BAR HARBOR BANKSHARES
Form 10-Q
November 05, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

Commission File Number: **01-13349**

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine	**01-0393663**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
PO Box 400 **82 Main Street, Bar Harbor, ME**	**04609-0400**
(Address of principal executive offices)	(Zip Code)

(207) 288-3314

(Registrant's telephone number, including area code)

Inapplicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act: Large accelerated filer ¨ Accelerated filer **þ** Non-accelerated filer (do not check if a smaller reporting company) ¨ Smaller reporting company ¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE EXCHANGE ACT): YES: ¨ NO: **þ**

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Class of Common Stock	Number of Shares Outstanding November 3, 2015
$2.00 Par Value	**5,997,231**

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

(Dollars in thousands, except share and per share data)

(*unaudited*)

	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 12,336	$ 9,800
Securities available for sale, at fair value (amortized cost of $490,477 and $458,370, respectively)	502,680	470,525
Federal Home Loan Bank stock	23,593	21,354
Loans	975,950	919,024
Allowance for loan losses	(9,037)	(8,969)
Loans, net of allowance for loan losses	966,913	910,055
Premises and equipment, net	20,785	20,518
Goodwill	4,935	4,935
Bank owned life insurance	23,575	8,141
Other assets	13,104	13,992
TOTAL ASSETS	$1,567,921	$1,459,320
Liabilities		
Deposits:		
Demand and other non-interest bearing deposits	$ 96,847	$ 78,802
NOW accounts	155,342	153,499
Savings and money market deposits	286,475	247,685
Time deposits	472,230	378,063
Total deposits	1,010,894	858,049
Short-term borrowings	254,720	313,520
Long-term advances from Federal Home Loan Bank	135,886	128,500
Junior subordinated debentures	5,000	5,000
Other liabilities	7,309	7,964
TOTAL LIABILITIES	1,413,809	1,313,033
Shareholders' equity		

Capital stock, par value $2.00; authorized 20,000,000 and 10,000,000 shares; issued 6,788,407 shares at September 30, 2015 and December 31, 2014, respectively	13,577	13,577
Surplus	21,404	20,905
Retained earnings	120,352	113,149
Accumulated other comprehensive income:		
Prior service cost and unamortized net actuarial losses on employee benefit plans, net of tax of ($253) and ($251), at September 30, 2015 and December 31, 2014, respectively	(469)	(488)
Net unrealized appreciation on securities available for sale, net of tax of $4,017 and $3,997, at September 30, 2015 and December 31, 2014, respectively	7,460	7,423
Portion of OTTI attributable to non-credit gains, net of tax of $254 and $257, at September 30, 2015 and December 31, 2014, respectively	472	478
Net unrealized depreciation on derivative instruments, net of tax of $810 and $389, at September 30, 2015 and December 31, 2014, respectively	(1,504)	(722)
Total accumulated other comprehensive income	5,959	6,691
Less: cost of 793,477 and 842,082 shares of treasury stock at September 30, 2015 and December 31, 2014, respectively	(7,180)	(8,035)
TOTAL SHAREHOLDERS' EQUITY	154,112	146,287
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,567,921	$1,459,320

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$10,127	$10,016	$29,449	$28,285
Interest on securities	4,008	3,719	11,502	11,704
Dividend on FHLB stock	191	71	380	209
Total interest and dividend income	14,326	13,806	41,331	40,198
Interest expense:				
Deposits	1,596	1,477	4,509	4,376
Short-term borrowings	233	197	725	477
Long-term debt	801	755	2,517	2,545
Total interest expense	2,630	2,429	7,751	7,398
Net interest income	11,696	11,377	33,580	32,800
Provision for loan losses	425	491	1,320	1,376
Net interest income after provision for loan losses	11,271	10,886	32,260	31,424
Non-interest income:				
Trust and other financial services	957	954	2,887	3,028
Service charges on deposit accounts	224	245	677	747
Debit card income	477	436	1,245	1,156
Net securities gains	---	(81)	1,206	666
Other operating income	370	262	858	628
Total non-interest income	2,028	1,816	6,873	6,225
Non-interest expense:				
Salaries and employee benefits	4,623	4,249	13,244	12,448
Occupancy expense	550	508	1,697	1,616
Furniture and equipment expense	584	569	1,729	1,606
Debit card expenses	119	111	327	308
FDIC insurance assessments	212	165	623	530
Other operating expense	1,732	1,610	5,134	4,911
Total non-interest expense	7,820	7,212	22,754	21,419

Income before income taxes	5,479	5,490	16,379	16,230
Income taxes	1,548	1,623	4,694	4,719
Net income	$ 3,931	$ 3,867	$11,685	$11,511
Per Common Share Data:				
Basic earnings per share	$ 0.66	$ 0.65	$ 1.96	$ 1.94
Diluted earnings per share	$ 0.65	$ 0.65	$ 1.93	$ 1.93

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands)

(unaudited)

	Three Months Ended September 30,	
	2015	**2014**
Net income	$ 3,931	$ 3,867
Other comprehensive income:		
Net unrealized (depreciation) appreciation on securities available for sale,		
net of tax of $1,739 and $247, respectively	3,229	488
Less reclassification adjustment for net gains related to securities available for sale		
included in net income, net of tax of $0 and $28, respectively	---	53
Net unrealized (depreciation) appreciation on interest rate derivatives,		
net of tax of ($339) and $58, respectively	(620)	110
Actuarial loss on supplemental executive retirement plan,		
net of related tax of $3 and $3, respectively	7	5
Total other comprehensive income	2,616	656
Total comprehensive income	$ 6,547	$ 4,523

	Nine Months Ended September 30,	
	2015	**2014**
Net income	$11,685	$11,511
Other comprehensive income:		
Net unrealized appreciation on securities available for sale,		
net of tax of $439 and $6,195, respectively	815	12,035
Less reclassification adjustment for net gains related to securities available for sale		
included in net income, net of tax of ($422) and ($226), respectively	(784)	(440)
Net unrealized (depreciation) appreciation on interest rate derivatives,	(782)	159

net of tax of ($421) and $82, respectively		
Actuarial loss on supplemental executive retirement plan,		
net of related tax of $2 and $7, respectively	19	14
Total other comprehensive (loss) income	(732)	11,768
Total comprehensive income	$10,953	$23,279

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands, except share and per share data)

(unaudited)

	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive income (loss)	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2013	$ 9,051	$25,085	$103,907	$(7,940)	$(8,724)	$121,379
Net income	---	---	11,511	---	---	11,511
Total other comprehensive income	---	---	---	11,768	---	11,768
Dividend declared:						
Common stock ($0.670 per share)	---	---	(3,967)	---	---	(3,967)
Purchase of Treasury Stock (327 shares)	---	---	---	---	(8)	(8)
Stock options exercised (24,456 shares),						
including related tax effects		27	(9)	---	417	435
Three-for-two stock split	4,526	(4,526)	---	---	---	---
Recognition of stock based compensation expense	---	236	---	---	---	236
Restricted stock grants (2,878 shares)	---	(53)	---	---	53	---
Balance September 30, 2014	$13,577	$20,769	$111,442	$ 3,828	$(8,262)	$141,354

	Capital Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive income (loss)	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2014	$13,577	$20,905	$113,149	$ 6,691	$(8,035)	$146,287
Net income	---	---	11,685	---	---	11,685
Total other comprehensive income	---	---	---	(732)	---	(732)
Dividend declared:						
Common stock ($0.750 per share)	---	---	(4,480)	---	---	(4,480)
Purchase of Treasury Stock (656 shares)	---	---	---	---	(24)	(24)
Stock options exercised (43,221 shares)						
including related tax effects	---	118	(2)	---	773	889
Recognition of stock based compensation expense	---	487	---	---	---	487
Restricted stock grants (6,040 shares)	---	(106)	---	---	106	---

Balance September 30, 2015	$13,577	$21,404	$120,352	$ 5,959	$(7,180)	$154,112

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands)

(unaudited)

