First Bancorp, Inc /ME/
Form 10-Q
May 06, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended March 31, 2016

Commission File Number 0-26589

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

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

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

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

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

Indicate by check mark whether the registrant 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[_]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller
reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule

12b-2 of the Exchange Act. (Check one):
Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_] Smaller reporting company [_]

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of May 2, 2016
Common Stock: 10,776,377 shares

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Part I. Financial Information

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

Dollars in thousands, except for per share amounts	As of and for the three months ended March 31, 2016	2015
Summary of Operations		
Interest Income	$13,276	$12,365
Interest Expense	2,547	2,663
Net Interest Income	10,729	9,702
Provision for Loan Losses	375	500
Non-Interest Income	2,964	3,658
Non-Interest Expense	7,200	7,265
Net Income	4,503	4,175
Per Common Share Data		
Basic Earnings per Share	$0.42	$0.39
Diluted Earnings per Share	0.42	0.39
Cash Dividends Declared	0.22	0.21
Book Value per Common Share	15.92	15.23
Tangible Book Value per Common Share[2]	13.13	12.43
Market Value	19.51	17.45
Financial Ratios		
Return on Average Equity[1]	10.56 %	10.32 %
Return on Average Tangible Common Equity[1,2]	12.80 %	12.63 %
Return on Average Assets[1]	1.15 %	1.16 %
Average Equity to Average Assets	10.92 %	11.26 %
Average Tangible Equity to Average Assets[2]	9.00 %	9.19 %
Net Interest Margin Tax-Equivalent[1,2]	3.13 %	3.10 %
Dividend Payout Ratio	52.38 %	53.85 %
Allowance for Loan Losses/Total Loans	1.02 %	1.09 %
Non-Performing Loans to Total Loans	0.67 %	1.10 %
Non-Performing Assets to Total Assets	0.53 %	0.91 %
Efficiency Ratio[2]	51.45 %	56.79 %
At Period End		
Total Assets	$1,574,681	$1,458,832
Total Loans	1,004,942	939,169
Total Investment Securities	467,211	432,684
Total Deposits	1,109,441	966,825
Total Shareholders' Equity	171,545	163,516

[1]Annualized using a 366-day basis for 2016 and a 365-day basis for 2015.
[2]These ratios use non-GAAP financial measures. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.

Item 1 – Financial Statements

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of March 31, 2016 and 2015 and for the three-month periods then ended. These financial statements are the responsibility of the Company's management.

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

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

/s/ Berry Dunn McNeil & Parker, LLC
Bangor, Maine
May 6, 2016

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

	March 31, 2016	December 31, 2015	March 31, 2015
Assets			
Cash and cash equivalents	$14,533,000	$14,299,000	$13,855,000
Interest bearing deposits in other banks	6,372,000	4,013,000	336,000
Securities available for sale	216,725,000	223,039,000	156,317,000
Securities to be held to maturity (fair value of $243,337,000 at March 31, 2016, $243,123,000 at December 31, 2015 and $267,247,000 at March 31, 2015)	236,611,000	240,023,000	262,455,000
Restricted equity securities, at cost	13,875,000	14,257,000	13,912,000
Loans held for sale	224,000	349,000	—
Loans	1,004,942,000	988,638,000	939,169,000
Less allowance for loan losses	10,219,000	9,916,000	10,196,000
Net loans	994,723,000	978,722,000	928,973,000
Accrued interest receivable	6,271,000	4,912,000	5,724,000
Premises and equipment, net	21,392,000	21,816,000	22,270,000
Other real estate owned	1,592,000	1,532,000	2,899,000
Goodwill	29,805,000	29,805,000	29,805,000
Other assets	32,558,000	32,043,000	22,286,000
Total assets	$1,574,681,000	$1,564,810,000	$1,458,832,000
Liabilities			
Demand deposits	$116,756,000	$130,566,000	$100,939,000
NOW deposits	240,112,000	242,638,000	199,099,000
Money market deposits	74,643,000	92,994,000	101,292,000
Savings deposits	205,218,000	206,009,000	167,338,000
Certificates of deposit	472,712,000	370,982,000	398,157,000
Total deposits	1,109,441,000	1,043,189,000	966,825,000
Borrowed funds – short term	151,399,000	222,323,000	167,437,000
Borrowed funds – long term	125,132,000	115,134,000	145,139,000
Other liabilities	17,164,000	16,666,000	15,915,000
Total liabilities	1,403,136,000	1,397,312,000	1,295,316,000
Shareholders' equity			
Common stock, one cent par value per share	108,000	108,000	107,000
Additional paid-in capital	60,064,000	59,862,000	59,286,000
Retained earnings	108,677,000	106,673,000	101,736,000
Accumulated other comprehensive income (loss)			
Net unrealized gain on securities available for sale	2,975,000	1,123,000	2,579,000
Net unrealized loss on securities transferred from available for sale to held to maturity	(123,000)	(112,000)	(67,000)
Net unrealized loss on postretirement benefit costs	(156,000)	(156,000)	(125,000)
Total shareholders' equity	171,545,000	167,498,000	163,516,000
Total liabilities & shareholders' equity	$1,574,681,000	$1,564,810,000	$1,458,832,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	10,775,307	10,753,855	10,734,419
Book value per common share	$15.92	$15.58	$15.23
Tangible book value per common share	$13.13	$12.78	$12.43

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

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

	For the three months ended March 31, 2016	2015
Interest income		
Interest and fees on loans (includes tax-exempt income of $148,000 for March 31, 2016 and $141,000 for March 31, 2015)	$9,734,000	$8,855,000
Interest on deposits with other banks	3,000	5,000
Interest and dividends on investments (includes tax-exempt income of $1,237,000 for March 31, 2016 and $1,312,000 for March 31, 2015)	3,539,000	3,505,000
Total interest income	13,276,000	12,365,000
Interest expense		
Interest on deposits	1,353,000	1,443,000
Interest on borrowed funds	1,194,000	1,220,000
Total interest expense	2,547,000	2,663,000
Net interest income	10,729,000	9,702,000
Provision for loan losses	375,000	500,000
Net interest income after provision for loan losses	10,354,000	9,202,000
Non-interest income		
Investment management and fiduciary income	563,000	541,000
Service charges on deposit accounts	574,000	579,000
Net securities gains	536,000	1,395,000
Mortgage origination and servicing income, net of amortization	129,000	197,000
Other operating income	1,162,000	946,000
Total non-interest income	2,964,000	3,658,000
Non-interest expense		
Salaries and employee benefits	3,598,000	3,720,000
Occupancy expense	578,000	645,000
Furniture and equipment expense	796,000	770,000
FDIC insurance premiums	214,000	230,000
Amortization of identified intangibles	11,000	25,000
Other operating expense	2,003,000	1,875,000
Total non-interest expense	7,200,000	7,265,000
Income before income taxes	6,118,000	5,595,000
Income tax expense	1,615,000	1,420,000
NET INCOME	$4,503,000	$4,175,000
Basic earnings per common share	$0.42	$0.39
Diluted earnings per common share	$0.42	$0.39
Other comprehensive income (loss) net of tax		
Net unrealized gain on securities available for sale	1,852,000	57,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of amortization	(11,000)	(19,000)
Other comprehensive income	1,841,000	38,000
Comprehensive income	$6,344,000	$4,213,000

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

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

	Common stock and additional paid-in capital		Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
	Shares	Amount			
Balance at December 31, 2014	10,724,359	$59,389,000	$99,816,000	$ 2,349,000	$161,554,000
Net income	—	—	4,175,000	—	4,175,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	57,000	57,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(19,000)	(19,000)
Comprehensive income	—	—	4,175,000	38,000	4,213,000
Cash dividends declared ($0.21 per share)	—	—	(2,255,000)	—	(2,255,000)
Equity compensation expense	—	74,000	—	—	74,000
Payment to repurchase common stock	(10,138)	(180,000)	—	—	(180,000)
Issuance of restricted stock	13,650	—	—	—	—
Proceeds from sale of common stock	6,548	110,000	—	—	110,000
Balance at March 31, 2015	10,734,419	$59,393,000	$101,736,000	$ 2,387,000	$163,516,000
Balance at December 31, 2015	10,753,855	$59,970,000	$106,673,000	$ 855,000	$167,498,000
Net income	—	—	4,503,000	—	4,503,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	1,852,000	1,852,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(11,000)	(11,000)
Comprehensive income	—	—	4,503,000	1,841,000	6,344,000
Cash dividends declared ($0.22 per share)	—	—	(2,370,000)	—	(2,370,000)
Equity compensation expense	—	49,000	—	—	49,000
Payment for repurchase of common stock	(6,936)	—	(129,000)	—	(129,000)
Tax benefit from vesting of restricted stock	—	32,000	—	—	32,000
Issuance of restricted stock	21,847	—	—	—	—
Proceeds from sale of common stock	6,541	121,000	—	—	121,000
Balance at March 31, 2016	10,775,307	$60,172,000	$108,677,000	$ 2,696,000	$171,545,000

