First Bancorp, Inc /ME/
Form 10-Q
August 07, 2015

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 June 30, 2015

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_]

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 July 31, 2015
Common Stock: 10,744,988 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 six months ended June 30, 2015		2014		As of and for the quarters ended June 30, 2015		2014	
Summary of Operations								
Interest Income	$24,939		$25,363		$12,574		$12,740	
Interest Expense	5,159		5,817		2,496		2,905	
Net Interest Income	19,780		19,546		10,078		9,835	
Provision for Loan Losses	900		500		400		100	
Non-Interest Income	6,492		4,790		2,834		2,458	
Non-Interest Expense	14,245		14,543		6,980		7,291	
Net Income	8,249		7,175		4,074		3,747	
Per Common Share Data								
Basic Earnings per Share	$0.77		$0.67		$0.38		$0.35	
Diluted Earnings per Share	0.77		0.67		0.38		0.35	
Cash Dividends Declared	0.430		0.410		0.220		0.210	
Book Value per Common Share	15.25		14.70		15.25		14.70	
Tangible Book Value per Common Share[2]	12.45		11.87		12.45		11.87	
Market Value	19.44		17.46		19.44		17.46	
Financial Ratios								
Return on Average Equity[1]	10.09	%	9.40	%	9.87	%	9.59	%
Return on Average Tangible Common Equity[1,2]	12.35	%	11.71	%	12.07	%	11.90	%
Return on Average Assets[1]	1.12	%	0.98	%	1.09	%	1.01	%
Average Equity to Average Assets	11.13	%	10.43	%	11.00	%	10.58	%
Average Tangible Equity to Average Assets[2]	9.09	%	8.37	%	9.00	%	8.53	%
Net Interest Margin Tax-Equivalent[1,2]	3.08	%	3.11	%	3.07	%	3.10	%
Dividend Payout Ratio	55.84	%	61.19	%	57.89	%	60.00	%
Allowance for Loan Losses/Total Loans	1.03	%	1.31	%	1.03	%	1.31	%
Non-Performing Loans to Total Loans	0.93	%	1.42	%	0.93	%	1.42	%
Non-Performing Assets to Total Assets	0.72	%	1.16	%	0.72	%	1.16	%
Efficiency Ratio[2]	53.71	%	55.48	%	50.83	%	55.08	%
At Period End								
Total Assets	$1,553,340		$1,504,080		$1,553,340		$1,504,080	
Total Loans	963,109		891,864		963,109		891,864	
Total Investment Securities	476,976		515,927		476,976		515,927	
Total Deposits	1,096,323		1,033,436		1,096,323		1,033,436	
Total Shareholders' Equity	163,809		157,449		163,809		157,449	

[1]Annualized using a 365-day basis for both years.
[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 June 30, 2015 and 2014 and for the three-month and six-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
August 7, 2015

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

	June 30, 2015	December 31, 2014	June 30, 2014
Assets			
Cash and cash equivalents	$16,481,000	$13,057,000	$20,416,000
Interest bearing deposits in other banks	24,565,000	3,559,000	272,000
Securities available for sale	213,814,000	185,261,000	303,880,000
Securities to be held to maturity (fair value of $248,698,000 at June 30, 2015, $279,704,000 at December 31, 2014 and $195,550,000 at June 30, 2014)	249,250,000	275,919,000	198,135,000
Restricted equity securities, at cost	13,912,000	13,912,000	13,912,000
Loans held for sale	—	—	272,000
Loans	963,109,000	917,564,000	891,864,000
Less allowance for loan losses	9,908,000	10,344,000	11,644,000
Net loans	953,201,000	907,220,000	880,220,000
Accrued interest receivable	6,180,000	4,748,000	6,247,000
Premises and equipment, net	21,946,000	22,619,000	21,933,000
Other real estate owned	2,192,000	3,785,000	4,863,000
Goodwill	29,805,000	29,805,000	29,805,000
Other assets	21,994,000	22,246,000	24,125,000
Total assets	$1,553,340,000	$1,482,131,000	$1,504,080,000
Liabilities			
Demand deposits	$107,244,000	$113,133,000	$99,210,000
NOW deposits	221,964,000	199,977,000	174,680,000
Money market deposits	102,219,000	98,607,000	92,060,000
Savings deposits	186,777,000	165,601,000	153,602,000
Certificates of deposit	478,119,000	447,501,000	513,884,000
Total deposits	1,096,323,000	1,024,819,000	1,033,436,000
Borrowed funds – short term	132,876,000	189,775,000	183,375,000
Borrowed funds – long term	145,137,000	90,141,000	115,145,000
Other liabilities	15,195,000	15,842,000	14,675,000
Total liabilities	1,389,531,000	1,320,577,000	1,346,631,000
Shareholders' equity			
Common stock, one cent par value per share	107,000	107,000	107,000
Additional paid-in capital	59,475,000	59,282,000	58,823,000
Retained earnings	103,448,000	99,816,000	96,785,000
Accumulated other comprehensive income (loss)			
Net unrealized gain on securities available for sale	988,000	2,522,000	1,546,000
Net unrealized loss on securities transferred from available for sale to held to maturity	(84,000)	(48,000)	—
Net unrealized gain (loss) on postretirement benefit costs	(125,000)	(125,000)	188,000
Total shareholders' equity	163,809,000	161,554,000	157,449,000
Total liabilities & shareholders' equity	$1,553,340,000	$1,482,131,000	$1,504,080,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	10,741,228	10,724,359	10,710,673
Book value per common share	$15.25	$15.06	$14.70
Tangible book value per common share	$12.45	$12.25	$11.87

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 six months ended June 30,		For the quarters ended June 30,	
	2015	2014	2015	2014
Interest income				
Interest and fees on loans	$18,012,000	$17,220,000	$9,157,000	$8,642,000
Interest on deposits with other banks	13,000	3,000	8,000	1,000
Interest and dividends on investments	6,914,000	8,140,000	3,409,000	4,097,000
Total interest income	24,939,000	25,363,000	12,574,000	12,740,000
Interest expense				
Interest on deposits	2,759,000	3,629,000	1,316,000	1,804,000
Interest on borrowed funds	2,400,000	2,188,000	1,180,000	1,101,000
Total interest expense	5,159,000	5,817,000	2,496,000	2,905,000
Net interest income	19,780,000	19,546,000	10,078,000	9,835,000
Provision for loan losses	900,000	500,000	400,000	100,000
Net interest income after provision for loan losses	18,880,000	19,046,000	9,678,000	9,735,000
Non-interest income				
Investment management and fiduciary income	1,158,000	1,102,000	617,000	585,000
Service charges on deposit accounts	1,237,000	1,301,000	658,000	682,000
Net securities gains	1,395,000	40,000	—	4,000
Mortgage origination and servicing income, net of amortization	705,000	354,000	508,000	160,000
Other operating income	1,997,000	1,993,000	1,051,000	1,027,000
Total non-interest income	6,492,000	4,790,000	2,834,000	2,458,000
Non-interest expense				
Salaries and employee benefits	7,160,000	7,220,000	3,440,000	3,523,000
Occupancy expense	1,216,000	1,171,000	571,000	559,000
Furniture and equipment expense	1,552,000	1,372,000	782,000	675,000
FDIC insurance premiums	446,000	519,000	216,000	254,000
Amortization of identified intangibles	36,000	163,000	11,000	81,000
Other operating expense	3,835,000	4,098,000	1,960,000	2,199,000
Total non-interest expense	14,245,000	14,543,000	6,980,000	7,291,000
Income before income taxes	11,127,000	9,293,000	5,532,000	4,902,000
Income tax expense	2,878,000	2,118,000	1,458,000	1,155,000
NET INCOME	$8,249,000	$7,175,000	$4,074,000	$3,747,000
Basic earnings per common share	$0.77	$0.67	$0.38	$0.35
Diluted earnings per common share	$0.77	$0.67	$0.38	$0.35
Other comprehensive income (loss) net of tax				
Net unrealized gain (loss) on securities available for sale	(1,534,000)	8,137,000	(1,591,000)	3,313,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of amortization	(36,000)	—	(84,000)	—
Other comprehensive income (loss)	(1,570,000)	8,137,000	(1,675,000)	3,313,000
Comprehensive income	$6,679,000	$15,312,000	$2,399,000	$7,060,000

