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First Bancorp, Inc /ME/
Form 10-Q
August 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016

Commission File Number 0-26589

THE FIRST BANCORP, INC.
(Exact name of Registrant as specified in its charter)

MAINE 01-0404322
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

MAIN STREET, DAMARISCOTTA, MAINE 04543
(Address of principal executive offices) (Zip code)

(207) 563-3195
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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer 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

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of August 1, 2016

Common Stock: 10,785,666 shares

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Part I. Financial Information

Selected Financial Data (Unaudited)

The First Bancorp, Inc. and Subsidiary

Dollars in thousands, except for per share amounts	As of and for the six months ended June 30,		As of and for the quarters ended June 30,		
	2016	2015	2016	2015	
Summary of Operations					
Interest Income	\$26,876	\$24,939	\$13,600	\$12,574	
Interest Expense	5,196	5,159	2,649	2,496	
Net Interest Income	21,680	19,780	10,951	10,078	
Provision for Loan Losses	750	900	375	400	
Non-Interest Income	5,970	6,492	3,006	2,834	
Non-Interest Expense	14,445	14,245	7,245	6,980	
Net Income	9,127	8,249	4,624	4,074	
Per Common Share Data					
Basic Earnings per Share	\$0.85	\$0.77	\$0.43	\$0.38	
Diluted Earnings per Share	0.84	0.77	0.43	0.38	
Cash Dividends Declared	0.45	0.43	0.23	0.22	
Book Value per Common Share	16.21	15.25	16.21	15.25	
Tangible Book Value per Common Share ²	13.42	12.45	13.42	12.45	
Market Value	21.54	19.44	21.54	19.44	
Financial Ratios					
Return on Average Equity ¹	10.61	% 10.09	% 10.67	% 9.87	%
Return on Average Tangible Common Equity ^{1,2}	12.85	% 12.35	% 12.89	% 12.07	%
Return on Average Assets ¹	1.16	% 1.12	% 1.17	% 1.09	%
Average Equity to Average Assets	10.92	% 11.13	% 10.92	% 11.00	%
Average Tangible Equity to Average Assets ²	9.02	% 9.09	% 9.04	% 9.00	%
Net Interest Margin Tax-Equivalent ^{1,2}	3.14	% 3.08	% 3.15	% 3.07	%
Dividend Payout Ratio	52.94	% 55.84	% 53.49	% 57.89	%
Allowance for Loan Losses/Total Loans	0.98	% 1.03	% 0.98	% 1.03	%
Non-Performing Loans to Total Loans	0.62	% 0.93	% 0.62	% 0.93	%
Non-Performing Assets to Total Assets	0.47	% 0.72	% 0.47	% 0.72	%
Efficiency Ratio ²	50.15	% 53.71	% 48.92	% 50.83	%
At Period End					
Total Assets	\$1,621,454	\$1,553,340	\$1,621,454	\$1,553,340	
Total Loans	1,038,213	963,109	1,038,213	963,109	
Total Investment Securities	472,040	476,976	472,040	476,976	
Total Deposits	1,145,709	1,096,323	1,145,709	1,096,323	
Total Shareholders' Equity	174,788	163,809	174,788	163,809	

¹Annualized using a 366-day basis for 2016 and a 365-day basis for 2015.

²These ratios use non-GAAP financial measures. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.

Item 1 – Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
The First Bancorp, Inc.

We have reviewed the accompanying interim consolidated financial information of The First Bancorp, Inc. and Subsidiary as of June 30, 2016 and 2015 and for the three-month and six-month periods then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry Dunn McNeil & Parker, LLC
Bangor, Maine
August 9, 2016

Consolidated Balance Sheets (Unaudited)

