First Bancorp, Inc /ME/
Form 10-Q
August 09, 2018

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, 2018

Commission File Number 0-26589

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every,Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No[_]

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

Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_] Smaller reporting company [_]
Emerging growth company [_]
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [_]

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 August 1, 2018
Common Stock: 10,854,862 shares

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

Dollars in thousands,	As of and for the six months ended June 30,		As of and for the quarters ended June 30,	
except for per share amounts	2018	2017	2018	2017
Summary of Operations				
Interest Income	$33,656	$29,493	$17,205	$15,002
Interest Expense	8,978	6,352	4,936	3,337
Net Interest Income	24,678	23,141	12,269	11,665
Provision for Loan Losses	1,000	1,000	500	500
Non-Interest Income	6,313	5,845	3,181	3,002
Non-Interest Expense	16,755	15,338	8,176	7,640
Net Income	11,240	9,520	5,734	4,883
Per Common Share Data				
Basic Earnings per Share	$1.04	$0.89	$0.53	$0.45
Diluted Earnings per Share	1.04	0.88	0.53	0.45
Cash Dividends Declared	0.53	0.47	0.29	0.24
Book Value per Common Share	16.89	16.41	16.89	16.41
Tangible Book Value per Common Share[2]	14.13	13.63	14.13	13.63
Market Value	28.22	27.06	28.22	27.06
Financial Ratios				
Return on Average Equity[1]	12.39 %	10.84 %	12.51 %	10.96 %
Return on Average Tangible Common Equity[1,2]	14.82 %	13.05 %	14.95 %	13.18 %
Return on Average Assets[1]	1.21 %	1.09 %	1.22 %	1.10 %
Average Equity to Average Assets	9.79 %	10.04 %	9.75 %	10.05 %
Average Tangible Equity to Average Assets[2]	8.18 %	8.34 %	8.16 %	8.36 %
Net Interest Margin Tax-Equivalent[1,2]	2.94 %	3.04 %	2.88 %	3.03 %
Dividend Payout Ratio	50.96 %	52.81 %	54.72 %	53.33 %
Allowance for Loan Losses/Total Loans	0.94 %	0.95 %	0.94 %	0.95 %
Non-Performing Loans to Total Loans	1.17 %	0.66 %	1.17 %	0.66 %
Non-Performing Assets to Total Assets	0.78 %	0.44 %	0.78 %	0.44 %
Efficiency Ratio[2]	52.39 %	49.32 %	51.02 %	48.50 %
At Period End				
Total Assets	$1,913,961	$1,795,651	$1,913,961	$1,795,651
Total Loans	1,224,440	1,120,665	1,224,440	1,120,665
Total Investment Securities	577,488	564,580	577,488	564,580
Total Deposits	1,416,646	1,319,259	1,416,646	1,319,259
Total Shareholders' Equity	183,304	177,537	183,304	177,537

[1]Annualized using a 365-day basis for both 2018 and 2017.
[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, 2018 and 2017 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 9, 2018

