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First Colebrook Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2016 and 2015
With Independent Auditors' Report

Baker Newman & Noyes, LLC
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800.244.7444 | www.bnncpa.com

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
First Colebrook Bancorp, Inc.
Colebrook, New Hampshire

We have audited the accompanying consolidated financial statements of First Colebrook Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Colebrook Bancorp, Inc. and Subsidiary as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the consolidated financial statements, the 2015 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Baker Newman & Noyes LLC

Peabody, Massachusetts
March 27, 2017

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2016 and 2015

(In Thousands, Except Share Data)

	2016	2015 (Restated)
ASSETS		
Cash and due from banks	$ 4,420	$ 1,558
Interest-bearing deposits with other banks	2,674	4,494
Federal funds sold	-	402
Total cash and cash equivalents	7,094	6,454
Interest-bearing time deposits with other banks	25,968	7,219
Investments in available-for-sale securities, at fair value	20,861	38,146
Federal Home Loan Bank stock, at cost	551	624
Loans held-for-sale	1,024	-
Loans, net	195,013	197,963
Premises and equipment, net	4,933	4,818
Other real estate owned	732	732
Accrued interest receivable	553	702
Goodwill	520	175
Cash surrender value of life insurance	3,955	3,847
Other assets	2,023	1,836
Total assets	$ 263,227	$ 262,516
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 52,082	$ 47,650
Interest-bearing	172,276	175,792
Total deposits	224,358	223,442
Securities sold under agreements to repurchase	869	1,697
Federal Home Loan Bank of Boston advances	7,000	7,000
Subordinated note	4,871	-
Other liabilities	1,477	1,283
Total liabilities	238,575	233,422
Stockholders' equity		
Preferred stock, $0.01 par value; 15,000 shares authorized, senior non-cumulative perpetual, Series C, 8,623 shares issued and outstanding at December 31, 2015; liquidation value $1,000 per share	-	-
Common stock, $1.50 par value, 2,000,000 shares authorized, 999,243 and 749,243 shares issued and outstanding as of December 31, 2016 and 2015, respectively	1,499	1,124
Paid-in capital	7,436	11,957
Retained earnings	15,988	16,108
Accumulated other comprehensive loss	(271)	(95)
Total stockholders' equity	24,652	29,094
Total liabilities and stockholders' equity	$ 263,227	$ 262,516

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

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 2016 and 2015

(In Thousands, Except Share Data)

	2016	2015
Interest and dividend income:		
Interest and fees on loans	$ 8,613	$ 8,552
Interest on debt securities:		
Taxable	250	353
Tax-exempt	291	431
Dividends on stocks and short-term investments	187	120
Total interest and dividend income	9,341	9,456
Interest expense:		
Interest on deposits	895	972
Interest on Federal Home Loan Bank advances	129	77
Interest on capital lease	-	1
Interest on subordinated note	299	-
Interest on securities sold under agreements to repurchase	1	1
Total interest expense	1,324	1,051
Net interest and dividend income	8,017	8,405
Provision for loan losses	140	30
Net interest and dividend income after provision for loan losses	7,877	8,375
Noninterest income:		
Service fees	457	525
Net gain on sales of investments	409	12
Net gain on sales of loans	134	-
Other income	610	557
Total noninterest income	1,610	1,094
Noninterest expense:		
Salaries and employee benefits	4,894	4,043
Occupancy expense	808	840
Equipment expense	447	354
Professional fees	391	361
FDIC assessment	149	164
Advertisement and promotion expense	126	256
Data processing expense	694	754
Other expense	1,416	1,303
Total noninterest expense	8,925	8,075
Income before income taxes	562	1,394
Income taxes	40	271
Net income	$ 522	$ 1,123
Net income available to common stockholders	$ 285	$ 1,037
Earnings per common share	$ 0.37	$ 1.38

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

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015

(In Thousands)

	2016	2015
Net income	$ 522	$ 1,123
Other comprehensive (loss) income, net of tax:		
Net unrealized holding (losses) gains on available-for-sale securities	107	158
Tax effect	(42)	(63)
	65	95
Reclassification adjustment for net realized gains in net income (1)	(399)	(12)
Tax effect (2)	158	5
	(241)	(7)
Total other comprehensive (loss) income	(176)	88
Comprehensive income	$ 346	$ 1,211

(1) Reclassified into the consolidated statements of income in net gain on sales of investments.

(2) Reclassified into the consolidated statements of income in income tax expense.

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

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015

(Dollars in Thousands)

	Preferred Stock Series C	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	$ -	$ 1,124	$ 11,957	$ 15,644	$ (183)	$ 28,542
Cumulative effect of restatement adjustment (see note 20)				(198)		(198)
Balance, December 31, 2014 (Restated)	-	1,124	11,957	15,446	(183)	28,344
Net income				1,123		1,123
Other comprehensive income, net of tax effect					88	88
Cash dividends paid on common stock ($0.50 per share)				(375)		(375)
Dividends on preferred stock				(86)		(86)
Balance, December 31, 2015 (Restated)	-	1,124	11,957	16,108	(95)	29,094
Net income				522		522
Issuance of common stock		375	4,102			4,477
Redemption of SBLF Preferred Stock			(8,623)			(8,623)
Other comprehensive loss, net of tax effect					(176)	(176)
Cash dividends paid on common stock ($0.50 per share)				(405)		(405)
Dividends on preferred stock				(237)		(237)
Balance, December 31, 2016	$ -	$ 1,499	$ 7,436	$ 15,988	$ (271)	$ 24,652

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

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(In Thousands)

	2016	2015
Cash flows from operating activities:		
Net income	$ 522	$ 1,123
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of securities, net	330	465
Gain on sales of investments, net	(409)	(12)
Gain on sale of loans, net	(134)	-
Loans originated for sale	(7,550)	-
Proceeds from sales of loans	6,660	-
Provision for loan losses	140	30
Change in net deferred loan origination costs, net	(51)	(69)
Depreciation and amortization	426	417
Decrease (increase) in accrued interest receivable	149	(40)
Income from bank-owned life insurance	(108)	(93)
Deferred tax (benefit) expense	(86)	80
Decrease in other assets	18	237
Decrease in other liabilities	(55)	(547)
Net cash (used in) provided by operating activities	(148)	1,591
Cash flows from investing activities:		
Purchases of interest-bearing time deposits with other banks	(90,444)	(6,975)
Proceeds from maturities of interest-bearing time deposits with other banks	70,945	6,715
Proceeds from sales of interest-bearing time deposits with other banks	760	-
Purchases of available-for-sale securities	(3,394)	(4,860)
Proceeds from sales, maturities and principal repayments of available-for-sale securities	20,456	6,412
Purchase of Federal Home Loan Bank stock	(198)	(20)
Proceeds from redemption of Federal Home Loan Bank stock	271	147
Purchase of loans	(1,096)	-
Loan originations and principal collections, net	3,955	(8,371)
Recoveries of loans previously charged off	2	45
Capital expenditures	(526)	(289)
Cash paid to acquire Cousins Home Lending, Inc.	(103)	-
Cash paid to acquire Abikay Business Solutions, LLC	-	(75)
Net cash provided by (used in) investing activities	628	(7,271)
Cash flows from financing activities:		
Net increase in deposits	916	3,498
Proceeds from long-term debt advances	1,000	4,000
Repayment of long-term debt	(1,000)	(4,000)
Net proceeds from subordinated note	4,871	-
Net (decrease) increase in securities sold under agreements to repurchase	(828)	157
Payments on capital lease obligation	(11)	(11)
Issuance of common stock, net of issuance costs	4,477	-
Redemption of SBLF Preferred Stock	(8,623)	-
Cash dividends paid on preferred stock	(237)	(86)
Cash dividends paid on common stock	(405)	(375)
Net cash provided by financing activities	160	3,183

