SUSSEX BANCORP
Form 10-Q
May 10, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

[ ] 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 0-29030

SUSSEX BANCORP
(Exact name of registrant as specified in its charter)

New Jersey	22-3475473
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Enterprise Drive, Suite 700, Rockaway, NJ 07866
(Address of principal executive offices) (Zip Code)

(844) 256-7328
(Registrant's telephone number, including area code)

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 x No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company x
		(Do not check if a smaller reporting company)	

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

As of May 4, 2017 there were 4,791,003 shares of common stock, no par value, outstanding.

SUSSEX BANCORP
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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Report on Form 10-Q contains “forward-looking statements” which may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- changes in the regulatory environment;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation (“FDIC”) deposit insurance premiums and assessments could adversely affect our financial condition;
- changes in technology used in the banking business;
- the soundness of other financial services institutions which may adversely affect our credit risk;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- the effect on our operations of recent legislative and regulatory initiatives that were or may be enacted in response to the ongoing financial crisis;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business;
- the factors that could also cause actual results to differ materially from current expectations include failure to complete the proposed Merger (as defined herein), the imposition of adverse regulatory conditions in connection with regulatory approval of the proposed Merger, disruption to the parties' businesses as a result of the announcement and pendency of the Merger, the inability to realize expected cost savings or to implement integration plans and other adverse consequences associated with the Merger; and
- other factors detailed from time to time in our filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I – FINANCIAL INFORMATION
Item 1 – Financial Statements
SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)	March 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$3,051	$ 2,847
Interest-bearing deposits with other banks	4,637	11,791
Cash and cash equivalents	7,688	14,638
Interest bearing time deposits with other banks	100	100
Securities available for sale, at fair value	99,797	88,611
Securities held to maturity, at amortized cost (fair value of $8,788 and $11,739 at March 31, 2017 and December 31, 2016, respectively)	8,630	11,618
Federal Home Loan Bank Stock, at cost	4,269	5,106
Loans receivable, net of unearned income	718,800	695,257
Less: allowance for loan losses	6,797	6,696
Net loans receivable	712,003	688,561
Foreclosed real estate	2,464	2,367
Premises and equipment, net	8,505	8,728
Accrued interest receivable	2,006	2,058
Goodwill	2,820	2,820
Bank-owned life insurance	16,638	16,532
Other assets	7,362	7,589
Total Assets	$872,282	$ 848,728
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$130,130	$ 132,434
Interest bearing	566,446	528,487
Total deposits	696,576	660,921
Short-term borrowings	14,800	29,805
Long-term borrowings	66,000	66,000
Accrued interest payable and other liabilities	4,643	4,090
Subordinated debentures	27,841	27,840
Total Liabilities	809,860	788,656
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	—	—
Common stock, no par value, 10,000,000 shares authorized; 4,785,159 and 4,741,068 shares issued and outstanding	36,703	36,538
Deferred compensation obligation under Rabbi Trust	(1,272)	(1,383)

Retained earnings	25,111	23,291
Accumulated other comprehensive income	608	243
Stock held by Rabbi Trust	1,272	1,383
Total Stockholders' Equity	62,422	60,072
Total Liabilities and Stockholders' Equity	$872,282	$ 848,728

See Notes to Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

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(Dollars in thousands except per share data)	Three Months Ended March 31, 2017	2016
INTEREST INCOME		
Loans receivable, including fees	$7,598	$6,145
Securities:		
Taxable	341	376
Tax-exempt	313	201
Interest bearing deposits	16	4
Total Interest Income	8,268	6,726
INTEREST EXPENSE		
Deposits	717	575
Borrowings	481	437
Subordinated debentures	321	68
Total Interest Expense	1,519	1,080
Net Interest Income	6,749	5,646
PROVISION FOR LOAN LOSSES	407	211
Net Interest Income after Provision for Loan Losses	6,342	5,435
OTHER INCOME		
Service fees on deposit accounts	253	225
ATM and debit card fees	180	187
Bank-owned life insurance	106	76
Insurance commissions and fees	1,747	1,721
Investment brokerage fees	3	27
Net gain on sales of securities	107	167
Net (loss) on disposal of premises and equipment	—	(13)
Other	81	134
Total Other Income	2,477	2,524
OTHER EXPENSES		
Salaries and employee benefits	3,558	3,353
Occupancy, net	500	424
Data processing	557	549
Furniture and equipment	240	233
Advertising and promotion	106	105
Professional fees	277	174
Director fees	107	59
FDIC assessment	51	120
Insurance	66	73
Stationary and supplies	32	52
Loan collection costs	24	32
Net expenses and write-downs related to foreclosed real estate	45	75
Other	414	361
Total Other Expenses	5,977	5,610
Income before Income Taxes	2,842	2,349
EXPENSE FOR INCOME TAXES	831	775
Net Income	2,011	1,574
OTHER COMPREHENSIVE INCOME:		
Unrealized gains on available for sale securities arising during the period	676	985
Fair value adjustments on derivatives	40	(400)