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

	June 30, 2018	December 31, 2017	June 30, 2017
Assets			
Cash and cash equivalents	$21,056,000	$19,207,000	$20,189,000
Interest bearing deposits in other banks	1,616,000	860,000	3,820,000
Securities available for sale	305,048,000	300,172,000	308,146,000
Securities to be held to maturity (fair value of $256,316,000 at June 30, 2018, $259,655,000 at December 31, 2017 and $246,238,000 at June 30, 2017)	260,077,000	256,567,000	244,123,000
Restricted equity securities, at cost	12,363,000	10,358,000	12,311,000
Loans held for sale	481,000	386,000	865,000
Loans	1,224,440,000	1,164,139,000	1,120,665,000
Less allowance for loan losses	11,472,000	10,729,000	10,611,000
Net loans	1,212,968,000	1,153,410,000	1,110,054,000
Accrued interest receivable	7,723,000	5,867,000	7,192,000
Premises and equipment, net	21,682,000	22,502,000	21,367,000
Other real estate owned	609,000	1,012,000	324,000
Goodwill	29,805,000	29,805,000	29,805,000
Other assets	40,533,000	42,784,000	37,455,000
Total assets	$1,913,961,000	$1,842,930,000	$1,795,651,000
Liabilities			
Demand deposits	$146,964,000	$145,332,000	$137,061,000
NOW deposits	282,449,000	318,043,000	293,553,000
Money market deposits	100,378,000	163,898,000	134,760,000
Savings deposits	229,464,000	232,605,000	226,391,000
Certificates of deposit	657,391,000	559,001,000	527,494,000
Total deposits	1,416,646,000	1,418,879,000	1,319,259,000
Borrowed funds – short term	232,339,000	113,638,000	157,154,000
Borrowed funds – long term	65,116,000	115,120,000	125,123,000
Other liabilities	16,556,000	13,972,000	16,578,000
Total liabilities	1,730,657,000	1,661,609,000	1,618,114,000
Shareholders' equity			
Common stock, one cent par value per share	109,000	108,000	108,000
Additional paid-in capital	62,246,000	61,747,000	61,218,000
Retained earnings	126,464,000	121,144,000	115,980,000
Accumulated other comprehensive income (loss)			
Net unrealized loss on securities available for sale	(7,245,000)	(2,901,000)	(585,000)
Net unrealized loss on securities transferred from available for sale to held to maturity	(189,000)	(174,000)	(137,000)
Net unrealized gain on cash flow hedging derivative instruments	2,066,000	1,544,000	1,055,000
Net unrealized loss on postretirement benefit costs	(147,000)	(147,000)	(102,000)
Total shareholders' equity	183,304,000	181,321,000	177,537,000
Total liabilities & shareholders' equity	$1,913,961,000	$1,842,930,000	$1,795,651,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	10,851,917	10,829,918	10,819,443
Book value per common share	$16.89	$16.74	$16.41

Tangible book value per common share	$14.13	$13.97	$13.63

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 quarter ended June 30,	
	2018	2017	2018	2017
Interest income				
Interest and fees on loans (includes tax-exempt income of $473,000 as of June 30, 2018 and $380,000 as of June 30, 2017)	$25,429,000	$21,767,000	$13,038,000	$11,115,000
Interest on deposits with other banks	17,000	23,000	6,000	8,000
Interest and dividends on investments (includes tax-exempt income of $3,462,000 as of June 30, 2018 and $3,238,000 as of June 30, 2017)	8,210,000	7,703,000	4,161,000	3,879,000
Total interest income	33,656,000	29,493,000	17,205,000	15,002,000
Interest expense				
Interest on deposits	6,857,000	4,296,000	3,758,000	2,302,000
Interest on borrowed funds	2,121,000	2,056,000	1,178,000	1,035,000
Total interest expense	8,978,000	6,352,000	4,936,000	3,337,000
Net interest income	24,678,000	23,141,000	12,269,000	11,665,000
Provision for loan losses	1,000,000	1,000,000	500,000	500,000
Net interest income after provision for loan losses	23,678,000	22,141,000	11,769,000	11,165,000
Non-interest income				
Investment management and fiduciary income	1,542,000	1,340,000	802,000	709,000
Service charges on deposit accounts	1,097,000	1,051,000	570,000	549,000
Net securities gains	136,000	3,000	—	—
Mortgage origination and servicing income, net of amortization	692,000	761,000	361,000	429,000
Other operating income	2,846,000	2,690,000	1,448,000	1,315,000
Total non-interest income	6,313,000	5,845,000	3,181,000	3,002,000
Non-interest expense				
Salaries and employee benefits	8,770,000	7,843,000	4,280,000	3,873,000
Occupancy expense	1,297,000	1,227,000	598,000	603,000
Furniture and equipment expense	1,844,000	1,760,000	915,000	890,000
FDIC insurance premiums	613,000	503,000	334,000	263,000
Amortization of identified intangibles	22,000	22,000	11,000	11,000
Other operating expense	4,209,000	3,983,000	2,038,000	2,000,000
Total non-interest expense	16,755,000	15,338,000	8,176,000	7,640,000
Income before income taxes	13,236,000	12,648,000	6,774,000	6,527,000
Income tax expense	1,996,000	3,128,000	1,040,000	1,644,000
NET INCOME	$11,240,000	$9,520,000	$5,734,000	$4,883,000
Basic earnings per common share	$1.04	$0.89	$0.53	$0.45
Diluted earnings per common share	$1.04	$0.88	$0.53	$0.45
Other comprehensive income (loss) net of tax				
Net unrealized gain (loss) on securities available for sale	(4,344,000)	350,000	(1,035,000)	349,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of amortization	(15,000)	(8,000)	(7,000)	(4,000)
Net unrealized gain (loss) on cash flow hedging derivative instruments	522,000	(108,000)	138,000	(171,000)
Other comprehensive income (loss)	(3,837,000)	234,000	(904,000)	174,000