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

FIRST COLEBROOK BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(In Thousands)
(Continued)

	2016	2015
Net increase (decrease) in cash and cash equivalents	640	(2,497)
Cash and cash equivalents at beginning of year	6,454	8,951
Cash and cash equivalents at end of year	$ 7,094	$ 6,454
Supplemental disclosures:		
Interest paid	$ 1,325	$ 1,058
Income taxes paid	260	355
The following is a summary of the acquisition of Cousins Home Lending, Inc. during 2016:		
Recognized amounts of identifiable assets acquired and (liabilities) assumed, at fair value:		
Prepaid rent	$ 3	
Furniture and equipment	15	
Contingent consideration liability	(260)	
	(242)	
Consideration paid	103	
Goodwill	$ 345	
The following is a summary of the acquisition of Abikay Business Solutions, LLC during 2015:		
Recognized amounts of identifiable assets acquired and (liabilities) assumed, at fair value:		
Contingent consideration liability		$ (100)
Consideration paid		75
Goodwill		$ 175

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

Nature of Business

First Colebrook Bancorp, Inc. (the Company) is a Delaware corporation that was incorporated in 1984 to become the holding company of Granite Bank (formerly The First Colebrook Bank) (the Bank). The Company's primary activity is to act as the holding company for the Bank. The Bank is a state chartered bank which was incorporated in 1889. The Bank conducts its operations in the state of New Hampshire, with headquarters in Colebrook, and branch offices in Concord, Amherst, and Portsmouth, as well as a loan production office in Portsmouth. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of the Company and its subsidiary conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and predominant practices within the banking industry. The consolidated financial statements were prepared using the accrual basis of accounting. The significant accounting policies are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for collateral securing significant loans. Accordingly, the ultimate collectability of a substantial portion of the Company's loan portfolio is susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's loan portfolio. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated in the consolidation.

Cash and Cash Equivalents and Interest-Bearing Deposits

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, interest-bearing deposits with other banks and federal funds sold.

The Company's due from bank accounts and interest-bearing deposits, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk on cash and cash equivalents.

Cash and due from banks as of December 31, 2016 and 2015, includes $2,296,000 and $2,302,000, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank (FRB). In addition, a total of $80,000 was required to be maintained at Bankers' Bank Northeast at December 31, 2016 and 2015.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for amortization of premiums and accretion of discounts over the period to call or maturity using methods approximating the interest method. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as available-for-sale and are carried at fair value. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Unrealized gains and losses on securities available-for-sale are reported as a net amount in other comprehensive income or loss, net of tax.

For declines in the fair value of individual debt securities available-for-sale below their cost that are deemed to be other-than-temporary, where the Company does not intend to sell the security and it is more-likely-than-not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings, and 2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more-likely-than-not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Declines in marketable equity securities below their cost that are deemed other-than-temporary are recognized in earnings as realized losses.

In estimating other-than-temporary impairment losses, management considers 1) the length of time and the extent to which the fair value has been less than cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

As a member of the Federal Home Loan Bank (FHLB) of Boston, the Company is required to invest in $100 par value stock of FHLB of Boston. The carrying amount of the investment (at cost) was $551,000 and $624,000 at December 31, 2016 and 2015, respectively. Management evaluates the Company's investment in FHLB of Boston stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB of Boston as of December 31, 2016, management deems its investment in FHLB of Boston stock to be not other-than-temporarily impaired.

Mortgage Banking Activity

Mortgage loans held-for-sale are carried at the lower of aggregate cost or market value, based upon commitments from investors to purchase such loans or, in the absence of such commitments, the current investor yield requirements calculated on an aggregate basis. Deferred loan origination fees are included in the lower of cost or market value determination. Net unrealized losses are recognized through a valuation allowance by charges to income. No losses have been recorded.

Gains or losses on sales are determined using the specific identification method. Interest income on loans held-for-sale is accrued currently and classified as interest on loans.

Loans

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual lives of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity lines in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when all the principal and interest amounts contractually due are brought current, collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectability of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans are recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance for loan losses when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses consists of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial, manufactured housing and consumer. Management uses a rolling average of historical losses based on three years to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels and trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience, ability and depth of lending management and staff; and national and local economic trends and conditions. Management follows a similar process to estimate its liability for off-balance sheet commitments to extend credit. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2016.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each loan segment are as follows:

Residential real estate: The Company generally does not originate loans with a loan-to-value ratio greater than 80% and generally does not grant subprime loans. Loans with loan-to-value ratios greater than 80% require the purchase of private mortgage insurance. Loans in this segment are primarily collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial real estate: Loans in this segment are primarily income-producing properties throughout New Hampshire. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Construction loans: The loans in this segment are generally construction-to-permanent loans collateralized by commercial and residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

Commercial loans: Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

Manufactured housing: Loans in this segment are primarily collateralized by mobile homes located on leased or rented land and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and manufactured housing prices, will have an effect on the credit quality in this segment.

Consumer loans: Loans in this segment are generally secured and repayment is dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component relates to loans that are classified as impaired. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial, commercial real estate and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan are lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer, manufactured housing and residential real estate loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring (TDR) agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are classified as impaired loans.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under commercial and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

Premises and equipment are periodically evaluated for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of premises and equipment are less than their carrying amount. In that event, the Company records a loss equal to the difference between the carrying amount and the fair value of the asset based on quoted market prices, if applicable, or a discounted cash flow analysis.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses.

After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Bank-Owned Life Insurance

The Company has purchased insurance policies on the lives of certain directors, executive officers and employees. Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in net cash surrender value of the policies, as well as insurance proceeds received, are reflected in noninterest income on the consolidated statements of income and are not subject to income taxes.

Stock-based Compensation

Stock-based compensation represents the cost related to stock-based awards to directors and employees. The Company measures stock-based compensation cost at the grant date based upon the estimated fair value of the award, and recognizes the cost as expense on a straight-line basis (net of estimated forfeitures) over the requisite service period.