	2015	**2014**
Cash flows from operating activities:		
Net income	$ 11,685	$ 11,511
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of premises and equipment	1,301	1,212
Amortization of core deposit intangible	69	69
Provision for loan losses	1,320	1,376
Net securities gains	(1,206)	(666)
Net amortization of bond premiums and discounts	1,795	2,208
Recognition of stock based expense	487	236
Gains on sale of other real estate owned	(64)	---
Net change in other assets	(16)	(2,416)
Net change in other liabilities	(655)	(384)
Net cash provided by operating activities	14,716	13,146
Cash flows from investing activities:		
Purchases of securities available for sale	(136,700)	(78,433)
Proceeds from maturities, calls and principal paydowns of mortgage-backed securities	83,576	51,132
Proceeds from sales of securities available for sale	20,428	26,563
Net (increase) decrease in Federal Home Loan Bank stock	(2,239)	(2,984)
Purchases of bank owned life insurance	(15,000)	---
Net loans made to customers and purchased loans	(58,603)	(46,624)
Proceeds from sale of other real estate owned	110	129
Capital expenditures	(1,568)	(1,325)
Net cash used in investing activities	(109,996)	(51,542)
Cash flows from financing activities:		
Net increase in deposits	152,845	51,465
Net (decrease) increase in securities sold under repurchase agreements and fed funds purchased	(875)	(1,133)
Proceeds from Federal Home Loan Bank advances	17,393	36,800
Repayments of Federal Home Loan Bank advances	(67,932)	(41,490)
Purchases of Treasury Stock	(24)	(8)
Proceeds from stock option exercises, including excess tax benefits	889	435
Restricted stock grant	---	---
Payments of dividends	(4,480)	(3,967)
Net cash provided by financing activities	97,816	42,102

Net (decrease) increase in cash and cash equivalents	2,536	3,706
Cash and cash equivalents at beginning of period	9,800	9,200
Cash and cash equivalents at end of period	$ 12,336	$12,906
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 7,767	$ 7,444
Income taxes	4,370	4,756
Schedule of noncash investing activities:		
Transfers from loans to other real estate owned	$ 425	$ 320

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Dollars in thousands, except share and per share data)

(*unaudited*)

Note 1: Basis of Presentation

The accompanying consolidated interim financial statements are unaudited. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All inter-company transactions have been eliminated in consolidation. Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation. The net income reported for the three and nine months ended September 30, 2015, is not necessarily indicative of the results that may be expected for the year ending December 31, 2015, or any other interim periods.

The consolidated balance sheet at December 31, 2014, has been derived from audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X (17 CFR Part 210). Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, please refer to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014, and notes thereto.

Note 2: Management s Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, other-than-temporary impairments on securities, income tax estimates, and the valuation of intangible assets.

Allowance for Loan Losses: The allowance for loan losses (the allowance) is a significant accounting estimate used in the preparation of the Company s consolidated financial statements. The allowance is available to absorb losses on loans and is maintained at a level that, in management s judgment, is appropriate for the amount of risk inherent in the loan portfolio, given past and present conditions. The allowance is increased by provisions charged to operating expense and by recoveries on loans previously charged-off, and is decreased by loans or portion of loans charged-off as uncollectible.

Arriving at an appropriate level of allowance involves a high degree of judgment. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated regularly based on a review of loans, with particular emphasis on non-performing or other loans that management believes warrant special consideration. The ongoing evaluation process includes a formal analysis, which considers among other factors: the nature of the loan portfolios, business and economic conditions, real estate market conditions, collateral values, changes in product offerings or loan terms, loan growth, experience, ability, and depth of management, changes in underwriting and/or collection policies and procedures, changes in volumes of loan portfolios and speed of loan portfolio growth, concentrations to industries or individual borrowers, external factors including industry or regulatory changes, historical charge-off experience, delinquency trends, non-performing loan trends, the performance of individual loans in relation to contract terms, loan loss emergence periods, and estimated fair values of collateral.

The allowance consists of allowances established for specific loans including impaired loans; pools of loans based on historical charge-offs by loan types; and supplemental allowances that adjust historical loss experience to reflect current economic conditions, industry specific risks, and other observable data.

While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance, which also may necessitate future additions or reductions to the allowance, based on information available to them at the time of their examination.

Other-Than-Temporary Impairments on Investment Securities**:** One of the significant estimates relating to securities is the evaluation of other-than-temporary impairment (OTTI). If a decline in the fair value of a security is judged to be other-than-temporary, and management does not intend to sell the security and believes it is more-likely-than-not the Company will not be required to sell the security prior to recovery of cost or amortized cost, the portion of the total impairment attributable to the credit loss is recognized in earnings, and the remaining difference between the security s amortized cost basis and its fair value is included in other comprehensive income.

For impaired available for sale debt securities that management intends to sell, or where management believes it is more-likely-than-not that the Company will be required to sell, an OTTI charge is recognized in earnings equal to the difference between fair value and cost or amortized cost basis of the security. The fair value of the OTTI security becomes its new cost basis.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of securities should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. The Company has a security monitoring process that identifies securities that, due to certain characteristics, as described below, are subjected to an enhanced analysis on a quarterly basis.

Securities that are in an unrealized loss position are reviewed at least quarterly to determine if an OTTI is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the cause of the impairment; (b) the financial condition, credit rating and future prospects of the issuer; (c) whether the underlying debtor is current on contractually obligated interest and principal payments; (d) the volatility of the securities fair value; (e) performance indicators of the underlying assets in the security including default rates, delinquency rates, percentage of non-performing assets, loan to collateral value ratios, conditional payment rates, third party guarantees, current levels of subordination, vintage, and geographic concentration and; (f) any other information and observable data considered relevant in determining whether an OTTI has occurred, including the expectation of the receipt of all principal and interest due.

In addition, for securitized financial assets with contractual cash flows, such as private label mortgage-backed securities (MBS), the Company periodically updates its best estimate of cash flows over the life of the security. The Company s best estimate of cash flows is based upon assumptions consistent with the current economic environment, similar to those the Company believes market participants would useEstimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain assumptions and judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

Income Taxes: The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information indicates that it is more-likely-than-not that deferred tax assets will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities. As of September 30, 2015, and December 31, 2014, there was no valuation allowance for deferred tax assets.

Goodwill and Identifiable Intangible Assets: In connection with acquisitions, the Company generally records as assets on its consolidated financial statements both goodwill and identifiable intangible assets, such as core deposit intangibles.

The Company evaluates whether the carrying value of its goodwill has become impaired, in which case the value is reduced through a charge to its earnings. Goodwill is evaluated for impairment at least annually, or upon a triggering event using certain fair value techniques. Goodwill impairment testing is performed at the segment (or reporting unit) level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to the reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in accordance with the purchase method of accounting for business combinations. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. The Company completes its annual goodwill impairment test as of December 31 of each year. The impairment testing process is conducted by assigning assets and goodwill to each reporting unit. Currently, the Company s goodwill is evaluated at the entity level as there is only one reporting unit. The Company first assesses certain qualitative factors to determine if it is more-likely-than-not that the fair value of the reporting unit is less than its carrying value. If it is more-likely-than-not that the fair value of the reporting unit is less than the carrying value, then the fair value of each reporting unit is compared to the recorded book value (step one). If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired and step two is not considered necessary. If the carrying value of a reporting unit exceeds its fair value, the impairment test continues (step two) by comparing the carrying value of the reporting unit s goodwill to the implied fair value of goodwill. The implied fair value is computed by adjusting all assets and liabilities of the reporting unit to current fair value with the offset adjustment to goodwill. The adjusted goodwill balance is the implied fair value of the goodwill. An impairment charge is recognized if the carrying fair value of goodwill exceeds the implied fair value of goodwill. At December 31, 2014, there was no indication of impairment that led the Company to believe it needed to perform a two-step test.

Any changes in the estimates used by the Company to determine the carrying value of its goodwill, or which otherwise adversely affect their value or estimated lives, would adversely affect the Company s consolidated results of operations.

Note 3: Three-for-two Common Stock Split

On April 22, 2014, the Company s Board of Directors declared a three-for-two split of its common stock, payable as a large stock dividend, which was paid on May 19, 2014 (the payment date) to all stockholders of record at the close of business on May 5, 2014. As of April 22, 2014, the Company had approximately 3,944,290 shares of common stock outstanding. After the stock split as a large stock dividend, the number of shares of Company common stock outstanding increased to 5,916,435. All previously reported share and per share data included in public filings subsequent to the payment date have been adjusted to reflect the retroactive effect of this three-for-two stock split.

Note 4: Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share 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 Company, such as the Company s dilutive stock options and awards.

