EVANS BANCORP INC
Form 10-Q
May 02, 2019
Table of Contents

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For quarterly period ended March 31, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to ______

Commission file number 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 16-1332767 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

One Grimsby Drive, Hamburg, NY 14075

(Address of principal executive offices) (Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed

since last report)

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by checkmark 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 Exchange Act).

Yes No

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.50 par value | EVBN | NYSE American |

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.50 par value, 4,883,467 shares as of April 30, 2019.

Table of Contents

INDEX

EVANS BANCORP, INC. AND SUBSIDIARIES

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2019 AND DECEMBER 31, 2018
(in thousands, except share and per share amounts)

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| ASSETS | | |
| Cash and due from banks | $ 12,434 | $ 13,997 |
| Interest-bearing deposits at banks | 56,082 | 25,918 |
| Securities: | | |
| Available for sale, at fair value (amortized cost: $140,240 at March 31, 2019; $135,274 at December 31, 2018) | 138,831 | 132,104 |
| Held to maturity, at amortized cost (fair value: $1,903 at March 31, 2019; $1,674 at December 31, 2018) | 1,900 | 1,685 |
| Federal Home Loan Bank common stock, at cost | 1,474 | 1,474 |
| Federal Reserve Bank common stock, at cost | 1,939 | 1,929 |
| Loans, net of allowance for loan losses of $15,207 at March 31, 2019 and $14,784 at December 31, 2018 | 1,170,222 | 1,141,146 |
| Properties and equipment, net of accumulated depreciation of $19,713 at March 31, 2019 and $19,416 at December 31, 2018 | 10,583 | 10,485 |
| Goodwill and intangible assets | 12,880 | 12,992 |
| Bank-owned life insurance | 28,922 | 28,403 |
| Operating lease right-of-use asset (see Note 1) | 4,142 | - |
| Other assets | 16,772 | 18,074 |
| TOTAL ASSETS | $ 1,456,181 | $ 1,388,207 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Deposits: | | |
| Demand | $ 242,156 | $ 231,902 |
| NOW | 122,204 | 110,450 |
| Savings | 618,471 | 571,479 |
| Time | 292,892 | 301,227 |

| | | |
|---|---|---|
| Total deposits | 1,275,723 | 1,215,058 |
| | | |
| Securities sold under agreement to repurchase | 2,482 | 3,142 |
| Other borrowings | 10,000 | 10,000 |
| Operating lease liability (see Note 1) | 4,594 | - |
| Other liabilities | 17,617 | 17,031 |
| Junior subordinated debentures | 11,330 | 11,330 |
| Total liabilities | 1,321,746 | 1,256,561 |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $.50 par value, 10,000,000 shares authorized; 4,860,316 and 4,852,868 shares issued at March 31, 2019 and December 31, 2018, respectively, and 4,860,316 and 4,852,868 outstanding at March 31, 2019 and December 31, 2018, respectively | 2,432 | 2,429 |
| Capital surplus | 61,448 | 61,225 |
| Retained earnings | 74,538 | 73,345 |
| Accumulated other comprehensive loss, net of tax | (3,983) | (5,353) |
| Total stockholders' equity | 134,435 | 131,646 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,456,181 | $ 1,388,207 |

See Notes to Unaudited Consolidated Financial Statements

1

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(in thousands, except share and per share amounts)

| | Three Months Ended March 31, 2019 | 2018 |
|---|---|---|
| INTEREST INCOME | | |
| Loans | $ 14,362 | $ 12,363 |
| Interest-bearing deposits at banks | 249 | 10 |
| Securities: | | |
| Taxable | 801 | 797 |
| Non-taxable | 130 | 196 |
| Total interest income | 15,542 | 13,366 |
| INTEREST EXPENSE | | |
| Deposits | 2,843 | 1,498 |
| Other borrowings | 45 | 298 |
| Junior subordinated debentures | 146 | 118 |
| Total interest expense | 3,034 | 1,914 |
| NET INTEREST INCOME | 12,508 | 11,452 |
| PROVISION FOR LOAN LOSSES | 538 | 767 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 11,970 | 10,685 |
| NON-INTEREST INCOME | | |
| Deposit service charges | 533 | 509 |
| Insurance service and fees | 2,442 | 1,965 |
| Gain on loans sold | 26 | - |
| Bank-owned life insurance | 159 | 171 |
| Interchange fee income | 421 | 492 |
| Other | 614 | 649 |
| Total non-interest income | 4,195 | 3,786 |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | 7,160 | 6,627 |
| Occupancy | 836 | 758 |
| Advertising and public relations | 167 | 124 |
| Professional services | 745 | 653 |
| Technology and communications | 893 | 764 |
| Amortization of intangibles | 112 | 28 |
| FDIC insurance | 207 | 232 |
| Other | 1,104 | 985 |
| Total non-interest expense | 11,224 | 10,171 |
| INCOME BEFORE INCOME TAXES | 4,941 | 4,300 |

| | | |
|---|---|---|
| INCOME TAX PROVISION | 1,221 | 981 |
| NET INCOME | $ 3,720 | $ 3,319 |
| | | |
| Net income per common share-basic | $ 0.77 | $ 0.69 |
| Net income per common share-diluted | $ 0.75 | $ 0.68 |
| Cash dividends per common share | $ 0.52 | $ 0.46 |
| Weighted average number of common shares outstanding | 4,855,815 | 4,787,846 |
| Weighted average number of diluted shares outstanding | 4,932,451 | 4,912,289 |

See Notes to Unaudited Consolidated Financial Statements

2

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(in thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| NET INCOME | $ 3,720 | $ 3,319 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | |
| Unrealized gain/(loss) on available-for-sale securities | 1,303 | (1,360) |
| Defined benefit pension plans: | | |
| Amortization of prior service cost | 6 | 6 |
| Amortization of actuarial loss | 61 | 36 |
| Total | 67 | 42 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | 1,370 | (1,318) |
| COMPREHENSIVE INCOME | $ 5,090 | $ 2,001 |

