Sample Bancorp, Inc. and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

DISCLAIMER:

No set of sample financial statements can address all facts and circumstances that pertain to an entity. Accordingly, this is not intended to be a complete set of financial statements with all required disclosures and Wolf & Company, P.C. accepts no liability for the content of these sample financial statements or for any actions taken on the basis of this information. Financial statement preparers should refer to all relevant financial reporting guidance applicable to the reporting entity, as well as appropriate disclosure checklists, to assist in determining the completeness of the entity's financial reporting.

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Sample Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

Assets	December 31, 2016	December 31, 2015
	(In thousands)	
Cash and due from banks	$ 3,546	$ 6,732
Federal funds sold	15,650	6,154
Cash and cash equivalents	19,196	12,886
Interest-bearing deposits in banks	4,000	7,000
Trading assets	6,569	8,059
Securities available for sale	65,049	39,391
Securities held to maturity (fair value of $10,038 in 2016 and $12,004 in 2015)	9,856	11,853
Federal Home Loan Bank stock, at cost	5,186	5,186
Loans held for sale	7,650	4,000
Loans, net of allowance for loan losses of $6,856 in 2016 and $4,761 in 2015	456,988	407,855
Bank-owned life insurance	2,060	2,000
Foreclosed assets, net of allowance for losses of $1,700 in 2016 and $1,200 in 2015	6,576	2,609
Premises and equipment, net	4,957	5,093
Other assets	4,652	5,257
	$ 592,739	$ 511,189
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 38,764	$ 35,623
Interest-bearing	372,486	340,914
Total deposits	411,250	376,537
Short-term borrowings	45,350	20,385
Long-term debt	55,900	35,501
Accrued expenses and other liabilities	7,071	6,087
Total liabilities	519,571	438,510
Commitments and contingencies (Notes 8, 13 and 15)		
Stockholders' equity:		
Preferred stock, $.10 par value, 5,000,000 shares authorized; none issued	-	-
Common stock, $.10 par value, 15,000,000 shares authorized; 3,742,076 shares issued, 2,360,441 and 2,406,441 outstanding in 2016 and 2015, respectively	374	374
Additional paid-in capital	53,089	52,735
Unearned compensation - ESOP	(1,372)	(1,509)
Retained earnings	41,937	40,396
Accumulated other comprehensive income	245	1,190
Treasury stock, at cost (2016 - 1,381,635 shares; 2015 - 1,335,635 shares)	(21,105)	(20,507)
Total stockholders' equity	73,168	72,679
	$ 592,739	$ 511,189

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

Consolidated Statements of Net Income

	Years Ended December 31,		
	2016	2015	2014
	(In thousands, except per share data)		
Interest and dividend income:			
Loans, including fees	$28,546	$27,718	$24,111
Debt securities:			
Taxable	2,124	1,600	2,500
Tax-exempt	68	22	76
Dividends	425	605	698
Trading account securities	325	440	325
Other	567	863	1,695
Total interest and dividend income	32,055	31,248	29,405
Interest expense:			
Deposits	12,789	11,645	11,399
Short-term borrowings	345	1,672	2,512
Long-term debt	2,237	1,961	1,546
Total interest expense	15,371	15,278	15,457
Net interest income	16,684	15,970	14,948
Provision for loan losses	2,345	334	745
Net interest income, after provision for loan losses	14,339	15,636	14,203
Non-interest income:			
Total other-than-temporary impairment losses on equity securities	(34)	-	-
Total other-than-temporary impairment losses on debt securities	(200)	(505)	(120)
Portion of impairment losses on debt securities recognized in other comprehensive loss	165	400	-
Net impairment losses recognized in earnings	(69)	(105)	(120)
Customer service fees	850	863	834
Loan servicing fees, net	134	100	117
Net gain on sales of loans	356	230	120
Net loss on sales of available-for-sale securities	(124)	(905)	(494)
Net gain (loss) on trading activities	399	(701)	286
Other	11	21	36
Total non-interest income (charges)	1,557	(497)	779
Non-interest expenses:			
Salaries and employee benefits	5,125	5,177	4,983
Occupancy and equipment	1,349	1,282	1,087
Data processing	709	680	686
Advertising	278	500	480
Foreclosed assets, net	1,225	1,436	125
FDIC Insurance	845	643	112
Other general and administrative	787	876	1,074
Total non-interest expenses	10,318	10,594	8,547
Income before income taxes	5,578	4,545	6,435
Provision for income taxes	2,146	1,818	2,538
Net income	$ 3,432	$ 2,727	$ 3,897
Earnings per share:			
Basic	$ 1.55	$ 1.18	$ 1.49
Diluted	$ 1.46	$ 1.12	$ 1.39

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

Sample Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net income	$ 3,432	$ 2,727	$ 3,897
Other comprehensive income:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) on available-for-sale securities	(1,500)	4,876	114
Reclassification adjustment for losses realized in income	193	1,010	614
Noncredit portion of other-than-temporary impairment losses - AFS	(165)	(250)	-
Net unrealized gains (losses)	(1,472)	5,636	728
Noncredit portion of other-than-temporary impairment losses - HTM	-	(150)	-
Accretion of noncredit portion of impairment losses - HTM	45	5	-
Tax effects	571	(2,271)	(291)
Net-of-tax amount	(856)	3,220	437
Derivative instruments:			
Change in fair value of derivatives used for cash flow hedges	(442)	(503)	(260)
Reclassification adjustment for losses realized in income	170	150	120
Tax effects	109	141	56
Net-of-tax amount	(163)	(212)	(84)
Defined benefit pension plans:			
Reclassification adjustment for gains and losses recognized in net periodic benefit cost	42	59	18
Reclassification adjustment for prior service costs recognized in net periodic benefit cost	6	4	15
Reclassification adjustment for transition asset or obligation recognized in net periodic benefit cost	-	-	-
Gains (losses) arising during the period	75	(6)	(12)
Prior service cost arising during the period	-	-	(8)
Change in gains or losses, prior service costs or credits, and transition assets or obligations	123	57	13
Tax effects	(49)	(23)	(5)
Net-of-tax amount	74	34	8
Total other comprehensive income	(945)	3,042	361
Comprehensive income	$ 2,487	$ 5,769	$ 4,258

NOTES:

This illustrates gross display. Alternatively, net amounts can be used with gross amounts of reclassifications and related tax effects disclosed in notes to the financial statements.

An entity still must disclose the accumulated amounts of other comprehensive income reflected on the balance sheet, net of tax effects.

This display does not itemize tax for each component of OCI. This can be done parenthetically or in the notes if deemed material.

Sample Bancorp Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2016, 2015 and 2014

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Compensation - ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
				(In thousands, except share data)				
Balance at December 31, 2013	3,742,076	$ 374	$ 52,130	$ (1,783)	$ 36,765	$ (2,213)	$ (14,297)	$ 70,976
Comprehensive income	-	-	-	-	3,897	361	-	4,258
Purchase of treasury stock (405,000 shares)	-	-	-	-	-	-	(3,968)	(3,968)
Reissuance of treasury stock under stock option plan (26,500 shares)	-	-	11	-	-	-	265	276
Common stock held by ESOP committed to be released (12,474 shares)	-	-	(1)	137	-	-	-	136
Share-based compensation - stock options	-	-	152	-	-	-	-	152
Share-based compensation - equity incentive plan	-	-	132	-	-	-	-	132
Excess tax benefits from share-based compensation	-	-	12	-	-	-	-	12
Cash dividends declared ($.52 per share)	-	-	-	-	(1,464)	-	-	(1,464)
Balance at December 31, 2014	3,742,076	374	52,436	(1,646)	39,198	(1,852)	(18,000)	70,510
Comprehensive income	-	-	-	-	2,727	3,042	-	5,769
Purchase of treasury stock (250,000 shares)	-	-	-	-	-	-	(2,660)	(2,660)
Reissuance of treasury stock under stock option plan (10,000 shares)	-	-	-	-	(49)	-	153	104
Common stock held by ESOP committed to be released (12,474 shares)	-	-	(9)	137	-	-	-	128
Share-based compensation - stock options	-	-	165	-	-	-	-	165
Share-based compensation - equity incentive plan	-	-	132	-	-	-	-	132
Excess tax benefits from share-based compensation	-	-	11	-	-	-	-	11
Cash dividends declared ($.60 per share)	-	-	-	-	(1,480)	-	-	(1,480)
Balance at December 31, 2015	3,742,076	374	52,735	(1,509)	40,396	1,190	(20,507)	72,679
Comprehensive income	-	-	-	-	3,432	(945)	-	2,487
Purchase of treasury stock (50,000 shares)	-	-	-	-	-	-	(658)	(658)
Reissuance of treasury stock under stock option plan (4,000 shares)	-	-	-	-	(20)	-	60	40
Common stock held by ESOP committed to be released (12,474 shares)	-	-	25	137	-	-	-	162
Share-based compensation - stock options	-	-	185	-	-	-	-	185
Share-based compensation - equity incentive plan	-	-	132	-	-	-	-	132
Excess tax benefits from share-based compensation	-	-	12	-	-	-	-	12
Cash dividends declared ($.78 per share)	-	-	-	-	(1,871)	-	-	(1,871)
Balance at December 31, 2016	3,742,076	$ 374	$ 53,089	$ (1,372)	$ 41,937	$ 245	$ (21,105)	$ 73,168

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

Sample Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2016	2015	2014
		(In thousands)	
Cash flows from operating activities:			
Net income	$ 3,432	$ 2,727	$ 3,897
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Provision for loan losses	2,345	334	745
Provision for foreclosed asset losses	705	1,246	75
Net amortization of securities	698	866	110
Amortization of deferred loan (fees) costs	136	(97)	(86)
Share-based compensation expense	317	297	284
Amortization of ESOP expense	162	128	136
Excess tax benefits from share-based compensation	(12)	(11)	(12)
Depreciation and amortization of premises and equipment	365	360	339
Realized loss on sales of available-for-sale securities, net	124	905	494
Impairment losses on securities	69	105	120
Mortgage servicing rights amortization and provision for losses	110	160	35
Deferred income tax benefit	(379)	(288)	(294)
Net change in:			
Trading assets	1,490	(5,059)	(3,000)
Loans held for sale	(3,650)	(3,000)	893
Other assets and liabilities, net	1,721	(893)	(504)
Net cash provided (used) by operating activities	7,633	(2,220)	3,232
Cash flows from investing activities:			
Net change in interest-bearing deposits in banks	3,000	(416)	7,408
Activity in available-for-sale securities:			
Sales	4,653	5,162	14,726
Maturities, prepayments and calls	15,656	25,127	35,550
Purchases	(47,669)	(13,452)	(39,304)
Activity in held-to-maturity securities:			
Purchases	-	(11,859)	-
Maturities, prepayments and calls	1,952	-	-
Purchase of bank-owned life insurance	-	(2,000)	-
Loan purchases	-	(2,711)	(1,506)
Loan principal (originations) collections, net	(57,086)	3,704	(45,734)
Proceeds from sales of foreclosed assets	800	150	-
Additions to premises and equipment	(229)	(1,736)	(135)
Net cash provided (used) by investing activities	(78,923)	1,969	(28,995)

(continued)

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

Consolidated Statements of Cash Flows (Concluded)

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Cash flows from financing activities:			
Net increase in deposits	34,713	18,416	11,027
Net change in short-term borrowings	24,965	(17,515)	(2,700)
Proceeds from issuance of long-term debt	21,575	11,500	20,900
Prepayment of long-term debt	(1,176)	(3,704)	-
Proceeds from issuance of treasury stock under stock option plan	40	104	276
Payments to acquire treasury stock	(658)	(2,660)	(3,968)
Repurchase of common stock for Equity Incentive Plan	-	-	(660)
Cash dividends paid on common stock	(1,871)	(1,480)	(1,464)
Excess tax benefits from share-based compensation	12	11	12
Net cash provided by financing activities	77,600	4,672	23,423
Net change in cash and cash equivalents	6,310	4,421	(2,340)
Cash and cash equivalents at beginning of year	12,886	8,465	10,805
Cash and cash equivalents at end of year	$ 19,196	$ 12,886	$ 8,465
Cash paid during the year for:			
Interest on deposits and borrowed funds	$ 15,382	$ 15,286	$ 15,508
Income taxes	1,857	2,523	2,919
Non-cash activities:			
Real estate acquired through foreclosure	$ 5,472	$ 2,478	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Sample Bancorp, Inc. (the "Company") and its wholly-owned subsidiary, ABC Bank (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its offices in New England. Its primary deposit products are savings and term certificate accounts and its primary lending products are consumer and commercial mortgage loans.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 impairment of securities, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Company's lending activities are with customers located within the New England region of the country. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Prior to December 31, 2014, fair values of private label commercial mortgage-backed securities were based on prices from a third party pricing service. However, due to the illiquid market for these securities, the Company determined that the prices obtained from the pricing service were no longer indicative of fair value. As of December 31, 2015, the Company used a valuation model utilizing the discount rate adjustment technique to determine the fair value of its private label commercial mortgage-backed securities. During 2016, based on an increased level of trading, the market was determined to be active and the fair values as of December 31, 2016 were based on prices from a third party pricing service.