The following is a reconciliation of basic and diluted earnings per share for the three and nine months ended September 30, 2015, and 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	**2014**	**2015**	**2014**
Net income	$ 3,931	$ 3,867	$ 11,685	$ 11,511
Weighted average common shares outstanding				
Basic	5,991,073	5,931,342	5,972,927	5,921,427
Effect of dilutive employee stock options	75,757	52,581	81,667	44,147
Diluted	6,066,830	5,983,923	6,054,594	5,965,574
Anti-dilutive options excluded from earnings per share calculation	64,763	41,256	66,960	85,431
Per Common Share Data:				
Basic earnings per share	$ 0.66	$ 0.65	$ 1.96	$ 1.94

Diluted earnings per share	$ 0.65	$ 0.65	$ 1.93	$ 1.93

All share and per share amounts have been adjusted to reflect the effect of the 3-for-2 stock split (dividend) during May 2014.

Note 5: Securities Available For Sale

The following tables summarize the securities available for sale portfolio as of September 30, 2015, and December 31, 2014:

September 30, 2015		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$295,647	$ 7,750	$ 831	$302,566
US Government agency	82,213	1,734	270	83,677
Private label	2,968	782	8	3,742
Obligations of states and				
political subdivisions thereof	109,649	3,621	575	112,695
Total	$490,477	$13,887	$1,684	$502,680

December 31, 2014		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$282,217	$ 7,530	$1,537	$288,210
US Government agency	82,249	1,626	529	83,346
Private label	3,723	815	14	4,524
Obligations of states and				
political subdivisions thereof	90,181	4,516	252	94,445
Total	$458,370	$14,487	$2,332	$470,525

Securities Maturity Distribution: The following table summarizes the maturity distribution of the amortized cost and estimated fair value of securities available for sale as of September 30, 2015. Actual maturities may differ from the final maturities noted below because issuers may have the right to prepay or call certain securities. In the case of MBS, actual maturities may also differ from expected maturities due to the amortizing nature of the underlying mortgage collateral, and the fact that borrowers have the right to prepay.

Securities Available for Sale	**Amortized**	**Estimated**

	Cost	Fair Value
Due one year or less	$ 5	$ 5
Due after one year through five years	5,293	5,381
Due after five years through ten years	15,972	16,912
Due after ten years	469,207	480,382
Total	$490,477	$502,680

Securities Impairment: As a part of the Company s ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired (OTTI). For the three and nine months ended September 30, 2015 and 2014, the Company did not have any OTTI losses recognized in earnings (before taxes).

Upon initial impairment of a security, total OTTI losses represent the excess of the amortized cost over the fair value. For subsequent impairments of the same security, total OTTI losses represent additional credit losses and or declines in fair value subsequent to the previously recorded OTTI losses, if applicable. Unrealized OTTI losses recognized in accumulated other comprehensive income (OCI) represent the non-credit component of OTTI losses on debt securities. Net impairment losses recognized in earnings represent the credit component of OTTI losses on debt securities.

As of September 30, 2015, the Company held eleven private label MBS (debt securities) with a total amortized cost (i.e. carrying value) of $1,360 for which OTTI losses have previously been recognized in pre-tax earnings dating back to the fourth quarter of 2008. For all eleven of these securities, the Company previously recognized credit losses in excess of the unrealized losses in accumulated OCI, creating an unrealized gain of $472, net of tax, as included in accumulated OCI as of September 30, 2015, compared with net unrealized gains of $478, net of tax, at December 31, 2014.

The OTTI losses previously recognized in earnings represented management s best estimate of credit losses inherent in the securities based on discounted, bond-specific future cash flow projections using assumptions about cash flows associated with the pools of mortgage loans underlying each security. In estimating those cash flows the Company takes a variety of factors into consideration including, but not limited to, loan level credit characteristics, current delinquency and non-performing loan rates, current levels of subordination and credit support, recent default rates and future constant default rate estimates, original and current loan to collateral value ratios, recent collateral loss severities and future collateral loss severity estimates, recent and historical conditional prepayment rates and future conditional prepayment rate assumptions, and other estimates of future collateral performance.

Despite elevated levels of delinquencies, defaults and losses in the underlying residential mortgage loan collateral, given credit enhancements resulting from the structures of the individual securities, the Company expects that as of September 30, 2015, it will recover the amortized cost basis of its private label MBS as depicted in the table below and has therefore concluded that such securities were not OTTI as of that date. Nevertheless, given recent market conditions, it is possible that adverse changes in repayment performance and fair value could occur in future periods that would change the Company s current best estimates.

The following table displays the beginning balance of OTTI related to historical credit losses on debt securities held by the Company at the beginning of the current reporting period, as well as changes in credit losses recognized in pre-tax earnings for the three and nine months ending September 30, 2015, and 2014.

	2015	**2014**
Estimated credit losses as of June 30,	$3,180	$3,413
Additions for credit losses for securities on which OTTI has been previously recognized	---	---
Additions for credit losses for securities on which OTTI has not been previously recognized	---	---
Reductions for securities paid off during the period	---	---
Estimated credit losses as of September 30,	$3,180	$3,413

	2015	2014
Estimated credit losses as of prior year-end,	$3,413	$3,923
Additions for credit losses for securities on which OTTI has been previously recognized	---	---
Additions for credit losses for securities on which OTTI has not been previously recognized	---	---
Reductions for securities paid off during the period	233	510
Estimated credit losses as of September 30,	$3,180	$3,413

As of September 30, 2015, based on a review of the remaining securities in the securities portfolio, the Company concluded that it expects to recover its amortized cost basis for such securities. This conclusion was based on the issuers continued satisfaction of the securities obligations in accordance with their contractual terms and the expectation that they will continue to do so through the maturity of the security, the expectation that the Company will receive the entire amount of future contractual cash flows, as well as the evaluation of the fundamentals of the issuers financial condition and other objective evidence. Accordingly, the Company concluded that any declines in the values of those securities were temporary and that any additional OTTI charges were not appropriate at September 30, 2015. As of that date, the Company did not intend to sell nor anticipated that it would more-likely-than-not be required to sell any of its impaired securities, that is, where fair value is less than the cost basis of the security.

The following table summarizes the fair value of securities with continuous unrealized losses for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or longer as of September 30, 2015 and December 31, 2014. All securities referenced are debt securities.

	Less than 12 months			**12 months or longer**			**Total**		
September 30, 2015	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**	**Estimated Fair Value**	**Number of Investments**	**Unrealized Losses**
Description of Securities:									
Mortgage-backed securities:									
US Government-sponsored enterprises	$36,750	57	$ 275	$22,812	32	$556	$ 59,562	89	$ 831
US Government agency	10,229	19	120	10,989	18	150	21,218	37	270
Private label	8	1	---	182	5	8	190	6	8
Obligations of states and political subdivisions thereof	26,900	48	392	4,275	14	183	31,175	62	575
Total	$73,887	125	$ 787	$38,258	69	$897	$112,145	194	$1,684

	Less than 12 months			**12 months or longer**			**Total**		
	Estimated			**Estimated**			**Estimated**		

December 31, 2014	Fair Value	Number of Investments	Unrealized Losses	Fair Value	Number of Investments	Unrealized Losses	Fair Value	Number of Investments	Unrealized Losses
Description of Securities:									
Mortgage-backed securities:									
US Government-sponsored enterprises	$45,899	53	$1,168	$35,511	45	$369	$ 81,410	98	$1,537
US Government agency	19,404	24	483	3,657	21	46	23,061	45	529
Private label	336	4	7	145	4	7	481	8	14
Obligations of states and political subdivisions thereof	12,549	28	240	2,724	5	12	15,273	33	252
Total	$78,188	109	$1,898	$42,037	75	$434	$120,225	184	$2,332

For securities with unrealized losses, the following information was considered in determining that the impairments were not other-than-temporary:

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Mortgage-backed securities issued by U.S. Government-sponsored enterprises: As of September 30, 2015, the total unrealized losses on these securities amounted to $831, compared with $1,537 at December 31, 2014. All of these securities were credit rated AA+ by the major credit rating agencies. Company management believes these securities have minimal credit risk, as these Government-sponsored enterprises play a vital role in the nation s financial markets. Management s analysis indicates that the unrealized losses at September 30, 2015 were attributed to changes in current market yields and pricing spreads for similar securities since the date the underlying securities were purchased, and does not consider these securities to be OTTI at September 30, 2015.

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Mortgage-backed securities issued by U.S. Government agencies: As of September 30, 2015, the total unrealized losses on these securities amounted to $270, compared with $529 at December 31, 2014. All of these securities were credit rated AA+ by the major credit rating agencies. Management s analysis indicates that these securities bear little or no credit risk because they are backed by the full faith and credit of the United States. The Company attributes the unrealized losses at September 30, 2015 to changes in current market yields and pricing spreads for similar securities since the date the underlying securities were purchased, and does not consider these securities to be OTTI at September 30, 2015.