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(in thousands, except share and per share amounts)

| | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | $ 2,394 | $ 59,444 | $ 59,921 | $ (3,417) | $ 118,342 |
| Cumulative-effect adjustment due to change in accounting principle | | | 1,496 | | 1,496 |
| Net Income | | | 3,319 | | 3,319 |
| Other comprehensive income | | | | (1,318) | (1,318) |
| Cash dividends ($0.46 per common share) | | | (2,202) | | (2,202) |
| Stock compensation expense | | 186 | | | 186 |
| Reissued 1,057 restricted shares | | - | | | - |
| Issued 16,368 restricted shares | 8 | (8) | | | - |
| Issued 3,404 shares in stock option exercises | 2 | 48 | | | 50 |
| Balance, March 31, 2018 | $ 2,404 | $ 59,670 | $ 62,534 | $ (4,735) | $ 119,873 |
| | | | | | |
| Balance, December 31, 2018 | $ 2,429 | $ 61,225 | $ 73,345 | $ (5,353) | $ 131,646 |
| Net Income | | | 3,720 | | 3,720 |
| Other comprehensive income | | | | 1,370 | 1,370 |
| Cash dividends ($0.52 per common share) | | | (2,527) | | (2,527) |
| Stock compensation expense | | 201 | | | 201 |
| Reissued 500 restricted shares | | | | | - |
| Issued 4,934 restricted shares, net of forfeitures | 2 | (2) | | | - |
| Issued 2,514 shares in stock option exercises | 1 | 24 | | | 25 |
| Balance, March 31, 2019 | $ 2,432 | $ 61,448 | $ 74,538 | $ (3,983) | $ 134,435 |

See Notes to Unaudited Consolidated Financial Statements

4

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(in thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| OPERATING ACTIVITIES: | | |
| Interest received | $ 15,323 | $ 13,392 |
| Fees received | 4,424 | 3,395 |
| Interest paid | (2,999) | (1,871) |
| Cash paid to employees and vendors | (12,685) | (11,122) |
| Income taxes paid | - | (8) |
| Proceeds from sale of loans held for resale | 2,071 | - |
| Originations of loans held for resale | (2,045) | - |
| Net cash provided by operating activities | 4,089 | 3,786 |
| INVESTING ACTIVITIES: | | |
| Available for sales securities: | | |
| Purchases | (10,568) | (47,853) |
| Proceeds from maturities, calls, and payments | 5,523 | 33,127 |
| Held to maturity securities: | | |
| Purchases | (224) | - |
| Proceeds from maturities, calls, and payments | 10 | 610 |
| Cash paid for bank-owned life insurance | (360) | - |
| Proceeds from bank-owned life insurance claims | - | 675 |
| Additions to properties and equipment | (426) | (162) |
| Purchase of tax credit investment | (19) | (129) |
| Net increase in loans | (29,454) | (48,445) |
| Net cash used in investing activities | (35,518) | (62,177) |
| FINANCING ACTIVITIES: | | |
| Repayments of short-term borrowings, net | (660) | (25,755) |
| Net increase in deposits | 60,665 | 83,204 |
| Issuance of common stock | 25 | 50 |
| Net cash provided by financing activities | 60,030 | 57,499 |
| Net increase (decrease) in cash and cash equivalents | 28,601 | (892) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 39,915 | 21,330 |

| | | |
|---|---|---|
| End of period | $ 68,516 | $ 20,438 |

See Notes to Unaudited Consolidated Financial Statements

5

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(in thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Net income | $ 3,720 | $ 3,319 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 505 | 446 |
| Deferred tax expense | 12 | 144 |
| Provision for loan losses | 538 | 767 |
| Loss on tax credit investment | 148 | - |
| Refundable state historic tax credit received (accrued) | 17 | - |
| Gain on loans sold | (26) | - |
| Change in fair value of equity securities | - | (147) |
| Stock compensation expense | 201 | 186 |
| Proceeds from sale of loans held for resale | 2,071 | - |
| Originations of loans held for resale | (2,045) | - |
| Changes in assets and liabilities affecting cash flow: | | |
| Other assets | (4,528) | (1,060) |
| Other liabilities | 3,476 | 131 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 4,089 | $ 3,786 |

See Notes to Unaudited Consolidated Financial Statements

6

Table of Contents

EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2019 AND 2018

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the "Company"), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the "Bank"), and the Bank's subsidiaries, Evans National Leasing, Inc. ("ENL"), and Evans National Holding Corp. ("ENHC"); and (ii) Evans National Financial Services, LLC ("ENFS"), and ENFS's subsidiary, The Evans Agency, LLC ("TEA"), and TEA's subsidiaries, Frontier Claims Services, Inc. ("FCS") and ENB Associates Inc. ("ENBA"), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles ("GAAP") and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the "Company."

The results of operations for the three month period ended March 31, 2019 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018 ("10-K"). The Company's significant accounting policies are disclosed in Note 1 to the 10-K.

The Financial Accounting Standards Board ("FASB") establishes changes to U.S. GAAP in the form of accounting standards updates ("ASUs") to the FASB Accounting Standards Codification. The Company considers the applicability and impact of all ASUs when they are issued by FASB. ASUs listed below were adopted by the Company during its current fiscal year. ASUs not listed below did not have a material impact on the Company's consolidated financial position, results of operations, cash flows or disclosures.

On January 1, 2019, the Company adopted ASU 2016-02 Leases and all subsequent amendments (collectively, "ASU 2016-02"). The objective of this ASU is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements to meet that objective. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Under this new guidance, a lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use ("ROU") asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP.

ASU 2016-02 required a modified retrospective transition approach, applying the new standard to all leases existing at the date of initial application. The Company elected to use the effective date, January 1, 2019, as our date of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification.

