SBT Bancorp

Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

SBT BANCORP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report	2
Consolidated Balance Sheets (As of December 31, 2018 and 2017)	4
Consolidated Statements of Income (For the years ended December 31, 2018 and 2017)	5
Consolidated Statements of Comprehensive Income (For the years ended December 31, 2018 and 2017)	6
Consolidated Statements of Changes in Stockholders' Equity (For the years ended December 31, 2018 and 2017)	7
Consolidated Statements of Cash Flows (For the years ended December 31, 2018 and 2017)	8
Notes to Consolidated Financial Statements	10

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
SBT Bancorp, Inc. and Subsidiary
Weatogue, Connecticut

We have audited the accompanying consolidated financial statements of SBT Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to consolidated financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SBT Bancorp, Inc. and Subsidiary as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of SBT Bancorp, Inc. and Subsidiary as of December 31, 2017, were audited by other auditors whose report dated March 29, 2018, expressed an unmodified opinion on those statements.

Crowe LLP

Crowe LLP

New York, New York
March 27, 2019

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

(In Thousands, Except Share Data)

ASSETS	2018	2017
Cash and due from banks	$ 14,678	$ 13,066
Interest-bearing deposits with the Federal Reserve Bank and Federal Home Loan Bank	16,804	23,853
Money market mutual funds	1,051	388
Federal funds sold	-	185
Cash and cash equivalents	32,533	37,492
Certificates of deposit	250	1,250
Investments in available-for-sale securities at fair value	41,255	51,656
Federal Home Loan Bank stock, at cost	903	903
Loans held-for-sale	2,154	2,259
Loans	388,359	396,413
Less: allowance for loan losses	4,387	4,088
Loans, net	383,972	392,325
Premises and equipment, net	1,450	1,863
Accrued interest receivable	1,232	1,402
Other real estate owned	-	192
Bank-owned life insurance	9,602	9,370
Other assets	5,325	5,313
Total assets	$ 478,676	$ 504,025
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 151,292	$ 143,635
Savings and NOW deposits	219,448	247,251
Time deposits	57,305	66,514
Total deposits	428,045	457,400
Securities sold under agreements to repurchase	1,681	2,449
Federal Home Loan Bank advances	3,748	2,318
Other Borrowings	443	-
Long-term subordinated debt	7,310	7,281
Other liabilities	2,320	2,358
Total liabilities	443,547	471,806
Stockholders' equity:		
Common stock, no par value; authorized 2,000,000 shares; issued and outstanding 1,382,754 shares and 1,382,340 shares, respectively, at December 31, 2018; 1,382,014 shares and 1,381,600 shares, respectively, at December 31, 2017	19,462	19,433
Retained earnings	16,941	13,657
Treasury stock, 414 shares	(7)	(7)
Unearned compensation - restricted stock awards	(269)	(420)
Accumulated other comprehensive loss	(998)	(444)
Total stockholders' equity	35,129	32,219
Total liabilities and stockholders' equity	$ 478,676	$ 504,025

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2018 and 2017

(In Thousands, Except Share Data)

	2018	2017
Interest and dividend income:		
Interest and fees on loans	$ 16,039	$ 15,341
Investment securities	1,076	1,320
Interest-bearing deposits	807	250
Total interest and dividend income	17,922	16,911
Interest expense:		
Interest on deposits	1,635	1,326
Interest on securities sold under agreements to repurchase	7	7
Interest on Federal Home Loan Bank advances	1	263
Interest on long-term subordinated debt	542	542
Total interest expense	2,185	2,138
Net interest and dividend income	15,737	14,773
Provision for loan losses	280	645
Net interest and dividend income after provision for loan losses	15,457	14,128
Noninterest income (loss):		
Service charges on deposit accounts	559	371
Writedown of available-for-sale securities	(6)	(4)
Other service charges and fees	762	735
Increase in cash surrender value of life insurance policies	232	240
Mortgage banking activities, net	1,417	1,445
Investment services fees and commissions	167	176
Other income	336	160
Total noninterest income	3,467	3,123
Noninterest expense:		
Salaries and employee benefits	6,793	7,017
Occupancy expense	1,389	1,400
Equipment expense	517	514
Advertising and promotions	710	610
Forms and supplies	114	110
Professional fees	990	716
Directors' fees	300	236
Correspondent charges	296	316
FDIC assessment	322	421
Data processing	938	903
Internet banking costs	230	207
Other expense	1,214	1,443
Total noninterest expense	13,813	13,893
Income before income taxes	5,111	3,358
Income tax provision	995	1,004
Net income	$ 4,116	$ 2,354
Earnings per common share	$ 2.98	$ 1.71
Earnings per common share, assuming dilution	$ 2.97	$ 1.71

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

(In Thousands)

	2018	2017
Net income	$ 4,116	$ 2,354
Other comprehensive income income (loss), net of tax:		
Net change in unrealized holding loss on securities available-for-sale	(707)	288
Reclassification adjustment for writedowns of securities in net income (1)	6	4
Other comprehensive (loss) income, before tax	(701)	292
Income tax benefit (expense)	147	(100)
Other comprehensive (loss) income, net of tax	(554)	192
Comprehensive income	$ 3,562	$ 2,546

(1) Reclassification adjustments include realized securities gains and losses and writedowns of securities. The gains and losses have been reclassified out of other comprehensive loss and affect certain captions in the consolidated statements of income as follows: the pre-tax amount is reflected in gain on sales of available-for-sale securities, and writedowns of available-for-sale securities; the tax effect is included in income tax provision; and the after-tax amount is included in net income.

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2018 and 2017

(In Thousands, Except Share Data)

	Common Stock	Retained Earnings	Treasury Stock	Compensation - Restricted Stock Awards	Other Comprehensive Income (Loss)	Total
Balance, December 31, 2016	$ 19,133	12,017	(7)	(293)	(563)	30,287
Net income	-	2,354			-	2,354
Reclassification associated with the adoption of ASU 2018-02	-	73	-	-	(73)	-
Other comprehensive income, net of tax	-	-	-	-	192	192
Stock-based compensation	9	-	-	136	-	145
Restricted stock awards	263	-	-	(263)	-	-
Common stock issued	28	1	-	-	-	29
Dividends declared on common stock ($.58 per share)	-	(788)	-	-	-	(788)
Balance, December 31, 2017	19,433	13,657	(7)	(420)	(444)	32,219
Net income	-	4,116			-	4,116
Other comprehensive income, net of tax	-	-	-	-	(554)	(554)
Stock-based compensation	4	-	-	176	-	180
Restricted stock awards	25	-	-	(25)	-	-
Dividends declared on common stock ($.60 per share)	-	(832)	-	-	-	(832)
Balance, December 31, 2018	$ 19,462	$ 16,941	$ (7)	$ (269)	$ (998)	$ 35,129

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

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

(In Thousands)

	2018	2017
Cash flows from operating activities:		
Net income	$ 4,116	$ 2,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	260	318
Writedown of available-for-sale securities	6	4
Change in deferred origination costs, net	(4)	124
Provision for loan losses	280	645
Loans originated for sale	(87,753)	(78,315)
Proceeds from sales of loans originated for sale	88,524	79,838
Gain on sales of mortgages	(666)	(981)
(Gain) loss on sale of other real estate owned	(37)	13
Depreciation and amortization	484	427
Amortization of long-term subordinated debt issuance costs	29	29
Increase in other assets	(689)	(53)
Decrease (increase) in interest receivable	170	(101)
Decrease (increase) in taxes receivable	192	(11)
Deferred income tax (benefit) provision	633	246
Increase in cash surrender value of bank owned life insurance	(232)	(240)
Stock-based compensation	180	145
Loss on disposal of fixed assets	-	55
(Decrease) increase in other liabilities	(34)	433
Decrease in interest payable	(4)	(19)
Net cash provided by operating activities	5,455	4,911
Cash flows from investing activities:		
Maturities and redemptions of interest-bearing time deposits with other banks	1,000	-
Purchases of Federal Home Loan Bank Stock	-	(1,660)
Redemption of Federal Home Loan Bank Stock	-	3,653
Purchases of available-for-sale securities	-	(2,771)
Proceeds from maturities and paydowns of available-for-sale securities	9,433	9,813
Loan originations and principal collections, net	8,058	11,517
Recoveries of loans previously charged-off	19	13
Proceeds from sales of other real estate owned	229	557
Capital expenditures	(71)	(440)
Net cash provided by investing activities	18,668	20,682

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

(In Thousands)

(continued)

	2018	2017
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW and savings accounts	(20,146)	43,710
Net decrease in time deposits	(9,209)	(74)
Net decrease in securities sold under agreements to repurchase	(768)	(245)
Net change in Fed Funds Purchased	443	-
Net change in short-term Federal Home Loan Bank advances	-	(52,000)
Proceeds from long-term Federal Home Loan Bank advances	1,430	260
Proceeds from issuance of common stock	-	29
Dividends paid - common stock	(832)	(788)
Net cash used in financing activities	(29,082)	(9,108)
Net (decrease) increase in cash and cash equivalents	(4,959)	16,485
Cash and cash equivalents at beginning of year	37,492	21,007
Cash and cash equivalents at end of year	$ 32,533	$ 37,492
Supplemental disclosures:		
Interest paid	$ 2,160	$ 2,157
Income taxes paid	90	849
Loans transferred to other real estate owned	-	762
Reclassification adjustment for stranded accumulated other comprehensive income due to tax rate change	-	73

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

NOTE 1 - NATURE OF OPERATIONS

On March 7, 2006, The Simsbury Bank & Trust Company, Inc. (the "Bank") reorganized into a holding company structure. As a result, the Bank became a wholly-owned subsidiary of SBT Bancorp, Inc. (the "Company") and each outstanding share of common stock of the Bank was converted into the right to receive one share of the common stock, no par value, of the Company.

