Section 1: 10-K (FORM 10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

or

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

For the transition period from ________ to _______

Commission file Number: 000-51832

SBT BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Connecticut	20-4346972
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

86 Hopmeadow Street, Weatogue, CT	06089
(Address of Principal Executive Offices)	(Zip Code)

(860) 408-5493
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, no par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to the price at which the common stock was last sold as of the last business day of the registrant's most recently completed second quarter**,** is $34,054,765.

As of March 17, 2018, 1,381,840 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of SBT Bancorp, Inc.'s definitive Proxy Statement for its 2018 Annual Meeting of Shareholders to be held May 8, 2018 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

INDEX

SBT BANCORP, INC.

		Page No.
	PART I	
Item 1.	Business	4
Item 1A.	Risk Factors	13
Item 1B.	Unresolved Staff Comments	13
Item 2.	Properties	13
Item 3.	Legal Proceedings	14
Item 4.	Mine Safety Disclosures	14
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
Item 6.	Selected Financial Data	16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A	Quantitative and Qualitative Disclosures about Market Risk	41
Item 8.	Financial Statements and Supplementary Data	41
Item 9	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	42
Item 9A.	Controls and Procedures	42
Item 9B.	Other Information	43
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	43
Item 11.	Executive Compensation	43
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	43
Item 13.	Certain Relationships and Related Transactions, and Director Independence	44
Item 14.	Principal Accounting Fees and Services	44
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	45
SIGNATURES		48

ITEM 1. BUSINESS

General

SBT Bancorp, Inc. (the "Company") is the holding company for The Simsbury Bank & Trust Company, Inc. (the "Bank"). The Company was incorporated in the State of Connecticut on February 17, 2006. The Company became the Bank's sole shareholder pursuant to a reorganization that occurred on March 7, 2006. The Company's only business is its investment in the Bank, which is a community-oriented financial institution providing a variety of banking and investment services.

The Bank was incorporated on April 28, 1992 and commenced operations as a Connecticut chartered bank on March 31, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not a member of the Federal Reserve System. The Bank's main office and its corporate offices are located in the town of Simsbury, Connecticut. The Bank has branch offices in the towns of Granby, Avon, Bloomfield, and West Hartford, Connecticut. The full service West Hartford branch was opened in April of 2016 after the Bank received regulatory approval from the Connecticut Department of Banking and the FDIC in 2015 to open this branch. Services to the Bank's customers are also provided through SBT Online Internet banking. The Bank's customer base consists primarily of individual consumers and small businesses in north central Connecticut. The Bank has in excess of 22,000 deposit accounts.

The Bank has six ATMs: two at its main office, and one each at the other branch/business offices. The ATMs generate activity fees based upon utilization by other banks' customers.

The Bank offers a full range of commercial banking services to residents and businesses in its primary and secondary markets through a wide variety of commercial loans and residential mortgage programs as well as home equity lines and loans, FDIC-insured checking, savings, and IRA accounts, 401(k) rollover accounts, and safe deposit and other customary non-deposit banking services. The Bank offers investment products to customers through SBT Investment Services, Inc., a wholly-owned subsidiary of the Bank, and through its affiliation with the securities broker/dealer, LPL Financial Corporation.

In May of 2010, the Bank formed NERE Holdings, Inc., a subsidiary to hold real estate primarily acquired through foreclosures. In January of 2011, the Bank formed Simsbury Bank Passive Investment Company, a subsidiary Passive Investment Company (PIC). Under current State of Connecticut statutes, Simsbury Bank Passive Investment Company is not subject to Connecticut corporation business taxes.

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by the Bank on its deposits and its other borrowings and the interest rate received by the Bank on loans extended to its customers and securities held in the Bank's portfolio comprise the major portion of the Bank's earnings. These rates are highly sensitive to many factors that are beyond the control of the Bank. Accordingly, the earnings and growth of the Bank are subject to the influence of domestic and foreign economic conditions, including, without limitation, inflation, deflation, recession and unemployment.

Commercial banking is affected not only by general economic conditions but also by monetary and fiscal policies of the federal government and policies of regulatory agencies, particularly the Federal Reserve Board ("FRB"). The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. The nature and impact of future changes in monetary policies cannot be predicted.

The Bank's Investment Policy permits the Bank to invest in mortgage-backed securities. It is the policy of the Bank to invest in mortgage-backed securities that have no more risk than the underlying mortgages. While the Investment Policy also permits the Bank to invest in preferred stock issued by the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC), no such investments have been made by the Bank since 2001 and no investments of this type are anticipated.

On September 30, 2015 the Company entered into a Subordinated Loan Agreement (the "Loan Agreement") with Community Funding CLO, Ltd. ("Community Funding") pursuant to which the Company issued an unsecured subordinated term note in the aggregate principal amount of $7.5 million due October 1, 2025 (the "Subordinated Note") to Community Funding. The closing date of the issuance of the Subordinated Note occurred on October 15th, 2015 (the "Closing Date"). The Company received net proceeds of approximately $7.2 million from the issuance of the Subordinated Note.

The Loan Agreement provides that the Subordinated Note will bear interest at a fixed rate of 6.75% per annum, provided, however, that for the period beginning immediately after the Closing Date through, but not including, February 11, 2016, Community Funding rebated an amount equal to 3.40% per annum to the Company, resulting in a rate of 3.35% per annum to the Company. Interest on the Subordinated Note is payable by the Company 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 Loan agreement contains customary events of default such as the institution of bankruptcy proceedings by or against the Company and the non-payment by the Company of principal or interest when due. Community Funding may accelerate the repayment of the Subordinated Note only in the event that bankruptcy proceedings are instituted by or against the Company and not for any other event of default.

Market Area

The towns of Simsbury, Avon, Bloomfield, Granby, and West Hartford, which comprise the Bank's primary market area, are located in north central Connecticut, west of the Connecticut River near the northern corner of Hartford. They are located a short distance from downtown Hartford. Hartford County is home to a number of S&P 500 companies, including United Technologies Corp., The Hartford Financial Services Group Inc., Aetna Inc. and Stanley Black & Decker, Inc. Other nearby large employers include Cigna Corporation, The Traveler's Companies, Inc., ESPN, UConn Health Center and The Jackson Laboratory.

All five towns are situated near Interstate Routes 91 and 84. Bradley International Airport is located nearby and provides a convenient alternative to road and rail systems for passengers and cargo. The Bank's secondary market consists of municipalities in Hartford County that are connected to the Bank's primary market towns through multiple road networks. Residents of these secondary market communities, therefore, may travel near the Bank's offices and find it convenient to bank there.

These towns are some of the most attractive and affluent markets located in Connecticut. Based on the most current information available, the Bank's primary and secondary markets have a median household income of $102,083. This household income level places the Bank's overall market approximately 50% above the median income of all of Connecticut's households. Compared to the nation as a whole, the median income in the Bank's primary and secondary market is approximately 60% greater than the median income for all U.S. households. By themselves, the towns of Simsbury and Avon have median household incomes of over $133,642, placing them 104% above the median income of all households in Connecticut and 112% above the median income for all U.S. households.

Educational attainment in the Bank's primary and secondary markets is similarly high. Forty five percent of the residents in the nine towns are college graduates. In Avon, Bloomfield, Granby, Simsbury and West Hartford, the percentage of residents who are college graduates averages 57%. In addition, per U.S. News & World Report rankings, West Hartford Conard, Simsbury, Granby Memorial and Avon High Schools are among the top high schools in the State of Connecticut (ranked #6, #9, #11 and #18 respectively, out of a total of 288 high schools in Connecticut).

Hartford County is the second largest deposit market in the state of Connecticut, which management believes such market provides opportunities to grow the Bank's deposit base. The total amount of current deposits in Hartford County is $36.0 billion, which is approximately 27% of total deposits in the State of Connecticut. Deposits in the Hartford County market have increased 30% since 2008. From a population perspective, there continues to be approximately 900,000 individuals domiciled in Hartford County, which continues to represent one-fourth of all residents in Connecticut. Additionally, the population is projected to grow slightly, by 0.3% through 2020.

Employees

At December 31, 2017, the Bank employed a total of 71 people, which consisted of 69 full-time employees and 2 part-time employees. Neither the Company's employees nor the Bank's employees are represented by any union or other collective bargaining agreement, and the Company and the Bank believe their employee relations are satisfactory.

Competition

The banking and financial services business in Connecticut generally, and in the Bank's market areas specifically, is highly competitive. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems, and the accelerating pace of consolidation among financial services providers. The Bank competes for loans, deposits and financial services customers with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets, and offer a broader array of financial services than the Bank. In order to compete with these other financial services providers, the Bank relies principally upon its strong reputation for service excellence, personal relationships established by its officers, directors and employees with its customers, advertising and public relations, local decision making, strong product features and competitive pricing, and excellent technology.

The Bank's primary and secondary markets have a number of banking institutions which offer a variety of financial products. The types of institutions range from large nationwide and regional banks to various institutions of smaller size. Simsbury is served by eight depository institutions with a total of eight offices. Of these institutions, there are five commercial banks, one savings bank and two credit unions. Avon is served by nine depository institutions with ten offices. Of these institutions, there are six commercial banks and three savings banks. Granby is served by six depository institutions with the same number of offices. Two of these institutions are commercial banks and four are savings banks. Bloomfield is served by twelve depository institutions with fifteen offices. Of these institutions, there are four commercial banks, three savings banks and five credit unions. West Hartford is served by seventeen depository institutions with twenty-nine offices. Of these institutions there are eight commercial banks, five savings banks and four credit unions. The nine-town area of the Bank's primary and secondary markets is served by a total of twenty-one institutions.

As of June 30, 2017**,** the top three banks in Simsbury, by deposit account market share, were the Bank (32%), Bank of America (28%), and Webster Bank (15%). The top three banks in Avon were Bank of America (31%), Farmington Bank (16%), and Webster Bank (12%). The Bank ranked fifth, with 8% of the deposit account market share. In Granby, the top three banks were Bank of America (25%), Windsor Federal Savings And Loan Association (23%), and the Bank (23%). In Bloomfield, the top three banks were Bank of America (27%), Webster Bank (21%), and Wells Fargo Bank (19%). The Bank ranked fifth, with 8% of the deposit account market share. In the Bank's West Hartford branch, the Bank had 1.4% of the town's deposit account market share. The top three banks in West Hartford were Santander Bank (23%), Bank of America (20%), and Webster Bank (18%). In the Bank's primary market (Simsbury, Granby, Avon, Bloomfield, and West Hartford), the top three banks, as of June 30, 2017, were Bank of America with 24% of the market, Santander Bank with 15%, and Webster Bank with 16%.

Supervision and Regulation

Banks and bank holding companies are extensively regulated under both federal and state law. Set forth below are brief summaries of various aspects of the supervision and regulation of the Company and the Bank. These summaries do not purport to be complete and are qualified in their entirety by reference to applicable laws, rules and regulations.

As a bank holding company, the Company is regulated by and subject to the supervision of the FRB and is required to file with the FRB an annual report and such other information as may be required. The FRB has the authority to conduct examinations of the Company as well.

The Bank Holding Company Act of 1956 (the "BHC Act") limits the types of companies which the Company may acquire or organize and the activities in which they may engage. In general, a bank holding company and its subsidiaries are prohibited from engaging in or acquiring control of any company engaged in non-banking activities unless such activities are so closely related to banking or managing and controlling banks as to be a proper incident thereto. Activities determined by the FRB to be so closely related to banking within the meaning of the BHC Act include operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout, non-operating basis; providing tax planning and preparation service; operating a collection agency; and providing certain courier services. The FRB also has determined that certain other activities, including real estate brokerage and syndication, land development, property management, and underwriting of life insurance unrelated to credit transactions, are not closely related to banking and, therefore, are not proper activities for a bank holding company.

The BHC Act requires every bank holding company to obtain the prior approval of the FRB before acquiring substantially all the assets of, or direct or indirect ownership or control of more than five percent of the voting shares of, any bank. Subject to certain limitations and restrictions, a bank holding company, with the prior approval of the FRB, may acquire an out-of-state bank.

In November 1999, Congress amended certain provisions of the BHC Act through passage of the Gramm-Leach-Bliley Act. Under this legislation, a bank holding company may elect to become a "financial holding company" and thereby engage in a broader range of activities than would be permissible for traditional bank holding companies. In order to qualify for the election, all of the depository institution subsidiaries of the bank holding company must be well capitalized and well managed, as defined under FRB regulations and all such subsidiaries must have achieved a rating of "Satisfactory" or better with respect to meeting community credit needs. Pursuant to the Gramm-Leach-Bliley Act, financial holding companies are permitted to engage in activities that are "financial in nature" or incidental or complementary thereto, as determined by the FRB. The Gramm-Leach-Bliley Act identifies several activities as "financial in nature," including, among others, insurance underwriting and agency activities, investment advisory services, merchant banking and underwriting, and dealing in or making a market in securities.

The Company believes that it meets the regulatory criteria that would enable it to elect to become a financial holding company. At this time, the Company has determined not to make such an election, although it may do so in the future.

The Gramm-Leach-Bliley Act also makes it possible for entities engaged in providing various other financial services to form financial holding companies and form or acquire banks. Accordingly, the Gramm-Leach-Bliley Act makes it possible for a variety of financial services firms to offer products and services comparable to the products and services offered through the Company's subsidiaries.

There are various statutory and regulatory limitations regarding the extent to which present and future banking subsidiaries of the Company can finance or otherwise transfer funds to the Company or its non-banking subsidiaries, whether in the form of loans, extensions of credit, investments or asset purchases, including regulatory limitation on the payment of dividends directly or indirectly to the Company from the Bank. Federal bank regulatory agencies also have the authority to limit further the Bank's payment of dividends based on such factors as the maintenance of adequate capital for such subsidiary bank, which could reduce the amount of dividends otherwise payable.

Under the policy of the FRB, the Company is expected to act as a source of financial strength to its banking subsidiary and to commit resources to support its banking subsidiary in circumstances where the Company might not do so absent such policy. In addition, any subordinated loans by the Company to its banking subsidiary would also be subordinate in right of payment to depositors and obligations to general creditors of such banking subsidiary.

The FRB has established capital adequacy guidelines for bank holding companies that are similar to the FDIC capital requirements for banks described below under the heading "*Capital Standards*." The Company exceeded all current regulatory capital requirements and is considered "well capitalized" as of December 31, 2017.

The Bank, as a Connecticut state-chartered bank, is subject to supervision, periodic examination and regulation by the Connecticut Commissioner of Banking (the "Commissioner") and the Federal Deposit Insurance Corporation (the "FDIC"). If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the bank's operations are unsatisfactory or that the bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the bank, to assess civil monetary penalties, to remove officers and directors, and ultimately, to terminate a bank's deposit insurance, which for a Connecticut state-chartered bank would result in a revocation of the bank's charter. The Commissioner has many of the same remedial powers.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank is subject to deposit insurance assessments by the FDIC. (See "Premiums for Deposit Insurance.") Although the Bank is not a member of the Federal Reserve System, it is nevertheless subject to certain regulations of the Board of Governors of the Federal Reserve System.

Various requirements and restrictions under the laws of the State of Connecticut and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, and capital requirements. Further, the Bank is required to maintain certain levels of capital.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Act has broadly impacted the financial services industry, including the implementation of significant regulatory and compliance changes such as, among other things, (i) enhanced resolution authority of troubled and failing banks and their holding companies; (ii) increased capital and liquidity requirements; (iii) increased regulatory examination fees; (iv) changes to assessments to be paid to the FDIC for federal deposit insurance; and (v) numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness for, the financial services sector. Additionally, the Dodd-Frank Act established a new framework for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the FRB, the Office of the Comptroller of the Currency, and the FDIC.

Effective in July 2011, the Dodd-Frank Act eliminated federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. This significant change to existing law has not had an adverse impact on the Bank's net interest margin.

The Dodd-Frank Act also changed the base for FDIC deposit insurance assessments. Assessments are now based on average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits. The Dodd-Frank Act also increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per account. The legislation also increased the required minimum reserve ratio for the Deposit Insurance Fund, from 1.15% to 1.35% of insured deposits, and directed the FDIC to offset the effects of increased assessments on depository institutions with less than $10 billion in assets, including the Bank.

The Dodd-Frank Act requires publicly traded companies to give their shareholders a non-binding vote on executive compensation ("say on pay") and so-called "golden parachute" payments. It also provides that the listing standards of the national securities exchanges shall require listed companies to implement and disclose "clawback" policies mandating the recovery of incentive compensation paid to executive officers in connection with accounting restatements.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets, which authority does not extend to the Bank at this time since we do not meet the asset threshold.

The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. The Dodd-Frank Act requires minimum leverage (Tier 1) and risk based capital requirements for bank and savings and loan holding companies, which exclude certain instruments that previously have been eligible for inclusion by bank holding companies as Tier 1 capital, such as trust preferred securities; however, bank holding companies with assets of less than $15 billion as of December 31, 2009 are permitted to include trust preferred securities that were issued before May 19, 2010 as Tier 1 capital and bank holding companies with assets of less than $500 million are permitted to continue to issue trust preferred securities and have them count as Tier 1 capital.

The Dodd-Frank Act and the rules and regulations promulgated under the Dodd-Frank Act have impacted the Bank as well as all community banks, by increasing our operating and compliance costs. To the extent the Dodd-Frank Act remains in place, it is likely to further increase our operating and compliance costs as certain yet to be written implementing rules and regulations are enacted.

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley's principal provisions, many of which have been interpreted through regulations of the Commission, provide for and include, among other things: (i) the creation of an independent accounting oversight board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) internal control reporting requirements by management pursuant to Section 404 of Sarbanes-Oxley; (v) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (vi) an increase in the oversight of, and enhancement of, certain requirements relating to audit committees of public companies and how they interact with the company's independent auditors; (vii) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (viii) requirements that companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the Commission); (ix) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (x) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (xi) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; and (xii) a range of enhanced penalties for fraud and other violations. As a result of a provision of the Dodd-Frank Act, which, among other things, permanently exempted non-accelerated filers, such as the Company, from complying with the requirements of Section 404(b) of Sarbanes-Oxley, which requires a public company to include an attestation report from its independent registered public accounting firm on the public company's internal control over financial reporting, this Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding the Company's internal control over financial reporting.

USA PATRIOT Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "PATRIOT Act"), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, broker-dealers, and other businesses involved in the transfer of money. The PATRIOT Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Company and the Bank, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money-laundering, compliance, suspicious activity, currency transaction reporting, and due diligence on customers. The PATRIOT Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money-laundering activities when considering applications filed under the BHC Act or the Bank Merger Act.

Dividend Restrictions

The primary source of cash to pay dividends, if any, to the Company's shareholders and to meet the Company's obligations is dividends paid to the Company by the Bank. Dividend payments by the Bank to the Company are subject to Connecticut banking laws and the Federal Deposit Insurance Act ("FDIA"). Under Connecticut banking laws and the FDIA, a bank may not pay any dividends if, after paying such dividends, it would be undercapitalized under applicable capital requirements. In addition to these explicit limitations, the federal regulatory agencies are authorized to prohibit a banking subsidiary or bank holding company from engaging in unsafe or unsound banking practices. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

The FRB has issued a supervisory letter to bank holding companies that contains guidance on when the board of directors of a bank holding company should eliminate, defer or severely limit dividends. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available from the immediately preceding year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The FRB's policy further provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Accordingly, a bank holding company may not pay dividends when it is insolvent. The letter also contains guidance on the redemption of stock by bank holding companies which urges bank holding companies to advise the FRB of any such redemption or repurchase of common stock for cash or other value which results in the net reduction of a bank holding company's capital at the beginning of the quarter below the capital outstanding at the end of the quarter.

Subsequent to the issuance of the supervisory letter, the FRB adopted regulations requiring bank holding companies to give prior written notice to the FRB before purchasing or redeeming its stock if the gross consideration for the purchase or redemption, when aggregated with the net consideration (i.e., gross consideration paid for purchases and redemptions minus gross consideration received for all stock sold) paid for all purchases and redemptions of stock during the preceding 12 months, is equal to 10 percent or more of the bank holding company's consolidated net worth. However, if a bank holding company (i) will be well-capitalized before and immediately after the purchase or redemption, (ii) is well-managed and (iii) is not the subject of any unresolved supervisory issues, then the bank holding company will not be required to give any prior written notice to the FRB. At this time, the Company fits within the above exception and is not required to give prior written notice to the FRB before purchasing or redeeming its stock.

The FRB's capital adequacy rules also limit a banking organization's ability to pay dividends, or engage in share repurchases if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% (fully phased-in) of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning on January 1, 2016 at 0.625% of common equity Tier 1 capital to risk-weighted assets and will increase by that amount each year until fully implemented in January 2019 at 2.5% of common equity Tier 1 capital to risk-weighted assets. As of January 1, 2018, the Bank was required to maintain a capital conservation buffer of 1.875%.