Under ASU 2016-02, leases are classified as finance or operating, with the classification affecting the pattern and classification of expense recognition in the income statement. The Company's leases, consisting of property leases for certain of our bank branches and insurance agency offices, are classified as operating leases. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As these leases do not provide an implicit rate, we use our incremental borrowing rate in determining the present value of lease payments. Our lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Table of Contents

ASU 2016-02 had a material impact on the Company's consolidated balance sheets, but did not have an impact on the consolidated statements of income or the consolidated statements of cash flows. The most significant impacts upon adoption on January 1, 2019 were the recognition of $4.3 million of ROU assets and $4.7 million of lease liabilities, including $0.4 million of liabilities that were reported in other liabilities in the Company's December 31, 2018 consolidated balance sheet. ROU assets and lease liability were $4.1 million and $4.6 million, respectively, at March 31, 2019. Operating lease expenses during the three months ended March 31, 2019 were $178 thousand and are included in other non-interest expense on the consolidated statement of income. Cash paid for amounts included in the measurement of lease liabilities during the three months ended March 31, 2019 was $184 thousand and is included in cash flows from operating activities on the consolidated statement of cash flows. The weighted average discount rate related to the Company's leases was 3.5% as of March 31, 2019. The weighted average remaining lease term related to the Company's leases was 9.0 years as of March 31, 2019. Future minimum lease payments under non-cancellable leases as of March 31, 2019 were as follows:

| | Year Ending December 31, |
|---|---|
| 2019 (excluding the three months ended March 31, 2019) | 552 |
| 2020 | 749 |
| 2021 | 682 |
| 2022 | 694 |
| 2023 | 589 |
| Thereafter | 2,092 |
| Total future minimum lease payments | 5,358 |
| Less imputed interest | 764 |
| Total | 4,594 |

Table of Contents

## 2. SECURITIES

The amortized cost of securities and their approximate fair value at March 31, 2019 and December 31, 2018 were as follows:

| | March 31, 2019 (in thousands) | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Losses | Fair Value |
| Available for Sale: | | | | |
| Debt securities: | | | | |
| U.S. government agencies | $ 39,160 | $ 139 | $ (309) | $ 38,990 |
| States and political subdivisions | 20,212 | 143 | (14) | 20,341 |
| Total debt securities | $ 59,372 | $ 282 | $ (323) | $ 59,331 |
| Mortgage-backed securities: | | | | |
| FNMA | $ 27,135 | $ 29 | $ (332) | $ 26,832 |
| FHLMC | 16,181 | 20 | (192) | 16,009 |
| GNMA | 1,608 | 9 | (23) | 1,594 |
| SBA | 8,991 | 3 | (146) | 8,848 |
| CMO | 26,953 | 15 | (751) | 26,217 |
| Total mortgage-backed securities | $ 80,868 | $ 76 | $ (1,444) | $ 79,500 |
| Total securities designated as available for sale | $ 140,240 | $ 358 | $ (1,767) | $ 138,831 |
| Held to Maturity: | | | | |
| Debt securities | | | | |
| States and political subdivisions | $ 1,900 | $ 16 | $ (13) | $ 1,903 |
| Total securities designated as held to maturity | $ 1,900 | $ 16 | $ (13) | $ 1,903 |

December 31, 2018
(in thousands)

| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Available for Sale: | | | | |
| Debt securities: | | | | |
| U.S. government agencies | $ 34,597 | $ 2 | $ (671) | $ 33,928 |
| States and political subdivisions | 22,168 | 69 | (64) | 22,173 |
| Total debt securities | $ 56,765 | $ 71 | $ (735) | $ 56,101 |
| | | | | |
| Mortgage-backed securities: | | | | |
| FNMA | $ 27,747 | $ 21 | $ (729) | $ 27,039 |
| FHLMC | 14,645 | 11 | (431) | 14,225 |
| GNMA | 1,660 | 6 | (36) | 1,630 |
| SBA | 9,432 | - | (299) | 9,133 |
| CMO | 25,025 | 6 | (1,055) | 23,976 |
| Total mortgage-backed securities | $ 78,509 | $ 44 | $ (2,550) | $ 76,003 |
| | | | | |
| Total securities designated as available for sale | $ 135,274 | $ 115 | $ (3,285) | $ 132,104 |
| | | | | |
| Held to Maturity: | | | | |
| Debt securities | | | | |
| States and political subdivisions | $ 1,685 | $ 11 | $ (22) | $ 1,674 |
| | | | | |
| Total securities designated as held to maturity | $ 1,685 | $ 11 | $ (22) | $ 1,674 |

Table of Contents

Available for sale securities with a total fair value of $117 million and $94 million at March 31, 2019 and December 31, 2018, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The scheduled maturities of debt and mortgage-backed securities at March 31, 2019 and December 31, 2018 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| | (in thousands) | | (in thousands) | |
| Debt securities available for sale: | | | | |
| Due in one year or less | $ 3,344 | $ 3,347 | $ 5,074 | $ 5,075 |
| Due after one year through five years | 21,794 | 21,782 | 22,637 | 22,448 |
| Due after five years through ten years | 34,050 | 34,016 | 28,870 | 28,391 |
| Due after ten years | 184 | 186 | 184 | 187 |
| | 59,372 | 59,331 | 56,765 | 56,101 |
| Mortgage-backed securities available for sale | 80,868 | 79,500 | 78,509 | 76,003 |
| Total | $ 140,240 | $ 138,831 | $ 135,274 | $ 132,104 |
| Debt securities held to maturity: | | | | |
| Due in one year or less | $ 733 | $ 734 | $ 693 | $ 693 |
| Due after one year through five years | 991 | 999 | 811 | 811 |
| Due after five years through ten years | 88 | 85 | 93 | 89 |
| Due after ten years | 88 | 85 | 88 | 81 |
| Total | $ 1,900 | $ 1,903 | $ 1,685 | $ 1,674 |

Contractual maturities of the Company's mortgage-backed securities generally exceed ten years; however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities.

Information regarding unrealized losses within the Company's available for sale securities at March 31, 2019 and December 31, 2018 is summarized below.  The securities are primarily U.S. government-guaranteed agency securities or municipal securities.