The Company previously filed reports with the Securities and Exchange Commission and is supervised by the Board of Governors of the Federal Reserve System. On January 2, 2018, the Company filed Form 15 with the SEC to delist from its SEC reporting obligations while remaining a public company. The Company was eligible to file the Form 15 because the Company's Common Stock was held by less than 1,200 holders of record as of January 1, 2018. As a result of the filing of the Form 15 with the Commission, the obligations of the Company to file periodic reports, including Forms 10-K, 10-Q and 8-K were immediately suspended. Pursuant to the filing, the Company changed its listing from the OTCQX marketplace to the OTC Pink Open Market (symbol: "SBTB").

The Bank is a Connecticut state-chartered bank which was incorporated on April 28, 1992 and is headquartered in Simsbury, Connecticut. The Bank commenced operations on March 31, 1995, engaging principally in the business of attracting deposits from the general public and investing those deposits in securities, residential and commercial real estate, consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

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

USE OF ESTIMATES:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, SBT Investment Services, Inc. and NERE Holdings, Inc. SBT Investment Services, Inc. was established solely for the purpose of providing investment products, financial advice and services to its clients and the community. NERE Holdings, Inc. was established to hold real estate. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks, Federal Home Loan Bank interest-bearing demand and overnight deposits, Federal Reserve Bank interest-bearing demand deposits, money market mutual funds and federal funds sold.

Cash and due from banks as of December 31, 2018 and 2017 included $8.3 million and $7.6 million, respectively, which is subject to withdrawals and usage restrictions to satisfy the reserve requirements of the Federal Reserve Bank of Boston and Bankers' Bank Northeast.

CERTIFICATES OF DEPOSIT

Certificates of deposit are issued by federally insured depository institutions, have an original maturity of greater than 90 days and up to 35 months and are carried at cost.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Company classifies debt securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, debt securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other debt securities must be classified as available-for-sale.

-- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of stockholders' equity. They are merely disclosed in the notes to the consolidated financial statements.

-- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings but are reported as a net amount (less expected tax) in a separate component of stockholders' equity until realized.

-- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not that it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income.

As a member of the Federal Home Loan Bank of Boston (FHLB), the Company is currently required to purchase and hold shares of capital stock in the FHLB of Boston in an amount equal to 0.35% of the Bank's Membership Stock Investment Base plus an Activity Based Stock Investment Requirement. The Activity Based Stock Investment Requirement is equal to 3.0% of any outstanding principal for overnight advances, 4.0% of any outstanding principal for term advances with an original term of two days to three months and 4.5% of any outstanding principal for term advances with an original term greater than three months. The Bank is in compliance with these requirements. The capital stock is carried at its cost and evaluated for impairment based upon the ultimate recoverability of the cost basis. Management determined there was no impairment at December 31, 2018 and 2017.

LOANS HELD-FOR-SALE:

Loans held-for-sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations.

Interest income on mortgages held-for-sale is accrued currently and classified as interest on loans.

LOANS:

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

Interest income on loans is recognized on an accrual basis.

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

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

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

The Company has certain lending policies and procedures in place that are designed to maximize loan income with an acceptable level of risk. Management reviews and approves these policies and procedures on an annual basis. A reporting system is in place which provides management with frequent reports related to loan quality, loan production, loan delinquencies and non-performing or potential problem loans.

Commercial and industrial loans are underwritten after evaluating historical and projected profitability and cash flow to determine the borrower's ability to repay its obligation as agreed. Underwriting standards are designed to promote relationship banking rather than transactional banking. Commercial and industrial loans are made primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral supporting the loan facility. The cash flow of the borrower may not be as expected and the collateral supporting the loan may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable and inventory, and may incorporate a personal guarantee. Some loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent upon the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are subject to the underwriting standards and processes similar to commercial and industrial loans in addition to those underwriting standards for real estate loans. These loans are viewed primarily as cash flow dependent and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher principal balances and longer repayment periods. Repayment of these loans is generally dependent upon the successful operation of the property securing the loan or the principal business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or the economy in general. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversification reduces the exposure to adverse economic conditions that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk-rating criteria. The Company also utilizes third-party experts to provide environmental and market valuations in addition to economic conditions and trends within a specific industry. The Company also tracks the level of owner occupied commercial real estate loans within its commercial real estate portfolio.

With respect to land developers' and builders' loans that are secured by non-owner-occupied properties that the Company may originate from time to time, the Company generally requires that the borrower have a proven record of success. Construction loans are underwritten based upon a financial analysis of the developers and property owners and construction cost estimates in addition to independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation estimates may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project. Sources of repayment of these loans would be permanent financing upon completion or sales of developed property. These loans are closely monitored by on-site inspections and are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term financing, interest rate sensitivity, and governmental regulation of real property.

The Company originates consumer loans utilizing a computer-based credit-scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by staff and management. This continual review, coupled with the high volume of borrowers of smaller dollar loans, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by regulatory requirements, which include, but are not limited to, a maximum loan-to-value of 75%, collection remedies, the number of such loans that a borrower can have at one time, and documentation requirements.

The Company engages an independent loan review firm that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the Board of Directors of the Company. The loan review process complements and reinforces the risk identification process and assessment decisions made by the relationship managers and credit officer, as well as the Company's policies and procedures.

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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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 and land development, 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 significant changes in the Company's policies or methodology pertaining to the general component of the allowance for loan losses during 2018.

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 and home equity loans: The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent without obtaining private mortgage insurance for any amounts over 80% and does not grant subprime loans. All loans in these segments 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: Loans in this segment are primarily income-producing properties throughout the Farmington Valley and surrounding communities in Connecticut. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which, in turn, will have an effect on the credit quality in this segment. Management periodically obtains rent rolls and continually monitors the cash flows of these loans.

Construction and land development loans: Loans in this segment primarily include speculative real estate development loans for which payment is derived from the 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 the assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

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

Reserve for Unfunded Commitments:

The unfunded reserve is a component of other liabilities and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include bankers' acceptances, and standby and commercial letters of credit. The process used to determine the unfunded reserve is consistent with the process for determining the allowance for loan losses, as adjusted for estimated funding probabilities or loan and lease equivalency factors. The level of unfunded reserve is adjusted by recording an expense or recovery in other noninterest expense.

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets. Estimated lives are 3 to 20 years for furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the estimated life of the improvements.

BANK OWNED LIFE INSURANCE

Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Changes in the net cash surrender value of the policies as well as insurance proceeds received, are reflected in noninterest income of the consolidated statements of income and are generally not subject to income taxes. The Company reviews the financial strength of the insurance carriers prior to the purchase of life insurance policies and no less than annually thereafter.

TRANSFERS AND SERVICING OF FINANCIAL ASSETS

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is generally considered to have been surrendered when the transferred assets are legally isolated from the Company or its consolidated affiliates, even in bankruptcy or other receivership; the transferee has the right to pledge or exchange the assets with no conditions that constrain the transferee and provide more than a trivial benefit to the Company; and the Company does not maintain the obligation or unilateral ability to reclaim or repurchase the assets.

The Company sells financial assets in the normal course of business, the majority of which are residential mortgage loan sales primarily to government-sponsored enterprises through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. The Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses covering certain characteristics of the mortgage loans sold and the Company's origination process. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the consideration received, and any liabilities incurred in exchange for the transferred assets.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. Servicing assets and any other interests held by the Company are recorded at fair value upon transfer, and are carried at the lower of cost or fair value thereafter.

MORTGAGE SERVICING

Servicing assets are recognized as separate assets when servicing rights are acquired through the sale of residential mortgage loans with servicing rights retained. Capitalized servicing rights, which are reported in other assets on the consolidated balance sheets, are initially recorded at fair value and are amortized in proportion to, and over the period of, the estimated future servicing of the underlying mortgages (typically, the contractual life of the mortgage). 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 characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance to the extent that fair value is less than the capitalized amount. If it is later determined that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded increasing income, but not below zero.