Capital Standards

The FDIC has adopted risk-based capital guidelines to which FDIC-insured, state-chartered banks that are not members of the Federal Reserve System, such as the Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to the differences in risk profiles among banking organizations. Banks are required to maintain minimum levels of capital based upon their total assets and total "risk-weighted assets." For purposes of these requirements, capital is comprised of both Tier 1 and Tier 2 capital. Tier 1 capital consists primarily of common stock and retained earnings. Tier 2 capital consists primarily of loan loss reserves, subordinated debt, and convertible securities. In determining total capital, the amount of Tier 2 capital may not exceed the amount of Tier 1 capital. A bank's total "risk-based assets" are determined by assigning the bank's assets and off-balance sheet items (e.g., letters of credit) to one of four risk categories based upon their relative credit risks. The greater the risk associated with an asset, the greater the amount of such asset that will be subject to capital requirements.

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) "well capitalized"; (ii) "adequately capitalized"; (iii) "under-capitalized"; (iv) "significantly under-capitalized"; and (v) "critically under-capitalized". Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an "under-capitalized" bank: restrict dividends and management fees, restrict asset growth, and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is "significantly under-capitalized", the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks, and restrict compensation to any senior executive officer. When a bank becomes "critically under-capitalized" the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains "critically under-capitalized" during the calendar quarter beginning 270 days after the date on which the bank became "critically under-capitalized."

As of December 31, 2017, the most recent notification from the FDIC categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well capitalized” the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, total risk-based and common equity Tier 1 risk-based capital ratios as set forth in the table below. Management of the Bank believes there are no conditions that have changed the Bank’s category since December 31, 2017.

The following table presents the amounts of regulatory capital and capital ratios for the Bank compared to the minimum regulatory capital requirements to be categorized as “well capitalized” as of December 31, 2017 and 2016 under the regulatory capital rules then in effect.

	Actual 12/31/2017	Well Capitalized	Actual 12/31/2016	Well Capitalized
Bank:				
Tier 1 leverage capital ratio	7.79%	5.00%	7.46%	5.00%
Tier 1 risk-based capital ratio	10.89%	8.00%	10.65%	8.00%
Total risk-based capital ratio	12.03%	10.00%	11.72%	10.00%
Common equity tier 1 risk-based capital ratio	10.89%	6.50%	10.65%	6.50%
Capital conservation buffer	4.03%	1.250%	3.72%	0.625%

In December 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its “calibrated” capital standards for major banking institutions, referred to as Basel III.

Subsequently, in July 2013, the FRB and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implemented and addressed the revised standards of Basel III and address relevant provisions of the Dodd-Frank Act. The FRB’s and the FDIC’s rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies (“banking organizations”). The threshold amount of total consolidated assets for top-tier bank holding companies was subsequently increased to $1 billion or more in May 2015. Among other things, the rules established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets). Banking organizations are required to have a total capital ratio of 8% (unchanged from prior rules) and a Tier 1 leverage ratio of 4% (unchanged from prior rules). The rules also limit a banking organization’s ability to pay dividends, engage in share repurchases or pay discretionary bonuses if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% (which is the fully phased-in amount effective January 1, 2019) of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The rules became effective for the Bank on January 1, 2015 (subject to phase-in periods for certain components). The capital conservation buffer requirement is being phased in beginning on January 1, 2016 at 0.625% of common equity Tier 1 capital to risk-weighted assets and will increase by that amount each year until fully implemented in January 2019 at 2.5% of common equity Tier 1 capital to risk-weighted assets. As of January 1, 2018, the Bank was required to maintain a capital conservation buffer of 1.875%.

With respect to the Bank, the FDIC’s regulations implementing these provisions of FDICIA provide that an institution will be classified as “well capitalized” if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a common equity Tier 1 (“CET1”) ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as “adequately capitalized” if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of “well capitalized.” An institution will be classified as “undercapitalized” if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has a Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as “significantly undercapitalized” if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as “critically undercapitalized” if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions will exceed the ratios to be considered “well-capitalized” under the prompt corrective action regulations.

Safety and Soundness Standards

Federal law requires each federal banking agency to prescribe, for depository institutions under its jurisdiction, standards relating to, among other things: internal controls; information systems and audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The Guidelines address internal controls and information systems; internal audit systems; credit underwriting; loan documentation; interest rate risk exposure; asset quality; earnings and compensation; and fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard set by the Federal Deposit Insurance Act. The final regulations establish deadlines for submission and review of such safety and soundness compliance plans.

The federal banking agencies have also adopted final regulations for real estate lending that prescribe uniform guidelines for real estate lending. The regulations require insured depository institutions to adopt written policies establishing standards, consistent with such guidelines, for extensions of credit secured by real estate. The policies must address loan portfolio management, underwriting standards, and loan-to-value limits that do not exceed the supervisory limits prescribed by the regulations.

Appraisals for "real estate-related financial transactions," generally transactions with a value of $250,000 or more, must be conducted, depending on the value of the transaction, by either state-certified or state-licensed appraisers. State-certified appraisers are required for: all transactions with a transaction value of $1,000,000 or more; nonresidential transactions valued at $250,000 or more; and transactions of $250,000 or more involving "complex" 1-4 family residential properties. An appraisal or real estate "evaluation" executed by a state-licensed appraiser is required for all other federally related transactions and is to be performed annually. Federally related transactions include the sale, lease, purchase, investment in or exchange of real property or interests in real property, the financing or refinancing of real property, and the use of real property or interests in real property as security for a loan or investment, including mortgage-backed securities.

Premiums for Deposit Insurance

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. This limit is currently $250,000 per account owner for all depository accounts, including non-interest bearing transaction accounts, money market accounts, NOW accounts and savings accounts. The FDIC established a risk-based assessment system for all insured depository institutions and established an insurance premium assessment system based upon: (i) the probability that the insurance fund will incur a loss with respect to the institution, (ii) the likely amount of the loss, and (iii) the revenue needs of the insurance fund. The resulting matrix sets the assessment premium for a particular institution in accordance with its capital level and overall rating by its primary regulator.

As a result of the Dodd-Frank Act, the FDIC modified its assessment rules so that an institution's deposit insurance assessment base changed from total deposits to total assets less tangible equity. These assessment base rates range from 2.5 to 9 basis points for Risk Category I banks up to 45 basis points for Risk Category IV banks. Risk Category II and III banks have base assessment rates ranging from 9 to 33 basis points, respectively. If the risk category of the Bank changes adversely, the Bank's FDIC insurance premiums could increase.

During the recent financial crisis, insured depository institution failures significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio of the Deposit Insurance Fund to historical lows. In addition, the increased deposit insurance coverage of $250,000 (up from $100,000 previously) per account owner may result in even larger losses to the Deposit Insurance Fund. In 2016, the FDIC added a surcharge to the insurance assessments for banks with over $10 billion in assets, which became effective in July 2016 and which will continue until the FDIC reserve ratio reaches 1.35% or the end of 2018, whichever occurs first.

The FDIC may further increase or decrease the assessment rate schedule in order to manage the Deposit Insurance Fund to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's earnings. FDIC insurance of deposits may be terminated by the FDIC, after notice and hearing, upon finding by the FDIC that the insured institution has engaged in unsafe or unsound practices, or is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule or order of, or conditions imposed by, the FDIC.

The Bank expensed $421 thousand in FDIC assessments in 2017 and $349 thousand in 2016.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal") was enacted to ease restrictions on interstate banking. Effective September 25, 1995, Riegle-Neal allows the FRB to approve an application of an adequately capitalized and adequately managed bank holding company to acquire control of, or acquire all or substantially all of, the assets of a bank located in a state other than such holding company's home state, without regard to whether the transaction is prohibited by the laws of any state. The FRB may not approve the acquisition of a bank that has not been in existence for a minimum time period (not exceeding five years) specified by the statutory law of the host state. Riegle-Neal also prohibits the FRB from approving an application if the applicant (and its depository institution affiliates) controls or would control more than 10% of the insured deposits in the United States or 30% or more of the deposits in the target bank's home state or in any state in which the target bank maintains a branch. Riegle-Neal does not affect the authority of states to limit the percentage of total insured deposits in the state which may be held or controlled by a bank or bank holding company to the extent such limitation does not discriminate against out-of-state banks or bank holding companies. Individual states may also waive the 30% state-wide concentration limit contained in Riegle-Neal. In addition to Riegle-Neal, the Dodd-Frank Act also authorizes interstate de novo branching regardless of state law.

Community Reinvestment Act

Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. The CRA does not prescribe specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examination of a banking institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) amended the CRA to require public disclosure of an institution's CRA rating and require the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank's latest CRA rating, received from the FDIC, was "satisfactory."

ITEM 1A. RISK FACTORS

Not required.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company does not own any properties and leases each of its offices.

The Bank's main office is located at 981 Hopmeadow Street, Simsbury, Connecticut. The Bank leases its main office pursuant to a lease with an initial term that expired in 2016. The Bank utilized its option to renew the lease through January 31, 2021. This lease also covers the building at 987 Hopmeadow Street that is partially subleased to small local businesses.

The Bank’s Granby branch office is located at 11 Hartford Avenue, Granby, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years that, by the terms of the lease, expired in 2013 and that contains renewal options for a total of an additional ten years. The Bank exercised its first renewal option and the lease currently expires on August 31, 2018. Thereafter, the remaining renewal option is for five additional years.

The Bank’s Avon branch office is located at 27 Dale Road, Avon, Connecticut. The Bank leases this office pursuant to a lease with an initial term of fifteen years that, by the terms of the lease expired in 2014 and that contains two renewal options for a total of ten additional years. The Bank exercised its first renewal option and the lease currently expires on August 31, 2019. Thereafter, the remaining renewal option is for five additional years.

The Bank’s Bloomfield office is located at 864 Cottage Grove Road, Bloomfield, Connecticut. The Bank leases this office pursuant to a lease with an initial term of ten years that expired in 2016 and that was renewed through May 31, 2021. Thereafter, the renewal option is for five additional years.

The Bank’s West Hartford office, which was opened in 2016, is located at 1232 Farmington Avenue, West Hartford, Connecticut. The Bank leases this office pursuant to a lease with an initial term of 10 years that expires December 31, 2025 and that contains options to renew for two terms of five additional years.

The Bank operated a loan production office located at 2389 Main Street, Glastonbury, Connecticut. The Bank leased this office pursuant to a lease dated October 1, 2015. The initial one-year term expired in 2016 and the lease was renewed through September 30, 2017. The Bank did not renew the lease for the loan production office in 2017 and the premises were vacated by the Bank at the lease termination date.

The Bank operated a loan production office located at 175 Capital Boulevard, Rocky Hill, Connecticut. The Bank leased this office pursuant to a lease dated May 16, 2016. The initial one-year term expired May 31, 2017, and the Bank vacated the premises.

The Bank’s administrative offices are located at 86 Hopmeadow Street, Weatogue, Connecticut. The Bank leases this building pursuant to a lease with a term that expires on September 30, 2025. The Bank amended this lease in 2017 in response to a change in the Bank’s need for square footage and the lease does not have a renewal option.

The Bank' rental expense amounted to $906 thousand during 2017 and $1.01 million during 2016.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any pending legal proceeding, nor is its property the subject of any pending legal proceeding, other than routine litigation that is incidental to its business. The Company is not aware of any pending or threatened litigation that could have a material adverse effect upon its business, operating results, or financial condition. Moreover, the Company is not a party to any administrative or judicial proceeding, including, but not limited to, proceedings arising under Section 8 of the Federal Deposit Insurance Act.

To the best of the Company’s knowledge, none of its directors, officers, or their respective affiliates, or a holder of record or beneficially of 5% or more of the Company’s securities is a party adverse to the Company or has a material interest adverse to the Company in any legal proceeding.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

At December 31, 2017, the bid price of the stock of the Bank’s parent company, SBT Bancorp, Inc., was quoted on the OTCQX marketplace operated by the OTC Markets Group (symbol: “SBTB”). At December 31, 2017, there were 1,382,014 shares of the Company's common stock issued, of which 1,381,600 shares were outstanding. On January 2, 2018, the Company filed Form 15 with the Commission to deregister its common stock under the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and suspend its obligations to file reports with the Commission. On January 2, 2018, the Company also voluntarily transferred the listing of the Company’s common stock to the OTC Pink marketplace (symbol: “SBTB”) from the OTCQX marketplace in order to reduce expenses associated with the listing of the Company’s common stock.

As of March 15, 2018, the Company had approximately 1,000 shareholders of record. There is a limited market for the Company's common stock. The following table sets forth the high and low prices for the periods indicated.

	December 31, 2017		December 31, 2016	
	High	Low	High	Low
Fourth Quarter	$ 33.00	$ 25.00	$ 23.88	$ 19.80
Third Quarter	$ 25.50	$ 25.05	$ 20.00	$ 19.35
Second Quarter	$ 25.80	$ 24.77	$ 19.55	$ 19.05
First Quarter	$ 25.90	$ 23.00	$ 21.70	$ 19.05

The above over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Dividends

The Company's shareholders are entitled to dividends if and when declared by the Board of Directors out of funds legally available therefor. Connecticut law prohibits the Company from paying cash dividends except from its net profits, which are defined by Connecticut statutes.

In 2017, the Company declared and paid cash dividends on its common stock of $190 thousand, or $0.14 per share on each of March 20, 2017 and June 21, 2017. The Company also declared and paid cash dividends of $204 thousand, or $0.15 per share, on each of September 22, 2017 and December 20, 2017.

The Company did not repurchase any shares of its common stock during 2017 or 2016. The Company's common stock is the only class of equity securities that is registered by the Company pursuant to Section 12 of the Exchange Act.

Additional information required by this Item 5 is incorporated into this Form 10-K by reference to Item 12 of Part III of this Form 10-K under the caption "EQUITY COMPENSATION PLAN INFORMATION."

ITEM 6. SELECTED FINANCIAL DATA

	At or For the Years Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands except for share data)				
Performance Ratios and Other Data:					
Return on assets (ratio of net income to average total assets)	0.46%	0.31%	0.34%	0.20%	0.29%
Return on equity (ratio of net income to average equity)	7.40%	4.83%	6.18%	4.04%	6.00%
Net interest margin	3.08%	3.03%	3.03%	3.00%	3.03%
Average loans to average deposits	92.13%	93.62%	84.14%	76.23%	72.02%
Equity to assets (ratio of average equity to average assets)	6.20%	6.44%	7.54%	7.10%	7.07%
Efficiency ratio(1)	77.61%	84.46%	87.82%	94.79%	89.33%
Income Data:					
Interest income	$ 16,911	15,145	$ 12,484	$ 12,257	$ 12,004
Interest expense	2,138	1,594	728	871	917
Net interest income	14,773	13,551	11,756	11,386	11,087
Provision for loan losses	645	911	278	55	345
Noninterest income (excluding securities transactions)	3,127	3,105	2,990	2,328	3,017
Securities (losses) gains, net	(4)	91	132	142	109
Noninterest expenses	13,893	14,067	12,950	13,000	12,599
Income before income taxes	3,358	1,769	1,650	801	1,269
Income tax expense (benefit)	1,004	277	241	(4)	134
Net income	2,354	1,492	1,409	805	1,135
Net income available to common stockholders	2,354	1,492	1,301	703	1,029
Share and Per Share Data:					
Net income	$ 2,354	$ 1,492	$ 1,409	$ 805	$ 1,135
Cash dividends paid-common stock	788	763	562	492	494
Book value per common share	23.32	22.08	21.87	22.82	20.97
Tangible book value per common share	23.32	22.08	21.87	22.82	20.97
Dividend payout ratio-common stock	33.47%	51.14%	39.89%	61.12%	43.52%
Weighted average number of common shares outstanding, basic	1,359,222	1,350,725	953,539	880,618	872,411

(1) Efficiency ratio is noninterest expenses divided by net interest income plus noninterest income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements contained in this Annual Report that are not historical facts may constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements, which are based on certain assumptions and describe the Company’s future plans, strategies and expectations, can generally be identified by the use of words such as “may,” “will,” “should,” “could,” “would,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “estimate” or words of similar meaning. These forward-looking statements include statements relating to the Company’s anticipated future financial performance, projected growth, and management’s long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from developments or events and the Company’s business and growth strategies.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, and could be affected by many factors. The following list, which is not intended to be an all-encompassing list of risks and uncertainties affecting the Company, summarizes several factors that could cause the Company's actual results to differ materially from those anticipated or expected in these forward-looking statements:

- economic conditions (both generally and in the Company's markets) may be less favorable than expected, resulting in, among other things, a deterioration in credit quality, a reduction in demand for credit and/or a decline in real estate values;
- a general decline in the real estate and lending market may negatively affect the Company's financial results;
- inaccuracies in management's assumptions used in calculating the appropriate amount to be placed into the Company's allowance for loan losses;
- In 2016, the Financial Accounting Standards Board (the "FASB") released a new standard on determining the amount of the allowance for credit losses, which will become effective for the Company for reporting periods beginning on January 1, 2020. The new credit loss model will be a significant change from the standard in place today, as it requires the allowance for credit losses to be calculated based on current expected credit losses (commonly referred to as the "CECL model") rather than losses inherent in the loan portfolio as of a point in time. This new standard may have a material impact on the Company's allowance for loan losses and total retained earnings in the period of adoption.
- restrictions or conditions imposed by regulators on the Company's operations may make it more difficult for the Company to achieve its goals;
- legislative and regulatory changes (including the impact of the Dodd-Frank Act and related regulations) subject the Company to additional regulatory oversight, which may result in increased compliance costs and/or require the Company to change its business model;
- changes in accounting standards and compliance requirements may adversely affect the businesses in which the Company is engaged;
- competitive pressures among depository and other financial institutions may increase significantly;
- changes in the interest rate environment may reduce margins or the volumes or values of the loans the Company makes;
- competitors may have greater financial resources and develop products that enable those competitors to compete more successfully than the Company can;
- the Company's ability to attract and retain key personnel can be affected by the increased competition for experienced employees in the banking industry;
- adverse changes may occur in the equity markets;
- war or terrorist activities may cause deterioration in the economy or cause instability in credit markets; and
- economic, governmental or other factors may prevent the projected population and residential and commercial growth in the markets in which the Company operates.
- technological changes and cyber-security matters;

Forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

General

This discussion is designed to assist you in better understanding the Company's financial condition, results of operations, liquidity and capital resources as well as any significant changes and trends related thereto. This discussion should be read in conjunction with our financial statements.

For the year ended December 31, 2017, the Company's net income totaled $2.4 million compared to $1.5 million for the year ended December 31, 2016, an increase of $862 thousand or 58%. The increase in net income was primarily due to increased net interest income, lower provision for loan losses and decreased expenses. Total assets as of December 31, 2017 were $504 million compared to $510 million as of December 31, 2016.

Total revenues, consisting of net interest and dividend income plus noninterest income, were $17.9 million for the year ended December 31, 2017 compared to $16.7 million for the year ended December 31, 2016, an increase of $1.2 million or 7.2%. Net interest and dividend income increased in 2017 by $1.2 million or 9.0% and noninterest income decreased by $73 thousand or 2.3% primarily due to decreases in income from (loss) gain on available-for-sale securities, net of writedown and other noninterest income.

The net interest margin of 3.08% for the year ended December 31, 2017 increased from 3.03% for the year ended December 31, 2016. The yield on interest earning assets increased 14 basis points to 3.51% and the cost of funds increased 11 basis points to 0.61% in 2017. The Bank experienced a greater increase in its interest earning assets than it did on its yield on cost of funds, primarily due to the higher yields on commercial loans and investments.

Total noninterest expenses for the year ended December 31, 2017 were $13.9 million, a decrease of $174 thousand or 1.2% compared to the year ended December 31, 2016. The decrease in noninterest expenses was primarily attributable to decreases in salary and benefit expenses, supply expenses and occupancy costs. Salaries and employee benefit expenses decreased $482 thousand, or 6.4%, and occupancy expenses decreased $130 thousand, or 8.5%, from 2016 levels. Advertising and promotion expenses increased by $5 thousand or 0.83% in 2017 compared to 2016. FDIC insurance assessments increased by $72 thousand in 2017 compared to 2016, and correspondent charges increased by $2 thousand in 2017 compared to 2016. Data processing fees increased by $67 thousand during 2017 from 2016 levels, and internet banking costs decreased by $75 thousand for 2017 compared to 2016. Professional and director fees increased by a combined $257 thousand, or 37%, for 2017 compared to 2016. The provision for loan losses was $645 thousand for 2017 compared to $911 thousand for 2016, a decrease of $266 thousand.

At December 31, 2017, gross outstanding loans were $395.1 million, a decrease of $12.6 million, or 3.1%, from a year ago. The allowance for loan losses was $4.1 million, or 1.03%, of total loans at December 31, 2017 compared to $3.8 million, or 0.92%, of total loans at December 31, 2016. At December 31, 2017, 46.7% of total loans were conventionally underwritten residential mortgages and consumer home equity lines and loans. Commercial loans, including construction and land development and municipal loans, represented 46.6% of the Company's total loans. Other consumer loans comprised 5.7% of total loans. The Company's exposure to commercial real estate loans was relatively low. Total exposure to builder and land development loans and non-owner occupied commercial real estate loans was $39.1 million at December 31, 2017, which represented 10% of total loans. The Company had non-accrual loans totaling $1.5 million, which was 0.37% of total loans at December 31, 2017 compared to non-accrual loans of $4.1 million or 0.99% of total loans at December 31, 2016. Total non-accrual loans and loans 30 or more days past due that are still accruing interest decreased to 0.40% of outstanding loans at December 31, 2017 from 1.29% of outstanding loans at December 31, 2016.