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

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

	For the three months ended March 31, 2016	March 31, 2015
Cash flows from operating activities		
Net income	$4,503,000	$4,175,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	432,000	425,000
Change in deferred taxes	(111,000)	88,000
Provision for loan losses	375,000	500,000
Loans originated for resale	(4,560,000)	(5,489,000)
Proceeds from sales and transfers of loans	4,799,000	5,599,000
Net gain on sales of loans	(114,000)	(110,000)
Net gain on sale or call of securities	(536,000)	(1,395,000)
Net amortization of premiums on investments	619,000	159,000
Net gain on sale of other real estate owned	(7,000)	(43,000)
Equity compensation expense	49,000	74,000
Tax benefit from vesting of restricted stock	32,000	—
Net increase in other assets and accrued interest	(1,944,000)	(1,301,000)
Net increase (decrease) in other liabilities	(388,000)	129,000
Amortization of investment in limited partnership	49,000	66,000
Net acquisition amortization	11,000	25,000
Net cash provided by operating activities	3,209,000	2,902,000
Cash flows from investing activities		
(Increase) decrease in interest-bearing deposits in other banks	(2,359,000)	3,223,000
Proceeds from sales of securities available for sale	8,868,000	35,465,000
Proceeds from maturities, payments and calls of securities available for sale	8,852,000	5,991,000
Proceeds from maturities, payments and calls of securities to be held to maturity	6,228,000	18,875,000
Proceeds from sales of other real estate owned	201,000	1,309,000
Purchases of securities available for sale	(8,672,000)	(11,255,000)
Purchases of securities to be held to maturity	(2,785,000)	(5,344,000)
Redemption of restricted equity securities	382,000	—
Net increase in loans	(16,630,000)	(22,633,000)
Capital expenditures	(8,000)	(76,000)
Net cash provided (used) by investing activities	(5,923,000)	25,555,000
Cash flows from financing activities		
Net decrease in demand, savings, and money market accounts	(35,478,000)	(8,650,000)
Net increase (decrease) in certificates of deposit	101,730,000	(49,344,000)
Net decrease in short-term borrowings	(70,926,000)	(22,340,000)
Advances on long-term borrowings	10,000,000	55,000,000
Payment to repurchase common stock	(129,000)	(180,000)
Proceeds from sale of common stock	121,000	110,000
Dividends paid	(2,370,000)	(2,255,000)
Net cash provided (used) by financing activities	2,948,000	(27,659,000)
Net increase in cash and cash equivalents	234,000	798,000
Cash and cash equivalents at beginning of period	14,299,000	13,057,000
Cash and cash equivalents at end of period	$14,533,000	$13,855,000
Interest paid	$2,487,000	$2,621,000

Income taxes paid	—	—
Non-cash transactions		
Net transfer from loans to other real estate owned	$254,000	$380,000

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

Note 1 – Basis of Presentation
The First Bancorp, Inc. ("the Company") is a financial holding company that owns all of the common stock of First National Bank ("the Bank"). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2016 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2015.
Subsequent Events
Events occurring subsequent to March 31, 2016, have been evaluated as to their potential impact to the financial statements.
Note 2 – Investment Securities
The following table summarizes the amortized cost and estimated fair value of investment securities at March 31, 2016:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$190,025,000	$3,837,000	$(205,000)	$193,657,000
State and political subdivisions	18,975,000	948,000	(19,000)	19,904,000
Other equity securities	3,148,000	39,000	(23,000)	3,164,000
	$212,148,000	$4,824,000	$(247,000)	$216,725,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$68,009,000	$37,000	$(107,000)	$67,939,000
Mortgage-backed securities	39,828,000	1,675,000	(35,000)	41,468,000
State and political subdivisions	124,474,000	5,156,000	—	129,630,000
Corporate securities	4,300,000	—	—	4,300,000
	$236,611,000	$6,868,000	$(142,000)	$243,337,000
Restricted equity securities				
Federal Home Loan Bank Stock	$12,838,000	$—	$—	$12,838,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$13,875,000	$—	$—	$13,875,000

The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$194,563,000	$1,509,000	$(962,000)	$195,110,000
State and political subdivisions	23,367,000	1,201,000	(62,000)	24,506,000
Other equity securities	3,381,000	48,000	(6,000)	3,423,000
	$221,311,000	$2,758,000	$(1,030,000)	$223,039,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$71,000,000	$40,000	$(2,284,000)	$68,756,000
Mortgage-backed securities	42,193,000	1,305,000	(136,000)	43,362,000
State and political subdivisions	122,530,000	4,200,000	(25,000)	126,705,000
Corporate securities	4,300,000	—	—	4,300,000
	$240,023,000	$5,545,000	$(2,445,000)	$243,123,000
Restricted equity securities				
Federal Home Loan Bank Stock	$13,220,000	$—	$—	$13,220,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$14,257,000	$—	$—	$14,257,000

The following table summarizes the amortized cost and estimated fair value of investment securities at March 31, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$124,969,000	$2,790,000	$(142,000)	$127,617,000
State and political subdivisions	24,384,000	1,328,000	(114,000)	25,598,000
Other equity securities	2,997,000	105,000	—	3,102,000
	$152,350,000	$4,223,000	$(256,000)	$156,317,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$82,974,000	$108,000	$(912,000)	$82,170,000
Mortgage-backed securities	53,228,000	2,030,000	(116,000)	55,142,000
State and political subdivisions	125,953,000	3,811,000	(129,000)	129,635,000
Corporate securities	300,000	—	—	300,000
	$262,455,000	$5,949,000	$(1,157,000)	$267,247,000
Restricted equity securities				
Federal Home Loan Bank Stock	$12,875,000	$—	$—	$12,875,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$13,912,000	$—	$—	$13,912,000

The following table summarizes the contractual maturities of investment securities at March 31, 2016:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$2,599,000	$2,633,000	$1,825,000	$1,847,000
Due in 1 to 5 years	3,321,000	3,390,000	6,709,000	6,925,000
Due in 5 to 10 years	19,222,000	19,946,000	56,874,000	58,932,000
Due after 10 years	183,858,000	187,592,000	171,203,000	175,633,000
Equity securities	3,148,000	3,164,000	—	—
	$212,148,000	$216,725,000	$236,611,000	$243,337,000

The following table summarizes the contractual maturities of investment securities at December 31, 2015:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$527,000	$530,000	$1,814,000	$1,850,000
Due in 1 to 5 years	7,562,000	7,727,000	6,306,000	6,514,000
Due in 5 to 10 years	19,647,000	20,055,000	58,397,000	60,196,000
Due after 10 years	190,194,000	191,304,000	173,506,000	174,563,000
Equity securities	3,381,000	3,423,000	—	—
	$221,311,000	$223,039,000	$240,023,000	$243,123,000

The following table summarizes the contractual maturities of investment securities at March 31, 2015:

	Securities available for sale		Securities to be held to maturity	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$2,842,000	$2,858,000	$1,873,000	$1,899,000
Due in 1 to 5 years	14,950,000	15,231,000	12,050,000	12,241,000
Due in 5 to 10 years	17,746,000	18,110,000	47,898,000	49,930,000
Due after 10 years	113,815,000	117,016,000	200,634,000	203,177,000
Equity securities	2,997,000	3,102,000	—	—
	$152,350,000	$156,317,000	$262,455,000	$267,247,000

At March 31, 2016, securities with a fair value of $202,296,000 were pledged to secure public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a fair value of $201,879,000 as of December 31, 2015 and $224,133,000 at March 31, 2015, pledged for the same purposes.