Transfers between levels are recognized at the end of a reporting period, if applicable. [Note: Policy may also be at the beginning of a reporting period or at the actual date of the event that caused the transfer, but must be consistently applied.]

Reclassification

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Activities

The Company engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with changes in fair value recorded in earnings. Interest and dividends are included in net interest income.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Each reporting period, the Company evaluates all securities classified as available-for-sale or held-to-maturity, with a decline in fair value below the amortized cost of the investment to determine whether or not the impairment is deemed to be other-than-temporary ("OTTI").

OTTI is required to be recognized if (1) the Company intends to sell the security; (2) it is "more likely than not" that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) for debt securities, the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. Marketable equity securities are evaluated for OTTI based on the severity and duration of the impairment and, if deemed to be other than temporary, the declines in fair value are reflected in earnings as realized losses. For impaired debt securities that the Company intends to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as OTTI through earnings. For all other impaired debt securities, credit-related OTTI is recognized through earnings and non-credit related OTTI is recognized in other comprehensive income, net of applicable taxes.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2016 and 2015, no impairment has been recognized.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans Held For Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

The Company's loan portfolio includes residential real estate, commercial real estate, construction, commercial and consumer segments. Residential real estate loans include classes for 1-4 family owner occupied, second mortgages and equity lines of credit. Consumer loans include classes for personal and credit card loans.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on all loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. [Note: If different, distinguish policies in this paragraph by class of loan.]

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. [Note: If different, distinguish charge-off policy by loan segment]. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance consists of general, allocated and unallocated components, as further described below.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (continued)

General component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: residential real estate, commercial real estate, construction, commercial and consumer. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; and national and local economic trends and conditions. There were no changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2016. [Note: Disclose by segment the quantitative effect of changes to the Company's accounting policy or methodology from the prior period, if applicable.]

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

Residential real estate – The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent and does not generally grant loans that would be classified as subprime upon origination. The Bank generally has [1st or 2nd liens, describe] on property securing equity lines-of-credit. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality in this segment.

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

Construction loans – Loans in this segment primarily include speculative real estate development loans for which payment is derived from sale of the property. Credit risk is affected by cost overruns, time to sell at an adequate price, and market conditions.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Loan Losses (concluded)

General component (concluded)

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

Allocated component

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

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

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

Unallocated component

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statement of net income and are not subject to income taxes.

Servicing

The Company services mortgage loans for others. Mortgage servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. [Describe valuation model methodology and model validation procedures, and quantitative and qualitative information about the assumptions used (i.e. discount rates, prepayment speeds and credit losses.] Capitalized servicing rights are reported in other assets and are amortized into loan servicing fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant risk characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. Changes in the valuation allowance are reported in loan servicing fee income.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value.

Interest Rate Swap Agreements

For asset/liability management purposes, the Company uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Company’s variable-rate debt to a fixed rate (cash flow hedge), and convert a portion of its fixed-rate loans to a variable rate (fair value hedge).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments (continued)

Interest Rate Swap Agreements *(concluded)*

The gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

For cash flow hedges, the net settlement (upon close-out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. For fair value hedges, the net settlement (upon close-out or termination) that offsets changes in the value of the loans adjusts the basis of the loans and is deferred and amortized to loan interest income over the life of the loans. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately in non-interest income.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet specified hedging criteria would be recorded at fair value with changes in fair value recorded in income. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivative contracts would be closed out and settled, or classified as a trading activity.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. Loan commitments that are derivatives are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other non-interest income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments (concluded)

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Mandatory delivery contracts are accounted for as derivative instruments. Mandatory delivery forward loan sale commitments are recognized at fair value on the consolidated balance sheet in other assets and other liabilities with changes in their fair values recorded in other non-interest income.

[Note: All loan sale agreements must be carefully evaluated to determine whether they meet the definition of a derivative. Facts and circumstances may differ significantly.]

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less cost to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations, changes in the valuation allowance and any direct writedowns are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of Financial Assets (concluded)

During the normal course of business, the Company may transfer a portion of a financial asset, for example, a participation loan or the government guaranteed portion of a loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Advertising Costs

Advertising costs are expensed as incurred.

Retirement Plan

The compensation cost of an employee’s pension benefit is recognized on the projected unit credit method over the employee’s approximate service period. The aggregate cost method is utilized for funding purposes.

The Company accounts for its defined benefit pension plan using an actuarial model that allocates pension costs over the service period of employees in the plan. The Company accounts for the over-funded or under-funded status of its defined benefit plan as an asset or liability in its consolidated balance sheets and recognizes changes in the funded status in the year in which the changes occur through other comprehensive income or loss.

Share-based Compensation Plans

The Company measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date fair value of the equity instruments issued. Share-based compensation is recognized over the period the employee is required to provide services for the award. Reductions in compensation expense associated with forfeited options are estimated at the date of grant, and this estimated forfeiture rate is adjusted annually based on actual forfeiture experience. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options granted.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Stock Ownership Plan

Compensation expense for the Employee Stock Ownership Plan ("ESOP") is recorded at an amount equal to the shares allocated by the ESOP multiplied by the average fair market value of the shares during the period. The Company recognizes compensation expense ratably over the year based upon the Company's estimate of the number of shares expected to be allocated by the ESOP. Unearned compensation applicable to the ESOP is reflected as a reduction of stockholders' equity in the consolidated balance sheet. The difference between the average fair market value and the cost of the shares allocated by the ESOP is recorded as an adjustment to stockholders' equity.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax assets will not be realized.

Income tax benefits related to stock compensation in excess of grant date fair value less any proceeds on exercise are recognized as an increase to additional paid-in capital upon vesting or exercising and delivery of the stock. Any income tax effects related to stock compensation that are less than grant date fair value less any proceeds on exercise would be recognized as a reduction of additional paid-in capital to the extent of previously recognized income tax benefits and then through income tax expense for the remaining amount.

Treasury Stock

Common stock shares repurchased are recorded as treasury stock at cost.

Earnings Per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested options/awards are non-forfeitable, these unvested awards/options are considered outstanding in the computation of basic earnings per share. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock awards and are determined using the treasury stock method.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Common Share (concluded)

Treasury shares and unallocated ESOP shares are not deemed outstanding for earnings per share calculations.

Earnings per common share have been computed based on the following:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net income	$ 3,432	$2,727	$ 3,897
Less: Preferred stock dividends	-	-	-
Net income applicable to common stock	$ 3,432	$2,727	$ 3,897
Average number of common shares issued	3,742	3,742	3,742
Less: Average treasury shares	(1,360)	(1,257)	(925)
Less: Average unallocated ESOP shares	(130)	(136)	(142)
Less: Average nonvested equity incentive plan shares	(33)	(44)	(55)
Average number of common shares outstanding used to calculate basic earnings per common share	2,219	2,305	2,620
Effect of dilutive unvested restricted stock awards	5	5	7
Effect of dilutive options	134	121	183
Average number of common shares outstanding used to calculate diluted earnings per common share	2,358	2,431	2,810

Options for 15,000 shares were not included in the computation of diluted earnings per share for the years ended December 31, 2016, 2015 and 2014, because to do so would have been antidilutive.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income (continued)

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	December 31,	
	2016	2015
	(In thousands)	
Securities		
Net unrealized gain on securities available for sale	$ 1,365	$ 2,865
Tax effect	(546)	(1,163)
Net-of-tax amount	819	1,702
Non-credit portion of other-than-temporary impairment losses on held-to-maturity securities	(100)	(145)
Tax effect	40	58
Net-of-tax amount	(60)	(87)
Derivative Instruments		
Net unrealized loss on derivatives used for cash flow hedges	(765)	(493)
Tax effect	306	197
Net-of-tax amount	(459)	(296)
Defined Benefit Pension Plan		
Unrecognized net actuarial loss	(14)	(131)
Unrecognized prior service cost	(78)	(84)
Unrecognized transition asset or obligation	-	-
	(92)	(215)
Tax effect	37	86
Net-of-tax amount	(55)	(129)
	$ 245	$ 1,190

An actuarial loss of $4 and prior service cost of $6 are included in accumulated other comprehensive income at December 31, 2016, and are expected to be recognized as components of net periodic pension cost for the year ending December 31, 2017.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income (continued)

Changes in accumulated other comprehensive income (loss) by component follows:

	Year Ended December 31, 2016				
	Securities Available for Sale	Securities Held to Maturity	Derivative Instruments	Defined Benefit Pension Plan	Total
Beginning balance	$ 1,702	$ (87)	$ (296)	$ (129)	$ 1,190
Other comprehensive income before reclassifications	(1,665)	45	(442)	75	(1,987)
Amounts reclassified	193	-	170	48	411
Tax effects	589	(18)	109	(49)	631
Net current-period other comprehensive income	(883)	27	(163)	74	(945)
Ending balance	$ 819	$ (60)	$ (459)	$ (55)	$ 245

	Year Ended December 31, 2015				
	Securities Available for Sale	Securities Held to Maturity	Derivative Instruments	Defined Benefit Pension Plan	Total
Beginning balance	$ (1,605)	$ -	$ (84)	$ (163)	$ (1,852)
Other comprehensive income before reclassifications	4,626	(145)	(503)	(6)	3,972
Amounts reclassified	1,010	-	150	63	1,223
Tax effects	(2,329)	58	141	(23)	(2,153)
Net current-period other comprehensive income	3,307	(87)	(212)	34	3,042
Ending balance	$ 1,702	$ (87)	$ (296)	$ (129)	$ 1,190

	Year Ended December 31, 2014				
	Securities Available for Sale	Securities Held to Maturity	Derivative Instruments	Defined Benefit Pension Plan	Total
Beginning balance	$ (2,042)	$ -	$ -	$ (171)	$ (2,213)
Other comprehensive income before reclassifications	114	-	(260)	(20)	(166)
Amounts reclassified	614		120	33	767
Tax effects	(291)		56	(5)	(240)
Net current-period other comprehensive income	437	-	(84)	8	361
Ending balance	$ (1,605)	$ -	$ (84)	$ (163)	$ (1,852)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comprehensive Income (concluded)

The following amounts were reclassified out of accumulated other comprehensive income during the years ended December 31, 2016 and 2015:

	Reclassification Amount			Affected Line Item on Consolidated Statements of Net Income
	Years Ending December 31,			
	2016	2015	2014	
	(In thousands)			
Securities	$ 193	$ 1,010	$ 614	Net loss on sales of available-for-sale securities
Derivative instruments	170	150	120	Interest expense - Long-term debt
Defined benefit pension plan	48	63	33	Salaries and employee benefits
Total before tax	411	1,223	767	
Tax effect	(164)	(489)	(307)	Provision for income taxes
Total reclassifications, net of tax	$ 247	$ 734	$ 460	

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, a company should apply a five step approach to revenue recognition. For public business entities, this ASU is effective for annual reporting periods, including interim periods, beginning after December 15, 2017. Early application is permitted, but only for annual reporting periods beginning after December 15, 2016. Management does not believe there will be a material impact to the consolidated financial statements as a result of adopting this Update. [Nonpublic: The amendments in this Update are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted, but only for annual reporting periods beginning after December 15, 2016.]