Total deposits at December 31, 2017 were $457 million compared to $414 million at December 31, 2016. From December 31, 2016 to December 31, 2017, demand deposits increased $9.3 million, or 6.9%, while savings and NOW deposits increased $34.4 million, or 16%, and time deposits decreased $74 thousand, or 0.1%. At December 31, 2017, 31% of total deposits were in non-interest-bearing demand accounts, 54% were in low-cost savings and NOW accounts and 15% were in time deposits.

Capital levels for The Simsbury Bank & Trust Company, Inc. on December 31, 2017 were above those required to meet the regulatory "well-capitalized" designation.

Results of Operations for the Years Ended December 31, 2017 and 2016

Net Interest Income and Net Interest Margin

The Bank's earnings depend largely upon the difference between the income received from its loan portfolio and investment securities and the interest paid on its liabilities, mainly interest paid on deposits and borrowings. This difference is "net interest income." The net interest income, when expressed as a percentage of average total interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by the change in the level and the mix of interest-earning assets and interest-bearing liabilities, referred to as volume changes. The Bank's net interest margin is also affected by changes in yields earned on assets and rates paid on liabilities, referred to as rate changes. Interest rates charged on the Bank's loans are affected principally by the demand for such loans, the supply of money available for lending purposes and competitive factors. These factors are, in turn, affected by general economic conditions and other factors beyond the Bank's control, such as federal economic policies, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the actions of the FRB.

Net interest and dividend income, before provision for loan losses, totaled $14.8 million for the year ended December 31, 2017, which was an increase of $1.2 million, or 9.02%, from $13.6 million for the year ended December 31, 2016. Average earning assets grew to $490 million at December 31, 2017 from $457 million at December 31, 2016 primarily due to an increase in total loans. The Bank's net interest spread increased to 2.90% for the year ended December 31, 2017 from 2.88% for the year ended December 31, 2016. The net interest margin increased to 3.08% for the year ended December 31, 2017 from 3.03% for the year ended December 31, 2016.

The following tables present the average amounts outstanding for the major categories of the Bank's interest-earning assets and interest-bearing liabilities and the average interest rates earned or paid thereon for the years ended December 31, 2017, 2016 and 2015.

NET INTEREST INCOME
(Dollars in thousands)

	For the Year Ended 12/31/17		
	Year-to-date Average Balance (1)	Interest	Yield/Cost
Federal funds sold & overnight deposits	$ 19,045	$ 230	1.21%
Investments (2)	60,926	1,475	2.42%
Mortgage loans	146,979	5,044	3.43%
Commercial loans	185,781	7,923	4.26%
Consumer loans	77,098	2,529	3.28%
Total loans (2)	409,858	15,496	3.78%
Total interest-earning assets (2) (3)	489,829	$ 17,201	3.51%
Non-interest earning assets	23,472		
Total assets	$ 513,301		
NOW deposits	$ 49,500	$ 46	0.09%
Savings deposits	192,725	663	0.34%
Certificates of deposit	67,832	617	0.91%
Total interest-bearing deposits	310,057	1,326	0.43%
Securities sold under agreements to repurchase	2,703	7	0.26%
Federal Home Loan Bank advances	28,501	263	0.92%
Long-term subordinated debt	7,265	542	7.46%
Total interest-bearing liabilities	348,526	$ 2,138	0.61%
Non-interest bearing liabilities	132,963		
Total liabilities	481,489		
Total stockholders' equity	31,812		
Total liabilities and stockholders' equity	$ 513,301		
Tax Equivalent net interest income		$ 15,063	
Less: tax equivalent adjustments		$ (290)	
Net interest income		$ 14,773	
Net interest spread			2.90%
Net interest margin			3.08%

(1) Average balances presented are daily averages
(2) On a fully taxable equivalent basis based on a tax rate of 34%. Interest income on investments and loans includes fully taxable equivalent adjustments of $290 thousand in 2017, $279 thousand in 2016 and $270 thousand in 2015.
(3) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

NET INTEREST INCOME
(Dollars in thousands)

	For the Year Ended 12/31/16		
	Year-to-date Average Balance (1)	Interest	Yield/Cost
Federal funds sold & overnight deposits	$ 10,317	$ 59	0.57%
Investments (2)	72,269	1,640	2.27%
Mortgage loans	144,602	4,946	3.42%
Commercial loans	152,012	6,483	4.26%
Consumer loans	77,944	2,296	2.95%
Total loans (2)	374,558	13,725	3.66%
Total interest-earning assets (2) (3)	457,144	$ 15,424	3.37%
Non-interest earning assets	22,707		
Total assets	$ 479,851		
NOW deposits	$ 43,878	$ 38	0.09%
Savings deposits	168,814	361	0.21%
Certificates of deposit	61,135	482	0.79%
Total interest-bearing deposits	273,827	881	0.32%
Securities sold under agreements to repurchase	2,524	6	0.24%
Federal Home Loan Bank advances	37,614	192	0.51%
Long-term subordinated debt	7,237	515	7.12%
Total interest-bearing liabilities	321,202	$ 1,594	0.50%
Non-interest bearing liabilities	127,752		
Total liabilities	448,954		
Total stockholders' equity	30,897		
Total liabilities and stockholders' equity	$ 479,851		
Tax Equivalent net interest income		$ 13,830	
Less: tax equivalent adjustments		$ (279)	
Net interest income		$ 13,551	
Net interest spread			2.88%
Net interest margin			3.03%

(1) Average balances presented are daily averages
(2) On a fully taxable equivalent basis based on a tax rate of 34%. Interest income on investments and loans includes fully taxable equivalent adjustments of $290 thousand in 2017, $279 thousand in 2016 and $270 thousand in 2015.
(3) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

NET INTEREST INCOME
(Dollars in thousands)

	For the Year Ended 12/31/15		
	Year-to-date Average Balance (1)	Interest	Yield/Cost
Federal funds sold & overnight deposits	$ 13,032	$ 38	0.29%
Investments (2)	79,378	1,789	2.25%
Mortgage loans	143,554	5,044	3.51%
Commercial loans	97,757	4,027	4.12%
Consumer loans	63,218	1,858	2.94%
Total loans (2)	304,529	10,929	3.59%
Total interest-earning assets (2) (3)	396,939	$ 12,756	3.21%
Non-interest earning assets	20,185		
Total Assets	$ 417,124		
NOW deposits	$ 39,270	$ 32	0.08%
Savings deposits	151,863	163	0.11%
Certificates of deposit	58,761	420	0.71%
Total interest bearing deposits	249,894	615	0.25%
Securities sold under agreements to repurchase	3,066	4	0.13%
Federal Home Loan Bank advances	17,795	48	0.27%
Long-term subordinated debt	1,430	61	4.27%
Total interest-bearing liabilities	272,185	$ 728	0.27%
Non-interest bearing liabilities	113,498		
Total Liabilities	385,683		
Preferred stock	8,649		
Common shareholders' equity	22,792		
Total shareholder equity	31,441		
Total liabilities and shareholders' equity	$ 417,124		
Tax Equivalent net interest income		$ 12,028	
Less: tax equivalent adjustments		$ (270)	
Net interest income		$ 11,758	
Net interest spread			2.95%
Net interest margin			3.03%

(1) Average balances presented are daily averages
(2) On a fully taxable equivalent basis based on a tax rate of 34%. Interest income on investments and loans includes fully taxable equivalent adjustments of $290 thousand in 2017, $279 thousand in 2016 and $270 thousand in 2015.
(3) Non-performing loans and leases are included in the respective average loan and lease balances. Income, if any, on such loans and leases is recognized on a cash basis.

The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the rate column and the volume column. For purposes of this table, changes attributable to changes in both rate and volume that cannot be segregated have been allocated proportionally based on the changes due to rate and the changes due to volume.

	Year Ended December 31, 2017 compared to Year Ended December 31, 2016			Year Ended December 31, 2016 compared to Year Ended December 31, 2015		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(Dollars in thousands)			(Dollars in thousands)		
Interest and dividend income:						
Federal funds sold and overnight deposits	$ 105	$ 66	$ 171	$ (16)	$ 37	$ 21
Investments	(274)	109	(165)	(174)	25	(149)
Loans	1,494	277	1,771	2,780	16	2,796
Total interest-earning assets	$ 1,325	$ 452	$ 1,777	$ 2,590	$ 78	$ 2,668
Interest expense:						
NOW deposits	$ 5	$ 3	$ 8	$ 4	$ 2	$ 6
Savings deposits	82	220	302	36	162	198
Time deposits	61	74	135	19	43	62
Total interest-bearing deposits	148	297	445	59	207	266
Securities sold under agreements to repurchase	-	1	1	(1)	3	2
Long term subordinated debt	2	25	27	413	41	454
Federal Home Loan Bank advances	(84)	155	71	101	43	144
Total interest-bearing liabilities	66	478	544	572	294	866
Net change in net interest income	$ 1,259	$ (26)	$ 1,233	$ 2,018	$ (216)	$ 1,802

Provision for Loan Losses

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by the Bank’s management based on such factors as historical experience, the volume and type of lending conducted by the Bank, the amount of non-performing loans, regulatory policies, generally accepted accounting principles, general economic conditions and other factors related to the collectability of loans in the Bank’s portfolio.

Each month, the Bank reviews the allowance for loan losses and makes additional provisions to the allowance as needed. For the year ended December 31, 2017, the allowance increased $335 thousand, net of charge-offs and recoveries. The total allowance for loan losses at December 31, 2017 was $4.1 million, or 1.03%, of outstanding loans. This compares with a total allowance for loan losses of $3.8 million at December 31, 2016, which represented 0.92% of outstanding loans. During 2017, the Bank charged off 12 loans for a total of $323 thousand compared to 6 loans for a total of $194 thousand during 2016. The Bank recorded recoveries of $13 thousand on 12 loans in 2017 compared to $8 thousand on 8 loans in 2016. Management believes the allowance for loan losses is adequate and will continue to monitor the levels closely in 2018.

Noninterest Income and Noninterest Expense

The following tables set forth the various components of the Bank's noninterest income and noninterest expense for the years ended December 31, 2017, 2016 and 2015.

NONINTEREST INCOME
(Dollars in thousands)

	For Year Ended 12/31/2017	% of Noninterest Income	For Year Ended 12/31/2016	% of Noninterest Income	For Year Ended 12/31/2015	% of Noninterest Income
Service charges on deposit accounts	$ 371	11.9%	$ 379	11.9%	$ 400	12.8%
Safe deposit fees	86	2.8%	87	2.7%	92	2.9%
Writedown of securities	(4)	-0.1%	(3)	-0.1%	(7)	-0.2%
Gain on sales of investments	-	0.0%	94	2.9%	139	4.5%
Mortgage banking activities, net	1,445	46.3%	1,288	40.3%	1,342	43.0%
Investment services fees and commissions	176	5.6%	194	6.1%	216	6.9%
Other income	1,049	33.5%	1,157	36.2%	940	30.1%
Total noninterest income	$ 3,123	100.0%	$ 3,196	100.0%	$ 3,122	100.0%

NONINTEREST EXPENSE
(Dollars in thousands)

	For Year Ended 12/31/2017	% of Noninterest Expense	For Year Ended 12/31/2016	% of Noninterest Expense	For Year Ended 12/31/2015	% of Noninterest Expense
Salaries and employee benefits	$ 7,017	50.5%	$ 7,499	53.4%	$ 6,872	53.1%
Occupancy expense	1,400	10.1%	1,530	10.9%	1,394	10.8%
Equipment expense	514	3.7%	420	3.0%	399	3.1%
Professional fees	716	5.2%	479	3.4%	571	4.4%
Advertising and promotions	610	4.4%	605	4.3%	442	3.4%
Forms and supplies	110	0.8%	202	1.4%	162	1.3%
Insurance	509	3.7%	438	3.1%	395	3.1%
Loan expenses	150	1.1%	160	1.1%	143	1.1%
Data processing	903	6.5%	836	5.9%	773	5.9%
Other expenses	1,964	14.1%	1,898	13.5%	1,799	13.8%
Total noninterest expense	$ 13,893	100.0%	$ 14,067	100.0%	$ 12,950	100.0%

Noninterest income decreased by $73 thousand to $3.1 million for the year ended December 31, 2017 from $3.2 million for the year ended December 31, 2016. This decrease was due primarily to a net decrease of $95 thousand from gain on sale of available-for-sale securities, net of writedowns, and $108 thousand from other income, which were partially offset by a $157 thousand increase in the income from the mortgage banking activities category. In addition, SBT Investment Services, Inc.'s revenues decreased by $18 thousand in 2017 compared to 2016.

Noninterest expense for the year ended December 31, 2017 was $13.9 million, a decrease of $174 thousand, or 1.2%, compared to the year ended December 31, 2016. Decreases in 2017 from 2016 were primarily related to salary and employee benefits, occupancy expenses and forms and supplies, with decreases of $482 thousand, $130 thousand and $92 thousand, respectively.

Salaries and employee benefits comprised 50.5% of total noninterest expense for the year ended December 31, 2017 as compared to 53.4% for the year ended December 31, 2016. Occupancy expenses were 10.1% in 2017 and 10.9% in 2016, respectively, and continued to be the other major category of noninterest expense.

Financial Condition at Years Ended December 31, 2017, 2016 and 2015

The following table sets forth the average balances of each principal category of our assets, liabilities and capital accounts for the years ended December 31, 2017, 2016 and 2015.

Distribution of Assets, Liabilities and Stockholders' Equity
(Dollars in thousands)

	For the Year Ended 12/31/2017		For the Year Ended 12/31/2016		For the Year Ended 12/31/2015	
ASSETS	Average Balance	% of Total Assets	Average Balance	% of Total Assets	Average Balance	% of Total Assets
Cash and due from banks	$ 8,419	1.6%	$ 8,818	1.8%	$ 8,442	2.0%
Investment securities	60,926	11.9%	72,269	15.1%	79,378	19.0%
Fed funds sold and overnight deposits	20,045	3.9%	10,317	2.2%	13,032	3.1%
Loans, net	409,858	79.8%	374,558	78.1%	304,529	73.0%
Premises and equipment	1,966	0.4%	1,913	0.4%	1,426	0.4%
Accrued interest and other assets	12,087	2.4%	11,976	2.5%	10,317	2.5%
Total assets	$ 513,301	100.0%	$ 479,851	100.0%	$ 417,124	100.0%
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits:						
Demand and NOW deposits	$ 180,573	35.2%	$ 170,140	35.5%	$ 151,327	36.3%
Savings deposits	192,725	37.5%	168,813	35.2%	151,863	36.4%
Time deposits	67,832	13.2%	61,135	12.7%	58,761	14.1%
Total deposits	441,130	85.9%	400,088	83.4%	361,951	86.8%
Federal Home Loan Bank advances	28,501	5.6%	37,614	7.8%	17,795	4.3%
Long-term subordinated debt	7,265	1.4%	7,237	1.5%	1,430	0.3%
Accrued interest and other liabilities	4,593	0.9%	4,015	0.8%	4,507	1.1%
Total liabilities	481,489	93.8%	448,954	93.6%	385,683	92.5%
Stockholders' equity						
Common stock	19,126	3.7%	18,886	3.9%	11,730	2.8%
Preferred stock	0	0.0%	0	0.0%	8,649	2.1%
Retained earnings and accumulated other comprehensive loss	12,686	2.5%	12,011	2.5%	11,062	2.6%
Total stockholders' equity	31,812	6.2%	30,897	6.4%	31,441	7.5%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 513,301	100.0%	$ 479,851	100.0%	$ 417,124	100.0%

Investment Portfolio

In order to maintain a reserve of readily marketable assets to meet the Bank’s liquidity and loan requirements, the Bank purchases debt securities issued by U.S. government corporations and agencies, mortgage-backed securities and other investments. Sales of “federal funds” (short-term loans to other banks) are regularly utilized. Placement of funds in certificates of deposit with other financial institutions may be made as alternative investments pending utilization of funds for loans or other purposes.

Securities may be pledged to meet security requirements imposed as a condition for receipt of deposits of public funds and repurchase agreements. At December 31, 2017, the Bank had 62 securities with a carrying value totaling $28.8 million pledged for such purposes.

As of December 31, 2017, the Bank’s investment portfolio consisted of U.S. government and agency securities, mortgage-backed securities and municipal securities. The Bank’s policy is to stagger the maturities of its investments to meet overall liquidity requirements of the Bank.

The following tables summarize the amounts and distribution of the Bank's investment securities held as of December 31, 2017, 2016, and 2015.

INVESTMENT PORTFOLIO
(Dollars in thousands)

	December 31, 2017				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Yield
AVAILABLE-FOR-SALE SECURITIES					
U.S. Government and agency securities					
Due within one year	$ 2,750	-	8	$ 2,742	1.60%
Due after one to five years	1,764	-	10	1,754	1.80%
Total U.S. government and agency securities	4,514	-	18	4,496	1.68%
State and municipal securities					
Due after one to five years	1,678	9	-	1,687	2.07
Due after five to ten years	7,723	61	31	7,753	1.72
Due after ten to fifteen years	3,319	76	-	3,395	2.49
Due beyond fifteen years	-	-	-	-	-
Total state and municipal securities	12,720	146	31	12,835	1.97
Mortgage-backed securities					
Due within one year	-	-	-	-	
Due after one to five years	648	2	6	644	2.08
Due after five to ten years	8,665	12	159	8,518	2.32
Due after ten to fifteen years	16,565	1	367	16,199	2.48
Due beyond fifteen years	8,245	4	146	8,103	2.62
Total mortgage-backed securities	34,123	19	678	33,464	2.47
SBA loan pools					
Due after one to five years	-	-	-	-	-
Due after five to ten years	861	7	7	861	2.92
Total SBA loan pools	861	7	7	861	2.92
Total available-for-sale securities	$ 52,218	$ 172	$ 734	$ 51,656	2.33%

INVESTMENT PORTFOLIO
(Dollars in thousands)

	December 31, 2016				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Yield
AVAILABLE-FOR-SALE SECURITIES					
U.S. Government and agency securities					
Due within one year	$ 1,000	1	-	$ 1,001	1.00%
Due after one to five years	3,250	6	4	3,252	1.24%
Total U.S. government and agency securities	4,250	7	4	4,253	1.18%
State and municipal securities					
Due after one to five years	250	1	-	251	4.00
Due after five to ten years	6,253	100	41	6,312	2.91
Due after ten to fifteen years	7,417	78	100	7,395	2.76
Due beyond fifteen years	389	5	-	394	3.30
Total state and municipal securities	14,309	184	141	14,352	2.86
Mortgage-backed securities					
Due within one year	-	-	-	-	
Due after one to five years	718	7	4	721	2.25
Due after five to ten years	3,480	13	21	3,472	1.80
Due after ten to fifteen years	20,272	9	539	19,742	1.69
Due beyond fifteen years	15,580	11	386	15,205	2.00
Total mortgage-backed securities	40,050	40	950	39,140	1.83
SBA loan pools					
Due after one to five years	-	-	-	-	-
Due after five to ten years	973	13	3	983	3.30
Total SBA loan pools	973	13	3	983	3.30
Total available-for-sale securities	$ 59,582	$ 244	$ 1,098	$ 58,728	2.33%

INVESTMENT PORTFOLIO
(Dollars in thousands)

	December 31, 2015				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Yield
AVAILABLE-FOR-SALE SECURITIES					
U.S. Government and agency securities					
Due after one to five years	$ 10,499	$ 6	$ 42	$ 10,463	1.33%
Total U.S. government and agency securities	10,499	6	42	10,463	1.33
State and municipal securities					
Due within one year	375	4	-	379	3.95
Due after one to five years	7,780	305	20	8,065	2.70
Due after five to ten years	4,580	121	8	4,693	3.08
Due after ten to fifteen years	1,025	9	8	1,026	2.51
Due beyond fifteen years	498	8	-	506	3.25
Total state and municipal securities	14,258	447	36	14,669	2.86
Mortgage-backed securities					
Due after one to five years	733	12	-	745	2.43
Due after five to ten years	1,997	19	7	2,009	2.13
Due after ten to fifteen years	25,144	16	393	24,767	1.80
Due beyond fifteen years	18,084	18	342	17,760	2.20
Total mortgage-backed securities	45,958	65	742	45,281	1.98
SBA loan pools					
Due after one to five years	-	-	-	-	-
Due after five to ten years	1,089	23	8	1,104	3.19
Total SBA loan pools	1,089	23	8	1,104	3.19
Total available-for-sale securities	$ 71,804	$ 541	$ 828	$ 71,517	2.36%

Loan Portfolio

General

The following tables present the Bank's loan portfolio as of December 31, 2017, 2016, 2015, 2014 and 2013.