Comprehensive income	$7,403,000	$9,754,000	$4,830,000	$5,057,000

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, 2016	10,793,946	$60,831,000	$111,693,000	$(3,000)	$172,521,000
Net income	—	—	9,520,000	—	9,520,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	350,000	350,000
Net unrealized loss on cash flow hedging derivative instruments, net of tax	—	—	—	(108,000)	(108,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(8,000)	(8,000)
Comprehensive income	—	—	9,520,000	234,000	9,754,000
Cash dividends declared ($0.47 per share)	—	—	(5,085,000)	—	(5,085,000)
Equity compensation expense	—	166,000	—	—	166,000
Payment to repurchase common stock	(5,333)	—	(148,000)		(148,000)
Issuance of restricted stock	18,850	—	—	—	—
Proceeds from sale of common stock	11,980	329,000	—	—	329,000
Balance at June 30, 2017	10,819,443	$61,326,000	$115,980,000	$231,000	$177,537,000
Balance at December 31, 2017	10,829,918	$61,855,000	$121,144,000	$(1,678,000)	$181,321,000
Net income	—	—	11,240,000	—	11,240,000
Net unrealized loss on securities available for sale, net of tax	—	—	—	(4,344,000)	(4,344,000)
Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	522,000	522,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(15,000)	(15,000)
Comprehensive income	—	—	11,240,000	(3,837,000)	7,403,000
Cash dividends declared ($0.53 per share)	—	—	(5,754,000)	—	(5,754,000)
Equity compensation expense	—	190,000	—	—	190,000
Payment to repurchase common stock	(5,725)	—	(166,000)	—	(166,000)
Issuance of restricted stock	16,795	—	—	—	—
Proceeds from sale of common stock	10,929	310,000	—	—	310,000
Balance at June 30, 2018	10,851,917	$62,355,000	$126,464,000	$(5,515,000)	$183,304,000

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, 2018	June 30, 2017
Cash flows from operating activities		
Net income	$11,240,000	$9,520,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	910,000	908,000
Change in deferred taxes	(402,000)	98,000
Provision for loan losses	1,000,000	1,000,000
Loans originated for resale	(10,480,000)	(17,070,000)
Proceeds from sales and transfers of loans	10,577,000	17,280,000
Net gain on sales of loans	(192,000)	(293,000)
Net gain on sale or call of securities	(136,000)	(3,000)
Net amortization of premiums on investments	1,068,000	1,808,000
Net gain on sale of other real estate owned	(183,000)	(74,000)
Equity compensation expense	190,000	166,000
Net (increase) decrease in other assets and accrued interest	1,056,000	(3,338,000)
Net increase (decrease) in other liabilities	3,350,000	(943,000)
Net loss on disposal of premises and equipment	127,000	7,000
Amortization of investment in limited partnership	86,000	89,000
Net acquisition amortization	22,000	22,000
Net cash provided by operating activities	18,233,000	9,180,000
Cash flows from investing activities		
Increase in interest-bearing deposits in other banks	(756,000)	(3,527,000)
Proceeds from sales of securities available for sale	459,000	3,000
Proceeds from maturities, payments and calls of securities available for sale	28,886,000	123,896,000
Proceeds from maturities, payments and calls of securities to be held to maturity	6,500,000	7,022,000
Proceeds from sales of other real estate owned	815,000	336,000
Purchases of securities available for sale	(40,677,000)	(133,056,000)
Purchases of securities to be held to maturity	(10,004,000)	(24,169,000)
Purchase of restricted equity securities	(2,005,000)	(381,000)
Net increase in loans	(60,787,000)	(49,880,000)
Capital expenditures	(217,000)	(80,000)
Net cash used by investing activities	(77,786,000)	(79,836,000)
Cash flows from financing activities		
Net increase (decrease) in demand, savings, and money market accounts	(100,623,000)	25,428,000
Net increase in certificates of deposit	98,390,000	50,874,000
Net increase (decrease) in short-term borrowings	138,697,000	(21,624,000)
Advances on long-term borrowings	—	50,000,000
Repayment on long-term borrowings	(70,000,000)	(25,000,000)
Payment to repurchase common stock	(166,000)	(148,000)
Proceeds from sale of common stock	310,000	329,000
Dividends paid	(5,206,000)	(6,380,000)
Net cash provided by financing activities	61,402,000	73,479,000
Net increase in cash and cash equivalents	1,849,000	2,823,000
Cash and cash equivalents at beginning of period	19,207,000	17,366,000
Cash and cash equivalents at end of period	$21,056,000	$20,189,000
Interest paid	$8,677,000	$6,228,000