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40)*. This Update provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Adoption of this Update did not impact the Company's consolidated financial statements.

In December 2014, the FASB issued ASU 2014-18, *Business Combinations (Topic 805)*. This Update allows a nonpublic business entity, in a business combination, to no longer recognize separately from goodwill (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business and (2) noncompetition agreements. An entity that elects the accounting alternative in this Update must adopt the private company alternative to amortize goodwill as described in ASU 2014-02. This Update is effective for transactions occurring in fiscal years beginning after December 15, 2015. Adoption of this Update did not impact the Company's consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)*. This Update eliminates the concept of extraordinary items from generally accepted accounting principles. However, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently is retained and is expanded to include items that are both unusual in nature and infrequently occurring. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Adoption of this Update did not impact the Company's consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30).* To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Adoption of this Update did not impact the Company's consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805).* The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. In addition, the amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Adoption of this Update did not impact the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall, (Subtopic 825-10).* The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Targeted improvements to generally accepted accounting principles include the requirement for equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, the elimination of the requirement for non-public business entities to disclose the fair value of financial instruments measured at amortized cost and the elimination of the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For non-public business entities, the amendments

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Non-public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, except for the elimination of the requirement to disclose the fair value of financial instruments measured at amortized cost, which can be adopted for financial statements of fiscal years that have not yet been made available for issuance. [The Company has elected to not disclose the fair value of financial instruments measured at amortized cost in its financial statements.]

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The amendments in this Update require that lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For nonpublic business entities the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted.

In March 2016, the FASB issued ASU 2016-03, *Intangibles —Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*. The amendments in this Update make the guidance in ASUs 2014-02, 2014-03, 2014-07, and 2014-18 effective immediately by removing their effective dates. The amendments also include transition provisions that allow private companies to forgo a preferability assessment the first time they elect the accounting alternatives within the scope of this ASU. Any subsequent change to an accounting policy election requires justification that the change is preferable under Topic 250, *Accounting Changes and Error Corrections.*

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.* The amendments in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship, provided that all other hedge accounting criteria remain intact. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (continued)

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments.* The amendments in this Update clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. All other entities must apply the new requirements for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. All entities have the option of adopting the new requirements early, including adoption in an interim period.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* The amendments in the Update simplify several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. In addition, nonpublic business entities can apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and can make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For nonpublic business entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any interim or annual period.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. For SEC filers, the ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Recent Accounting Pronouncements (concluded)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments in this Update provide cash flow statement classification guidance for certain areas where diversification existed in practice. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early application is permitted, including adoption in an interim period.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.* The amendments in this Update require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual periods beginning after December 15, 2019. Early adoption is permitted for all entities in the first interim period if an entity issues interim financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this Update require that in the statement of cash flows, amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2016 and 2015, these reserve balances amounted to $3,715,000 and $3,525,000, respectively.

3. TRADING ACTIVITIES

Trading assets, at fair value, consist of the following:

	December 31, 2016	December 31, 2015
	(In thousands)	
Debt securities:		
U. S. Government and agency securities	$ 1,075	$ 1,300
Mortgage-backed securities	925	1,050
Marketable equity securities	4,569	5,709
	$ 6,569	$ 8,059

For the years ended December 31, 2016, 2015 and 2014, the net gain (loss) on trading securities held at the reporting date were $174,000, $(500,000) and $280,000, respectively.

4. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available for Sale:				
Debt securities:				
U.S. Government and federal agency	$ 13,265	$ 465	$ (126)	$ 13,604
Government-sponsored enterprises	2,500	63	-	2,563
Corporate*	9,650	386	(42)	9,994
Government-sponsored residential mortgage-backed	15,754	520	(62)	16,212
U.S. Government guaranteed residential mortgage-backed	21,001	565	(108)	21,458
Private label commercial mortgage-backed	862	4	(326)	540
Total debt securities	63,032	2,003	(664)	64,371
Marketable equity securities*	652	40	(14)	678
Total securities available for sale	$ 63,684	$ 2,043	$ (678)	$ 65,049

* Segregate by industry type, company size or investment objective, if material concentrations.

SECURITIES (continued)

	December 31, 2016					
	Amortized Cost	Total Other-than-Temporary Impairment Recognized in Accumulated Other Comprehensive Income	Net Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)					
Securities Held to Maturity:						
U.S. Government and federal agency	$ 921	$ -	$ 921	$ 46	$ (32)	$ 935
State and municipal	5,626	-	5,626	88	(45)	5,669
Foreign governments	50	-	50	-	-	50
Corporate	1,250	-	1,250	64	(3)	1,311
U.S. Government guaranteed residential mortgage-backed	245	-	245	15	-	260
Private label commercial mortgage-backed	864	(100)	764	4	(20)	748
Other	1,000	-	1,000	65	-	1,065
Total securities held to maturity	$ 9,956	$ (100)	$ 9,856	$ 282	$ (100)	$ 10,038

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities Available for Sale:				
Debt securities:				
U.S. Government and federal agency	$ 7,216	$ 2,018	$ (5)	$ 9,229
Government-sponsored enterprises	1,500	-	(10)	1,490
Corporate *	13,130	1,097	(154)	14,073
Government-sponsored residential mortgage-backed	3,581	990	(4)	4,567
U.S. Government guaranteed residential mortgage-backed	5,828	416	(72)	6,172
Private label commercial mortgage-backed	2,348	-	(694)	1,654
Other	1,525	-	(25)	1,500
Total debt securities	35,128	4,521	(964)	38,685
Marketable equity securities*	1,398	-	(692)	706
Total securities available for sale	$ 36,526	$ 4,521	$ (1,656)	$ 39,391

SECURITIES (continued)

	December 31, 2015					
	Amortized Cost	Total Other-than-Temporary Impairment Recognized in Accumulated Other Comprehensive Income	Net Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
			(In thousands)			
Securities Held to Maturity:						
U.S. Government and federal agency	$ 3,070	$ -	$ 3,070	$ 123	$ (4)	$ 3,189
State and municipal	3,047	-	3,047	50	-	3,097
Foreign governments	50	-	50	-	-	50
Corporate	1,560	-	1,560	-	(40)	1,520
U.S. Government guaranteed residential mortgage-backed	816	-	816	43	-	859
Private label commercial mortgage-backed	1,655	(145)	1,510	22	(68)	1,464
Other	1,800	-	1,800	25	-	1,825
Total securities held to maturity	$ 11,998	$ (145)	$ 11,853	$ 263	$ (112)	$ 12,004

At December 31, 2016 and 2015, U.S. Government obligations with a carrying value of $2,000,000 and $1,800,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. At December 31, 2016, the carrying amount of securities pledged to secure repurchase agreements was $17,500,000.

SECURITIES (continued)

The amortized cost/carrying value and fair value of debt securities by contractual maturity at December 31, 2016 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Within 1 year	$ 4,652	$ 4,685	$ 1,560	$ 1,565
After 1 year through 5 years	15,472	15,985	6,256	6,356
After 5 years through 10 years	-	-	-	-
Over 10 years	5,291	5,491	1,031	1,109
	25,415	26,161	8,847	9,030
Mortgage-backed securities	37,617	38,210	1,009	1,008
	$ 63,032	$ 64,371	$ 9,856	$10,038

For the years ended December 31, 2016, 2015 and 2014, proceeds from sales of securities available for sale amounted to $4,653,000, $5,162,000 and $14,726,000, respectively. Gross realized gains amounted to $626,000, $1,355,000 and $870,000, respectively. Gross realized losses amounted to $750,000, $2,260,000 and $1,364,000, respectively. The tax benefit (provision) applicable to these net realized gains and losses amounted to $50,000, $362,000, and $198,000, respectively.

For the year ended December 31, 2015, gross gains of $82,000 and gross losses of $426,000 were included in the net loss on trading activities as a result of transfers of securities from the available-for-sale category to the trading category.

SECURITIES (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
December 31, 2016:						
Securities Available for Sale						
Debt securities:						
U.S. Government and federal agency	$ 121	$ 3,459	$ 5	$ 995	$ 126	$ 4,454
Corporate	42	2,658	-	-	42	2,658
Government-sponsored residential mortgage-backed	54	2,896	8	653	62	3,549
U.S. Government guaranteed residential mortgage-backed	76	1,076	32	1,346	108	2,422
Private label commercial mortgage-backed	-	-	326	440	326	440
Total debt securities	293	10,089	371	3,434	664	13,523
Marketable equity securities	-	-	14	102	14	102
	$ 293	$ 10,089	$ 385	$ 3,536	$ 678	$ 13,625
Securities Held to Maturity						
U.S. Government and federal agency	$ 32	$ 865	$ -	$ -	$ 32	$ 865
State and municipal	45	2,653	-	-	45	2,653
Corporate	3	97	-	-	3	97
Private label commercial mortgage-backed	-	-	20	1,230	20	1,230
	$ 80	$ 3,615	$ 20	$ 1,230	$ 100	$ 4,845

SECURITIES (continued)

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
December 31, 2015:						
Securities Available for Sale						
Debt securities:						
U.S. Government and federal agency	$ 5	$ 100	$ -	$ -	$ 5	$ 100
Government-sponsored enterprises	10	520	-	-	10	520
Corporate	154	1,430	-	-	154	1,430
Government-sponsored residential mortgage-backed	-	-	4	422	4	422
U.S. Government guaranteed residential mortgage-backed	60	205	12	340	72	545
Private label commercial mortgage-backed	594	348	100	346	694	694
Other	15	800	10	700	25	1,500
Total debt securities	838	3,403	126	1,808	964	5,211
Marketable equity securities	692	706	-	-	692	706
	$ 1,530	$ 4,109	$ 126	$ 1,808	$ 1,656	$ 5,917
Securities Held to Maturity						
U.S. Government and federal agency	$ -	$ -	$ 4	$ 2,475	$ 4	$ 2,475
Corporate	-	-	40	1,520	40	1,520
Private label commercial mortgage-backed	68	625	-	-	68	625
	$ 68	$ 625	$ 44	$ 3,995	$ 112	$ 4,620

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2016, twenty-three debt securities have unrealized losses with aggregate depreciation of 6% from the Company's amortized cost basis.