Advertising

The Company directly expenses costs associated with advertising as they are incurred.

Income Taxes

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Interest and penalties, if any, are included in income tax expense.

Earnings Per Common Share

Earnings per common share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share, if any, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. There were no dilutive securities or other contracts during the two-year period ended December 31, 2016.

Reconciliation of the numerator and the denominator of the earnings per share computation is as follows for the years ended December 31:

	2016	2015
	(In Thousands, Except Share Data)	
Net income as reported	$ 522	$ 1,123
Preferred stock dividends paid	(237)	(86)
Net income available to common stockholders	$ 285	$ 1,037
Weighted average common shares outstanding	779	749
Earnings per common share	$ 0.37	$ 1.38

Recent Accounting Pronouncements

In May 2014 and August 2015, respectively, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 and 2015-14, "Revenue from Contracts with Customers (Topic 606)." The objective of ASU 2014-09 is to clarify principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The guidance in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim periods within that period. Earlier application is permitted only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently reviewing ASUs 2014-09 and 2015-14 to determine if they will have an impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in this ASU address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and makes targeted improvements to GAAP as follows:

1. Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
2. Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value.

3. Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet.
4. Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes.
5. Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.
6. Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements.
7. Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption of item 5 above is permitted as of the fiscal years or interim periods for which financial statements have not yet been issued. Early adoption of all other amendments in this ASU is not permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." This ASU was issued to increase transparency and comparability among organizations by requiring reporting entities to recognize all leases, including operating, as lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company anticipates that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of a reporting entity's portfolio. Additionally, this ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this ASU earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). The Company is currently reviewing the amendments in this ASU to determine the impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows." This ASU provides new guidance intended to reduce the diversity in how certain transactions are classified in the statement of cash flows. The guidance covers the classification of: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of bank-owned life insurance policies; (6) distributions received from equity method investees; and (7) beneficial interests in securitization transactions. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The guidance requires application using a retrospective transition method. The adoption of the standard is not expected to have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The amendments in this ASU apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments in this ASU should be applied using a retrospective transition method to each period presented. The Company does not expect this ASU will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment." The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. ASU No. 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. ASU No. 2017-04 is not expected to have a material impact on the Company's consolidated financial statements.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

Subsequent Events

For the purposes of the presentation of these financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through March 27, 2017 which is the date that the consolidated financial statements are available to be issued. Management has not evaluated subsequent events after that date for inclusion in the consolidated financial statements.

On February 27, 2017, the Company declared a quarterly dividend of $0.09 per common share. The dividend is payable March 31, 2017 to shareholders of record on March 15, 2017.

2. Investments in Available-for-Sale Securities

Investments in available-for-sale securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2016:				
State and political subdivisions	$ 10,352	$ 5	$ 359	$ 9,998
Corporate debt securities	1,181	-	20	1,161
Mortgage-backed securities	9,598	6	205	9,399
Marketable equity securities	178	125	-	303
	$ 21,309	$ 136	$ 584	$ 20,861

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2015:				
U.S. Government sponsored agencies and corporations	$ 1,000	$ -	$ 13	$ 987
State and political subdivisions	21,821	138	158	21,801
Corporate debt securities	2,185	1	72	2,114
Mortgage-backed securities	13,116	1	192	12,925
Marketable equity securities	180	139	-	319
	$ 38,302	$ 279	$ 435	$ 38,146

The scheduled maturities of debt securities were as follows as of December 31, 2016:

	Fair Value
	(In Thousands)
Due within one year	$ 382
Due after one year through five years	3,263
Due after five years through ten years	2,791
Due after ten years	4,723
Mortgage-backed securities	9,399
	$ 20,558

Proceeds from sales of securities were $16,083,000 and $1,483,000 for the years ended December 31, 2016 and 2015, respectively. Gross realized gains from sales of securities were $399,000 and $12,000 with no gross realized losses for the years ended December 31, 2016 and 2015, respectively.

Securities with total carrying amounts of $14,186,000 and $17,717,000 as of December 31, 2016 and 2015, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law.

There were no securities of issuers whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2016.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized-loss position for less than 12 months and for 12 months or more, and are considered temporarily impaired, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
December 31, 2016:						
State and political subdivisions	$ 8,739	$ 359	$ -	$ -	$ 8,739	$ 359
Corporate debt securities	673	4	488	16	1,161	20
Mortgage-backed securities	7,421	148	1,667	57	9,088	205
Total temporarily impaired securities	$ 16,833	$ 511	$ 2,155	$ 73	$ 18,988	$ 584
December 31, 2015:						
U.S. Government sponsored agencies and corporations	$ -	$ -	$ 987	$ 13	$ 987	$ 13
State and political subdivisions	3,336	35	4,410	123	7,746	158
Corporate debt securities	1,609	72	-	-	1,609	72
Mortgage-backed securities	6,743	68	5,374	124	12,117	192
Total temporarily impaired securities	$ 11,688	$ 175	$ 10,771	$ 260	$ 22,459	$ 435

The investments in the Company's investment portfolio that are temporarily impaired as of December 31, 2016, consist of 29 securities from state and political subdivisions, 17 mortgage-backed securities and 2 corporate debt securities. The unrealized losses at December 31, 2016, related to debt securities, are attributable primarily to changes in market interest rates and current market inefficiencies in the pricing of these types of securities. Company management has the ability to hold these 48 securities until cost recovery occurs and considers these declines to be temporary. Management does not intend to sell impaired securities and the Company has the ability to hold these securities until recovery to cost basis occurs. No other-than-temporary-impairment write-downs were recorded in 2016 or 2015.

3. Loans

Loans consisted of the following as of December 31:

	2016	2015
	(In Thousands)	
Real estate:		
Residential	$ 26,265	$ 28,250
Construction	4,848	5,466
Commercial	113,157	114,433
Total mortgage loans	144,270	148,149
Other loans:		
Commercial, industrial and municipal	46,574	44,090
Manufactured housing	4,450	5,713
Consumer	764	1,088
Total other loans	51,788	50,891
Total loans	196,058	199,040
Allowance for loan losses	(1,617)	(1,598)
Net deferred loan costs	572	521
Net loans	$ 195,013	$ 197,963

Certain directors and executive officers of the Company, and companies in which they have significant ownership interest, were customers of the Bank during 2016 and 2015. Total loans to such persons and their companies amounted to $939,000 and $1,049,000 as of December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, $38,000 of principal advances were made and principal payments totaled $148,000. During the year ended December 31, 2015, $88,000 of principal advances were made and principal payments totaled $109,000.