Income taxes paid	441,000	2,470,000
Non-cash transactions		
Net transfer from loans to other real estate owned	$229,000	$214,000

See Report of Independent Registered Public Accounting Firm.

The accompanying notes are an integral part of these consolidated financial statements.

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

Note 1 – Basis of Presentation
The First Bancorp, Inc. ("the Company") is a financial holding company that owns all of the common stock of First National Bank ("the Bank"). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Management, all adjustments (consisting of normally 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 2018 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2018. 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, 2017.
Subsequent Events
Events occurring subsequent to June 30, 2018, 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, 2018:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$306,286,000	$144,000	$(9,052,000)	$297,378,000
State and political subdivisions	4,955,000	$—	(263,000)	4,692,000
Other equity securities	2,978,000	—	—	2,978,000
	$314,219,000	$144,000	$(9,315,000)	$305,048,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$11,155,000	$—	$(584,000)	$10,571,000
Mortgage-backed securities	20,585,000	404,000	(365,000)	20,624,000
State and political subdivisions	224,037,000	1,274,000	(4,490,000)	220,821,000
Corporate securities	4,300,000	—	—	4,300,000
	$260,077,000	$1,678,000	$(5,439,000)	$256,316,000
Restricted equity securities				
Federal Home Loan Bank Stock	$11,326,000	$—	$—	$11,326,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$12,363,000	$—	$—	$12,363,000

The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2017:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$293,689,000	$722,000	$(4,422,000)	$289,989,000
State and political subdivisions	6,860,000	16,000	(107,000)	6,769,000
Other equity securities	3,296,000	121,000	(3,000)	3,414,000
	$303,845,000	$859,000	$(4,532,000)	$300,172,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$11,155,000	$—	$(180,000)	$10,975,000
Mortgage-backed securities	23,284,000	568,000	(128,000)	23,724,000
State and political subdivisions	217,828,000	3,931,000	(1,103,000)	220,656,000
Corporate securities	4,300,000	—	—	4,300,000
	$256,567,000	$4,499,000	$(1,411,000)	$259,655,000
Restricted equity securities				
Federal Home Loan Bank Stock	$9,321,000	$—	$—	$9,321,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$10,358,000	$—	$—	$10,358,000

The following table summarizes the amortized cost and estimated fair value of investment securities at June 30, 2017:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$290,379,000	$1,381,000	$(2,769,000)	$288,991,000
State and political subdivisions	15,401,000	486,000	(59,000)	15,828,000
Other equity securities	3,266,000	65,000	(4,000)	3,327,000
	$309,046,000	$1,932,000	$(2,832,000)	$308,146,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$11,152,000	$—	$(181,000)	$10,971,000
Mortgage-backed securities	27,224,000	820,000	(41,000)	28,003,000
State and political subdivisions	201,447,000	3,573,000	(2,056,000)	202,964,000
Corporate securities	4,300,000	—	—	4,300,000
	$244,123,000	$4,393,000	$(2,278,000)	$246,238,000
Restricted equity securities				
Federal Home Loan Bank Stock	$11,274,000	$—	$—	$11,274,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$12,311,000	$—	$—	$12,311,000

The following table summarizes the contractual maturities of investment securities at June 30, 2018:

	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	$34,000	$34,000	$1,327,000	$1,329,000
Due in 1 to 5 years	9,349,000	9,341,000	23,621,000	23,698,000
Due in 5 to 10 years	71,309,000	69,745,000	155,096,000	153,240,000
Due after 10 years	230,549,000	222,950,000	80,033,000	78,049,000
Equity securities	2,978,000	2,978,000	—	—
	$314,219,000	$305,048,000	$260,077,000	$256,316,000