Servicing fee income is recorded for fees earned for servicing loans for investors. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income within mortgage banking activities, net on the consolidated statements of income when earned. The amortization of mortgage servicing rights is recorded as a reduction of loan servicing fee income within mortgage banking activities, net on the consolidated statements of income.

Interest rate lock commitments: The Company enters into interest rate lock commitments ("IRLCs") for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative financial instruments.

Derivative Loan Commitments: Residential real estate loan commitments are classified as derivative loan commitments if the loan that will result from the exercise of the commitment will be held for sale upon funding. Such derivatives are recognized at fair value in the consolidated balance sheet within other assets and other liabilities with changes in the fair values recognized within mortgage banking activities, net in the consolidated statement of income.

Forward Loan Sale Commitments: To protect against the price risk inherent in derivative loan commitments, the Company utilizes "best efforts" and "mandatory delivery" forward loan sale commitments. Such forward sale commitments are recognized at fair value and are classified within other assets and other liabilities in the consolidated balance sheet with changes in the fair values recognized as a component of gain on sales of loans and classified within mortgage banking activities, net in the consolidated statement of income.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures. These properties are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure or transfer, establishing a new cost basis. Subsequent to foreclosure or transfer, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any writedown from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent writedowns and gains or losses recognized upon sale are included in other expense.

The Company classifies commercial loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor’s assets regardless of whether formal foreclosure proceedings have taken place. An in-substance repossession or foreclosure occurs, and the Company is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either: (1) obtaining legal title to the residential real estate property upon completion of a foreclosure; or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

Fair Values of financial instruments are estimated using relevant market information and other assumptions, are more fully disclosed in Note 12-Fair Value Measurements. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

ADVERTISING:

The Company directly expenses costs associated with advertising as they are incurred. During the years ended December 31, 2018 and 2017, $710 thousand and $610 thousand, respectively, in advertising and promotion expenses were recognized.

INCOME TAXES:

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. A valuation allowance against deferred tax assets is established when, based upon all available evidence, both positive and negative, it is determined that it is more likely than not that some or all of the deferred tax assets will not be realized. See Note 10- Income Taxes for more information.

STOCK BASED COMPENSATION:

At December 31, 2018, the Company had stock-based employee compensation plans which are described more fully in Note 19. The Company accounts for the plans under ASC 718-10, “Compensation - Stock Compensation - Overall.” During the years ended December 31, 2018 and 2017, $180 thousand and $145 thousand, respectively, in stock-based compensation was recognized.

EARNINGS PER SHARE:

The Company defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that are included in computing EPS using the two-class method.

The two-class method is an earnings allocation formula that determines earnings per share for each share of common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. Earnings per common share is calculated by dividing earnings allocated to common shareholders by the weighted-average number of common shares outstanding during the period.

Basic EPS excludes dilution and is computed by dividing income allocated to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

RECENT ACCOUNTING PRONOUNCEMENTS:

In January 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU requires entities to present separately in other comprehensive income that portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. It also requires 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, thus eliminating eligibility for the current available-for-sale category. The ASU took effect for public business entities for fiscal years beginning after December 15, 2017. The Company has no equity investments as of the report date; therefore, there was no material impact to its consolidated financial statements upon adoption.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new guidance will be effective for public entities for annual periods beginning after December 15, 2018 and interim periods therein. Early adoption of ASU 2016-02 as of its issuance is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company will adopt Topic 842 in the first quarter of 2019, as required for public business entities. The adoption of this standard is not expected to have a material effect on The Company's operating results.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 significantly changes the way impairment of financial instruments is recognized by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of financial instruments. The main provisions of ASU 2016-13 include (1) replacing the "incurred loss" approach under current GAAP with an "expected loss" model for instruments measured at amortized cost; (2) requiring entities to record an allowance for available-for-sale debt securities rather than reducing the carrying amount of the investments, as is required by the other-than-temporary-impairment model under current GAAP; and (3) a simplified accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for non-SEC issuer public business entities for interim and annual reporting periods beginning after December 15, 2020, although early adoption is permitted. The Company is currently assessing the impact that adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." Current GAAP is unclear or does not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU is intended to reduce diversity in practice on how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. Entities will be required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. As this guidance only

affects the classification within the statement of cash flows, the adoption of ASU No. 2016-15 does not have a material impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The adoption of this standard is not expected to have a material effect on The Company's operating results or financial condition.

In May 2017, the FASB issued ASU No. 2017-09, "Stock Compensation, Scope of Modification Accounting." This ASU clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Companies will apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. The new guidance should reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications, as the guidance will allow companies to make certain non-substantive changes to awards without accounting for them as modifications. It does not change the accounting for modifications. ASU No. 2017-09 is effective for interim and annual reporting periods beginning after December 15, 2017; early adoption is permitted. The adoption of this standard did not have a material effect on The Company's operating results or financial condition.

In August 2017, the FASB issued ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." This ASU's objectives are (1) to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities; and (2) to reduce the complexity of and simplify the application of hedge accounting by preparers. ASU No. 2017-12 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The Company currently does not designate any derivative financial instruments as formal hedging relationships and, therefore, does not utilize hedge accounting. However, the Company is currently evaluating this ASU to determine whether its provisions will enhance the Company's ability to employ risk management strategies, while improving the transparency and understanding of those strategies for financial statement users.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." The update provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The ASU requires financial statement preparers to disclose:

- A description of the accounting policy for releasing income tax effects from AOCI
- Whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act; and
- Information about the other income tax effects that are reclassified.

The amendments affect any organization that is required to apply the provisions of Topic 220, Income Statement-Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP.

The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption, including application to financial statements not yet issued or available to be issued, is permitted. The Company adopted the pronouncement as of December 31, 2017, which reclassified $73 thousand from AOCI into retained earnings.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The objective of this ASU was to clarify the principles for recognizing revenue and to develop a common revenue standard for generally accepted accounting principles ("GAAP") and International Financial Reporting Standards. The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company adopted ASC 606 as of January 1, 2018. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost basis of securities and their approximate fair values were as follows as of December 31, 2018 and 2017:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
December 31, 2018:				
Debt securities issued by U.S. government corporations and agencies	$ 1,761	$ -	$ 24	$ 1,737
Obligations of states and municipalities	11,933	34	98	11,869
Mortgage-backed securities	28,103	5	1,175	26,933
SBA loan pools	721	4	9	716
	$ 42,518	$ 43	$ 1,306	$ 41,255
December 31, 2017:				
Debt securities issued by U.S. government corporations and agencies	$ 4,514	$ -	$ 18	$ 4,496
Obligations of states and municipalities	12,720	146	31	12,835
Mortgage-backed securities	34,123	19	678	33,464
SBA loan pools	861	7	7	861
	$ 52,218	$ 172	$ 734	$ 51,656

The scheduled maturities of debt securities at amortized cost and fair value were as follows as of December 31, 2018:

	Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ 1,512	1,516
Due after one year through five years	4,158	4,116
Due after five years through ten years	5,585	5,527
Due after ten years	2,439	2,447
Mortgage-backed securities	28,103	26,933
SBA loan pools	721	716
	$ 42,518	$ 41,255

During 2018, there were no sales of available-for-sale securities. During 2017, there were no sales of available-for-sale securities.

There were no securities of issuers, other than the U.S. Government and its agencies, that exceeded 10% of stockholders' equity at December 31, 2018 or December 31, 2017.

As of December 31, 2018, and 2017, the total carrying amounts of securities pledged for securities sold under agreements to repurchase and public deposits were $23.8 million and $28.8 million, respectively.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized loss position for less than twelve months and for twelve months or more are as follows:

	Less than 12 Months			12 Months or Longer			Total		
	Fair Value	Unrealized Losses	Number of Holdings	Fair Value	Unrealized Losses	Number of Holdings	Fair Value	Unrealized Losses	Number of Holdings
				(In Thousands)					
December 31, 2018:									
Debt securities issued by U.S. government corporations and agencies	$ -	-	-	$ 1,737	$ 24	3	$ 1,737	$ 24	3
SBA loan pools	-	-	-	598	9	1	598	9	1
Obligations of states and municipalities	1,144	4	3	3,625	94	8	4,769	98	11
Mortgage-backed securities	107	1	5	26,490	1,146	77	26,597	1,147	82
Total temporarily impaired securities	1,251	5	8	32,450	1,273	89	33,701	1,278	97
Other-than-temporarily impaired securities:									
Mortgage-backed securities	-	-	-	86	28	3	86	28	3
Total temporarily impaired and other-than-temporarily impaired securities	$ 1,251	$ 5	8	$ 32,536	$ 1,301	92	$ 33,787	$ 1,306	100
December 31, 2017:									
Debt securities issued by U.S. government corporations and agencies	$ 3,252	$ 12	6	$ 1,244	$ 6	2	$ 4,496	$ 18	8
SBA loan pools	694	7	1	-	-	-	694	7	1
Obligations of states and municipalities	1,761	1	4	1,493	30	3	3,254	31	7
Mortgage-backed securities	5,755	35	26	25,980	617	56	31,735	652	82
Total temporarily impaired securities	11,462	55	37	28,717	653	61	40,179	708	98
Other-than-temporarily impaired securities:									
Mortgage-backed securities	-	-	-	123	26	3	123	26	3
Total temporarily impaired and other-than-temporarily impaired securities	$ 11,462	$ 55	37	$ 28,840	$ 679	64	$ 40,302	$ 734	101

The securities in the Company's investment portfolio that were temporarily impaired as of December 31, 2018 consisted of debt securities issued by states of the United States, political subdivisions of the states, and U.S. government corporations and agencies as well as mortgage-backed securities. The Company's management anticipates that the fair value of securities that are currently impaired will recover to cost basis. The gross unrealized losses are primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. As the Company has the ability and intent to hold securities for the foreseeable future, and it is more likely than not that the Company will not be required to sell the investment securities before recovery of their amortized cost basis, no declines are deemed to be other than temporary, unless otherwise noted above.

