First Bancorp, Inc /ME/
Form 10-Q
May 08, 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 March 31, 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 May 1, 2015
Common Stock: 10,738,595 shares

Table of Contents

Part I. Financial Information

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

Dollars in thousands, except for per share amounts	As of and for the three months ended March 31, 2015	2014
Summary of Operations		
Interest Income	$12,365	$12,623
Interest Expense	2,663	2,912
Net Interest Income	9,702	9,711
Provision for Loan Losses	500	400
Non-Interest Income	3,658	2,332
Non-Interest Expense	7,265	7,252
Net Income	4,175	3,428
Per Common Share Data		
Basic Earnings per Share	$0.39	$0.32
Diluted Earnings per Share	0.39	0.32
Cash Dividends Declared	0.21	0.20
Book Value per Common Share	15.23	14.24
Tangible Book Value per Common Share[2]	12.43	11.40
Market Value	17.45	16.30
Financial Ratios		
Return on Average Equity[1]	10.32 %	9.19 %
Return on Average Tangible Common Equity[1,2]	12.63 %	11.51 %
Return on Average Assets[1]	1.16 %	0.95 %
Average Equity to Average Assets	11.26 %	10.29 %
Average Tangible Equity to Average Assets[2]	9.19 %	8.22 %
Net Interest Margin Tax-Equivalent[1,2]	3.10 %	3.13 %
Dividend Payout Ratio	53.85 %	62.50 %
Allowance for Loan Losses/Total Loans	1.09 %	1.34 %
Non-Performing Loans to Total Loans	1.10 %	1.63 %
Non-Performing Assets to Total Assets	0.91 %	1.30 %
Efficiency Ratio[2]	56.79 %	55.90 %
At Period End		
Total Assets	$1,458,832	$1,466,117
Total Loans	939,169	868,914
Total Investment Securities	432,684	502,465
Total Deposits	966,825	1,045,970
Total Shareholders' Equity	163,516	152,416

[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 March 31, 2015 and 2014 and for the three-month periods then ended. These financial statements are the responsibility of the Company's management.
We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry Dunn McNeil & Parker, LLC
Portland, Maine
May 8, 2015

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

	March 31, 2015	December 31, 2014	March 31, 2014
Assets			
Cash and cash equivalents	$13,855,000	$13,057,000	$13,894,000
Interest bearing deposits in other banks	336,000	3,559,000	2,935,000
Securities available for sale	156,317,000	185,261,000	305,700,000
Securities to be held to maturity (fair value of $267,247,000 at March 31, 2015, $279,704,000 at December 31, 2014 and $176,562,000 at March 31, 2014)	262,455,000	275,919,000	182,853,000
Restricted equity securities, at cost	13,912,000	13,912,000	13,912,000
Loans held for sale	—	—	56,000
Loans	939,169,000	917,564,000	868,914,000
Less allowance for loan losses	10,196,000	10,344,000	11,655,000
Net loans	928,973,000	907,220,000	857,259,000
Accrued interest receivable	5,724,000	4,748,000	5,962,000
Premises and equipment, net	22,270,000	22,619,000	23,239,000
Other real estate owned	2,899,000	3,785,000	4,934,000
Goodwill	29,805,000	29,805,000	29,805,000
Other assets	22,286,000	22,246,000	25,568,000
Total assets	$1,458,832,000	$1,482,131,000	$1,466,117,000
Liabilities			
Demand deposits	$100,939,000	$113,133,000	$94,260,000
NOW deposits	199,099,000	199,977,000	158,278,000
Money market deposits	101,292,000	98,607,000	89,382,000
Savings deposits	167,338,000	165,601,000	149,076,000
Certificates of deposit	398,157,000	447,501,000	554,974,000
Total deposits	966,825,000	1,024,819,000	1,045,970,000
Borrowed funds – short term	167,437,000	189,775,000	123,372,000
Borrowed funds – long term	145,139,000	90,141,000	130,147,000
Other liabilities	15,915,000	15,842,000	14,212,000
Total liabilities	1,295,316,000	1,320,577,000	1,313,701,000
Shareholders' equity			
Common stock, one cent par value per share	107,000	107,000	107,000
Additional paid-in capital	59,286,000	59,282,000	58,600,000
Retained earnings	101,736,000	99,816,000	95,288,000
Accumulated other comprehensive income (loss)			
Net unrealized gain (loss) on securities available for sale	2,579,000	2,522,000	(1,767,000)
Net unrealized loss on securities transferred from available for sale to held to maturity	(67,000)	(48,000)	—
Net unrealized gain (loss) on postretirement benefit costs	(125,000)	(125,000)	188,000
Total shareholders' equity	163,516,000	161,554,000	152,416,000
Total liabilities & shareholders' equity	$1,458,832,000	$1,482,131,000	$1,466,117,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	10,734,419	10,724,359	10,703,272
Book value per common share	$15.23	$15.06	$14.24
Tangible book value per common share	$12.43	$12.25	$11.40