Reclassification adjustment for net gain on securities transactions included in net income	(107)	(167)
Income tax related to items of other comprehensive (loss) income	(244)	(167)
Other comprehensive income, net of income taxes	365	251
Comprehensive income	$2,376	$1,825
EARNINGS PER SHARE		
Basic	$0.43	$0.34
Diluted	$0.43	$0.34

See Notes to Consolidated Financial Statements

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2017 and 2016
(Unaudited)

(Dollars in Thousands)	Number of Shares Outstanding	Common Stock	Deferred Compensation Obligation Under Rabbi Trust	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held by Rabbi Trust	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2015	4,646,238	$ 35,927	—	$ 18,520	$ 86	—	$ (592)	$ 53,941
Net income	—	—	—	1,574	—	—	—	1,574
Other comprehensive income	—	—	—	—	251	—	—	251
Treasury shares purchased	—	—	—	—	—	—	—	—
Restricted stock granted	30,822	—	—	—	—	—	—	—
Restricted stock forfeited	(1,084)	—	—	—	—	—	—	
Compensation expense related to stock option and restricted stock grants	—	101	—	—	—	—	—	101
Dividends declared on common stock ($0.04 per share)	—	—	—	(185)	—	—	—	(185)
Balance March 31, 2016	4,675,976	$ 36,028	$ —	$ 19,909	$ 337	$—	$ (592)	$ 55,682
Balance December 31, 2016	4,741,068	$ 36,538	1,383	$ 23,291	$ 243	(1,383)	$—	$ 60,072
Net income	—	—	—	2,011	—		—	2,011
Other comprehensive income	—	—	—	—	365	—	—	365
Treasury shares purchased	—	—	—	—	—		—	—
Funding of Supplemental Director Retirement Plan	—	—	(111)	—	—	111	—	—
Options exercised	—	—	—	—	—		—	—
Restricted stock granted	47,326	—	—	—	—		—	—
Restricted stock forfeited	(3,235)	—	—	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	165	—	—	—		—	165
Dividends declared on common stock ($0.04 per share)	—	—	—	(191)	—		—	(191)
Balance March 31, 2017	4,785,159	$ 36,703	$ 1,272	$ 25,111	$ 608	$ (1,272)	$—	$ 62,422

See Notes to Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands)	2017	2016
Cash Flows from Operating Activities		
Net income	$2,011	$1,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	407	211
Depreciation and amortization	272	258
Net amortization of securities premiums and discounts	410	412
Amortization of subordinated debt issuance costs	1	—
Net realized gain on sale of securities	(107)	(167)
Net realized loss on disposal of premises and equipment	—	13
Net realized gain on sale of foreclosed real estate	(2)	(3)
Write-downs of and provisions for foreclosed real estate	36	—
Deferred income tax (benefit) expense	(82)	(192)
Earnings on bank-owned life insurance	(106)	(76)
Compensation expense for stock options and stock awards	165	101
(Decrease) increase in assets:		
Accrued interest receivable	52	(493)
Other assets	105	(726)
Increase in accrued interest payable and other liabilities	553	904
Net Cash Provided by Operating Activities	3,715	1,816
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(25,368)	(2,044)
Sales	12,303	8,088
Maturities, calls and principal repayments	2,152	1,789
Securities held to maturity:		
Purchases	—	(480)
Maturities, calls and principal repayments	2,981	491
Net increase in loans	(23,982)	(36,617)
Proceeds from the sale of foreclosed real estate	2	29
Purchases of bank premises and equipment	(49)	(518)
Net decrease in Federal Home Loan Bank stock	837	1,326
Net Cash Used in Investing Activities	(31,124)	(27,936)
Cash Flows from Financing Activities		
Net increase in deposits	35,655	57,444
Net decrease in short-term borrowed funds	(15,005)	(33,220)
Proceeds from long-term borrowings	—	5,000
Dividends paid	(191)	(185)
Net Cash Provided by Financing Activities	20,459	29,039
Net (Decrease) increase in Cash and Cash Equivalents	(6,950)	2,919
Cash and Cash Equivalents - Beginning	14,638	6,120
Cash and Cash Equivalents - Ending	$7,688	$9,039