The First Bancorp, Inc. and Subsidiary

	June 30, 2016	December 31, 2015	June 30, 2015
Assets			
Cash and cash equivalents	\$20,838,000	\$14,299,000	\$16,481,000
Interest bearing deposits in other banks	7,568,000	4,013,000	24,565,000
Securities available for sale	241,327,000	223,039,000	213,814,000
Securities to be held to maturity (fair value of \$225,200,000 at June 30, 2016, \$243,123,000 at December 31, 2015 and \$248,698,000 at June 30, 2015)	216,272,000	240,023,000	249,250,000
Restricted equity securities, at cost	14,441,000	14,257,000	13,912,000
Loans held for sale	1,553,000	349,000	—
Loans	1,038,213,000	988,638,000	963,109,000
Less allowance for loan losses	10,198,000	9,916,000	9,908,000
Net loans	1,028,015,000	978,722,000	953,201,000
Accrued interest receivable	6,372,000	4,912,000	6,180,000
Premises and equipment, net	21,118,000	21,816,000	21,946,000
Other real estate owned	1,129,000	1,532,000	2,192,000
Goodwill	29,805,000	29,805,000	29,805,000
Other assets	33,016,000	32,043,000	21,994,000
Total assets	\$1,621,454,000	\$1,564,810,000	\$1,553,340,000
Liabilities			
Demand deposits	\$130,168,000	\$130,566,000	\$107,244,000
NOW deposits	254,136,000	242,638,000	221,964,000
Money market deposits	73,030,000	92,994,000	102,219,000
Savings deposits	208,826,000	206,009,000	186,777,000
Certificates of deposit	479,549,000	370,982,000	478,119,000
Total deposits	1,145,709,000	1,043,189,000	1,096,323,000
Borrowed funds – short term	132,965,000	222,323,000	132,876,000
Borrowed funds – long term	150,130,000	115,134,000	145,137,000
Other liabilities	17,862,000	16,666,000	15,195,000
Total liabilities	1,446,666,000	1,397,312,000	1,389,531,000
Shareholders' equity			
Common stock, one cent par value per share	108,000	108,000	107,000
Additional paid-in capital	60,284,000	59,862,000	59,475,000
Retained earnings	110,820,000	106,673,000	103,448,000
Accumulated other comprehensive income (loss)			
Net unrealized gain on securities available for sale	4,000,000	1,123,000	988,000
Net unrealized loss on securities transferred from available for sale to held to maturity	(133,000)	(112,000)	(84,000)
Net unrealized loss on cash flow hedging derivative instruments	(135,000)	—	—
Net unrealized loss on postretirement benefit costs	(156,000)	(156,000)	(125,000)
Total shareholders' equity	174,788,000	167,498,000	163,809,000
Total liabilities & shareholders' equity	\$1,621,454,000	\$1,564,810,000	\$1,553,340,000
Common Stock			
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	10,782,226	10,753,855	10,741,228

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Book value per common share	\$ 16.21	\$ 15.58	\$ 15.25
Tangible book value per common share	\$ 13.42	\$ 12.78	\$ 12.45

See Report of Independent Registered Public Accounting Firm. The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statements of Income and Comprehensive Income (Unaudited)

The First Bancorp, Inc. and Subsidiary

	For the six months ended		For the quarter ended June	
	June 30,	2015	30,	2015
	2016		2016	
Interest income				
Interest and fees on loans (includes tax-exempt income of \$304,000 as of June 30, 2016 and \$285,000 as of June 30, 2015)	\$ 19,738,000	\$ 18,012,000	\$ 10,004,000	\$ 9,157,000
Interest on deposits with other banks	8,000	13,000	5,000	8,000
Interest and dividends on investments (includes tax-exempt income of \$2,488,000 as of June 30, 2016 and \$2,605,000 as of June 30, 2015)	7,130,000	6,914,000	3,591,000	3,409,000
Total interest income	26,876,000	24,939,000	13,600,000	12,574,000
Interest expense				
Interest on deposits	2,844,000	2,759,000	1,491,000	1,316,000
Interest on borrowed funds	2,352,000	2,400,000	1,158,000	1,180,000
Total interest expense	5,196,000	5,159,000	2,649,000	2,496,000
Net interest income	21,680,000	19,780,000	10,951,000	10,078,000
Provision for loan losses	750,000	900,000	375,000	400,000
Net interest income after provision for loan losses	20,930,000	18,880,000	10,576,000	9,678,000
Non-interest income				
Investment management and fiduciary income	1,214,000	1,158,000	651,000	617,000
Service charges on deposit accounts	1,183,000	1,237,000	609,000	658,000
Net securities gains (losses)	531,000	1,395,000	(5,000)	—
Mortgage origination and servicing income, net of amortization	638,000	705,000	509,000	508,000
Other operating income	2,404,000	1,997,000	1,242,000	1,051,000
Total non-interest income	5,970,000	6,492,000	3,006,000	2,834,000
Non-interest expense				
Salaries and employee benefits	7,205,000	7,160,000	3,607,000	3,440,000
Occupancy expense	1,146,000	1,216,000	568,000	571,000
Furniture and equipment expense	1,597,000	1,552,000	801,000	782,000
FDIC insurance premiums	421,000	446,000	207,000	216,000
Amortization of identified intangibles	22,000	36,000	11,000	11,000
Other operating expense	4,054,000	3,835,000	2,051,000	1,960,000
Total non-interest expense	14,445,000	14,245,000	7,245,000	6,980,000
Income before income taxes	12,455,000	11,127,000	6,337,000	5,532,000
Income tax expense	3,328,000	2,878,000	1,713,000	1,458,000
NET INCOME	\$ 9,127,000	\$ 8,249,000	\$ 4,624,000	\$ 4,074,000
Basic earnings per common share	\$ 0.85	\$ 0.77	\$ 0.43	\$ 0.38
Diluted earnings per common share	\$ 0.84	\$ 0.77	\$ 0.43	\$ 0.38
Other comprehensive income (loss) net of tax				
Net unrealized gain (loss) on securities available for sale	2,877,000	(1,534,000)	1,025,000	(1,591,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of amortization	(21,000)	(36,000)	(10,000)	(17,000)
Net unrealized loss on cash flow hedging derivative instruments	(135,000)	—	(135,000)	—
Other comprehensive income (loss)	2,721,000	(1,570,000)	880,000	(1,608,000)