Gains and losses on the sale of securities available for sale are computed by subtracting the amortized cost at the time of sale from the security's selling price, net of accrued interest to be received. The following table shows securities gains and losses for the three months ended March 31, 2016 and 2015:

	For the three months ended March 31,	
	2016	2015
Proceeds from sales of securities	$8,868,000	$35,465,000
Gross realized gains	536,000	1,395,000
Gross realized losses	—	—
Net gain	$536,000	$1,395,000
Related income taxes	$188,000	$488,000

Management reviews securities with unrealized losses for other than temporary impairment. As of March 31, 2016, there were 34 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 12 had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted. Information regarding securities temporarily impaired as of March 31, 2016 is summarized below:

	Less than 12 months		12 months or more		Total	
	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses
U.S. Government-sponsored agencies	$—	$—	$4,893,000	$(107,000)	$4,893,000	$(107,000)
Mortgage-backed securities	17,125,000	(170,000)	1,866,000	(70,000)	18,991,000	(240,000)
State and political subdivisions	522,000	—	1,417,000	(19,000)	1,939,000	(19,000)
Other equity securities	235,000	(6,000)	106,000	(17,000)	341,000	(23,000)
	$17,882,000	$(176,000)	$8,282,000	$(213,000)	$26,164,000	$(389,000)

As of December 31, 2015, there were 78 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 15 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 31, 2015 is summarized below:

	Less than 12 months		12 months or more		Total	
	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses
U.S. Government-sponsored agencies	$45,311,000	$(1,469,000)	$17,185,000	$(815,000)	$62,496,000	$(2,284,000)
Mortgage-backed securities	120,915,000	(1,027,000)	910,000	(71,000)	121,825,000	(1,098,000)
State and political subdivisions	2,528,000	(24,000)	2,901,000	(63,000)	5,429,000	(87,000)
Other equity securities	64,000	(5,000)	52,000	(1,000)	116,000	(6,000)
	$168,818,000	$(2,525,000)	$21,048,000	$(950,000)	$189,866,000	$(3,475,000)

As of March 31, 2015, there were 55 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which five had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of March 31, 2015 is summarized below:

	Less than 12 months		12 months or more		Total	
	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses	Fair Value (Estimated)	Unrealized Losses
U.S. Government-sponsored agencies	$36,459,000	$(595,000)	$10,903,000	$(317,000)	$47,362,000	$(912,000)
Mortgage-backed securities	20,634,000	(256,000)	65,000	(2,000)	20,699,000	(258,000)
State and political subdivisions	10,390,000	(201,000)	1,641,000	(42,000)	12,031,000	(243,000)
	$67,483,000	$(1,052,000)	$12,609,000	$(361,000)	$80,092,000	$(1,413,000)

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 with a corresponding fair value of $89,757,000 from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in accumulated other comprehensive income (loss), net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in accumulated other comprehensive income (loss) will offset the effect on interest income of the discount for the transferred securities. The

remaining unamortized balance of the net unrealized losses for the securities transferred from available for sale to held to maturity was $123,000 at March 31, 2016. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.
The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the FHLB for much of its wholesale funding needs. As of March 31, 2016 and 2015, and December 31, 2015, the Bank's investment in FHLB stock totaled $12,838,000, $12,875,000 and $13,220,000, respectively. FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. 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, 2016. The Bank will continue to monitor its investment in FHLB stock.

Note 3 – Loans
The following table shows the composition of the Company's loan portfolio as of March 31, 2016 and 2015 and at December 31, 2015:

	March 31, 2016		December 31, 2015		March 31, 2015	
Commercial						
Real estate	$279,683,000	27.8 %	$269,462,000	27.3 %	$242,021,000	25.8 %
Construction	20,138,000	2.0 %	24,881,000	2.5 %	34,683,000	3.7 %
Other	133,629,000	13.3 %	128,341,000	13.0 %	115,455,000	12.3 %
Municipal	19,042,000	1.9 %	19,751,000	2.0 %	26,277,000	2.8 %
Residential						
Term	405,495,000	40.3 %	403,030,000	40.7 %	383,869,000	40.8 %
Construction	11,754,000	1.2 %	8,451,000	0.9 %	13,036,000	1.4 %
Home equity line of credit	110,249,000	11.0 %	110,202,000	11.1 %	104,100,000	11.1 %
Consumer	24,952,000	2.5 %	24,520,000	2.5 %	19,728,000	2.1 %
Total	$1,004,942,000	100.0%	$988,638,000	100.0%	$939,169,000	100.0%

Loan balances include net deferred loan costs of $4,053,000 as of March 31, 2016, $3,686,000 as of December 31, 2015, and $2,933,000 as of March 31, 2015. Pursuant to collateral agreements, qualifying first mortgage loans, which totaled $277,905,000 at March 31, 2016, $279,463,000 at December 31, 2015, and $240,760,000 at March 31, 2015, were used to collateralize borrowings from the FHLB. In addition, commercial, construction and home equity loans totaling $258,369,000 at March 31, 2016, $243,578,000 at December 31, 2015, and $244,170,000 at March 31, 2015, were used to collateralize a standby line of credit at the Federal Reserve Bank of Boston that is currently unused.
For all loan classes, loans over 30 days past due are considered delinquent. Information on the past-due status of loans by class of financing receivable as of March 31, 2016, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$428,000	$376,000	$451,000	$1,255,000	$278,428,000	$279,683,000	$—
Construction	—	—	150,000	150,000	19,988,000	20,138,000	—
Other	323,000	110,000	—	433,000	133,196,000	133,629,000	—
Municipal	—	—	—	—	19,042,000	19,042,000	—
Residential							
Term	2,321,000	62,000	2,400,000	4,783,000	400,712,000	405,495,000	411,000
Construction	—	—	—	—	11,754,000	11,754,000	—
Home equity line of credit	718,000	122,000	543,000	1,383,000	108,866,000	110,249,000	—
Consumer	176,000	26,000	41,000	243,000	24,709,000	24,952,000	41,000

Total	$3,966,000	$696,000	$3,585,000	$8,247,000	$996,695,000	$1,004,942,000	$452,000

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Information on the past-due status of loans by class of financing receivable as of December 31, 2015, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$603,000	$—	$281,000	$884,000	$268,578,000	$269,462,000	$—
Construction	35,000	—	238,000	273,000	24,608,000	24,881,000	—
Other	303,000	—	25,000	328,000	128,013,000	128,341,000	25,000
Municipal	—	—	—	—	19,751,000	19,751,000	—
Residential							
Term	450,000	2,098,000	2,639,000	5,187,000	397,843,000	403,030,000	100,000
Construction	368,000	—	—	368,000	8,083,000	8,451,000	—
Home equity line of credit	261,000	255,000	592,000	1,108,000	109,094,000	110,202,000	—
Consumer	102,000	26,000	11,000	139,000	24,381,000	24,520,000	11,000
Total	$2,122,000	$2,379,000	$3,786,000	$8,287,000	$980,351,000	$988,638,000	$136,000

Information on the past-due status of loans by class of financing receivable as of March 31, 2015, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$491,000	$—	$307,000	$798,000	$241,223,000	$242,021,000	$—
Construction	21,000	—	208,000	229,000	34,454,000	34,683,000	—
Other	135,000	2,000	857,000	994,000	114,461,000	115,455,000	—
Municipal	—	—	—	—	26,277,000	26,277,000	—
Residential							
Term	3,948,000	1,438,000	2,857,000	8,243,000	375,626,000	383,869,000	100,000
Construction	—	—	—	—	13,036,000	13,036,000	—
Home equity line of credit	488,000	105,000	864,000	1,457,000	102,643,000	104,100,000	—
Consumer	136,000	16,000	85,000	237,000	19,491,000	19,728,000	84,000
Total	$5,219,000	$1,561,000	$5,178,000	$11,958,000	$927,211,000	$939,169,000	$184,000

For all classes, loans are placed on non-accrual status when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Cash payments received on non-accrual loans, which are included in impaired loans, are applied to reduce the loan's principal balance until the remaining principal balance is deemed collectible, after which interest is recognized when collected. As a general rule, a loan may be restored to accrual status when payments are current for a substantial period of time, generally six months, and repayment of the remaining contractual amounts is expected or when it otherwise becomes well secured and in the process of collection. Information on nonaccrual loans as of March 31, 2016 and 2015 and at December 31, 2015 is presented in the following table:

	March 31, 2016	December 31, 2015	March 31, 2015
Commercial			
Real estate	$920,000	$ 915,000	$1,609,000
Construction	180,000	238,000	208,000
Other	69,000	66,000	932,000
Municipal	—	—	—
Residential			
Term	4,677,000	5,260,000	6,514,000
Construction	—	—	—
Home equity line of credit	841,000	893,000	1,039,000
Consumer	—	—	25,000
Total	$6,687,000	$ 7,372,000	$10,327,000

Impaired loans include troubled debt restructured and loans placed on non-accrual. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. If the measure of an impaired loan is lower than the recorded investment in the loan and estimated selling costs, a specific reserve is established for the difference, or, in certain situations, if the measure of an impaired loan is lower than the recorded investment in the loan and estimated selling costs, the difference is written off.