LOAN PORTFOLIO
(Dollars in thousands)

	12/31/2017		12/31/2016	
	Balance	% of Total Loans	Balance	% of Total Loans
Real estate - residential	$ 135,229	34.2%	$ 143,212	35.1%
Real estate - commercial	79,293	20.1%	79,629	19.5%
Real estate - construction & land development	24,478	6.2%	18,892	4.6%
Home equity	49,095	12.4%	48,876	12.0%
Commercial & industrial	72,591	18.4%	69,254	17.0%
Municipal	11,857	3.0%	12,948	3.2%
Consumer	22,552	5.7%	34,911	8.6%
Total Loans	395,095	27.1%	407,722	28.7%
Allowance for loan losses	(4,088)		(3,753)	
Deferred costs, net	1,318		1,442	
Net loans	$ 392,325		$ 405,411	

LOAN PORTFOLIO
(Dollars in thousands)

	12/31/2015		12/31/2014	
	Balance	% of Total Loans	Balance	% of Total Loans
Real estate - residential	$ 138,628	42.6%	$ 132,553	46.5%
Real estate - commercial	62,118	19.1%	46,982	16.5%
Real estate - construction & land development	10,070	3.1%	13,234	4.6%
Home equity	47,681	14.7%	46,403	16.3%
Commercial & industrial	35,305	10.9%	19,038	6.6%
Municipal	12,239	3.8%	10,061	3.5%
Consumer	19,350	5.9%	16,576	5.8%
Total Loans	325,391	100.0%	284,847	100.0%
Allowance for loan losses	(3,028)		(2,761)	
Deferred costs, net	1,332		1,295	
Net loans	$ 323,695		$ 283,381	

LOAN PORTFOLIO
(Dollars in thousands)

	12/31/2013	
	Balance	% of Total Loans
Real estate - residential	$ 137,539	49.4%
Real estate - commercial	48,814	17.5%
Real estate - construction & land development	7,773	2.8%
Home equity	46,742	16.8%
Commercial & industrial	18,432	6.7%
Municipal	8,488	3.0%
Consumer	10,664	3.8%
Total Loans	278,452	100.0%
Allowance for loan losses	(2,792)	
Deferred costs, net	1,215	
Net loans	$ 276,875	

The Bank's commercial loans are made for the purpose of providing working capital, financing the purchase of equipment or for other business purposes. Such loans include loans with maturities ranging from thirty days to two years and "term loans," which are loans with maturities normally ranging from one to ten years. Short-term business loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Term loans normally provide for fixed or floating interest rates, with monthly payments of both principal and interest.

The Bank's construction loans are primarily interim loans made to finance the construction of commercial and single-family residential properties. These loans are typically short-term. The Bank generally pre-qualifies construction loan borrowers for permanent "take-out" financing as a condition to making the construction loan. The Bank will occasionally make loans for housing construction or for acquisition and development of raw land.

The Bank's other real estate loans consist primarily of loans based on the borrower's cash flow and that are secured by deeds of trust on commercial and residential properties to provide another source of repayment in the event of default. It is the Bank's policy to restrict real estate loans without credit enhancement to no more than 80% of the lower of the appraised value or the purchase price of the property, depending on the type of property and its utilization. The Bank offers both fixed and floating rate loans. Maturities on such loans typically range from five to thirty years. However, Small Business Administration (SBA) and certain other real estate loans easily sold in the secondary market are made for longer maturities. The Bank has been designated an approved SBA lender. The Bank's SBA loans are categorized as commercial or real estate, depending on the underlying collateral. The Bank has also been approved as an originator of loans that can be sold to the Federal Home Loan Mortgage Corporation.

During the year ended December 31, 2017, there were 341 loans with a total principal balance of $75.0 million that were sold, resulting in a gain of $981 thousand for the Bank. For the year ended December 31, 2016, there were 420 loans with a total principal balance of $94.0 million that were sold, resulting in a gain of $1.7 million for the Bank.

Consumer loans are made for the purpose of financing automobiles, various types of consumer goods and other personal purposes. Consumer loans generally provide for the monthly payment of principal and interest. Most of the Bank's consumer loans are secured by the personal property purchased with the proceeds of such consumer loans.

With certain exceptions, the Bank is permitted under applicable law to make extensions of credit to any one borrowing entity and its related affiliates of up to 15% of the Bank's capital and reserves. An additional 10% is permitted under applicable law if the credit is fully secured by qualified collateral. The Bank sells participations in its loans when necessary to stay within its lending limits. As of December 31, 2017, these lending limits for the Bank were $6.4 million and $10.7 million, respectively.

Loan Concentrations

The Bank does not have any significant concentrations in its loan portfolio by industry or group of industries. As of December 31, 2017 and December 31, 2016, approximately 70% of the Bank's loans were secured by residential real estate property located in Connecticut.

Loan Portfolio Maturities and Interest Rate Sensitivity

The following table summarizes the maturities and interest rate sensitivity of the Bank's loan portfolio.

As of December 31, 2017
(Dollars in thousands)

	One Year or Less	Over One to Five Years	Over Five years	Total
Commercial and industrial	$ 23,209	$ 19,257	$ 30,125	$ 72,591
Real estate - construction & land development, residential and commercial	16,589	5,894	1,995	24,478
Real estate - residential	6,972	22,338	105,919	135,229
Real estate - commercial	11,223	54,753	13,317	79,293
Municipal	1,241	1,415	9,201	11,857
Home Equity	43,744	1,097	4,254	49,095
Consumer	1,056	12,716	8,780	22,552
Total loans	$ 104,034	$ 117,470	$ 173,591	$ 395,095
Loans with fixed interest rates	$ 8,455	$ 34,991	$ 148,720	$ 192,166
Loans with variable interest rates	95,579	82,479	24,871	202,929
Total loans	$ 104,034	$ 117,470	$ 173,591	$ 395,095

As of December 31, 2016
(Dollars in thousands)

	One Year or Less	Over One to Five Years	Over Five years	Total
Commercial and industrial	$ 13,012	$ 25,940	$ 30,302	$ 69,254
Real estate - construction & land development, residential and commercial	10,007	8,885	-	18,892
Real estate - residential	6,916	25,261	111,035	143,212
Real estate - commercial	9,168	52,756	17,705	79,629
Municipal	1,968	5,324	5,656	12,948
Home Equity	42,374	1,622	4,880	48,876
Consumer	1,751	16,041	17,119	34,911
Total loans	$ 85,196	$ 135,829	$ 186,697	$ 407,722
Loans with fixed interest rates	$ 6,876	$ 41,510	$ 160,443	$ 208,829
Loans with variable interest rates	78,320	94,319	26,254	198,893
Total loans	$ 85,196	$ 135,829	$ 186,697	$ 407,722

The following table sets forth the Bank's loan commitments, standby letters of credit, and unadvanced portions of loans as of December 31, 2017, 2016, 2015 and 2014.

LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT
(Dollars in thousands)

	2017	2016	2015	2014	2013
Commitments to originate loans	$ 13,854	$ 20,090	$ 40,708	$ 17,151	$ 10,488
Standby letters of credit	5,076	4,281	3,391	1,888	857
Unadvanced portions of loans:					
Construction loans	25,388	13,580	15,647	6,960	5,456
Commercial lines of credit	38,276	32,640	20,580	17,394	14,265
Consumer	4,875	588	621	677	677
Home equity lines of credit	61,725	58,035	47,650	45,005	40,075
	$ 149,194	$ 129,214	$ 128,597	$ 89,075	$ 71,818

Non-Performing Assets

Interest on performing loans is accrued and taken into income daily. A loan over 90 days past due is deemed "non-performing" and is placed on a nonaccrual status unless the loan is well collateralized and in the process of collection. Interest received on nonaccrual loans is credited to income only upon receipt and, in certain circumstances, may be applied to principal until the loan has been repaid in full, at which time the interest received is credited to income. The Bank had 11 nonaccrual loans with a balance of approximately $1.5 million as of December 31, 2017; 16 nonaccrual loans with a balance of approximately $4.1 million as of December 31, 2016; 19 nonaccrual loans with a balance of approximately $4.1 million as of December 31, 2015; 11 nonaccrual loans with a balance of approximately $2.5 million as of December 31, 2014; and 15 nonaccrual loans with a balance of approximately $2.8 million as of December 31, 2013. Gross interest that would have been recorded if the nonaccrual loans had been current was approximately $164 thousand for the year ended December 31, 2017; approximately $117 thousand for the year ended December 31, 2016; approximately $103 thousand for the year ended December 31, 2015; approximately $112 thousand for the year ended December 31, 2014; and approximately $127 thousand for the year ended December 31, 2013.

The amount of interest on nonaccrual loans included in net income was approximately $42 thousand for the year ended December 31, 2017; approximately $247 thousand for the year ended December 31, 2016; approximately $77 thousand for the year ended December 31, 2015; approximately $31 thousand for the year ended December 31, 2014; and approximately $29 thousand for the year ended December 31, 2013. For each of the years ended December 31, 2017, 2016, 2015, 2014 and 2013, the Bank had no loans more than 90 days past due and still accruing interest.

When appropriate or necessary to protect the Bank's interests, real estate pledged as collateral on a loan may be taken by the Bank through foreclosure or a deed in lieu of foreclosure. Real property acquired in this manner by the Bank is referred to as "other real estate owned" ("OREO") and is carried on the books of the Bank as an asset at the lesser of the Bank's recorded investment or the fair value less estimated costs to sell. As of December 31, 2017, the Bank had one OREO property on its books for $192 thousand. As of December 31, 2016, and December 31, 2015, the Bank had no OREO properties on its books. As of December 31, 2014, the Bank had one OREO property on its books for $105 thousand. As of December 31, 2013, the Bank did not have any OREO properties on its books.

A loan whose terms have been modified due to financial difficulties is reported as a troubled debt restructure ("TDR") loan. All TDR loans are placed on nonaccrual status until the loan qualifies for return to accrual status. Loans qualify for return to accrual status once they have demonstrated sustained performance with the restructured terms of the loan agreement for a minimum of six months. At December 31, 2017, the Bank had one loan classified as a TDR on its books with an aggregate balance of approximately $182 thousand which had been modified during the year ended December 31, 2015. At December 31, 2016, the Bank had one loan classified as a TDR on its books with an aggregate balance of approximately $281 thousand which had been modified during the year ended December 31, 2015. The Bank modified one commercial loan with a balance of approximately $363 thousand as a TDR during the year ended December 31, 2015. This loan was originally modified as a TDR during the year ended December 31, 2014 with a balance of approximately $439 thousand before it was subsequently modified again in 2015.

The risk of nonpayment of loans is an inherent feature of the banking business. That risk varies with the type and purpose of the loan, the collateral which is utilized to secure payment and, ultimately, the creditworthiness of the borrower. In order to minimize this credit risk, the Bank requires that most loans be approved by at least two officers, one of whom must be an executive officer. Commercial loans greater than $2 million, as well as other loans in certain circumstances, must be approved by the Loan Committee of the Bank's Board of Directors.

The Bank has an internal review process to verify credit quality and risk classifications. In addition, the Bank maintains a program of annual review of certain new and renewed loans by an outside loan review consultant. Loans are graded from "pass" to "loss," depending on credit quality, with "pass" representing loans that are fully satisfactory as additions to the Bank's loan portfolio. These are loans that involve a degree of risk which is not unwarranted, given the favorable aspects of the credit, and which exhibit both primary and secondary sources of repayment. Classified loans identified in either review process are added to the Bank's Internal Watch list and an additional allowance for loan losses is established for such loans, if appropriate. Additionally, the Bank is examined regularly by the Federal Deposit Insurance Corporation and the State of Connecticut Department of Banking at which time a further review of the loan portfolio is conducted.

The Bank had criticized and classified loans with a combined outstanding balance of $15.9 million as of December 31, 2017; $12.6 million as of December 31, 2016; $9.2 million as of December 31, 2015; $9.8 million as of December 31, 2014; and $10.2 million as of December 31, 2013.

Allowance for Loan Losses

The Bank maintains an allowance for loan losses to provide for potential losses in the loan portfolio. Additions to the allowance are made by charges within operating expenses in the form of a provision for loan losses. All loans that are judged to be uncollectable are charged against the allowance, while any recoveries are credited to the allowance. Management conducts a critical evaluation of the loan portfolio monthly. This evaluation includes an assessment of the following factors: the results of the Bank's internal loan review; any external loan review; any regulatory examination; loan loss experience; estimated potential loss exposure on each credit; concentrations of credit; value of collateral; any known impairment in the borrower's ability to repay; and present and prospective economic conditions.

The following tables summarize the Bank's loan loss experience, transactions in the allowance for loan losses and certain prominent ratios at or for the years ended December 31, 2017, 2016, 2015, 2014, and 2013.

	At or for the Year Ended 12/31/2017 (Dollars in thousands)	At or for the Year Ended 12/31/2016 (Dollars in thousands)
Balance at beginning of period	$ 3,753	$ 3,028
Charge-offs:		
Commercial and industrial	(82)	(179)
Residential and Home Equity	(200)	-
Consumer	(41)	(15)
Total charge-offs	(323)	(194)
Recoveries:		
Commercial and industrial	11	3
Real estate - residential	-	1
Home equity	-	-
Consumer	2	4
Total recoveries	13	8
Net loans charged-off	(310)	(186)
Provision for loan losses	645	911
Balance at end of period	$ 4,088	$ 3,753
BALANCES		
Average total loans	$ 409,858	$ 374,558
Total net loans at end of period	$ 392,325	$ 405,411
RATIOS		
Allowance for loan losses to average assets	0.80%	0.78%
Allowance for loan losses to loans at end of period	1.03%	0.92%

	At or for the Year Ended 12/31/2015 (Dollars in thousands)	At or for the Year Ended 12/31/2014 (Dollars in thousands)	At or for the Year Ended 12/31/2013 (Dollars in thousands)
Balance at beginning of period	$ 2,761	$ 2,792	$ 2,594
Charge-offs:			
Real estate:			
Residential	-	(93)	(40)
Commercial	-	-	(54)
Real estate - construction & land development	-	-	-
Commercial and industrial	-	-	(2)
Consumer	(22)	(8)	(58)
Total charge-offs	(22)	(101)	(154)
Recoveries:			
Commercial and industrial	3	3	4
Real estate - residential	-	8	-
Home equity	2	-	
Consumer	6	4	3
Total recoveries	11	15	7
Net loans (charged-off) recovered	(11)	(86)	(147)
Provision for loan losses	278	55	345
Balance at end of period	$ 3,028	$ 2,761	$ 2,792
BALANCES			
Average total loans	$ 304,529	$ 281,567	$ 255,817
Total net loans at end of period	$ 323,695	$ 283,381	$ 276,875
RATIOS			
Allowance for loan losses to average assets	0.73%	0.68%	0.71%
Allowance for loan losses to loans at end of period	0.93%	0.97%	1.00%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(Dollars in thousands)

	12/31/2017		12/31/2016	
	Allocation of Allowance	% of loans by Category	Allocation of Allowance	% of loans by Category
Real estate - residential	$ 996	34.2%	$ 1,057	35.1%
Real estate - commercial	1,187	22.4%	1,044	22.7%
Real estate - construction & land development	292	6.2%	212	4.6%
Commercial and industrial	1,079	19.0%	824	17.0%
Home equity	381	12.4%	346	12.0%
Consumer	90	3.1%	126	4.6%
Student Loans	56	2.7%	123	4.0%
Unallocated	7	-	21	-
Total	$ 4,088	100.0%	$ 3,753	100.0%

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(Dollars in thousands)

	12/31/2015		12/31/2014	
	Allocation of Allowance	% of loans by Category	Allocation of Allowance	% of loans by Category
Real estate - residential	$ 1,065	42.5%	$ 1,085	49.2%
Real estate - commercial	706	21.7%	738	18.8%
Real estate - construction & land development	324	3.1%	249	3.7%
Commercial and industrial	398	12.0%	227	6.9%
Home equity	331	14.7%	324	16.0%
Consumer	157	6.0%	134	5.4%
Student Loans	-	0.0%	-	0.0%
Unallocated	47	-	4	-
Total	$ 3,028	100.0%	$ 2,761	100.0%

	12/31/2013	
	Allocation of Allowance	% of loans by Category
Real estate - residential	$ 1,189	49.4%
Real estate - commercial	748	17.5%
Real estate - construction & land development	211	2.8%
Commercial and industrial	239	9.7%
Home equity	303	16.8%
Consumer	102	3.8%
Unallocated	-	-
Total	$ 2,792	100.0%

Deposits

Deposits are the Bank's primary source of funds. At December 31, 2017, the Bank had a deposit mix of 44.0% checking, 41.4% savings and 14.6% certificates of deposit. Thirty-one percent of the total deposits of $457 million were noninterest bearing at December 31, 2017. At December 31, 2016, the Bank had a deposit mix of 45.0% checking, 38.9% savings and 16.1% certificates of deposit. Thirty-two percent of the total deposits of $414 million were noninterest bearing at December 31, 2016. At December 31, 2015, the Bank had a deposit mix of 47.6% checking, 37.0% savings and 15.4% certificates of deposit. Thirty-six percent of the total deposits of $373 million were noninterest bearing at December 31, 2015. At December 31, 2017, $68.0 million of the Bank's deposits were from public sources compared to $43.2 million of the Bank's deposits at December 31, 2016 and $43.8 million of the Bank's deposits at December 31, 2015. The Bank's net interest income is enhanced by its percentage of noninterest bearing deposits.

The Bank's deposits are obtained from a cross-section of the communities it serves. No material portion of the Bank's deposits has been obtained from or is dependent upon any one person or industry. The bank maintains deposit relationships with several of the municipalities in its primary markets, which will seasonally increase deposit balances as municipal taxes are collected by the above-mentioned municipalities' governments. The Bank's business is not seasonal in nature. The Bank accepts deposits in excess of $250,000 from customers. Those deposits are priced to remain competitive. Through the Promontory Interfinancial Network's Certificate of Deposit Accounts Registry Service (CDARS) program, the Bank had brokered deposits of $1.9 million as of December 31, 2017, $1.5 million as of December 31, 2016 and $1.3 million as of December 31, 2015.

At December 31, 2017, the Bank had approximately 22,686 deposit accounts, an increase of 2,636 accounts or 13% from the number of accounts at December 31, 2016 and an increase of 2,676 accounts over the number of accounts at December 31, 2015.

The Bank is not dependent upon funds from sources outside the United States and has not made loans to any foreign entities.

The following table summarizes the distribution of average deposits and the average annualized rates paid for the years ended December 31, 2017, 2016 and 2015.

AVERAGE DEPOSITS
(Dollars in thousands)

	For the Year Ended 12/31/2017		For the Year Ended 12/31/2016		For the Year Ended 12/31/2015	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Demand deposits	$ 131,073	0.00%	$ 126,262	0.00%	$ 112,057	0.00%
NOW deposits	49,500	0.09%	43,878	0.09%	39,270	0.08%
Savings deposits	192,725	0.34%	168,814	0.21%	151,863	0.11%
Time deposits	67,832	0.91%	61,135	0.79%	58,761	0.71%
Total average deposits	$ 441,130	0.30%	$ 400,089	0.22%	$ 361,951	0.17%

The following table indicates the maturity schedule for the Bank's time deposits of $100,000 or more as of December 31, 2017, 2016 and 2015.

SCHEDULED MATURITY OF TIME DEPOSITS OF $100,000 OR MORE
(Dollars in thousands)

	December 31, 2017		December 31, 2016		December 31, 2015	
	Balance	% of total	Balance	% of total	Balance	% of total
Three months or less	$ 12,754	35.1%	$ 10,437	29.5%	$ 11,523	43.5%
Over three through six months	3,814	10.5%	2,947	8.3%	3,291	12.4%
Over six through twelve months	9,775	26.9%	8,680	24.5%	2,587	9.8%
Over twelve months	10,004	27.5%	13,293	37.7%	9,098	34.3%
Total	$ 36,347	100.0%	$ 35,357	100.0%	$ 26,499	100.0%

Liquidity and Asset-Liability Management

Liquidity management for banks requires that funds always be available to pay anticipated deposit withdrawals and maturing financial obligations promptly and fully in accordance with their terms. The balance of the funds required is generally provided by payments on loans, sale of loans, liquidation of assets, borrowings and the acquisition of additional deposit liabilities.

One method banks utilize for acquiring additional liabilities is through the acceptance of "brokered deposits" (defined to include not only deposits received through deposit brokers but also deposits bearing interest in excess of 75 basis points over market rates), typically attracting large certificates of deposit at high interest rates. The Company is a member of Promontory Interfinancial Network's Certificate of Deposit Accounts Registry Service (CDARS). This allows the Company to offer its customers FDIC insurance on deposits in excess of $250,000, which reflects the current deposit insurance limits in effect, by placing the deposits in the CDARS network. Accounts placed in this manner are considered brokered deposits. As of December 31, 2017, the Company had $1.9 million of deposits in the CDARS network compared to $1.5 million and $1.3 million of deposits in the CDARS network as of December 31, 2016 and December 31, 2015, respectively. The Company had no other brokered deposits as of December 31, 2017, 2016, and 2015.