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 (loss)	Total shareholders' equity
	Shares	Amount			
Balance at December 31, 2013	10,671,192	$58,501,000	$94,000,000	$(6,403,000)	$146,098,000
Net income	—	—	7,175,000	—	7,175,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	8,137,000	8,137,000
Comprehensive income	—	—	7,175,000	8,137,000	15,312,000
Cash dividends declared ($0.41 per share)	—	—	(4,390,000)	—	(4,390,000)
Equity compensation expense	—	205,000	—	—	205,000
Issuance of restricted stock	25,843	—	—	—	—
Proceeds from sale of common stock	13,638	224,000	—	—	224,000
Balance at June 30, 2014	10,710,673	$58,930,000	$96,785,000	$1,734,000	$157,449,000
Balance at December 31, 2014	10,724,359	$59,389,000	$99,816,000	$2,349,000	$161,554,000
Net income	—	—	8,249,000	—	8,249,000
Net unrealized loss on securities available for sale, net of tax	—	—	—	(1,534,000)	(1,534,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(36,000)	(36,000)
Comprehensive income	—	—	8,249,000	(1,570,000)	6,679,000
Cash dividends declared ($0.43 per share)	—	—	(4,617,000)	—	(4,617,000)
Equity compensation expense	—	148,000	—	—	148,000
Payment for repurchase of common stock	(10,138)	(180,000)	—	—	(180,000)
Issuance of restricted stock	13,650	—	—	—	—
Proceeds from sale of common stock	13,357	225,000	—	—	225,000
Balance at June 30, 2015	10,741,228	$59,582,000	$103,448,000	$779,000	$163,809,000

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 six months ended June 30, 2015	June 30, 2014
Cash flows from operating activities		
Net income	$8,249,000	$7,175,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	851,000	837,000
Change in deferred taxes	259,000	(251,000)
Provision for loan losses	900,000	500,000
Loans originated for resale	(14,655,000)	(8,156,000)
Proceeds from sales and transfers of loans	14,988,000	8,153,000
Net gain on sales of loans	(333,000)	(186,000)
Net gain on sale or call of securities	(1,395,000)	(40,000)
Net amortization of premiums on investments	379,000	533,000
Net gain on sale of other real estate owned	(40,000)	(46,000)
Provision for losses on other real estate owned	21,000	99,000
Equity compensation expense	148,000	205,000
Net increase in other assets and accrued interest	(1,556,000)	(2,800,000)
Net increase in other liabilities	91,000	839,000
Net loss on disposal of premises and equipment	—	5,000
Amortization of investment in limited partnership	133,000	284,000
Net acquisition amortization	36,000	163,000
Net cash provided by operating activities	8,076,000	7,314,000
Cash flows from investing activities		
(Increase) decrease in interest-bearing deposits in other banks	(21,006,000)	2,290,000
Proceeds from sales of securities available for sale	35,465,000	—
Proceeds from maturities, payments and calls of securities available for sale	15,872,000	14,411,000
Proceeds from maturities, payments and calls of securities to be held to maturity	32,414,000	6,082,000
Proceeds from sales of other real estate owned	2,129,000	1,262,000
Purchases of securities available for sale	(81,335,000)	(501,000)
Purchases of securities to be held to maturity	(5,644,000)	(34,881,000)
Net increase in loans	(47,398,000)	(17,238,000)
Capital expenditures	(178,000)	(396,000)
Proceeds from disposal of premises and equipment	—	1,237,000
Net cash used by investing activities	(69,681,000)	(27,734,000)
Cash flows from financing activities		
Net increase in demand, savings, and money market accounts	40,886,000	26,272,000
Net increase (decrease) in certificates of deposit	30,618,000	(17,235,000)
Net increase (decrease) in short-term borrowings	(41,903,000)	19,395,000
Advances on long-term borrowings	55,000,000	—
Repayment on long-term borrowings	(15,000,000)	—
Payment to repurchase common stock	(180,000)	—
Proceeds from sale of common stock	225,000	224,000
Dividends paid	(4,617,000)	(4,390,000)
Net cash provided by financing activities	65,029,000	24,266,000

Net increase in cash and cash equivalents	3,424,000	3,846,000
Cash and cash equivalents at beginning of period	13,057,000	16,570,000
Cash and cash equivalents at end of period	$16,481,000	$20,416,000
Interest paid	$5,175,000	$5,807,000
Income taxes paid	1,840,000	1,960,000
Non-cash transactions		
Net transfer from loans to other real estate owned	$517,000	$1,371,000

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 The First, N.A. ("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 2015 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014.
Subsequent Events
Events occurring subsequent to June 30, 2015, 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 June 30, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$184,787,000	$2,040,000	$(1,235,000)	$185,592,000
State and political subdivisions	24,378,000	1,006,000	(344,000)	25,040,000
Other equity securities	3,129,000	61,000	(8,000)	3,182,000
	$212,294,000	$3,107,000	$(1,587,000)	$213,814,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$75,982,000	$45,000	$(3,035,000)	$72,992,000
Mortgage-backed securities	48,655,000	1,650,000	(125,000)	50,180,000
State and political subdivisions	124,313,000	1,976,000	(1,063,000)	125,226,000
Corporate securities	300,000	—	—	300,000
	$249,250,000	$3,671,000	$(4,223,000)	$248,698,000
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 amortized cost and estimated fair value of investment securities at December 31, 2014:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$149,796,000	$2,637,000	$(578,000)	$151,855,000
State and political subdivisions	29,094,000	1,865,000	(104,000)	30,855,000
Other equity securities	2,490,000	65,000	(4,000)	2,551,000
	$181,380,000	$4,567,000	$(686,000)	$185,261,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$92,341,000	$54,000	$(2,066,000)	$90,329,000
Mortgage-backed securities	57,003,000	1,830,000	(116,000)	58,717,000
State and political subdivisions	126,275,000	4,114,000	(31,000)	130,358,000
Corporate securities	300,000	—	—	300,000
	$275,919,000	$5,998,000	$(2,213,000)	$279,704,000
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 amortized cost and estimated fair value of investment securities at June 30, 2014:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$165,978,000	$2,417,000	$(1,692,000)	$166,703,000
State and political subdivisions	133,327,000	3,951,000	(2,383,000)	134,895,000
Other equity securities	2,196,000	87,000	(1,000)	2,282,000
	$301,501,000	$6,455,000	$(4,076,000)	$303,880,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$92,324,000	$5,000	$(6,343,000)	$85,986,000
Mortgage-backed securities	65,835,000	1,851,000	(526,000)	67,160,000
State and political subdivisions	39,676,000	2,459,000	(31,000)	42,104,000
Corporate securities	300,000	—	—	300,000
	$198,135,000	$4,315,000	$(6,900,000)	$195,550,000
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 June 30, 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	$2,396,000	$2,389,000	$1,044,000	$1,056,000
Due in 1 to 5 years	22,945,000	22,860,000	12,532,000	12,740,000
Due in 5 to 10 years	8,993,000	9,355,000	45,958,000	47,525,000
Due after 10 years	174,831,000	176,028,000	189,716,000	187,377,000
Equity securities	3,129,000	3,182,000	—	—
	$212,294,000	$213,814,000	$249,250,000	$248,698,000

The following table summarizes the contractual maturities of investment securities at December 31, 2014:

	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	$2,309,000	$2,329,000	$1,693,000	$1,713,000
Due in 1 to 5 years	15,200,000	15,499,000	8,467,000	8,702,000
Due in 5 to 10 years	18,547,000	19,124,000	50,629,000	52,717,000
Due after 10 years	142,834,000	145,758,000	215,130,000	216,572,000
Equity securities	2,490,000	2,551,000	—	—
	$181,380,000	$185,261,000	$275,919,000	$279,704,000

The following table summarizes the contractual maturities of investment securities at June 30, 2014:

	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	$—	$—	$—	$—
Due in 1 to 5 years	20,101,000	20,557,000	11,326,000	11,610,000
Due in 5 to 10 years	28,261,000	28,483,000	44,528,000	46,301,000
Due after 10 years	250,943,000	252,558,000	142,281,000	137,639,000
Equity securities	2,196,000	2,282,000	—	—
	$301,501,000	$303,880,000	$198,135,000	$195,550,000

At June 30, 2015, securities with a fair value of $194,337,000 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 $164,919,000 as of December 31, 2014 and $131,869,000 at June 30, 2014, 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 six months and quarters ended June 30, 2015 and 2014:

	For the six months ended June 30,		For the quarters ended June 30,	
	2015	2014	2015	2014
Proceeds from sales of securities	$35,465,000	$—	$—	$—
Gross realized gains	1,395,000	40,000	—	4,000
Gross realized losses	—	—	—	—
Net gain	$1,395,000	$40,000	$—	$4,000
Related income taxes	$488,000	$14,000	$—	$1,000

Management reviews securities with unrealized losses for other than temporary impairment. As of June 30, 2015, there were 295 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 14 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 June 30, 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	$55,147,000	$(1,988,000)	$16,953,000	$(1,047,000)	$72,100,000	$(3,035,000)
Mortgage-backed securities	89,332,000	(1,280,000)	1,194,000	(80,000)	90,526,000	(1,360,000)
State and political subdivisions	72,217,000	(1,202,000)	2,299,000	(205,000)	74,516,000	(1,407,000)
Other equity securities	64,000	(7,000)	51,000	(1,000)	115,000	(8,000)
	$216,760,000	$(4,477,000)	$20,497,000	$(1,333,000)	$237,257,000	$(5,810,000)

As of December 31, 2014, there were 56 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 36 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 31, 2014 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	$—	$—	$79,444,000	$(2,066,000)	$79,444,000	$(2,066,000)
Mortgage-backed securities	13,878,000	(40,000)	29,182,000	(654,000)	43,060,000	(694,000)
State and political subdivisions	3,352,000	(31,000)	3,017,000	(104,000)	6,369,000	(135,000)

Other equity securities	68,000	(3,000)	51,000	(1,000)	119,000	(4,000)
	$17,298,000	$(74,000)	$111,694,000	$(2,825,000)	$128,992,000	$(2,899,000)

As of June 30, 2014, there were 197 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 175 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of June 30, 2014 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	$—	$—	$85,167,000	$(6,343,000)	$85,167,000	$(6,343,000)
Mortgage-backed securities	39,436,000	(668,000)	32,975,000	(1,550,000)	72,411,000	(2,218,000)
State and political subdivisions	8,122,000	(71,000)	45,718,000	(2,343,000)	53,840,000	(2,414,000)
Other equity securities	—	—	52,000	(1,000)	52,000	(1,000)
	$47,558,000	$(739,000)	$163,912,000	$(10,237,000)	$211,470,000	$(10,976,000)

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 $84,000 at June 30, 2015. 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 June 30, 2015, and 2014, and December 31, 2014, the Bank's investment in FHLB stock totaled $12,875,000. 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 June 30, 2015. 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 June 30, 2015 and 2014 and at December 31, 2014:

	June 30, 2015		December 31, 2014		June 30, 2014	
Commercial						
Real estate	$249,414,000	25.9 %	$242,311,000	26.4 %	$245,660,000	27.5 %
Construction	39,504,000	4.1 %	30,932,000	3.4 %	17,084,000	1.9 %
Other	128,249,000	13.3 %	104,531,000	11.4 %	104,234,000	11.7 %
Municipal	22,821,000	2.4 %	20,424,000	2.2 %	17,893,000	2.0 %
Residential						
Term	378,090,000	39.2 %	384,032,000	41.9 %	379,027,000	42.5 %
Construction	14,215,000	1.5 %	12,160,000	1.3 %	13,253,000	1.5 %

Home equity line of credit	108,788,000	11.3	%	103,521,000	11.3	%	97,821,000	11.0	%
Consumer	22,028,000	2.3	%	19,653,000	2.1	%	16,892,000	1.9	%
Total	$963,109,000	100.0	%	$917,564,000	100.0	%	$891,864,000	100.0	%

Loan balances include net deferred loan costs of $3,246,000 as of June 30, 2015, $2,729,000 as of December 31, 2014, and $2,463,000 as of June 30, 2014. Pursuant to collateral agreements, qualifying first mortgage loans, which totaled $284,707,000 at June 30, 2015, $266,716,000 at December 31, 2014, and $270,701,000 at June 30, 2014, were used to collateralize borrowings from the FHLB. In addition, commercial, construction and home equity loans totaling $278,235,000 at June 30, 2015, $240,943,000 at December 31, 2014, and $233,544,000 at June 30, 2014, 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 June 30, 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	$1,850,000	$—	$264,000	$2,114,000	$247,300,000	$249,414,000	$—
Construction	—	—	208,000	208,000	39,296,000	39,504,000	—
Other	124,000	—	138,000	262,000	127,987,000	128,249,000	—
Municipal	—	—	—	—	22,821,000	22,821,000	—
Residential							
Term	810,000	2,314,000	3,146,000	6,270,000	371,820,000	378,090,000	90,000
Construction	160,000	—	—	160,000	14,055,000	14,215,000	—
Home equity line of credit	649,000	122,000	838,000	1,609,000	107,179,000	108,788,000	35,000
Consumer	152,000	130,000	111,000	393,000	21,635,000	22,028,000	111,000
Total	$3,745,000	$2,566,000	$4,705,000	$11,016,000	$952,093,000	$963,109,000	$236,000

Information on the past-due status of loans by class of financing receivable as of December 31, 2014, 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	$346,000	$107,000	$407,000	$860,000	$241,451,000	$242,311,000	$—
Construction	—	41,000	208,000	249,000	30,683,000	30,932,000	—
Other	336,000	543,000	314,000	1,193,000	103,338,000	104,531,000	—
Municipal	—	—	—	—	20,424,000	20,424,000	—
Residential							
Term	1,140,000	2,118,000	3,745,000	7,003,000	377,029,000	384,032,000	101,000
Construction	—	—	—	—	12,160,000	12,160,000	—
Home equity line of credit	621,000	769,000	732,000	2,122,000	101,399,000	103,521,000	—
Consumer	303,000	53,000	80,000	436,000	19,217,000	19,653,000	80,000
Total	$2,746,000	$3,631,000	$5,486,000	$11,863,000	$905,701,000	$917,564,000	$181,000

Information on the past-due status of loans by class of financing receivable as of June 30, 2014, 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	$925,000	$—	$1,157,000	$2,082,000	$243,578,000	$245,660,000	$—
Construction	—	—	208,000	208,000	16,876,000	17,084,000	—
Other	256,000	21,000	599,000	876,000	103,358,000	104,234,000	—
Municipal	—	—	—	—	17,893,000	17,893,000	—
Residential							
Term	813,000	1,735,000	3,880,000	6,428,000	372,599,000	379,027,000	87,000
Construction	—	—	—	—	13,253,000	13,253,000	—
Home equity line of credit	471,000	93,000	875,000	1,439,000	96,382,000	97,821,000	—
Consumer	131,000	11,000	76,000	218,000	16,674,000	16,892,000	76,000
Total	$2,596,000	$1,860,000	$6,795,000	$11,251,000	$880,613,000	$891,864,000	$163,000