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

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

	For the three months ended March 31,	
	2015	2014
Interest income		
Interest and fees on loans	$8,855,000	$8,578,000
Interest on deposits with other banks	5,000	2,000
Interest and dividends on investments	3,505,000	4,043,000
Total interest income	12,365,000	12,623,000
Interest expense		
Interest on deposits	1,443,000	1,825,000
Interest on borrowed funds	1,220,000	1,087,000
Total interest expense	2,663,000	2,912,000
Net interest income	9,702,000	9,711,000
Provision for loan losses	500,000	400,000
Net interest income after provision for loan losses	9,202,000	9,311,000
Non-interest income		
Investment management and fiduciary income	541,000	517,000
Service charges on deposit accounts	579,000	619,000
Net securities gains	1,395,000	36,000
Mortgage origination and servicing income, net of amortization	197,000	194,000
Other operating income	946,000	966,000
Total non-interest income	3,658,000	2,332,000
Non-interest expense		
Salaries and employee benefits	3,720,000	3,697,000
Occupancy expense	645,000	612,000
Furniture and equipment expense	770,000	697,000
FDIC insurance premiums	230,000	265,000
Amortization of identified intangibles	25,000	82,000
Other operating expense	1,875,000	1,899,000
Total non-interest expense	7,265,000	7,252,000
Income before income taxes	5,595,000	4,391,000
Income tax expense	1,420,000	963,000
NET INCOME	$4,175,000	$3,428,000
Basic earnings per common share	$0.39	$0.32
Diluted earnings per common share	$0.39	$0.32
Other comprehensive income (loss) net of tax		
Net unrealized gain on securities available for sale	57,000	4,824,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of amortization	(19,000)	—
Other comprehensive income	38,000	4,824,000
Comprehensive income	$4,213,000	$8,252,000

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	—	—	3,428,000	—	3,428,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	4,824,000	4,824,000
Comprehensive income	—	—	3,428,000	4,824,000	8,252,000
Cash dividends declared ($0.20 per share)	—	—	(2,139,000)	—	(2,139,000)
Equity compensation expense	—	102,000	—	—	102,000
Issuance of restricted stock	25,843	1,000	(1,000)	—	—
Proceeds from sale of common stock	6,237	103,000	—	—	103,000
Balance at March 31, 2014	10,703,272	$58,707,000	$95,288,000	$(1,579,000)	$152,416,000
Balance at December 31, 2014	10,724,359	$59,389,000	$99,816,000	$2,349,000	$161,554,000
Net income	—	—	4,175,000	—	4,175,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	57,000	57,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(19,000)	(19,000)
Comprehensive income	—	—	4,175,000	38,000	4,213,000
Cash dividends declared ($0.21 per share)	—	—	(2,255,000)	—	(2,255,000)
Equity compensation expense	—	74,000	—	—	74,000
Payment for repurchase of common stock	(10,138)	(180,000)	—	—	(180,000)
Issuance of restricted stock	13,650	—	—	—	—
Proceeds from sale of common stock	6,548	110,000	—	—	110,000
Balance at March 31, 2015	10,734,419	$59,393,000	$101,736,000	$2,387,000	$163,516,000