Supplementary Cash Flows Information

Interest paid	$1,531	$975
Income taxes paid	$20	$795
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	$133	$—

See Notes to Consolidated Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sussex Bancorp (“we,” “us,” “our” or the “company”) and our wholly owned subsidiary Sussex Bank (the “Bank”). The Bank’s wholly owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, PPD Holding Company, LLC, and Tri-State Insurance Agency, Inc. (“Tri-State”), a full service insurance agency located in Sussex County, New Jersey with a satellite office located in Bergen County, New Jersey. Tri-State’s operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. The Bank operates eleven banking offices, eight located in Sussex County, New Jersey, one located in Bergen County, New Jersey, one located in Warren County, New Jersey, and one in Queens County, New York.

We are subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “FRB”). The Bank’s deposits are insured by the Deposit Insurance Fund (“DIF”) of the FDIC up to applicable limits. The operations of the company and the Bank are subject to the supervision and regulation of the FRB, the FDIC and the New Jersey Department of Banking and Insurance (the “Department”) and the operations of Tri-State are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three month period ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

New Accounting Standards

In May 2014, the FASB issued an Accounting Standard Update (“ASU”) 2014-09 to amend its guidance on “Revenue from Contracts with Customers (Topic 606). The objective of the ASU is to align the recognition of revenue with the transfer of promised goods or services provided to customers in an amount that reflects the consideration which the entity expects to be entitled in exchange for those goods or services. This ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. In August 2015, the FASB issued an amendment (ASU 2015-14) which defers the effective date of this new guidance by one year. More detailed implementation guidance on Topic 606 was issued in March 2016 (ASU 2016-08), April 2016 (ASU 2016-10) May 2016 (ASU 2016-12) and December 2016 (ASU 2016-20), and the effective date and transition requirements for these ASUs are the same as the effective date and transition requirements of ASU 2014-09. The amendments in ASU 2014-09 are effective for public business entities for annual periods beginning after December 15, 2017. The Company currently believes the impact of adopting the standard, as modified and augmented by subsequently issued pronouncements, will not be material to either past or future periods as it relates to the Company's core banking revenue streams, but is still evaluating the potential impact the new standard will have on noninterest income components.

In January 2016, FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things; (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company currently expects that upon adoption of ASU 2016-02, right-of-use assets and lease liabilities will be recognized in the consolidated balance sheet in amounts that will be material; however, there will be no material impact on operations.

In March 2016, FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. FASB issued ASU 2016-09 as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this ASU 2016-09 involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company`s adoption of the ASU did not have a significant impact on the Company`s consolidated financial statements. The effective tax rate decreased 3.8% to 29.2% from 33.0% for the quarters ended March 31, 2017 and 2016, respectively. The Company expects the annualized tax rate to be minimally impacted by the adoption of the ASU.

In June, 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326) (the "ASU"), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The ASU will be effective for public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities will have one additional year. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements. The Company has taken steps to prepare for implementation when it becomes effective, such as changes to its current model and evaluating the potential use of outside professionals for an updated model.

In August 2016, FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (a consensus of the FASB Emerging Issues Task Force), which addresses eight classification issues related to the statement of cash flows; (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon bonds, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the ASU in an interim period, adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Entities should apply this ASU using a retrospective transition method to each period presented. If it is impracticable for an entity to apply the ASU retrospectively for some of the issues, it may apply the amendments for those issues prospectively as of the earliest date practicable. The Company's adoption of the ASU will not have a significant impact on the Company's consolidated financial statements.

