises and equipment	(296)	(819)
Proceeds from disposals of premises and equipment	5	759
Sales of trading securities		10,083
Maturities/calls/repayments of trading securities		735
Activity in securities available for sale:		
Maturities/calls/repayments	7,674	3,455
Sales	22,695	8,011
Purchases	(57,799)	(2,513)
Additional funds disbursed on real estate acquired through foreclosure	(772)	
Proceeds from sales of real estate acquired through foreclosure	5,611	10,365
Net cash provided investing activities	32,181	44,794
Cash flows from financing activities:		
Net decrease in deposits	(126,780)	(30,925)
Net decrease in other borrowed funds	(995)	(3,911)
Net (costs of) proceeds from stock issuance	(11)	10,645
Net cash used in financing activities	(127,786)	(24,191)
Increase in cash and cash equivalents	(29,362)	29,792
Cash and cash equivalents at beginning of period	217,961	173,703

Cash and cash equivalents at end of period	$	188,599	$	203,495
Supplemental information:				
Interest paid on deposits and borrowed funds	$	9,802	$	14,620
Real estate acquired in satisfaction of loans	$	14,205	$	11,823
Transfer of loans held for sale to loan portfolio	$	978	$	

See accompanying notes to the consolidated financial statements

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First Mariner Bancorp and Subsidiary

Notes to Consolidated Financial Statements

(Information as of and for the three and six months

ended June 30, 2011 and 2010 is unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements for First Mariner Bancorp have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a full presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (U.S.) (GAAP). The consolidated financial statements should be read in conjunction with the audited financial statements included in First Mariner Bancorp s Annual Report on Form 10-K as of and for the year ended December 31, 2010. When used in these notes, the terms the Company, we, us, and our refer to First Mariner Bancorp and, unless the context requires otherwise, its consolidated subsidiary.

The consolidated financial statements include the accounts of First Mariner and its wholly owned subsidiary, 1st Mariner Bank (the Bank). All significant intercompany accounts and transactions have been eliminated in consolidation. Events occurring after the date of the financial statements were considered in the preparation of the financial statements. Certain reclassifications have been made to amounts previously reported to conform to classifications made in 2011.

The consolidated financial statements as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 are unaudited but include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of financial position and results of operations for those periods. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results that will be achieved for the entire year or any future interim period.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses (the allowance), loan repurchases and related valuations, real estate acquired through foreclosure, impairment of securities available for sale (AFS), valuations of financial instruments, and deferred income taxes. In connection with these determinations, management evaluates historical trends and ratios and, where appropriate, obtains independent appraisals for significant properties and prepares fair value analyses. Actual results could differ significantly from those estimates.

(2) Going Concern Consideration

Due to the conditions and events discussed later in Note 6, substantial doubt exists as to our ability to continue as a going concern. Management is taking various steps designed to improve the Bank s capital position. The Bank has developed a written alternative capital plan designed to improve the Bank s capital ratios. Such plan is dependent upon a capital infusion to meet the capital requirements of the various regulatory agreements (see Note 6 for more information on the agreements). The Company continues to work with its advisors in an attempt to improve capital ratios. The Company has entered into a definitive agreement regarding the raising of additional capital (see Note 6), however, no assurances can be made that the Company will ultimately meet the provisions and deadlines of the agreement.

The consolidated financial statements presented above and the accompanying Notes have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustment to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

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(3) Securities

The composition of our securities portfolio (all AFS) is as follows:

	June 30, 2011			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 17,863	$ 431	$	$ 18,294
Trust preferred securities	14,127	111	3,564	10,674
U.S. government agency notes	24,480	95		24,575
U.S. Treasury securities	1,026	1		1,027
Corporate obligations	932	103		1,035
Equity securities - banks	215	8	45	178
Equity securities - mutual funds	750	16		766
	$ 59,393	$ 765	$ 3,609	$ 56,549

	December 31, 2010			
(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Mortgage-backed securities	$ 2,216	$ 109	$	$ 2,325
Trust preferred securities	14,269	101	3,906	10,464
U.S. government agency notes	12,075	12	16	12,071
U.S. Treasury securities	1,000	1		1,001
Corporate obligations	913	97		1,010
Equity securities - banks	215	11	29	197
Equity securities - mutual funds	750	8		758
	$ 31,438	$ 339	$ 3,951	$ 27,826

The amount of OTTI recorded as accumulated other comprehensive loss for the six months ended June 30, 2011 and June 30, 2010 was $109,000 and $126,000, respectively, on trust preferred securities.