The following table summarizes other-than-temporary impairment losses on debt securities for the years ended December 31, 2018 and 2017:

	2018	2017
	Mortgage-Backed Securities	Mortgage-Backed Securities
	(In Thousands)	
Total other-than-temporary impairment losses	$ 34	$ 30
Less: unrealized other-than-temporary impairment losses recognized in other comprehensive income/loss (1)	(28)	(26)
Net impairment losses recognized in earnings (2)	$ 6	$ 4

(1) Represents the noncredit component of the other-than-temporary impairment on securities.
(2) Represents the credit component of the other-than-temporary impairment on securities.

Activity related to the credit component recognized in earnings on debt securities held by the Company for which a portion of other-than-temporary impairment was recognized in other comprehensive income for the year ended December 31, 2018 was as follows:

	Mortgage-Backed Securities
	(In Thousands)
Balance, December 31, 2017	$ 51
Additions for the credit componet on debt securities in which other-than-temporary impairment was previously recognized	6
Balance, December 31, 2018	$ 57

For the year ended December 31, 2018, securities with other-than-temporary impairment losses related to credit that were recognized in earnings consisted of three private label collateralized mortgage obligations (CMOs). The par value of these three securities were written down by $6 thousand by the issuers.

Activity related to the credit component recognized in earnings on debt securities held by the Company for which a portion of other-than-temporary impairment was recognized in other comprehensive loss for the year ended December 31, 2017 was as follows:

	Mortgage-Backed Securities	
	(In Thousands)	
Balance, December 31, 2016	$	47
Additions for the credit componet on debt securities in which other-than-temporary impairment was previously recognized		4
Balance, December 31, 2017	$	51

For the year ended December 31, 2017, securities with other-than-temporary impairment losses related to credit that were recognized in earnings consisted of three private label collateralized mortgage obligations (CMOs). The par value of these three securities were written down by $4 thousand by the issuers.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2018	2017
	(In Thousands)	
Real estate-residential	$ 134,649	$ 135,229
Real estate-commercial	74,646	79,293
Real estate-municipal	8,686	9,271
Real estate-residential construction and land development	1,182	2,003
Real estate-commercial construction and land development	22,475	22,475
Home equity	45,919	49,095
Commercial and industrial	83,708	72,591
Municipal	1,922	2,586
Consumer	13,851	22,552
Total loans	387,038	395,095
Allowance for loan losses	(4,387)	(4,088)
Deferred costs, net	1,321	1,318
Net loans	$ 383,972	$ 392,325

The following tables set forth information regarding the allowance for loan losses by portfolio segment as of and for the years ended December 31, 2018 and 2017:

	Real Estate:							
	Residential	Commercial	Residential & Commercial Construction and Land Development	Home Equity	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)							
December 31, 2018:								
Allowance for loan losses:								
Beginning balance	$ 996	$ 1,187	$ 292	$ 381	$ 1,079	$ 146	$ 7	$ 4,088
Charge-offs	-	-	-	-	(4)	(25)	-	(29)
Recoveries	42	-	-	-	5	1	-	48
Provision (benefit)	(201)	(41)	(21)	(47)	572	(48)	66	280
Ending balance	$ 837	$ 1,146	$ 271	$ 334	$ 1,652	$ 74	$ 73	$ 4,387
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 467	$ -	$ -	$ 467
Ending balance: Collectively evaluated for impairment	837	1,146	271	334	1,185	74	73	3,920
Total allowance for loan losses ending balance	$ 837	$ 1,146	$ 271	$ 334	$ 1,652	$ 74	$ 73	$ 4,387
Loans:								
Ending balance: Individually evaluated for impairment	$ -	$ 2,477	$ -	$ -	$ 1,919	$ -	$ -	$ 4,396
Ending balance: Collectively evaluated for impairment	134,649	80,855	23,657	45,919	83,711	13,851	-	382,642
Total loans ending balance	$ 134,649	$ 83,332	$ 23,657	$ 45,919	$ 85,630	$ 13,851	$ -	$ 387,038

	Real Estate: Residential	Real Estate: Commercial	Real Estate: Residential & Commercial Construction and Land Development	Home Equity	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)							
December 31, 2017:								
Allowance for loan losses:								
Beginning balance	$ 1,057	$ 1,044	$ 212	$ 346	$ 824	$ 249	$ 21	$ 3,753
Charge-offs	(101)	-	-	(99)	(82)	(41)	-	(323)
Recoveries	-	-	-	-	11	2	-	13
Provision (benefit)	40	143	80	134	326	(64)	(14)	645
Ending balance	$ 996	$ 1,187	$ 292	$ 381	$ 1,079	$ 146	$ 7	$ 4,088
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 101	$ -	$ -	$ 101
Ending balance: Collectively evaluated for impairment	996	1,187	292	381	978	146	7	3,987
Total allowance for loan losses ending balance	$ 996	$ 1,187	$ 292	$ 381	$ 1,079	$ 146	$ 7	$ 4,088
Loans:								
Ending balance: Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 1,057	$ -	$ -	$ 1,057
Ending balance: Collectively evaluated for impairment	135,229	88,564	24,478	49,095	74,120	22,552	-	394,038
Total loans ending balance	$ 135,229	$ 88,564	$ 24,478	$ 49,095	$ 75,177	$ 22,552	$ -	$ 395,095

The following tables present the Company's loans by risk rating as of December 31, 2018 and 2017:

	Real Estate:						
			Residential & Commercial Construction and Land		Commercial		
	Residential	Commercial	Development	Home Equity	and Industrial	Consumer	Total
				(In Thousands)			
December 31, 2018:							
Grade:							
Pass	$ -	$ 74,453	$ 22,475	$ -	$ 80,572	$ -	$ 177,500
Special mention	-	2,194	-	-	2,740	-	4,934
Substandard	678	6,685	-	270	2,318	-	9,951
Loans not formally rated	133,971	-	1,182	45,649	-	13,851	194,653
Total	$ 134,649	$ 83,332	$ 23,657	$ 45,919	$ 85,630	$ 13,851	$ 387,038
December 31, 2017:							
Grade:							
Pass	$ -	$ 78,096	$ 21,369	$ -	$ 72,112	$ -	$ 171,577
Special mention	-	3,431	1,106	-	172	-	4,709
Substandard	1,164	7,037	-	136	2,893	-	11,230
Loans not formally rated	134,065	-	2,003	48,959	-	22,552	207,579
Total	$ 135,229	$ 88,564	$ 24,478	$ 49,095	$ 75,177	$ 22,552	$ 395,095

Credit Quality Indicators: As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) weighted average risk rating of commercial loans; (ii) the level of classified and criticized commercial loans; (iii) non-performing loans; (iv) net charge-offs; and (v) the general economic conditions within the State of Connecticut.

The Company utilizes a risk rating grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 to 8. A "Pass" is defined as risk rating 1 through 4. A description of each rating class is as follows:

Risk Rating 1 (Superior) – This risk rating is assigned to loans secured by cash.

Risk Rating 2 (Good) – This risk rating is assigned to borrowers of high credit quality who have primary and secondary sources of repayment which are well defined and fully confirmed.

Risk Rating 3 (Satisfactory) – This risk rating is assigned to borrowers who are fully responsible for the loan or credit commitment, which has primary and secondary sources of repayment that are well defined and adequately confirmed. Most credit factors are favorable, and the credit exposure is managed through normal monitoring.

Risk Rating 4 (Pass/Watch) – This risk rating is assigned to borrowers who are fully responsible for the loan or credit commitment and the secondary sources of repayment are weak. These loans may require more than the average amount of attention from the relationship manager Loans in this category have all of the attributes of risk ratings 1, 2, or 3. However, the borrower is technically in default due to the lack of current financial statements and/or other required financial information.

Risk Rating 5 (Special Mention) – This risk rating is assigned to borrowers whose loan or credit commitment may be adequately protected by the present debt service capacity and tangible net worth of the borrower, but which have potential problems that could, if not checked or corrected, eventually weaken these assets or otherwise jeopardize the repayment of principal and interest as originally intended. Most credit factors are unfavorable, and the credit exposure requires immediate corrective action.