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Private label mortgage-backed securities: As of September 30, 2015, the total unrealized losses on the Bank s private label MBS amounted to $8, compared with $14 at December 31, 2014. The Company attributes the unrealized losses at September 30, 2015 to the current illiquid market for non-agency MBS, a still recovering housing market, risk-related market pricing discounts for non-agency MBS and credit rating downgrades on certain private label MBS owned by the Company. Based upon the foregoing considerations and the expectation that the Company will receive all of the future contractual cash flows related to amortized cost on these securities, the Company does not consider there to be any additional OTTI with respect to these securities at September 30, 2015.

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Obligations of states of the U.S. and political subdivisions thereof: As of September 30, 2015, the total unrealized losses on the Bank s municipal securities amounted to $575, compared with $252 at December 31, 2014. The Bank s municipal securities primarily consist of general obligation bonds and to a lesser extent, revenue bonds. General obligation bonds carry less risk, as they are supported by the full faith, credit and taxing authority of the issuing government and in the cases of school districts, are additionally supported by state aid. Revenue bonds are generally backed by municipal revenue streams generated through user fees or lease payments associated with specific municipal projects that have been financed.

Municipal bonds are frequently supported with insurance, which guarantees that, in the event the issuer experiences financial problems, the insurer will step in and assume payment of both principal and interest. Historically, insurance support has strengthened an issuer s underlying credit rating to AAA or AA status. Starting in 2008 and continuing through 2015, many of the insurance companies providing municipal bond insurance experienced financial difficulties and, accordingly, were downgraded by at least one of the major credit rating agencies. Consequently, a portion of the Bank s municipal bond portfolio was downgraded by at least one of the major credit rating agencies. Notwithstanding the credit rating downgrades, at September 30, 2015, the Bank s municipal bond portfolio did not contain any below investment grade securities as reported by major credit rating agencies. In addition, at September 30, 2015, all municipal bond issuers were current on contractually obligated interest and principal payments.

The Company attributes the unrealized losses at September 30, 2015 to changes in current market yields and pricing spreads for similar securities since the date the underlying securities were purchased and, to a lesser extent, changes in credit ratings on certain securities. The Company also attributes the unrealized losses to ongoing media attention and market concerns about the prolonged recovery from the national economic recession and the impact it might have on the future financial stability of municipalities throughout the country. Accordingly, the Company does not consider these municipal securities to be other-than-temporarily impaired at September 30, 2015.

At September 30, 2015, the Company had no intent to sell nor believed it is more-likely-than-not that it would be required to sell any of its impaired securities as identified and discussed immediately above, and therefore did not consider these securities to be other than temporarily impaired as of that date.

Securities Gains and Losses: The following table summarizes realized gains and losses on securities available for sale for the three and nine months ended September 30, 2015 and 2014.

	Proceeds from Sale of Securities Available for Sale	**Realized Gains**	**Realized Losses**	**Other Than Temporary Impairment Losses**	**Net**
Three months ended September 30,					
2015	$ ---	$ ---	$ ---	$ ---	$ ---
2014	$ 4,342	$ 27	$108	$ ---	$ (81)
Nine months ended September 30,					
2015	$20,428	$1,206	$ ---	$ ---	$1,206
2014	$26,563	$ 809	$143	$ ---	$ 666

Note 6: Loans and Allowance for Loan Losses

Loans are carried at the principal amounts outstanding adjusted by partial charge-offs and net deferred loan origination costs or fees.

Interest on loans is accrued and credited to income based on the principal amount of loans outstanding. Residential real estate and home equity loans are generally placed on non-accrual status when reaching 90 days past due, or in process of foreclosure, or sooner if judged appropriate by management. Consumer loans are generally placed on non-accrual status when reaching 90 days or more past due, or sooner if management determines there is a reason to doubt full collectability of all outstanding principal and interest. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 days past due. Commercial real estate loans and commercial business loans that are 90 days or more past due are generally placed on non-accrual status, unless secured by sufficient cash or other assets immediately convertible to cash, and the loan is in the process of collection. Commercial real estate and commercial business loans may be placed on non-accrual status prior to the 90 days delinquency date if management determines there is a reason to doubt full collectability of all outstanding principal and interest. When a loan has been placed on non-accrual status, previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when there is evidence of an ability to adhere to the required repayment schedule and the loan has performed for a period of time, generally six months.

Commercial real estate and commercial business loans are considered impaired when it becomes probable the bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and collateral value. In considering loans for evaluation of impairment, management generally excludes smaller balance, homogeneous loans, residential mortgage loans, home equity loans, and all consumer loans, unless such loans were restructured in a troubled debt restructuring. These loans are collectively evaluated for risk of loss.

Loan origination, commitment fees and direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loans yield, using the level yield method over the estimated lives of the related loans.

The Company s lending activities are principally conducted in downeast, midcoast and central Maine. The following table summarizes the composition of the loan portfolio as of September 30, 2015, and December 31, 2014:

LOAN PORTFOLIO SUMMARY

	September 30, 2015	**December 31, 2014**
Commercial real estate mortgages	$372,517	$325,949
Commercial and industrial	77,888	73,893
Commercial construction and land development	25,154	25,421
Agricultural and other loans to farmers	32,520	30,471
Total commercial loans	508,079	455,734
Residential real estate mortgages	391,068	382,678
Home equity loans	51,290	51,795
Other consumer loans	10,147	12,140
Total consumer loans	452,505	446,613
Tax exempt loans	15,319	16,693
Net deferred loan costs and fees	47	(16)
Total loans	975,950	919,024
Allowance for loan losses	(9,037)	(8,969)
Total loans net of allowance for loan losses	$966,913	$910,055

Loan Origination/Risk Management: The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. The Bank s board of directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the board with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing loans and potential problem loans. The Bank seeks to diversify the loan portfolio as a means of managing risk associated with fluctuations in economic conditions.

Commercial Real Estate Mortgages: The Bank s commercial real estate mortgage loans are collateralized by liens on real estate, typically have variable interest rates and amortize over a 15 to 20 year period. These loans are underwritten primarily as cash flow loans and secondarily as loans secured by real estate. Payments on loans secured by such properties are largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Accordingly, repayment of these loans may be subject to adverse economic conditions to a greater extent than other types of loans. The Bank seeks to minimize these risks in a variety of ways, including giving careful consideration to the property s operating history, future operating projections, current and projected occupancy, location and physical condition in connection with underwriting these loans. The underwriting analysis also includes credit verification, analysis of global cash flows, appraisals and a review of the financial condition of the borrower. Reflecting the Bank s business region, at September 30, 2015, approximately

26.1% of the commercial real estate mortgage portfolio was represented by loans to the lodging industry. The Bank underwrites lodging industry loans as operating businesses, lending primarily to seasonal establishments with stabilized cash flows.

Commercial and Industrial Loans: Commercial and industrial loans are underwritten after evaluating and understanding the borrower s ability to operate profitably, and prudently expand its business. Commercial and industrial loans are primarily made in the Bank s market areas and are underwritten on the basis of the borrower s ability to service the debt from income. As a general practice, the Bank takes as collateral a lien on available real estate, equipment or other assets owned by the borrower and obtains a personal guaranty of the borrower(s) or principal(s). Working capital loans are primarily collateralized by short-term assets whereas term loans are primarily collateralized by long-term assets. The risk in commercial and industrial loans is principally due to the type of collateral securing these loans. The increased risk also derives from the expectation that commercial and industrial loans generally will be serviced principally from the operations of the business, and, if not successful, these loans are primarily secured by tangible, non-real estate collateral.

Construction and Land Development Loans: The Bank makes loans to finance the construction of residential and non-residential properties. Construction loans generally are collateralized by first liens on real estate. The Bank conducts periodic inspections, either directly or through an agent, prior to approval of periodic draws on these loans. Underwriting guidelines similar to those described immediately above are also used in the Bank s construction lending activities. Construction loans involve additional risks attributable to the fact that loan funds are advanced against a project under construction and the project is of uncertain value prior to its completion. Because of uncertainties inherent in estimating construction costs, the market value of the completed project and the effects of governmental regulation on real property, it can be difficult to accurately evaluate the total funds required to complete a project and the related loan to value ratio. As a result of these uncertainties, construction lending often involves the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. In many cases the success of the project can also depend upon the financial support/strength of the sponsorship. If the Bank is forced to foreclose on a project prior to completion, there is no assurance that the Bank will be able to recover the entire unpaid portion of the loan. In addition, the Bank may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. While the Bank has underwriting procedures designed to identify what it believes to be acceptable levels of risks in construction lending, no assurance can be given that these procedures will prevent losses from the risks described above.