Table of Contents

| | March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Available for Sale: | | | | | | |
| Debt securities: | | | | | | |
| U.S. government agencies | $ - | $ - | $ 24,697 | $ (309) | $ 24,697 | $ (309) |
| States and political subdivisions | 402 | (1) | 3,545 | (13) | 3,947 | (14) |
| Total debt securities | $ 402 | $ (1) | $ 28,242 | $ (322) | $ 28,644 | $ (323) |
| | | | | | | |
| Mortgage-backed securities: | | | | | | |
| FNMA | $ - | $ - | $ 22,217 | $ (332) | $ 22,217 | $ (332) |
| FHLMC | - | - | 13,558 | (192) | 13,558 | (192) |
| GNMA | 201 | (1) | 769 | (22) | 970 | (23) |
| SBA | - | - | 7,113 | (146) | 7,113 | (146) |
| CMO | - | - | 22,795 | (751) | 22,795 | (751) |
| Total mortgage-backed securities | $ 201 | $ (1) | $ 66,452 | $ (1,443) | $ 66,653 | $ (1,444) |
| | | | | | | |
| Held to Maturity: | | | | | | |
| Debt securities: | | | | | | |
| States and political subdivisions | $ - | $ - | $ 558 | $ (13) | $ 558 | $ (13) |
| | | | | | | |
| Total temporarily impaired securities | $ 603 | $ (2) | $ 95,252 | $ (1,778) | $ 95,855 | $ (1,780) |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| Available for Sale: | | | | | | |
| Debt securities: | | | | | | |
| U.S. government agencies | $ 9,931 | $ (49) | $ 21,144 | $ (622) | $ 31,075 | $ (671) |
| States and political subdivisions | 5,218 | (15) | 6,893 | (49) | 12,111 | (64) |
| Total debt securities | $ 15,149 | $ (64) | $ 28,037 | $ (671) | $ 43,186 | $ (735) |
| | | | | | | |
| Mortgage-backed securities: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| FNMA | $ 2,637 | $ (21) | $ 23,667 | $ (708) | $ 26,304 | $ (729) |
| FHLMC | 1,895 | (25) | 11,899 | (406) | 13,794 | (431) |
| GNMA | - | - | 926 | (36) | 926 | (36) |
| SBA | - | - | 9,133 | (299) | 9,133 | (299) |
| CMO | - | - | 23,127 | (1,055) | 23,127 | (1,055) |
| Total mortgage-backed securities | $ 4,532 | $ (46) | $ 68,752 | $ (2,504) | $ 73,284 | $ (2,550) |
| | | | | | | |
| Held to Maturity: | | | | | | |
| Debt securities: | | | | | | |
| States and political subdivisions | $ 156 | $ - | $ 722 | $ (22) | $ 878 | $ (22) |
| | | | | | | |
| Total temporarily impaired securities | $ 19,837 | $ (110) | $ 97,511 | $ (3,197) | $ 117,348 | $ (3,307) |

Table of Contents

Management has assessed the securities available for sale in an unrealized loss position at March 31, 2019 and December 31, 2018 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company has not recorded any other-than-temporary impairment ("OTTI") charges as of March 31, 2019 and did not record any OTTI charges during 2018. The credit worthiness of the Company's securities portfolio is largely reliant on the ability of U.S. government sponsored agencies such as Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The stable past performance is not a guarantee for similar performance of the Company's securities portfolio in future periods.

## 3. FAIR VALUE MEASUREMENT

Fair value is defined in ASC Topic 820 "Fair Value Measurement" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurement:

Level 1 inputs are quoted prices for identical instruments in active markets;
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

### FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018, respectively:

| (in thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| March 31, 2019 | | | | |
| Securities available-for-sale: | | | | |
| US government agencies | $ - | $ 38,990 | $ - | $ 38,990 |
| States and political subdivisions | - | 20,341 | - | 20,341 |
| Mortgage-backed securities | - | 79,500 | - | 79,500 |
| Mortgage servicing rights | - | - | 587 | 587 |
| December 31, 2018 | | | | |
| Securities available-for-sale: | | | | |
| US government agencies | $ - | $ 33,928 | $ - | $ 33,928 |
| States and political subdivisions | - | 22,173 | - | 22,173 |
| Mortgage-backed securities | - | 76,003 | - | 76,003 |
| Mortgage servicing rights | - | - | 609 | 609 |

Table of Contents

Securities available for sale

Fair values for securities are determined using independent pricing services and market-participating brokers. The Company's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, model processes, such as the Option Adjusted Spread model, are used to assess interest rate impact and develop prepayment scenarios. The models and the process take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The Company's service provider may occasionally determine that it does not have sufficient verifiable information to value a particular security. In these cases the Company will utilize valuations from another pricing service.

Management believes that it has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control. On a quarterly basis, the Company reviews changes in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Company has its entire security portfolio priced by a second pricing service to determine consistency with another market evaluator. If, during the Company's review or when comparing with another servicer, a material difference between pricing evaluations were to exist, the Company would submit an inquiry to the service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than the initial evaluation it can submit a challenge for a change to that security's valuation.

Securities available for sale are classified as Level 2 in the fair value hierarchy as the valuation provided by the third-party provider uses observable market data.

Equity securities

At December 31, 2017 and through the first three months of 2018, the Company held equity securities in another financial institution. Since the ownership level was less than 5% of the outstanding shares of that financial institution, the investment was recorded on the Company's balance sheet at historical cost, under the cost method of accounting. On January 1, 2018, the Company adopted ASU 2016-01, requiring the Company to mark the investment to its fair value with a cumulative-effect adjustment to retained earnings.

The equity securities of the financial institution are classified as Level 3 in the fair value hierarchy because the primary inputs in measuring the fair value are unobservable to the public. The shares of the institution are not publicly traded on a major stock exchange, but rather through private sales between shareholders. Trading in the securities is fairly limited as the institution's total trading volume for the first three months of 2018 was approximately 1% of the outstanding common shares. The Company obtained the sales information from the institution to calculate the fair value of the equity securities as of the end of the reporting period. The fair value recorded in the Company's financial statements is based on observable prices obtained from the latest orderly transactions in the quarter.