Risk Rating 6 (Substandard-Accrual) – This risk rating is assigned to borrowers who may not have adequate cash flow or collateral to satisfy their loan obligations as originally defined in their loan agreement. Substandard loans may be placed on nonaccrual status if the conditions described above are generally met.

Risk Rating 6 (Substandard – Non-Accrual) - Loans in this category have all the characteristics of risk rating 6 (Substandard – Accrual), but the loan is past due over 90 days. This category includes non-accrual loans and loans where the Bank has initiated action to foreclose on any pledged or available collateral, or where such foreclosure is imminent.

Risk Rating 7 (Doubtful) – This risk rating is assigned to a borrower or a portion of a borrower's loan with which the Company is no longer certain of its collectability. A specific reserve allocation is assigned to this portion of the loan.

Risk Rating 8 (Loss) – This risk rating is assigned to loans which have been charged off or the portion of the loan that has been charged off. "Loss" does not imply that the loan, or a portion of the loan, will never be paid, nor does it imply that there has been a forgiveness of debt.

Loans not formally rated include residential, residential construction and development, home equity and consumer loans. As of December 31, 2018, $194.7 million of the total residential, residential construction and development, home equity and consumer loan portfolio of $195.6 million were not formally rated. As of December 31, 2017, $207.6 million of the total residential, residential construction and development, home equity and consumer loan portfolio of $208.9 million were not formally rated. The performance of these loans is measured by delinquency status. The Company underwrites first mortgage loans in accordance with FHLMC and FNMA guidelines. These guidelines provide for specific requirements with regard to documentation and loan to value and debt to income ratios. Home equity loan and line guidelines place a maximum loan to value ratio of 80% on these loans and the Company requires full underwriting disclosure documentation for these loans. These underwriting factors have produced a high-

performance loan portfolio. Total delinquent loans, consisting of loans past due 60 days or more, increased to 0.43% of total loans outstanding as of December 31, 2018 from 0.22% of total loans outstanding as of December 31, 2017.

An age analysis of past-due loans, segregated by class of loans, is as follows as of December 31, 2018 and 2017:

	30-59 Days	60-89 Days	90 Days or More Past Due	Total Past Due	Total Current	Total Loans	90 Days or More Past Due and Accruing	Nonaccrual Loans
				(In Thousands)				
December 31, 2018:								
Real estate:								
Residential	$ -	$ 91	$ 137	$ 229	$ 134,421	$ 134,649	$ -	$ 678
Commercial	-	-	-	-	74,646	74,646		-
Municipal	-	-	-	-	8,686	8,686	-	
Residential & commercial construction and land development	-	-	-	-	23,657	23,657	-	-
Home equity	-	-	-	-	45,919	45,919	-	-
Commercial and industrial	-	-	1,345	1,345	82,363	83,708	-	3,822
Municipal	-	-	-	-	1,922	1,922	-	-
Consumer	116	10	63	189	13,662	13,851	-	289
Total	$ 116	$ 101	$ 1,545	$ 1,763	$ 385,275	$ 387,038	$ -	$ 4,789
December 31, 2017:								
Real estate:								
Residential	$ 143	$ 132	$ 525	$ 800	$ 134,429	$ 135,229	$ -	$ 1,164
Commercial	383	-	-	383	78,910	79,293		-
Municipal	-	-	-	-	9,271	9,271	-	
Residential & commercial construction and land development	-	-	-	-	24,478	24,478	-	-
Home equity	-	-	-	-	49,095	49,095	-	136
Commercial and industrial	-	-	182	182	72,409	72,591	-	182
Municipal	-	-	-	-	2,586	2,586	-	-
Consumer	192	6	17	215	22,337	22,552	-	17
Total	$ 718	$ 138	$ 724	$ 1,580	$ 393,515	$ 395,095	$ -	$ 1,499

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 for which the Company has measured impairment on a loan-by-loan basis is as follows as of and for the years ended December 31, 2018 and 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
December 31, 2018:					
With no related allowance recorded:					
Real estate:					
Commercial	$ 2,477	$ 2,477	$ -	$ 2,527	$ 85
Commercial and industrial	626	626	-	738	31
Total impaired with no related allowance	3,103	3,103	-	3,265	116
With an allowance recorded:					
Real Estate:					
Commercial and industrial	1,292	1,292	467	1,260	75
Total impaired with an allowance recorded	1,292	1,292	467	1,260	75
Total					
Real estate:					
Commercial	2,477	2,477	-	2,527	85
Commercial and industrial	1,919	1,919	467	1,998	106
Total impaired loans	$ 4,396	$ 4,396	$ 467	$ 4,525	$ 191

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
December 31, 2017:					
With no related allowance recorded:					
Real estate:					
Commercial	$ -	$ -	$ -	$ 951	$ 17
Residential & commercial construction and land development	-	-	-	137	14
Commercial and industrial	912	912	-	556	36
Total impaired with no related allowance	912	912	-	1,644	67
With an allowance recorded:					
Commercial and industrial	145	145	101	38	3
Total impaired with an allowance recorded	145	145	101	38	3
Total					
Real estate:					
Commercial	-	-	-	951	17
Residential & commercial construction and land development	-	-	-	137	14
Commercial and industrial	1,057	1,057	101	594	39
Total impaired loans	$ 1,057	$ 1,057	$ 101	$ 1,682	$ 70

There was one loan relationship that was modified as a troubled debt restructuring during the year ended December 31, 2018. The loans, with a principal balance of $1.3 million, were modified to assist the borrowing entity with maintaining positive cash flow in operation of their business. The business continued to have operational issues and the loan was placed in nonaccrual status in August 2018 and the business operations subsequently ceased operations in February 2019.

There were no loans that were modified as a troubled debt restructuring during the year ended December 31, 2017.

As of December 31, 2018, and 2017, there were no commitments to lend additional funds to borrowers whose loans were modified in a troubled debt restructuring.

As of December 31, 2018, there were no foreclosed residential real estate properties held by the Company. As of December 31, 2017, there was one foreclosed residential real estate property held by the Company with an estimated value of $192 thousand. There was $142 thousand and $525 thousand in consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure according to local requirements of the applicable jurisdiction at December 31, 2018 and 2017, respectively.

At December 31, 2018 and 2017, balance of mortgage servicing rights included in other assets was $2.8 million and $2.4 million, respectively, with estimated fair values of $4.7 million and $4.3 million, respectively.

For the years ended December 31, 2018 and 2017, the Company capitalized mortgage servicing rights of $642 thousand and $723 thousand, respectively, and amortization of mortgage servicing rights was $311 thousand and $573 thousand, respectively. For the years ended December 31, 2018 and 2017, the Company recognized servicing fee income of $914 thousand and $805 thousand, respectively. These mortgage banking amounts are included in mortgage banking activities, net on the consolidated statements of income.

For the years ended December 31, 2018 and 2017, the Company recognized gains on sales of loans (including capitalized mortgage servicing rights) of approximately $626 thousand and $981 thousand, respectively.

The following is an analysis of the aggregate changes in the valuation allowance for mortgage servicing rights for the years ended December 31:

	2018	2017
	(In Thousands)	
Balance, beginning of year	$ -	$ 206
Additions	-	-
Reductions	-	(206)
Balance, end of year	$ -	$ -

Mortgage loans serviced for others were not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $380.2 million and $351.0 million as of December 31, 2018 and 2017, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2018	2017
	(In Thousands)	
Leasehold improvements	$ 1,877	$ 1,829
Furniture and equipment	3,701	3,678
	5,578	5,507
Accumulated depreciation and amortization	(4,128)	(3,644)
	$ 1,450	$ 1,863

During the year ended December 31, 2017, the company recorded a writedown of premises and equipment in the amount of $55 thousand related to the consolidation of its administrative offices.

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) insurance limit (currently $250,000) at December 31, 2018 and 2017 was $13.9 million and $14.7 million, respectively.

For time deposits as of December 31, 2018, the scheduled maturities for years ending December 31 are as follows:

	(In Thousands)
2019	$ 40,186
2020	10,681
2021	2,628
2022	2,595
2023 and thereafter	1,215
Total	$ 57,305

At December 31, 2018 and 2017, the Company had brokered certificates of deposit included in the above table that totaled $2.4 million and $1.9 million, respectively.

As of December 31, 2018, the Bank had one depositor with total deposits exceeding 5.00% of the Company’s total deposits. As of December 31, 2017, the Bank had one such depositor exceeding 5.00% of the Company’s total eposits.

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase consist of funds borrowed from customers on a short-term basis secured by portions of the Company's investment portfolio. The securities which were sold have been accounted for not as sales but as borrowings. The securities consisted of debt securities issued by U.S. government sponsored enterprises, corporations and agencies and states and municipalities. The securities were held in safekeeping by the Federal Home Loan Bank and Merrill Lynch, under the control of the Company. The purchasers have agreed to sell to the Company substantially identical securities at the maturity of the agreements.