Residential Real Estate Mortgages: The Bank originates and purchases first-lien, adjustable-rate and fixed-rate, one-to-four-family residential real estate loans for the construction, purchase or refinancing of residential property. These loans are principally collateralized by owner-occupied properties, and to a lesser extent second homes and vacation properties, and are amortized over 10 to 30 years. From time to time the Bank will sell longer-term, low rate, residential mortgage loans to the Federal Home Loan Mortgage Corporation (FHLMC) with servicing rights retained. This practice allows the Bank to better manage interest rate risk and liquidity risk. In an effort to manage risk of loss and strengthen secondary market liquidity opportunities, management typically uses secondary market underwriting, appraisal, and servicing guidelines for all loans, including those held in its portfolio. Loans on one-to-four-family residential real estate are mostly originated in amounts of no more than 80% of appraised value or have private mortgage insurance. Mortgage title insurance and hazard insurance are required. Construction loans have a unique risk, because they are secured by an incomplete dwelling. This risk is reduced through more stringent underwriting standards, including regular inspections throughout the construction period.

Home Equity Loans: The Bank originates home equity lines of credit and second mortgage loans (loans which are secured by a junior lien position on one-to-four-family residential real estate). These loans carry a higher risk than first mortgage residential loans as they are in a second position relating to collateral. Risk is reduced through underwriting criteria, which include credit verification, appraisals and evaluations, a review of the borrower's financial condition, and personal cash flows. A security interest, with title insurance when necessary, is taken in the underlying real estate.

Non-performing Loans: The following table sets forth information regarding non-accruing loans and accruing loans 90 days or more overdue at September 30, 2015, and December 31, 2014.

TOTAL NON-PERFORMING LOANS

	September 30, 2015	**December 31, 2014**
Commercial real estate mortgages	$1,163	$ 3,156
Commercial and industrial loans	297	624
Commercial construction and land development	1,260	1,328
Agricultural and other loans to farmers	16	84
Total commercial loans	2,736	5,192
Residential real estate mortgages	3,492	6,051
Home equity loans	791	1,029
Other consumer loans	14	16
Total consumer loans	4,297	7,096
Total non-accrual loans	7,033	12,288
Accruing loans contractually past due 90 days or more	---	---
Total non-performing loans	$7,033	$12,288

Troubled Debt Restructures: A Troubled Debt Restructure (TDR) results from a modification to a loan to a borrower who is experiencing financial difficulty in which the Bank grants a concession to the debtor that it would not otherwise consider but for the debtor s financial difficulties. Financial difficulty arises when a debtor is bankrupt or contractually past due, or is likely to become so, based upon its ability to pay. A concession represents an accommodation not generally available to other customers, which may include a below-market interest rate, deferment of principal payments, extension of maturity dates, etc. Such accommodations extended to customers who are not experiencing financial difficulty do not result in TDR classification.

Summary information pertaining to the TDRs that occurred during the three and nine months ended September 30, 2015 and 2014 follows:

	For the Three Months Ended September 30, 2015			For the Nine Months Ended September 30, 2015		
	Number of Loans	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Commercial real estate mortgages	3	$214	$226	3	$ 214	$ 226
Commercial and industrial loans	---	---	---	---	---	---
Agricultural and other loans to farmers	---	---	---	1	18	16
Total commercial loans	3	214	226	4	232	242
Residential real estate mortgages	---	$ ---	$ ---	3	$1,267	$1,266
Home equity loans	---	---	---	---	---	---
Other consumer loans	---	---	---	---	---	---
Total consumer loans	---	---	---	3	1,267	1,266
Total	3	$214	$226	7	$1,499	$1,508

	For the Three Months Ended September 30, 2014			For the Nine Months Ended September 30, 2014		
	Number of Loans	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment**	**Post-Modification Outstanding Recorded Investment**
Agricultural and other loans to farmers	1	$100	$ 99	1	$ 100	$ 99
Total commercial loans	1	100	99	1	100	99
Total	1	$100	$ 99	1	$ 100	$ 99

The following tables show the Bank s post-modification balance of TDRs listed by type of modification for TDRs that occurred during the three and nine months ended September 30, 2015 and 2014:

	September 30, 2015		**September 30, 2014**	
	Three Months Ended	**Nine Months Ended**	**Three Months Ended**	**Nine Months Ended**
Extended maturity and adjusted interest rate	$118	$ 134	$99	$99
Adjusted payment	---	607	---	---
Adjusted payment and capitalized interest	---	187	---	---
Extended maturity, adjusted interest rate, and adjusted payment	108	580	---	---
Total	$226	$1,508	$99	$99

As of September 30, 2015, the Bank had two agricultural loans to two relationships totaling $108, six commercial real estate loans to four relationships totaling $963, four commercial and industrial loans to three relationships totaling $140, five residential real estate loans to five relationships totaling $1,650, one home equity loan for $18, and one other consumer loan for $9, that were classified as TDRs. At

September 30, 2015, five of these TDRs totaling $812 were classified as non-accrual, and none were past due 30 days or more and still accruing.

As of December 31, 2014, the Bank had six real estate secured loans, six commercial and industrial loans, one agricultural loan, and one other consumer loan, to nine relationships totaling $1,449 that were classified as TDRs. At December 31, 2014, seven of these TDRs totaling $357 were classified as non-accrual, and none were past due 30 days or more and still accruing.

During the nine months ended September 30, 2015 and 2014, there were no defaults on loans that had been modified as TDRs within the previous twelve months. A default for purposes of this disclosure is a TDR in which the borrower is 90 days or more past due or results in foreclosure and repossession of the applicable collateral.

Past due loans: Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. The following tables set forth information regarding past due loans at September 30, 2015, and December 31, 2014. Amounts shown exclude deferred loan origination fees and costs.

September 30, 2015	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or Greater**	**Total Past Due**	**Current**	**Total Loans**	**Non-Accrual**	**>90 Days Past Due and Accruing**
Commercial real estate mortgages	$ 698	$ ---	$ 115	$ 813	$371,704	$372,517	$ 1,163	$ ---
Commercial and industrial	13	3	274	290	77,598	77,888	297	---
Commercial construction and land development	---	---	1,260	1,260	23,894	25,154	1,260	---
Agricultural and other loans to farmers	2	---	---	2	32,518	32,520	16	---
Residential real estate mortgages	1,429	78	1,149	2,656	388,412	391,068	3,492	---
Home equity	25	60	767	852	50,438	51,290	791	---
Other consumer loans	57	6	2	65	10,082	10,147	14	---
Tax exempt	---	---	---	---	15,319	15,319	---	---
Total	$2,224	$147	$3,567	$5,938	$969,965	$975,903	$ 7,033	$ ---

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans	Non-Accrual	>90 Days Past Due and Accruing
Commercial real estate mortgages	$ 189	$234	$1,843	$2,266	$323,683	$325,949	$ 3,156	$ ---
Commercial and industrial	665	45	333	1,043	72,850	73,893	624	---
Commercial construction and land development	---	---	1,328	1,328	24,093	25,421	1,328	---
Agricultural and other loans to farmers	27	---	64	91	30,380	30,471	84	---
Residential real estate mortgages	1,980	547	1,681	4,208	378,470	382,678	6,051	---
Home equity	138	40	575	753	51,042	51,795	1,029	---
Other consumer loans	231	5	7	243	11,897	12,140	16	---
Tax exempt	---	---	---	---	16,693	16,693	---	$ ---
Total	$3,230	$871	$5,831	$9,932	$909,108	$919,040	$12,288	$ ---

Impaired Loans: Impaired loans are all commercial loans for which the Company believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement, as well as all loans modified into a TDR, if any. Allowances for losses on impaired loans are determined by the lower of the present value of the expected cash flows related to the loan, using the original contractual interest rate, and its recorded value, or in the case of collateral dependent loans, the lower of the fair value of the collateral, less costs to dispose, and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral less cost to sell.