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 June 30, 2015 and 2014 and at December 31, 2014 is presented in the following table:

	June 30, 2015	December 31, 2014	June 30, 2014
Commercial			
Real estate	$1,538,000	$2,088,000	$3,089,000
Construction	208,000	208,000	208,000
Other	429,000	935,000	2,017,000
Municipal	—	—	—
Residential			
Term	5,698,000	6,421,000	6,432,000
Construction	—	—	—
Home equity line of credit	964,000	832,000	902,000
Consumer	95,000	26,000	—
Total	$8,932,000	$10,510,000	$12,648,000

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 period ended June 30, 2015, is presented in the following table:

				For the six months ended June 30, 2015		For the quarter ended June 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate	$8,986,000	$9,436,000	$—	$9,959,000	$182,000	$9,020,000	$93,000
Construction	—	—	—	—	—	—	—
Other	1,789,000	1,855,000	—	2,267,000	42,000	2,069,000	27,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	9,636,000	10,537,000	—	10,797,000	173,000	10,458,000	90,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,504,000	2,140,000	—	1,326,000	15,000	1,371,000	8,000
Consumer	95,000	138,000	—	52,000	3,000	80,000	—
	$22,010,000	$24,106,000	$—	$24,401,000	$415,000	$22,998,000	$218,000
With an Allowance Recorded							
Commercial							
Real estate	$3,580,000	$3,671,000	$225,000	$2,807,000	$71,000	$3,618,000	$39,000
Construction	989,000	989,000	275,000	1,311,000	25,000	1,249,000	13,000
Other	317,000	331,000	275,000	399,000	4,000	471,000	3,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	5,784,000	6,082,000	501,000	5,348,000	120,000	5,463,000	60,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	68,000	69,000	31,000	307,000	2,000	226,000	—
Consumer	—	—	—	—	—	—	2,000
	$10,738,000	$11,142,000	$1,307,000	$10,172,000	$222,000	$11,027,000	$117,000
Total							
Commercial							
Real estate	$12,566,000	$13,107,000	$225,000	$12,766,000	$253,000	$12,638,000	$132,000
Construction	989,000	989,000	275,000	1,311,000	25,000	1,249,000	13,000
Other	2,106,000	2,186,000	275,000	2,666,000	46,000	2,540,000	30,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	15,420,000	16,619,000	501,000	16,145,000	293,000	15,921,000	150,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,572,000	2,209,000	31,000	1,633,000	17,000	1,597,000	8,000
Consumer	95,000	138,000	—	52,000	3,000	80,000	2,000
	$32,748,000	$35,248,000	$1,307,000	$34,573,000	$637,000	$34,025,000	$335,000

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, 2014, 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	$11,687,000	$12,423,000	$—	$11,080,000	$488,000
Construction	—	—	—	30,000	—
Other	2,616,000	3,407,000	—	3,853,000	156,000
Municipal	—	—	—	—	—
Residential					
Term	10,820,000	11,824,000	—	10,505,000	402,000
Construction	—	—	—	—	—
Home equity line of credit	1,164,000	1,395,000	—	1,447,000	29,000
Consumer	26,000	28,000	—	11,000	3,000
	$26,313,000	$29,077,000	$—	$26,926,000	$1,078,000
With an Allowance Recorded					
Commercial					
Real estate	$1,617,000	$1,789,000	$346,000	$3,040,000	$62,000
Construction	1,380,000	1,380,000	413,000	1,279,000	56,000
Other	326,000	338,000	129,000	1,103,000	13,000
Municipal	—	—	—	—	—
Residential					
Term	5,303,000	5,513,000	519,000	5,738,000	239,000
Construction	—	—	—	—	—
Home equity line of credit	923,000	929,000	396,000	318,000	17,000
Consumer	—	—	—	—	—
	$9,549,000	$9,949,000	$1,803,000	$11,478,000	$387,000
Total					
Commercial					
Real estate	$13,304,000	$14,212,000	$346,000	$14,120,000	$550,000
Construction	1,380,000	1,380,000	413,000	1,309,000	56,000
Other	2,942,000	3,745,000	129,000	4,956,000	169,000
Municipal	—	—	—	—	—
Residential					
Term	16,123,000	17,337,000	519,000	16,243,000	641,000
Construction	—	—	—	—	—
Home equity line of credit	2,087,000	2,324,000	396,000	1,765,000	46,000
Consumer	26,000	28,000	—	11,000	3,000
	$35,862,000	$39,026,000	$1,803,000	$38,404,000	$1,465,000

A breakdown of impaired loans by class of financing receivable as of and for the period ended June 30, 2014, is presented in the following table:

				For the six months ended June 30, 2014		For the quarter ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income	Average Recorded Investment	Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate	$10,688,000	$11,228,000	$—	$10,458,000	$201,000	$9,181,000	$112,000
Construction	—	—	—	60,000	—	52,000	—
Other	3,271,000	3,549,000	—	4,796,000	56,000	4,443,000	32,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	10,271,000	11,082,000	—	10,845,000	183,000	10,364,000	88,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,242,000	1,484,000	—	1,753,000	14,000	1,996,000	7,000
Consumer	—	—	—	—	—	—	—
	$25,472,000	$27,343,000	$—	$27,912,000	$454,000	$26,036,000	$239,000
With an Allowance Recorded							
Commercial							
Real estate	$4,115,000	$4,270,000	$1,150,000	$3,599,000	$81,000	$3,665,000	$42,000
Construction	1,492,000	1,492,000	487,000	1,140,000	28,000	995,000	14,000
Other	1,054,000	1,114,000	830,000	1,364,000	12,000	1,674,000	8,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	5,831,000	6,018,000	606,000	5,850,000	128,000	5,883,000	63,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	291,000	296,000	73,000	261,000	1,000	400,000	1,000
Consumer	—	—	—	—	—	—	—
	$12,783,000	$13,190,000	$3,146,000	$12,214,000	$250,000	$12,617,000	$128,000
Total							
Commercial							
Real estate	$14,803,000	$15,498,000	$1,150,000	$14,057,000	$282,000	$12,846,000	$154,000
Construction	1,492,000	1,492,000	487,000	1,200,000	28,000	1,047,000	14,000
Other	4,325,000	4,663,000	830,000	6,160,000	68,000	6,117,000	40,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	16,102,000	17,100,000	606,000	16,695,000	311,000	16,247,000	151,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,533,000	1,780,000	73,000	2,014,000	15,000	2,396,000	8,000
Consumer	—	—	—	—	—	—	—
	$38,255,000	$40,533,000	$3,146,000	$40,126,000	$704,000	$38,653,000	$367,000

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 June 30, 2015, the Company had 88 loans with a value of $25,791,000 that have been classified as TDRs. This compares to 94 loans with a value of $27,214,000 and 97 loans with a value of $28,295,000 classified as TDRs as of December 31, 2014 and June 30, 2014, 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 June 30, 2015:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	17	$11,754,000	$130,000
Construction	1	781,000	68,000
Other	13	1,675,000	—
Municipal	—	—	—
Residential			
Term	52	10,789,000	435,000
Construction	—	—	—
Home equity line of credit	5	792,000	—
Consumer	—	—	—
	88	$25,791,000	$633,000

The following table shows TDRs by class and the specific reserve as of December 31, 2014:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	19	$12,282,000	$267,000
Construction	1	1,172,000	207,000
Other	15	2,007,000	—
Municipal	—	—	—
Residential			
Term	54	10,932,000	373,000
Construction	—	—	—
Home equity line of credit	5	821,000	21,000
Consumer	—	—	—
	94	$27,214,000	$868,000