Due to the adoption of ASU 2016-01 and the designation of the financial institution's equity securities as Level 3 on the fair value hierarchy, there was a transfer into Level 3 for the institution's equity securities during the first quarter of 2018. The Company sold its entire equity interest in this financial institution during the third quarter of 2018. The following table summarizes the changes in fair value for equity securities:

| (in thousands) | Three months ended March 31, 2018 |
|---|---|
| Equity securities - January 1 | $ 580 |
| Increase in recorded value due to adoption of ASU 2016-01 through beginning retained earnings | 1,234 |
| Fair value change included in earnings | 147 |
| Equity securities - March 31 | $ 1,961 |

13

Table of Contents

Mortgage servicing rights

Mortgage servicing rights (“MSRs”) do not trade in an active, open market with readily observable prices.  Accordingly, the Company obtains the fair value of the MSRs using a third-party pricing provider.  The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio.  The valuation model used by the provider considers market loan prepayment predictions and other economic factors which management considers to be significant unobservable inputs.  The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease.  Management has a sufficient understanding of the third party service’s valuation models, assumptions and inputs used in determining the fair value of MSRs to enable management to maintain an appropriate system of internal control.  MSRs are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

The following table summarizes the changes in fair value for MSRs:

| | Three months ended March 31, | |
|---|---|---|
| (in thousands) | 2019 | 2018 |
| Mortgage servicing rights - January 1 | $ 609 | $ 586 |
| Losses/(gains) included in earnings | (40) | 58 |
| Additions from loan sales | 18 | - |
| Mortgage servicing rights - March 31 | $ 587 | $ 644 |

Quantitative information about the significant unobservable inputs used in the fair value measurement of MSRs at the respective dates is as follows:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Servicing fees | 0.25 % | 0.25 % |
| Discount rate | 9.00 % | 9.00 % |
| Prepayment rate (CPR) | 7.31 % | 6.52 % |

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis at March 31, 2019 and December 31, 2018:

| (in thousands) | Level 1 | Level 2 | Level 3 | Fair Value |
|---|---|---|---|---|
| March 31, 2019 | | | | |
| Collateral dependent impaired loans | $ - | $ - | $ 21,221 | $ 21,221 |
| December 31, 2018 | | | | |
| Collateral dependent impaired loans | $ - | $ - | $ 20,590 | $ 20,590 |

Collateral dependent impaired loans

The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan’s collateral has a unique appraisal and management’s discount of the value is based on factors unique to each impaired loan. The significant unobservable input in determining the fair value is management’s subjective discount on appraisals of the collateral securing the loan.  Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company.  Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

Table of Contents

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a special mention or a substandard depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are graded substandard or worse on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Collateral dependent impaired loans had a gross value of $22.2 million, with an allowance for loan loss of $1.0 million, at March 31, 2019 compared with $21.7 million and $1.1 million, respectively, at December 31, 2018.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below depicts the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis.

| | March 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | (in thousands) | |
| Financial assets: | | | | |
| Level 1: | | | | |
| Cash and cash equivalents | $ 68,516 | $ 68,516 | $ 39,915 | $ 39,915 |
| Level 2: | | | | |
| Available for sale securities | 138,831 | 138,831 | 132,104 | 132,104 |
| FHLB and FRB stock | 3,413 | 3,413 | 3,403 | 3,403 |
| Level 3: | | | | |
| Held to maturity securities | 1,900 | 1,903 | 1,685 | 1,674 |
| Loans, net | 1,170,222 | 1,165,888 | 1,141,146 | 1,131,891 |

| | | | | |
|---|---|---|---|---|
| Mortgage servicing rights | 587 | 587 | 609 | 609 |
| | | | | |
| Financial liabilities: | | | | |
| Level 1: | | | | |
| Demand deposits | $ 242,156 | $ 242,156 | $ 231,902 | $ 231,902 |
| NOW deposits | 122,204 | 122,204 | 110,450 | 110,450 |
| Savings deposits | 618,471 | 618,471 | 571,479 | 571,479 |
| Level 2: | | | | |
| Securities sold under agreement to repurchase | 2,482 | 2,482 | 3,142 | 3,142 |
| Other borrowed funds | 10,000 | 9,904 | 10,000 | 9,854 |
| Junior subordinated debentures | 11,330 | 11,330 | 11,330 | 11,330 |
| Level 3: | | | | |
| Time deposits | 292,892 | 291,744 | 301,227 | 298,999 |

Table of Contents

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loan Portfolio Composition

The following table presents selected information on the composition of the Company's loan portfolio as of the dates indicated:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Mortgage loans on real estate: | (in thousands) | |
| Residential mortgages | $ 160,999 | $ 158,404 |
| Commercial and multi-family | 608,384 | 592,507 |
| Construction-Residential | 194 | 113 |
| Construction-Commercial | 101,468 | 105,196 |
| Home equities | 69,777 | 70,546 |
| Total real estate loans | 940,822 | 926,766 |
| | | |
| Commercial and industrial loans | 241,509 | 226,057 |
| Consumer and other loans | 1,438 | 1,520 |
| Net deferred loan origination costs | 1,660 | 1,587 |
| Total gross loans | 1,185,429 | 1,155,930 |
| | | |
| Allowance for loan losses | (15,207) | (14,784) |
| | | |
| Loans, net | $ 1,170,222 | $ 1,141,146 |

The Bank sells certain fixed rate residential mortgages to FNMA while maintaining the servicing rights for those mortgages. In the three month period ended March 31, 2019, the Bank sold mortgages to FNMA totaling $2.0 million. The Bank did not sell any mortgages to FNMA in the three month period ended March 31, 2018. At March 31, 2019 and December 31, 2018, the Bank had a loan servicing portfolio principal balance of $73 million upon which it earned servicing fees. The value of the mortgage servicing rights for that portfolio was $0.6 million at March 31, 2019 and December 31, 2018. No loans were held for sale at March 31, 2019. At December 31, 2018 there were $0.4 million in residential mortgages held for sale. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud.

As noted in Note 1, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.  Disclosures related to the basis for accounting for loans, the method for recognizing interest income on loans, the policy for placing loans on nonaccrual status and the subsequent recording of payments and resuming accrual of interest, the policy for determining past due status, a description of the Company’s accounting policies and methodology used to estimate the allowance for loan losses, the policy for charging-off loans, the accounting policies for impaired loans, and more descriptive information on the Company’s credit risk ratings are all contained in the Notes to the Audited Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.  Unless otherwise noted in this Form 10-Q, the policies and methodology described in the Annual Report for the year ended December 31, 2018 are consistent with those utilized by the Company in the three month period ended March 31, 2019.