The unrealized losses on the Company's investment in U.S. Government and federal agency bonds, government-sponsored and U.S. government guaranteed residential mortgage-backed securities and state and municipal bonds were primarily caused by interest rate risk. Many of these investments are guaranteed by the U.S. Government or an agency thereof. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

SECURITIES (continued)

The Company's unrealized losses on investments in corporate bonds relate to investments in companies within the financial services sector. The unrealized losses are primarily caused by (a) recent decreases in profitability and near-term profit forecasts by industry analysts resulting from the sub-prime mortgage market and (b) recent downgrades by several industry analysts. The contractual terms of these investments do not permit the companies to settle the security at a price less than the par value of the investment. While the companies' credit ratings have decreased from A to BBB (S&P), the Company currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the bonds would not be settled at a price less than the par value of the investment. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, it does not consider these investments to be other-than-temporarily impaired at December 31, 2016. [SEE ASC 320-10-50-6(b) for examples of the type of disclosures required here, specifically for MBS's]

At December 31, 2016, three marketable equity securities have unrealized losses with aggregate depreciation of 12% from the Company's cost basis. These unrealized losses have existed for greater than one year and relate principally to the home goods industry. Although the issuers have shown declines in earnings as a result of the weakened economy, no credit issues have been identified that cause management to believe the declines in market value are other than temporary and the Company has the ability and intent to hold these investments until a recovery of fair value. In analyzing the issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts.

[FOR DEBT SECURITIES FOR WHICH AN OTHER-THAN-TEMPORARY IMPAIRMENT WAS RECOGNIZED IN EARNINGS, DISCLOSE THE METHODOLOGY AND SIGNIFICANT INPUTS USED TO MEASURE THE AMOUNT RELATED TO CREDIT LOSS. EXAMPLE INPUTS INCLUDE, BUT ARE NOT LIMITED TO:

1. Performance indicators of the underlying assets in the security, including all of the following:
    a. Default Rates
    b. Delinquency rates
    c. Percentage of non-performing assets
2. Loan-to-collateral value ratios
3. Third party guarantees
4. Current levels of subordination

SECURITIES (concluded)

5. Vintage
6. Geographic concentration
7. Credit ratings

The following table presents a roll-forward of the amount of credit losses on debt securities for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (in thousands).

Balance as of December 31, 2014	$	120
Credit losses for which other-than-temporary impairment was not previously recorded		95
Reductions for securities sold during the period		-
Additional credit losses for which an other-than-temporary impairment charge was previously recognized		10
Reductions for securities intended to be sold or for which it is more likely than not the security will be required to be sold, for which the amount was previously recognized in other comprehensive income (loss)		-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security		-
Balance as of December 31, 2015		225
Credit losses for which other-than-temporary impairment was not previously recorded		20
Reductions for securities sold during the period		-
Additional credit losses for which an other-than-temporary impairment charge was previously recognized		15
Reductions for securities intended to be sold or for which it is more likely than not the security will be required to be sold, for which the amount was previously recognized in other comprehensive income (loss)		-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security		-
Balance as of December 31, 2016	$	260

[Note: See ASC 320-10-50-8B for other items to be included in this schedule that are not as common as above items.]

5. LOANS

A summary of the balances of loans follows:

	December 31,	
	2016	2015
	(In thousands)	
Residential real estate:		
1-4 family	$ 274,594	$ 237,255
Second mortgages	8,093	7,657
Equity lines of credit	4,358	5,129
Commercial	142,094	121,942
Construction	1,387	7,453
Total mortgage loans on real estate	430,526	379,436
Commercial loans	26,578	24,449
Consumer installment loans:		
Personal	5,640	6,671
Credit cards	1,456	2,508
Total consumer installment loans	7,096	9,179
Total loans	464,200	413,064
Less: Allowance for loan losses	(6,856)	(4,761)
Net deferred loan fees	(356)	(448)
Loans, net	$ 456,988	$ 407,855

The Company has transferred a portion of its originated commercial real estate loans to participating lenders. The amounts transferred have been accounted for as sales and are therefore not included in the Company's accompanying consolidated balance sheets. The Company and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Company continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrowers, remits payments (net of servicing fees) to participating lenders and disburses required escrow funds to relevant parties. At December 31, 2016 and 2015, the Company was servicing loans for participants aggregating $8,425,000 and $6,375,000, respectively.

During 2016, the Company purchased [segment] loans aggregating $, and sold [segment] loans aggregating $. [Does not apply to loans originated for sale.]

LOANS (continued)

Activity in the allowance for loan losses for the years ended December 31, 2016 and 2015 and allocation of the allowance to loan segments as of December 31, 2016 and 2015 follows:

	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Years Ended December 31,							
Balance at December 31, 2013	$ 767	$ 2,245	$ 68	$ 550	$ 82	$ 39	$ 3,751
Provisions for loan losses	266	210	83	146	(17)	57	745
Loans charged-off	(40)	(70)	-	-	-	-	(110)
Recoveries of loans previously charged-off	5	-	-	-	-	-	5
Balance at December 31, 2014	998	2,385	151	696	65	96	4,391
Provisions for loan losses	52	108	24	60	6	84	334
Loans charged-off	(64)	(474)	-	(50)	(1)	-	(589)
Recoveries of loans previously charged-off	200	381	-	44	-	-	625
Balance at December 31, 2015	1,186	2,400	175	750	70	180	4,761
Provisions for loan losses	128	1,225	(140)	1,041	107	(16)	2,345
Loans charged-off	(90)	(160)	-	(50)	(21)	-	(321)
Recoveries of loans previously charged-off	6	47	-	10	8	-	71
Balance at December 31, 2016	$ 1,230	$ 3,512	$ 35	$ 1,751	$ 164	$ 164	$ 6,856

December 31, 2016	Residential Real Estate	Commercial Real Estate	Construction	Commercial	Consumer	Unallocated	Total
Allowance for impaired loans	$ 25	$ 445	$ -	$ 380	$ -	$ -	$ 850
Allowance for non-impaired loans	1,205	3,067	35	1,371	164	164	6,006
Allowance for loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total allowance for loan losses	$ 1,230	$ 3,512	$ 35	$ 1,751	$ 164	$ 164	$ 6,856
Loans deemed impaired	$ 856	$ 1,564	$ -	$ 4,325	$ -	N/A	$ 6,745
Loans not deemed impaired	286,189	140,530	1,387	22,253	7,096	N/A	457,455
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total loans	$ 287,045	$ 142,094	$ 1,387	$ 26,578	$ 7,096	$ -	$ 464,200

LOANS (continued)

(In thousands)

December 31, 2015							
Allowance for impaired loans	$ -	$ 200	$ -	$ 150	$ -	$ -	$ 350
Allowance for non-impaired loans	1,186	2,200	175	600	70	180	4,411
Allowance for loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total allowance for loan losses	$ 1,186	$ 2,400	$ 175	$ 750	$ 70	$ 180	$ 4,761
Loans deemed impaired	$ -	$ 1,250	$ -	$ 750	$ -	N/A	$ 2,000
Loans not deemed impaired	250,041	120,692	7,453	23,699	9,179	N/A	411,064
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-
Total loans	$ 250,041	$ 121,942	$ 7,453	$ 24,449	$ 9,179	$ -	$ 413,064

The following is a summary of past due and non-accrual loans at December 31, 2016 and 2015:

	December 31, 2016					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Residential real estate:						
Residential 1-4 family	$ 4,235	$ 1,254	$ 865	$ 6,354	$ 40	$ 825
Second mortgages	152	56	25	233	-	25
Equity lines of credit	43	12	8	63	-	8
Commercial real estate	1,542	825	475	2,842	-	985
Construction	25	-	-	25	-	-
Commercial	256	485	652	1,393	-	1,856
Consumer:						
Personal	165	52	10	227	-	10
Credit cards	33	20	3	56	-	3
Total	$ 6,451	$ 2,704	$ 2,038	$ 11,193	$ 40	$ 3,712

LOANS (continued)

	December 31, 2015					
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Past Due 90 Days or More and Still Accruing	Loans on Non-accrual
	(In thousands)					
Residential real estate:						
Residential 1-4 family	$ 3,688	$ 1,659	$ 452	$ 5,799	$ -	$ 652
Second mortgages	256	24	63	343	-	63
Equity lines of credit	12	32	-	44	-	-
Commercial real estate	2,542	652	1,000	4,194	-	1,856
Construction	12	-	-	12	-	-
Commercial	136	63	650	849	-	1,630
Consumer:						
Personal	205	140	26	371	-	26
Credit cards	41	22	-	63	-	-
Total	$ 6,892	$ 2,592	$ 2,191	$ 11,675	$ -	$ 4,227

The following is information pertaining to impaired loans [include for each class of loans as applicable]:

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Impaired loans without a valuation allowance:			
Residential real estate:			
Residential 1-4 family	$ 646	$ 824	$ -
Commercial real estate	255	255	-
Commercial	1,495	1,650	-
Total	2,396	2,729	-
Impaired loans with a valuation allowance:			
Residential real estate:			
Residential 1-4 family	210	270	25
Commercial real estate	1,309	2,425	445
Commercial	2,830	3,000	380
Total	4,349	5,695	850
Total impaired loans	$ 6,745	$ 8,424	$ 850

LOANS (continued)

	Year Ended December 31, 2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Residential real estate:			
Residential 1-4 family	$ 465	$ 26	$ 20
Commercial real estate	1,650	52	52
Commercial	3,859	85	85
Total	$ 5,974	$ 163	$ 157

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Impaired loans without a valuation allowance:			
Residential real estate:			
Residential 1-4 family	$ -	$ -	$ -
Commercial real estate	250	-	-
Commercial	-	-	-
Total	250	-	-
Impaired loans with a valuation allowance:			
Residential real estate:			
Residential 1-4 family	-	-	-
Commercial real estate	1,000	3,250	200
Commercial	750	1,100	150
Total	1,750	4,350	350
Total impaired loans	$ 2,000	$ 4,350	$ 350

	Year Ended December 31, 2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Commercial real estate	$ 1,156	$ 66	$ 66
Commercial	744	60	60
Total	$ 1,900	$ 126	$ 126

LOANS (continued)

	Year Ended December 31, 2014		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
		(In thousands)	
Commercial real estate	$ 600	$ 22	$ 22
Commercial	49	2	2
Total	$ 649	$ 24	$ 24

No additional funds are committed to be advanced in connection with impaired loans.

The following is a summary of troubled debt restructurings for the years ended December 31, 2016 and 2015. There were no troubled debt restructurings during the year ended December 31, 2014.

	December 31, 2016			December 31, 2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
			(Dollars in thousands)			
Residential real estate	6	$ 685	$ 600	3	$ 425	$ 368
Commercial	2	$ 450	$ 430	1	$ 306	$ 285

In both 2016 and 2015, loans were modified for rate reductions, to forgive past due principal and interest and to extend maturity dates [expand as appropriate].

Management performs a discounted cash flow calculation to determine the amount of impairment reserve required on each of the troubled debt restructurings. Any reserve required is recorded through the provision for loan losses.

LOANS (continued)

The following is a summary of troubled debt restructurings that defaulted [define what constitutes a default] in the first twelve months after restructure during the years ended December 31, 2016 and 2015. No troubled debt restructurings defaulted in the first twelve months after restructure during the year ended December 31, 2014.

	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
Year Ended December 31, 2016		
Residential real estate	1	$ 63
Commercial	1	108
Year Ended December 31, 2015		
Residential real estate	2	$ 263

Consumer residential real estate loans in process of foreclosure totaled $2,100,000 and $3,200,000 at December 31, 2016 and 2015, respectively, and are reported in loans.