The following table summarizes the contractual maturities of investment securities at December 31, 2017:

	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	$111,000	$112,000	$635,000	$637,000
Due in 1 to 5 years	841,000	842,000	18,059,000	18,164,000
Due in 5 to 10 years	29,003,000	29,177,000	37,182,000	37,719,000
Due after 10 years	270,594,000	266,627,000	200,691,000	203,135,000
Equity securities	3,296,000	3,414,000	—	—
	$303,845,000	$300,172,000	$256,567,000	$259,655,000

The following table summarizes the contractual maturities of investment securities at June 30, 2017:

	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	$26,000	$26,000	$707,000	$710,000
Due in 1 to 5 years	1,722,000	1,758,000	14,536,000	14,813,000
Due in 5 to 10 years	34,382,000	35,099,000	41,373,000	42,251,000
Due after 10 years	269,650,000	267,936,000	187,507,000	188,464,000
Equity securities	3,266,000	3,327,000	—	—
	$309,046,000	$308,146,000	$244,123,000	$246,238,000

At June 30, 2018, securities with a fair value of $203,196,000 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 $231,516,000 as of December 31, 2017 and $188,448,000 at June 30, 2017, 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, 2018 and 2017:

	For the six months ended June 30,		For the quarter ended June 30,	
	2018	2017	2018	2017
Proceeds from sales of securities	$459,000	$3,000	$ —	$ —
Gross realized gains	136,000	3,000	—	—
Gross realized losses	—	—	—	—

Net gain	$136,000	$3,000	$ —	$ —
Related income taxes	$29,000	$1,000	$ —	$ —

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Management reviews securities with unrealized losses for other than temporary impairment. As of June 30, 2018, there were 480 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 160 had been temporarily impaired for 12 months or more. At June 30, 2018, there were 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, 2018 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	$6,882,000	$(373,000)	$3,689,000	$(211,000)	$10,571,000	$(584,000)
Mortgage-backed securities	202,673,000	(5,660,000)	91,977,000	(3,757,000)	294,650,000	(9,417,000)
State and political subdivisions	70,674,000	(1,728,000)	36,909,000	(3,025,000)	107,583,000	(4,753,000)
	$280,229,000	$(7,761,000)	$132,575,000	$(6,993,000)	$412,804,000	$(14,754,000)

As of December 31, 2017, there were 241 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 157 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 31, 2017 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	$7,161,000	$(94,000)	$3,814,000	$(86,000)	$10,975,000	$(180,000)
Mortgage-backed securities	132,025,000	(1,857,000)	101,707,000	(2,693,000)	233,732,000	(4,550,000)
State and political subdivisions	9,425,000	(149,000)	38,864,000	(1,061,000)	48,289,000	(1,210,000)
Other equity securities	—	—	9,000	(3,000)	9,000	(3,000)
	$148,611,000	$(2,100,000)	$144,394,000	$(3,843,000)	$293,005,000	$(5,943,000)

As of June 30, 2017, there were 235 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 15 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of June 30, 2017 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	$7,972,000	$(181,000)	$—	$—	$7,972,000	$(181,000)
Mortgage-backed securities	170,966,000	(2,613,000)	7,643,000	(197,000)	178,609,000	(2,810,000)
State and political subdivisions	55,952,000	(2,115,000)	—	—	55,952,000	(2,115,000)
Other equity securities	69,000	(1,000)	9,000	(3,000)	78,000	(4,000)
	$234,959,000	$(4,910,000)	$7,652,000	$(200,000)	$242,611,000	$(5,110,000)

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 $189,000 at June 30, 2018. 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 a portion of its wholesale funding needs. As of June 30, 2018 and 2017, and December 31, 2017, the Bank's investment in FHLB stock totaled $11,326,000, $11,274,000 and $9,321,000, respectively. FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through June 30, 2018. The Company 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, 2018 and 2017 and at December 31, 2017:

	June 30, 2018			December 31, 2017			June 30, 2017		
Commercial									
Real estate	$350,114,000	28.6	%	$323,809,000	27.8	%	$306,490,000	27.4	%
Construction	40,308,000	3.3	%	38,056,000	3.3	%	33,605,000	3.0	%
Other	184,718,000	15.1	%	181,528,000	15.6	%	173,691,000	15.5	%
Municipal	48,717,000	4.0	%	33,391,000	2.9	%	28,695,000	2.6	%
Residential									
Term	453,588,000	37.0	%	432,661,000	37.1	%	427,171,000	38.1	%
Construction	14,583,000	1.2	%	17,868,000	1.5	%	15,056,000	1.3	%
Home equity line of credit	107,666,000	8.8	%	111,302,000	9.6	%	110,328,000	9.8	%
Consumer	24,746,000	2.0	%	25,524,000	2.2	%	25,629,000	2.3	%
Total	$1,224,440,000	100.0	%	$1,164,139,000	100.0	%	$1,120,665,000	100.0	%

Loan balances include net deferred loan costs of $6,307,000 as of June 30, 2018, $5,748,000 as of December 31, 2017, and $5,469,000 as of June 30, 2017. Pursuant to collateral agreements, qualifying first mortgage loans and commercial real estate loans, which totaled $317,053,000 at June 30, 2018, were used to collateralize borrowings from the FHLB. This compares to qualifying first mortgages loans which totaled $239,805,000 at December 31, 2017, and $249,329,000 at June 30, 2017. In addition, commercial, construction and home equity loans totaling $227,084,000 at June 30, 2018, $290,247,000 at December 31, 2017, and $294,315,000 at June 30, 2017, 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, 2018, 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	$137,000	$75,000	$503,000	$715,000	$349,399,000	$350,114,000	$ —
Construction	—	—	—	—	40,308,000	40,308,000	—
Other	459,000	42,000	294,000	795,000	183,923,000	184,718,000	—
Municipal	—	—	—	—	48,717,000	48,717,000	—
Residential							
Term	531,000	2,014,000	1,730,000	4,275,000	449,313,000	453,588,000	—
Construction	—	—	—	—	14,583,000	14,583,000	—
Home equity line of credit	915,000	38,000	575,000	1,528,000	106,138,000	107,666,000	—
Consumer	70,000	37,000	18,000	125,000	24,621,000	24,746,000	3,000
Total	$2,112,000	$2,206,000	$3,120,000	$7,438,000	$1,217,002,000	$1,224,440,000	$ 3,000

Information on the past-due status of loans by class of financing receivable as of December 31, 2017, 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	$574,000	$80,000	$220,000	$874,000	$322,935,000	$323,809,000	$—
Construction	—	—	—	—	38,056,000	38,056,000	—
Other	542,000	6,663,000	574,000	7,779,000	173,749,000	181,528,000	—
Municipal	—	—	—	—	33,391,000	33,391,000	—
Residential							
Term	1,031,000	4,372,000	2,256,000	7,659,000	425,002,000	432,661,000	436,000
Construction	101,000	370,000	—	471,000	17,397,000	17,868,000	—
Home equity line of credit	537,000	445,000	725,000	1,707,000	109,595,000	111,302,000	—
Consumer	159,000	18,000	9,000	186,000	25,338,000	25,524,000	9,000
Total	$2,944,000	$11,948,000	$3,784,000	$18,676,000	$1,145,463,000	$1,164,139,000	$445,000

Information on the past-due status of loans by class of financing receivable as of June 30, 2017, 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	$88,000	$—	$1,387,000	$1,475,000	$305,015,000	$306,490,000	$—
Construction	—	—	—	—	33,605,000	33,605,000	—
Other	29,000	259,000	515,000	803,000	172,888,000	173,691,000	—
Municipal	—	—	—	—	28,695,000	28,695,000	—
Residential							
Term	533,000	3,343,000	1,507,000	5,383,000	421,788,000	427,171,000	—
Construction	99,000	—	—	99,000	14,957,000	15,056,000	—
	440,000	406,000	751,000	1,597,000	108,731,000	110,328,000	—

Home equity line of credit							
Consumer	282,000	118,000	29,000	429,000	25,200,000	25,629,000	29,000
Total	$1,471,000	$4,126,000	$4,189,000	$9,786,000	$1,110,879,000	$1,120,665,000	$ 29,000

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, 2018 and 2017 and at December 31, 2017 is presented in the following table:

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial			
Real estate	$981,000	$752,000	$1,814,000
Construction	286,000	—	—
Other	8,900,000	9,357,000	885,000
Municipal	—	—	—
Residential			
Term	3,509,000	3,778,000	3,852,000
Construction	—	—	—
Home equity line of credit	689,000	833,000	883,000
Consumer	16,000	16,000	—
Total	$14,381,000	$14,736,000	$7,434,000