A breakdown of impaired loans by class of financing receivable as of and for the three months ended March 31, 2016 is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$7,381,000	$7,712,000	$—	$7,221,000	$ 79,000
Construction	179,000	238,000	—	80,000	1,000
Other	1,097,000	1,137,000	—	1,121,000	8,000
Municipal	—	—	—	—	—
Residential					
Term	10,543,000	11,541,000	—	10,715,000	91,000
Construction	—	—	—	—	—
Home equity line of credit	1,344,000	2,023,000	—	1,353,000	8,000
Consumer	—	—	—	—	—
	$20,544,000	$22,651,000	$—	$20,490,000	$ 187,000
With an Allowance Recorded					
Commercial					
Real estate	$3,129,000	$3,213,000	$ 69,000	$3,399,000	$ 36,000
Construction	788,000	788,000	96,000	926,000	8,000
Other	88,000	96,000	21,000	80,000	—
Municipal	—	—	—	—	—
Residential					
Term	3,997,000	4,265,000	384,000	3,995,000	43,000
Construction	—	—	—	—	—
Home equity line of credit	64,000	65,000	29,000	83,000	1,000
Consumer	—	—	—	—	—
	$8,066,000	$8,427,000	$ 599,000	$8,483,000	$ 88,000
Total					
Commercial					
Real estate	$10,510,000	$10,925,000	$ 69,000	$10,620,000	$ 115,000
Construction	967,000	1,026,000	96,000	1,006,000	9,000
Other	1,185,000	1,233,000	21,000	1,201,000	8,000
Municipal	—	—	—	—	—
Residential					
Term	14,540,000	15,806,000	384,000	14,710,000	134,000
Construction	—	—	—	—	—
Home equity line of credit	1,408,000	2,088,000	29,000	1,436,000	9,000
Consumer	—	—	—	—	—
	$28,610,000	$31,078,000	$ 599,000	$28,973,000	$ 275,000

Substantially all interest income recognized on impaired loans for all classes of financing receivables was recognized on a cash basis as received.

A breakdown of impaired loans by class of financing receivable as of and for the year ended December 31, 2015 is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$7,173,000	$7,496,000	$—	$8,990,000	$301,000
Construction	30,000	30,000	—	3,000	1,000
Other	1,163,000	1,210,000	—	1,893,000	76,000
Municipal	—	—	—	—	—
Residential					
Term	11,122,000	12,157,000	—	10,480,000	415,000
Construction	—	—	—	—	—
Home equity line of credit	1,401,000	2,054,000	—	1,400,000	43,000
Consumer	—	—	—	42,000	3,000
	$20,889,000	$22,947,000	$—	$22,808,000	$839,000
With an Allowance Recorded					
Commercial					
Real estate	$3,544,000	$3,627,000	$ 89,000	$3,066,000	$149,000
Construction	996,000	996,000	302,000	1,153,000	44,000
Other	71,000	77,000	8,000	256,000	5,000
Municipal	—	—	—	—	—
Residential					
Term	3,966,000	4,193,000	326,000	5,228,000	180,000
Construction	—	—	—	—	—
Home equity line of credit	65,000	66,000	29,000	187,000	3,000
Consumer	—	—	—	—	—
	$8,642,000	$8,959,000	$ 754,000	$9,890,000	$381,000
Total					
Commercial					
Real estate	$10,717,000	$11,123,000	$ 89,000	$12,056,000	$450,000
Construction	1,026,000	1,026,000	302,000	1,156,000	45,000
Other	1,234,000	1,287,000	8,000	2,149,000	81,000
Municipal	—	—	—	—	—
Residential					
Term	15,088,000	16,350,000	326,000	15,708,000	595,000
Construction	—	—	—	—	—
Home equity line of credit	1,466,000	2,120,000	29,000	1,587,000	46,000
Consumer	—	—	—	42,000	3,000
	$29,531,000	$31,906,000	$ 754,000	$32,698,000	$1,220,000

A breakdown of impaired loans by class of financing receivable as of and for the three months ended March 31, 2015 is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$9,062,000	$9,496,000	$—	$10,899,000	$ 88,000
Construction	—	—	—	—	—
Other	2,305,000	2,411,000	—	2,465,000	16,000
Municipal	—	—	—	—	—
Residential					
Term	11,235,000	12,243,000	—	11,136,000	100,000
Construction	—	—	—	—	—
Home equity line of credit	1,363,000	1,958,000	—	1,281,000	8,000
Consumer	25,000	28,000	—	25,000	1,000
	$23,990,000	$26,136,000	$—	$25,806,000	$ 213,000
With an Allowance Recorded					
Commercial					
Real estate	$3,643,000	$3,955,000	$248,000	$1,996,000	$ 32,000
Construction	1,380,000	1,380,000	396,000	1,372,000	13,000
Other	416,000	1,115,000	347,000	327,000	—
Municipal	—	—	—	—	—
Residential					
Term	5,113,000	5,363,000	421,000	5,233,000	53,000
Construction	—	—	—	—	—
Home equity line of credit	291,000	295,000	24,000	387,000	—
Consumer	—	—	—	—	—
	$10,843,000	$12,108,000	$1,436,000	$9,315,000	$ 98,000
Total					
Commercial					
Real estate	$12,705,000	$13,451,000	$248,000	$12,895,000	$ 120,000
Construction	1,380,000	1,380,000	396,000	1,372,000	13,000
Other	2,721,000	3,526,000	347,000	2,792,000	16,000
Municipal	—	—	—	—	—
Residential					
Term	16,348,000	17,606,000	421,000	16,369,000	153,000
Construction	—	—	—	—	—
Home equity line of credit	1,654,000	2,253,000	24,000	1,668,000	8,000
Consumer	25,000	28,000	—	25,000	1,000
	$34,833,000	$38,244,000	$1,436,000	$35,121,000	$ 311,000

Troubled Debt Restructured

A troubled debt restructured ("TDR") constitutes a restructuring of debt if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, Management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender, and
- The Company has granted a concession; common concession types include maturity date extension, interest rate adjustments to below market pricing, and deferment of payments.

As of March 31, 2016, the Company had 82 loans with a value of $23,628,000 that have been classified as TDRs. This compares to 84 loans with a value of $23,923,000 and 90 loans with a value of $26,524,000 classified as TDRs as of December 31, 2015 and March 31, 2015, respectively. The impairment carried as a specific reserve in the allowance for loan losses is calculated by present valuing the expected cash flows on the loan at the original interest rate, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell.

The following table shows TDRs by class and the specific reserve as of March 31, 2016:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	14	$10,133,000	$65,000
Construction	1	788,000	96,000
Other	10	1,116,000	—
Municipal	—	—	—
Residential			
Term	53	10,856,000	275,000
Construction	—	—	—
Home equity line of credit	4	735,000	—
Consumer	—	—	—
	82	$23,628,000	$436,000

The following table shows TDRs by class and the specific reserve as of December 31, 2015:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	15	$10,350,000	$85,000
Construction	1	788,000	94,000
Other	11	1,168,000	1,000
Municipal	—	—	—
Residential			
Term	53	10,875,000	275,000
Construction	—	—	—
Home equity line of credit	4	742,000	—
Consumer	—	—	—
	84	$23,923,000	$455,000

The following table shows TDRs by class and the specific reserve as of March 31, 2015:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	17	$11,831,000	$133,000
Construction	1	1,172,000	189,000
Other	13	1,789,000	—
Municipal	—	—	—
Residential			
Term	54	10,917,000	351,000
Construction	—	—	—
Home equity line of credit	5	815,000	22,000
Consumer	—	—	—
	90	$26,524,000	$695,000

As of March 31, 2016, six of the loans classified as TDRs with a total balance of $890,000 were more than 30 days past due. None of these loans had been placed on TDR status in the previous 12 months. The following table shows these TDRs by class and the associated specific reserves included in the allowance for loan losses as of March 31, 2016:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	1	$155,000	$—
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	5	735,000	46,000
Construction	—	—	—
Home equity line of credit	—	—	—
Consumer	—	—	—
	6	$890,000	$46,000

As of March 31, 2015, eight of the loans classified as TDRs with a total balance of $1,121,000 were more than 30 days past due. None, of these loans had been placed on TDR status in the previous 12 months. The following table shows these TDRs by class and the associated specific reserves included in the allowance for loan losses as of March 31, 2015:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$—	$—
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	7	920,000	—
Construction	—	—	—
Home equity line of credit	1	201,000	22,000
Consumer	—	—	—
	8	$1,121,000	$22,000

For the three months ended March 31, 2016 and 2015, no loans were placed on TDR status.
As of March 31, 2016, Management is aware of six loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $1,073,000. There were also 12 loans with an outstanding balance of $1,703,000 that were classified as TDRs and on non-accrual status. Two loans with an outstanding balance of $215,000, that were classified as TDRs, were in the process of foreclosure.

Residential Mortgage Loans in Process of Foreclosure
As of March 31, 2016, there were 14 mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $1,399,000; this compares to 16 mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $1,677,000 as of March 31, 2015.