Credit Quality Information

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

Loans rated 1 – 4: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 5: Loans in this category are considered “special mention.” These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 6: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.

Loans rated 7: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 8: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

LOANS (concluded)

On an annual basis, or more often if needed, the Company formally reviews the ratings on all commercial real estate, construction and commercial loans. Semi-annually, the Company engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process. In addition, management utilizes delinquency reports, the watch list and other loan reports to monitor credit quality of other loan segments.

The following table presents the Company's loans by risk rating at December 31, 2016 and 2015.

	December 31, 2016			December 31, 2015		
	Commercial Real Estate	Commercial	Construction	Commercial Real Estate	Commercial	Construction
	(In thousands)					
Loans rated 1 - 4	$ 136,810	$ 24,365	$ 1,387	$ 110,538	$ 22,789	$ 7,453
Loans rated 5	2,000	1,005	-	5,120	560	-
Loans rated 6	3,260	1,082	-	6,216	1,000	-
Loans rated 7	24	126	-	68	100	-
	$ 142,094	$ 26,578	$ 1,387	$ 121,942	$ 24,449	$ 7,453

6. SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of mortgage loans serviced for others were $42,000,000, $40,000,000 and $37,000,000 at December 31, 2016, 2015 and 2014, respectively.

The fair value of servicing rights was determined using discount rates ranging from 4.50 to 6.00 percent, prepayment rates ranging from 8.5 to 9.5 percent and anticipated credit losses of 15 percent.

SERVICING (concluded)

The following summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Mortgage servicing rights:			
Balance at beginning of year	$ 585	$315	$100
Additions	125	350	250
Disposals	-	-	-
Amortization	(90)	(80)	(35)
Balance at end of year	620	585	315
Valuation allowances:			
Balance at beginning of year	80	-	-
Additions	20	80	-
Recoveries	-	-	-
Write-downs	-	-	-
Balance at end of year	100	80	-
Mortgage servicing assets, net	$ 520	$505	$315
Fair value of mortgage servicing assets	$ 525	$540	$320

The following fees are included in loan servicing fee income:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Contractually specified servicing fees	$ 90	$ 85	$ 80
Late fees	16	12	9
Ancillary fees	2	10	4
	$ 108	$ 107	$ 93

7. FORECLOSED ASSETS

Foreclosed assets consists of six commercial real estate properties which are held for sale at December 31, 2016.

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Balance at beginning of year	$ 1,200	$ 75	$ -
Provision for losses	705	1,246	75
Charge-offs	(225)	(171)	-
Recoveries	20	50	-
Balance at end of year	$ 1,700	$1,200	$ 75

Expenses applicable to foreclosed assets include the following:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Net (gain) loss on sales of real estate	$ 275	$ -	$ -
Provision for losses	705	1,246	75
Operating expenses, net of rental income	245	190	50
	$1,225	$1,436	$ 125

8. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31, 2016	December 31, 2015	Estimated Useful Life
	(In thousands)		
Premises:			
Land	$ 295	$ 295	N/A
Buildings	4,156	4,004	35 - 40 years
Leasehold improvements	448	435	5 - 10 years
Equipment	2,853	2,828	3 - 5 years
	7,752	7,562	
Accumulated depreciation and amortization	(2,795)	(2,469)	
	$4,957	$5,093	

Depreciation and amortization expense for the years ended December 31, 2016, 2015 and 2014 amounted to $365,000, $360,000 and $339,000, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2016, pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Year Ending December 31,	Amount (In thousands)
2017	$ 550
2018	545
2019	520
2020	480
2021	425
Thereafter	500
	$ 3,020

The leases contain options to extend for periods from three to ten years. The cost of such rentals is not included above. Total rent expense for the years ended December 31, 2016, 2015 and 2014 amounted to $582,000, $574,000 and $558,000, respectively.

9. DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2016 and 2016 was $36,565,000 and $25,345,000, respectively.

At December 31, 2016, the scheduled maturities of time deposits (in thousands) are as follows:

2017	$ 162,565
2018	31,535
2019	12,586
2020	4,356
2021	1,526
Thereafter	150
	$ 212,718

10. SHORT-TERM BORROWINGS

Federal Home Loan Bank Advances

Federal Home Loan Bank advances with an original maturity of less than one year, amounted to $32,000,000 and $8,385,000 at December 31, 2016 and 2015, respectively, at a weighted average rate of .25% and .34%, respectively. The Bank also has an available line of credit with the Federal Home Loan Bank of Boston (“FHLB”) at an interest rate that adjusts daily. All borrowings from the Federal Home Loan Bank of Boston are secured by a blanket security agreement on qualified collateral, principally mortgage loans and U.S. Government and federal agency securities in an aggregate amount equal to outstanding advances.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $13,350,000 and $12,000,000 at December 31, 2016 and 2015, respectively, mature on a daily basis and are secured by U.S. Government securities with a fair value of $17,500,000 in both years. The weighted average interest rate on these agreements was .35% and .48% at December 31, 2016 and 2015, respectively. The obligations to repurchase the securities sold are reflected as a liability in the consolidated balance sheets. The dollar amounts of the securities underlying the agreements remain in the asset accounts. The securities pledged are registered in the Company’s name; however, the securities are held by the designated trustee of the broker. Upon maturity of the agreements, the identical securities pledged as collateral are returned to the Company. As these borrowings mature daily and are secured by U.S. Government securities, there is minimal risk of a significant decline in collateral.

11. LONG-TERM DEBT

Long-term debt at December 31, 2016 and 2015 consists of the following FHLB advances:

	Amount		Weighted Average Rate	
	2016	2015	2016	2015
	(Dollars in thousands)			
Fixed rate advances maturing:				
2016	$ -	$ -	- %	- %
2017	8,400	8,400	4.6	4.6
2018 *	20,200	8,000	2.9	5.0
2019	16,175	6,800	3.3	5.6
Amortizing advance, due February 2019, requiring monthly principal and interest of $27,800	1,125	2,301	5.9	5.9
	45,900	25,501	5.1	5.1
Variable rate advances maturing:				
2016	-	-	-	-
2017	3,600	2,400	4.8	5.8
2018	6,400	7,600	3.6	5.6
	10,000	10,000	4.0	5.7
Total advances	$ 55,900	$ 35,501	3.5%	5.2%

* Includes advances callable on June 30, 2017 aggregating $6,000,000 with a weighted average rate of 4.8%.

12. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,		
	2016	2015	2014
		(In thousands)	
Current tax provision:			
Federal	$ 1,734	$ 1,349	$1,856
State	791	757	976
	2,525	2,106	2,832
Deferred tax benefit:			
Federal	(300)	(308)	(294)
State	(79)	(80)	-
	(379)	(388)	(294)
Change in valuation allowance	-	100	-
Total provision for income taxes	$ 2,146	$ 1,818	$2,538

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

	Years Ended December 31,		
	2016	2015	2014
Statutory federal tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	6.3	6.5	6.7
Bank-owned life insurance	(3.0)	(2.4)	(2.3)
Tax-exempt interest	(1.0)	(1.4)	(1.2)
Change in valuation allowance	-	2.2	-
Other, net	2.2	1.1	2.2
Effective tax rates	38.5%	40.0%	39.4%

INCOME TAXES (concluded)

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2016	2015
	(In thousands)	
Deferred tax assets:		
Deferred loan fees	$ 59	$ 144
Allowance for loan losses	1,614	1,203
Employee benefit and stock-based compensation plans	301	357
Net unrealized loss on derivatives used for cash flow hedges	306	197
Other	448	628
Valuation allowance	(100)	(100)
	2,628	2,429
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	(546)	(1,163)
Depreciation	(208)	(271)
	(754)	(1,434)
Net deferred tax asset	$1,874	$ 995

A valuation reserve has been established for the income tax effects attributable to the deferred tax assets to limit the federal tax benefit related to impairment losses on securities to the amount of capital gains available to offset the losses. [Disclose in rollforward format for multiple items].

The Company does not have any uncertain tax positions at December 31, 2016 or 2015 which require accrual or disclosure. The Company records interest and penalties as part of income tax expense. No interest or penalties were recorded for the years ended December 31, 2016, 2015 and 2014.

The Company’s income tax returns are subject to review and examination by federal and state taxing authorities. The Company is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2012 through 2015. The years open to examination by state taxing authorities vary by jurisdiction; no years prior to 2012 are open.

13. OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments. The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
	(In thousands)	
Commitments to grant loans	$ 6,585	$ 3,281
Unfunded commitments under lines of credit	2,525	3,907
Standby letters of credit	1,500	3,000

Commitments to extend credit are agreements to lend to a customer as long as 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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Company is committed.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, and at December 31, 2016 and 2015 such collateral amounted to $2,500,000 and $3,200,000, respectively.

OFF-BALANCE SHEET ACTIVITIES (concluded)

Guarantees that are not derivative contracts have been recorded on the Company's consolidated balance sheet at their fair value at inception. The Company considers standby letters of credit to be guarantees, and the amount of the recorded liability related to such guarantees at December 31, 2016 and 2015 was $35,000. [Disclose current status of the payment/performance risk.]

14. ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Financial Instruments

The Company has stand-alone derivative financial instruments in the form of interest rate swap agreements, which derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company's balance sheet as other assets and other liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Risk Management Policies - Hedging Instruments

The primary focus of the Company's asset/liability management program is to monitor the sensitivity of the Company's net portfolio value and net income under varying interest rate scenarios to take steps to control its risks. On a quarterly basis, the Company simulates the net portfolio value and net income expected to be earned over a twelve-month period following the date of simulation. The simulation is based on a projection of market interest rates at varying levels and estimates the impact of such market rates on the levels of interest-earning assets and interest-bearing liabilities during the measurement period.

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Risk Management Policies - Hedging Instruments (concluded)

Based upon the outcome of the simulation analysis, the Company considers the use of derivatives as a means of reducing the volatility of net portfolio value and projected net income within certain ranges of projected changes in interest rates. The Company evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates.

Interest Rate Risk Management - Cash Flow Hedging Instruments

The Company uses long-term variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management enters into interest rate swap agreements whereby the Company receives variable interest rate payments and makes fixed interest rate payments.

At December 31, 2016 and 2015, the information pertaining to outstanding interest rate swap agreements used to hedge variable rate debt is as follows:

	December 31,	
	2016	2015
	(Dollars in thousands)	
Notional amount	$ 10,000	$ 10,000
Weighted average pay rate	5.70%	5.70%
Weighted average receive rate	4.00%	4.70%
Weighted average maturity in years	1.8	2.8
Unrealized loss relating to interest rate swaps	$ (765)	$ (493)

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR) in exchange for making payments at a fixed rate plus a set spread.

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management - Cash Flow Hedging Instruments (concluded)

At December 31, 2016 and 2015, the unrealized loss relating to interest rate swaps was recorded in derivative liabilities. Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with long-term debt are reported in other comprehensive income. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the long-term debt affects earnings. The net amount of other comprehensive income reclassified into interest expense during the years ended December 31, 2016 and 2015 was $170,000 and $150,000, respectively.

Risk management results for the years ended December 31, 2016 and 2015 related to the balance sheet hedging of long-term debt indicate that the hedges were 100% effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

As of December 31, 2016, approximately $235,000 of losses reported in other comprehensive income related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged borrowings during the twelve-month period ending December 31, 2017.