The following tables present an analysis of the allowance for loan losses as of and for the years ended December 31, 2016 and 2015:

	Real Estate:							
	Residential	Construction	Commercial	Commercial, Industrial and Municipal	Manufactured Housing	Consumer	Unallocated	Total
				(In Thousands)				
December 31, 2016:								
Allowance for loan losses:								
Beginning balance	$ 168	$ 44	$ 1,068	$ 291	$ 25	$ 2	$ -	$ 1,598
Charge-offs	-	-	-	(24)	(93)	(6)	-	(123)
Recoveries	-	-	-	1	-	1	-	2
Provision (benefit)	83	(22)	(74)	23	102	6	22	140
Ending balance	$ 251	$ 22	$ 994	$ 291	$ 34	$ 3	$ 22	$ 1,617
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 2	$ 2	$ -	$ -	$ -	$ 4
Ending balance: Collectively evaluated for impairment	251	22	992	289	34	3	22	1,613
Total allowance for loan losses ending balance	$ 251	$ 22	$ 994	$ 291	$ 34	$ 3	$ 22	$ 1,617
Loans:								
Ending balance: Individually evaluated for impairment	$ -	$ -	$ 875	$ 314	$ 54	$ -	$ -	$ 1,243
Ending balance: Collectively evaluated for impairment	26,265	4,848	112,282	46,260	4,396	764	-	194,815
Total loans ending balance	$ 26,265	$ 4,848	$ 113,157	$ 46,574	$ 4,450	$ 764	$ -	$ 196,058

	Real Estate:							
	Residential	Construction	Commercial	Commercial, Industrial and Municipal	Manufactured Housing	Consumer	Unallocated	Total
				(In Thousands)				
December 31, 2015:								
Allowance for loan losses:								
Beginning balance	$ 134	$ 33	$ 1,026	$ 259	$ 32	$ 3	$ 92	$ 1,579
Charge-offs	(17)	-	(2)	-	(35)	(2)	-	(56)
Recoveries	44	-	-	-	-	1	-	45
Provision (benefit)	7	11	44	32	28	-	(92)	30
Ending balance	$ 168	$ 44	$ 1,068	$ 291	$ 25	$ 2	$ -	$ 1,598
Ending balance: Individually evaluated for impairment	$ 1	$ -	$ 18	$ 14	$ -	$ -	$ -	$ 33
Ending balance: Collectively evaluated for impairment	167	44	1,050	277	25	2	-	1,565
Total allowance for loan losses ending balance	$ 168	$ 44	$ 1,068	$ 291	$ 25	$ 2	$ -	$ 1,598
Loans:								
Ending balance: Individually evaluated for impairment	$ 56	$ -	$ 857	$ 288	$ 12	$ -	$ -	$ 1,213
Ending balance: Collectively evaluated for impairment	28,194	5,466	113,576	43,802	5,701	1,088	-	197,827
Total loans ending balance	$ 28,250	$ 5,466	$ 114,433	$ 44,090	$ 5,713	$ 1,088	$ -	$ 199,040

Credit Quality Information

The Company utilizes a seven grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1 - 3: Loans in these categories are considered "pass" rated loans with low to average risk.

Loans rated 4: Loans in this category are considered "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 5: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 6: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 7: Loans in this category are considered uncollectible (loss) and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial loans over $500,000. For all remaining commercial real estate, construction and commercial loans as well as residential real estate, manufactured housing and consumer loans, the Company initially assesses credit quality based upon the borrower's ability to pay and subsequently monitors these loans based on the borrower's payment activity.

The following table presents the Company's loans by risk rating as of December 31, 2016 and 2015:

	Real Estate						
	Residential	Construction	Commercial	Commercial, Industrial and Municipal	Manufactured Housing	Consumer	Total
				(In Thousands)			
December 31, 2016:							
Grade:							
Pass	$ -	$ 3,526	$ 103,142	$ 42,432	$ -	$ -	$ 149,100
Special mention	335	1,062	8,662	3,773	294	-	14,126
Substandard	568	260	1,353	369	9	-	2,559
Not formally rated	25,362	-	-	-	4,147	764	30,273
Total	$ 26,265	$ 4,848	$ 113,157	$ 46,574	$ 4,450	$ 764	$ 196,058
December 31, 2015:							
Grade:							
Pass	$ -	$ 3,116	$ 105,938	$ 40,280	$ -	$ -	$ 149,334
Special mention	373	2,010	6,380	1,864	101	-	10,728
Substandard	819	340	2,115	1,946	33	-	5,253
Not formally rated	27,058	-	-	-	5,579	1,088	33,725
Total	$ 28,250	$ 5,466	$ 114,433	$ 44,090	$ 5,713	$ 1,088	$ 199,040

The following tables set forth information regarding nonaccrual loans and past-due loans as of December 31, 2016 and 2015:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Nonaccrual Loans
					(In Thousands)			
December 31, 2016:								
Real estate:								
Residential	$ 378	$ -	$ 132	$ 510	$ 25,755	$ 26,265	$ -	$ 474
Construction	-	-	-	-	4,848	4,848	-	-
Commercial	228	-	84	312	112,845	113,157	-	754
Commercial, industrial and municipal	170	41	174	385	46,189	46,574	-	303
Manufactured housing	135	40	-	175	4,275	4,450	-	9
Consumer	-	-	-	-	764	764	-	-
Total	$ 911	$ 81	$ 390	$ 1,382	$ 194,676	$ 196,058	$ -	$ 1,540
December 31, 2015:								
Real estate:								
Residential	$ 131	$ 160	$ -	$ 291	$ 27,959	$ 28,250	$ -	$ 387
Construction	-	-	-	-	5,466	5,466	-	-
Commercial	1,079	141	221	1,441	112,992	114,433	-	683
Commercial, industrial and municipal	129	173	194	496	43,594	44,090	39	269
Manufactured housing	59	70	-	129	5,584	5,713	-	16
Consumer	-	-	1	1	1,087	1,088	1	-
Total	$ 1,398	$ 544	$ 416	$ 2,358	$ 196,682	$ 199,040	$ 40	$ 1,355