In January 2017, FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). The main objective of this ASU is to simplify the accounting for goodwill impairment by requiring impairment charges be based upon the first step in the current two-step impairment test under Accounting Standards Codification (ASC) 350. Currently, if the fair value of a reporting unit is lower than its carrying amount (Step 1), an entity calculates any impairment charge by comparing the implied fair value of goodwill with its carrying amount (Step 2). This ASU’s objective is to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The standard will be applied prospectively

and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the impact of the pending adoption on its consolidated financial statements.
In March 2017, FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities (Subtopic 310-20). The update shortens the amortization period for premiums on purchased callable debt securities to the earliest call date. The amendment will apply only to callable debt securities with explicit, noncontingent call features that are callable at fixed prices and on preset dates, apply to all premiums on callable debt securities, regardless of how they were generated, and require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. The ASU does not require an accounting change for securities held at a discount. The discount continues to be amortized to maturity and does not apply when the investor has already incorporated prepayments into the calculation of its effective yield under other GAAP. The amendments in the ASU are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those years.Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company's adoption of the ASU will not have a significant impact on the Company's consolidated financial statements.

NOTE 2 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of March 31, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2017				
U.S. government agencies	$ 22,304	$ 34	$ (94)	$ 22,244
State and political subdivisions	40,681	282	(524)	40,439
Mortgage-backed securities -				
U.S. government-sponsored enterprises	35,485	146	(550)	35,081
Corporate Debt	2,000	33	—	2,033
	$ 100,470	$ 495	$ (1,168)	$ 99,797
December 31, 2016				
U.S. government agencies	$ 13,115	$ 29	$ (57)	$ 13,087
State and political subdivisions	41,255	203	(770)	40,688
Mortgage-backed securities -				
U.S. government-sponsored enterprises	33,483	126	(755)	32,854
Corporate Debt	2,000	—	(18)	1,982
	$ 89,853	$ 358	$ (1,600)	$ 88,611

Securities with a carrying value of approximately $47.1 million and $34.3 million at March 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for borrowings at the Federal Reserve Bank as required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at March 31, 2017 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments which pay principal on a periodic basis are not included in the maturity categories.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$—	$—
Due after one year through five years	199	200
Due after five years through ten years	4,255	4,276
Due after ten years	38,227	37,996
Total bonds and obligations	42,681	42,472
U.S. government agencies	22,304	22,244
Mortgage-backed securities:		
U.S. government-sponsored enterprises	35,485	35,081
Total available for sale securities	$ 100,470	$99,797

Gross gains on sales of securities available for sale were $146 thousand and $167 thousand for the three months ended March 31, 2017 and 2016, respectively. Gross realized losses on sales of securities available for sale were $39 thousand and less than $1 thousand for the three months ended March 31, 2017 and 2016, respectively.

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual available for sale securities have been in a continuous unrealized loss position at March 31, 2017 and December 31, 2016.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2017						
U.S. government agencies	$11,199	$ (53)	$2,067	$ (41)	$13,266	$ (94)
State and political subdivisions	14,930	(524)	—	—	14,930	(524)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	24,538	(549)	540	(1)	25,078	(550)
Corporate Debt	—	—	—	—	—	—
Total temporarily impaired securities	$50,667	$ (1,126)	$2,607	$ (42)	$53,274	$ (1,168)
December 31, 2016						
U.S. government agencies	$4,952	$(15)	$2,126	$(42)	$7,078	$(57)
State and political subdivisions	23,989	(770)	—	—	23,989	(770)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	23,299	(752)	639	(3)	23,938	(755)
Corporate Debt	1,982	(18)	—	—	1,982	(18)
Total temporarily impaired securities	$54,222	$(1,555)	$2,765	$(45)	$56,987	$(1,600)

For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2017, we reviewed our available for sale securities portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt and equity securities are evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position.

U.S. Government Agencies
At March 31, 2017 and December 31, 2016, the declines in fair value and the unrealized losses for our U.S. government agencies securities were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2017, there

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were eight securities with a fair value of $13.3 million that had an unrealized loss that amounted to $94 thousand. As of March 31, 2017, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government agency securities at March 31, 2017 were deemed to be other-than-temporarily impaired ("OTTI").

At December 31, 2016, there were five securities with a fair value of $7.1 million that had an unrealized loss that amounted to $57 thousand.

State and Political Subdivisions
At March 31, 2017 and December 31, 2016, the decline in fair value and the unrealized losses for our state and political subdivisions securities were caused by changes in interest rates and spreads and were not the result of credit quality. At March 31, 2017, there were seventeen securities with a fair value of $14.9 million that had an unrealized loss that amounted to $524 thousand. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates.