The following table shows TDRs by class and the specific reserve as of June 30, 2014:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	18	$12,702,000	$774,000
Construction	1	1,284,000	280,000
Other	18	2,311,000	142,000
Municipal	—	—	—
Residential			
Term	55	11,166,000	383,000
Construction	—	—	—
Home equity line of credit	5	832,000	21,000
Consumer	—	—	—
	97	$28,295,000	$1,600,000

As of June 30, 2015, nine of the loans classified as TDRs with a total balance of $1,455,000 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 June 30, 2015:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$—	$—
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	8	1,271,000	87,000
Construction	—	—	—
Home equity line of credit	1	184,000	—
Consumer	—	—	—
	9	$1,455,000	$87,000

As of June 30, 2014, 12 of the loans classified as TDRs with a total balance of $2,052,000 were more than 30 days past due. Of these loans, two loans with an outstanding balance of $256,000 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 June 30, 2014:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	1	$518,000	$259,000
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	10	1,333,000	35,000
Construction	—	—	—
Home equity line of credit	1	201,000	21,000
Consumer	—	—	—
	12	$2,052,000	$315,000

For the six months ended June 30, 2015, no loans were placed on TDR status. This compares to three loans placed on TDR status with a post-modification outstanding balance of $291,000 for the six months ended June 30, 2014. These were considered TDRs because concessions had been granted to borrowers experiencing financial difficulties. Concessions include reductions in interest rates, principal and/or interest forbearance, payment extensions, or combinations thereof.

The following table shows loans placed on TDR status in the six months ended June 30, 2014, by class of loan and the associated specific reserve included in the allowance for loan losses as of June 30, 2014:

For the six months ended June 30, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserves
Commercial				
Real estate	—	$ —	$ —	$—
Construction	—	—	—	—
Other	—	—	—	—
Municipal	—	—	—	—
Residential				
Term	3	349,000	291,000	17,000
Construction	—	—	—	—
Home equity line of credit	—	—	—	—
Consumer	—	—	—	—
	3	$ 349,000	$ 291,000	$17,000

For the quarters ended June 30, 2015 and 2014, no loans were placed on TDR status.

As of June 30, 2015, Management is aware of eight loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $1,161,000. There were also 14 loans with an outstanding balance of $1,979,000 that were classified as TDRs and on non-accrual status. Four loans with an outstanding balance of $452,000, that were classified as TDRs, were in the process of foreclosure.

Consumer Mortgage Loans in Process of Foreclosure

As of June 30, 2015, there were 17 consumer mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $1,881,000.

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 June 30, 2015, December 31, 2014, and June 30, 2014, by class of financing receivable and allowance element, is presented in the following tables:

As of June 30, 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	$225,000	$1,017,000	$1,701,000	$—	$2,943,000
Construction	275,000	161,000	269,000	—	705,000
Other	275,000	522,000	874,000	—	1,671,000
Municipal	—	—	16,000	—	16,000
Residential					
Term	501,000	303,000	380,000	—	1,184,000
Construction	—	12,000	15,000	—	27,000
Home equity line of credit	31,000	584,000	303,000	—	918,000
Consumer	—	373,000	207,000	—	580,000
Unallocated	—	—	—	1,864,000	1,864,000
	$1,307,000	$2,972,000	$3,765,000	$1,864,000	$9,908,000

As of December 31, 2014	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	$346,000	$1,444,000	$1,742,000	$—	$3,532,000
Construction	413,000	186,000	224,000	—	823,000
Other	129,000	624,000	752,000	—	1,505,000
Municipal	—	—	15,000	—	15,000
Residential					
Term	519,000	297,000	369,000	—	1,185,000
Construction	—	9,000	11,000	—	20,000
Home equity line of credit	396,000	376,000	288,000	—	1,060,000
Consumer	—	346,000	196,000	—	542,000
Unallocated	—	—	—	1,662,000	1,662,000
	$1,803,000	$3,282,000	$3,597,000	$1,662,000	$10,344,000

As of June 30, 2014	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	$1,150,000	$1,246,000	$1,840,000	$—	$4,236,000
Construction	487,000	86,000	127,000	—	700,000
Other	830,000	530,000	783,000	—	2,143,000
Municipal	—	—	16,000	—	16,000
Residential					
Term	606,000	288,000	370,000	—	1,264,000
Construction	—	10,000	13,000	—	23,000
Home equity line of credit	73,000	389,000	291,000	—	753,000
Consumer	—	383,000	199,000	—	582,000
Unallocated	—	—	—	1,927,000	1,927,000
	$3,146,000	$2,932,000	$3,639,000	$1,927,000	$11,644,000

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 0.39% of related loans as of June 30, 2015 and December 31, 2014. The qualitative portion increased $168,000 between December 31, 2014 and June 30, 2015 due to an increase in loans outstanding.

The unallocated component of the allowance totaled $1,864,000 at June 30, 2015, or 18.8% of the total reserve. This compares to $1,662,000 or 16.1% as of December 31, 2014. The increase in the unallocated portion is due to increased loan demand in comparison to previous years. Management feels the increase in the unallocated portion is directionally consistent with this change in demand.

The allowance for loan losses as a percent of total loans stood at 1.03% as of June 30, 2015. This compares to 1.13% of total loans as of December 31, 2014 and 1.31% of total loans as of June 30, 2014.

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 loans, both commercial and residential, comprise a small portion of the portfolio, and at 38.1% of capital are well under the regulatory guidance of 100.0% of capital at June 30, 2015. Construction loans and non-owner-occupied commercial real estate loans are at 104.3% of total capital, well under regulatory guidance of 300.0% of capital at June 30, 2015.

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 June 30, 2015:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$10,000	$—	$1,177,000	$—	$1,187,000
2 Above Average	14,233,000	59,000	8,854,000	21,284,000	44,430,000
3 Satisfactory	53,204,000	1,760,000	25,281,000	1,537,000	81,782,000
4 Average	117,345,000	33,579,000	68,015,000	—	218,939,000
5 Watch	35,279,000	3,359,000	19,723,000	—	58,361,000
6 OAEM	8,799,000	—	1,458,000	—	10,257,000
7 Substandard	20,544,000	747,000	3,664,000	—	24,955,000
8 Doubtful	—	—	77,000	—	77,000
Total	$249,414,000	$39,504,000	$128,249,000	$22,821,000	$439,988,000

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, 2014:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$12,000	$—	$330,000	$—	$342,000
2 Above Average	12,668,000	771,000	7,210,000	18,789,000	39,438,000
3 Satisfactory	50,275,000	1,983,000	24,232,000	1,635,000	78,125,000
4 Average	108,719,000	23,345,000	44,895,000	—	176,959,000
5 Watch	36,974,000	1,567,000	18,171,000	—	56,712,000
6 OAEM	9,846,000	2,519,000	1,970,000	—	14,335,000
7 Substandard	23,817,000	747,000	7,723,000	—	32,287,000
8 Doubtful	—	—	—	—	—
Total	$242,311,000	$30,932,000	$104,531,000	$20,424,000	$398,198,000

The following table summarizes the risk ratings for the Company's commercial real estate, commercial construction, commercial other, and municipal loans as of June 30, 2014:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$14,000	$—	$269,000	$—	$283,000
2 Above Average	10,936,000	741,000	7,820,000	16,003,000	35,500,000
3 Satisfactory	46,379,000	1,003,000	20,856,000	1,890,000	70,128,000
4 Average	106,209,000	11,106,000	48,042,000	—	165,357,000
5 Watch	37,995,000	789,000	14,145,000	—	52,929,000
6 OAEM	18,527,000	2,668,000	2,724,000	—	23,919,000
7 Substandard	25,600,000	777,000	10,378,000	—	36,755,000
8 Doubtful	—	—	—	—	—
Total	$245,660,000	$17,084,000	$104,234,000	$17,893,000	$384,871,000

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 six months ended June 30, 2015.