Contractual maturities of debt securities at June 30, 2011 are shown below. Actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 20,503	$ 20,561
Due after one year through five years	6,437	6,605
Due after five years through ten years	1,025	1,020
Due after ten years	12,600	9,125
Mortgage-backed securities	17,863	18,294

$	58,428	$	55,605

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The following table shows the level of our gross unrealized losses and the fair value of the associated securities by type and maturity for AFS securities at June 30, 2011 and December 31, 2010:

	June 30, 2011					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Trust preferred securities	$	$	$ 5,906	$ 3,564	$ 5,906	$ 3,564
Equity securities - banks			88	45	88	45
	$	$	$ 5,994	$ 3,609	$ 5,994	$ 3,609

	December 31, 2010					
	Less than 12 months		12 months or more		Total	
(dollars in thousands)	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Trust preferred securities	$ 340	$ 14	$ 5,722	$ 3,892	$ 6,062	$ 3,906
U.S. government agency notes	4,984	16			4,984	16
Equity securities - banks			105	29	105	29
	$ 5,324	$ 30	$ 5,827	$ 3,921	$ 11,151	$ 3,951

The trust preferred securities that we hold in our securities portfolio are issued by other banks, bank holding companies, and insurance companies. Certain of these securities have experienced declines in value since acquisition. These declines have occurred due to changes in the market which has limited the demand for these securities and reduced their liquidity. We recorded net OTTI charges of $137,000 for both the three and six months ended June 30, 2011. We recorded net OTTI charges of $310,000 and $433,000 during the three and six months ended June 30, 2010, respectively.

The following shows the activity in OTTI related to credit losses for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2011	2010	2011	2010
Balance at beginning of period	$ 7,892	$ 6,766	$ 7,892	$ 6,643
Additional OTTI taken for credit losses	137	310	137	433
Balance at end of period	$ 8,029	$ 7,076	$ 8,029	$ 7,076

All of the remaining securities that are temporarily impaired are impaired due to declines in fair values resulting from changes in interest rates or increased credit/liquidity spreads since the time they were purchased. We have the intent to hold these debt securities to maturity, and, for debt and equity securities in a loss position, for the foreseeable future and do not intend, nor do we believe it is more likely than not, that we will be required to sell the securities before anticipated recovery. We expect these securities will be repaid in full, with no losses realized. As such, management considers the impairments to be temporary.

We purchased securities of $23.8 million and $57.8 million during the three and six months ended June 30, 2011, respectively, and sold securities of $22.7 million during both the three and six months ended June 30, 2011. We purchased securities of $2.5 million during both the three and six months ended June 30, 2010 and sold AFS securities of $8.0 million and trading securities of $10.1 million during both the three and six months ended June 30, 2010.

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At June 30, 2011, we held securities with an aggregate carrying value (fair value) of $48.6 million that we have pledged as collateral for certain hedging activities, borrowings, government deposits, and customer deposits.

(4) Loans Receivable and Allowance for Loan Losses

Loans receivable are summarized as follows:

(dollars in thousands)	June 30, 2011	December 31, 2010
Commercial	$ 61,832	$ 78,607
Commercial mortgage	329,745	349,691
Commercial construction	53,471	58,742
Consumer construction	21,701	31,107
Residential mortgage	127,439	144,194
Consumer	141,427	148,166
Total loans	735,615	810,507
Unearned loan fees, net	996	1,180
	$ 736,611	$ 811,687

The risks associated with each portfolio class are as follows:

Commercial and Commercial Mortgage - The primary loan-specific risks in commercial and commercial mortgage loans are: deterioration of the business and/or collateral values, deterioration of the financial condition of the borrowers and/or guarantors, which creates a risk of default, and real estate collateral values determined through appraisals are not reflective of the true property values.

Porfolio risk includes condition of the economy, changing demand for these types of loans, large concentrations of these types of loans, and geographic concentration of these types of loans.

Commercial Construction loan-specific and portfolio risks related to commercial construction loans also carry the loan-specific and portfolio risks of commercial and commercial mortgage loans as described above. Additional loan-specific risks include budget overruns and performance variables related to the contractor and subcontractors.

Consumer Construction loan-specific and portfolio risks related to consumer construction loans to builders also carry the loan-specific and portfolio risks of commercial and commercial mortgage loans as described above. An additional loan-specific risk is the risk that the builder has a geographical concentration of developments. The risks related to consumer construction loans to ultimate homeowners carry the same risks as commercial construction loans as described above.

Residential Mortgage, Home Equities, and 2nd Mortgages The primary loan-specific risks related to residential mortgage, home equity, and 2nd mortgage lending include: unemployment, deterioration in real estate values, our ability to assess the creditworthiness of the customer, deterioration in the borrower s financial condition, whether the result of personal issues or a general economic downturn, and property values determined through appraisals are not reflective of the true property values. The portfolio risks for these types of loans are the same as for commercial and commercial mortgages as described above.

Other Consumer - The primary loan-specific risks of consumer loans are: unemployment, deterioration of the borrowers financial condition, whether the result of personal issues or a general economic downturn, and for certain consumer loans such as auto loans and boat loans, there is also a risk of deterioration in the value of the collateral. The portfolio risks for these types of loans are the same as for commercial and commercial mortgages as described above.