At December 31, 2016, there were thirty-one securities with a fair value of $24.0 million that had an unrealized loss that amounted to $770 thousand.

Mortgage-Backed Securities
At March 31, 2017 and December 31, 2016, the decline in fair value and the unrealized losses for our mortgage-backed securities guaranteed by U.S. government-sponsored enterprises were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2017, there were seventeen securities with a fair value of $25.1 million that had an unrealized loss that amounted to $550 thousand. As of March 31, 2017, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our mortgage-backed securities at March 31, 2017 were deemed to be OTTI.

At December 31, 2016, there were sixteen securities with a fair value of $23.9 million that had an unrealized loss that amounted to $755 thousand.

Corporate Debt
At March 31, 2017, the decline in fair value and unrealized losses for our corporate debt was caused by changes in interest rates and spreads and were not the result of credit quality. At March 31, 2017, there were no securities that had an unrealized loss. These securities typically have maturity dates greater than five years and the fair values are more sensitive to changes in market interest rates. As of March 31, 2017, we did not intend to sell and it was more-likely-than-no that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our corporate debt as March 31, 2017, were deemed to be other-than-temporarily-impaired.

At December 31, 2016, there was one security with a fair value of $2.0 million that had an unrealized loss that amounted to $18 thousand.

Held to Maturity Securities

The amortized cost and approximate fair value of securities held to maturity as of March 31, 2017 and December 31, 2016 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

March 31, 2017				
State and political subdivisions	$ 8,630	$ 158	$ —	$ 8,788
December 31, 2016				
State and political subdivisions	$ 11,618	$ 123	$ (2)	$ 11,739

The amortized cost and carrying value of securities held to maturity at March 31, 2017 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 5,783	$5,783
Due after one year through five years	—	—
Due after five years through ten years	1,808	1,871
Due after ten years	1,039	1,134
Total held to maturity securities	$ 8,630	$8,788

Temporarily Impaired Securities
For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2017, we did not have any held to maturity investments with unrealized losses. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt securities is evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position. For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred.

At December 31, 2016, there were two securities with a fair value of $789 thousand that had an unrealized loss of $2 thousand.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016						
State and political subdivisions	$789	$ (2)	$ —	$ —	$789	$ (2)
Total temporarily impaired securities	$789	$ (2)	$ —	$ —	$789	$ (2)

NOTE 3 – LOANS

The composition of net loans receivable at March 31, 2017 and December 31, 2016 is as follows:

(Dollars in thousands)	March 31, 2017	December 31, 2016
Commercial and industrial	$35,906	$ 40,280
Construction	35,662	25,360
Commercial real estate	485,617	479,227
Residential real estate	161,543	150,237
Consumer and other	962	1,038
Total loans receivable	719,690	696,142
Unearned net loan origination fees	(890)	(885)
Allowance for loan losses	(6,797)	(6,696)
Net loans receivable	$712,003	$ 688,561

Mortgage loans serviced for others are not included in the accompanying balance sheets. The total amount of loans serviced for the benefit of others was approximately $246 thousand and $249 thousand at March 31, 2017 and December 31, 2016, respectively. Mortgage servicing rights were immaterial at March 31, 2017 and December 31, 2016.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY OF FINANCING RECEIVABLES

The following table presents changes in the allowance for loan losses disaggregated by the class of loans receivable for the three ended March 31, 2017 and 2016:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended:							
March 31, 2017							
Beginning balance	$ 110	$ 359	$ 3,932	$ 899	$ 19	$ 1,377	$6,696
Charge-offs	(13)	—	(266)	(34)	(5)	—	(318)
Recoveries	—	—	2	8	2	—	12
Provision	(5)	66	357	52	1	(64)	407
Ending balance	$ 92	$ 425	$ 4,025	$ 925	$ 17	$ 1,313	$6,797
March 31, 2016							
Beginning balance	$ 85	$ 220	$ 3,646	$ 784	$ 87	$ 768	$5,590
Charge-offs	—	—	—	(9)	(19)	—	(28)
Recoveries	7	—	31	—	1	—	39
Provision	6	47	170	133	52	(197)	211
Ending balance	$ 98	$ 267	$ 3,847	$ 908	$ 121	$ 571	$5,812

The following table presents the balance of the allowance of loan losses and loans receivable by class at March 31, 2017 and December 31, 2016 disaggregated on the basis of our impairment methodology.