Note 4. Allowance for Loan Losses
The Company provides for loan losses through the establishment of an allowance for loan losses which represents an estimated reserve for existing losses in the loan portfolio. A systematic methodology is used for determining the allowance that includes a quarterly review process, risk rating changes, and adjustments to the allowance. The loan portfolio is classified in eight classes and credit risk is evaluated separately in each class. The appropriate level of the allowance is evaluated continually based on a review of significant loans, with a particular emphasis on nonaccruing, past due, and other loans that may require special attention. Other factors include general conditions in local and national economies; loan portfolio composition and asset quality indicators; and internal factors such as changes in underwriting policies, credit administration practices, experience, ability and depth of lending management, among others. The allowance consists of four elements: (1) specific reserves for loans evaluated individually for impairment; (2) general reserves for each portfolio segment based on historical loan loss experience, (3) qualitative reserves judgmentally adjusted for local and national economic conditions, concentrations, portfolio composition, volume and severity of delinquencies and nonaccrual loans, trends of criticized and classified loans, changes in credit policies and underwriting standards, credit administration practices, and other factors as applicable for each portfolio segment; and (4) unallocated reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance. A

breakdown of the allowance for loan losses as of March 31, 2016, December 31, 2015, and March 31, 2015, by class of financing receivable and allowance element, is presented in the following tables:

As of March 31, 2016	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 69,000	$1,236,000	$2,219,000	$—	$3,524,000
Construction	96,000	89,000	160,000	—	345,000
Other	21,000	592,000	1,063,000	—	1,676,000
Municipal	—	—	17,000	—	17,000
Residential					
Term	384,000	630,000	460,000	—	1,474,000
Construction	—	19,000	14,000	—	33,000
Home equity line of credit	29,000	502,000	374,000	—	905,000
Consumer	—	413,000	241,000	—	654,000
Unallocated	—	—	—	1,591,000	1,591,000
	$ 599,000	$3,481,000	$4,548,000	$1,591,000	$10,219,000

As of December 31, 2015	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 89,000	$893,000	$2,138,000	$—	$3,120,000
Construction	302,000	82,000	196,000	—	580,000
Other	8,000	425,000	1,019,000	—	1,452,000
Municipal	—	—	17,000	—	17,000
Residential					
Term	326,000	613,000	452,000	—	1,391,000
Construction	—	14,000	10,000	—	24,000
Home equity line of credit	29,000	500,000	364,000	—	893,000
Consumer	—	331,000	235,000	—	566,000
Unallocated	—	—	—	1,873,000	1,873,000
	$ 754,000	$2,858,000	$4,431,000	$1,873,000	$9,916,000

As of March 31, 2015	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 248,000	$ 1,094,000	$ 1,775,000	$ —	$ 3,117,000
Construction	396,000	157,000	254,000	—	807,000
Other	347,000	521,000	846,000	—	1,714,000
Municipal	—	—	16,000	—	16,000
Residential					
Term	421,000	298,000	389,000	—	1,108,000
Construction	—	10,000	13,000	—	23,000
Home equity line of credit	24,000	716,000	304,000	—	1,044,000
Consumer	—	318,000	208,000	—	526,000
Unallocated	—	—	—	1,841,000	1,841,000
	$ 1,436,000	$ 3,114,000	$ 3,805,000	$ 1,841,000	$ 10,196,000

Qualitative adjustment factors are taken into consideration when determining reserve estimates. These adjustment factors are based upon our evaluation of various current conditions, including those listed below.

- General economic conditions.
- Credit quality trends with emphasis on loan delinquencies, nonaccrual levels and classified loans.
- Recent loss experience in particular segments of the portfolio.
- Loan volumes and concentrations, including changes in mix.
- Other factors, including changes in quality of the loan origination; loan policy changes; changes in credit risk management processes; Bank regulatory and external loan review examination results.

The qualitative portion of the allowance for loan losses was 0.45% of related loans as of March 31, 2016 and December 31, 2015. The qualitative portion increased $117,000 between December 31, 2015 and March 31, 2016 due to an increase in loans outstanding.

The unallocated component of the allowance totaled $1,591,000 at March 31, 2016, or 15.6% of the total reserve. This compares to $1,873,000 or 18.9% as of December 31, 2015. Changes in various elements of the allowance caused the period-to-period decrease. Management feels the change in the unalloctaed is consistent with improvement in credit quality and the effect of loan portfolio growth.

The allowance for loan losses as a percent of total loans stood at 1.02% as of March 31, 2016. This compares to 1.00% of total loans as of December 31, 2015 and 1.09% of total loans as of March 31, 2015.

Commercial loans are comprised of three major classes, commercial real estate loans, commercial construction loans and other commercial loans. Commercial real estate is primarily comprised of loans to small businesses collateralized by owner-occupied real estate, while other commercial is primarily comprised of loans to small businesses collateralized by plant and equipment, commercial fishing vessels and gear, and limited inventory-based lending. Commercial real estate loans typically have a maximum loan-to-value of 80% based upon current appraisal information at the time the loan is made. Municipal loans are comprised of loans to municipalities in Maine for capitalized expenditures, construction projects or tax-anticipation notes. All municipal loans are considered general obligations of the municipality and as such are collateralized by the taxing ability of the municipality for repayment of debt.

Construction, land and land development loans, both commercial and residential, comprise a small portion of the portfolio, and at 21.8% of capital are below the regulatory limit of 100.0% of capital at March 31, 2016. Construction loans and non-owner-occupied commercial real estate loans are at 106.7% of total capital, below the regulatory limit of 300.0% of capital at March 31, 2016.

The process of establishing the allowance with respect to the commercial loan portfolio begins when a loan officer initially assigns each loan a risk rating, using established credit criteria. Approximately 50% of the outstanding loans and commitments are subject to review and validation annually by an independent consulting firm, as well as periodically by the Company's internal credit review function. The methodology employs Management's judgment as to the level of losses on existing loans based on internal review of the loan portfolio, including an analysis of a borrower's current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers and or lines of business. In determining the Company's ability to collect certain loans, Management also considers the fair value of underlying collateral. The risk rating system has eight levels, defined as follows:

1 Strong
Credits rated "1" are characterized by borrowers fully responsible for the credit with excellent capacity to pay principal and interest. Loans rated "1" may be secured with acceptable forms of liquid collateral.
2 Above Average
Credits rated "2" are characterized by borrowers that have better than average liquidity, capitalization, earnings and/or cash flow with a consistent record of solid financial performance.
3 Satisfactory
Credits rated "3" are characterized by borrowers with favorable liquidity, profitability and financial condition with adequate cash flow to pay debt service.
4 Average
Credits rated "4" are characterized by borrowers that present risk more than 1, 2 and 3 rated loans and merit an ordinary level of ongoing monitoring. Financial condition is on par or somewhat below industry averages while cash flow is generally adequate to meet debt service requirements.
5 Watch
Credits rated "5" are characterized by borrowers that warrant greater monitoring due to financial condition or unresolved and identified risk factors.
6 Other Assets Especially Mentioned (OAEM)
Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. OAEM have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Company's credit position at some future date.
7 Substandard
Loans in this category are inadequately protected by the paying capacity of the borrower or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected.
8 Doubtful
Loans classified "Doubtful" have the same weaknesses as those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.
The following table summarizes the risk ratings for the Company's commercial real estate, commercial construction, commercial other, and municipal loans as of March 31, 2016:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$6,000	$—	$990,000	$—	$996,000
2 Above Average	27,586,000	55,000	7,707,000	17,331,000	52,679,000
3 Satisfactory	59,080,000	2,898,000	31,629,000	1,711,000	95,318,000
4 Average	129,432,000	11,926,000	67,550,000	—	208,908,000
5 Watch	34,025,000	5,109,000	20,345,000	—	59,479,000
6 OAEM	9,821,000	—	2,490,000	—	12,311,000
7 Substandard	19,733,000	150,000	2,918,000	—	22,801,000
8 Doubtful	—	—	—	—	—
Total	$279,683,000	$20,138,000	$133,629,000	$19,042,000	$452,492,000

The following table summarizes the risk ratings for the Company's commercial real estate, commercial construction, commercial other, and municipal loans as of December 31, 2015:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$6,000	$—	$1,256,000	$—	$1,262,000
2 Above Average	29,176,000	56,000	7,506,000	18,321,000	55,059,000
3 Satisfactory	52,821,000	2,057,000	28,787,000	1,430,000	85,095,000
4 Average	122,071,000	18,070,000	67,301,000	—	207,442,000
5 Watch	36,075,000	4,490,000	18,135,000	—	58,700,000
6 OAEM	9,742,000	—	2,410,000	—	12,152,000
7 Substandard	19,571,000	208,000	2,946,000	—	22,725,000
8 Doubtful	—	—	—	—	—
Total	$269,462,000	$24,881,000	$128,341,000	$19,751,000	$442,435,000

The following table summarizes the risk ratings for the Company's commercial real estate, commercial construction, commercial other, and municipal loans as of March 31, 2015:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$11,000	$—	$344,000	$—	$355,000
2 Above Average	11,599,000	766,000	8,282,000	24,687,000	45,334,000
3 Satisfactory	52,828,000	2,227,000	24,758,000	1,590,000	81,403,000
4 Average	108,480,000	25,867,000	55,120,000	—	189,467,000
5 Watch	36,816,000	2,567,000	17,642,000	—	57,025,000
6 OAEM	9,670,000	2,509,000	1,669,000	—	13,848,000
7 Substandard	22,617,000	747,000	7,640,000	—	31,004,000
8 Doubtful	—	—	—	—	—
Total	$242,021,000	$34,683,000	$115,455,000	$26,277,000	$418,436,000

Commercial loans are generally charged off when all or a portion of the principal amount is determined to be uncollectible. This determination is based on circumstances specific to a borrower including repayment ability, analysis of collateral and other factors as applicable.