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

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

	For the three months ended	
	March 31, 2015	March 31, 2014
Cash flows from operating activities		
Net income	$4,175,000	$3,428,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	425,000	445,000
Change in deferred taxes	88,000	105,000
Provision for loan losses	500,000	400,000
Loans originated for resale	(5,489,000)	(5,331,000)
Proceeds from sales and transfers of loans	5,599,000	5,462,000
Net gain on sales of loans	(110,000)	(104,000)
Net gain on sale or call of securities	(1,395,000)	(36,000)
Net amortization of premiums on investments	159,000	273,000
Net gain on sale of other real estate owned	(43,000)	(36,000)
Equity compensation expense	74,000	102,000
Net increase in other assets and accrued interest	(1,301,000)	(1,857,000)
Net increase (decrease) in other liabilities	129,000	(74,000)
Net loss on disposal of premises and equipment	—	3,000
Amortization of investment in limited partnership	66,000	142,000
Net acquisition amortization	25,000	82,000
Net cash provided by operating activities	2,902,000	3,004,000
Cash flows from investing activities		
(Increase) decrease in interest-bearing deposits in other banks	3,223,000	(373,000)
Proceeds from sales of securities available for sale	35,465,000	—
Proceeds from maturities, payments and calls of securities available for sale	5,991,000	7,775,000
Proceeds from maturities, payments and calls of securities to be held to maturity	18,875,000	2,976,000
Proceeds from sales of other real estate owned	1,309,000	808,000
Purchases of securities available for sale	(11,255,000)	(510,000)
Purchases of securities to be held to maturity	(5,344,000)	(16,509,000)
Net (increase) decrease in loans	(22,633,000)	6,295,000
Capital expenditures	(76,000)	(71,000)
Net cash provided by investing activities	25,555,000	391,000
Cash flows from financing activities		
Net decrease in demand, savings, and money market accounts	(8,650,000)	(2,284,000)
Net increase (decrease) in certificates of deposit	(49,344,000)	23,855,000
Net decrease in short-term borrowings	(22,340,000)	—
Advances on long-term borrowings	55,000,000	—
Repayment on long-term borrowings	—	(25,606,000)
Payment to repurchase common stock	(180,000)	—
Proceeds from sale of common stock	110,000	103,000
Dividends paid	(2,255,000)	(2,139,000)
Net cash used by financing activities	(27,659,000)	(6,071,000)
Net increase (decrease) in cash and cash equivalents	798,000	(2,676,000)
Cash and cash equivalents at beginning of period	13,057,000	16,570,000

Cash and cash equivalents at end of period	$13,855,000	$13,894,000
Interest paid	$2,621,000	$2,864,000
Income taxes paid	—	180,000
Non-cash transactions		
Net transfer from loans to other real estate owned	$380,000	$899,000

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 March 31, 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 March 31, 2015:

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

The following table summarizes the 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 March 31, 2014:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$172,909,000	$1,917,000	$(2,711,000)	$172,115,000
State and political subdivisions	133,303,000	2,796,000	(4,784,000)	131,315,000
Other equity securities	2,207,000	66,000	(3,000)	2,270,000
	$308,419,000	$4,779,000	$(7,498,000)	$305,700,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$92,312,000	$2,000	$(9,131,000)	$83,183,000
Mortgage-backed securities	49,805,000	1,652,000	(789,000)	50,668,000
State and political subdivisions	40,436,000	2,070,000	(95,000)	42,411,000
Corporate securities	300,000	—	—	300,000
	$182,853,000	$3,724,000	$(10,015,000)	$176,562,000
Restricted equity securities				
Federal Home Loan Bank Stock	$12,875,000	$—	$—	$12,875,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$13,912,000	$—	$—	$13,912,000

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

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

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 March 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	$137,000	$137,000	$265,000	$267,000
Due in 1 to 5 years	19,747,000	20,052,000	5,951,000	6,266,000
Due in 5 to 10 years	15,868,000	16,190,000	42,272,000	43,472,000
Due after 10 years	270,460,000	267,051,000	134,365,000	126,557,000
Equity securities	2,207,000	2,270,000	—	—
	$308,419,000	$305,700,000	$182,853,000	$176,562,000

At March 31, 2015, securities with a fair value of $224,133,000 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 $132,657,000 at March 31, 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 three months and quarters ended March 31, 2015 and 2014:

	For the three months ended March 31,	
	2015	2014
Proceeds from sales of securities	$35,465,000	$—
Gross realized gains	1,395,000	36,000
Gross realized losses	—	—
Net gain	$1,395,000	$36,000
Related income taxes	$488,000	$13,000