	Allowance for Loan Losses			Loans Receivable		
(Dollars in thousands)	Balance	Balance Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
March 31, 2017						
Commercial and industrial	$92	$ —	$ 92	$35,906	$ 19	$ 35,887
Construction	425	—	425	35,662	—	35,662
Commercial real estate	4,025	31	3,994	485,617	4,302	481,315
Residential real estate	925	7	918	161,543	1,714	159,829
Consumer and other loans	17	—	17	962	—	962
Unallocated	1,313	—	—	—	—	—
Total	$6,797	$ 38	$ 5,446	$719,690	$ 6,035	$ 713,655
December 31, 2016						
Commercial and industrial	$110	$14	$96	$40,280	$33	$40,247
Construction	359	—	359	25,360	—	25,360
Commercial real estate	3,932	135	3,797	479,227	4,597	474,630
Residential real estate	899	6	893	150,237	1,967	148,270
Consumer and other loans	19	—	19	1,038	—	1,038
Unallocated	1,377	—	—	—	—	—
Total	$6,696	$155	$5,164	$696,142	$6,597	$689,545

An age analysis of loans receivable, which were past due as of March 31, 2017 and December 31, 2016, is as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 days Past Due	Greater Than 90 Days (a)	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
March 31, 2017							
Commercial and industrial	$—	$—	$123	$123	$35,783	$ 35,906	$ 104
Construction	—	—	—	—	35,662	35,662	—
Commercial real estate	1,233	105	3,843	5,181	480,436	485,617	—

Residential real estate	823	—	1,586	2,409	159,134	161,543	—
Consumer and other	5	—	—	5	957	962	—
Total	$2,061	$105	$5,552	$7,718	$711,972	$ 719,690	$ 104
December 31, 2016							
Commercial and industrial	$—	$—	$137	$137	$40,143	$40,280	$104
Construction	—	—	309	309	25,051	25,360	309
Commercial real estate	84	719	4,103	4,906	474,321	479,227	55
Residential real estate	786	247	1,752	2,785	147,452	150,237	—
Consumer and other	4	—	—	4	1,034	1,038	—
Total	$874	$966	$6,301	$8,141	$688,001	$696,142	$468

(a) includes loans greater than 90 days past due and still accruing and non-accrual loans.

Loans for which the accrual of interest has been discontinued at March 31, 2017 and December 31, 2016 were:

(Dollars in thousands)	March 31, 2017	December 31, 2016
Commercial and industrial	$ 19	$ 33
Commercial real estate	3,843	4,048
Residential real estate	1,586	1,752
Total	$ 5,448	$ 5,833

In determining the adequacy of the allowance for loan losses, we estimate losses based on the identification of specific problem loans through our credit review process and also estimate losses inherent in other loans on an aggregate basis by loan type. The credit review process includes the independent evaluation of the loan officer assigned risk ratings by the Chief Credit Officer and a third party loan review company. Such risk ratings are assigned loss component factors that reflect our loss estimate for each group of loans. It is management's and the Board of Directors' responsibility to oversee the lending process to ensure that all credit risks are properly identified, monitored, and controlled, and that loan pricing, terms and other safeguards against non-performance and default are commensurate with the level of risk undertaken and is rated as such based on a risk-rating system. Factors considered in assigning risk ratings and loss component factors include: borrower specific information related to expected future cash flows and operating results, collateral values, financial condition and payment status; levels of and trends in portfolio charge-offs and recoveries; levels in portfolio delinquencies; effects of changes in loan concentrations and observed trends in the economy and other qualitative measurements.

Our risk-rating system is consistent with the classification system used by regulatory agencies and with industry practices. Loan classifications of Substandard, Doubtful or Loss are consistent with the regulatory definitions of classified assets. The classification system is as follows:

- Pass: This category represents loans performing to contractual terms and conditions and the primary source of repayment is adequate to meet the obligation. We have five categories within the Pass classification depending on strength of repayment sources, collateral values and financial condition of the borrower.

- Special Mention: This category represents loans performing to contractual terms and conditions; however the primary source of repayment or the borrower is exhibiting some deterioration or weaknesses in financial condition that could potentially threaten the borrowers' future ability to repay our loan principal and interest or fees due.