Residential loans are comprised of two classes: term loans, which include traditional amortizing home mortgages, and construction loans, which include loans for owner-occupied residential construction. Residential loans typically have a 75% to 80% loan to value based upon current appraisal information at the time the loan is made. Home equity loans and lines of credit are typically written to the same underwriting standards. Consumer loans are primarily amortizing loans to individuals collateralized by automobiles, pleasure craft and recreation vehicles, typically with a maximum loan to value of 80% to 90% of the purchase price of the collateral. Consumer loans also include a small amount of unsecured short-term time notes to individuals.

Residential loans, consumer loans and home equity lines of credit are segregated into homogeneous pools with similar risk characteristics. Trends and current conditions are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for these segments are consistent with those for the commercial and municipal classes. Certain loans in the residential, home equity lines of credit and consumer classes identified as having the potential for further deterioration are analyzed individually to confirm impairment status, and to determine the need for a specific reserve; however there is no formal rating system used for these classes. Consumer loans greater than 120 days past due are generally charged off. Residential loans 90 days or more past due are placed on non-accrual status unless the loans are both well secured and in the process of collection. One- to four-family residential real estate loans and home equity loans are written down or charged-off no later than 180 days past due, or for residential real estate secured loans having a borrower in bankruptcy, within 60 days of receipt of notification of filing from the bankruptcy court, whichever is sooner. This is subject to completion of a current assessment of the value of the collateral with any outstanding loan balance in excess of the fair value of the property, less costs to sell, written down or charged-off.

There were no changes to the Company's accounting policies or methodology used to estimate the allowance for loan losses during the three months ended March 31, 2016.

The following table presents allowance for loan losses activity by class for the three months ended March 31, 2016, and allowance for loan loss balances by class and related loan balances by class as of March 31, 2016:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer	Unal
	Real Estate	Construction	Other		Term	Construction			
For the three months ended March 31, 2016									
Beginning balance	$3,120,000	$580,000	$1,452,000	$17,000	$1,391,000	$24,000	$893,000	$566,000	$1,8
Charge offs	—	58,000	—	—	20,000	—	49,000	63,000	—
Recoveries	—	—	20,000	—	65,000	—	1,000	32,000	—
Provision (credit)	404,000	(177,000)	204,000	—	38,000	9,000	60,000	119,000	(282,
Ending balance	$3,524,000	$345,000	$1,676,000	$17,000	$1,474,000	$33,000	$905,000	$654,000	$1,5
Allowance for loan losses as of March 31, 2016									
Ending balance specifically evaluated for impairment	$69,000	$96,000	$21,000	$—	$384,000	$—	$29,000	$—	$—
Ending balance collectively evaluated for impairment	$3,455,000	$249,000	$1,655,000	$17,000	$1,090,000	$33,000	$876,000	$654,000	$1,5
Related loan balances as of March 31, 2016									
Ending balance	$279,683,000	$20,138,000	$133,629,000	$19,042,000	$405,495,000	$11,754,000	$110,249,000	$24,952,000	$—
Ending balance specifically evaluated for impairment	$10,510,000	$967,000	$1,185,000	$—	$14,540,000	$—	$1,408,000	$—	$—
Ending balance collectively evaluated for impairment	$269,173,000	$19,171,000	$132,444,000	$19,042,000	$390,955,000	$11,754,000	$108,841,000	$24,952,000	$—

The following table presents allowance for loan losses activity by class for the year-ended December 31, 2015 and allowance for loan loss balances by class and related loan balances by class as of December 31, 2015:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer	U
	Real Estate	Construction	Other		Term	Construction			
For the year ended December 31, 2015									
Beginning balance	$3,532,000	$823,000	$1,505,000	$15,000	$1,185,000	$20,000	$1,060,000	$542,000	$
Charge offs	280,000	9,000	732,000	—	420,000	—	582,000	350,000	—
Recoveries	2,000	1,000	88,000	—	152,000	—	31,000	121,000	—
Provision (credit)	(134,000)	(235,000)	591,000	2,000	474,000	4,000	384,000	253,000	2
Ending balance	$3,120,000	$580,000	$1,452,000	$17,000	$1,391,000	$24,000	$893,000	$566,000	$
Allowance for loan losses as of December 31, 2015									
Ending balance specifically evaluated for impairment	$89,000	$302,000	$8,000	$—	$326,000	$—	$29,000	$—	$
Ending balance collectively evaluated for impairment	$3,031,000	$278,000	$1,444,000	$17,000	$1,065,000	$24,000	$864,000	$566,000	$
Related loan balances as of December 31, 2015									
Ending balance	$269,462,000	$24,881,000	$128,341,000	$19,751,000	$403,030,000	$8,451,000	$110,202,000	$24,520,000	$
Ending balance specifically evaluated for impairment	$10,717,000	$1,026,000	$1,234,000	$—	$15,088,000	$—	$1,466,000	$—	$
Ending balance collectively evaluated for impairment	$258,745,000	$23,855,000	$127,107,000	$19,751,000	$387,942,000	$8,451,000	$108,736,000	$24,520,000	$

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The following table presents allowance for loan losses activity by class for the three months ended March 31, 2015, and allowance for loan loss balances by class and related loan balances by class as of March 31, 2015:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer	Una
	Real Estate	Construction	Other		Term	Construction			
For the three months ended March 31, 2015									
Beginning balance	$3,532,000	$823,000	$1,505,000	$15,000	$1,185,000	$20,000	$1,060,000	$542,000	$1,(
Charge offs	122,000	—	2,000	—	83,000	—	447,000	62,000	—
Recoveries	—	—	4,000	—	6,000	—	22,000	36,000	—
Provision (credit)	(293,000)	(16,000)	207,000	1,000	—	3,000	409,000	10,000	179
Ending balance	$3,117,000	$807,000	$1,714,000	$16,000	$1,108,000	$23,000	$1,044,000	$526,000	$1,8
Allowance for loan losses as of March 31, 2015									
Ending balance specifically evaluated for impairment	$248,000	$396,000	$347,000	$—	$421,000	$—	$24,000	$—	$—
Ending balance collectively evaluated for impairment	$2,869,000	$411,000	$1,367,000	$16,000	$687,000	$23,000	$1,020,000	$526,000	$1,8
Related loan balances as of March 31, 2015									
Ending balance	$242,021,000	$34,683,000	$115,455,000	$26,277,000	$383,869,000	$13,036,000	$104,100,000	$19,728,000	$—
Ending balance specifically evaluated for impairment	$12,705,000	$1,380,000	$2,721,000	$—	$16,348,000	$—	$1,654,000	$25,000	$—
Ending balance collectively evaluated for impairment	$229,316,000	$33,303,000	$112,734,000	$26,277,000	$367,521,000	$13,036,000	$102,446,000	$19,703,000	$—

Note 5 – Stock Options and Stock-Based Compensation

At the 2010 Annual Meeting, shareholders approved the 2010 Equity Incentive Plan (the "2010 Plan"). This reserves 400,000 shares of common stock for issuance in connection with stock options, restricted stock awards and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees and non-employee Directors and promote the success of our business. Such grants and awards will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2010 Plan will qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2010 Plan will qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and will satisfy NASDAQ guidelines relating to equity compensation.

As of March 31, 2016, 108,710 shares of restricted stock had been granted under the 2010 Plan, of which 67,064 shares remain restricted as of March 31, 2016 as detailed in the following table:

Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)
2012	5.0	7,996	0.8
2013	5.0	14,776	1.8
2014	5.0	10,422	2.8
2015	5.0	12,023	3.8
2016	1.0	6,832	0.8
2016	5.0	15,015	4.8
		67,064	2.8

The compensation cost related to these restricted stock grants is $1,140,000 and will be recognized over the vesting terms of each grant. In the three months ended March 31, 2016, $49,000 of expense was recognized for these restricted shares, leaving $706,000 in unrecognized expense as of March 31, 2016. In the three months ended March 31, 2015, $74,000 of expense was recognized for restricted shares, leaving $567,000 in unrecognized expense as of March 31, 2015.