Impaired loans include troubled debt restructured ("TDR") 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, 2018 is presented in the following table:

				For the six months ended June 30, 2018		For the quarter ended June 30, 2018	
	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	$5,438,000	$5,749,000	$—	$4,666,000	$ 110,000	$5,169,000	$ 56,000
Construction	1,027,000	1,027,000	—	789,000	21,000	837,000	11,000
Other	2,265,000	2,349,000	—	2,287,000	17,000	2,272,000	11,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	9,613,000	10,808,000	—	9,671,000	151,000	9,642,000	80,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	928,000	1,021,000	—	1,004,000	9,000	918,000	4,000
Consumer	16,000	29,000	—	16,000	—	16,000	—
	$19,287,000	$20,983,000	$—	$18,433,000	$ 308,000	$18,854,000	$ 162,000
With an Allowance Recorded							
Commercial							
Real estate	$3,470,000	$3,488,000	$270,000	$3,819,000	$ 67,000	$3,749,000	$ 28,000
Construction	—	—	—	—	—	—	—
Other	7,174,000	7,388,000	1,647,000	7,176,000	—	7,170,000	—
Municipal	—	—	—	—	—	—	—
Residential							
Term	2,161,000	2,378,000	286,000	2,027,000	48,000	2,086,000	24,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	100,000	100,000	2,000	88,000	—	107,000	—
Consumer	—	—	—	—	—	—	—
	$12,905,000	$13,354,000	$2,205,000	$13,110,000	$ 115,000	$13,112,000	$ 52,000
Total							
Commercial							
Real estate	$8,908,000	$9,237,000	$270,000	$8,485,000	$ 177,000	$8,918,000	$ 84,000
Construction	1,027,000	1,027,000	—	789,000	21,000	837,000	11,000
Other	9,439,000	9,737,000	1,647,000	9,463,000	17,000	9,442,000	11,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	11,774,000	13,186,000	286,000	11,698,000	199,000	11,728,000	104,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,028,000	1,121,000	2,000	1,092,000	9,000	1,025,000	4,000
Consumer	16,000	29,000	—	16,000	—	16,000	—
	$32,192,000	$34,337,000	$2,205,000	$31,543,000	$ 423,000	$31,966,000	$ 214,000

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, 2017 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	$3,791,000	$3,996,000	$—	$5,124,000	$ 164,000
Construction	741,000	741,000	—	62,000	38,000
Other	2,591,000	2,671,000	—	1,908,000	36,000
Municipal	—	—	—	—	—
Residential					
Term	9,769,000	10,909,000	—	10,770,000	297,000
Construction	—	—	—	—	—
Home equity line of credit	1,115,000	1,429,000	—	1,351,000	18,000
Consumer	16,000	29,000	—	12,000	—
	$18,023,000	$19,775,000	$—	$19,227,000	$ 553,000
With an Allowance Recorded					
Commercial					
Real estate	$3,999,000	$4,116,000	$224,000	$4,460,000	$ 152,000
Construction	—	—	—	699,000	—
Other	7,327,000	7,371,000	1,309,000	2,584,000	—
Municipal	—	—	—	—	—
Residential					
Term	1,979,000	2,144,000	255,000	2,106,000	79,000
Construction	—	—	—	—	—
Home equity line of credit	64,000	67,000	24,000	32,000	—
Consumer	—	—	—	—	—
	$13,369,000	$13,698,000	$1,812,000	$9,881,000	$ 231,000
Total					
Commercial					
Real estate	$7,790,000	$8,112,000	$224,000	$9,584,000	$ 316,000
Construction	741,000	741,000	—	761,000	38,000
Other	9,918,000	10,042,000	1,309,000	4,492,000	36,000
Municipal	—	—	—	—	—
Residential					
Term	11,748,000	13,053,000	255,000	12,876,000	376,000
Construction	—	—	—	—	—
Home equity line of credit	1,179,000	1,496,000	24,000	1,383,000	18,000
Consumer	16,000	29,000	—	12,000	—
	$31,392,000	$33,473,000	$1,812,000	$29,108,000	$ 784,000