Liquidity of a financial institution, such as a bank, is measured based on its ability to have liquid assets sufficient to meet its short-term obligations. The net sum of liquid assets less anticipated current obligations represents the basic liquidity surplus of the Company. The Company maintains a portion of its funds in cash deposits in other banks, federal funds sold, and available-for-sale securities to meet its obligations for anticipated depositors' demands in the near future. As of December 31, 2017, the Company held $31.2 million in cash and cash equivalents and CDs, net of required FRB reserves of $7.6 million, and $23.3 million in available-for-sale securities, net of pledged investments of $28.8 million, for total liquid assets of $54.5 million. As of December 31, 2016, the Company held $15.3 million in cash and cash equivalents and CDs, net of required FRB reserves of $6.9 million, and $45.4 million in available-for-sale securities, net of pledged investments of $13.6 million, for total liquid assets of $60.7 million. As of December 31, 2015, the Company held $24.4 million in cash and cash equivalents and CDs, net of required FRB reserves of $5.7 million, and $57.2 million in available-for-sale securities, net of pledged investments of $14.3 million, for total liquid assets of $81.6 million. As of December 31, 2017, the Company's anticipated short-term liability obligations were $39.3 million, which resulted in a basic liquidity surplus of $15.2 million that represented 3.0% of total assets. As of December 31, 2016, the Company's anticipated short-term liability obligations were $104.9 million, which resulted in a basic liquidity shortfall of $44.5 million that represented 8.7% of total assets. As of December 31, 2015, the Company's anticipated short-term liability obligations were $75.8 million, which resulted in a basic liquidity surplus of $5.8 million that represented 1.3% of total assets.

The careful planning of asset and liability maturities, and the matching of interest rates to correspond with these maturities, is an integral part of the active management of an institution's net yield. To the extent that maturities of assets and liabilities do not match in a changing interest rate environment, net yields may be affected. Even with perfectly matched re-pricing of assets and liabilities, risks remain in the form of prepayment of assets, timing lags in adjusting certain assets and liabilities that have varying sensitivities to market interest rates and basis risk. In its overall attempt to match assets and liabilities, management takes into account the rates and maturities offered in connection with its certificates of deposit and provides for the extension of variable rate loans to borrowers. The Company has generally been able to control its exposure to changing interest rates by maintaining floating interest rate loans, shorter term investments and a majority of its time certificates of deposit with relatively short maturities.

The table below sets forth the interest rate sensitivity of the Bank's interest-sensitive assets and interest-sensitive liabilities as of December 31, 2017, 2016 and 2015, using the interest rate sensitivity gap ratio. For the purposes of the following table, an asset or liability is considered interest rate-sensitive within a specified period when it can be re-priced or matures within its contractual terms.

	December 31, 2017				
	Due within Three Months	Due in Three to Twelve Months	Due after One Year to Five Years	Due after Five Years	Total
Rate sensitive assets					
Federal funds sold & overnight deposits	$ 185	$ -	$ -	$ -	$ 185
Certificates of deposit	-	1,000	250	-	1,250
Available-for-sale securities (at fair value)	2,907	6,907	23,338	18,504	51,656
Total loans	63,448	40,586	117,470	173,591	395,095
	$ 66,540	$ 48,493	$ 141,058	$ 192,095	$ 448,186
Rate sensitive liabilities					
NOW deposits	$ -	$ -	$ -	$ 57,729	$ 57,729
Savings deposits	126,340	-	-	63,182	189,522
Time deposits	18,324	28,319	19,834	37	66,514
Securities sold under agreements to repurchase	2,449	-	-	-	2,449
FHLB advances	-	-	1,455	863	2,318
Long term debt	-	-	-	7,281	7,281
	$ 147,113	$ 28,319	$ 21,289	$ 129,092	$ 325,813
Interest rate sensitivity gap	$ (80,573)	$ 20,174	$ 119,769	$ 63,003	$ 122,373
Cumulative gap	$ (80,573)	$ (60,399)	$ 59,370	$ 122,373	
Cumulative gap ratio to total assets	-16%	-12%	12%	24%	

INTEREST RATE SENSITIVITY
(Dollars in thousands)

	December 31, 2016				
	Due within Three Months	Due in Three to Twelve Months	Due after One Year to Five Years	Due after Five Years	Total
Rate sensitive assets					
Federal funds sold & overnight deposits	$ 150	$ -	$ -	$ -	$ 150
Certificates of deposit	-	-	1,250	-	1,250
Available-for-sale securities (at fair value)	2,751	8,412	29,404	18,161	58,728
Total loans	54,837	30,359	135,829	186,697	407,722
	$ 57,738	$ 38,771	$ 166,483	$ 204,858	$ 467,850
Rate sensitive liabilities					
NOW deposits	$ -	$ -	$ -	$ 51,743	$ 51,743
Savings deposits	96,950	-	-	64,142	161,092
Time deposits	16,154	25,060	25,374	-	66,588
Securities sold under agreements to repurchase	2,694	-	-	-	2,694
FHLB advances	52,000	-	1,195	863	54,058
Long term debt	-	-	-	7,252	7,252
	$ 167,798	$ 25,060	$ 26,569	$ 124,000	$ 343,427
Interest rate sensitivity gap	$ (110,060)	$ 13,711	$ 139,914	$ 80,858	$ 124,423
Cumulative gap	$ (110,060)	$ (96,349)	$ 43,565	$ 124,423	
Cumulative gap ratio to total assets	-22%	-19%	9%	24%	

INTEREST RATE SENSITIVITY
(Dollars in thousands)

	December 31, 2015				
	Due within Three Months	Due in Three to Twelve Months	Due after One Year to Five Years	Due after Five Years	Total
Rate sensitive assets					
Federal funds sold & overnight deposits	$ 149	$ -	$ -	$ -	$ 149
Certificates of deposit	-	250	1,000	-	1,250
Available-for-sale securities (at fair value)	1,824	5,445	37,767	26,481	71,517
Total loans	5,802	53,285	46,917	219,387	325,391
	$ 7,775	$ 58,980	$ 85,684	$ 245,868	$ 398,307
Rate sensitive liabilities					
NOW deposits	$ -	$ -	$ -	$ 41,778	$ 41,778
Savings deposits	76,272	-	-	61,725	137,997
Time deposits	16,904	20,055	20,328	-	57,287
Securities sold under agreements to repurchase	1,915	-	-	-	1,915
FHLB advances	31,500	-	-	-	31,500
Long term debt	-	-	-	7,230	7,230
	$ 126,591	$ 20,055	$ 20,328	$ 110,733	$ 277,707
Interest rate sensitivity gap	$ (118,816)	$ 38,925	$ 65,356	$ 135,135	$ 120,600
Cumulative gap	$ (118,816)	$ (79,891)	$ (14,535)	$ 120,600	
Cumulative gap ratio to total assets	-27%	-18%	-3%	27%	

Since interest rate changes do not affect all categories of assets and liabilities equally or simultaneously, a cumulative gap analysis alone cannot be used to evaluate the Bank's interest rate sensitivity position. To supplement traditional gap analysis, the Bank performs simulation modeling to estimate the potential effects of changing interest rates. This process allows the Bank to explore complex relationships among re-pricing assets and liabilities over time in various interest rate environments.

The Company's Executive Committee meets at least quarterly to monitor the Bank's investments and liquidity needs and oversee its asset-liability management. Between meetings of the Executive Committee, management oversees the Bank's liquidity.

Capital Reserve

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") defines specific capital categories based upon an institution's capital ratios. The capital categories, in declining order, are: (i) "well capitalized"; (ii) "adequately capitalized"; (iii) "under-capitalized"; (iv) "significantly under-capitalized"; and (v) "critically under-capitalized". Under FDICIA and the FDIC's prompt corrective action rules, the FDIC may take any one or more of the following actions against an "under-capitalized" bank: restrict dividends and management fees, restrict asset growth, and prohibit new acquisitions, new branches or new lines of business without prior FDIC approval. If a bank is "significantly under-capitalized," the FDIC may also require the bank to raise capital, restrict interest rates a bank may pay on deposits, require a reduction in assets, restrict any activities that might cause risk to the bank, require improved management, prohibit the acceptance of deposits from correspondent banks, and restrict compensation to any senior executive officer. When a bank becomes "critically under-capitalized," the FDIC must, within 90 days thereafter, appoint a receiver for the bank or take such action as the FDIC determines would better achieve the purposes of the law. Even where such other action is taken, the FDIC generally must appoint a receiver for a bank if the bank remains "critically under-capitalized" during the calendar quarter beginning 270 days after the date on which the bank became "critically under-capitalized."

As of December 31, 2017, the most recent notification from the FDIC categorized the Bank as "well capitalized," under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, total risk-based and common equity Tier 1 risk-based capital ratios as set forth in the table below. Management of the Bank believes there are no conditions that have changed the Bank's category since December 31, 2017.

The following table presents the amounts of regulatory capital and capital ratios for the Bank compared to the minimum regulatory capital requirements to be categorized as "well capitalized" as of December 31, 2017 and 2016 under the regulatory rules then in effect.

	December 31, 2017		December 31, 2016	
	Ratio	Capital Minimum Requirement	Ratio	Capital Minimum Requirement
Tier 1 leverage capital ratio	7.79%	5.00%	7.46%	5.00%
Tier 1 risk-based capital ratio	10.89%	8.00%	10.65%	8.00%
Total risk-based capital ratio	12.03%	10.00%	11.72%	10.00%
Common equity tier 1 risk-based capital ratio	10.89%	6.50%	10.65%	6.50%

In December 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its "calibrated" capital standards for major banking institutions, referred to as Basel III.

Subsequently, in July 2013, the FRB and the FDIC approved revisions to their capital adequacy guidelines and prompt corrective action rules that implemented and addressed the revised standards of Basel III and address relevant provisions of the Dodd-Frank Act. The FRB's and the FDIC's rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more, and top-tier savings and loan holding companies ("banking organizations"). The threshold amount of total consolidated assets for top-tier bank holding companies was subsequently increased to $1 billion or more in May 2015. Among other things, the rules established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets). Banking organizations are required to have a total capital ratio of 8% (unchanged from prior rules) and a Tier 1 leverage ratio of 4% (unchanged from prior rules). The rules also limit a banking organization's ability to pay dividends, engage in share repurchases or pay discretionary bonuses if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% (which is the fully phased-in amount effective January 1, 2019) of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The rules became effective for the Bank on January 1, 2015 (subject to phase-in periods for certain components). The capital conservation buffer requirement is being phased in beginning on January 1, 2016 at 0.625% of common equity Tier 1 capital to risk-weighted assets and will increase by that amount each year until fully implemented in January 2019 at 2.5% of common equity Tier 1 capital to risk-weighted assets. As of January 1, 2018, the Bank was required to maintain a capital conservation buffer of 1.875%.

With respect to the Bank, the FDIC's regulations implementing these provisions of FDICIA provide that an institution will be classified as "well capitalized" if it (i) has a total risk-based capital ratio of at least 10.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 8.0 percent, (iii) has a common equity Tier 1 ("CET1") ratio of at least 6.5 percent, (iv) has a Tier 1 leverage ratio of at least 5.0 percent, and (v) meets certain other requirements. An institution will be classified as "adequately capitalized" if it (i) has a total risk-based capital ratio of at least 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of at least 6.0 percent, (iii) has a CET1 ratio of at least 4.5 percent, (iv) has a Tier 1 leverage ratio of at least 4.0 percent, and (v) does not meet the definition of "well capitalized." An institution will be classified as "undercapitalized" if it (i) has a total risk-based capital ratio of less than 8.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 6.0 percent, (iii) has a CET1 ratio of less than 4.5 percent or (iv) has a Tier 1 leverage ratio of less than 4.0 percent. An institution will be classified as "significantly undercapitalized" if it (i) has a total risk-based capital ratio of less than 6.0 percent, (ii) has a Tier 1 risk-based capital ratio of less than 4.0 percent, (iii) has a CET1 ratio of less than 3.0 percent or (iv) has a Tier 1 leverage ratio of less than 3.0 percent. An institution will be classified as "critically undercapitalized" if it has a tangible equity to total assets ratio that is equal to or less than 2.0 percent. An insured depository institution may be deemed to be in a lower capitalization category if it receives an unsatisfactory examination rating. Similar categories apply to bank holding companies. When the capital conservation buffer is fully phased in, the capital ratios applicable to depository institutions will exceed the ratios to be considered well-capitalized under the prompt corrective action regulations.

Inflation

The impact of changes in the general price level of goods or services on financial institutions, either through inflation or deflation, may differ significantly from the impact exerted on other companies. Banks, as financial intermediaries, have numerous assets and liabilities whose values are affected by both inflation and deflation. This is especially true for companies, such as a bank, with a high percentage of interest-rate-sensitive assets and liabilities. Banks seek to reduce the impact of inflation or deflation, and the coincident increase or decrease in interest rates, by managing their interest-rate sensitivity gap. The Company attempts to manage its interest-rate-sensitivity gap and to structure its mix of financial instruments in order to minimize the potential adverse effects inflation or deflation may have on its net interest income and, therefore, its earnings and capital.

Based on the Company's interest-rate-sensitivity position, the Company may be adversely affected by changes in interest rates in the short term. As such, management of the money supply and interest rates by the FRB to control the general price level of goods or services has an indirect impact on the earnings of the Company. Also, changes in interest rates may have a corresponding impact on the ability of borrowers to repay loans made by the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to Item 15(a)(1) and (2) on page 45 for a list of financial statements and supplementary data required to be filed pursuant to this Item 8. The information required by this Item 8 is provided beginning on page F-1 hereof.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously disclosed by the Company in a Current Report on Form 8-K filed on December 13, 2017 with the Commission, on December 13, 2017 (the "Notification Date"), the Company, after review and recommendation of the Audit Committee of the Company's Board of Directors (the "Audit Committee"), determined to appoint Crowe Horwath LLP ("Crowe") as the Company's new independent registered public accounting firm for and with respect to the year ending December 31, 2018. The Company will dismiss Baker Newman & Noyes, LLC ("BNN") from that role following the issuance of the Company's audited financial statements and filing of its Annual Report on Form 10-K for the year ended December 31, 2017.

BNN began serving as the Company's independent registered public accounting firm effective August 17, 2015 after the Company's previous independent registered public accounting firm, Shatswell, MacLeod & Company, P. C., combined its external audit practice with BNN. The reports of BNN on the Company's financial statements as of and for the two years ended December 31, 2016 did not contain an adverse opinion or a disclaimer of an opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the two years ended December 31, 2016, and from December 31, 2016 through the Notification Date, there were (i) no "disagreements" (as defined in Item 304(a)(1)(iv) of Regulation S-K) with BNN on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BNN, would have caused BNN to make reference to the subject matter of the disagreements in its reports on the consolidated financial statements of the Company for such years; and (ii) no "reportable events" (as such term is defined in Item 304(a)(1)(v) of Regulation S-K).

During the two years ended December 31, 2016, and from December 31, 2016 through the Notification Date, neither the Company nor anyone acting on behalf of the Company, consulted with Crowe regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements, and no written or oral advice was provided to the Company that Crowe concluded was an important factor considered by the Company in reaching a decision as to an accounting, auditing or financial reporting issue, or (ii) any matter that was either the subject of a disagreement or reportable event.

The Company previously provided BNN with a copy of the foregoing disclosure and requested that BNN furnish the Company with a letter addressed to the Commission stating whether it agrees with the above statements and, if it does not agree, the respects in which it does not agree. A copy of the letter, dated December 13, 2017, was filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed on December 13, 2017 with the Commission.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company has initiatives in place to ensure compliance with the Sarbanes-Oxley Act of 2002. The Company has an Internal Compliance Committee that is responsible for the monitoring of and compliance with all federal regulations. This committee reports to the Audit and Compliance Committee of the Board of Directors.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2017 and have concluded that, as of that date, the Company's disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis. This conclusion is based on the above-referenced officers' evaluation of such controls and procedures.

(b) Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2017.

(c) Attestation Report of the Registered Public Accounting Firm

As a result of a provision of the Dodd-Frank Act, which, among other things, permanently exempted non-accelerated filers, such as the Company, from complying with the requirements of Section 404(b) of Sarbanes-Oxley, which requires an issuer to include an attestation report from an issuer's independent registered public accounting firm on the issuer's internal control over financial reporting, this Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding the Company's internal control over financial reporting.

(d) Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 is incorporated into this Form 10-K by reference to the Proxy Statement of the Company (the "Proxy Statement") for the annual meeting of shareholders to be held on May 8, 2018 under the captions "ELECTION OF DIRECTORS," "INFORMATION ABOUT OUR DIRECTORS," "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and "SHAREHOLDER PROPOSALS AND NOMINATIONS."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is incorporated into this Form 10-K by reference to the Company's Proxy Statement under the caption "COMPENSATION AND OTHER MATTERS."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The Company has issued options to purchase shares of its common stock under the SBT Bancorp, Inc. 2011 Stock Award and Option Plan (the "2011 Plan"). As of March 29, 2018, there were options outstanding to purchase an aggregate of 20,000 shares of the Company's authorized but unissued common stock at a price of $30.00 per share that will expire in 2025.

The Company established the 2011 Plan, effective June 1, 2011, to provide stock awards and options to employees, officers and directors of the Company in order to attract them to the Company, give them a proprietary interest in the Company, and to encourage them to remain in the employ or service of the Company. The maximum number of shares of the Company's common stock that may be delivered pursuant to awards or options under the 2011 Plan is 100,000 shares. As of December 31, 2017, 61,657 shares of restricted stock have been granted to directors and officers of the Bank and 6,289 of those shares have been forfeited and are available for re-issue under the 2011 Plan guidelines. The remaining number of shares and options to be granted under the 2011 Plan was 44,632 as of December 31, 2017. The 2011 Plan will expire on March 16, 2021.

During 2017, the Company granted 8,482 shares of restricted stock with a grant date fair value of $263 thousand. During 2016, the Company granted 10,826 shares of restricted stock with an award value of $231 thousand. The restricted shares vest over a three-year period. During 2017 and 2016, the Company recognized compensation expense in the amount of $136 thousand and $132 thousand, respectively, related to restricted shares.

The following table sets forth the total number of securities authorized for issuance under equity compensation plans as of December 31, 2017.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	20,000	$30.00	44,632
Equity compensation plans not approved by shareholders	-	-	-
Total	20,000	$30.00	44,632

Additional information required by this Item 12 is incorporated into this Form 10-K by reference to the Proxy Statement under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 is incorporated into this Form 10-K by reference to the Company's Proxy Statement under the captions "CERTAIN TRANSACTIONS WITH RELATED PERSONS" and "Independence of Directors and Director Nominees."

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 is incorporated into this Form 10-K by reference to the Company's Proxy Statement under the caption "RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedules.

The following Financial Statements and Supplementary Data are filed as part of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Changes in Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

All financial statement schedules are omitted because they are either inapplicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(b) Exhibits.