Interest Rate Risk Management - Fair Value Hedging Instruments

The Company originates fixed- and variable-rate loans. Fixed-rate loans expose the Company to variability in their fair value due to changes in the level of interest rates. Management believes that it is prudent to limit the variability in the fair value of a portion of its fixed-rate loan portfolio. It is the Company's objective to hedge the change in fair value of fixed-rate loans at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Company. To meet this objective, the Company utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the loans due to changes in expected interest rate assumptions. These interest rate swap agreements are contracts to make a series of floating rate payments in exchange for receiving a series of fixed rate payments. Although the Company hedges the change in value of its fixed-rate loans, its hedge coverage ratio does not equate to 100%. The Company believes it is economically prudent to keep hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management - Fair Value Hedging Instruments (concluded)

At December 31, 2016 and 2015, the information pertaining to outstanding interest rate swap agreements used to hedge fixed-rate loans is as follows:

	December 31,	
	2016	2015
	(Dollars in thousands)	
Notional amount	$ 25,000	$ 25,000
Weighted average pay rate	1.66%	1.88%
Weighted average receive rate	5.68%	5.68%
Weighted average maturity in years	8.5	9.5
Unrealized loss relating to interest rate swaps	$ (2)	$ (77)

These agreements provide for the Company to make payments at a variable-rate determined by a specified index (three-month LIBOR) in exchange for receiving payments at a fixed-rate.

The company includes the gain or loss on the hedged items (that is, fixed-rate loans) in the same line item—interest income—as the offsetting loss or gain on the related interest rate swaps.

For the years ended December 31, 2016 and 2015, no hedge ineffectiveness was recognized in earnings associated with fair value hedges.

Interest Rate Risk Management – Derivative Instruments Not Designated As Hedging Instruments

Certain derivative instruments do not meet the requirements to be accounted for as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value recorded in other noninterest income.

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management – Derivative Instruments Not Designated As Hedging Instruments (continued)

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Company enters into commitments to fund residential mortgage loans at specified rates and times in the future, with the intention that these loans will subsequently be sold in the secondary market.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. During the year ended December 31, 2016, the Company, in the normal course of business, entered into $20,000,000 of loan commitments for which the resulting loan was sold or is held for sale. The notional amount of undesignated mortgage loan commitments was $6,500,000 and $5,000,000 at December 31, 2016 and 2015, respectively. The fair value of such commitments was a liability of $81,000 and $115,000, respectively.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Company utilizes both “mandatory delivery” and “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a “mandatory delivery” contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a “pair-off” fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a “best efforts” contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management – Derivative Instruments Not Designated As Hedging Instruments (concluded)

The Company expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $4,000,000 and $3,000,000 at December 31, 2016 and 2015, respectively. The fair value of such commitments was an asset of $45,000 and $71,000, respectively. See derivative loan commitments for the volume of loan commitment activities.

Interest Rate Risk Management – Derivative Instruments

The following table presents the fair values of derivative instruments in the balance sheet.

	December 31, 2016			
	Assets		Liabilities	
	Balance sheet Location	Fair Value	Balance sheet Location	Fair Value
	(In thousands)			
Derivatives designated as hedging instruments:				
Interest rate swaps	N/A	N/A	Other liabilities	$ 767
Total derivatives designated as hedging instruments		$ -		$ 767
Derivatives not designated as hedging instruments:				
Derivative loan commitments	N/A	N/A	Other liabilities	$ 81
Forward loan sale commitments	Other assets	$ 45	N/A	N/A
Total derivatives not designated as hedging instruments		$ 45		$ 81
Total derivatives		$ 45		$ 848

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (continued)

Interest Rate Risk Management – Derivative Instruments (continued)

	December 31, 2015			
	Assets		Liabilities	
	Balance sheet Location	Fair Value	Balance sheet Location	Fair Value
	(In thousands)			
Derivatives designated as hedging instruments:				
Interest rate swaps	N/A	N/A	Other liabilities	$ 570
Total derivatives designated as hedging instruments		$ -		$ 570
Derivatives not designated as hedging instruments:				
Derivative loan commitments	N/A	N/A	Other liabilities	$ 115
Forward loan sale commitments	Other assets	$ 71	N/A	N/A
Total derivatives not designated as hedging instruments		$ 71		$ 115
Total derivatives		$ 71		$ 685

The following table presents information pertaining to the Company's fair value hedges (in thousands).

		Years Ended December 31,	
		2016	2015
Derivative	Location of Loss	Amount of Loss	
Interest rate swaps	Interest income	$ 75	$ 16
Total		$ 75	$ 16

ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (concluded)

Interest Rate Risk Management – Derivative Instruments (concluded)

The following table presents information pertaining to the Company's cash flow hedges (in thousands).

Derivative Instrument	Amount of Loss Recognized in OCI	Location of Loss Reclassified from Accumulated OCI into Income	Amount of Loss Reclassified from Accumulated OCI into Income	Location of Loss Recognized in Income	Amount of Loss Recognized in Income
Year Ended December 31, 2016:					
Interest rate swaps	$ 442	Interest income	$ 170	Other income	$ -
Year Ended December 31, 2015:					
Interest rate swaps	$ 503	Interest income	$ 150	Other income	$ -

The following table presents information pertaining to gains (losses) on the Company's derivatives not designated as hedging instruments (in thousands).

Derivatives Not Designated As Hedging Instruments	Location of Gain/(Loss)	Years Ended December 31, 2016	2015
Derivative loan commitments	Other income	$ 34	$ (3)
Forward loan sale commitments	Other income	(26)	4
Total		$ 8	$ 1

Collateral Requirements

To reduce credit risk related to the use of derivative instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. [Describe collateral, if applicable.]

15. LEGAL CONTINGENCIES

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

16. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Effective January 1, 2015, federal banking regulations changed with regard to minimum capital requirements for community banking institutions. The regulations require a minimum ratio of common equity Tier 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum leverage ratio of 4% for all banking organizations. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital, Tier 1 capital or total capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses. The capital conservation buffer will be phased-in over three years, beginning on January 1, 2016, with an initial phase-in amount of .625%. Also, certain new deductions from and adjustments to regulatory capital and risk-weighted assets will be phased in over several years. Management believes that the Company's capital levels will remain characterized as "well-capitalized" throughout the phase-in periods.

MINIMUM REGULATORY CAPITAL REQUIREMENTS (concluded)

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. Management believes that the Company and the Bank meet all capital adequacy requirements to which they are subject. The Company's and the Bank's actual capital amounts and ratios are presented in the following table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2016:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 77,101	19.8%	$ 31,200	8.0%	N/A	N/A
ABC Bank	72,497	18.9	30,832	8.0	$ 38,540	10.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	72,226	18.5	15,600	4.5	N/A	N/A
ABC Bank	67,622	17.5	15,415	4.5	23,124	6.5
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	72,226	18.5	15,600	6.0	N/A	N/A
ABC Bank	67,622	17.5	15,415	6.0	23,124	8.0
Tier 1 Capital to Average Assets:						
Consolidated	72,226	13.1	22,000	4.0	N/A	N/A
ABC Bank	67,622	12.4	21,800	4.0	27,250	5.0
December 31, 2015:						
Total Capital to Risk Weighted Assets:						
Consolidated	$ 75,374	21.5%	$ 28,111	8.0%	N/A	N/A
ABC Bank	70,770	20.5	27,685	8.0	$ 34,606	10.0%
Common Equity Tier 1 Capital to Risk Weighted Assets:						
Consolidated	70,981	20.2	14,055	4.5	N/A	N/A
ABC Bank	66,444	19.2	13,843	4.5	20,607	6.5
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	70,981	20.2	14,055	6.0	N/A	N/A
ABC Bank	66,444	19.2	13,843	6.0	20,607	8.0
Tier 1 Capital to Average Assets:						
Consolidated	70,981	14.0	20,213	4.0	N/A	N/A
ABC Bank	66,444	13.3	20,004	4.0	25,005	5.0

17. EMPLOYEE BENEFIT PLANS

Pension Plan

The Company provides pension benefits for eligible employees through a defined benefit pension plan. Substantially all employees participate in the retirement plan on a non-contributing basis, and are fully vested after three years of service. Information pertaining to the activity in the plan is as follows:

	Years Ended December 31,		
	2016	2015	2014
		(In thousands)	
Change in benefit obligation:			
Benefit obligation at beginning of year	$2,781	$2,415	$ 2,143
Service cost	280	306	202
Interest cost	156	195	170
Actuarial loss	9	30	25
Benefits paid	(188)	(165)	(125)
Benefit obligation at end of year	3,038	2,781	2,415
Change in plan assets:			
Fair value of plan assets at beginning of year	2,237	2,191	2,200
Actual return on plan assets	278	86	41
Employer contribution	250	125	75
Benefits paid	(188)	(165)	(125)
Fair value of plan assets at end of year	2,577	2,237	2,191
Funded status at end of year	$ (461)	$ (544)	$ (224)
Pension liability at end of year	$ (461)	$ (544)	$ (224)
Accumulated benefit obligation at end of year	$2,159	$2,055	$ 1,935

The assumptions used to determine the benefit obligation are as follows:

	December 31,	
	2016	2015
Discount rate	4.25%	5.25%
Rate of compensation increase	3.00	4.00

EMPLOYEE BENEFIT PLANS (continued)

Pension Plan (continued)

The components of net periodic pension cost are as follows:

	Years Ended December 31,		
	2016	2015	2014
	(In thousands)		
Service cost	$280	$306	$202
Interest cost	156	195	170
Expected return on plan assets	(200)	(191)	(154)
Amortization of prior service cost	6	4	15
Recognized net actuarial loss	42	59	18
	$284	$373	$251

The assumptions used to determine net periodic pension cost are as follows:

	Years Ended December 31,		
	2016	2015	2014
Discount rate	5.25%	5.25%	6.00%
Expected long-term rate of return on plan assets	7.00	7.00	7.00
Annual salary increase	4.00	6.00	6.00

In general, the Bank has selected their assumption with respect to the expected long-term rate of return based on prevailing yields on high quality fixed income investments increased by a premium for equity return expectations.

EMPLOYEE BENEFIT PLANS (continued)

Pension Plan (continued)

The fair value of major categories of the Company's pension plan assets are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
December 31, 2016:				
Equity securities *				
Energy	$ 342	$ -	$ -	$ 342
Financial services	652	-	-	652
Other	85	-	-	85
Corporate bonds *	-	565	-	565
Asset-backed securities	-	285	-	285
Hedge funds	-	648	-	648
	$ 1,079	$ 1,498	$ -	$ 2,577
December 31, 2015:				
Equity securities *				
Energy	$ 276	$ -	$ -	$ 276
Financial services	520	-	-	520
Other	102	-	-	102
Corporate bonds *	-	498	-	498
Asset-backed securities	-	339	-	339
Hedge funds	-	502	-	502
	$ 898	$ 1,339	$ -	$ 2,237

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Plan assets measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

[Note: If there are Level 3 assets, additional disclosures are required. Refer to ASC 715-20-50.]

* Segregate by industry type, company size or investment objective, if material concentrations.

EMPLOYEE BENEFIT PLANS (continued)

Pension Plan (concluded)

The defined benefit plan offers a common and collective trust as the underlying investment structure for the pension plan. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range from 40% to 50% of total portfolio assets. The remainder of the portfolio is allocated to corporate bonds, with a target range of 20%-25%, asset-backed securities, with a target range of 15%-20% and hedge funds, with a target range of 20%-25%. The overall investment objective is to diversify investments across a spectrum of investment types to limit risks from large market changes. The defined benefit plan invests in hedge funds which are designed to provide higher rates of return due to the aggressive nature of the funds. The strategies of these hedge funds are to take advantage of expected price decreases by selling equity securities short.