The following tables present a summary of information pertaining to impaired loans by loan segment as of and for the years ended December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
December 31, 2016:					
With no related allowance recorded:					
Real estate:					
Commercial	$ 825	$ 972	$ -	$ 794	$ 4
Commercial, industrial and municipal	230	260	-	177	5
Manufactured housing	54	54	-	35	4
Total impaired with no related allowance	$ 1,109	$ 1,286	$ -	$ 1,006	$ 13
With an allowance recorded:					
Real estate:					
Commercial	$ 50	$ 50	$ 2	$ 89	$ 3
Commercial, industrial and municipal	84	88	2	167	4
Manufactured housing	-	-	-	22	-
Total impaired with an allowance recorded	$ 134	$ 138	$ 4	$ 278	$ 7
Total					
Real estate:					
Commercial	$ 875	$ 1,022	$ 2	$ 883	$ 7
Commercial, industrial and municipal	314	348	2	344	9
Manufactured housing	54	54	-	57	4
Total impaired loans	$ 1,243	$ 1,424	$ 4	$ 1,284	$ 20
December 31, 2015:					
With no related allowance recorded:					
Real estate:					
Residential	$ -	$ -	$ -	$ -	$ -
Commercial	733	837	-	717	15
Commercial, industrial and municipal	128	154	-	192	1
Manufactured housing	12	12	-	13	1
Total impaired with no related allowance	$ 873	$ 1,003	$ -	$ 922	$ 17
With an allowance recorded:					
Real estate:					
Residential	$ 56	$ 56	$ 1	$ 58	$ 4
Commercial	124	131	18	133	2
Commercial, industrial and municipal	160	170	14	169	2
Manufactured housing	-	-	-	-	-
Total impaired with an allowance recorded	$ 340	$ 357	$ 33	$ 360	$ 8
Total					
Real estate:					
Residential	$ 56	$ 56	$ 1	$ 58	$ 4
Commercial	857	968	18	850	17
Commercial, industrial and municipal	288	324	14	361	3
Manufactured housing	12	12	-	13	1
Total impaired loans	$ 1,213	$ 1,360	$ 33	$ 1,282	$ 25

Troubled Debt Restructurings (TDRs)

A loan modification constitutes a TDR 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 concessions include maturity date extension, interest rate adjustments to below market pricing, reduction of principal and deferment of payments.

During the years ended December 31, 2016 and 2015, certain loan modifications were executed which constituted TDRs. Substantially all of these modifications included one or a combination of the following: (1) an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, (2) temporary change in the scheduled payment amount, (3) reduction in principal and accrued interest, or (4) the extension of the maturity date. Management performs a discounted cash flow calculation or an evaluation of the fair value of the collateral if a loan is collateral dependent to determine the amount of impairment reserve (if any) required on each of the TDRs. Any reserve required is recorded through the provision for loan losses.

The following table summarizes TDRs that occurred during the years ended December 31:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars In Thousands)	
December 31, 2016:			
Troubled Debt Restructurings			
Real Estate, Commercial	1	$ 186	$ 186
Commercial, industrial and municipal	2	113	113
	3	$ 299	$ 299
December 31, 2015:			
Troubled Debt Restructurings			
Real Estate, Commercial	2	$ 100	$ 100
Commercial, industrial and municipal	2	96	96
	4	$ 196	$ 196

There were three loans that were modified as troubled debt restructurings during the year ended December 31, 2016. Two loans, one commercial and industrial loan and one commercial real estate loan were modified to provide an extension of the maturity date and re-amortization of the loan payments. The remaining modification, a commercial and industrial loan was modified to provide a three month deferment of principal and interest payments and extend the maturity. The loans were individually evaluated for impairment and it was determined that a specific allocation totaling $2,000 was required. All loans were reported as impaired and two loans, with a total recorded investment of $249,000 were on non-accrual status as of December 31, 2016.

There were four loans that were modified as troubled debt restructurings during the year ended December 31, 2015. One commercial and industrial loan was modified to provide a six-month deferment of principal and interest payments, extension of the maturity date and re-amortization of the loan payments. The remaining modifications, one commercial and industrial loan and two owner-occupied commercial real estate loans, are to related entities. All loans were restructured to include extended terms/maturity dates, re-amortization of the debt obligations, and the waiver of past due principal payments. The loans were individually evaluated for impairment and it was determined that a specific allocation totaling $25,000 was required. All loans were reported as impaired and three loans, with a total recorded investment of $140,000, were on non-accrual status as of December 31, 2015.

As of December 31, 2016 and 2015, there were no commitments to lend additional funds to borrowers whose loans were modified in troubled debt restructurings.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There was one TDR modified within the previous 12 months that has defaulted during the year ended December 31, 2016. The balance of this loan as of December 31, 2016 is $84,000.

There were no consumer mortgage loans collateralized by residential real estate property in the process of foreclosure at December 31, 2016. The recorded investment in consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure was $17,000 at December 31, 2015. The other real estate owned balance at December 31, 2016 and 2015 did not include any residential real estate properties.

Loan Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were $10,244,000 and $8,179,000 at December 31, 2016 and 2015, respectively.

The Company has not recorded a mortgage servicing asset because the amount is not material to the consolidated financial statements.

4. Premises and Equipment

The following is a summary of premises and equipment as of December 31:

	2016	2015
	(In Thousands)	
Land	$ 812	$ 812
Building and improvements	5,679	5,407
Leasehold improvements	717	717
Capital lease – building	-	115
Furniture and equipment	3,630	3,352
	10,838	10,403
Accumulated depreciation	(5,905)	(5,585)
	$ 4,933	$ 4,818

As of December 31, 2016, the Company was obligated under two non-cancelable operating leases for bank premises expiring in January 2019 and March 2026. The total minimum rental due in future periods under these agreements is as follows as of December 31, 2016:

	(In Thousands)
2017	$ 112
2018	115
2019	90
2020	91
2021	92
Thereafter	412
Total	$ 912

The leases contain provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to $84,000 and $63,000 for the years ended December 31, 2016 and 2015, respectively.

5. Goodwill and Intangible Assets

On September 23, 2016, the Company acquired all of the assets of Cousins Home Lending, Inc. (Cousins), a residential mortgage lending company. The Company acquired Cousins in order to expand its mortgage banking operation. Total consideration amounted to $363,000, consisting of $103,000 in cash and $260,000 representing the fair value of contingent consideration subject to certain earn-out provisions. Upon the closing of the acquisition, the Company recorded $345,000 of goodwill, which was deductible for tax purposes.

As of December 31, 2016, the Company's assets related to the acquisition included goodwill of $345,000. Certain disclosures required by Accounting Standards Codification (ASC) 805-10-50-2, Business Combinations Occurring During a Current Reporting Period or After the Reporting Date but Before the Financial Statements Are Issued, have not been presented since the acquisition was not considered material to the consolidated financial statements.

On February 3, 2015, the Company acquired all of the assets of Abikay Business Solutions LLC (the LLC), a payroll solutions company. The Company acquired the LLC in order to establish a payroll processing division, offering these services to customers. Total consideration amounted to $175,000, $75,000 of which was paid at the time of closing. The balance of the consideration, in the amount of $100,000, is subject to an earn-out provision over three years and was recorded as a liability. Company management considers the terms of the earn-out provision to be achievable and has recorded the full amount of the contingent consideration. Upon the closing of the acquisition, the Company recorded $175,000 of goodwill, which was deductible for tax purposes. In addition, the Company entered into a two-year noncompete agreement with the owner of the LLC.

A summary of the acquired amortizable covenant not to compete is as follows:

	Original Amount	Net Accumulated Amortization	Carrying Amount
		(In Thousands)	
December 31, 2016:			
Covenant not to compete	$ 25	$ 23	$ 2
December 31, 2015:			
Covenant not to compete	$ 25	$ 10	$ 15

Amortization expense was $13,000 in 2016 and $10,000 in 2015. Amortization is being calculated on a straight-line basis.