The following exhibits required by Item 601 are filed herewith or are incorporated by reference to the filings previously made by the Bank and the Company as noted below (the reference in parentheses at the end of an Exhibit indicates the number of the Exhibit as it was filed in the document referenced below):

Exhibit No.	Description
3(i).1	Conformed Copy of the Certificate of Incorporation of SBT Bancorp, Inc. (incorporated by reference to Exhibit 3(i) of the Company's Form 10-K filed on March 31, 2009)
3(i).2	Certificate of Amendment to the Certificate of Incorporation of SBT Bancorp, Inc. establishing the designations, preferences, limitations and relative rights of the SBLF Preferred Stock (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on August 12, 2011)
3(ii)	Amended and Restated Bylaws (incorporated by reference to Exhibit 3(ii) of the Company's Form 8-K filed on March 22, 2012)
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4 of the Company's Form 10-QSB filed on May 15, 2006)
4.2	Subordinated Loan Agreement dated as of September 30, 2015 by and between the Company and Community Funding CLO, Ltd. (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on October 16, 2015)
10.1#	Employment Agreement, dated as of September 1, 2004, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.1 of the Company's Form 10-K filed on March 28, 2014)
10.2#	Amendment to Employment Agreement, dated as of December 31, 2008, between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.2 of the Company's Form 10-K filed on March 31, 2009)

10.3#	Supplemental Executive Retirement Agreement, dated as of October 20, 2010, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on October 22, 2010)
10.4#	Endorsement Split Dollar Insurance Agreement, dated October 20, 2010, by and between the Bank and Martin J. Geitz (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on October 22, 2010)
10.5#	Letter Agreement, dated August 6, 2013 between the Bank and Richard J. Sudol (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on August 26, 2013)
10.6#	Change in Control Severance Agreement, dated as of March 11, 2014, by and between the Bank and Richard J. Sudol (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on March 12, 2014)
10.7#	Supplemental Executive Retirement Agreement, adopted as of March 11, 2014, by and between the Bank and Richard J. Sudol (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on March 12, 2014)
10.8#	Split Dollar Life Insurance Agreement, dated as of April 29, 2014, by and between the Bank and Richard J. Sudol (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 29, 2014)
10.9#	Change in Control Severance Agreement, dated as of October 24, 2012, by and between the Bank and Gary W. Burdick (incorporated by reference to Exhibit 10.10 of the Company's Form 10-K filed on March 28, 2013)
10.10#	Supplemental Executive Retirement Agreement, dated as of October 24, 2012, by and between the Bank and Gary W. Burdick (incorporated by reference to Exhibit 10.11 of the Company's Form 10-K filed on March 28, 2013)
10.11#	Change in Control Severance Agreement, dated as of November 26, 2014, by and between the Bank and Joan A. Beresford (incorporated by reference to Exhibit 10.16 of the Company's Form 10-K filed on March 26, 2015)
10.12#	Change in Control Severance Agreement, dated as of May 5, 2014, by and between the Bank and Jocelyn A. Mitchell (incorporated by reference to Exhibit 10.17 of the Company's Form 10-K filed on March 26, 2015)
10.13#	Form of Split Dollar Life Insurance Agreement by and between the Bank and certain officers of the Bank in key managerial roles, including Gary W. Burdick, Joan A. Beresford and Jocelyn A. Mitchell (incorporated by reference to Exhibit 10.14 of the Company's Form 10-K filed on March 28, 2013)
10.14#	SBT Bancorp, Inc. 2011 Stock Award and Option Plan (incorporated by reference to Appendix A to the Company's Proxy Statement filed with the Commission on April 11, 2011 for the Company's 2011 Annual Meeting of Shareholders)
10.15#	Form of Restricted Stock Agreement for grants under the SBT Bancorp, Inc. 2011 Stock Award and Option Plan (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 15, 2011)
10.16#	Form of Non-Qualified Stock Option Agreement for grants under the SBT Bancorp, Inc. 2011 Stock Award and Option Plan (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on August 15, 2011)
10.17#	Form of Incentive Stock Option Agreement for grants under the SBT Bancorp, Inc. 2011 Stock Award and Option Plan (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q filed on August 15, 2011)

10.18#	Supplemental Executive Retirement Agreement, adopted as of January 18, 2017, by and between The Simsbury Bank & Trust Company, Inc. and Richard J Sudol (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on January 18, 2017)
14*	Code of Ethics and Conflicts of Interest Policy
21*	Subsidiaries
23.1*	Consent of Baker Newman & Noyes LLC
31.1*	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Executive Officer
31.2*	Section Rule 13(a)-14(a)/15(d)-14(a) Certification by Chief Financial Officer
32.1*	Section 1350 Certification by Chief Executive Officer
32.2*	Section 1350 Certification by Chief Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Taxonomy Extension Definitions Linkbase Document

* Filed herewith
\# Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SBT BANCORP, INC.
By: /s/ Martin J. Geitz
Martin J. Geitz
President and Chief Executive Officer

Date: March 29, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Capacity	Date
/s/ Martin J. Geitz Martin J. Geitz	President, Chief Executive Officer and Director	March 29, 2018
/s/ Richard J. Sudol Richard J. Sudol	Senior Vice President, Chief Financial Officer and Treasurer	March 29, 2018
/s/ Robert J. Bogino Robert J. Bogino	Director	March 29, 2018
/s/ James T. Fleming James T. Fleming	Director	March 29, 2018
/s/ Gary R. Kevorkian Gary R. Kevorkian	Director	March 29, 2018
/s/ Jerry W. Long Jerry W. Long	Director	March 29, 2018
/s/ Nicholas B. Mason Nicholas B. Mason	Director	March 29, 2018
/s/ Michael D. Nicastro Michael D. Nicastro	Director	March 29, 2018
/s/ Peter C. Pabich Peter C. Pabich	Director	March 29, 2018
/s/ David W. Sessions David W. Sessions	Director	March 29, 2018
/s/ Ann G. Taylor Ann G. Taylor	Director	March 29, 2018
/s/ Penny R. Woodford Penny R. Woodford	Director	March 29, 2018

SBT BANCORP, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Reports of Independent Registered Public Accounting Firms	F-2
Consolidated Balance Sheets (As of December 31, 2017 and 2016)	F-3
Consolidated Statements of Income (For the years ended December 31, 2017 and 2016)	F-4
Consolidated Statements of Comprehensive Income (For the years ended December 31, 2017 and 2016)	F-5
Consolidated Statements of Changes in Stockholders’ Equity (For the years ended December 31, 2017 and 2016)	F-6
Consolidated Statements of Cash Flows (For the years ended December 31, 2017 and 2016)	F-7
Notes to Consolidated Financial Statements	F-9

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
SBT Bancorp, Inc.
Simsbury, Connecticut

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of SBT Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes to the consolidated financial statements (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Baker Newman & Noyes LLC
Baker Newman & Noyes LLC
Portland, Maine

March 29, 2018

We (or our predecessor firm) have served as the Company’s auditor consecutively since 1994.

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and 2016

(In Thousands, Except Share Data)

	2017	2016
ASSETS		
Cash and due from banks	$ 13,066	$ 10,976
Interest-bearing deposits with the Federal Reserve Bank and Federal Home Loan Bank	23,853	9,786
Money market mutual funds	388	95
Federal funds sold	185	150
Cash and cash equivalents	37,492	21,007
Certificates of deposit	1,250	1,250
Investments in available-for-sale securities at fair value	51,656	58,728
Federal Home Loan Bank stock, at cost	903	2,896
Loans held-for-sale	2,259	2,801
Loans	396,413	409,164
Less: allowance for loan losses	4,088	3,753
Loans, net	392,325	405,411
Premises and equipment, net	1,863	1,905
Accrued interest receivable	1,402	1,301
Other real estate owned	192	-
Bank-owned life insurance	9,370	9,130
Other assets	5,313	5,570
Total assets	$ 504,025	$ 509,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand deposits	$ 143,635	$ 134,341
Savings and NOW deposits	247,251	212,835
Time deposits	66,514	66,588
Total deposits	457,400	413,764
Securities sold under agreements to repurchase	2,449	2,694
Federal Home Loan Bank advances	2,318	54,058
Long-term subordinated debt	7,281	7,252
Other liabilities	2,358	1,944
Total liabilities	471,806	479,712
Stockholders' equity:		
Common stock, no par value; authorized 2,000,000 shares; issued and outstanding 1,382,014 shares and 1,381,600 shares, respectively, at December 31, 2017; 1,372,394 shares and 1,371,980 shares, respectively, at December 31, 2016	19,433	19,133
Retained earnings	13,657	12,017
Treasury stock, 414 shares	(7)	(7)
Unearned compensation - restricted stock awards	(420)	(293)
Accumulated other comprehensive loss	(444)	(563)
Total stockholders' equity	32,219	30,287
Total liabilities and stockholders' equity	$ 504,025	$ 509,999

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, 2017 and 2016

(In Thousands, Except Share Data)

	2017	2016
Interest and dividend income:		
Interest and fees on loans	$ 15,341	$ 13,591
Investment securities	1,320	1,473
Interest-bearing deposits	250	81
Total interest and dividend income	16,911	15,145
Interest expense:		
Interest on deposits	1,326	881
Interest on securities sold under agreements to repurchase	7	6
Interest on Federal Home Loan Bank advances	263	192
Interest on long-term subordinated debt	542	515
Total interest expense	2,138	1,594
Net interest and dividend income	14,773	13,551
Provision for loan losses	645	911
Net interest and dividend income after provision for loan losses	14,128	12,640
Noninterest income (loss):		
Service charges on deposit accounts	371	379
Gain on sales of available-for-sale securities, net	-	94
Writedown of available-for-sale securities	(4)	(3)
Other service charges and fees	735	945
Increase in cash surrender value of life insurance policies	240	241
Mortgage banking activities, net	1,445	1,288
Investment services fees and commissions	176	194
Other income	160	58
Total noninterest income	3,123	3,196
Noninterest expense:		
Salaries and employee benefits	7,017	7,499
Occupancy expense	1,400	1,530
Equipment expense	514	420
Advertising and promotions	610	605
Forms and supplies	110	202
Professional fees	716	479
Directors’ fees	236	216
Correspondent charges	316	314
FDIC assessment	421	349
Data processing	903	836
Internet banking costs	207	282
Other expense	1,443	1,335
Total noninterest expense	13,893	14,067
Income before income taxes	3,358	1,769
Income tax provision	1,004	277
Net income	$ 2,354	$ 1,492
Net income available to common stockholders	$ 2,354	$ 1,492
Earnings per common share	$ 1.73	$ 1.10
Earnings per common share, assuming dilution	$ 1.72	$ 1.10

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, 2017 and 2016

(In Thousands)

	2017	2016
Net income	$ 2,354	$ 1,492
Other comprehensive income (loss), net of tax:		
Net change in unrealized holding loss on securities available-for-sale	288	(476)
Reclassification adjustment for realized gain/loss in net income (1)	-	(94)
Reclassification adjustment for writedowns of securities in net income (1)	4	3
Other comprehensive income (loss), before tax	292	(567)
Income tax (expense) benefit	(100)	193
Other comprehensive income (loss), net of tax	192	(374)
Comprehensive income	$ 2,546	$ 1,118

(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, 2017 and 2016

(In Thousands, Except Share Data)

	Common Stock	Retained Earnings	Treasury Stock	Unearned Compensation - Restricted Stock Awards	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	$ 18,856	$ 11,288	$ (7)	$ (206)	$ (189)	$ 29,742
Net income	-	1,492	-	-	-	1,492
Other comprehensive loss, net of tax	-	-	-	-	(374)	(374)
Stock-based compensation	19	-	-	132	-	151
Forfeited restricted stock awards	(12)	-	-	12	-	-
Restricted stock awards	231	-	-	(231)	-	-
Common stock issued	39	-	-	-	-	39
Dividends declared on common stock ($.56 per share)	-	(763)	-	-	-	(763)
Balance, December 31, 2016	19,133	12,017	(7)	(293)	(563)	30,287
Net income	-	2,354	-	-	-	2,354
Reclassification of stranded tax effects from accumulated other comprehensive income to retained earnings	-	73	-	-	(73)	-
Other comprehensive income, net of tax	-	-	-	-	192	192
Stock-based compensation	9	-	-	136	-	145
Restricted stock awards	263	-	-	(263)	-	-
Common stock issued	28	1	-	-	-	29
Dividends declared on common stock ($.58 per share)	-	(788)	-	-	-	(788)
Balance, December 31, 2017	$ 19,433	$ 13,657	$ (7)	$ (420)	$ (444)	$ 32,219

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, 2017 and 2016

(In Thousands)

	2017	2016
Cash flows from operating activities:		
Net income	$ 2,354	$ 1,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	318	375
Writedown of available-for-sale securities	4	3
Gain on sales of available-for-sale securities, net	-	(94)
Change in deferred origination costs, net	124	(110)
Provision for loan losses	645	911
Loans originated for sale	(78,315)	(96,213)
Proceeds from sales of loans originated for sale	79,838	97,245
Gain on sales of mortgages	(981)	(1,666)
Loss on sale of other real estate owned	13	-
Depreciation and amortization	427	381
Amortization of long-term subordinated debt issuance costs	29	29
Decrease (increase) in other assets	2	(130)
Increase in interest receivable	(101)	(158)
(Increase) decrease in taxes receivable	(91)	132
Deferred income tax provision (benefit)	246	(117)
Increase in cash surrender value of bank owned life insurance	(240)	(241)
Stock-based compensation	145	151
Loss on disposal of fixed assets	55	12
Increase in other liabilities	433	240
Decrease in interest payable	(19)	(47)
Net cash provided by operating activities	4,886	2,195
Cash flows from investing activities:		
Purchases of interest-bearing time deposits with other banks	-	(250)
Maturities and redemptions of interest-bearing time deposits with other banks	-	250
Purchases of Federal Home Loan Bank Stock	(1,660)	(2,771)
Redemption of Federal Home Loan Bank Stock	3,653	1,922
Purchases of available-for-sale securities	(2,771)	(6,384)
Proceeds from maturities and paydowns of available-for-sale securities	9,813	16,330
Proceeds from sales of available-for-sale securities	-	1,992
Loan originations and principal collections, net	11,542	(45,195)
Loans purchased	-	(37,330)
Recoveries of loans previously charged-off	13	8
Proceeds from sales of other real estate owned	557	-
Purchase of bank owned life insurance	-	(1,500)
Capital expenditures	(440)	(878)
Net cash provided by (used in) investing activities	20,707	(73,806)

SBT BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

(In Thousands)

(continued)

	2017	2016
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	43,710	31,821
Net (decrease) increase in time deposits	(74)	9,301
Net (decrease) increase in securities sold under agreements to repurchase	(245)	779
Net change in short-term Federal Home Loan Bank advances	(52,000)	20,500
Proceeds from long-term Federal Home Loan Bank advances	260	2,058
Proceeds from issuance of common stock	29	39
Decrease in subordinated debt issuance fees	-	(7)
Dividends paid - common stock	(788)	(763)
Net cash (used in) provided by financing activities	(9,108)	63,728
Net increase (decrease) in cash and cash equivalents	16,485	(7,883)
Cash and cash equivalents at beginning of year	21,007	28,890
Cash and cash equivalents at end of year	$ 37,492	$ 21,007
Supplemental disclosures:		
Interest paid	$ 2,157	$ 1,641
Income taxes paid	849	262
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 files 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. 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. Material estimates that are particularly susceptible to significant change in the near-term include the determination of the allowance for loan losses, and valuation and potential other-than-temporary impairment ("OTTI") of available-for-sale securities.

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, 2017 and 2016 included $7.6 million and $6.9 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 and equity 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, 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 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.

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

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, 2017 and 2016.

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 2017.

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

Bank owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies as well as insurance proceeds received, are reflected in 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 by 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:

Accounting Standards Codification (ASC) 825, "Financial Instruments," requires that the Company disclose estimated fair values for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

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

Certificates of deposit: Fair values of certificates of deposit are estimated using discounted cash flow analyses based on the individual underlying instrument's current rate of interest.

Securities: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for other loans are estimated by discounting future cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

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

Bank owned life insurance: The carrying amount of bank owned life insurance approximates its fair value.

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

Securities sold under agreements to repurchase: The carrying amounts of securities sold under agreements to repurchase approximate their fair values.

Federal Home Loan Bank advances: Fair values of Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Long-term subordinated debt: The fair value of long-term subordinated debt is estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Derivative financial instruments: Fair values for derivative financial instruments are based on prices currently charged to enter into similar agreements, taking into account the probability that the commitment will be exercised.

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

ADVERTISING:

The Company directly expenses costs associated with advertising as they are incurred. During the years ended December 31, 2017 and 2016, $610 thousand and $605 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, 2017, 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, 2017 and 2016, $145 thousand and $151 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 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. The ASU was superceded by ASU 2015-14, which deferred the effective date of the original ASU. 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. As substantially all of the Company's revenues are excluded from the scope of the guidance, adoption is not expected to have a material impact on the Company's consolidated financial statements.

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 will take effect for public companies for fiscal years beginning after December 15, 2017. The Company has no equity investments as of the report date; therefore, management believes 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 is currently reviewing this ASU to determine the impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." 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 interim and annual reporting periods beginning after December 15, 2019, 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, ASU No. 2016-15 is not expected to 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 Company is currently evaluating the provisions of ASU No. 2017-08 to determine the potential impact that the new standard will have on the Company's consolidated financial statements.

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. ASU No. 2017-09 is not expected to have a material impact on the Company's consolidated financial statements.

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.

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, 2017 and 2016:

	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
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
December 31, 2016:				
Debt securities issued by U.S. government corporations and agencies	$ 4,250	$ 7	$ 4	$ 4,253
Obligations of states and municipalities	14,309	184	141	14,352
Mortgage-backed securities	40,050	40	950	39,140
SBA loan pools	973	13	3	983
	$ 59,582	$ 244	$ 1,098	$ 58,728

The scheduled maturities of debt securities at amortized cost and fair value were as follows as of December 31, 2017:

	Amortized Cost Basis	Fair Value
	(In Thousands)	
Due within one year	$ 2,750	$ 2,742
Due after one year through five years	3,991	3,991
Due after five years through ten years	8,052	8,108
Due after ten years	2,441	2,490
Mortgage-backed securities	34,123	33,464
SBA loan pools	861	861
	$ 52,218	$ 51,656

During 2017, there were no sales of available-for-sale securities. During 2016, proceeds from sales of available-for-sale securities amounted to $2.0 million. Gross realized gains on these sales amounted to $94 thousand.

There were no securities of issuers that exceeded 10% of stockholders' equity at December 31, 2017.

As of December 31, 2017 and 2016, the total carrying amounts of securities pledged for securities sold under agreements to repurchase and public deposits were $28.8 million and $13.6 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, 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
December 31, 2016:									
Debt securities issued by U.S. government corporations and agencies	$ 1,246	$ 4	2	$ -	$ -	-	$ 1,246	$ 4	2
SBA loan pools	743	3	1	-	-	-	743	3	1
Obligations of states and municipalities	5,934	141	14	-	-	-	5,934	141	14
Mortgage-backed securities	32,817	788	59	2,890	136	8	35,707	924	67
Total temporarily impaired securities	40,740	936	76	2,890	136	8	43,630	1,072	84
Other-than-temporarily impaired securities:									
Mortgage-backed securities	9	-	1	158	26	3	167	26	4
Total temporarily impaired and other- than-temporarily impaired securities	$ 40,749	$ 936	77	$ 3,048	$ 162	11	$ 43,797	$ 1,098	88

The securities in the Company's investment portfolio that were temporarily impaired as of December 31, 2017 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, 2017 and 2016:

	2017	2016
	Mortgage-Backed Securities	Mortgage-Backed Securities
	(In Thousands)	
Total other-than-temporary impairment losses	$ 30	$ 29
Less: unrealized other-than-temporary impairment losses recognized in other comprehensive income/loss (1)	(26)	(26)
Net impairment losses recognized in earnings (2)	$ 4	$ 3

(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, 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 values of these three securities were written down by $4 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, 2016 was as follows:

		Mortgage-Backed Securities
		(In Thousands)
Balance, December 31, 2015	$	44
Additions for the credit componet on debt securities in which other-than-temporary impairment was previously recognized		3
Balance, December 31, 2016	$	47

For the year ended December 31, 2016, 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 values of these three securities were written down by $3 thousand by the issuers.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	2017	2016
	(In Thousands)	
Real estate-residential	$ 135,229	$ 143,212
Real estate-commercial	79,293	79,629
Real estate-municipal	9,271	8,733
Real estate-residential construction and land development	2,003	2,932
Real estate-commercial construction and land development	22,475	15,960
Home equity	49,095	48,876
Commercial and industrial	72,591	69,254
Municipal	2,586	4,215
Consumer	22,552	34,911
Total loans	395,095	407,722
Allowance for loan losses	(4,088)	(3,753)
Deferred costs, net	1,318	1,442
Net loans	$ 392,325	$ 405,411

The following tables set forth information regarding the allowance for loan losses by portfolio segment as of and for the years ended December 31, 2017 and 2016:

	Real Estate:							
	Residential	Commercial	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

	Real Estate: Residential	Real Estate: Commercial	Real Estate: Residential & Commercial Construction and Land Development	Real Estate: Home Equity	Commercial and Industrial	Consumer	Unallocated	Total
	(In Thousands)							
December 31, 2016:								
Allowance for loan losses:								
Beginning balance	$ 1,065	$ 706	$ 324	$ 331	$ 398	$ 157	$ 47	$ 3,028
Charge-offs	-	-	-	-	(179)	(15)	-	(194)
Recoveries	1	-	-	-	3	4	-	8
(Benefit) provision	(9)	338	(112)	15	602	103	(26)	911
Ending balance	$ 1,057	$ 1,044	$ 212	$ 346	$ 824	$ 249	$ 21	$ 3,753
Ending balance:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 1	$ -	$ -	$ 1
Ending balance:								
Collectively evaluated for impairment	1,057	1,044	212	346	823	249	21	3,752
Total allowance for loan losses ending balance	$ 1,057	$ 1,044	$ 212	$ 346	$ 824	$ 249	$ 21	$ 3,753
Loans:								
Ending balance:								
Individually evaluated for impairment	$ -	$ 1,150	$ 222	$ -	$ 415	$ -	$ -	$ 1,787
Ending balance:								
Collectively evaluated for impairment	143,212	87,212	18,670	48,876	73,054	34,911	-	405,935
Total loans ending balance	$ 143,212	$ 88,362	$ 18,892	$ 48,876	$ 73,469	$ 34,911	$ -	$ 407,722

The following tables present the Company's loans by risk rating as of December 31, 2017 and 2016:

	Real Estate:						
	Residential	Commercial	Residential & Commercial Construction and Land Development	Home Equity	Commercial and Industrial	Consumer	Total
				(In Thousands)			
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
December 31, 2016:							
Grade:							
Pass	$ -	$ 79,800	$ 15,738	$ -	$ 71,939	$ -	$ 167,477
Special mention	-	5,900	-	-	324	-	6,224
Substandard	1,947	2,662	222	319	1,206	-	6,356
Loans not formally rated	141,265	-	2,932	48,557	-	34,911	227,665
Total	$ 143,212	$ 88,362	$ 18,892	$ 48,876	$ 73,469	$ 34,911	$ 407,722

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 7. A "Pass" is defined as risk rating 1 through 3.75. 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 3.5 (Bankable with Care) – 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.