Table of Contents

Credit Quality Indicators

The Bank monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for its commercial mortgage and commercial and industrial ("C&I") portfolios is the individual loan's credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for loan losses:

- Acceptable or better
- Watch
- Special Mention
- Substandard
- Doubtful
- Loss

The Company's consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company's loan review process. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

The following tables provide data, at the class level, of credit quality indicators of certain loans for the dates specified:

March 31, 2019
(in thousands)

| Corporate Credit Exposure – By Credit Rating | Commercial Real Estate Construction | Commercial and Multi-Family Mortgages | Total Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|---|
| Acceptable or better | $ 58,782 | $ 459,925 | $ 518,707 | $ 153,604 |

| | | | | |
|---|---|---|---|---|
| Watch | 29,529 | 126,592 | 156,121 | 74,762 |
| Special Mention | 4,330 | 15,778 | 20,108 | 4,830 |
| Substandard | 8,827 | 6,089 | 14,916 | 8,313 |
| Doubtful/Loss | - | - | - | - |
| Total | $ 101,468 | $ 608,384 | $ 709,852 | $ 241,509 |

December 31, 2018
(in thousands)

| Corporate Credit Exposure – By Credit Rating | Commercial Real Estate Construction | Commercial and Multi-Family Mortgages | Total Commercial Real Estate | Commercial and Industrial |
|---|---|---|---|---|
| Acceptable or better | $ 65,932 | $ 466,294 | $ 532,226 | $ 155,687 |
| Watch | 30,628 | 109,409 | 140,037 | 57,366 |
| Special Mention | - | 10,583 | 10,583 | 4,105 |
| Substandard | 8,636 | 6,221 | 14,857 | 8,870 |
| Doubtful/Loss | - | - | - | 29 |
| Total | $ 105,196 | $ 592,507 | $ 697,703 | $ 226,057 |

Table of Contents

Past Due Loans

The following tables provide an analysis of the age of the recorded investment in loans that are past due as of the dates indicated:

March 31, 2019
(in thousands)

| | Current Balance | 30-59 days | 60-89 days | 90+ days | Non-accruing Loans | Total Balance |
|---|---|---|---|---|---|---|
| Commercial and industrial | $ 237,850 | $ 1,316 | $ - | $ - | $ 2,343 | $ 241,509 |
| Residential real estate: | | | | | | |
| Residential | 158,734 | 609 | - | - | 1,656 | 160,999 |
| Construction | 194 | - | - | - | - | 194 |
| Commercial real estate: | | | | | | |
| Commercial | 600,585 | 1,710 | - | - | 6,089 | 608,384 |
| Construction | 83,095 | 9,546 | - | - | 8,827 | 101,468 |
| Home equities | 68,219 | 461 | 25 | - | 1,072 | 69,777 |
| Consumer and other | 1,425 | 13 | - | - | - | 1,438 |
| Total Loans | $ 1,150,102 | $ 13,655 | $ 25 | $ - | $ 19,987 | $ 1,183,769 |

Note: Loan balances do not include $1.7 million in net deferred loan origination costs as of March 31, 2019.

December 31, 2018
(in thousands)

| | Current Balance | 30-59 days | 60-89 days | 90+ days | Non-accruing Loans | Total Balance |
|---|---|---|---|---|---|---|
| Commercial and industrial | $ 217,625 | $ 6,173 | $ 565 | $ - | $ 1,694 | $ 226,057 |
| Residential real estate: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Residential | 154,063 | 2,546 | 332 | - | 1,463 | 158,404 |
| Construction | 113 | - | - | - | - | 113 |
| Commercial real estate: | | | | | | |
| Commercial | 582,016 | 4,546 | - | - | 5,945 | 592,507 |
| Construction | 95,204 | 1,027 | 329 | - | 8,636 | 105,196 |
| Home equities | 69,094 | 123 | 76 | - | 1,253 | 70,546 |
| Consumer and other | 1,514 | 5 | 1 | - | - | 1,520 |
| Total Loans | $ 1,119,629 | $ 14,420 | $ 1,303 | $ - | $ 18,991 | $ 1,154,343 |

Note: Loan balances do not include $1.6 million in net deferred loan origination costs as of December 31, 2018.

Table of Contents

Allowance for loan losses

The following tables present the activity in the allowance for loan losses according to portfolio segment for the three month periods ended March 31, 2019 and 2018:

March 31, 2019

| (in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 4,368 | $ 8,844 | $ 106 | $ 1,121 | $ 345 | $ 14,784 |
| Charge-offs | (121) | - | (23) | - | - | (144) |
| Recoveries | 22 | - | 7 | - | - | 29 |
| Provision (Credit) | 485 | 205 | 21 | (168) | (5) | 538 |
| Ending balance | $ 4,754 | $ 9,049 | $ 111 | $ 953 | $ 340 | $ 15,207 |
| | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 499 | $ 579 | $ 22 | $ 70 | $ - | $ 1,170 |
| Collectively evaluated for impairment | 4,255 | 8,470 | 89 | 883 | 340 | 14,037 |
| Total | $ 4,754 | $ 9,049 | $ 111 | $ 953 | $ 340 | $ 15,207 |
| | | | | | | |
| Loans: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 4,293 | $ 15,536 | $ 22 | $ 2,963 | $ 1,661 | $ 24,475 |
| Collectively evaluated | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| for impairment | 237,216 | 694,316 | 1,416 | 158,230 | 68,116 | 1,159,294 |
| Total | $ 241,509 | $ 709,852 | $ 1,438 | $ 161,193 | $ 69,777 | $ 1,183,769 |

* Includes construction loans

Note: Loan balances do not include $1.7 million in net deferred loan origination costs as of March 31, 2019.