A breakdown of impaired loans by class of financing receivable as of and for the period ended June 30, 2017 is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	For the six months ended June 30, 2017 Average Recorded Investment	For the six months ended June 30, 2017 Recognized Interest Income	For the quarter ended June 30, 2017 Average Recorded Investment	For the quarter ended June 30, 2017 Recognized Interest Income
With No Related Allowance							
Commercial							
Real estate	$5,686,000	$6,171,000	$—	$5,429,000	$94,000	$5,414,000	$46,000
Construction	—	—	—	—	—	—	—
Other	1,405,000	1,449,000	—	1,507,000	19,000	1,418,000	12,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	11,065,000	12,152,000	—	11,343,000	161,000	11,283,000	73,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,380,000	1,731,000	—	1,387,000	14,000	1,397,000	7,000
Consumer	—	—	—	—	—	—	—
	$19,536,000	$21,503,000	$—	$19,666,000	$288,000	$19,512,000	$138,000
With an Allowance Recorded							
Commercial							
Real estate	$4,167,000	$4,356,000	$221,000	$4,644,000	$85,000	$4,549,000	$43,000
Construction	763,000	763,000	103,000	763,000	18,000	763,000	9,000
Other	228,000	268,000	36,000	177,000	6,000	230,000	4,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	1,925,000	2,067,000	209,000	1,971,000	41,000	1,864,000	21,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	25,000	27,000	25,000	26,000	—	25,000	—
Consumer	—	—	—	—	—	—	—
	$7,108,000	$7,481,000	$594,000	$7,581,000	$150,000	$7,431,000	$77,000
Total							
Commercial							
Real estate	$9,853,000	$10,527,000	$221,000	$10,073,000	$179,000	$9,963,000	$89,000
Construction	763,000	763,000	103,000	763,000	18,000	763,000	9,000
Other	1,633,000	1,717,000	36,000	1,684,000	25,000	1,648,000	16,000
Municipal	—	—	—	—	—	—	—
Residential							
Term	12,990,000	14,219,000	209,000	13,314,000	202,000	13,147,000	94,000
Construction	—	—	—	—	—	—	—
Home equity line of credit	1,405,000	1,758,000	25,000	1,413,000	14,000	1,422,000	7,000
Consumer	—	—	—	—	—	—	—
	$26,644,000	$28,984,000	$594,000	$27,247,000	$438,000	$26,943,000	$215,000

Troubled Debt Restructured

A "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, 2018, the Company had 72 loans with a balance of $25,606,000 that have been classified as TDRs. This compares to 62 loans with a balance of $17,801,000 and 68 loans with a balance of $20,301,000 classified as TDRs as of December 31, 2017 and June 30, 2017, 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, 2018:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	15	$8,026,000	$143,000
Construction	1	741,000	—
Other	5	7,071,000	1,100,000
Municipal	—	—	—
Residential			
Term	48	9,263,000	287,000
Construction	—	—	—
Home equity line of credit	3	505,000	—
Consumer	—	—	—
	72	$25,606,000	$1,530,000

The following table shows TDRs by class and the specific reserve as of December 31, 2017:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	8	$7,038,000	$90,000
Construction	1	741,000	—
Other	4	561,000	—
Municipal	—	—	—
Residential			
Term	46	8,948,000	233,000
Construction	—	—	—
Home equity line of credit	3	513,000	—
Consumer	—	—	—
	62	$17,801,000	$323,000

The following table shows TDRs by class and the specific reserve as of June 30, 2017:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	9	$8,040,000	$93,000
Construction	1	763,000	103,000
Other	5	749,000	1,000
Municipal	—	—	—
Residential			
Term	50	10,227,000	209,000
Construction	—	—	—
Home equity line of credit	3	522,000	—
Consumer	—	—	—
	68	$20,301,000	$406,000

As of June 30, 2018, eight of the loans classified as TDRs with a total balance of $893,000 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, 2018:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$—	$—
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	7	726,000	33,000
Construction	—	—	—
Home equity line of credit	1	167,000	—
Consumer	—	—	—
	8	$893,000	$33,000

As of June 30, 2017, 10 of the loans classified as TDRs with a total balance of $1,336,000 were more than 30 days past due. Of these loans, none 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, 2017:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$ —	$ —
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	9	1,169,000	10,000
Construction	—	—	—
Home equity line of credit	1	167,000	