Details of impaired loans as of September 30, 2015 and December 31, 2014 follows:

	September 30, 2015			**December 31, 2014**		
		Unpaid			**Unpaid**	
	Recorded Investment	**Principal Balance**	**Related Allowance**	**Recorded Investment**	**Principal Balance**	**Related Allowance**
With no related allowance:						
Commercial real estate mortgages	$1,583	$1,627	$ ---	$1,606	$1,606	$ ---
Commercial and industrial	212	246	---	309	309	---
Commercial construction and land development	---	---	---	1,328	3,253	---
Agricultural and other loans to farmers	108	108	---	181	181	---
Residential real estate loans	1,302	1,447	---	389	419	---
Home equity loans	18	18	---	---	---	---
Other consumer	---	---	---	---	---	---
Subtotal	$3,223	$3,446	$ ---	$3,813	$5,768	$ ---
With an allowance:						
Commercial real estate mortgages	$ 405	$ 405	$ 39	$1,986	$2,014	$776
Commercial and industrial	225	375	176	325	555	187
Commercial construction and land development	1,260	3,185	24	---	---	---
Agricultural and other loans to farmers	---	---	---	---	---	---
Residential real estate loans	348	348	52	---	---	---
Home equity loans	---	---	---	---	---	---
Other consumer	9	9	---	10	10	1
Subtotal	$2,247	$4,322	$291	$2,321	$2,579	$964
Total	$5,470	$7,768	$291	$6,134	$8,347	$964

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Details of impaired loans for the three and nine months ended September 30, 2015 and 2014 follows:

	September 30, 2015				September 30, 2014			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	Average Recorded Investment	Interest Recorded	Average Recorded Investment	Interest Recorded	Average Recorded Investment	Interest Recorded	Average Recorded Investment	Interest Recorded
With no related allowance:								
Commercial real estate mortgages	$2,408	$20	$3,099	$42	$1,763	$11	$1,877	$43
Commercial and industrial	231	2	334	7	512	1	663	3
Commercial construction and land development	---	---	---	---	1,328	---	1,576	---
Agricultural and other loans to farmers	123	3	155	7	143	---	89	2
Residential real estate mortgages	1,332	8	1,325	21	468	3	470	10
Home equity loans	18	---	18	1	20	1	20	1
Other consumer	---	---	---	---	11	---	12	---
Subtotal	$4,112	$33	$4,931	$78	$4,245	$16	$4,707	$59
With an allowance:								
Commercial real estate mortgages	$ 405	$ ---	$ 405	$ ---	$ 229	$---	$ 498	$---
Commercial and industrial	226	---	228	---	404	---	403	---
Commercial construction	1,260	---	1,260	---	---	---	---	---

and land development								
Agricultural and other loans to farmers	---	---	---	---	---	---	---	---
Residential real estate mortgages	348	---	346	---	---	---	---	---
Home equity loans	---	---	---	---	---	---	---	---
Other consumer	10	---	10	---	---	---	---	---
Subtotal	$2,249	$ ---	$2,249	$ ---	$ 633	$---	$ 901	$---
Total	$6,361	$33	$7,180	$78	$4,878	$16	$5,608	$59

Credit Quality Indicators/Classified Loans: In monitoring the credit quality of the portfolio, management applies a credit quality indicator to all categories of commercial loans. These credit quality indicators range from one through nine, with a higher number correlating to increasing risk of loss. These ratings are used as inputs to the calculation of the allowance for loan losses.

Consistent with regulatory guidelines, the Bank provides for the classification of loans which are considered to be of lesser quality as substandard, doubtful, or loss. The Bank considers a loan substandard if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness that jeopardizes liquidation of the debt. Substandard loans include those loans where there is the distinct possibility of some loss of principal, if the deficiencies are not corrected.

Loans that the Bank classifies as doubtful have all of the weaknesses inherent in those loans that are classified as substandard but also have the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

Loans that the Bank classifies as loss are those considered uncollectible and of such little value that their continuance as an asset is not warranted and the uncollectible amounts are charged-off. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are determined to be uncollectible.

Loans that do not expose the Bank to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are designated special mention. A special mention loan has potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution s credit position at some future date. This might include loans which the lending officer may be unable to supervise properly because of: (i) lack of expertise, inadequate loan agreement; (ii) the poor condition of or lack of control over collateral; (iii) failure to obtain proper documentation or any other deviations from prudent lending practices. Economic or market conditions which may, in the future, affect the obligor may warrant special mention of the asset. Loans for which an adverse trend in the borrower's operations or an imbalanced position in the balance sheet which has not reached a point where the liquidation is jeopardized may be included in this classification. Special mention assets are not adversely classified and do not expose an institution to sufficient risks to warrant classification.

The following tables summarize the commercial loan portfolio as of September 30, 2015, and December 31, 2014, by credit quality indicator. Credit quality indicators are reassessed for each applicable commercial loan at least annually, or upon receipt and analysis of the borrower s financial statements, when applicable. Consumer loans, which principally consist of residential mortgage loans, are not rated, but are evaluated for credit quality after origination based on delinquency status (see past due loan aging table above).

September 30, 2015	**Commercial real estate mortgages**	**Commercial and industrial**	**Commercial construction and land development**	**Agricultural and other loans to farmers**	**Total**
Pass	$346,503	$72,568	$23,607	$32,182	$474,860
Other Assets Especially Mentioned	8,845	2,623	287	183	11,938
Substandard	17,169	2,696	1,260	155	21,280
Doubtful	---	---	---	---	---
Loss	---	1	---	---	1
Total	$372,517	$77,888	$25,154	$32,520	$508,079

December 31, 2014	**Commercial real estate mortgages**	**Commercial and industrial**	**Commercial construction and land development**	**Agricultural and other loans to farmers**	**Total**
Pass	$302,376	$62,226	$23,290	$30,047	$417,939

Other Assets Especially Mentioned	11,501	7,349	---	193	19,043
Substandard	12,072	4,318	2,131	231	18,752
Doubtful	---	---	---	---	---
Loss	---	---	---	---	---
Total	$325,949	$73,893	$25,421	$30,471	$455,734

Allowance for Loan Losses: The allowance for loan losses (the allowance) is a reserve established through a provision for loan losses (the provision) charged to expense, which represents management s best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to provide for estimated loan losses and risks inherent in the loan portfolio. The Bank s allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, Receivables and allowance allocations calculated in accordance with ASC Topic 450, Contingencies. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, homogeneous risk pools and specific loss allocations, with qualitative factor adjustments for current events and conditions. The allowance calculation also includes an estimated adjustment for a Loss Emergence Period, which improves the Bank s ability to more accurately forecast probable losses that may exist in the loan portfolio that have not yet emerged into problem loan status. The Bank s process for determining the appropriate level of the allowance is designed to account for credit deterioration as it occurs. The provision reflects loan quality trends, including the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans, net charge-offs or recoveries, and the overall size of the loan portfolio, among other factors. The provision also reflects the totality of actions taken on all loans for a particular period. In other words, the amount of the provision reflects not only the necessary increases in the allowance related to newly identified criticized loans, but it also reflects actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools.

The level of the allowance reflects management s continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Bank s control, including, among other things, the performance of the Bank s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Bank s allowance for loan losses consists of three principal elements: (i) specific valuation allowances determined in accordance with ASC Topic 310 based on probable losses on specific loans; (ii) historical valuation allowances determined in accordance with ASC Topic 450 based on historical loan loss experience for similar loans with similar characteristics and trends, adjusted, as necessary, to reflect the impact of current conditions; and (iii) general valuation allowances determined in accordance with ASC Topic 450 based on general economic conditions and other qualitative risk factors both internal and external to the Bank.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of problem loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor s ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the relationship level for all commercial loans. When a loan has a classification of substandard or worse, the Bank analyzes the loan to determine whether the loan is impaired and, if impaired, the need to specifically allocate a portion of the allowance to the loan. Specific valuation allowances are determined by analyzing the borrower s ability to repay amounts contractually owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower s industry, among other observable considerations.

Historical valuation allowances are calculated based on the historical loss experience of specific types of loans and the internal risk grade of such loans at the time they were charged-off. The Bank calculates historical loss ratios for pools of similar loans with similar characteristics based on the proportion of actual net charge-offs experienced to the total loan balance in the pool. The historical loss ratios are updated quarterly based on this net charge-off experience. A historical valuation allowance is established for each pool of similar loans based upon the product of the historical loss ratio and the total dollar amount of the loans in the pool, net of any loans for which reserves are already established. The Bank s pools of similar loans include similarly risk-graded groups of commercial real estate loans, commercial and industrial loans, commercial construction and development loans, municipal loans, residential mortgage loans, consumer revolving loans, and consumer installment loans.