19

Table of Contents

March 31, 2018

| (in thousands) | Commercial and Industrial | Commercial Real Estate Mortgages* | Consumer and Other | Residential Mortgages* | Home Equities | Total |
|---|---|---|---|---|---|---|
| Allowance for loan losses: | | | | | | |
| Beginning balance | $ 5,204 | $ 7,409 | $ 109 | $ 950 | $ 347 | $ 14,019 |
| Charge-offs | (67) | - | (34) | - | - | (101) |
| Recoveries | 6 | - | 1 | - | 1 | 8 |
| Provision (Credit) | (28) | 736 | 20 | 57 | (18) | 767 |
| Ending balance | $ 5,115 | $ 8,145 | $ 96 | $ 1,007 | $ 330 | $ 14,693 |
| | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 292 | $ 567 | $ 24 | $ 36 | $ - | $ 919 |
| Collectively evaluated for impairment | 4,823 | 7,578 | 72 | 971 | 330 | 13,774 |
| Total | $ 5,115 | $ 8,145 | $ 96 | $ 1,007 | $ 330 | $ 14,693 |
| | | | | | | |
| Loans: | | | | | | |
| Ending balance: | | | | | | |
| Individually evaluated for impairment | $ 2,485 | $ 10,282 | $ 24 | $ 2,765 | $ 1,960 | $ 17,516 |
| Collectively evaluated for impairment | 242,773 | 641,284 | 1,541 | 138,146 | 67,422 | 1,091,166 |
| Total | $ 245,258 | $ 651,566 | $ 1,565 | $ 140,911 | $ 69,382 | $ 1,108,682 |

* Includes construction loans

Note: Loan balances do not include $1.3 million in net deferred loan origination costs as of March 31, 2018.

Table of Contents

Impaired Loans

The following tables provide data, at the class level, for impaired loans as of the dates indicated:

| | At March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With no related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 3,372 | $ 3,581 | $ - | $ 3,545 | $ 17 | $ 36 |
| Residential real estate: | | | | | | |
| Residential | 2,419 | 2,649 | - | 2,485 | 15 | 16 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,614 | 7,043 | - | 6,858 | 67 | 11 |
| Construction | 424 | 424 | - | 462 | 9 | 3 |
| Home equities | 1,661 | 1,832 | - | 1,739 | 18 | 9 |
| Consumer and other | - | - | - | - | - | - |
| Total impaired loans | $ 14,490 | $ 15,529 | $ - | $ 15,089 | $ 126 | $ 75 |

| | At March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With a related allowance recorded: | (in thousands) | | | | | |
| | $ 921 | $ 962 | $ 499 | $ 982 | $ 16 | $ 3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial and industrial | | | | | | |
| Residential real estate: | | | | | | |
| Residential | 544 | 548 | 70 | 547 | 7 | - |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | - | - | - | - | - | - |
| Construction | 8,498 | 8,975 | 579 | 8,720 | 133 | - |
| Home equities | - | - | - | - | - | - |
| Consumer and other | 22 | 26 | 22 | 23 | - | - |
| Total impaired loans | $ 9,985 | $ 10,511 | $ 1,170 | $ 10,272 | $ 156 | $ 3 |

21

Table of Contents

| | At March 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| Total: | (in thousands) | | | | | |
| Commercial and industrial | $ 4,293 | $ 4,543 | $ 499 | $ 4,527 | $ 33 | $ 39 |
| Residential real estate: | | | | | | |
| Residential | 2,963 | 3,197 | 70 | 3,032 | 22 | 16 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,614 | 7,043 | - | 6,858 | 67 | 11 |
| Construction | 8,922 | 9,399 | 579 | 9,182 | 142 | 3 |
| Home equities | 1,661 | 1,832 | - | 1,739 | 18 | 9 |
| Consumer and other | 22 | 26 | 22 | 23 | - | - |
| Total impaired loans | $ 24,475 | $ 26,040 | $ 1,170 | $ 25,361 | $ 282 | $ 78 |

| | At December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With no related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 1,633 | $ 2,611 | $ - | $ 1,785 | $ 116 | $ 65 |
| Residential real estate: | | | | | | |
| Residential | 2,289 | 2,483 | - | 2,337 | 45 | 69 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,538 | 6,914 | - | 6,733 | 220 | 115 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Construction | 116 | 116 | - | 143 | - | 12 |
| Home equities | 1,887 | 2,058 | - | 1,952 | 71 | 43 |
| Consumer and other | - | - | - | - | - | - |
| Total impaired loans | $ 12,463 | $ 14,182 | $ - | $ 12,950 | $ 452 | $ 304 |

Table of Contents

| | At December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| With a related allowance recorded: | (in thousands) | | | | | |
| Commercial and industrial | $ 2,068 | $ 2,095 | $ 249 | $ 2,098 | $ 17 | $ 125 |
| Residential real estate: | | | | | | |
| Residential | 525 | 556 | 85 | 520 | 22 | 3 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | - | - | - | - | - | - |
| Construction | 8,636 | 8,975 | 716 | 8,793 | 379 | 113 |
| Home equities | - | - | - | - | - | - |
| Consumer and other | 23 | 27 | 23 | 23 | - | 2 |
| Total impaired loans | $ 11,252 | $ 11,653 | $ 1,073 | $ 11,434 | $ 418 | $ 243 |

| | At December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Foregone | Interest Income Recognized |
| Total: | (in thousands) | | | | | |
| Commercial and industrial | $ 3,701 | $ 4,706 | $ 249 | $ 3,883 | $ 133 | $ 190 |
| Residential real estate: | | | | | | |
| Residential | 2,814 | 3,039 | 85 | 2,857 | 67 | 72 |
| Construction | - | - | - | - | - | - |
| Commercial real estate: | | | | | | |
| Commercial | 6,538 | 6,914 | - | 6,733 | 220 | 115 |
| Construction | 8,752 | 9,091 | 716 | 8,936 | 379 | 125 |
| Home equities | 1,887 | 2,058 | - | 1,952 | 71 | 43 |
| | 23 | 27 | 23 | 23 | - | 2 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer and other | | | | | | |
| Total impaired loans | $ 23,715 | $ 25,835 | $ 1,073 | $ 24,384 | $ 870 | $ 547 |