- Substandard: This category represents loans that the primary source of repayment has significantly deteriorated or weakened which has or could threaten the borrowers' ability to make scheduled payments. The weaknesses require close supervision by management and there is a distinct possibility that we could sustain some loss if the deficiencies are not corrected. Such weaknesses could jeopardize the timely and ultimate collection of our loan principal and interest or fees due. Loss may not be expected or evident, however, loan repayment is inadequately supported by current financial information or pledged collateral.

- Doubtful: Loans so classified have all the inherent weaknesses of a substandard loan with the added provision that collection or liquidation in full is highly questionable and not reasonably assured. The probability of at least partial loss is high, but extraneous factors might strengthen the asset to prevent loss. The validity of the extraneous factors must be continuously monitored. Once these factors are questionable the loan should be considered for full or partial charge-off.

- Loss: Loans so classified are considered uncollectible, and of such little value that their continuance as active assets is not warranted. Such loans are fully charged off.

The following tables illustrate our corporate credit risk profile by creditworthiness category as of March 31, 2017 and December 31, 2016:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2017					
Commercial and industrial	$35,783	$ 104	$ —	$ 19	$35,906
Construction	35,662	—	—	—	35,662
Commercial real estate	470,313	6,531	8,773	—	485,617
Residential real estate	159,075	473	1,995	—	161,543
Consumer and other	962	—	—	—	962
	$701,795	$ 7,108	$ 10,768	$ 19	$719,690
December 31, 2016					
Commercial and industrial	$40,247	$—	$33	$—	$40,280
Construction	25,360	—	—	—	25,360
Commercial real estate	463,889	7,461	7,877	—	479,227
Residential real estate	147,526	584	2,127	—	150,237
Consumer and other	1,038	—	—	—	1,038
	$678,060	$8,045	$10,037	$—	$696,142

The following table reflects information about our impaired loans by class as of March 31, 2017 and December 31, 2016:

	March 31, 2017			December 31, 2016		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						

Commercial and industrial	$19	$ 19	$ —	$19	$ 19	$ —
Commercial real estate	2,292	2,292	—	2,324	2,324	—
Residential real estate	1,446	1,446	—	1,604	1,629	—

With an allowance recorded:						
Commercial and industrial	—	—	—	14	14	14
Commercial real estate	2,010	2,270	31	2,273	2,364	135
Residential real estate	268	307	7	363	363	6
Total:						
Commercial and industrial	19	19	—	33	33	14
Commercial real estate	4,302	4,562	31	4,597	4,688	135
Residential real estate	1,714	1,753	7	1,967	1,992	6
	$6,035	$6,334	$38	$6,597	$6,713	$155

The following table presents the average recorded investment and income recognized for the three ended March 31, 2017 and 2016:

	For the Three Months Ended March 31, 2017		For the Three Months Ended March 31, 2016	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$19	$ —	$20	$ —
Commercial real estate	2,308	—	2,446	8
Residential real estate	1,525	1	1,061	1
Total impaired loans without a related allowance	3,852	1	3,527	9
With an allowance recorded:				
Commercial and industrial	7	—	—	—
Commercial real estate	2,142	8	2,699	8
Residential real estate	316	—	379	—
Consumer and other	—	—	138	—
Total impaired loans with an allowance	2,465	8	3,216	8
Total impaired loans	$6,317	$ 9	$6,743	$ 17

We recognize interest income on performing impaired loans as payments are received. On non-performing impaired loans we do not recognize interest income as all payments are recorded as a reduction of principal on such loans.

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, postponement or forgiveness of principal, forbearance or other actions intended to maximize collection. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, we attempt to obtain additional collateral or guarantor support when modifying such loans. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

The following table presents the recorded investment in troubled debt restructured loans, based on payment performance status:

(Dollars in thousands)	Total

	Commercial Real Estate	Residential Real Estate	
March 31, 2017			
Performing	$ 459	$ 128	$587
Non-performing	2,243	—	2,243
Total	$ 2,702	$ 128	$2,830
December 31, 2016			
Performing	$550	$129	$679
Non-performing	2,258	—	2,258
Total	$2,808	$129	$2,937

Troubled debt restructured loans are considered impaired and are included in the previous impaired loans disclosures in this footnote. As of March 31, 2017, we have not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2017 and 2016.