Amortization expense for the years subsequent to 2016 is as follows:

	(In Thousands)
2017	$ 2
Total	$ 2

The Company evaluated its goodwill and intangible assets as of December 31, 2016, and found no impairment.

6. Deposits

The aggregate amount of time deposit accounts in denominations of $250,000 or more, as of December 31, 2016 and 2015, was $8,389,000 and $9,750,000, respectively.

At December 31, 2016, the scheduled maturities of time deposits are as follows:

	(In Thousands)
2017	$ 27,630
2018	12,391
2019	6,186
2020	3,153
2021	3,453
Total	$ 52,813

Deposits from related parties held by the Company as of December 31, 2016 and 2015 amounted to $3,085,000 and $2,326,000, respectively.

7. Securities Sold Under Agreements to Repurchase

The securities sold under agreements to repurchase as of December 31, 2016 and 2015, are securities sold on a short-term basis by the Bank that have been accounted for not as sales but as borrowings. The securities consisted of obligations issued by corporations and state and political subdivisions. The securities were held in the Bank's safekeeping account at Wells Fargo under the control of the Bank and pledged to the purchasers of the securities. The purchasers have agreed to sell to the Bank substantially identical securities at the maturity of the agreements.

8. FHLB of Boston Advances

Advances consist of funds borrowed from the FHLB of Boston. Amounts owed as of December 31, 2016 and 2015 totaled $7,000,000.

Maturities of advances for the years ending after December 31, 2016 are summarized as follows:

	(In Thousands)
2017	$ 3,000
2018	4,000
Total	$ 7,000

Borrowings from the FHLB of Boston are secured by a blanket lien on qualified collateral, consisting of residential and commercial real estate loans and bank-owned securities.

At December 31, 2016, the interest rates on FHLB of Boston advances ranged from 0.87% to 1.66%, with a weighted average interest rate of 1.35% at December 31, 2016. At December 31, 2015, the interest rates on FHLB of Boston advances ranged from 1.02% to 1.66%, with a weighted average interest rate of 1.37% at December 31, 2015.

9. Subordinated Note

In March 2016, the Company borrowed $5,000,000 from another financial institution in the form of a subordinated note. The subordinated note is subordinate and junior in right of payment to the Company's obligations to its depositors, and its other obligations to its general and secured creditors, except such other creditors holding obligations of the Company ranking on a parity with or junior to this subordinated note. The subordinated note carries an interest rate of 7.99%. Interest is paid quarterly with principal due on the maturity date of April 1, 2026. Total expenses associated with the offering of $151,000 were netted against the carrying value of the subordinated note and is being amortized on a straight-line basis over the contractual term of the note.

10. Income Taxes

The components of income tax expense are as follows for the years ended December 31:

	2016	2015
	(In Thousands)	
Current:		
Federal	$ 125	$ 274
State	1	(83)
	126	191
Deferred:		
Federal	(22)	(32)
State	(64)	112
	(86)	80
Total income tax expense	$ 40	$ 271

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	2016	2015
	% of Income	% of Income
Statutory tax rate	34.0 %	34.0 %
Increase (decrease) in tax resulting from:		
State taxes, net of federal tax	(7.4)	1.4
Tax-exempt interest	(21.7)	(11.6)
Dividend exclusion	(0.4)	(0.3)
Disallowed interest expense	0.8	0.5
Nondeductible expenses	0.7	0.2
Increase in cash surrender value of life insurance policies	(6.5)	(2.3)
Other	7.6	(2.4)
Effective tax rates	7.1 %	19.5 %

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	2016	2015
	(In Thousands)	
Deferred tax assets:		
Bad debts	$ 382	$ 304
Deferred compensation	229	234
Interest on nonperforming loans	134	111
Tax credits	529	539
Write-down of OREO	68	69
Federal alternative minimum tax credit carryforward	135	78
Unrealized holding loss on available-for-sale securities	178	62
Other, net	52	36
	1,707	1,433
Deferred tax liabilities:		
Depreciation	(225)	(153)
Gross deferred tax liabilities	(225)	(153)
Net deferred tax asset	$ 1,482	$ 1,280

In assessing the realizability of deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the reversal of deferred tax liabilities and generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon such information, management believes it is more likely than not the Company will realize the benefits of the deferred tax assets as of December 31, 2016.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by tax authorities. As of December 31, 2016 and 2015, there were no material uncertain tax positions related to federal and state income tax matters.

11. Commitments and Contingent Liabilities

Data Processing Services

The Company entered into an agreement with a third party in which the third party is to provide the Company with data processing, and other miscellaneous services. The Company may cancel the agreement at any time, provided the Company pays an early termination fee as defined in the agreement.

Legal Contingencies

Various legal claims arise from time-to-time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

12. Financial Instruments with Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, commercial and standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include secured interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2016 and 2015, the maximum potential amount of the Company's obligation was $686,000 and $1,247,000, respectively, for commercial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

The amounts of financial instrument liabilities with off-balance sheet credit risk are as follows as of December 31:

	2016	2015
	(In Thousands)	
Commitments to originate loans	$ 7,259	$ 4,435
Commercial and standby letters of credit	686	1,247
Overdraft protection	2,778	2,802
Unadvanced portion of loans	28,844	22,668
	$ 39,567	$ 31,152

13. Significant Group Concentrations of Credit Risk

The Company's operations are affected by various risk factors, including interest rate risk, credit risk, and risk from geographic concentration of lending activities. Management attempts to manage interest rate risk through various asset/liability management techniques designed to match maturities of assets and liabilities. Loan policies and administration are designed to provide assurance that loans will only be granted to creditworthy borrowers, although credit losses are expected to occur because of subjective factors beyond the control of the Company. Although the Company has a diversified loan portfolio and economic conditions are stable, most of its lending activities are conducted within the state of New Hampshire. As a result, the Company and its borrowers may be especially vulnerable to the consequences of changes in the local economy. In addition, a substantial portion of the Company's loans are secured by real estate located in the state of New Hampshire.

14. Employee Benefits

Deferred Compensation Plans

The Company has deferred compensation plans for some key employees providing for the payment of benefits upon retirement or death. Under the plans, these employees are entitled to receive specific retirement payments for a term of five years or until death with payments made to either the employee or to the employee's beneficiary as specified in the plans. The plans also provide for reduced benefits upon early retirement or termination of employment. The Company has purchased whole life insurance policies on each of the participant's lives to assist in the administration of the plans. The participants and their beneficiaries have no ownership interest in such policies and have no greater interest in the benefits under the plans other than that of an unsecured creditor of the Company.

The Company has Director Fee Continuation Agreements with some of its directors which are unfunded arrangements maintained to provide supplemental retirement benefits for directors. Under the agreements, directors shall be 100% vested in their benefits after having served five years on the Company's Board starting with date of first service.