The Company expects to contribute $240,000 to its pension plan in 2017.

Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

Year Ending December 31,	Amount (In thousands)
2017	$ 200
2018	208
2019	215
2020	225
2021	235
Years 2022-2026	2,312

401(k) Plan

The Company has a 401(k) Plan whereby substantially all employees participate in the Plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 25 percent of the first 6 percent of an employee's compensation contributed to the Plan. Matching contributions vest to the employee equally over a five-year period. For the years ended December 31, 2016, 2015 and 2014, expense attributable to the Plan amounted to $50,000, $45,000 and $20,000, respectively.

EMPLOYEE BENEFIT PLANS (continued)

Endorsement Split-Dollar Life Insurance Arrangements

The Company is the sole owner of life insurance policies pertaining to certain of the Company's executives. The Company has entered into agreements with these executives whereby the Company will pay to the executives' estates or beneficiaries a portion of the death benefit that the Company will receive as beneficiary of such policies. Expense associated with this postretirement benefit for the years ended December 31, 2016, 2015 and 2014 amounted to $17,000, $16,000 and $14,000, respectively.

Stock Option Plan

Under the Company's Employee Stock Option Plan, the Company may grant options to its directors, officers and employees for up to 368,000 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price of each option equals the market price of the Company's stock on the date of grant and the maximum term of each option is ten years. Vesting periods range from immediate to five years from the date of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2015	2014
Expected dividends	1.8%	1.6%
Expected term	5 years	5 years
Expected volatility	32%	27%
Risk-free interest rate	5.50%	4.68%

There were no options granted during 2016. The expected volatility is based on historical volatility. The risk-free interest rates for periods consistent with the expected term of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

EMPLOYEE BENEFIT PLANS (continued)

Stock Option Plan (concluded)

A summary of option activity under the Plan as of December 31, 2016, and changes during the year then ended (shares in thousands), is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	257	$ 11.30		
Granted	-	-		
Exercised	(4)	10.50		
Forfeited	(20)	10.50		
Expired	(29)	10.50		
Outstanding at end of year	204	11.30	1.8	$ 951
Exercisable at end of year	204	$ 10.85	2.0	$ 814

The weighted-average grant-date fair value of options granted during the years ended December 31, 2015 and 2014 was $4.19 and $3.97, respectively. The total intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 was $8,000, $45,000 and $72,000, respectively.

For the years ended December 31, 2016, 2015 and 2014, share-based compensation expense applicable to the Plan was $185,000, $165,000 and $152,000, respectively, and the recognized tax benefit related to this expense was $31,000, $28,000 and $26,000 respectively.

As of December 31, 2016, unrecognized share-based compensation expense related to nonvested options amounted to $370,000. This amount is expected to be recognized over a weighted average period of 2.0 years.

EMPLOYEE BENEFIT PLANS (continued)

Equity Incentive Plan

During 2006, the Company adopted an Equity Incentive Plan under which 100,000 shares of the Company's common stock were reserved for issuance as restricted stock awards to directors and employees of the Company. Shares issued upon vesting may be either authorized but unissued shares or reacquired shares held by the Company. Any shares not issued because vesting requirements are not met will again be available for issuance under the plan. Shares awarded vest ratably over five years. The fair market value of shares awarded, based on the market price at the date of grant, is recorded as unearned compensation and amortized over the applicable vesting period. The fair value of stock awards granted in 2012 was $12 per share. There were no grants in 2016, 2015 or 2014.

The following table presents the status of non-vested shares under the Plan as of December 31, 2016, and changes during the year then ended (shares in thousands):

	Number of Shares	Weighted Average Grant-date Fair Value
Non-vested stock awards at beginning of year	55	$ 12.00
Restricted shares granted	-	-
Shares vested	(11)	12.00
Forfeited	-	-
Non-vested stock awards at end of year	44	$ 12.00

Total expense for the equity incentive plan was $132,000 for each of the years ended December 31, 2016, 2015 and 2014. The recognized tax benefit related to this expense was $52,000 in 2016, 2015 and 2014. As of December 31, 2016, unrecognized share-based compensation expense related to non-vested restricted shares amounted to $274,000, and is expected to be recognized over a weighted average period of two years.

The total fair value of shares vested during the years ended December 31, 2016, 2015 and 2014 was $165,000, $143,000 and $138,000, respectively.

[Note: If applicable, include a description of significant modifications, including the terms of the modifications, the number of employees affected and the total incremental compensation cost resulting from the modifications.]

[Note: If not disclosed elsewhere, disclose the amount of cash used to settle equity instruments granted under share-based payment arrangements.]

EMPLOYEE BENEFIT PLANS (continued)

Equity Incentive Plan (concluded)

[Note: Describe the entity's policy, if any, for issuing shares upon share option exercise (or share unit conversion), including the source of those shares (new or treasury shares). If an entity expects to repurchase shares in the following annual period, the entity shall disclose an estimate of the amount (or a range, if more appropriate) of shares to be repurchased during that period.]

Employee Stock Ownership Plan

The Company maintains an Employee Stock Ownership Plan ("ESOP") to provide eligible employees the opportunity to own Company stock. This plan is a tax-qualified retirement plan for the benefit of all Company employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal tax law limits.

The Company contributed funds to a subsidiary to enable it to grant a loan to the ESOP for the purchase of shares of the Company's common stock in the open market. As of December 31, 2013, the ESOP completed its open market purchases bringing the total shares purchased to 187,104, or 5% of the common shares outstanding on that date. The loan obtained by the ESOP from the Company to purchase Company common stock is payable annually over 15 years at 6.75% per annum. The loan can be prepaid without penalty. Loan payments are principally funded by cash contributions from the Company. The loan is secured by the shares purchased, which are held in a suspense account for allocation among participants as the loan is repaid. Cash dividends paid on allocated shares are distributed to participants and cash dividends paid on unallocated shares are used to repay the outstanding debt of the ESOP. Shares used as collateral to secure the loan are released and available for allocation to eligible employees as the principal and interest on the loan is paid.

At December 31, 2016, the remaining principal balance on the ESOP debt is payable as follows:

Year Ending December 31,	Amount (In thousands)
2017	$ 116
2018	124
2019	132
2020	141
2021	150
Thereafter	918
	$ 1,581

EMPLOYEE BENEFIT PLANS (concluded)

Employee Stock Ownership Plan (concluded)

Shares held by the ESOP include the following:

	December 31,	
	2016	2015
Allocated	44,080	37,421
Committed to be allocated	12,474	12,474
Unallocated	124,735	137,209
	181,289	187,104

The fair value of unallocated shares was approximately $1,620,000 and $1,300,000 at December 31, 2016 and 2015, respectively.

Total compensation expense recognized in connection with the ESOP for the years ended December 31, 2016, 2015 and 2014 was $162,000, $128,000 and $136,000, respectively.

18. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $3,559,000 at December 31, 2016 and $3,462,000 at December 31, 2015. During the year ended December 31, 2016, total principal additions were $184,000 and total principal payments were $87,000.

Deposits from related parties held by the Bank at December 31, 2016 and 2015 amounted to $14,000,000 and $12,000,000, respectively.

19. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount for dividends which may be paid in any calendar year cannot exceed the Bank's net income for the current year, plus the Bank's net income retained for the two previous years, without regulatory approval. Loans or advances are limited to 10 percent of the Bank's capital stock and surplus on a secured basis.

At December 31, 2016, the Bank's retained earnings available for the payment of dividends was $8,675,000. Accordingly, $57,758,000 of the Company's equity in the net assets of the Bank was restricted at December 31, 2016. Funds available for loans or advances by the Bank to the Company amounted to $6,786,000.

RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES (concluded)

In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

20. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The following methods and assumptions were used by the Company in estimating fair value disclosures [If there are Level 2 or Level 3 measurements not based on a broker quote or pricing service, refer to ASC 820-10-55 for disclosure guidance.]:

Cash and cash equivalents - The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets.

Interest-bearing deposits in banks - The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current market rates for similar types of deposits.

Trading assets - The fair value of trading assets is based on quoted market prices in an active exchange market. Trading assets are categorized as Level 1 in the fair value hierarchy.

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Determination of Fair Value (continued)

Securities available for sale - At December 31, 2016, all fair value measurements are obtained from a third party pricing service and are not adjusted by management. The securities measured at fair value in Level 1 are based on quoted market prices in an active exchange market. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. At December 31, 2015, securities measured at fair value in Level 3 include all private label commercial mortgage-backed securities. Management determined that an orderly and active market for these securities did not exist based on a significant reduction in trading volume and widening spreads during 2013. The Company's internal model estimates expected future cash flows discounted using a rate management believes is representative of current market conditions. Factors in determining the discount rate include the current level of deferrals and/or defaults, changes in credit rating and the financial condition of the debtors within the underlying securities, broker quotes for securities with similar structure and credit risk, interest rate movements and pricing of new issuances. During 2016, based on an increased level of trading, the market was determined to be active and the fair values as of December 31, 2016 were based on prices from a third party pricing service.

Federal Home Loan Bank stock - The fair value is based upon the redemption value of the stock which equates to its carrying value.

Loans receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Loans held for sale - Fair values are based on commitments in effect from investors or prevailing market prices.

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Determination of Fair Value (concluded)

Mortgage servicing rights - Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Deposit liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies market interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings - For short-term borrowings maturing within ninety days, carrying values approximate fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Long-term borrowings - The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current incremental borrowing rates in the market for similar types of borrowing arrangements.

Accrued interest - The carrying amounts of accrued interest approximate fair value.

Forward loan sale commitments and derivative loan commitments - Fair values of forward loan sale commitments and derivative loan commitments are based on fair values of the underlying mortgage loans and, for derivative loan commitments, fair values also include the value of servicing, deferred origination fees/costs and the probability of such commitments being exercised. Significant management judgment and estimation is required in determining these fair value measurements.

Interest rate swap agreements - The fair values of interest rate swap agreements are based on a valuation model that uses primarily observable inputs, such as benchmark yield curves and interest rates and also include the value associated with counterparty credit risk.

Off-balance sheet credit-related instruments - Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Trading assets*	$ 6,569	$ -	$ -	$ 6,569
Securities available for sale*	678	64,371	-	65,049
Forward loan sale commitments	-	-	45	45
Total assets	$ 7,247	$ 64,371	$ 45	$ 71,663
Liabilities				
Derivative loan commitments	$ -	$ -	$ 81	$ 81
Interest rate swap agreements	-	767	-	767
Total liabilities	$ -	$ 767	$ 81	$ 848

	December 31, 2015			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Trading assets*	$ 8,059	$ -	$ -	$ 8,059
Securities available for sale*	8,572	29,165	1,654	39,391
Forward loan sale commitments	-	-	71	71
Total assets	$ 16,631	$ 29,165	$ 1,725	$ 47,521
Liabilities				
Derivative loan commitments	$ -	$ -	$ 115	$ 115
Interest rate swap agreements	-	570	-	570
Total liabilities	$ -	$ 570	$ 115	$ 685

* Break out by major security type (unless level is evident for all security types), consistent with Note 4.

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis (concluded)

The table below presents, for the years ended December 31, 2016 and 2015, the changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis.