There were no troubled debt restructurings for which there was a payment default within twelve months following the date of the restructuring for the three months ended March 31, 2017 and 2016.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. As of March 31, 2017 and December 31, 2016, we did not hold any foreclosed residential real estate properties. In addition, as of March 31, 2017 and December 31, 2016, respectively, we had consumer loans with a carrying value of $640 thousand and $666 thousand collateralized by residential real estate property for which formal foreclosure proceedings were in process.

NOTE 5 – EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares (unvested restricted stock grants and stock options) had been issued, as well as any adjustment to income that would result from the assumed issuance of potential common shares that may be issued by us. Potential common shares related to stock options are determined using the treasury stock method.

(In thousands, except share and per share data)	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Shares Outstanding (weighted average)		4,685,553			4,578,598	
Shares held by Rabbi Trust		96,736			—	
Shares liability under deferred compensation agreement		(96,736)			—	
Basic earnings per share:						
Net earnings applicable to common stockholders	$2,011	4,685,553	$ 0.43	$1,574	4,578,598	$ 0.34
Effect of dilutive securities:						
Unvested stock awards	—	41,780		—	27,828	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	$2,011	4,727,333	$ 0.43	$1,574	4,606,426	$ 0.34

There were 46,753 and 57,038 shares of unvested restricted stock awards and options outstanding during the three months ended March 31, 2017 and 2016, respectively, which were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 – OTHER COMPREHENSIVE INCOME

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

The components of other comprehensive income, both before tax and net of tax, are as follows:

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Other comprehensive income (loss):						
Unrealized gains on available for sale securities	$676	$270	$406	$985	$394	$591
Fair value adjustments on derivatives	40	16	24	(400)	(160)	(240)
Reclassification adjustment for net gains on securities transactions included in net income	(107)	(42)	(65)	(167)	(67)	(100)
Total other comprehensive income	$609	$244	$365	$418	$167	$251

NOTE 7 – SEGMENT INFORMATION

Our insurance agency operations are managed separately from the traditional banking and related financial services that we also offer. The insurance agency operation provides commercial, individual, and group benefit plans and personal coverage.

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
(Dollars in thousands)						
Net interest income from external sources	$6,749	$ —	$ 6,749	$5,646	$ —	$ 5,646
Other income from external sources	730	1,747	2,477	786	1,738	2,524
Depreciation and amortization	266	6	272	252	6	258
Income before income taxes	2,022	820	2,842	1,514	835	2,349
Income tax expense (1)	503	328	831	441	334	775
Total assets	865,832	6,450	872,282	709,893	6,879	716,772

(1) Insurance Services calculated at statutory tax rate of 40% .

NOTE 8 – STOCK-BASED COMPENSATION

We currently have stock-based compensation plans in place for our directors, officers, employees, consultants and advisors. Under the terms of these plans we may grant restricted shares and stock options for the purchase of our common stock. The stock-based compensation is granted under terms determined by our Compensation Committee. Our standard stock option grants have a maximum term of 10 years, generally vest over periods ranging between one and five years, and are granted with an exercise price equal to the fair market value of the common stock on the date of grant. Restricted stock is valued at the market value of the common stock on the date of grant and generally vests over periods of three to five years. All dividends paid on restricted stock, whether vested or unvested, are paid to the shareholder.

Information regarding our stock option plans for the three months ended March 31, 2017 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	69,123	$ 11.10		
Options outstanding, end of quarter	69,123	$ 11.10	8.1	$ 361,591
Options exercisable, end of quarter	22,405	$ 10.69	8.0	$ 53,964
Option price range at end of quarter	$9.97 to $12.83			
Option price of exercisable shares	$9.97 to $12.83			

The following table summarizes information about stock option assumptions:

	2016	
Expected dividend yield	1.25	%

Expected volatility	22.72	%
Risk-free interest rate	1.71	%
Expected option life	7.5 years	

During the three months ended March 31, 2017 and 2016, we expensed $12 thousand and $11 thousand, respectively, in stock-based compensation under stock option awards.

There were no options granted during the three months ended March 31, 2017. The weighted average grant date fair values of options granted during the three months ended March 31, 2016, were $3.37 per share. Expected future expense relating to the unvested options outstanding as of March 31, 2017 is $153 thousand over a weighted average period of 3.1 years. Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares.

The summary of changes in unvested restricted stock awards for the three months ended March 31, 2017, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	80,743	$ 10.51
Granted	47,326	21.59
Forfeited	(3,235)	11.27
Vested	(36,339	