Management reviews securities with unrealized losses for other than temporary impairment. As of March 31, 2015, there were 55 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which five had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted. Information regarding securities temporarily impaired as of March 31, 2015 is summarized below:

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

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)

Page 10

As of March 31, 2014, there were 268 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 73 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of March 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	$82,374,000	$(9,131,000)	$—	$—	$82,374,000	$(9,131,000)
Mortgage-backed securities	81,618,000	(2,758,000)	14,324,000	(742,000)	95,942,000	(3,500,000)
State and political subdivisions	50,480,000	(2,669,000)	18,918,000	(2,210,000)	69,398,000	(4,879,000)
Other equity securities	67,000	(2,000)	51,000	(1,000)	118,000	(3,000)
	$214,539,000	$(14,560,000)	$33,293,000	$(2,953,000)	$247,832,000	$(17,513,000)

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 $67,000 at March 31, 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 March 31, 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 March 31, 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 March 31, 2015 and 2014 and at December 31, 2014:

	March 31, 2015		December 31, 2014		March 31, 2014	
Commercial						
Real estate	$242,021,000	25.8 %	$242,311,000	26.4 %	$240,187,000	27.7 %
Construction	34,683,000	3.7 %	30,932,000	3.4 %	21,686,000	2.5 %
Other	115,455,000	12.3 %	104,531,000	11.4 %	97,276,000	11.2 %
Municipal	26,277,000	2.8 %	20,424,000	2.2 %	17,790,000	2.0 %
Residential						
Term	383,869,000	40.8 %	384,032,000	41.9 %	372,479,000	42.9 %
Construction	13,036,000	1.4 %	12,160,000	1.3 %	12,360,000	1.4 %
Home equity line of credit	104,100,000	11.1 %	103,521,000	11.3 %	92,202,000	10.6 %

Consumer	19,728,000	2.1	%	19,653,000	2.1	%	14,934,000	1.7	%
Total	$939,169,000	100.0	%	$917,564,000	100.0	%	$868,914,000	100.0	%

Loan balances include net deferred loan costs of $2,933,000 as of March 31, 2015, $2,729,000 as of December 31, 2014, and $2,264,000 as of March 31, 2014. Pursuant to collateral agreements, qualifying first mortgage loans, which totaled $240,760,000 at March 31, 2015, $266,716,000 at December 31, 2014, and $268,963,000 at March 31, 2014, were used to collateralize borrowings from the FHLB. In addition, commercial, construction and home equity loans totaling $244,170,000 at March 31, 2015, $240,943,000 at December 31, 2014, and $181,617,000 at March 31, 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 March 31, 2015, is presented in the following table:

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

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 March 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	$1,186,000	$55,000	$1,121,000	$2,362,000	$237,825,000	$240,187,000	$—
Construction	—	—	208,000	208,000	21,478,000	21,686,000	—
Other	231,000	231,000	1,384,000	1,846,000	95,430,000	97,276,000	—
Municipal	—	—	—	—	17,790,000	17,790,000	—
Residential							
Term	2,557,000	933,000	3,492,000	6,982,000	365,497,000	372,479,000	137,000
Construction	—	—	—	—	12,360,000	12,360,000	—
Home equity line of credit	250,000	40,000	1,046,000	1,336,000	90,866,000	92,202,000	29,000
Consumer	67,000	27,000	57,000	151,000	14,783,000	14,934,000	58,000
Total	$4,291,000	$1,286,000	$7,308,000	$12,885,000	$856,029,000	$868,914,000	$224,000

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

Cash payments received on non-accrual loans, which are included in impaired loans, are applied to reduce the loan's principal balance until the remaining principal balance is deemed collectible, after which interest is recognized when collected. As a general rule, a loan may be restored to accrual status when payments are current for a substantial period of time, generally six months, and repayment of the remaining contractual amounts is expected or when it otherwise becomes well secured and in the process of collection. Information on nonaccrual loans as of March 31, 2015 and 2014 and at December 31, 2014 is presented in the following table:

	March 31, 2015	December 31, 2014	March 31, 2014
Commercial			
Real estate	$1,609,000	$2,088,000	$2,835,000
Construction	208,000	208,000	208,000
Other	932,000	935,000	3,008,000
Municipal	—	—	—
Residential			
Term	6,514,000	6,421,000	7,103,000
Construction	—	—	—
Home equity line of credit	1,039,000	832,000	1,017,000
Consumer	25,000	26,000	—
Total	$10,327,000	$10,510,000	$14,171,000