Risk Rating 3.75 (Technically Deficient) – Loans in this category have all of the attributes of risk ratings 1, 2, 3, or 3.5. However, the borrower is technically in default due to the lack of current financial statements and/or other required financial information.

Risk Rating 4 (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 5 (Substandard) – 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 5.5 (Substandard – Non-Accrual) - Loans in this category have all the characteristics of risk rating 5 (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 6 (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 7 (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, home equity and consumer loans. 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. As of December 31, 2016, $227.7 million of the total residential, home equity and consumer loan portfolio of $229.9 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, decreased to 0.22% of total loans outstanding as of December 31, 2017 from 1.07% of total loans outstanding as of December 31, 2016.

An age analysis of past-due loans, segregated by class of loans, is as follows as of December 31, 2017 and 2016:

	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, 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
December 31, 2016:								
Real estate:								
Residential	$ -	$ 297	$ 1,811	$ 2,108	$ 141,104	$ 143,212	$ -	$ 1,947
Commercial	-	-	1,150	1,150	78,479	79,629	-	1,150
Municipal	-	-	-	-	8,733	8,733	-	-
Residential & commercial construction and land development	-	-	222	222	18,670	18,892	-	222
Home equity	-	219	169	388	48,488	48,876	-	248
Commercial and industrial	767	42	415	1,224	68,030	69,254	-	415
Municipal	-	-	-	-	4,215	4,215	-	-
Consumer	114	43	1	158	34,753	34,911	-	70
Total	$ 881	$ 601	$ 3,768	$ 5,250	$ 402,472	$ 407,722	$ -	$ 4,052

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, 2017 and 2016:

	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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In Thousands)		
December 31, 2016:					
With no related allowance recorded:					
Real estate:					
Commercial	$ 1,150	$ 1,150	$ -	$ 3,029	$ 272
Residential & commercial construction and land development	222	222	-	222	4
Commercial and industrial	134	134	-	135	4
Total impaired with no related allowance	1,506	1,506	-	3,386	280
With an allowance recorded:					
Commercial and industrial	281	281	1	321	-
Total impaired with an allowance recorded	281	281	1	321	-
Total					
Real estate:					
Commercial	1,150	1,150	-	3,029	272
Residential & commercial construction and land development	222	222	-	222	4
Commercial and industrial	415	415	1	456	4
Total impaired loans	$ 1,787	$ 1,787	$ 1	$ 3,707	$ 280

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

There was one loan that was modified as a troubled debt restructuring during the year ended December 31, 2016. The loan, with a principal balance of $179 thousand, was extended to reduce the risk of the borrower defaulting on outstanding loans held by the borrower's business interests. The loan was deemed uncollectible and charged off prior to December 31, 2016.

As of December 31, 2017 and 2016, there were no commitments to lend additional funds to borrowers whose loans were modified in a troubled debt restructuring.

As of December 31, 2017, there was one foreclosed residential real estate property held by the Company with an estimated value of $192 thousand. As of December 31, 2016, there were no foreclosed residential real estate properties held by the Company. There was $525 thousand and $1.6 million 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, 2017 and 2016, respectively.

At December 31, 2017 and 2016, balance of mortgage servicing rights included in other assets was $2.4 million and $2.0 million, respectively, with estimated fair values of $4.3 million and $2.4 million, respectively.

For the years ended December 31, 2017 and 2016, the Company capitalized mortgage servicing rights of $723 thousand and $900 thousand, respectively, and amortization of mortgage servicing rights was $573 thousand and $756 thousand, respectively. For the years ended December 31, 2017 and 2016, the Company recognized servicing fee income of $805 thousand and $650 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, 2017 and 2016, the Company recognized gains on sales of loans (including capitalized mortgage servicing rights) of $981 thousand and $1.7 million, respectively.

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

	2017	2016
	(In Thousands)	
Balance, beginning of year	$ 206	$ 20
Additions	-	274
Reductions	(206)	(88)
Balance, end of year	$ -	$ 206

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 $351.0 million and $303.4 million as of December 31, 2017 and 2016, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

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

	2017	2016
	(In Thousands)	
Leasehold improvements	$ 1,829	$ 1,716
Furniture and equipment	3,678	3,412
	5,507	5,128
Accumulated depreciation and amortization	(3,644)	(3,223)
Total premises and equipment	$ 1,863	$ 1,905

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, 2017 and 2016 was $14.7 million and $15.7 million, respectively.

For time deposits as of December 31, 2017, the scheduled maturities for years ending December 31 are as follows:

	(In Thousands)
2018	$ 46,643
2019	11,715
2020	3,803
2021	1,849
2022 and thereafter	2,504
Total	$ 66,514

At December 31, 2017 and 2016, the Company had brokered certificates of deposit included in the above table that totaled $1.9 million and $1.5 million, respectively.

As of December 31, 2017, the Bank had one depositor with total deposits exceeding 5.00% of the Company’s total deposits. As of December 31, 2016, the Bank had no such depositor concentrations.

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 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB). As of December 31, 2017, the only 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 $2.3 million in 0% interest rate borrowings from the FHLB that mature in five to eight years. There was $54.1 million in FHLB advances outstanding as of December 31, 2016. Of these outstanding advances, $52 million matured in January 2017, $1.2 million will mature in October 2021 and $862 thousand will mature in May 2025. The weighted average interest rate on borrowings outstanding at December 31, 2016 was 0.67%. At December 31, 2016, outstanding short-term FHLB advances had interest rates that ranged from 0.60% to 0.74%.

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 $106 million in borrowing capacity from the FHLB at December 31, 2017.

The Company had a line of credit with the FHLB in the amount of $1.5 million at December 31, 2017 and 2016. At December 31, 2017 and 2016, 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 Company used the net proceeds of approximately $7.2 million, after closing costs of $277 thousand, (i) to redeem the 9,000 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C, that the Company issued to the United States Department of the Treasury as part of the Company's participation in the Small Business Lending Fund program, (ii) to support the growth of the Bank, and (iii) for other general corporate purposes.

The Subordinated Note will bear interest at a fixed rate of 6.75% per annum, provided, however, that for the period beginning immediately after the Closing Date through, but not including, February 11, 2016, Community Funding rebated an amount equal to 3.40% per annum to the Company, resulting in a rate of 3.35% per annum to the Company. 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, 2017 and 2016, there were $219 thousand and $248 thousand, respectively, in closing costs remaining to be amortized.

NOTE 10 - INCOME TAXES

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

	2017	2016
	(In Thousands)	
Current:		
Federal	$ 722	$ 392
State	36	2
Current income tax expense	758	394
Deferred:		
Federal	95	(117)
Federal- Revaluation of net deferred taxes due to a change in tax rate	151	-
Deferred income tax expense (benefit)	246	(117)
Total income tax expense	$ 1,004	$ 277

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:

	2017	2016
	% of Income	% of Income
Federal income tax at statutory rates	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax-exempt income	(10.9)	(20.1)
Tax rate change	4.5	-
Other	2.3	1.8
Effective tax rates	29.9%	15.7%

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

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 816	$ 1,199
Deferred compensation	212	305
Write-down of securities	11	16
Restricted stock awards	10	27
Charitable contribution carryover	15	104
Alternative minimum tax carryforward	541	707
Net unrealized holding loss on available-for-sale securities	118	290
Other	103	120
Gross deferred tax assets	1,826	2,768
Deferred tax liabilities:		
Depreciation	(273)	(469)
Deferred loan costs/fees	(274)	(490)
Mortgage servicing rights	(494)	(679)
Gross deferred tax liabilities	(1,041)	(1,638)
Net deferred tax asset (included in other assets)	$ 785	$ 1,130

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, 2017 and 2016 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, 2017 and 2016, 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, 2017 and 2016, 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, 2014 through December 31, 2017.

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, 2017 the Company was obligated under non-cancelable operating leases for bank premises and equipment that expire between August 2018 and January 2026. 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, 2017:

	Minimum Payments Due (In Thousands)
2018	$ 791
2019	726
2020	656
2021	460
2022	410
Thereafter	1,172
Total	$ 4,215

Certain leases contain provisions for escalation of minimum lease payments contingent upon percentage increases in the consumer price index. Total rental expense amounted to $906 thousand and $1.01 million for the years ended December 31, 2017 and 2016, respectively.

During the year ended December 31, 2017, the Company amended the terms of its lease for the administrative offices to reduce the square footage leased by the Company.

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, 2017.

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, 2017 and 2016.

The Company's investments 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 AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING 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, 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	-
Mortgage banking derivatives	47	-	-	47
Total assets	$ 51,703	$ -	$ 51,656	$ -
Mortgage banking derivative liabilities	$ 52	$ -	$ -	$ 52

		Fair Value Measurements at Reporting Date Using:		
	Total	Level 1	Level 2	Level 3
	(In Thousands)			
December 31, 2016:				
Debt securities issued by U.S. government corporations and agencies	$ 4,253	$ -	$ 4,253	$ -
Obligations of states and municipalities	14,352	-	14,352	-
Mortgage-backed securities	39,140	-	39,140	-
SBA loan pools	983	-	983	-
Totals	$ 58,728	$ -	$ 58,728	$ -

Under certain circumstances, the Company makes adjustments to fair value for its 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, 2017, for which a change in fair value has been recorded. There were no significant assets or liabilities at December 31, 2016 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, 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, 2017 and 2016:

	December 31, 2017				
	Carrying	Fair Value			
	Amount	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	-	903	-	903
Loans held-for-sale	2,259	-	-	2,292	2,292
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
Bank-owned life insurance	9,370	-	9,370	-	9,370
Mortgage banking 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
Mortgage banking derviative liabilities	52	-	-	52	52

	December 31, 2016				
	Carrying	Fair Value			
	Amount	Level 1	Level 2	Level 3	Total
			(In Thousands)		
Financial assets:					
Cash and cash equivalents	$ 21,007	$ 21,007	$ -	$ -	$ 21,007
Certificates of deposit	1,250	1,250	-	-	1,250
Available-for-sale securities	58,728	-	58,728	-	58,728
Federal Home Loan Bank stock	2,896	-	2,896	-	2,896
Loans held-for-sale	2,801	-	-	2,818	2,818
Loans, net	405,411	-	-	401,008	401,008
Mortgage servicing rights	1,996	-	-	2,432	2,432
Accrued interest receivable	1,301	1,301	-	-	1,301
Bank-owned life insurance	9,130	-	9,130	-	9,130
Financial liabilities:					
Deposits	413,764	347,176	66,504	-	413,680
Securities sold under agreements to repurchase	2,694	-	2,694	-	2,694
Federal Home Loan Bank advances	54,058	-	53,767	-	53,767
Long-term subordinated debt	7,252	-	7,268	-	7,268

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions with the exception of mortgage servicing rights, which are included in other assets, and derviative assets and liabilities, which are included in other assets and other liabilities, respectively. 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, 2017 and 2016, the maximum potential amount of the Company's obligation was $5.1 million and $4.3 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:

	2017	2016
	(In Thousands)	
Commitments to originate loans	$ 13,854	$ 20,090
Standby letters of credit	5,076	4,281
Unadvanced portions of loans:		
Construction loans	25,388	13,580
Commercial lines of credit	38,276	32,640
Consumer	4,875	588
Home equity lines of credit	61,725	58,035
	$ 149,194	$ 129,214

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 $2.0 million and $2.6 million were outstanding at December 31, 2017 and 2016, 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 $10.4 million and $14.2 million were outstanding at December 31, 2017 and December 31, 2016, respectively. The fair value of such commitments was not material at December 31,2017 and 2016.

For the years ended December 31, 2017 and 2016, 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 2017 and 2016. 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. At December 31, 2016, total loans to such persons and their companies amounted to $1.3 million, of which $148 thousand was participated out to another financial institution. During the year ended December 31, 2016, principal payments totaled $4.6 million and advances amounted to $1.3 million.

Deposits from related parties held by the Company as of December 31, 2017 and 2016 amounted to $8.1 million and $6.4 million, respectively.

During 2017 and 2016, the Company paid $87 thousand and $82 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 $60 thousand in each of 2017 and 2016.

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 INCOME (LOSS)

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 income (loss).

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

	2017	2016
	(In Thousands)	
Net change in unrealized holding loss on securities available-for-sale	$ 288	$ (476)
Reclassification adjustment for realized losses (gains) and writedowns in net income (1)	4	(91)
Other comprehensive income (loss), before tax	292	(567)
Income tax (expense) benefit	(100)	193
Other comprehensive income (loss), net of tax	$ 192	$ (374)

(1) Reclassification adjustments include realized securities gains and losses and writedowns of securities. The gains and losses have been reclassified out of other comprehensive income (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, net and writedown of available-for-sale securities; the tax effect of ($1) thousand and $31 thousand for the years ended December 31, 2017 and 2016, respectively, is included in income tax provision; and the after tax amount is included in net income.

Accumulated other comprehensive loss as of December 31, 2017 and 2016 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 Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Effective January 1, 2015 (with a phase-in period of two to four years for certain components), the Bank became subject to 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 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 began phasing in 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, 2017, the Bank was required to maintain a capital conservation buffer of 1.25%. 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. At December 31, 2017, the Bank exceeded the minimum capital conservation buffer.

As of December 31, 2017, 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, 2017 and 2016 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, 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
As of December 31, 2016:						
Total Capital (to Risk Weighted Assets)	$ 41,045	11.72%	$ 28,022	8.0%	$ 35,027	10.0%
Tier 1 Capital (to Risk Weighted Assets)	37,292	10.65	21,016	6.0	28,022	8.0
Common Equity Tier 1 capital (to Risk Weighted Assets)	37,292	10.65	15,762	4.5	22,768	6.5
Tier 1 Capital (to Average Assets)	37,292	7.46	19,994	4.0	24,993	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, 2017, the Bank is restricted from declaring dividends to the Company in an amount greater than $3.9 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 $127 thousand in 2017 and $136 thousand in 2016, 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 $1.0 million at December 31, 2017 and $897 thousand at December 31, 2016. Expenses under these agreements amounted to $151 thousand and $130 thousand, respectively, for the years ended December 31, 2017 and 2016. Payments made under the agreements were $37 thousand for each of the years ended December 31, 2017 and 2016.

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.

NOTE 19 - STOCK BASED COMPENSATION PLANS

The SBT Bancorp, Inc. 1998 Stock Plan (“1998 Plan”) provided 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 142,000 shares of common stock of the Company. Options granted under the 1998 Plan may have been either Incentive Stock Options (“ISOs”) within the meaning of Section 422 of the Internal Revenue Code or non-qualified options (“NQOs”) which do not qualify as ISOs. Effective March 17, 2009, no additional restricted stock awards or stock options may be granted under the 1998 Plan.

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 2017 and 2016, the Company granted 8,482 shares and 10,826 shares of restricted stock, respectively, with a grant date fair value of $263 thousand and $231 thousand, respectively. The restricted shares vest over a three year period. During 2017 and 2016, the Company recognized compensation expense related to restricted shares in the amounts of $136 thousand and $132 thousand, respectively. The recognized tax benefit related to this expense was $46 thousand in 2017 and $45 thousand in 2016, 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	2017 Number of Shares		2017 Weighted-Average Grant Price	2016 Number of Shares		2016 Weighted-Average Grant Price
Non-vested restricted stock awards at beginning of year	16,306	$	21.42	12,083	$	21.92
Restricted shares granted	8,482		29.96	10,826		21.37
Shares vested	(6,668)		21.44	(5,953)		22.33
Shares forfeited	-		-	(650)		21.52
Non-vested restricted stock awards at end of year	18,120	$	25.41	16,306	$	21.42

For the years ended December 31, 2017 and 2016, the fair value of restricted stock vested during the year amounted to $183 thousand and $151 thousand, respectively.

As of December 31, 2017, the unrecognized share-based compensation expense related to the non-vested restricted stock awards was $420 thousand. This amount is expected to be recognized over a weighted average period of 1.5 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	2017 Shares		2017 Weighted-Average Exercise Price	2016 Shares		2016 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	13,500	$	30.00	9,000	$	30.00
Weighted-average fair value of options granted during the year	N/A			N/A		
Weighted average remaining contractual life in years	8			9		

There were no option awards in 2017 and 2016.

As of December 31, 2017, the remaining compensation costs related to stock options granted under the 1998 Plan and the 2011 Plan amounted to $6 thousand. There were 4,500 shares that vested during the year ended December 31, 2017. Unearned compensation costs relating to the 6,500 unvested shares at December 31, 2017 will be recognized over a weighted average period of 1 year. Compensation expense related to the stock options amounted to $9 thousand in 2017 and $19 thousand in 2016, 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 stockholders are as follows:

	2017	2016
	(In Thousands, Except Share Data)	
Basic earnings per share computation:		
Net income	$ 2,354	$ 1,492
Net income available to common stockholders	$ 2,354	$ 1,492
Weighted average shares outstanding, basic	1,359,222	1,350,725
Basic earnings per share	$ 1.73	$ 1.10
Diluted earnings per share computation:		
Net income	$ 2,354	$ 1,492
Net income available to common stockholders	$ 2,354	$ 1,492
Weighted average shares outstanding, before dilution	1,359,222	1,350,725
Dilutive potential shares	9,013	8,540
Weighted average shares outstanding, assuming dilution	1,368,235	1,359,265
Diluted earnings per share	$ 1.72	$ 1.10

Anti-dilutive equity-based awards totaling 20,000 shares for each of the years ended December 31, 2017 and 2016 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

On January 2, 2018, the Company filed a Form 15 with the Securities and Exchange Commission (the "Commission")to deregister the Company’s Common Stock under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and suspend its obligations to file reports with the Commission. 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 except that the Company will file a Form 10-K for its 2017 fiscal year within the time frame prescribed by the Commission’s rules and regulations. The Company expects the deregistration to become effective 90 days after January 2, 2018, which is the date that the Form 15 was filed. During this 90 day period, the Company and certain beneficial owners of the Company’s Common Stock will remain subject to the Commission’s proxy rules and beneficial ownership reporting requirements.

On February 28, 2018, 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 26, 2018 to shareholders of record as of March 12, 2018.

NOTE 24 – PARENT COMPANY INFORMATION

Financial information for the parent company only is presented in the following tables:

CONDENSED BALANCE SHEETS
(In Thousands)

	December 31,	
Assets	2017	2016
Cash and due from banks	$ 55	$ 71
Investment in subsidiary	38,623	36,729
Due from subsidiary	-	164
Other assets	862	581
Total assets	$ 39,540	$ 37,545
Liabilities and stockholders' equity		
Long-term subordinated debt	$ 7,281	$ 7,252
Other liabilities	40	6
Total liabilities	7,321	7,258
Total stockholders' equity	32,219	30,287
Total liabilities and stockholders' equity	$ 39,540	$ 37,545

CONDENSED STATEMENTS OF INCOME
(In Thousands)

	Years ended December 31,	
	2017	2016
Operating Income		
Dividend income from operating subsidiary	$ 1,300	$ 950
Total operating income	1,300	950
Operating Expense		
Interest on long-term debt	542	515
Salaries and employee benefits	123	127
Professional fees	120	14
Directors' fees	22	24
Correspondent charges	63	70
Other expense	38	18
Total operating expense	908	768
Income before tax benefit and equity in undistributed earnings of subsidiary	392	182
Income tax benefit	260	253
Equity in undistributed earnings of subsidiary	1,702	1,057
Net income	$ 2,354	$ 1,492

CONDENSED STATEMENTS OF CASH FLOWS
(In Thousands)

	Years ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	$ 2,354	$ 1,492
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary companies	(1,702)	(1,057)
Stock-based compensation	145	151
Other, net	(82)	(370)
Amortization of long-term debt issuance costs	29	29
Net cash provided by operating activities	744	245
Cash flows from investing activities:		
Investment in operating subsidiary	-	-
Net cash used in investing activities	-	-
Cash flows from financing activities:		
Proceeds from issuance of common stock	28	39
Decrease in subordinated debt issuance fees	-	(7)
Dividends paid - common stock	(788)	(763)
Net cash used in financing activities	(760)	(731)
Net decrease in cash and cash equivalents	(16)	(486)
Cash and cash equivalents at beginning of year	71	557
Cash and cash equivalents at end of year	$ 55	$ 71

(Back To Top)

Section 2: EX-14 (EXHIBIT 14)

Exhibit 14

Code of Ethics
&
Conflicts of Interest Policy

Code of Ethics and Conflicts of Interests Policy

Introduction

The Bank has a responsibility to ensure public trust and a belief that its operation will be conducted with the utmost integrity and with avoidance of conflicts of interest. Therefore, the Bank has adopted the following Code of Ethics and Conflicts of Interest Policy ("Code of Ethics") as a means of promoting ethical conduct among all the Bank's directors, officers and employees. The Code of Ethics is also designed to promote honesty in terms of communications within the Bank and from the Bank to its customers, markets and shareholders. Compliance with this Code of Ethics is the obligation of each director, officer and employee, and any director's, officer's or employee's failure to comply will be considered a serious violation of Bank policy subject to sanctions, including possible dismissal of the offending individual from all Bank positions, depending on the nature and circumstances of the violation.