	Assets	Liabilities
	Securities Available for Sale	Derivative and Forward Loan Sale Commitments, Net
	(In thousands)	
Balance as of January 1, 2015	$ -	$ 45
Total realized and unrealized gains (losses) included in net income	-	115
Total unrealized gains (losses) included in other comprehensive income	-	-
Purchases and settlements, net	-	(116)
Transfers in and/or out of Level 3	1,654	-
Balance as of December 31, 2015	1,654	44
Total realized and unrealized gains (losses) included in net income	-	4
Total unrealized gains included in other comprehensive income	-	-
Additions	-	52
Settlements	-	(64)
Transfers in and/or out of Level 3	(1,654)	-
Balance as of December 31, 2016	$ -	$ 36
Total unrealized gains (losses) relating to instruments still held at December 31, 2016	$ -	$ 9
Total unrealized gains (losses) relating to instruments still held at December 31, 2015	$ -	$ 5

FAIR VALUES OF ASSETS AND LIABILITIES (continued)

Assets Measured at Fair Value on a Non-recurring Basis

The Company may also be required, from time to time, to measure certain other assets on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related assets as of December 31, 2016 and 2015.

	Level 1	Level 2	Level 3
		(In thousands)	
December 31, 2016:			
Impaired loans	$ -	$ 1,150	$ 1,000
Foreclosed assets	-	-	3,450
Loans held for sale	-	7,650	-
Total assets	$ -	$ 8,800	$ 4,450
December 31, 2015:			
Impaired loans	$ -	$ 2,000	$ -
Foreclosed assets	-	-	1,500
Loans held for sale	-	4,000	-
Total assets	$ -	$ 6,000	$ 1,500

Certain impaired loans were adjusted to the fair value, less costs to sell, of the underlying collateral securing these loans resulting in losses. The loss is not recorded directly as an adjustment to current earnings, but rather as a component in determining the allowance for loan losses. Fair value was measured using appraised values of collateral and adjusted as necessary by management based on unobservable inputs for specific properties. [Expand on policy for obtaining and adjusting appraised values]. Losses on impaired loans for the years ended December 31, 2016 and 2015 were $675,000 and $75,000 respectively.

Certain foreclosed assets were adjusted to fair value using appraised values of collateral, less costs to sell, and adjusted as necessary by management based on unobservable inputs for specific properties. [Expand on policy for obtaining and adjusting appraised values]. The loss on foreclosed assets represents adjustments in valuation recorded during the time period indicated and not for losses incurred on sales. Fair value write-downs for properties taken into foreclosed assets and held during the years ended December 31, 2016 and 2015 were $705,000 and $200,000, respectively.

FAIR VALUES OF ASSETS AND LIABILITIES (concluded)

Assets Measured at Fair Value on a Non-recurring Basis (concluded)

The amounts of loans held for sale represents the carrying value and related write-downs for which adjustments were based on commitments from investors or prevailing market prices. Losses recognized on loans held for sale during the years ended December 31, 2016 and 2015 were $80,000 and $60,000, respectively.

Summary of Fair Values of Financial Instruments

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows. Certain financial instruments and all nonfinancial instruments are exempt from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein do not represent the underlying fair value of the Company.

	December 31,									
	2016					2015				
	Carrying	Fair Value				Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total	Amount	Level 1	Level 2	Level 3	Total
	(In thousands)									
Financial assets:										
Cash and cash equivalents	$19,196	$19,196	$ -	$ -	$19,196	$12,886	$12,886	$ -	$ -	$12,886
Interest-bearing deposits in banks	4,000	4,000	-	-	4,000	7,000	7,000	-	-	7,000
Trading assets	6,569	6,569	-	-	6,569	8,059	8,059	-	-	8,059
Securities available for sale	65,049	678	64,371	-	65,049	39,391	706	38,685	-	39,391
Securities held-to-maturity	9,856	-	10,038	-	10,038	11,853	-	12,004	-	12,004
Federal Home Loan Bank stock	5,186	-	-	5,186	5,186	5,186	-	-	5,186	5,186
Loans and loans held for sale, net	464,638	-	-	465,865	465,865	411,855	-	-	412,300	412,300
Mortgage servicing rights	520	-	525	-	525	505	-	540	-	540
Accrued interest receivable	2,836	-	-	2,836	2,836	2,565	-	-	2,565	2,565
										-
Financial liabilities:										-
Deposits	411,250	-	-	413,268	413,268	376,537	-	-	378,200	378,200
Short-term borrowings	45,350	-	45,350	-	45,350	20,385	-	20,385	-	20,385
Long-term debt	55,900	-	58,965	-	58,965	35,501	-	34,000	-	34,000
Accrued interest payable	586	-	-	586	586	565	-	-	565	565
On-balance sheet derivative financial instruments:										
Derivative loan commitments:										
Assets	-	-	-	-	-	-	-	-	-	-
Liabilities	81	-	-	81	81	115	-	-	115	115
Interest rate swap agreements:										-
Assets	-	-	-	-	-	-	-	-	-	-
Liabilities	777	-	777	-	777	570	-	570	-	570
Forward loan sale commitments:										-
Assets	45	-	-	45	45	71	-	-	71	71
Liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet credit related financial instruments:										
Commitments to extend credit	-	-	-	26	26	-	-	-	30	30

Note: Disclosure by fair value hierchy level not required for a non-public company. Levels 2 and 3 will vary by entity. Also, if ASU 2016-01 adopted early, this schedule is not required for a non-public company.

21. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Financial information pertaining only to Sample Bancorp, Inc. is as follows:

BALANCE SHEETS	December 31, 2016	December 31, 2015
	(In thousands)	
Assets		
Cash and due from banks	$ 28	$ 23
Short-term investments with ABC Bank	6,614	4,525
Total cash and cash equivalents	6,642	4,548
Investment in common stock of ABC Bank	66,433	68,142
Other assets	468	509
Total assets	$73,543	$73,199
Liabilities and Stockholders' Equity		
Accrued expenses	$ 178	$ 158
Other liabilities	197	362
Total liabilities	375	520
Stockholders' equity	73,168	72,679
Total liabilities and stockholders' equity	$73,543	$73,199

CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (concluded)

STATEMENTS OF INCOME	Years Ended December 31, 2016	2015	2014
		(In thousands)	
Income:			
Dividends from ABC Bank	$ 4,899	$ 5,132	$ 5,576
Interest on investments	80	183	156
Miscellaneous income	4	18	4
Total income	4,983	5,333	5,736
Operating expenses	264	275	403
Income before income taxes and equity in undistributed net income (loss) of ABC Bank	4,719	5,058	5,333
Applicable income tax provision (benefit)	44	2	(74)
	4,675	5,056	5,407
Equity in undistributed net income (loss) of ABC Bank	(1,243)	(2,329)	(1,510)
Net income	$ 3,432	$ 2,727	$ 3,897

STATEMENTS OF CASH FLOWS	2016	2015	2014
Cash flows from operating activities:			
Net income	$ 3,432	$ 2,727	$ 3,897
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net loss (income) of ABC Bank	1,243	2,329	1,510
Decrease (increase) in other assets	41	(152)	(149)
Increase (decrease) in accrued expenses	20	-	(78)
Increase (decrease) in other liabilities	(165)	(664)	467
Net cash provided by operating activities	4,571	4,240	5,647
Cash flows from investing activities:			
Sales and maturities of debt securities	-	-	-
Net cash used for investing activities	-	-	-
Cash flows from financing activities:			
Proceeds from issuance of treasury stock under stock option plan	40	104	276
Payments to acquire treasury stock	(658)	(2,660)	(3,968)
Repurchase of common stock for equity incentive plan	-	-	(660)
Cash dividends paid on common stock	(1,871)	(1,480)	(1,464)
Excess tax benefits from share-based compensation	12	11	12
Net cash used for financing activities	(2,477)	(4,025)	(5,804)
Net increase (decrease) in cash and cash equivalents	2,094	215	(157)
Cash and cash equivalents at beginning of year	4,548	4,333	4,490
Cash and cash equivalents at end of year	$ 6,642	$ 4,548	$ 4,333

22. SEGMENT REPORTING

The Company has two reportable segments, the consumer bank and the commercial bank. The consumer bank segment provides customers such products as credit cards, mortgages and automobile financing. The commercial bank segment provides its commercial customers such products as working capital loans, equipment loans and leases, and other business financing arrangements.

Information about reportable segments, and reconciliation of such information to the consolidated financial statements as of and for the years ended December 31, follows:

	Consumer	Commercial	Intersegment Elimination	Other	Consolidated Totals
2016			(In thousands)		
Net interest income	$ 8,256	$ 8,348	$ -	$ 80	$ 16,684
Other revenue - external customers	956	424			1,380
Other revenue - from other segments	-	125	(125)	-	-
Depreciation and amortization	200	165	-	-	365
Provision for loan losses	330	2,015	-	-	2,345
Provision for foreclosed asset losses	105	600	-	-	705
Net income (loss)	2,453	1,653	-	(674)	3,432
Assets	345,402	247,053	-	284	592,739
Expenditures for additions to					-
premises and equipment	102	127	-	-	229
2015					
Net interest income	$ 9,526	$ 6,261	$ -	$ 183	$ 15,970
Other revenue - external customers	851	363	-	-	1,214
Other revenue - from other segments	-	60	(60)	-	-
Depreciation and amortization	257	103	-	-	360
Provision for loan losses	59	275	-	-	334
Provision for foreclosed asset losses	441	805	-	-	1,246
Net income (loss)	3,927	2,589	-	(3,789)	2,727
Assets	310,307	200,585	(50)	347	511,189
Expenditures for additions to					
premises and equipment	1,156	580	-	-	1,736
2014					
Net interest income	$ 8,221	$ 6,571	$ -	$ 156	$ 14,948
Other revenue - external customers	635	472	-	-	1,107
Other revenue - from other segments	-	75	(75)	-	-
Depreciation and amortization	203	136	-	-	339
Provision for loan losses	245	500	-	-	745
Provision for foreclosed asset losses	-	75	-	-	75
Net income (loss)	4,390	2,691	-	(3,184)	3,897
Assets	349,464	149,671	-	412	499,547
Expenditures for additions to					
premises and equipment	55	80	-	-	135

SEGMENT REPORTING (concluded)

Amounts included in the "Other" column are as follows:

	2016	2015	2014
		(In thousands)	
Net interest income:			
Parent company	$ 80	$ 183	$ 156
Profit (loss):			
Parent company operating expenses, net of miscellaneous income	$ (260)	$ (260)	$ (318)
Income taxes not allocated to segments	(24)	(1,818)	(2,538)
Net gain (loss) on sales of available-for-sale securities and trading activities not allocated to segments	(390)	(1,711)	(328)
	$ (674)	$ (3,789)	$ (3,184)
Segment assets:			
Parent company assets, after intercompany elimination	$ 284	$ 347	$ 412

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains or losses.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

The Company derives a majority of its revenues from interest income and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segments and make decisions about resources to be allocated to the segment. Therefore, the segments are reported above using net interest income for the years ended December 31. The Company does not allocate income taxes to the segments. Other revenue represents noninterest income, exclusive of the net gain (loss) on sales of available-for-sale securities and the net gain (loss) on trading activities which are also not allocated to the segments.

The Company does not have operating segments other than those reported. Parent company financial information is included in the other category, and is deemed to represent an overhead function rather than an operating segment.

The Company does not have a single external customer from which it derives 10 percent or more of its revenues and operates in one geographical area.

23. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2017, which is the date the financial statements were [available to be] issued. There were no subsequent events that require adjustment to or disclosure in the [consolidated] financial statements. [Tailor if there were items to disclose]

[Note: Unless there are subsequent events to disclose, this note is not required for a public entity].