23

Table of Contents

Troubled debt restructurings

The following tables summarize the loans that were classified as troubled debt restructurings as of the dates indicated:

| | March 31, 2019 (in thousands) | | | |
|---|---|---|---|---|
| | Total | Nonaccruing | Accruing | Related Allowance |
| Commercial and industrial | $ 2,181 | $ 231 | $ 1,950 | $ 81 |
| Residential real estate: | | | | |
| Residential | 1,585 | 278 | 1,307 | - |
| Construction | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial and multi-family | 4,045 | 3,520 | 525 | - |
| Construction | 8,593 | 8,498 | 95 | 578 |
| Home equities | 817 | 228 | 589 | - |
| Consumer and other | 22 | - | 22 | 22 |
| Total TDR loans | $ 17,243 | $ 12,755 | $ 4,488 | $ 681 |

| | December 31, 2018 (in thousands) | | | |
|---|---|---|---|---|
| | Total | Nonaccruing | Accruing | Related Allowance |
| Commercial and industrial | $ 2,282 | $ 275 | $ 2,007 | $ 154 |
| Residential real estate: | | | | |
| Residential | 1,617 | 266 | 1,351 | 14 |
| Construction | - | - | - | - |
| Commercial real estate: | | | | |
| Commercial and multi-family | 4,164 | 3,571 | 593 | - |
| Construction | 8,753 | 8,637 | 116 | 716 |
| Home equities | 756 | 122 | 634 | - |
| Consumer and other | 23 | - | 23 | 23 |
| Total TDR loans | $ 17,595 | $ 12,871 | $ 4,724 | $ 907 |

Any TDR that is placed on non-accrual is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the Company's restructurings were allowed in an effort to maximize its ability to collect on loans where borrowers were experiencing financial difficulty.

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective interest rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired. As of March 31, 2019, there were no commitments to lend additional funds to debtors owing on loans whose terms have been modified in TDRs.

The Company's TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the borrower time to improve cash flow or sell the property. Other common concessions leading to the designation of a TDR are lines of credit that are termed-out and/or extensions of maturities at rates that are less than the prevailing market rates given the risk profile of the borrower.

Table of Contents

The following tables show the data for TDR activity by the type of concession granted to the borrower for the three month periods ended March 31, 2019 and 2018:

| | Three months ended March 31, 2019 (Recorded Investment in thousands) | | | Three months ended March 31, 2018 (Recorded Investment in thousands) | | |
|---|---|---|---|---|---|---|
| Troubled Debt Restructurings by Type of Concession | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial and Industrial | - | $ - | $ - | - | $ - | $ - |
| Residential Real Estate & Construction | - | - | - | - | - | - |
| Commercial Real Estate & Construction: | | | | | | |
| Extension of maturity | - | - | - | 1 | 181 | 181 |
| Home Equities: | | - | - | - | - | - |
| Extension of maturity and interest rate reduction | 1 | 109 | 109 | - | - | - |
| Consumer and other loans | - | - | - | - | - | - |

The general practice of the Bank is to work with borrowers so that they are able to repay their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off to its collateral value. A loan is considered in default when the loan is 90 days past due. Loans which were classified as TDRs during the previous 12 months which defaulted during the three month periods ended March 31, 2019 and 2018 were not material.

5. COMMON EQUITY AND EARNINGS PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period.  For the three month periods ended March 31, 2019 and 2018, the Company had an average of 76,636 and 124,443 dilutive shares outstanding, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three month period ended March 31, 2019 and 2018, there was an average of 46,220 and 28,660 potentially anti-dilutive shares outstanding, respectively, that were not included in calculating diluted earnings per share because their effect was anti-dilutive.

Table of Contents

6. OTHER COMPREHENSIVE INCOME

The following tables summarize the changes in the components of accumulated other comprehensive income (loss) during the three months ended March 31, 2019 and 2018:

| | Balance at December 31, 2018 | Net Change | Balance at March 31, 2019 |
|---|---|---|---|
| | (in thousands) | | |
| Net unrealized loss on investment securities | $ (2,348) | $ 1,303 | $ (1,045) |
| Net defined benefit pension plan adjustments | (3,005) | 67 | (2,938) |
| Total | $ (5,353) | $ 1,370 | $ (3,983) |

| | Balance at December 31, 2017 | Net Change | Balance at March 31, 2018 |
|---|---|---|---|
| | (in thousands) | | |
| Net unrealized loss on investment securities | $ (1,049) | $ (1,360) | $ (2,409) |
| Net defined benefit pension plan adjustments | (2,368) | 42 | (2,326) |
| Total | $ (3,417) | $ (1,318) | $ (4,735) |

| | Three months ended March 31, 2019 (in thousands) | | | Three months ended March 31, 2018 (in thousands) | | |
|---|---|---|---|---|---|---|
| | Before-Tax Amount | Income Tax (Provision) Benefit | Net-of-Tax Amount | Before-Tax Amount | Income Tax (Provision) Benefit | Net-of-Tax Amount |
| Unrealized gain (loss) on investment securities: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Unrealized gain (loss) on investment securities | $ 1,761 | $ (458) | $ 1,303 | $ (1,838) | $ 478 | $ (1,360) |
| | | | | | | |
| Defined benefit pension plan adjustments: | | | | | | |
| Reclassifications from accumulated other comprehensive income for gains | | | | | | |
| Amortization of prior service cost (a) | $ 8 | $ (2) | $ 6 | $ 8 | $ (2) | $ 6 |
| Amortization of actuarial loss (a) | 83 | (22) | 61 | 42 | (6) | 36 |
| Net change | 91 | (24) | 67 | 50 | (8) | 42 |
| | | | | | | |
| Other comprehensive (loss) income | $ 1,852 | $ (482) | $ 1,370 | $ (1,788) | $ 470 | $ (1,318) |

(a) Included in net periodic pension cost, as described in Note 9 – "Net Periodic Benefit Costs"

Table of Contents

7. SEGMENT INFORMATION

The Company comprises two primary business segments, banking and insurance agency activities. The following tables set forth information regarding these segments for the three month periods ended March 31, 2019 and 2018.

| | March 31, 2019 | | |
|---|---|---|---|
| | Banking Activities (in thousands) | Insurance Agency Activities | Total |
| Net interest income (expense) | $ 12,541 | $ (33) | $ 12,508 |
| Provision for loan losses | 538 | - | 538 |
| Net interest income (expense) after provision for loan losses | 12,003 | (33) | 11,970 |
| Non-interest income | 1,753 | - | 1,753 |
| Insurance service and fees | 119 | 2,323 | 2,442 |
| Amortization expense | - | 112 | 112 |
| Non-interest expense | 9,086 | 2,026 | 11,112 |
| Income before income taxes | 4,789 | 152 | 4,941 |
| Income tax provision | 1,181 | 40 | 1,221 |
| Net income | $ 3,608 | $ 112 | $ 3,720 |