General Objectives

The general objective of this Code of Ethics is to set forth the Bank's standard of behavior for ethical conduct. The Bank requires immediate disclosure of any potential conflict of interest and seeks to prevent such a situation from arising. Adherence to this Code of Ethics should prevent the development of improper relationships between Bank directors, officers, employees, and customers and promote ethical standards to ensure that we maintain the trust of our stakeholders.

Authority

The Boards of Directors of the Bank and holding company are ultimately responsible for establishing specific policies to address potential conflicts of interest for directors, senior officers, and employees of the Bank. The authority to implement policy and related procedures has been assigned to the Chief Executive Officer.

The Boards will review and approve this Policy annually. The Boards delegate to the Corporate Governance Committee the oversight of this Policy, including compliance with it and review and recommendation of it annually to the full Board.

Any action taken regarding inappropriate insider activities or a breach of this Code of Ethics may ultimately be reviewed and acted upon by the entire Board of Directors, after considering the facts, seriousness of the conduct, and potential breach of trust.

Definitions

For the purposes of this Code of Ethics, the following definitions apply:

- *Conflicts of Interest*. Exist when a director, officer or employee (or a member of his or her immediate family) has a personal interest in any matter that may influence the director's, officer's or employee's judgment in the discharge of his or her job-related duties or obligations.

- *Officer or Employee.* Any part-time or full-time salaried officer or employee of the Bank.

- *Immediate Family.* Spouse, children, parents or guardians, mother- or father-in-law, brothers or sisters, grandparents, brothers- or sisters-in-law, step-parents or step-children, and/or other dependents of the officer, employee, or director. Co-habitant situations will be treated the same as being immediate family for the purposes of this Code of Ethics.

- *Gift.* May include cash or property, special discounts, price concessions, special personal items, special personal entertainment (other than of a normal social nature), special personal services or favors, or special dispensations of any kind that could be attributed to the recipient's position or responsibilities with the Bank.

Policy Statement

Due to the adverse consequences to the Bank that may result from self-dealing, fraud, and misconduct of directors, management, and employees, the Board of Directors of the Bank will hold its directors, officers and employees to this Code of Ethics and require reporting of conflicts of interest. Failure to comply with any portion of this Code of Ethics may result in the termination of employment or directorship.

All directors, officers and employees of the Bank are required to act in a responsible and respectable manner and to remain free of influences that may result in the loss of objectivity regarding business conducted with the Bank's customers or with the Bank itself. Each director, officer and employee must disclose and avoid any interests or activities involving another organization or individual that may result in a conflict of interest between the Bank and that organization or individual. Directors, officers or employees must not represent the Bank in any transaction if the personal interest of the director, officer or employee might affect his/her ability to represent the Bank's interests fairly and impartially.

- A financial interest in real estate by the spouse or other immediate family member of a director, officer or employee, as defined in this Code of Ethics, shall be deemed to constitute an interest of the director, officer or employee.

- Each director, officer and employee must disclose in writing any activities as attorney, consultant, agent, broker or employee for any person, firm or corporation that has or is actively seeking business dealings with the Bank. The written disclosure must include a description of the activity and the reasons that it does not compromise the director, officer or employee's judgment in the discharge of his or her Bank position, related duties, or obligations. The written disclosure must be provided to the Chairman of the Board of Directors and to the CEO who are authorized to determine whether the activity constitutes a conflict of interest and to act upon that determination.

- In the case of directors whose principal profession results in their routinely acting as attorney, consultant, agent or broker for persons, firms or corporations that have or are actively seeking business dealings with the Bank, such directors shall disclose this fact in writing annually. The disclosure should state the nature of the routine professional capacity in which the director acts and affirm that his/her actions have not and will not violate this Policy. For loan related matters, such directors shall verbally inform the Loan Committee of each case in which the director is representing a party having or seeking business dealings with the Bank. Such notification shall be recorded in the minutes of the Loan Committee Meeting. In all other matters, the director shall inform the Chairman of the Corporate Governance Committee of each case in which the director is representing a party having or seeking business dealings with the Bank. Such notification shall be reported by the Chairman at the next regularly scheduled meeting of the Corporate Governance Committee and recorded in the minutes of the meeting.

Any questionable course of action must, in all instances, be viewed as a potential conflict of interest requiring approval or clarification.

While this Code of Ethics does not intend to interfere with the personal lives of directors, officers or employees, it requires those persons to recognize situations where conflicts of interest may arise and to avoid them when possible. If these situations cannot be avoided, they must be reported immediately to a direct superior or, in the case of a director, the Chairman of the Corporate Governance Committee of the Board. Subsequently, the director, officer or employee should remove himself or herself from any compromising situations, whether it involves advising the other person or entity or approving or voting on extensions of credit.

Directors, officers and employees of the Bank should also respect and comply with all laws, rules and regulations of the United States, Connecticut, and the Towns and other jurisdictions in which the Bank conducts its business.

Corporate Opportunity

Directors, officers and employees have a responsibility to the Bank to advance its legitimate interests when the opportunity to do so arises. Employees, officers and directors are prohibited from (a) personally taking referrals and other business opportunities that properly belong to the Bank or are discovered through the use of corporate property, information or position; (b) using corporate property, information or position for personal gain; and (c) competing with the Bank. Directors, officers and employees have an affirmative obligation to disclose in writing whenever necessary *any* outside business or financial interest which could influence their official duties or actions, including any substantial interest in any company with which the Bank does business or is in competition.

Confidential Information

One of the most critical responsibilities that directors, officers and employees have is to maintain the trust placed in them by the Bank's customers. Confidential information must be safeguarded, whether obtained from those who do business with the Bank or from sources within the Bank. The use of such information for personal, familial, or other gain is unethical and illegal. Information regarding any business cannot be disclosed to outside individuals (unless authorized by the Bank or its customer) and may not be used for personal gain.

Use of confidential information for other than the Bank's business purposes may result in disclosure of insider information. Insider information is defined as information of a material nature. Insider information may not be used to purchase, trade, or solicit securities until that information is available to the general public.

Confidentiality is important regardless of the form the information takes: oral, printed or on electronic equipment. You must take care in what you say, to whom, and where. You must take care about how you treat various forms of correspondence, memos, files and reports; and about seeing that there is no misuse of the information you display on computer screens or store in databases.

Confidential information includes customer or employee information. Employees should take care to safeguard customer and their own personal information. An employee also may not cause the improper disclosure of customers' or another employees' personal information.

Conducting Personal Banking Transactions

All employees must acknowledge that conducting transactions on one's own behalf is a violation of this Code of Ethics. All directors, officers and employees should consider the following non-exclusive guidelines when conducting personal banking transactions:

- Tellers must not process personal transactions for themselves, family members (as defined earlier in this Code of Ethics), or for any other situations where objectivity might be compromised. Any teller conducting a personal banking transaction on his or her own behalf must approach the teller line as a customer.

- Rebates of bank fees for directors, officers or employees must be approved by the Regulation O Officer or the Chief Executive Officer.

- Loan requests for any director, officer or employee must be approved by the Regulation O Officer or the Chief Executive Officer. Directors, officers and employees who borrow should follow the required schedule for making systematic payments to reduce all debt.

- Employees that have been granted lending authority must not process loan requests for family members or any other situations where objectivity might be compromised. Such loan requests must be handled by another authorized lender.

- No officer or staff member is permitted to sign an account or a safe deposit box with a second or third signer who is a non-relative, unless the account is for a non-profit organization of which the employee is an officer of the organization or is for an official Bank, holding company or subsidiary purpose.

- A Bank employee may administer memorial accounts opened for a recently deceased person.

Securities & Investments

Directors, officers and employees of the Bank are encouraged to purchase and hold stock of the Bank for long-term investment. Employment in a bank and representation on the Board of Directors of a bank requires prudent and proper conduct in investment and other situations. The purchase or sale of Bank stock or any other securities based on insider information is prohibited.

Another area in which extreme care must be taken to avoid even an appearance of impropriety concerns speculation in securities, real estate, or the like where the information which prompted a transaction was gained by reason of employment with the Bank. Any such activities will be considered a serious breach of Bank policy. They may also constitute violations of the law which could subject the employee to civil or criminal penalties. Also, directors, officers and employees of the Bank should refrain from the purchase of new issues from brokers doing business with the Bank and investing in any securities concerning which inside information has been received from personnel in other departments of the Bank.

Gifts and Entertainment

Directors, officers and employees of the Bank are not to solicit or receive gifts from prospective or current customers, associates, or any other individuals, businesses, or other entities relating to their service as a director, officer or employee of the Bank except as noted below. Section 215 of Title 18 of the United States Code makes it a *federal crime* for bank officers to accept gifts or fees from customers for processing a loan or similar accommodation. This includes both direct and indirect benefits such as commissions, concessions from attorneys, insurance and real estate agents, salesmen and the like, who may offer such for giving or referring business to them. These prohibitions apply to members of the officer’s immediate family. No secret or illegal payments, bribes, or kickbacks in *any* form whatsoever are to be made under any circumstances to obtain a benefit for the Bank or the employee that would not otherwise be available. All contractual placements of Bank business and acceptance of business by the Bank must be made purely upon business considerations.

- Any gifts received from customers or vendors relating to an individual’s service as a director, officer or employee of the Bank shall be of nominal value. Nominal value is considered to be anything $50 or below. Any such gifts where the known value exceeds $50 must be reported to the CEO or the Chairman of the Board. This requirement is applicable on an accumulative annual basis per gift donor. This report shall be submitted no later than two (2) weeks after the receipt of the gratuity on the Gifts Reporting Form provided with this Code of Ethics.

- Directors, officers and employees of the Bank are expected to participate in entertainment and amenities of reasonable cost to facilitate business. Payment by anyone other than the Bank of excessive costs or travel not customary or within acceptable business practice must not be accepted. Any questionable circumstances must be reported to your immediate supervisor.

- Tickets for sporting, cultural, or other events purchased by the Bank are to be used in entertaining potential or actual customers, vendors, or others for business purposes only. It is within proper ethics and taste to accept an occasional luncheon invitation or a ticket to a sporting event or the theater when such social courtesies are infrequent and can be reciprocated.

External Involvement

While the Bank encourages its directors, officers and employees to be involved in outside activities, including charitable and political functions, federal law prohibits the Bank from making political contributions. At no time will employees solicit other employees for political contributions or coerce others into contributing to any political organization.

Capitalizing on opportunities for personal gain or compensation outside of that provided by the Bank for the performance of services for the Bank is strictly prohibited. Employment of officers and full-time employees outside the Bank is discouraged and must be approved by your immediate supervisor and the Chief Executive Officer either at the time of hire or prior to acceptance of outside employment.

Conduct of Insiders

Regulation O defines “insiders” as directors, executive officers, and principal shareholders. These people must take care that their conduct does not violate rules relating to self-dealing and personal gains. At no time are members of this group allowed to take advantage of their position in the Bank for personal profit or influence over credit and other decisions with regard to their business or personal interests.

Directors are prohibited from being involved in the loan approval process where they may benefit directly or indirectly from the decision to grant credit.

Decisions regarding the sale or purchase of Bank assets and services must be made in the best interests of the Bank, with no influence on insiders resulting from gifts, entertainment, or gratuities. All conduct of such business must be “at arm’s length.”

Disclosures

Directors, officers and employees of the Bank must make disclosures of any relationships, receipt of gifts, compensation, or other situations leading to possible conflicts in the following manner:

Employees	Report to immediate supervisor
Officers	Report to Chief Executive Officer
President and all Directors	Report to Chairman of the Corporate Governance Committee

Directors, principal shareholders, and all Bank officers must make annual written disclosures to the Board of Directors of any actual and potential conflicts of interest and any potential conflicts of their related interests.

Obstruction of an Investigation

Directors, officers and employees must not refuse to answer questions required by authorized Bank personnel concerning any matter related to the performance of his or her official duties or of any person dealing with the Bank.

Fair Dealing

Each director, officer and employee should endeavor to deal fairly with the Bank's customers, suppliers, competitors, officers and employees. No one should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice. Directors, officers or employees must not make, or cause to be made, a materially false or misleading statement about the affairs of the Bank, nor may they disclose confidential customer or employee information to unauthorized persons.

Protection and Proper Use of Company Assets

All directors, officers and employees should protect the Bank's assets and ensure their efficient use. Theft, carelessness, and waste have a direct impact on the Bank's profitability. All Bank assets should be used for legitimate business purposes only.

Sanctity of Books and Records

All of the Bank's books, records, accounts, and financial statements must be maintained in reasonable detail, appropriately reflect the Bank's transactions, and conform both to applicable legal requirements and to the Bank's system of internal controls. Directors, officers and employees must not make any omission, or cause an omission to be made, in any Bank record, financial or otherwise. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation.

Records should always be retained or destroyed according to the Bank's records retention policy and procedures. In accordance with this Code of Ethics, in the event of litigation or governmental investigation, please consult your supervisor.

All published information (both for internal and external use), developed programs, equipment, and related materials are the property of the Bank and are reserved for use by directors, officers and employees of the Bank. Use of these materials for any other purpose may constitute copyright infringement and theft.

Public Company Reporting

As a public company, it is of critical importance that the Bank's filings with the securities authorities be accurate and timely. Depending on their position with the Bank, a director, officer, or employee may be called upon to provide necessary information to assure that the Bank's public reports are complete, fair and understandable. The Bank expects directors, officers and employees to take this responsibility very seriously and to provide prompt, accurate answers or certifications to internal inquiries related to the Bank's public disclosure requirements.

Foreign Corrupt Practices Act

The Bank is subject to the Foreign Corrupt Practices Act, and any applicable amendments, under Title 15 of the United States Code. This federal law has three (3) main thrusts:

1. It is unlawful to bribe foreign officials or politicians to get or keep business.

2. The Bank is required to make and keep books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank.

3. The Bank is required to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

- Transactions are executed in accordance with management's general or specific authorization;
- Transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statement, and to maintain accountability for assets;
- Access to assets is permitted only in accordance with management's general or specific authorization; and
- The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

All employees of the Bank are expected to comply with the policy that no officer or employee may make any payment with the Bank's funds, directly or indirectly, to any official of a government or government agency, political party, or politician such as would cause a violation of Item 1 above, or establish or maintain any secret or unrecorded fund for the purpose of facilitating any such illegal payment.

All employees are expected to record transactions involving the assets and liabilities of the Bank, in accordance with the Bank's established internal control systems, so as to assure the integrity of the Bank's financial statement.

Violations, or matters which may be in violation of this Policy, should be reported as explained in the "Accounting Complaints" and "Reporting any Illegal or Unethical Behavior" sections of this Policy.

Criminal Laws

Please be aware that federal statutes contain numerous laws prohibiting certain actions by employees of financial institutions such as the Bank. Some of the prohibited actions for which directors, officers and employees could be held liable are:

- Seeking or accepting anything of value in connection with any transaction or business of a financial institution (18 U.S.C. § 215);
- Theft, embezzlement or misapplication of funds or assets (18 U.S.C. § 656);
- Making extortionate extensions of credit (18 U.S.C. §§ 891-896) (i.e., making excessive or exorbitant extensions of credit, or the extension of credit in any way involving extortion);
- Unauthorized issuance of obligations or making false entries in any book or report of the Bank (18 U.S.C. § 1005);
- Making any false statement or report to the Bank or a federal bank examiner or any other person, company or agency (18 U.S.C. § 1005);
- Certifying a check drawn on an account in which there are not sufficient collected funds (12 U.S.C. § 501 and 18 U.S.C. § 1004);
- Making loans to certain bank examiners (18 U.S.C. § 212);
- Serving as an officer or employee of any firm engaged primarily in the issue, public sale, or underwriting of stocks, corporate bonds or other securities while an officer or employee of a bank.

Further, the United States Criminal Code (18 U.S.C. § 3) states that any person, knowing that an offense (breach of federal criminal law) has been committed, who receives, relieves, comforts or assists the offender in order to hinder or prevent his or her apprehension, trial or punishment, is an accessory after the fact. If you are found to be an accessory after the fact, you are subject to fines and imprisonment as provided in the criminal code.

Equal Rights

It is the Bank's policy to ensure equal employment opportunity for all persons, regardless of race, color, religion, age, sex, marital status, national origin, ancestry, sexual orientation, disability, veteran, gender identity/expression, genetic information, or any other applicable legally protected status, and to deal with all customers and prospective customers on a non-discriminatory basis.

Accounting Complaints

The Bank's policy is to comply with all financial reporting and accounting regulations applicable to the Bank. If any director, officer or employee of the Bank has concerns or complaints regarding questionable accounting or auditing matters of the Bank, then he or she must inform his/her supervisor, the CEO (Martin J. Geitz, President, Simsbury Bank, 86 Hopmeadow Street, Simsbury, CT 06089), or the chairman of the Corporate Governance Committee of the Board of Directors of the Bank (Robert J. Bogino, Chairman of the Board, c/o Simsbury Bank, 86 Hopmeadow Street, Simsbury, CT 06089) with a view to notifying proper legal authorities. In the case of directors, such matter must be raised with the chairman of the Corporate Governance Committee of the Board of Directors. If they do not believe it appropriate or are not comfortable approaching their supervisor or the CEO about their concerns or complaints, then they must contact the chairman of the Corporate Governance Committee of the Board of Directors. If their concerns or complaints require confidentiality, including keeping their identity anonymous, this confidentiality will be protected, subject to applicable law, regulation or legal proceedings. Notification of legal authorities, where appropriate, shall be made after considering the confidentiality of the information involved.

Reporting any Illegal or Unethical Behavior

Directors, officers and employees are required to talk to the appropriate personnel about observed illegal or unethical behavior when in doubt about the best course of action in a particular situation. Directors, officers and employees who are concerned that violations of this Code, or that other illegal or unethical conduct by directors, officers or employees of the Bank, have occurred or may occur, must inform their supervisor, the CEO, or the chairman of the Corporate Governance Committee of the Board of Directors of the Bank with a view to notifying proper legal authorities. In the case of directors, such matter must be raised with the chairman of the Corporate Governance Committee of the Board of Directors. If they do not believe it appropriate or are not comfortable approaching their supervisor or the CEO about their concerns or complaints, they must contact the chairman of the Corporate Governance Committee of the Board of Directors. If their concerns or complaints require confidentiality, including keeping their identity anonymous, this confidentiality will be protected, subject to applicable law, regulation or legal proceedings. Notification of legal authorities, where appropriate, shall be made after considering the confidentiality of the information involved.

No Retaliation

The Bank will not permit retaliation of any kind by or on behalf of the Bank and its employees, officers or directors against good faith reports or complaints of violations of this Code or other illegal or unethical conduct. Any person who participates in such retaliation is subject to disciplinary action, including termination.

(Back To Top)

Section 3: EX-21 (EXHIBIT 21)

Exhibit 21

SUBSIDIARIES

Name	Jurisdiction of Incorporation	Nature of Ownership (direct/indirect)
The Simsbury Bank & Trust Company, Inc.	Connecticut	Direct
SBT Investment Services, Inc.	Connecticut	Indirect (a wholly-owned subsidiary of The Simsbury Bank & Trust Company, Inc.)
NERE Holdings, Inc.	Connecticut	Indirect (a wholly-owned subsidiary of The Simsbury Bank & Trust Company, Inc.)
Simsbury Bank Passive Investment Company	Connecticut	Indirect (a wholly-owned subsidiary of The Simsbury Bank & Trust Company, Inc.)

(Back To Top)

Section 4: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-177094 on Form S-3 and Registration Statement No. 333-174339 on Form S-8 of SBT Bancorp, Inc. and Subsidiary of our report dated March 29, 2018, relating to the consolidated financial statements of SBT Bancorp, Inc. and Subsidiary appearing in this Annual Report on Form 10-K of SBT Bancorp, Inc. and Subsidiary for the year ended December 31, 2017.

Portland, Maine
March 29, 2018

(Back To Top)

Section 5: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATIONS

I, Martin J. Geitz, Chief Executive Officer of SBT Bancorp, Inc. certify that:

1. I have reviewed this annual report on Form 10-K of SBT Bancorp, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Martin J. Geitz
Martin J. Geitz
Chief Executive Officer

Date: March 30, 2018

(Back To Top)

Section 6: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATIONS

I, Richard J. Sudol, Chief Financial Officer of SBT Bancorp, Inc. certify that:

1. I have reviewed this annual report on Form 10-K of SBT Bancorp, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Richard J. Sudol
Richard J. Sudol
Chief Financial Officer

Date: March 30, 2018

(Back To Top)

Section 7: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Martin J. Geitz, the Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Annual Report of the Company on Form 10-K for the year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Annual Report of the Company on Form 10-K for the year ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Martin J. Geitz
Martin J. Geitz
Chief Executive Officer

Date: March 30, 2018

(Back To Top)

Section 8: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of SBT Bancorp, Inc. (the "Company") on Form 10-K for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof, I, Richard J. Sudol, the Chief Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

(i) The Annual Report of the Company on Form 10-K for the year ended December 31, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Annual Report of the Company on Form 10-K for the year ended December 31, 2017 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard J. Sudol
Richard J. Sudol
Chief Financial Officer

Date: March 30, 2018

(Back To Top)