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

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

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

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 three months ended March 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	$11,428,000	$12,066,000	$—	$11,735,000	$94,000
Construction	208,000	208,000	—	69,000	—
Other	4,214,000	5,910,000	—	5,148,000	24,000
Municipal	—	—	—	—	—
Residential					
Term	10,985,000	11,898,000	—	11,325,000	188,000
Construction	—	—	—	—	—
Home equity line of credit	1,473,000	1,716,000	—	1,510,000	6,000
Consumer	—	—	—	—	—
	$28,308,000	$31,798,000	$—	$29,787,000	$312,000
With an Allowance Recorded					
Commercial					
Real estate	$3,832,000	$3,992,000	$1,019,000	$3,533,000	$34,000
Construction	1,284,000	1,284,000	276,000	1,284,000	16,000
Other	1,044,000	1,097,000	834,000	1,054,000	4,000
Municipal	—	—	—	—	—
Residential					
Term	5,939,000	6,195,000	574,000	5,817,000	65,000
Construction	—	—	—	—	—
Home equity line of credit	180,000	181,000	83,000	122,000	1,000
Consumer	—	—	—	—	—
	$12,279,000	$12,749,000	$2,786,000	$11,810,000	$120,000
Total					
Commercial					
Real estate	$15,260,000	$16,058,000	$1,019,000	$15,268,000	$128,000
Construction	1,492,000	1,492,000	276,000	1,354,000	16,000
Other	5,258,000	7,007,000	834,000	6,202,000	28,000
Municipal	—	—	—	—	—
Residential					
Term	16,924,000	18,093,000	574,000	17,142,000	253,000
Construction	—	—	—	—	—
Home equity line of credit	1,653,000	1,897,000	83,000	1,631,000	7,000
Consumer	—	—	—	—	—
	$40,587,000	$44,547,000	$2,786,000	$41,597,000	$432,000

Troubled Debt Restructured

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

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

As of March 31, 2015, the Company had 90 loans with a value of $26,524,000 that have been classified as TDRs. This compares to 94 loans with a value of $27,214,000 and 101 loans with a value of $28,796,000 classified as TDRs as of December 31, 2014 and March 31, 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 March 31, 2015:

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

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 March 31, 2014:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	20	$12,925,000	$520,000
Construction	1	1,284,000	277,000
Other	19	2,300,000	103,000
Municipal	—	—	—
Residential			
Term	56	11,450,000	346,000
Construction	—	—	—
Home equity line of credit	5	837,000	—
Consumer	—	—	—
	101	$28,796,000	$1,246,000

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

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

As of March 31, 2014, 13 of the loans classified as TDRs with a total balance of $1,915,000 were more than 30 days past due. Of these loans, two loans with an outstanding balance of $301,000 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 March 31, 2014:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	2	$307,000	$5,000
Construction	—	—	—
Other	1	3,000	—
Municipal	—	—	—
Residential			
Term	9	1,404,000	66,000
Construction	—	—	—
Home equity line of credit	1	201,000	—
Consumer	—	—	—
	13	$1,915,000	$71,000

For the three months ended March 31, 2015, no loans were placed on TDR status. This compares to three loans placed on TDR status with a post-modification outstanding balance of $293,000 for the three months ended March 31, 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 tables show loans placed on TDR status in the three months ended March 31, 2014, by class of loan and the associated specific reserve included in the allowance for loan losses as of March 31, 2014:

For the three months ended March 31, 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	293,000	3,000
Construction	—	—	—	—
Home equity line of credit	—	—	—	—
Consumer	—	—	—	—
	3	$ 349,000	$ 293,000	$3,000

As of March 31, 2015, Management is aware of nine loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $1,206,000. There were also 14 loans with an outstanding balance of $2,019,000 that were classified as TDRs and on non-accrual status. Four loans with an outstanding balance of $472,000, that were classified as TDRs, were in the process of foreclosure.

Consumer Mortgage Loans in Process of Foreclosure
As of March 31, 2015, there were 16 consumer mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of 1,677,000.

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

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