The total liability for the deferred compensation plans amounted to $580,000 and $592,000 at December 31, 2016 and 2015, respectively. Deferred compensation expense charged to operations for the plans during the years ended December 31, 2016 and 2015 was $24,000 and $28,000, respectively.

The Company recognizes a liability for the Company's future postretirement benefit obligations under the endorsement split-dollar life insurance arrangements related to the above deferred compensation plans. The total liability for the arrangements included in other liabilities was $272,000 and $277,000 at December 31, 2016 and 2015, respectively.

401(k) Plan

The Company maintains a contributory 401(k) pension plan covering all employees who meet certain age and service requirements. Contributions to the plan are voluntary by the eligible participants up to certain limits. Employee contributions are matched up to 5% of the participant's salary. Contribution expense recognized by the Company for the years ended December 31, 2016 and 2015 amounted to $187,000 and $147,000, respectively.

Stock Incentive Plan

Effective April 8, 2015, the Company adopted The First Colebrook Bancorp, Inc. 2015 Stock Incentive Plan (the Plan). The Plan provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 70,000 shares of common stock of the Company. Options granted under the Plan may be either Incentive Stock Options (ISOs) within the meaning of section 422 of the Internal Revenue Code or non-qualified options (NQOs) which do not qualify as ISOs.

The exercise price for shares covered by an ISO may not be less than 100% of the fair market value of common stock on the date of grant. All options must expire no later than ten years from the date of grant.

No awards have yet been issued under the Plan.

Change in Control Agreements

Five officers of the Bank have entered into change in control agreements with the Bank. These agreements provide that if a "change in control" has occurred, the Bank and/or its successor shall pay the officer a lump-sum payment equal to between one and three times the officer's base salary or final compensation, as defined in the agreements.

15. Employee Stock Ownership Plan

Effective January 1, 2011, the Company adopted The First Colebrook Bank Employee Stock Ownership Plan (ESOP). An acquisition loan may be used by the ESOP to finance the purchase of Company common stock. Company contributions for any plan year shall be paid in an amount determined by the Board of Directors in its sole discretion. The Company made a 2015 plan year contribution to the ESOP in the amount of $50,000 in 2016 and a 2014 plan year contribution to the ESOP in the amount of $50,000 in 2015.

Any shares of the Company's common stock purchased by the ESOP are subject to the accounting specified by ASC 718-40. Under the standard, as any shares purchased from borrowed funds are released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares are outstanding for earnings-per-share computations. Also, as the shares are released, any related dividends will be recorded as a reduction of retained earnings and dividends on the unallocated shares will be recorded as a reduction of any debt and accrued interest. The ESOP did not purchase any shares of common stock of the Company in 2016 and purchased 1,200 shares of common stock of the Company during 2015. As of December 31, 2016 and 2015, the ESOP had no debt.

To participate in the plan an employee must (a) be employed on the last day of the plan year unless the employee has died, retires at normal retirement age or becomes disabled during the plan year, and (b) have at least 1,000 hours of service during the plan year.

Eighty percent (80%) of Company contributions and forfeitures shall be allocated in the ratio that the compensation of each eligible participant bears to the total compensation of all eligible participants. Twenty percent (20%) of Company contributions and forfeitures shall be allocated in the ratio that the number of full years of employment of each eligible participant bears to the total number of full years of employment of all eligible participants.

Any cash dividends paid on shares of Company common stock allocated to participants' Company stock accounts and remitted to the ESOP trust fund will, at the discretion of the plan administrator and prior to the close of the plan year in which paid, be either (1) applied to repayment of an outstanding acquisition loan relating to the Company common stock upon which the dividend is received, (2) distributed to participants in cash, or (3) allocated to each participant's Company contribution account.

16. Other Noninterest Income and Expenses

The components of other noninterest income and expenses which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately in the consolidated statements of income are as follows for the years ended December 31:

	2016	2015
	(In Thousands)	
Other noninterest income		
Master money income	$ 182	$ 193
Payroll servicing income	154	102
Other noninterest expenses		
Directors' fees	$ 231	$ 236
Printing, postage, stationery and supplies	164	181
Debit card expense	115	73

17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to capital regulations adopted by the Board of Governors of the Federal Reserve System (FRB) and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The regulations require a common equity Tier 1 (CET1) capital ratio of 4.5%, a minimum Tier 1 capital to risk-weighted assets ratio of 6.0%, a minimum total capital to risk-weighted assets ratio of 8.0%, and a minimum Tier 1 leverage ratio of 4.0%. CET1 generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CET1 capital ratio of 6.5%, a Tier 1 risk based capital ratio of 8.0%, a total risk based capital ratio of 10.0% and a Tier 1 leverage ratio of 5.0%. In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. Failure to maintain the capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. At December 31, 2016, the Bank exceeded the fully phased in regulatory requirement for the capital conservation buffer.

During 2015, the Federal Reserve Board amended its Small Bank Holding Company Policy Statement (the "Policy Statement"). Pursuant to the Policy Statement, the Basel III capital rules do not apply to bank holding companies with less than $1 billion in total assets that meet certain criteria. As First Colebrook Bancorp, Inc. meets the criteria specified in the Policy Statement, the Company is no longer subject to the regulatory capital requirements on a consolidated basis.

Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars In Thousands)					
As of December 31, 2016:						
Total Capital to risk-weighted assets						
Bank	$ 25,844	12.9 %	$ 16,022	8.0 %	$ 20,027	10.0 %
Tier 1 Capital to risk-weighted assets						
Bank	24,164	12.1	12,016	6.0	16,022	8.0
Common Equity Tier 1 Capital to risk-weighted assets						
Bank	24,164	12.1	9,012	4.5	13,018	6.5
Tier 1 Capital to average assets						
Bank	24,164	9.0	10,696	4.0	13,370	5.0
As of December 31, 2015 (Restated):						
Total Capital to risk-weighted assets						
Bank	26,937	12.7	16,920	8.0	21,150	10.0
Tier 1 Capital to risk-weighted assets						
Bank	25,335	12.0	12,690	6.0	16,920	8.0
Common Equity Tier 1 Capital to risk-weighted assets						
Bank	25,335	12.0	9,518	4.5	13,748	6.5
Tier 1 Capital to average assets						
Bank	25,335	9.7	10,448	4.0	13,060	5.0

18. Fair Value Measurements and Disclosures

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's assets and liabilities carried at fair value at December 31, 2016 and 2015. The Company did not have any significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the years ended December 31, 2016 and 2015.

The Company's marketable equity securities are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices.

The Company's investment in mortgage-backed securities and other debt securities available-for-sale is generally classified within Level 2 of the fair value hierarchy. For these securities, management obtains fair value measurements from independent pricing services. The fair value measurements consider observable market data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 of the fair value hierarchy is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes Level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The fair values of the Company's impaired loans are estimated based on the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party using market information. For Level 3 inputs, fair value is based upon management estimates of the value of the underlying collateral or the present value of the expected cash flows.