The Company established a shareholder-approved stock option plan in 1995 (the "1995 Plan"), under which the Company granted options to employees for 600,000 shares of common stock. Only incentive stock options were granted under the 1995 Plan. The option price of each option grant was determined by the Options Committee of the Board of Directors, and in no instance was less than the fair market value on the date of the grant. An option's maximum term was ten years from the date of grant, with 50% of the options granted vesting two years from the date of grant and the remaining 50% vesting five years from the date of grant. As of January 16, 2005, all options under the 1995 Plan had been granted, and as of January 16, 2015, all options granted under the 2015 plan had been exercised or expired.

Note 6 – Preferred and Common Stock

Preferred Stock

On January 9, 2009, the Company issued $25,000,000 in Fixed Rate Cumulative Perpetual Preferred Stock, Series A, by the U.S. Treasury ("Treasury') under the Capital Purchase Program ("the CPP Shares"). The CPP Shares qualified as Tier 1 capital on the Company's books for regulatory purposes and ranked senior to the Company's common stock and senior or at an equal level in the Company's capital structure to any other shares of preferred stock the Company may issue in the future. In three separate transactions in 2012 and 2013, the Company repurchased all of the CPP shares from the Treasury.

Incident to such issuance of the CPP shares, the Company issued to the Treasury warrants (the "Warrants") to purchase up to 225,904 shares of the Company's common stock at a price per share of $16.60 (subject to adjustment). The Warrants (and any shares of common stock issuable pursuant to the Warrants) are freely transferable by Treasury to third parties. The Warrants have a term of ten years and could be exercised by Treasury or a subsequent holder at any time or from time to time during their term. To the extent they had not previously been exercised, the Warrants will expire after ten years. The Warrants were unchanged as a result of the CPP Shares repurchase transactions.

In May 2015, the Treasury sold all of the Warrants to private parties. In accordance with the contractual terms of the Warrants, the number of shares issuable upon exercise of the warrants and strike price were adjusted at the time of the sale. As a result of this transaction, the number of issuable shares under the Warrants now stands at 226,819 shares with a strike price of $16.53 per share.

Common Stock

On March 28, 2013, the Company consummated a fully underwritten offering for 760,771 shares of the Company's common stock, with net proceeds of $11,649,000. The Company used these proceeds to repurchase the remaining $10,000,000 of CPP Shares on May 8, 2013. Proceeds from sale of common stock totaled $121,000 and $110,000 for the three months ended March 31, 2016 and 2015, respectively.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2016 and 2015:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the three months ended March 31, 2016			
Net income as reported	$ 4,503,000		
Basic EPS: Income available to common shareholders	4,503,000	10,699,440	$ 0.42
Effect of dilutive securities: restricted stock and warrants		95,672	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 4,503,000	10,795,112	$ 0.42
For the three months ended March 31, 2015			
Net income as reported	$ 4,175,000		
Basic EPS: Income available to common shareholders	4,175,000	10,665,059	$ 0.39
Effect of dilutive securities: restricted stock and warrants		66,430	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 4,175,000	10,731,489	$ 0.39

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

The following table presents the number of options and warrants outstanding as of March 31, 2016 and 2015 and the amount for which the average market price at period end is above or below the strike price:

	Outstanding	In-the-Money	Out-of-the-Money
For the three months ended March 31, 2016			
Warrants to private parties	226,819	226,819	—
Total dilutive securities	226,819	226,819	—
For the three months ended March 31, 2015			
Warrants issued to Treasury	225,904	225,904	—
Total dilutive securities	225,904	225,904	—

Note 8 – Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed 3 months of service. Employees may contribute up to Internal Revenue Service ("IRS") determined limits and the Bank may match employee contributions not to exceed 3.0% of compensation depending on contribution level. Subject to a vote of the Board of Directors, the Bank may also make a profit-sharing contribution to the Plan. Such contribution equaled 2.0% of each eligible employee's compensation in 2015. The amount for 2016 has not been established. The expense related to the 401(k) plan was $120,000 and $121,000 for the three months ended March 31, 2016 and 2015, respectively.

Deferred Compensation and Supplemental Retirement Benefits

The Bank also provides unfunded, non-qualified deferred compensation payable over two years, as well as unfunded supplemental retirement benefits for certain officers, payable in installments over 20 years upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a postretirement plan. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712 "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental retirement benefits was $54,000 for the three months ended March 31, 2016 and $78,000 for the same period in 2015. As of March 31, 2016, the associated accrued liability included in other liabilities in the balance sheet was $3,082,000 compared to $3,088,000 and $3,031,000 at December 31, 2015 and March 31, 2015, respectively.

Post-Retirement Benefit Plans

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

	At or for the three months ended March 31,	
	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	$1,967,000	$1,928,000
Service cost	—	—
Interest cost	21,000	18,000
Benefits paid	(30,000)	(26,000)
Benefit obligation at end of period	$1,958,000	$1,920,000
Funded status		
Benefit obligation at end of period	$(1,958,000)	$(1,920,000)
Unamortized loss	240,000	192,000
Accrued benefit cost at end of period	$(1,718,000)	$(1,728,000)

The following table sets forth the net periodic pension cost:

	For the three months ended March 31,	
	2016	2015
Components of net periodic benefit cost		
Service cost	$—	$—
Interest cost	21,000	18,000
Net periodic benefit cost	$21,000	$18,000

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

	March 31, 2016	December 31, 2015	March 31, 2015
Unamortized net actuarial loss	$(240,000)	$(240,000)	$(192,000)
Deferred tax benefit at 35%	84,000	84,000	67,000

Net unrecognized postretirement benefits included in accumulated other comprehensive income (loss)	$(156,000)	$(156,000)	$(125,000)

A weighted average discount rate of 4.25% was used in determining the accumulated benefit obligation and the net periodic benefit cost. The assumed health care cost trend rate is 7.0%. The measurement date for benefit obligations was as of year-end for prior years presented. The expected benefit payments for all of 2016 are $121,000. Plan expense for 2016 is estimated to be $85,000. A 1% change in trend assumptions would create an approximate change in the same direction of $100,000 in the accumulated benefit obligation, $7,000 in the interest cost and $1,000 in the service cost.

Note 9 - Other Comprehensive Income (Loss)

The following table summarizes activity in the unrealized gain or loss on available for sale securities included in other comprehensive income (loss) for the three months ended March 31, 2016 and 2015.

	For the three months ended March 31,	
	2016	2015
Balance at beginning of period	$1,123,000	$2,522,000
Unrealized gains arising during the period	3,385,000	1,483,000
Reclassification of realized gains during the period	(536,000)	(1,395,000)
Related deferred taxes	(997,000)	(31,000)
Net change	1,852,000	57,000
Balance at end of period	$2,975,000	$2,579,000

The reclassification of realized gains is included in the net securities gains line of the consolidated statements of income and comprehensive income and the tax effect is included in the income tax expense line of the same statement. The following table summarizes activity in the unrealized loss on securities transferred from available for sale to held to maturity included in other comprehensive income (loss) for the three months ended March 31, 2016 and 2015.

	For the three months ended March 31,	
	2016	2015
Balance at beginning of period	$(112,000)	$(48,000)
Amortization of net unrealized losses	(17,000)	(14,000)
Related deferred taxes	6,000	(5,000)
Net change	(11,000)	(19,000)
Balance at end of period	$(123,000)	$(67,000)

The following table summarizes activity in the unrealized gain or loss on postretirement benefits included in other comprehensive income (loss) for the three months ended March 31, 2016 and 2015.

	For the three months ended March 31,	
	2016	2015
Unrecognized postretirement benefits at beginning of period	$(156,000)	$(125,000)
Amortization of unrecognized transition obligation	—	—
Change in unamortized net actuarial gain (loss)	—	—
Related deferred taxes	—	—
Unrecognized postretirement benefits at end of period	$(156,000)	$(125,000)

Note 10 – Mortgage Servicing Rights

FASB ASC Topic 860 "Transfers and Servicing" requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. The Company's servicing assets and servicing liabilities are reported using the amortization method and carried at the lower of amortized cost or fair value by strata. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which is loan prepayments, calculated using a three-months moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of March 31, 2016, the prepayment assumption using the PSA model was 248, which translates into an anticipated prepayment rate of 14.86%. The discount rate is the quarterly average 10 year U.S. Treasury plus 5.17%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

For the three months ended March 31, 2016 and 2015, servicing rights capitalized totaled zero and $64,000, respectively. Servicing rights amortized for the three months ended March 31, 2016 and 2015, were $97,000 and $104,000, respectively. The fair value of servicing rights was $1,543,000, $1,915,000 and $1,746,000 at March 31, 2016, December 31, 2015 and March 31, 2015, respectively. The Bank serviced loans for others totaling $223,565,000, $223,610,000 and $214,537,000 at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

Mortgage servicing rights are included in other assets and detailed in the following table:

	March 31, 2016	December 31, 2015	March 31, 2015
Mortgage servicing rights	$5,747,000	$5,747,000	$6,103,000
Accumulated amortization	(4,716,000)	(4,619,000)	(5,053,000)
Impairment reserve	(107,000)	(35,000)	(47,000)
	$924,000	$1,093,000	$1,003,000

Note 11 – Income Taxes

FASB ASC Topic 740 "Income Taxes" defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the IRS for the years ended December 31, 2013 through 2015.