General valuation allowances are based on general economic conditions and other qualitative risk factors both internal and external to the Bank. In general, such valuation allowances are determined by evaluating, among other things: (i) changes in lending policies and procedures; (ii) economic and business conditions; (iii) changes in the volume and nature of the loan portfolio; (iv) experience, ability and depth of lending management and staff; (v) changes in asset quality and problem loan trends; (vi) quality of internal controls and effectiveness of loan review; (vii) concentrations of credit; (viii) external factors, including changes in competition, legal, and regulatory matters; and (ix) real estate market conditions and valuations of collateral. Management evaluates the degree of risk that each one of these components has on the quality of the loan portfolio on a quarterly basis. The results are then used to determine an appropriate general valuation allowance.

Loans identified as losses by management, external loan review and/or bank examiners, are charged-off. Furthermore, consumer loan accounts are charged-off based on regulatory requirements.

The following tables detail activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2015, and 2014 and twelve months ended December 31, 2014. The tables also provide details regarding the Bank s recorded investment in loans related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Bank s impairment methodology. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Three Months Ended September 30, 2015	**Commercial Real Estate**	**Commercial and Industrial**	**Commercial Construction and land development**	**Agricultural**	**Residential Real Estate**	**Consumer**	**Home Equity**	**Tax Exempt**	**Total**
Beginning Balance	$ 4,289	$ 1,147	$ 145	$ 372	$ 2,485	$ 110	$ 472	$ 79	$ 9,099
Charged Off	(461)	(22)	---	(54)	---	(23)	(25)	---	(585)
Recoveries	58	31	---	3	---	6	---	---	98
Provision	600	(49)	(12)	28	(182)	11	34	(5)	425
Ending Balance	$ 4,486	$ 1,107	$ 133	$ 349	$ 2,303	$ 104	$ 481	$ 74	$ 9,037

Nine Months Ended September 30, 2015	**Commercial Real Estate**	**Commercial and Industrial**	**Commercial Construction and land development**	**Agricultural**	**Residential Real Estate**	**Consumer**	**Home Equity**	**Tax Exempt**	**Total**
Beginning Balance	$ 4,468	$ 929	$ 145	$ 277	$ 2,714	$ 94	$ 271	$ 71	$ 8,969
Charged Off	(667)	(310)	---	(72)	(70)	(48)	(376)	---	(1,543)
Recoveries	97	33	---	15	129	17	---	---	291

Provision	588	455	(12)	129	(470)	41	586	3	1,320
Ending Balance	$ 4,486	$ 1,107	$ 133	$ 349	$ 2,303	$ 104	$ 481	$ 74	$ 9,037
of which:									
Amount for loans individually evaluated for impairment	$ 39	$ 176	$ 24	$ ---	$ 52	$ ---	$ ---	$ ---	$ 291
Amount for loans collectively evaluated for impairment	$ 4,447	$ 931	$ 109	$ 349	$ 2,251	$ 104	$ 481	$ 74	$ 8,746
Loans individually evaluated for impairment	$ 1,988	$ 437	$ 1,260	$ 108	$ 1,650	$ 9	$ 18	$ ---	$ 5,470
Loans collectively evaluated for impairment	$370,529	$77,451	$23,894	$32,412	$389,418	$ 10,138	$51,272	$15,319	$970,433

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Three Months Ended September 30, 2014	Commercial Real Estate	Commercial and Industrial	Commercial Construction and land development	Agricultural	Residential Real Estate	Consumer	Home Equity	Tax Exempt	Total
Beginning Balance	$ 4,887	$ 1,573	$ 254	$ 371	$ 1,149	$ 103	$ 241	$ 173	$ 8,751
Charged Off	(19)	(317)	---	---	(264)	(68)	---	---	(668)
Recoveries	34	1	---	11	---	14	1	---	61
Provision	(71)	150	77	(26)	275	97	---	(11)	491
Ending Balance	$ 4,831	$ 1,407	$ 331	$ 356	$ 1,160	$ 146	$ 242	$ 162	$ 8,635

Nine Months Ended September 30, 2014	Commercial Real Estate	Commercial and Industrial	Commercial Construction and land development	Agricultural	Residential Real Estate	Consumer	Home Equity	Tax Exempt	Total
Beginning Balance	$ 4,825	$ 1,266	$ 314	$ 335	$ 1,166	$ 137	$ 264	$ 168	$ 8,475
Charged Off	(184)	(416)	---	(14)	(557)	(148)	(18)	---	(1,337)
Recoveries	40	13	---	26	12	29	1	---	121
Provision	150	544	17	9	539	128	(5)	(6)	1,376
Ending Balance	$ 4,831	$ 1,407	$ 331	$ 356	$ 1,160	$ 146	$ 242	$ 162	$ 8,635

Twelve Months Ended December 31, 2014	Commercial Real Estate	Commercial and Industrial	Commercial Construction and land development	Agricultural	Residential Real Estate	Consumer	Home Equity	Tax Exempt	Total
Beginning Balance	$ 4,825	$ 1,266	$ 314	$ 335	$ 1,166	$ 137	$ 264	$ 168	$ 8,475
Charged-off	(238)	(475)	---	(14)	(650)	(191)	(52)	---	(1,620)
Recoveries	85	16	---	130	12	37	1	---	281
Provision	(204)	122	(169)	(174)	2,186	111	58	(97)	1,833
Ending Balance	$ 4,468	$ 929	$ 145	$ 277	$ 2,714	$ 94	$ 271	$ 71	$ 8,969

of which:									
Amount for loans Individually evaluated for impairment	$ 776	$ 187	$ ---	$ ---	$ ---	$ 1	$ ---	$ ---	$ 964
Amount for loans collectively evaluated for impairment	$ 3,692	$ 742	$ 145	$ 277	$ 2,714	$ 93	$ 271	$ 71	$ 8,005
Loans individually evaluated for impairment	$ 3,592	$ 634	$ 1,328	$ 181	$ 389	$ 10	$ ---	$ ---	$ 6,134
Loans collectively evaluated for impairment	$322,357	$73,259	$24,093	$30,290	$382,289	$12,130	$51,795	$16,693	$912,906

Loan Concentrations: Because of the Company s proximity to Acadia National Park, a large part of the economic activity in the Bank s area is generated from the hospitality business associated with tourism. At September 30, 2015, and December 31, 2014, loans to the lodging industry amounted to approximately $99,805 and $112,520, respectively.

Note 7: Reclassifications Out of Accumulated Other Comprehensive Income

The following table summarizes the reclassifications out of Accumulated Other Comprehensive Income for the nine months ended September 30, 2015 and 2014.

Details about Accumulated Other Comprehensive Income	**Amount Reclassified from Accumulated Other Comprehensive Income** Three Months Ended 9/30/2015	Nine Months Ended 9/30/2015	**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains and losses on			
available-for-sale securities	$ ---	$ 1,206	
Tax (expense) or benefit	---	(422)	Net securities gains
Net of tax	$ ---	$ 784	Provision for income taxes
			Net income
Amortization of post retirement benefit plan			
Amortization of actuarial loss for			
supplemental executive retirement plan	(10)	(29)	Salaries and benefits
Tax (expense) or benefit	3	10	Provision for income taxes
Net of tax	$ (7)	$ (19)	Net income
Total reclassification for the period	$ (7)	$ 765	Net (loss) income, net of tax

Details about Accumulated Other Comprehensive Income	**Three Months Ended 9/30/2014**	**Nine Months Ended 9/30/2014**	**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains and losses on			
available-for-sale securities	$(81)	$ 666	
Tax (expense) or benefit	28	(226)	Net securities gains
Net of tax	$(53)	$ 440	Provision for income taxes
			Net income
Amortization of post retirement benefit plan			

Amortization of actuarial loss for supplemental executive retirement plan	(16)	(21)	Salaries and benefits
Tax (expense) or benefit	5	7	Provision for income taxes
Net of tax	$(11)	$ (14)	Net income
Total reclassification for the period	$(64)	$ 426	Net income, net of tax

Note 8: Financial Derivative Instruments

As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank s interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so that changes in interest rates do not have a significant effect on net interest income.

The Company recognizes its derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Bank designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Bank formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Bank also assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in other comprehensive income or loss. Any ineffective portion is recorded in earnings. The Bank discontinues hedge accounting when it is determined that the derivative is no longer highly effective in offsetting changes of the hedged risk on the hedged item, or management determines that the designation of the derivative as a hedging instrument is no longer appropriate.