Other real estate owned values are estimated using Level 2 inputs based upon appraisals of similar properties obtained from a third party using market information. For Level 3 inputs, fair values are based on management estimates.

The following summarizes assets measured at fair value as of December 31, 2016 and 2015.

Assets measured at fair value on a recurring basis using a market approach:

	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2016:				
State and political subdivisions	$ 9,998	$ -	$ 9,998	$ -
Corporate debt securities	1,161	-	1,161	-
Mortgage-backed securities	9,399	-	9,399	-
Marketable equity securities	303	303	-	-
Totals	$ 20,861	$ 303	$ 20,558	$ -
December 31, 2015:				
U.S. Government sponsored agencies and corporations	$ 987	$ -	$ 987	$ -
State and political subdivisions	21,801	-	21,801	-
Corporate debt securities	2,114	-	2,114	-
Mortgage-backed securities	12,925	-	12,925	-
Marketable equity securities	319	319	-	-
Totals	$ 38,146	$ 319	$ 37,827	$ -

Assets measured at fair value on a nonrecurring basis:

Under certain circumstances the Company makes adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the assets carried on the consolidated balance sheets by caption and by level in the fair value hierarchy at December 31, 2016 and 2015, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2016:				
Other real estate owned	$ 732	$ -	$ -	$ 732
Impaired loans	130	-	-	130
Totals	$ 862	$ -	$ -	$ 862
December 31, 2015:				
Other real estate owned	$ 732	$ -	$ -	$ 732
Impaired loans	307	-	-	307
Totals	$ 1,039	$ -	$ -	$ 1,039

ASC 825, *Financial Instruments*, requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures for financial instruments not discussed above are as follows:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate those assets' fair values.

Interest-bearing time deposits with other banks: The fair values of interest-bearing time deposits with other banks are estimated using discounted cash flow analyses using interest rates currently being offered for deposits with similar terms to investors.

Securities (including mortgage-backed securities): Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted prices of comparable instruments.

FHLB of Boston stock: The carrying value of FHLB of Boston stock approximates fair value based on the redemption provisions of the FHLB of Boston.

Loans held-for-sale: Fair values for loans held-for-sale are estimated based on outstanding investor commitments, or in the absence of such commitments are based on current investor yield requirements.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values of fixed rate loans, and those variable rate loans that do not reprice frequently, are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificate accounts are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on certificate accounts.

Securities sold under agreements to repurchase: The carrying amounts reported on the consolidated balance sheets for securities sold under agreements to repurchase approximate their fair values.

FHLB advances: Fair values for borrowings are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities.

Subordinated note: The fair value of the subordinated note is estimated using a discounted cash flow analysis, using an interest rate currently being offered for a note with a similar term.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

	December 31, 2016				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 7,094	$ 7,094	$ -	$ -	$ 7,094
Interest-bearing time deposits with other banks	25,968	-	25,971	-	25,971
Available-for-sale securities	20,861	303	20,558	-	20,861
Federal Home Loan Bank stock	551	551	-	-	551
Loans held-for-sale	1,024	1,044	-	-	1,044
Loans, net	195,013	-	-	196,362	196,362
Accrued interest receivable	553	553	-	-	553
Financial liabilities:					
Deposits	224,358	-	224,713	-	224,713
Securities sold under repurchase agreements	869	869	-	-	869
FHLB advances	7,000	-	7,015	-	7,015
Subordinated note	4,871	-	4,871	-	4,871

	December 31, 2015				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 6,454	$ 6,454	$ -	$ -	$ 6,454
Interest-bearing time deposits with other banks	7,219	-	7,232	-	7,232
Available-for-sale securities	38,146	319	37,827	-	38,146
Federal Home Loan Bank stock	624	624	-	-	624
Loans, net	197,963	-	-	198,660	198,660
Accrued interest receivable	702	702	-	-	702
Financial liabilities:					
Deposits	223,442	-	224,002	-	224,002
Securities sold under repurchase agreements	1,697	1,697	-	-	1,697
FHLB advances	7,000	-	6,990	-	6,990
Capital lease obligation	11	-	11	-	11

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions, except for the capital lease obligation which is included in other liabilities.

19. Preferred Stock

On September 22, 2011, as part of the U.S. Treasury Department (Treasury) Small Business Lending Fund (SBLF) program, the Company entered into a Securities Purchase Agreement with the Treasury pursuant to which the Company issued and sold to the Treasury 8,623 shares of the Company’s non-cumulative perpetual preferred stock, Series C, par value $0.01 per preferred share, having a liquidation preference of $1,000 per preferred share for a total purchase price of $8,623,000 (the Series C Preferred Stock). The SBLF was the Treasury’s effort to bring Main Street banks and small businesses together to help create jobs and promote economic growth in local communities. The Company used $4,725,000 of the proceeds to redeem the Series A and B Preferred Stock previously issued to the Treasury.

Under the SBLF program, the initial dividend rate payable on SBLF capital was, at most, 5%, and the dividend rate fell to 1% after two years if a participating bank's level of Qualified Small Business Lending (QSBL) increased by 10% or more over the two-year period. Banks that increase their lending by less than 10%, but more than 2.5%, pay dividend rates between 2% and 4%. If a bank's lending does not increase in the first two years, however, the dividend rate increases to 7%. After two years, the dividend rate in effect was fixed for the next 2.5 years.

The Company increased its QSBL by more than 10% to qualify for a 1% dividend rate for the 2.5-year period from September 30, 2013 to March 22, 2016. On March 23, 2016, the total dividend rate increased to 9%. The Series C Preferred Stock had no maturity date, was non-voting, except in limited circumstances, and ranked senior to Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of the Company.

On March 22, 2016, the Company redeemed 5,000 of the 8,623 outstanding shares of the Company's SBLF Preferred Stock for the liquidation amount of $1,000 per share. The remaining 3,623 shares were redeemed on November 22, 2016 for the liquidation amount of $1,000 per share. The aggregate redemption price of the SBLF Preferred Stock was $8,669,000, including dividends accrued but unpaid through, but not including the redemption date.

20. Restatement of Financial Statements

Income taxes payable were understated as of December 31, 2014 as a result of errors in the recording of income tax expense. The cumulative effect of these misstatements has been corrected in the accompanying consolidated financial statements. This under accrual or understatement was a cumulative error that affected prior year financial statements but was not material to any one year. In order to correct the under accrual related to income taxes payable, the Company recorded the following corrections to prior period financial statement amounts: (a) a cumulative decrease of $198,000 to opening retained earnings in the Consolidated Statement of Changes in Stockholders' Equity for the year ended December 31, 2015; (b) an increase in federal income taxes payable of $110,000 and an increase in New Hampshire state taxes payable of $88,000.