NOTE 8 - BORRROWINGS

Federal Home Loan Bank advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB). As of December 31, 2018, the only FHLB advances outstanding are those under the FHLB's "Jobs for New England" program, which provides low cost financing to local companies in an attempt to spur job growth. The Company had $3.7 million in 0% interest rate borrowings from the FHLB that mature in two to seven years. There was $2.3 million in FHLB advances outstanding as of December 31, 2017 under the "Jobs for New England" program.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family real properties and other qualified assets. The Bank had approximately $104.7 million in borrowing capacity from the FHLB at December 31, 2018.

Other borrowings consisted of $443 thousand of Federal Funds Purchased at December 31, 2018.

The Company had a line of credit with the FHLB in the amount of $1.5 million at December 31, 2018 and 2017. At December 31, 2018 and 2017, there were no advances outstanding under this line of credit.

NOTE 9 - SUBORDINATED DEBENTURES

On October 15, 2015 (the "Closing Date"), the Company closed on the issuance of an unsecured subordinated term note in the aggregate principal amount of $7.5 million due October 1, 2025 (the "Subordinated Note") to Community Funding CLO, Ltd. ("Community Funding") pursuant to a Subordinated Loan Agreement, dated as of September 30, 2015 (the "Loan Agreement"), by and between the Company and Community Funding. The Subordinated Note bears interest at a fixed rate of 6.75% per annum. Interest on the Subordinated Note is payable quarterly in arrears on January 1, April 1, July 1 and October 1 of each year, commencing on the first such date following the Closing Date and on the maturity date. The principal amount of the Subordinated Note is due on October 1, 2025, provided, however, that the Company may prepay all or a portion of the principal amount of the Subordinated Note on or after the fifth anniversary of the Closing Date. Prior to the fifth anniversary of the Closing Date, the Company can prepay all or a portion of the principal amount of the Subordinated Note only under limited specified circumstances set forth in the Loan Agreement.

The initial closing costs of $277 thousand are being amortized over the 10 year term of the Subordinated Note as interest expense. At December 31, 2018 and 2017, there were approximately $190 thousand and $219 thousand, respectively, in closing costs remaining to be amortized.

NOTE 10 - INCOME TAXES

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

	2018	2017
	(In Thousands)	
Current:		
Federal	$ 326	$ 722
State	36	36
	362	758
Deferred:		
Federal	633	95
Federal- Revaluation of net deferred taxes due to a change in tax rate	-	151
	633	246
Total income tax expense	$ 995	$ 1,004

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

	2018	2017
	% of Income	% of Income
Federal income tax at statutory rates	21.0 %	34.0 %
Increase (decrease) in tax resulting from:		
Tax-exempt income	(3.8)	(10.9)
Tax rate change	-	4.5
Other	2.3	2.3
Effective tax rates	19.5 %	29.9 %

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

	2018	2017
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 890	$ 816
Deferred compensation	237	212
Write-down of securities	12	11
Restricted stock awards	2	10
Charitable contribution carryover	-	15
Alternative minimum tax carryforward	-	541
Net unrealized holding loss on available-for-sale securities	265	118
Other	23	103
Gross deferred tax assets	1,429	1,826
Deferred tax liabilities:		
Depreciation	(260)	(273)
Deferred loan costs/fees	(274)	(274)
Mortgage servicing rights	(596)	(494)
Gross deferred tax liabilities	(1,130)	(1,041)
Net deferred tax asset (included in other assets)	$ 299	$ 785

On December 22, 2017, the U.S. federal government enacted the Tax Cuts and Jobs Act. Among other provisions, the Tax Cuts and Jobs Act reduces the historical corporate income tax rate to a newly enacted rate of 21 percent for tax years beginning after December 31, 2017. As of the date the new legislation was enacted, under ASC 740, Income Taxes, the Company was required to recognize the effects of the change in tax law and rates on its deferred tax assets and liabilities as a charge to income tax expense. As a result of the Tax Cuts and Jobs Act and the revaluation of deferred tax assets and liabilities at December 31, 2017, the Company recognized an additional income tax expense of $151 thousand in 2017.

Deferred tax assets as of December 31, 2018 and 2017 have not been reduced by a valuation allowance because management believes that it is more likely than not that the full amount of deferred taxes will be realized.

As of December 31, 2018, and 2017, the Company had no operating loss carryovers for income tax purposes.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2018, and 2017, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2015 through December 31, 2018.

In January of 2011, the Bank formed a subsidiary Passive Investment Company (PIC). Under State of Connecticut statutes, such a company is not subject to Connecticut corporation business taxes. Provided that the Bank meets the mandated statutory requirements, the Company's Connecticut corporation business taxes are significantly reduced or eliminated.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2018 the Company was obligated under non-cancelable operating leases for bank premises and equipment that expire between August 2019 and December 2030. Certain leases contain renewal options. The cost of such renewals is not included below. The total minimum rental due in future periods under these existing agreements was as follows as of December 31, 2018:

	Minimum Payments Due (In Thousands)
2019	$ 793
2020	590
2021	571
2022	577
2023	560
Thereafter	1,521
Total	$ 4,612

Certain leases contain provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to $794 thousand and $906 thousand for the years ended December 31, 2018 and 2017, respectively.

On November 28, 2008, the Company entered into an agreement with its data processing servicer with an initial five-year term. A second amendment to this November 2008 agreement was signed between the parties on June 27, 2013 that extended the agreement through April 19, 2019. Under the agreement, the Company must pay a termination fee as described in the agreement if the Company terminates the agreement, with notice, before April 19, 2019.

NOTE 12 - FAIR VALUE MEASUREMENTS

ASC 820-10, “Fair Value Measurement - Overall,” provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Company groups its financial assets and financial 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 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, which are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company did not have any significant transfers of assets between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2018.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value for December 31, 2018 and 2017.

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

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

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

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

The following table summarizes assets and liabilities measured at fair value as of December 31:

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

	Total	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2018:				
Debt securities issued by U.S. government corporations and agencies	$ 1,737	$ -	$ 1,737	$ -
Obligations of states and municipalities	11,869	-	11,869	-
Mortgage-backed securities	26,933	-	26,933	-
SBA loan pools	716	-	716	-
Derivatives	51	-	-	51
Total assets	$ 41,306	$ -	$ 41,255	$ 51
Derivative liabilities	$ 45	$ -	$ -	$ 45

	Total	Fair Value Measurements at Reporting Date Using: Level 1	Level 2	Level 3
		(In Thousands)		
December 31, 2017:				
Debt securities issued by U.S. government corporations and agencies	$ 4,496	$ -	$ 4,496	$ -
Obligations of states and municipalities	12,835	-	12,835	-
Mortgage-backed securities	33,464	-	33,464	-
SBA loan pools	861	-	861	-
Derivatives	47	-	-	47
Total assets	$ 51,703	$ -	$ 51,656	$ 47
Derivative liabilities	$ 52	$ -	$ -	$ 52

Under certain circumstances, the Company makes adjustments to fair value for our assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the assets carried on the consolidated balance sheet by caption and by level in the fair value hierarchy, at December 31, 2018, for which a change in fair value has been recorded. There were no significant assets or liabilities at December 31, 2017 that were measured at fair value on a nonrecurring basis for which a nonrecurring change in fair value has been recorded:

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
		(In Thousands)		
December 31, 2018:				
Other real estate owned	$ -	$ -	$ -	$ -
Totals	$ -	$ -	$ -	$ -
December 31, 2017:				
Other real estate owned	$ 192	$ -	$ -	$ 192
Totals	$ 192	$ -	$ -	$ 192

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, were as follows as of December 31, 2018 and 2017:

	December 31, 2018				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 14,678	$ 14,678	$ -	$ -	$ 14,678
Certificates of deposit	250	250	-	-	250
Available-for-sale securities	41,255	-	41,255	-	41,255
Federal Home Loan Bank stock	903	-	N/A	-	-
Loans held-for-sale	2,154	-	-	2,154	2,154
Loans, net	383,972	-	-	372,694	372,694
Mortgage servicing rights	2,838	-	-	4,819	4,819
Accrued interest receivable	1,232	1,232	-	-	1,232
Derivative assets	51	-	-	51	51
Financial liabilities:					
Deposits	428,045	370,740	56,680	-	427,420
Securities sold under agreements to repurchase	1,681	-	1,681	-	1,681
Federal Home Loan Bank advances	3,305	-	2,798	-	2,798
Other Borrowings	443		375		375
Long-term subordinated debt	7,310	-	7,269	-	7,269
Derviative liabilities	45	-	-	45	45

	December 31, 2017				
	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 13,066	$ 13,066	$ -	$ -	$ 13,066
Certificates of deposit	1,250	1,250	-	-	1,250
Available-for-sale securities	51,656	-	51,656	-	51,656
Federal Home Loan Bank stock	903	-	N/A	-	-
Loans held-for-sale	2,259	-	-	2,259	2,259
Loans, net	392,325	-	-	387,225	387,225
Mortgage servicing rights	2,352	-	-	4,257	4,257
Accrued interest receivable	1,402	1,402	-	-	1,402
Derivative assets	47	-	-	47	47
Financial liabilities:					
Deposits	457,400	390,886	66,042	-	456,928
Securities sold under agreements to repurchase	2,449	-	2,449	-	2,449
Federal Home Loan Bank advances	2,318	-	2,022	-	2,022
Long-term subordinated debt	7,281	-	7,222	-	7,222
Derviative liabilities	52	-	-	52	52

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

Management has made estimates of fair value discount rates that it believes to be reasonable; however, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale.