The following table presents allowance for loan losses activity by class for the six months and quarter ended June 30, 2015, and allowance for loan loss balances by class and related loan balances by class as of June 30, 2015:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer	Un
	Real Estate	Construction	Other		Term	Construction			
For the six months ended June 30, 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	9,000	486,000	—	149,000	—	508,000	205,000	—
Recoveries	—	—	15,000	—	33,000	—	30,000	65,000	—
Provision (credit)	(467,000)	(109,000)	637,000	1,000	115,000	7,000	336,000	178,000	20
Ending balance	$2,943,000	$705,000	$1,671,000	$16,000	$1,184,000	$27,000	$918,000	$580,000	$1
For the three months ended June 30, 2015									
Beginning balance	$3,117,000	$807,000	$1,714,000	$16,000	$1,108,000	$23,000	$1,044,000	$526,000	$1
Charge offs	—	9,000	484,000	—	66,000	—	61,000	143,000	—
Recoveries	—	—	11,000	—	27,000	—	8,000	29,000	—
Provision (credit)	(174,000)	(93,000)	430,000	—	115,000	4,000	(73,000)	168,000	23
Ending balance	$2,943,000	$705,000	$1,671,000	$16,000	$1,184,000	$27,000	$918,000	$580,000	$1
Allowance for loan losses as of June 30, 2015									
Ending balance specifically evaluated for impairment	$225,000	$275,000	$275,000	$—	$501,000	$—	$31,000	$—	$–
Ending balance collectively evaluated for impairment	$2,718,000	$430,000	$1,396,000	$16,000	$683,000	$27,000	$887,000	$580,000	$1
Related loan balances as of June 30, 2015									
Ending balance	$249,414,000	$39,504,000	$128,249,000	$22,821,000	$378,090,000	$14,215,000	$108,788,000	$22,028,000	$–
Ending balance specifically evaluated for impairment	$12,566,000	$989,000	$2,106,000	$—	$15,420,000	$—	$1,572,000	$95,000	$–
Ending balance collectively evaluated	$236,848,000	$38,515,000	$126,143,000	$22,821,000	$362,670,000	$14,215,000	$107,216,000	$21,933,000	$–

for
impairment

The following table presents allowance for loan losses activity by class for the year-ended December 31, 2014 and allowance for loan loss balances by class and related loan balances by class as of December 31, 2014:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer
	Real Estate	Construction	Other		Term	Construction		
For the year ended December 31, 2014								
Beginning balance	$4,602,000	$575,000	$2,276,000	$15,000	$1,099,000	$21,000	$675,000	$573,000
Charge offs	1,205,000	—	989,000	—	699,000	—	153,000	449,000
Recoveries	144,000	—	758,000	—	36,000	25,000	16,000	196,000
Provision (credit)	(9,000)	248,000	(540,000)	—	749,000	(26,000)	522,000	222,000
Ending balance	$3,532,000	$823,000	$1,505,000	$15,000	$1,185,000	$20,000	$1,060,000	$542,000
Allowance for loan losses as of December 31, 2014								
Ending balance specifically evaluated for impairment	$346,000	$413,000	$129,000	$—	$519,000	$—	$396,000	$—
Ending balance collectively evaluated for impairment	$3,186,000	$410,000	$1,376,000	$15,000	$666,000	$20,000	$664,000	$542,000
Related loan balances as of December 31, 2014								
Ending balance	$242,311,000	$30,932,000	$104,531,000	$20,424,000	$384,032,000	$12,160,000	$103,521,000	$19,653,000
Ending balance specifically evaluated for impairment	$13,304,000	$1,380,000	$2,942,000	$—	$16,123,000	$—	$2,087,000	$26,000
Ending balance collectively evaluated for impairment	$229,007,000	$29,552,000	$101,589,000	$20,424,000	$367,909,000	$12,160,000	$101,434,000	$19,627,000

The following table presents allowance for loan losses activity by class for the six months and quarter ended June 30, 2014, and allowance for loan loss balances by class and related loan balances by class as of June 30, 2014:

	Commercial			Municipal	Residential		Home Equity Line of Credit	Consumer	Unal
	Real Estate	Construction	Other		Term	Construction			
For the six months ended June 30, 2014									
Beginning balance	$4,602,000	$575,000	$2,276,000	$15,000	$1,099,000	$21,000	$675,000	$573,000	$1,67
Charge offs	315,000	—	175,000	—	338,000	—	153,000	219,000	—
Recoveries	2,000	—	705,000	—	8,000	—	2,000	113,000	—
Provision (credit)	(53,000)	125,000	(663,000)	1,000	495,000	2,000	229,000	115,000	249,0
Ending balance	$4,236,000	$700,000	$2,143,000	$16,000	$1,264,000	$23,000	$753,000	$582,000	$1,92
For the three months ended June 30, 2014									
Beginning balance	$4,500,000	$590,000	$2,241,000	$15,000	$1,232,000	$22,000	$708,000	$517,000	$1,83
Charge offs	295,000	—	1,000	—	219,000	—	141,000	149,000	—
Recoveries	1,000	—	641,000	—	4,000	—	1,000	47,000	—
Provision (credit)	30,000	110,000	(738,000)	1,000	247,000	1,000	185,000	167,000	97,00
Ending balance	$4,236,000	$700,000	$2,143,000	$16,000	$1,264,000	$23,000	$753,000	$582,000	$1,92
Allowance for loan losses as of June 30, 2014									
Ending balance specifically evaluated for impairment	$1,150,000	$487,000	$830,000	$—	$606,000	$—	$73,000	$—	$—
Ending balance collectively evaluated for impairment	$3,086,000	$213,000	$1,313,000	$16,000	$658,000	$23,000	$680,000	$582,000	$1,92
Related loan balances as of June 30, 2014									
Ending balance	$245,660,000	$17,084,000	$104,234,000	$17,893,000	$379,027,000	$13,253,000	$97,821,000	$16,892,000	$—
Ending balance specifically evaluated for impairment	$14,803,000	$1,492,000	$4,325,000	$—	$16,102,000	$—	$1,533,000	$—	$—
Ending balance	$230,857,000	$15,592,000	$99,909,000	$17,893,000	$362,925,000	$13,253,000	$96,288,000	$16,892,000	$—

collectively
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for
impairment

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 June 30, 2015, 86,336 shares of restricted stock had been granted under the 2010 Plan, of which 66,644 shares remain restricted as of June 30, 2015 as detailed in the following table:

Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)
2011	5.0	5,500	0.6
2012	4.0	2,704	0.7
2012	5.0	7,996	1.7
2013	3.0	3,808	0.6
2013	5.0	14,776	2.6
2014	2.0	7,786	0.6
2014	5.0	10,422	3.6
2015	1.0	2,156	0.6
2015	5.0	11,496	4.6
		66,644	2.3

The compensation cost related to these restricted stock grants is $1,079,000 and will be recognized over the vesting terms of each grant. In the six months ended June 30, 2015, $148,000 of expense was recognized for these restricted shares, leaving $493,000 in unrecognized expense as of June 30, 2015. In the six months ended June 30, 2014, $205,000 of expense was recognized for restricted shares, leaving $638,000 in unrecognized expense as of June 30, 2014.

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.

The Company applies the fair value recognition provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 "Compensation – Stock Compensation", to stock-based employee compensation. As of June 30, 2015, all outstanding options were fully vested and all compensation cost for options had been recognized. A summary of the status of outstanding stock options as of June 30, 2015 and changes during the six months then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 31, 2014	42,000	$18.00		
Granted in 2015	—	—		—
Exercised in 2015	—	—		—
Expired unexercised in 2015	42,000	18.00		—
Outstanding at June 30, 2015	—	$—	—	—
Exercisable at June 30, 2015	—	$—	—	—

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 the entire number of Warrants to private parties. In accordance with the contractual terms of the Warrants, the number of shares and strike price were adjusted at the time of the sale. As a result of this transaction, the number of shares under the Warrants now stands at 226,819 shares with a strike price of $16.53.