At September 30, 2015, the Bank had four outstanding derivative instruments with notional amounts totaling $90,000. These derivative instruments were interest rate cap agreements. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent the counter-party defaults in its responsibility to pay interest under the terms of the agreements. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counter-party. At September 30, 2015, the Bank s derivative instrument counterparties were credit rated AA by the major credit rating agencies.

The details of the Bank s financial derivative instruments as of September 30, 2015 are summarized below:

Interest Rate Cap Agreements

Notional Amount	Termination Date	3-Month LIBOR Strike Rate	Premium Paid	Unamortized Premium at September 30, 2015	Fair Value September 30, 2015	Cumulative Cash Flows Received
$25,000	06/02/21	3.00%	$ 922	$ 921	$ 327	$ ---
$20,000	06/04/24	3.00%	$ 1,470	$ 1,470	$ 688	$ ---
$20,000	10/21/21	3.00%	$ 632	$ 632	$ 297	$ ---
$25,000	10/21/24	3.00%	$ 1,542	$ 1,542	$ 939	$ ---

In 2014, interest rate cap agreements were purchased to limit the Bank s exposure to rising interest rates on four rolling, three-month borrowings indexed to three month LIBOR. Under the terms of the agreements, the Bank paid total premiums of $4,566 for the right to receive cash flow payments if 3-month LIBOR rises above the caps of 3.00%, thus effectively ensuring interest expense on the borrowings at maximum rates of 3.00% for the duration of the agreements. The interest rate cap agreements were designated as cash flow hedges.

At September 30, 2015, the total fair value of the interest rate cap agreements was $2,251, compared with $3,455 at December 31, 2014. The fair values of the interest rate cap agreements are included in other assets on the Company s consolidated balance sheets. Changes in the fair value, representing unrealized gains or losses, are recorded in accumulated other comprehensive income, net of tax.

The premiums paid on the interest rate cap agreements are being recognized as increases in interest expense over the duration of the agreements using the caplet method. For the nine months ended September 30, 2015, less than $1 of premium amortization was recorded. During the next twelve months, $34 of the total premiums will be recognized as increases to interest expense, increasing the interest expense related to the hedged borrowings.

A summary of the hedging related balances as of September 30, 2015 and December 31, 2014 follows:

	September 30, 2015	
	Gross	**Net of Tax**
Unrealized losses on interest rate caps	$(2,314)	$(1,504)
Unamortized premium on interest rate caps	4,565	2,967
Total	$ 2,251	$ 1,463

	December 31, 2014	
	Gross	**Net of Tax**
Unrealized losses on interest rate caps	$(1,111)	$ (722)
Unamortized premium on interest rate caps	4,566	2,968
Total	$ 3,455	$2,246

Note 9: Retirement Benefit Plans

The Company has non-qualified supplemental executive retirement agreements with certain retired officers. The agreements provide supplemental retirement benefits payable in installments over a period of years upon retirement or death. The Company recognized the net present value of payments associated with the agreements over the service periods of the participating officers. Interest costs continue to be recognized on the benefit obligations.

The Company also has a supplemental executive retirement agreement with a certain current executive officer. This agreement provides a stream of future payments in accordance with a defined vesting schedule upon retirement, termination, or upon a change of control.

The following tables summarize the net periodic benefit costs for the three and nine months ended September 30, 2015, and 2014:

	Supplemental Executive Retirement Plans	
Three Months Ended September 30,	**2015**	**2014**
Service cost	$ 17	$ 16
Interest cost	32	37
Actuarial loss on supplemental executive retirement plan, net of tax	7	7
Net periodic benefit cost	$ 56	$ 60

	Supplemental Executive Retirement Plans	
Nine Months Ended September 30,	**2015**	**2014**
Service cost	$ 53	$ 48
Interest cost	94	112
Actuarial loss on supplemental executive retirement plan, net of tax	19	21
Net periodic benefit cost	$166	$181

The Company is expected to recognize $234 of expense for the foregoing plans for the year ended December 31, 2015. The Company is expected to contribute $291 to the foregoing plans in 2015. As of September 30, 2015, the Company had contributed $216.

Note 10: Commitments and Contingent Liabilities

The Bank is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit, and standby letters of credit.

Commitments to originate loans, including unused lines of credit, 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 Bank uses the same credit policy to make such commitments as it uses for on-balance-sheet items, such as loans. The Bank evaluates each customer s creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management s credit evaluation of the borrower.

The Bank guarantees the obligations or performance of customers by issuing standby letters of credit to third parties. These standby letters of credit are primarily issued in support of third party debt or obligations. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same credit origination, portfolio maintenance and management procedures in effect to monitor other credit and off-balance sheet instruments. Exposure to credit loss in the event of non-performance by the counter-party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. Typically, these standby letters of credit have terms of five years or less and expire unused; therefore, the total amounts do not necessarily represent future cash requirements.

The following table summarizes the contractual amounts of commitments and contingent liabilities as of September 30, 2015, and December 31, 2014:

	September 30, 2015	**December 31, 2014**
Commitments to originate loans	$42,030	$21,147
Unused lines of credit	$98,326	$92,817
Un-advanced portions of construction loans	$14,857	$23,434
Standby letters of credit	$ 385	$ 325

As of September 30, 2015, and December 31, 2014, the fair value of the standby letters of credit was not significant to the Company s consolidated financial statements.

Note 11: Goodwill and Other Intangible Assets

Goodwill: Goodwill totaled $4,935 at September 30, 2015, and December 31, 2014. In the third quarter of 2012 the Company recorded $1,777 of goodwill in connection with the Bank s acquisition of substantially all of the assets and the assumption of certain liabilities including all deposits of the Border Trust Company.

Core Deposit Intangible Asset: The Company has a finite-lived intangible asset capitalized on its consolidated balance sheet in the form of a core deposit intangible asset related to the Border Trust Company acquisition. The core deposit intangible is being amortized over an estimated useful life of eight and one-half years and is included in other assets on the Company s consolidated balance sheet. At September 30, 2015, and December 31, 2014, the balance of the core deposit intangible asset amounted to $493 and $562, respectively.

	September 30,	**December 31,**

	2015	2014
Core deposit intangibles:		
Gross carrying amount	$783	$783
Less: accumulated amortization	290	221
Net carrying amount	$493	$562

Amortization expense on the finite-lived intangible assets is expected to total $92 for each year from 2015 through 2020, then $8 for 2021.

Note 12: Fair Value Measurements

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

The Company s fair value measurements employ valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the servicing capacity of an asset (replacement cost). Valuation techniques are consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The Company uses a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets (Level 1 measurements) for identical assets or liabilities and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

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Level 1 Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based techniques for which all significant assumptions are observable in the market.

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Level 3 Valuation is principally generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The most significant instruments that the Company values are securities, all of which fall into Level 2 in the fair value hierarchy. The securities in the available for sale portfolio are priced by independent providers. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether valuations are appropriately placed within the fair value hierarchy and whether the valuations are representative of an exit price in the Company s principal markets. The Company s principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. Additionally, the Company periodically tests the reasonableness of the prices provided by these third parties by obtaining fair values from other independent providers and by obtaining desk bids from a variety of institutional brokers.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale: All securities and major categories of securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing providers. The fair value measurements used by the pricing providers consider observable data that may include dealer quotes, market maker quotes and live trading systems. If quoted prices are not readily available, fair values are determined using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as market pricing spreads, credit information, callable features, cash flows, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, default rates, and the securities terms and conditions, among other things.

The foregoing valuation methodologies may produce fair value calculations that may not be fully indicative of net realizable value or reflective of future fair values. While Company management believes these valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following tables summarize financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2015, and December 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

September 30, 2015	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Securities available for sale:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$ ---	$302,566	$ ---	$302,566
US Government agencies	$ ---	$ 83,677	$ ---	$ 83,677
Private label	$ ---	$ 3,742	$ ---	$ 3,742
Obligations of states and political subdivisions thereof	$ ---	$112,695	$ ---	$112,695
Derivative assets	$ ---	$ 2,251	$ ---	$ 2,251

December 31, 2014	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Securities available for sale:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$ ---	$288,210	$ ---	$288,210
US Government agencies	$ ---	$ 83,346	$ ---	$ 83,346
Private label	$ ---	$ 4,524	$ ---	$ 4,524
Obligations of states and political subdivisions thereof	$ ---	$ 94,445	$ ---	$ 94,445
Derivative assets	$ ---	$ 3,455	$ ---	$ 3,455

The following tables present the carrying value of certain financial assets and financial liabilities measured at fair valu