Fair value estimates are made as of a specific point in time based on the relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale, at one time, the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

Fair value estimates are based on existing financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include premises and equipment and other real estate owned. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2018, and 2017, the maximum potential amount of the Company's obligation was $3.8 million and $5.1 million, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally
have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

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

	2018	2017
	(In Thousands)	
Commitments to originate loans	$ 14,948	$ 13,854
Standby letters of credit	3,969	5,076
Unadvanced portions of loans:		
Construction loans	23,506	25,388
Commercial lines of credit	42,949	38,276
Consumer	5,340	4,875
Home equity lines of credit	62,165	61,725
	$ 152,877	$ 149,194

There is no material difference between the notional amounts and the estimated fair values of the above off-balance sheet liabilities.

Derivative Loan Commitments

Residential real estate 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 real estate loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A residential loan commitment requires the Company to originate a loan at a specific interest rate upon the completion of various underwriting requirements. Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from the exercise of the loan commitment might decline from the inception of the rate lock to funding of the loan due to increases in loan interest rates. If interest rates increase, the value of these commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. Derivative loan commitments with notional amounts of $4.2 million and $2.0 million were outstanding at December 31, 2018 and 2017, respectively. The fair value of such derivatives was not material at December 31, 2017 and 2016.

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. Under 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 the investor a “pair-off” fee, based on then-current market prices, to compensate the investor for the shortfall. Under a “best efforts” contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor and the investor commits to a price that it will purchase the loan from the Company if the loan to the underlying borrower closes. Forward loan sale commitments with notional amounts of $4.0 million and $10.4 million were outstanding at December 31, 2018 and December 31, 2017, respectively. The fair value of such commitments was not material at December 31,2018 and 2017.

For the years ended December 31, 2018 and 2017, derivative gains and losses included within mortgage banking activities, net in the consolidated statements of income were not material.

NOTE 14 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2018 and 2017. At December 31, 2018, total loans to such persons and their companies amounted to $1.2 million. During the year ended December 31, 2018, principal payments totaled $388 thousand and advances amounted to $342 thousand. Total loans to such persons and their companies amounted

to $1.3 million as of December 31, 2017, of which $146 thousand was participated out to another financial institution. During the year ended December 31, 2017, principal payments totaled $67 thousand and advances amounted to $10 thousand.

Deposits from related parties held by the Company as of December 31, 2018 and 2017 amounted to $7.3 million and $8.1 million, respectively.

During 2018 and 2017, the Company paid $81 thousand and $87 thousand, respectively, for rent and related expenses of the Company's Granby branch office to a company in which a bank director is a principal. The rent expense for the Granby branch included in Note 11 amounted to $61 thousand in 2018 and $60 thousand in 2017.

NOTE 15 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the state of Connecticut. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the state of Connecticut.

NOTE 16 - OTHER COMPREHENSIVE (LOSS) 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 stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive (loss) income.

The activity in other comprehensive (loss) income, included in stockholders' equity, was as follows during the years ended December 31:

	2018	2017
	(In Thousands)	
Net change in unrealized holding loss on securities available-for-sale	$ (707)	$ 288
Reclassification adjustment for realized losses and writedowns in net income (1)	6	4
Other comprehensive (loss) income, before tax	(701)	292
Income tax benefit (expense)	147	(100)
Other comprehensive (loss) income, net of tax	$ (554)	$ 192

(1) Reclassification adjustments include realized securities gains and losses and writedowns of securities. The gains and losses have been reclassified out of other comprehensive (loss) income and affect certain captions in the consolidated statements of income as follows: the pre-tax amount is reflected in gain on sales of available-for-sale securities, net and writedown of available-for-sale securities; the tax effect of $1 thousand for each of the years ended December 31, 2018 and 2017, is included in income tax provision; and the after tax amount is included in net income.

Accumulated other comprehensive loss as of December 31, 2018 and 2017 consists entirely of net unrealized holding losses on available-for-sale securities, net of taxes.

NOTE 17 - REGULATORY MATTERS

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

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to new capital regulations adopted by the FRB and the FDIC, which implement the Basel III regulatory capital reforms and the changes required by the Dodd-Frank Act. The new regulations require a new common equity Tier 1 ("CETI") capital ratio of 4.5%, increase the minimum Tier 1 capital to risk-weighted assets ratio to 6.0% from 4.0%, require a minimum total capital to risk-weighted assets ratio of 8.0% and require a minimum Tier 1 leverage ratio of 4.0%. CETI generally consists of common stock and retained earnings, subject to applicable adjustments and deductions. Under new prompt corrective action regulations, in order to be considered "well capitalized," the Bank must maintain a CETI capital ratio of 6.5% (new) and a Tier 1 ratio of 8.0% (increased from 6.0%), a total risk based capital ratio of 10% (unchanged) and a Tier 1 leverage ratio of 5.0% (unchanged). In addition, the regulations establish a capital conservation buffer above the required capital ratios that phases in beginning January 1, 2016 at 0.625% of risk-weighted assets and increases each year by 0.625% until it is fully phased in at 2.5% effective January 1, 2019. As of December 31, 2018, the Bank was required to maintain a capital conservation buffer of 1.875%. Beginning January 1, 2016, failure to maintain the capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual and required capital amounts and ratios at December 31, 2018 and 2017 are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars In Thousands)			
As of December 31, 2018:						
Total Capital (to Risk Weighted Assets)	$ 46,634	13.19 %	$ 28,294	8.0 %	$ 35,368	10.0 %
Tier 1 Capital (to Risk Weighted Assets)	42,247	11.95	21,221	6.0	28,294	8.0
Common Equity Tier 1 capital (to Risk Weighted Assets)	42,247	11.95	15,915	4.5	22,989	6.5
Tier 1 Capital (to Average Assets)	42,247	8.61	19,628	4.0	24,535	5.0
As of December 31, 2017:						
Total Capital (to Risk Weighted Assets)	$ 43,148	12.03 %	$ 28,701	8.0 %	$ 35,876	10.0 %
Tier 1 Capital (to Risk Weighted Assets)	39,060	10.89	21,525	6.0	28,701	8.0
Common Equity Tier 1 capital (to Risk Weighted Assets)	39,060	10.89	16,144	4.5	23,319	6.5
Tier 1 Capital (to Average Assets)	39,060	7.79	20,045	4.0	25,056	5.0

The declaration of cash dividends is dependent on a number of factors, including regulatory limitations, and the Company's operating results and financial condition. The shareholders of the Company will be entitled to dividends only if, and when, declared by the Company's Board of Directors out of funds legally available therefor. The declaration of future dividends will be subject to favorable operating results, financial conditions, tax considerations, and other factors.

Under Connecticut law, the Bank may pay dividends only out of net profits. The Connecticut Banking Commissioner's approval is required for dividend payments which exceed the current year's net profits and retained net profits from the preceding two years. As of December 31, 2018, the Bank is restricted from declaring dividends to the Company in an amount greater than $6.4 million.

NOTE 18 - EMPLOYEE BENEFITS

The Company sponsors a 401(k) savings and retirement plan. Employees who are 21 years of age and employed on the plan's effective date are immediately eligible to participate in the plan. Other employees who have attained age 21 are eligible for participation on the first day of the month following completion of 90 days of service.

The provisions of the 401(k) plan allow eligible employees to make contributions subject to IRS limitations. The Company's matching contribution will be determined at the beginning of the plan year. The Company's expense under this plan was $135 thousand in 2018 and $127 thousand in 2017, respectively.

The Company has Supplemental Executive Retirement Agreements with current and former executive officers. The agreements require the payment of specified benefits upon retirement over specified periods as described in each agreement. The total liability for the agreements included in other liabilities was $1.1 million at December 31, 2018 and $1.0 million at December 31, 2017. Expenses under these agreements amounted to $160 thousand and $151 thousand, respectively, for the years ended December 31, 2018 and 2017. Payments made under the agreements were $42 thousand the year ended December 31, 2018 and $37 thousand for the year ended December 31, 2017.

In January 2017, the Company entered into an additional Supplemental Employee Retirement Plan with one of its executive officers. The agreement provides for an annual benefit payment of $30 thousand for 15 years after the executive reaches normal retirement age of 65 years old.