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 $225,000 and $224,000 for the six months ended June 30, 2015 and 2014, respectively.

Note 7 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS) for the six months ended June 30, 2015 and 2014:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the six months ended June 30, 2015			
Net income as reported	$8,249,000		
Basic EPS: Income available to common shareholders	8,249,000	10,668,345	$0.77
Effect of dilutive securities: restricted stock		72,416	
Diluted EPS: Income available to common shareholders plus assumed conversions	$8,249,000	10,740,761	$0.77
For the six months ended June 30, 2014			
Net income as reported	$7,175,000		
Basic EPS: Income available to common shareholders	7,175,000	10,631,165	$0.67
Effect of dilutive securities: restricted stock		66,830	
Diluted EPS: Income available to common shareholders plus assumed conversions	$7,175,000	10,697,995	$0.67

The following table sets forth the computation of basic and diluted EPS for the quarters ended June 30, 2015 and 2014.

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the quarter ended June 30, 2015			
Net income as reported	$4,074,000		
Basic EPS: Income available to common shareholders	4,074,000	10,671,596	$0.38
Effect of dilutive securities: restricted stock		77,263	
Diluted EPS: Income available to common shareholders plus assumed conversions	$4,074,000	10,748,859	$0.38
For the quarter ended June 30, 2014			
Net income as reported	$3,747,000		
Basic EPS: Income available to common shareholders	3,747,000	10,635,073	$0.35
Effect of dilutive securities: restricted stock		72,684	
Diluted EPS: Income available to common shareholders plus assumed conversions	$3,747,000	10,707,757	$0.35

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 June 30, 2015 and 2014 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 and six months ended June 30, 2015			
Incentive stock options	—	—	—
Warrants to private parties	226,819	226,819	—
Total dilutive securities	226,819	226,819	—
For the three and six months ended June 30, 2014			
Incentive stock options	42,000	—	42,000
Warrants issued to Treasury	225,904	—	225,904
Total dilutive securities	267,904	—	267,904

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 2014. The amount for 2015 has not been established. The expense related to the 401(k) plan was $232,000 and $227,000 for the six months ended June 30, 2015 and 2014, 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 $156,000 for the six months ended June 30, 2015 and $155,000 for the same period in 2014. As of June 30, 2015, the associated accrued liability included in other liabilities in the balance sheet was $3,049,000 compared to $2,999,000 and $2,493,000 at December 31, 2014 and June 30, 2014, 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 six months ended June 30, 2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	$1,928,000	$1,479,000
Service cost	—	10,000
Interest cost	36,000	44,000
Benefits paid	(52,000)	(52,000)
Benefit obligation at end of period	$1,912,000	$1,481,000
Funded status		
Benefit obligation at end of period	$(1,912,000)	$(1,481,000)
Unamortized (gain) loss	192,000	(289,000)
Accrued benefit cost at end of period	$(1,720,000)	$(1,770,000)

The following table sets forth the net periodic pension cost:

	For the six months ended June 30, 2015	2014	For the quarters ended June 30, 2015	2014
Components of net periodic benefit cost				
Service cost	$—	$10,000	$—	$5,000
Interest cost	36,000	44,000	18,000	22,000
Net periodic benefit cost	$36,000	$54,000	$18,000	$27,000

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

	June 30, 2015	December 31, 2014	June 30, 2014
Unamortized net actuarial gain (loss)	$(192,000)	$(192,000)	$289,000
Deferred tax (expense) benefit at 35%	67,000	67,000	(101,000)
Net unrecognized postretirement benefits included in accumulated other comprehensive income (loss)	$(125,000)	$(125,000)	$188,000

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 the third quarter of 2015 are $30,000 and the expected benefit payments for all of 2015 are $120,000. Plan expense for 2015 is estimated to be $80,000. 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 six months and quarters ended June 30, 2015 and 2014.

	For the six months ended June 30,		For the quarters ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$2,522,000	$(6,591,000)	$2,579,000	$(1,767,000)
Unrealized gains (losses) arising during the period	(965,000)	12,558,000	(2,448,000)	5,101,000
Reclassification of realized gains during the period	(1,395,000)	(40,000)	—	(4,000)
Related deferred taxes	826,000	(4,381,000)	857,000	(1,784,000)
Net change	(1,534,000)	8,137,000	(1,591,000)	3,313,000
Balance at end of period	$988,000	$1,546,000	$988,000	$1,546,000

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 six months and quarters ended June 30, 2015 and 2014.

	For the six months ended June 30,		For the quarters ended June 30,	
	2015	2014	2015	2014
Balance at beginning of period	$(48,000)	$—	$(67,000)	$—
Net unrealized losses transferred during the period	—	—	—	—
Amortization of net unrealized losses	(27,000)	—	(13,000)	—
Related deferred taxes	(9,000)	—	(4,000)	—
Net change	(36,000)	—	(17,000)	—
Balance at end of period	$(84,000)	$—	$(84,000)	$—

The following table summarizes activity in the unrealized gain or loss on postretirement benefits included in other comprehensive income (loss) for the six months and quarters ended June 30, 2015 and 2014.

	For the six months ended June 30,		For the quarters ended June 30,	
	2015	2014	2015	2014
Unrecognized postretirement benefits at beginning of period	$(125,000)	$188,000	$(125,000)	$188,000
Amortization of unrecognized transition obligation	—	—	—	—
Change in unamortized net actuarial gain (loss)	—	—	—	—
Related deferred taxes	—	—	—	—
Unrecognized postretirement benefits at end of period	$(125,000)	$188,000	$(125,000)	$188,000

Note 10 - Acquisitions and Intangible Assets

On October 26, 2012, the Bank completed the purchase of a branch at 63 Union Street in Rockland, Maine, from Camden National Bank that was formerly operated by Bank of America. As part of the transaction, the Bank acquired approximately $32,300,000 in deposits as well as a small volume of loans.

The purchase premium of $2,553,000 was allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. The fair value of the deposit accounts assumed was compared to the carrying amounts received and the difference of $432,000 was recorded as core deposit intangible. The core deposit intangible is subject to amortization over the estimated ten-year average life of the acquired core deposit base and will be evaluated for impairment periodically. The amortization expense is included in noninterest expense in the consolidated statements of income and comprehensive income and is deductible for tax purposes.

The excess of the purchase price over the fair value of the assets acquired, liabilities assumed, and the amount allocated for core deposit intangible totaled $2,121,000 and was recorded as goodwill. The goodwill is not amortizable for GAAP but is amortizable for tax purposes.

On January 14, 2005, the Company acquired FNB Bankshares (“FNB”) of Bar Harbor, Maine, and its subsidiary, The First National Bank of Bar Harbor. The total value of the transaction was $47,955,000, and all of the voting equity interest of FNB was acquired in the transaction. The transaction was accounted for as a purchase and the excess of purchase price over the fair value of net identifiable assets acquired equaled $27,559,000 and was recorded as goodwill, none of which was deductible for tax purposes. The portion of the purchase price related to the core deposit intangible is being amortized over its expected economic life.

Goodwill is evaluated annually for possible impairment under the provisions of FASB ASC Topic 350, “Intangibles – Goodwill and Other”. As of December 31, 2014, in accordance with Topic 350, the Company completed its annual review of goodwill and determined there has been no impairment. The Bank also carries $125,000 in goodwill for a de minimus transaction in 2001.