Included in consumer loan totals in the above table are overdrawn commercial and retail checking accounts totaling $143,000 as of June 30, 2011 and $186,000 as of December 31, 2010.

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Transferred Loans

In accordance with the Financial Accounting Standards Board (FASB) guidance on mortgage-banking activities, any loan which is originally originated for sale into the secondary market and which we subsequently elect to transfer into the Company s loan portfolio is valued at fair value at the time of the transfer with any decline in value recorded as a charge against earnings.

Information on the activity in transferred loans and related accretable yield is as follows for the three months ended June 30:

	Loan Balance		**Accretable Yield**		**Total**	
(dollars in thousands)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Beginning balance	$ 26,119	$ 23,194	$ 146	$ 333	$ 25,973	$ 22,861
Loans transferred	978				978	
Charge-offs	(302)	(927)	(6)	(30)	(296)	(897)
Payments/amortization	(12)	(69)	(30)	(36)	18	(33)
Ending balance	$ 26,783	$ 22,198	$ 110	$ 267	$ 26,673	$ 21,931

Information on the activity in transferred loans and related accretable yield is as follows for the six months ended June 30:

[redacted]						
Beginning balance	$ 26,219	$ 24,575	$ 178	$ 423	$ 26,041	$ 24,152
Loans transferred	978				978	
Loans moved to real estate acquired through foreclosure	(83)	(281)		(8)	(83)	(273)
Charge-offs	(302)	(962)	(6)	(33)	(296)	(929)
Payments/amortization	(29)	(1,134)	(62)	(115)	33	(1,019)
Ending balance	$ 26,783	$ 22,198	$ 110	$ 267	$ 26,673	$ 21,931

As of June 30, 2011 and December 31, 2010, we maintained servicing on mortgage loans sold to the Federal National Mortgage Association (FNMA) of approximately $2.4 million and $323.3 million, respectively. We sold the majority of our servicing rights to Next Generation Financial Services (NGFS) in conjunction with the imminent closing of the sales transaction.

At June 30, 2011, we have pledged loans with a carrying value of $117.8 million as collateral for Federal Home Loan Bank (FHLB) advances.

Credit Quality

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, we have segmented our loan portfolio by product type. Our portfolio loan segments are commercial, commercial mortgage, commercial construction, consumer construction, residential mortgage, and consumer. We have looked at all segments to determine if subcategorization into classes is warranted based upon our credit review methodology. We have divided consumer loans into two classes, (1) home equity and second mortgage loans and (2) other consumer loans.

To establish the allowance for loan losses, loans are pooled by portfolio class and an historical loss percentage is applied to each class. The historical loss percentage is based upon a rolling 24 month history. This rolling history is utilized so that we have the most current and relevant charge-off trend data. These charge-offs are segregated by loan segment and compared to their respective loan segment average balances for the same period in order to calculate the charge-off percentage. That percentage is then applied to the current period loan balances to determine the required reserve. That calculation determines the required allowance for loan loss level. We then apply additional loss multipliers to the different classes of loans to reflect various environmental factors. This amount is considered our unallocated reserve. For individually evaluated loans (impaired loans), we do additional analyses to determine the impairment. In general, this impairment is included as part of the allowance for loan losses (specific reserve) for modified loans and is charged-off for all other impaired loans. These loss estimates are performed under multiple economic scenarios to establish a range of potential outcomes for each criterion. Management applies judgment to develop its own view of loss probability within that range, using external and internal parameters with the objective of establishing an allowance for loss inherent within these portfolios as of the reporting date.

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The following table presents by portfolio segment, the changes in the allowance for loan losses, and the recorded investment in loans:

As of and for the three and six months ended June 30, 2011:

	Three months ended June 30, 2011							
(dollars in thousands)	**Commercial**	**Commercial Mortgage**	**Commercial Construction**	**Consumer Construction**	**Residential Mortgage**	**Consumer**	**Unallocated**	**Total**
Beginning Balance	$ 163	$ 2,600	$ 1,772	$ 478	$ 3,166	$ 2,624	$ 3,294	$ 14,097
Charge-offs	(2,873)	(469)	(597)		(1,189)	(961)		(6,089)
Recoveries		168			7	152		327
Net charge-offs	(2,873)	(301)	(597)		(1,182)	(809)		(5,762)
Provision for (reversal of) loan losses	2,943	287	607	(118)	911	1,274	(124)	5,780
Ending Balance	$ 233	$ 2,586	$ 1,782	$ 360	$ 2,895	$ 3,089	$ 3,170	$ 14,115

	Six months ended June 30, 2011							
(dollars in thousands)	**Commercial**	**Commercial Mortgage**	**Commercial Construction**	**Consumer Construction**	**Residential Mortgage**	**Consumer**	**Unallocated**	**Total**
Beginning Balance	$ 291	$ 2,542	$ 2,053	$ 817	$ 3,032			