Note 12 - Certificates of Deposit

The following table represents the breakdown of certificates of deposit at March 31, 2016 and 2015, and at December 31, 2015:

	March 31, 2016	December 31, 2015	March 31, 2015
Certificates of deposit < $100,000	$197,006,000	$158,529,000	$137,166,000
Certificates $100,000 to $250,000	226,644,000	175,077,000	210,657,000
Certificates $250,000 and over	49,062,000	37,376,000	50,334,000
	$472,712,000	$370,982,000	$398,157,000

Note 13 – Reclassifications

Certain items from the prior year were reclassified in the financial statements to conform with the current year presentation. These do not have a material impact on the consolidated balance sheet or statement of income and comprehensive income presentations.

Note 14 – Fair Value
Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale are recorded at fair value on a recurring basis. Other assets, such as, other real estate owned and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with level 1 considered highest and level 3 considered lowest). A brief description of each level follows.
Level 1 - Valuation is based upon quoted prices for identical instruments in active markets.
Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation includes use of discounted cash flow models and similar techniques.

The fair value methods and assumptions for the Company's financial instruments and other assets measured at fair value are set forth below.

Cash, Cash Equivalents and Interest-Bearing Deposits in Other Banks
The carrying values of cash equivalents, due from banks and federal funds sold approximate their relative fair values. As such, the Company classifies these financial instruments as Level 1.

Investment Securities
The fair values of investment securities are estimated by independent providers using a market approach with observable inputs, including matrix pricing and recent transactions. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. 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. As such, the Company classifies investment securities as Level 2.

Loans Held for Sale
Loans held for sale are recorded at the lower of carrying value or fair 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 Level 2.

Loans
Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments. 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. As such, the Company classifies loans as Level 3, except for certain collateral-dependent impaired loans. Fair values of impaired loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows, or if collateral dependent, discounted to the appraised value of the collateral as determined by reference to sale prices of similar properties, less costs to sell. As such, the Company classifies collateral dependent impaired loans for which a specific reserve results in a fair value measure as Level 2. All other impaired loans are classified as Level 3.

Other Real Estate Owned
Real estate acquired through foreclosure is initially recorded at fair 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.

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 and compared to fair value for impairment. In evaluating the fair values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as 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 collectible. Therefore, this financial instrument has been adjusted for estimated credit loss. As such, the Company classifies accrued interest receivable as Level 2.

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. As such, the Company classifies deposits as Level 2.
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. As such, the Company classifies borrowed funds as Level 2.

Accrued Interest Payable
The fair value estimate approximates the carrying amount as this financial instrument has a short maturity. The Company classifies accrued interest payable as Level 2.

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

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

considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2016, December 31, 2015 and March 31, 2015.

	At March 31, 2016			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$193,657,000	$ —	$193,657,000
State and political subdivisions	—	19,904,000	—	19,904,000
Other equity securities	—	3,164,000	—	3,164,000
Total assets	$—	$216,725,000	$ —	$216,725,000
	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$195,110,000	$ —	$195,110,000
State and political subdivisions	—	24,506,000	—	24,506,000
Other equity securities	—	3,423,000	—	3,423,000
Total assets	$—	$223,039,000	$ —	$223,039,000
	At March 31, 2015			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$127,617,000	$ —	$127,617,000
State and political subdivisions	—	25,598,000	—	25,598,000
Other equity securities	—	3,102,000	—	3,102,000
Total assets	$—	$156,317,000	$ —	$156,317,000

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

The following tables include assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Other real estate owned is presented net of an allowance of $130,000, $162,000 and $387,000 at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. Only collateral-dependent impaired loans with a related specific allowance for loan losses or a partial charge off are included in impaired loans for purposes of fair value disclosures. Impaired loans below are presented net of specific allowances of $158,000, $292,000 and $799,000 at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

	At March 31, 2016			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$1,592,000	$ —	$1,592,000
Impaired loans	—	879,000	—	879,000
Total assets	$—	$2,471,000	$ —	$2,471,000
	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$1,532,000	$ —	$1,532,000
Impaired loans	—	699,000	—	699,000
Total assets	$—	$2,231,000	$ —	$2,231,000
	At March 31, 2015			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$2,899,000	$ —	$2,899,000

Impaired loans	—	1,439,000	—	1,439,000
Total assets	$—	$4,338,000	$ —	$4,338,000

Fair Value of Financial Instruments

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

The carrying amount and estimated fair values for financial instruments as of March 31, 2016 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$14,533,000	$14,533,000	$14,533,000	$—	$ —
Interest bearing deposits in other banks	6,372,000	6,372,000	6,372,000	—	—
Securities available for sale	216,725,000	216,725,000	—	216,725,000	—
Securities to be held to maturity	236,611,000	243,337,000	—	243,337,000	—
Restricted equity securities	13,875,000	13,875,000	—	13,875,000	—
Loans held for sale	224,000	224,000	—	224,000	—
Loans (net of allowance for loan losses)					
Commercial					
Real estate	275,510,000	272,302,000	—	—	272,302,000
Construction	19,729,000	19,499,000	—	—	19,499,000
Other	131,644,000	131,637,000	—	—	131,637,000
Municipal	19,022,000	19,994,000	—	—	19,994,000
Residential					
Term	403,749,000	410,670,000	—	17,000	410,653,000
Construction	11,715,000	11,648,000	—	—	11,648,000
Home equity line of credit	109,177,000	108,274,000	—	862,000	107,412,000
Consumer	24,177,000	24,153,000	—	—	24,153,000
Total loans	994,723,000	998,177,000	—	879,000	997,298,000
Mortgage servicing rights	924,000	1,543,000	—	1,543,000	—
Accrued interest receivable	6,271,000	6,271,000	—	6,271,000	—
Financial liabilities					
Demand deposits	$116,756,000	$116,614,000	$—	$116,614,000	$ —
NOW deposits	240,112,000	230,934,000	—	230,934,000	—
Money market deposits	74,643,000	68,221,000	—	68,221,000	—
Savings deposits	205,218,000	187,346,000	—	187,346,000	—
Local certificates of deposit	207,664,000	209,455,000	—	209,455,000	—
National certificates of deposit	265,048,000	265,335,000	—	265,335,000	—
Total deposits	1,109,441,000	1,077,905,000	—	1,077,905,000	—
Repurchase agreements	91,399,000	88,442,000	—	88,442,000	—
Federal Home Loan Bank advances	185,132,000	186,398,000	—	186,398,000	—
Total borrowed funds	276,531,000	274,840,000	—	274,840,000	—
Accrued interest payable	495,000	495,000	—	495,000	—

The carrying amounts and estimated fair values for financial instruments as of December 31, 2015 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$14,299,000	$14,299,000	$14,299,000	$—	$ —
Interest bearing deposits in other banks	4,013,000	4,013,000	4,013,000	—	—
Securities available for sale	223,039,000	223,039,000	—	223,039,000	—
Securities to be held to maturity	240,023,000	243,123,000	—	243,123,000	—
Restricted equity securities	14,257,000	14,257,000	—	14,257,000	—
Loans held for sale	349,000	349,000	—	349,000	—
Loans (net of allowance for loan losses)					
Commercial					
Real estate	265,616,000	262,763,000	—	—	262,763,000
Construction	24,166,000	23,906,000	—	—	23,906,000
Other	126,551,000	126,141,000	—	—	126,141,000
Municipal	19,730,000	20,331,000	—	—	20,331,000
Residential					
Term	401,315,000	405,315,000	—	—	405,315,000
Construction	8,421,000	8,379,000	—	—	8,379,000
Home equity line of credit	109,101,000	108,118,000	—	699,000	107,419,000
Consumer	23,822,000	23,754,000	—	—	23,754,000
Total loans	978,722,000	978,707,000	—	699,000	978,008,000
Mortgage servicing rights	1,093,000	1,915,000	—	1,915,000	—
Accrued interest receivable	4,912,000	4,912,000	—	4,912,000	—
Financial liabilities					
Demand deposits	$130,566,000	$125,651,000	$—	$125,651,000	$ —
NOW deposits	242,638,000	224,627,000	—	224,627,000	—
Money market deposits	92,994,000	82,050,000	—	82,050,000	—
Savings deposits	206,009,000	181,010,000	—	181,010,000	