As of December 31, 2014, the amortization expense related to the core deposit intangible, absent any future impairment, is expected to be as follows:

2015	$57,000
2016	43,000
2017	43,000
2018	43,000
2019	43,000
Thereafter	131,000
Total	$360,000

Note 11 – 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-month 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 June 30, 2015, the prepayment assumption using the PSA model was 180, which translates into an anticipated prepayment rate of 10.79%. The discount rate is the quarterly average 10 year U.S. Treasury plus 5.11%. 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 six months ended June 30, 2015 and 2014, servicing rights capitalized totaled $227,000 and $130,000, respectively. Servicing rights capitalized for the three-month periods ended June 30, 2015 and 2014, were $163,000 and $49,000 respectively. Servicing rights amortized for the six months ended June 30, 2015 and 2014, were $221,000 and $226,000, respectively. The fair value of servicing rights was $1,914,000, $2,088,000 and $2,123,000 at June 30, 2015, December 31, 2014 and June 30, 2014, respectively. The Bank serviced loans for others totaling $217,367,000, $214,086,000 and $210,141,000 at June 30, 2015, December 31, 2014, and June 30, 2014, respectively. Mortgage servicing rights are included in other assets and detailed in the following table:

	June 30, 2015	December 31, 2014	June 30, 2014
Mortgage servicing rights	$6,266,000	$6,039,000	$5,826,000
Accumulated amortization	(5,170,000)	(4,949,000)	(4,747,000)
Impairment reserve	(25,000)	(4,000)	(5,000)
	$1,071,000	$1,086,000	$1,074,000

Note 12 – 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, 2012 through 2014.

Note 13 - Certificates of Deposit

The following table represents the breakdown of certificates of deposit at June 30, 2015 and 2014, and at December 31, 2014:

	June 30, 2015	December 31, 2014	June 30, 2014
Certificates of deposit < $100,000	$161,518,000	$184,471,000	$220,360,000
Certificates $100,000 to $250,000	278,429,000	221,892,000	253,185,000
Certificates $250,000 and over	38,172,000	41,138,000	40,339,000
	$478,119,000	$447,501,000	$513,884,000

Note 14 – 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 15 – 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 or partial charge off 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 June 30, 2015, December 31, 2014 and June 30, 2014.

	At June 30, 2015			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$185,592,000	$—	$185,592,000
State and political subdivisions	—	25,040,000	—	25,040,000
Other equity securities	—	3,182,000	—	3,182,000
Total assets	$—	$213,814,000	$—	$213,814,000

	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$151,855,000	$—	$151,855,000
State and political subdivisions	—	30,855,000	—	30,855,000
Other equity securities	—	2,551,000	—	2,551,000
Total assets	$—	$185,261,000	$—	$185,261,000

	At June 30, 2014			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Mortgage-backed securities	$—	$166,703,000	$—	$166,703,000
State and political subdivisions	—	134,895,000	—	134,895,000
Other equity securities	—	2,282,000	—	2,282,000
Total assets	$—	$303,880,000	$—	$303,880,000

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 $332,000, $654,000 and $256,000 at June 30, 2015, December 31, 2014, and June 30, 2014, 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 $805,000, $1,074,000 and $2,105,000 at June 30, 2015, December 31, 2014, and June 30, 2014, respectively.

	At June 30, 2015			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$2,192,000	$—	$2,192,000
Impaired loans	—	1,830,000	—	1,830,000
Total assets	$—	$4,022,000	$—	$4,022,000
	At December 31, 2014			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$3,785,000	$—	$3,785,000
Impaired loans	—	1,909,000	—	1,909,000
Total assets	$—	$5,694,000	$—	$5,694,000
	At June 30, 2014			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$—	$4,863,000	$—	$4,863,000
Impaired loans	—	2,678,000	—	2,678,000
Total assets	$—	$7,541,000	$—	$7,541,000

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 June 30, 2015 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$16,481,000	$16,481,000	$16,481,000	$—	$—
Interest bearing deposits in other banks	24,565,000	24,565,000	24,565,000	—	—
Securities available for sale	213,814,000	213,814,000	—	213,814,000	—
Securities to be held to maturity	249,250,000	248,698,000	—	248,698,000	—
Restricted equity securities	13,912,000	13,912,000	—	13,912,000	—
Loans (net of allowance for loan losses)					
Commercial					
Real estate	245,788,000	243,426,000	—	170,000	243,256,000
Construction	38,636,000	38,265,000	—	—	38,265,000
Other	126,191,000	126,149,000	—	25,000	126,124,000
Municipal	22,801,000	23,092,000	—	—	23,092,000
Residential					
Term	376,632,000	382,268,000	—	1,635,000	380,633,000
Construction	14,182,000	14,150,000	—	—	14,150,000
Home equity line of credit	107,657,000	106,966,000	—	—	106,966,000
Consumer	21,314,000	21,393,000	—	—	21,393,000
Total loans	953,201,000	955,709,000	—	1,830,000	953,879,000
Mortgage servicing rights	1,071,000	1,914,000	—	1,914,000	—
Accrued interest receivable	6,180,000	6,180,000	—	6,180,000	—
Financial liabilities					
Demand deposits	$107,244,000	$102,223,000	$—	$102,223,000	$—
NOW deposits	221,964,000	202,972,000	—	202,972,000	—
Money market deposits	102,219,000	89,208,000	—	89,208,000	—
Savings deposits	186,777,000	162,469,000	—	162,469,000	—
Local certificates of deposit	194,653,000	194,877,000	—	194,877,000	—
National certificates of deposit	283,466,000	283,514,000	—	283,514,000	—
Total deposits	1,096,323,000	1,035,263,000	—	1,035,263,000	—
Repurchase agreements	87,875,000	82,365,000	—	82,365,000	—
Federal Home Loan Bank advances	190,138,000	192,471,000	—	192,471,000	—
Total borrowed funds	278,013,000	274,836,000	—	274,836,000	—
Accrued interest payable	506,000	506,000	—	506,000	—

The carrying amounts and estimated fair values for financial instruments as of December 31, 2014 were as follows:

	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$13,057,000	$13,057,000	$13,057,000	$—	$—
Interest bearing deposits in other banks	3,559,000	3,559,000	3,559,000	—	—
Securities available for sale	185,261,000	185,261,000	—	185,261,000	—
Securities to be held to maturity	275,919,000	279,704,000	—	279,704,000	—
Restricted equity securities	13,912,000	13,912,000	—	13,912,000	—
Loans (net of allowance for loan losses)					
Commercial					
Real estate	238,104,000	236,368,000	—	431,000	235,937,000
Construction	29,951,000	29,733,000	—	—	29,733,000
Other	102,738,000	102,858,000	—	—	102,858,000
Municipal	20,406,000	20,833,000	—	—	20,833,000
Residential					
Term	382,620,000	389,200,000	—	990,000	388,210,000
Construction	12,136,000	12,123,000	—	—	12,123,000
Home equity line of credit	102,258,000	101,733,000	—	488,000	101,245,000
Consumer	19,007,000	19,207,000	—	—	19,207,000
Total loans	907,220,000	912,055,000	—	1,909,000	910,146,000
Mortgage servicing rights	1,086,000	2,088,000	—	2,088,000	—
Accrued interest receivable	4,748,000	4,748,000	—	4,748,000	—
Financial liabilities					
Demand deposits	$113,133,000	$109,973,000	$—	$109,973,000	$—
NOW deposits	199,977,000	186,490,000	—	186,490,000	—
Money market deposits	98,607,000	83,837,000	—	83,837,000	—
Savings deposits	165,601,000	146,936,000	—	146,936,000	—
Local certificates of deposit	205,072,000	205,360,000	—	205,360,000	—
National certificates of deposit	242,429,000	242,824,000	—	242,824,000	—
Total deposits	1,024,819,000	975,420,000	—	975,420,000	—
Repurchase agreements	74,725,000	70,783,000	—	70,783,000	—
Federal Home Loan Bank advances	205,191,000	208,259,000	—	208,259,000	—
Total borrowed funds	279,916,000	279,042,000	—	279,042,000	—
Accrued interest payable	521,000	521,000	—	521,000	—

The carrying amount and estimated fair values for financial instruments as of June 30, 2014 were as follows:

Carrying value