The Company entered into change in control agreements (the “Agreements”) with the executive officers of the Company. The Agreements provide for severance benefits upon termination following a change in control as defined in the agreements in amounts equal to cash compensation as defined in the agreements, and fringe benefits that the executive officers would have received if the executive officers would have continued working for an additional two years. The agreements also include provisions to accelerate vesting for stock options and for additional credit for years of service under the Company’s benefit plans. On March 21, 2019 the Company entered into an Agreement and Plan of Merger (see “Note 24-Pending Business Combination”) which will require the Company to exercise certain change in control agreements with its executive officers.

NOTE 19 - STOCK BASED COMPENSATION PLANS

On May 10, 2011, the Company’s shareholders approved the SBT Bancorp, Inc. 2011 Stock Award and Option Plan (“2011 Plan”). The 2011 Plan provides for the granting of options to purchase shares of common stock or the granting of shares of restricted stock up to an aggregate amount of 100,000 shares of common stock of the Company. Options granted under the 2011 Plan may be either Incentive Stock Options (“ISOs”) within the meaning of Section 422 of the Internal Revenue Code or non-qualified options (“NQOs”) that do not qualify as ISOs.

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

During 2018 and 2017, the Company granted 740 shares and 8,482 shares of restricted stock, respectively, with a grant date fair value of $25 thousand and $263 thousand, respectively. The restricted shares vest over a three year period. During 2018 and 2017, the Company recognized compensation expense related to restricted shares in the amounts of $176 thousand and $136 thousand, respectively. The recognized tax benefit related to this expense was $37 thousand in 2018 and $46 thousand in 2017, respectively.

A summary of the status of the restricted stock awards as of December 31 and changes during the years then ended is presented below:

Fixed Options	2018			2017		
	Number of Shares		Weighted-Average Grant Price	Number of Shares		Weighted-Average Grant Price
Non-vested restricted stock awards at beginning of year	18,120	$	25.41	16,306	$	21.42
Restricted shares granted	740		33.44	8,482		29.96
Shares vested	(9,350)		24.73	(6,668)		21.44
Shares forfeited	-		-	-		-
Non-vested restricted stock awards at end of year	9,510	$	26.70	18,120	$	25.41

For the years ended December 31, 2018 and 2017, the fair value of restricted stock vested during the year amounted to $325 thousand and $183 thousand, respectively.

As of December 31, 2018, the unrecognized share-based compensation expense related to the non-vested restricted stock awards was $244 thousand. This amount is expected to be recognized over a weighted average period of 1.3 years.

A summary of the status of the Company's stock options as of December 31 and changes during the years then ended is presented below:

Fixed Options	2018			2017		
	Shares		Weighted-Average Exercise Price	Shares		Weighted-Average Exercise Price
Outstanding at beginning of year	20,000	$	30.00	20,000	$	30.00
Granted	-		-	-		-
Forfeited	-		-	-		-
Outstanding at end of year	20,000		30.00	20,000		30.00
Options exercisable at year-end	18,000	$	30.00	13,500	$	30.00
Weighted-average fair value of options granted during the year	N/A			N/A		
Weighted average remaining contractual life in years	7			8		

There were no option awards in 2018 and 2017.

As of December 31, 2018, the remaining compensation costs related to stock options granted under the 1998 Plan and the 2011 Plan amounted to $1 thousand. There were 4,500 shares that vested during the year ended December 31, 2018. Unearned compensation costs relating to the 2,000 unvested shares at December 31, 2018 will be recognized over a weighted average period of 1 year. Compensation expense related to the stock options amounted to $4 thousand in 2018 and $9 thousand in 2017, respectively.

NOTE 20 - EARNINGS PER SHARE

Reconciliation of the numerators and the denominators of the basic and diluted per share computations for net income available to common shareholders are as follows:

	2018	2017
	(In Thousands, Except Share Data)	
Basic earnings per share computation:		
Net income available to common shareholders	$ 4,116	$ 2,354
Less: Earnings allocated to participating securities	48	23
Net income allocated to common shareholders	$ 4,068	$ 2,331
Weighted average shares outstanding, including participating securities	1,382,042	1,372,857
Less: Participating securities	16,076	13,380
Average shares	1,365,966	1,359,477
Basic earnings per common share	$ 2.98	$ 1.71
Diluted earnings per share computation:		
Net income allocated to common shareholders	$ 4,068	$ 2,331
Weighted average shares outstanding for basic earnings per common share	1,365,966	1,359,477
Add: Dilutive effects of assumed exercise of stock options	1,691	-
Average shares and dilutive potential shares	1,367,657	1,359,477
Diluted earnings per common share	$ 2.97	$ 1.71

Anti-dilutive equity-based awards totaling 20,000 shares for the year ended December 31, 2017 have been excluded from the calculation of diluted EPS.

NOTE 21- LEGAL CONTINGENCIES

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

NOTE 22 - RECLASSIFICATION

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.

NOTE 23 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

On February 27, 2019, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.15 per share on the Company's common stock. The dividend was paid on March 22, 2019 to shareholders of record as of March 8, 2019.

NOTE 24 – PENDING BUSINESS COMBINATION

On March 21, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Liberty Bank, a Connecticut based banking organization ("Liberty"). The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, the Company will merge with and into Liberty (the "Merger"), with Liberty as the surviving corporation in the Merger. Immediately following the Merger, the Company's wholly owned subsidiary, The Simsbury Bank & Trust Co., Inc. N.A., will merge with and into Liberty Bank (the "Bank Merger"), with Liberty Bank as the surviving entity in the Bank Merger. The Merger Agreement was unanimously approved and adopted by the Board of Directors of each of Liberty and the Company.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), the Company's stockholders will have the right to receive $51.32 in cash per share. At the Effective Time, each restricted stock unit award granted by the Company will vest, with any performance-based vesting condition deemed satisfied to the extent provided in the applicable award agreement (or, if not provided in the applicable award agreement, then deemed satisfied at target), and be converted into the right to receive a cash amount equal to (i) the number of shares subject to such restricted stock unit award multiplied by the cash consideration per share in the Merger Agreement. Each in-the-money stock option granted by the Company will vest in full and be converted into the right to receive a cash amount equal to the product of (i) the number of shares subject to such stock option multiplied by (ii) the Per Share Cash Consideration, minus the exercise price of such option, and any out-of-the-money stock options granted by the Company will be cancelled for no consideration.

The Merger Agreement also provides, among other things, that, effective as of the Effective Time, Liberty will appoint two current members of the board of directors of the Company., as designated by Liberty, to the board of directors of Liberty Bank.

The Merger Agreement contains customary representations and warranties from both Liberty Bank and the Company, each with respect to its and its subsidiaries' businesses, and each party has agreed to customary covenants, including, among others, covenants relating to the conduct of its business during the interim period between the execution of the Merger Agreement and the Effective Time and the Company's obligation to call a meeting of its stockholders to adopt the Merger Agreement, and, subject to certain exceptions, to recommend that its stockholders adopt the Merger Agreement. The Company has also agreed to customary non-solicitation covenants relating to alternative acquisition proposals, subject to certain exceptions.

The completion of the Merger is subject to customary conditions, including (1) adoption of the Merger Agreement by the Company's stockholders, (2) the receipt of required regulatory approvals, including the approval of the Federal Deposit Insurance Corp and the State of Connecticut Department of Banking, and (3) the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal.

The transaction is expected to close by the third quarter of 2019.

NOTE 25 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income. The consolidated statements of income include all categories of noninterest income. The following table reflects only the categories of noninterest income as of the years ended December 31, 2018 that are within the scope of Topic 606:

		December 31, 2018
Noninterest Income		
Service charges on deposits		
Overdraft fees	$	325
Other		236
Interchange income		332
Investment service fees and commissions		167
Net gains on sales of loans(a)		666
Loan servicing fees(a)		613
Other(a)		1,128
Total noninterest income	$	3,467

(a) Not within the scope of ASC 606

The adoption of Topic 606 did not have a material impact on the consolidated financial position, results of operations, equity, or cash flows as of the adoption date or for the year ended December 31, 2018. A description of service charges on deposit accounts, debit card and ATM fees, investment service fees and gains/losses on the sales of REO are provided below.

Service charges on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to account maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income: The Company earns fees from debit cardholder transactions conducted through the Master Card payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily concurrent with the transaction processing services provided to the cardholder.

Investment services fees and commissions: The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a bi-monthly basis based upon customer activity for the time period and records the revenue as the commissions are received. Because the Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment services fees and commissions are presented net of related costs, including service fees, trading fees, and account management fees.

Gains/Losses on the sales of REO: The Company records a gain or loss from the sale of REO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. Once the transfer occurs, the REO asset is derecognized and the gain or loss on sale is recorded upon transfer of control of the property to the buyer. In determining a gain or loss on the sale, the Company adjusts the transaction price and related gain or loss on the sale price if a significant financing component is present.