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Comprehensive income	\$ 11,848,000	\$ 6,679,000	\$ 5,504,000	\$ 2,466,000
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See Report of Independent Registered Public Accounting Firm.

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

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Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

The First Bancorp, Inc. and Subsidiary

	Common stock and additional paid-in capital		Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
	Shares	Amount			
Balance at December 31, 2014	10,724,359	\$59,389,000	\$99,816,000	\$ 2,349,000	\$ 161,554,000
Net income	—	—	8,249,000	—	8,249,000
Net unrealized loss on securities available for sale, net of tax	—	—	—	(1,534,000)	(1,534,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(36,000)	(36,000)
Comprehensive income	—	—	8,249,000	(1,570,000)	6,679,000
Cash dividends declared (\$0.43 per share)	—	—	(4,617,000)	—	(4,617,000)
Equity compensation expense	—	148,000	—	—	148,000
Payment to repurchase common stock	(10,138)	(180,000)	—	—	(180,000)
Issuance of restricted stock	13,650	—	—	—	—
Proceeds from sale of common stock	13,357	225,000	—	—	225,000
Balance at June 30, 2015	10,741,228	\$59,582,000	\$ 103,448,000	\$ 779,000	\$ 163,809,000
Balance at December 31, 2015	10,753,855	\$59,970,000	\$ 106,673,000	\$ 855,000	\$ 167,498,000
Net income	—	—	9,127,000	—	9,127,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	2,877,000	2,877,000
Net unrealized loss on cash flow hedging derivative instruments, net of tax	—	—	—	(135,000)	(135,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(21,000)	(21,000)
Comprehensive income	—	—	9,127,000	2,721,000	11,848,000
Cash dividends declared (\$0.45 per share)	—	—	(4,851,000)	—	(4,851,000)
Equity compensation expense	—	132,000	—	—	132,000
Payment to repurchase common stock	(6,937)	—	(129,000)	—	(129,000)
Tax benefit from vesting of restricted stock	—	32,000	—	—	32,000
Issuance of restricted stock	21,847	—	—	—	—
Proceeds from sale of common stock	13,461	258,000	—	—	258,000
Balance at June 30, 2016	10,782,226	\$60,392,000	\$ 110,820,000	\$ 3,576,000	\$ 174,788,000

See Report of Independent Registered Public Accounting Firm.

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

Consolidated Statements of Cash Flows (Unaudited)

The First Bancorp, Inc. and Subsidiary

	For the six months ended	
	June 30, 2016	June 30, 2015
Cash flows from operating activities		
Net income	\$9,127,000	\$8,249,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	859,000	851,000
Change in deferred taxes	(209,000)	259,000
Provision for loan losses	750,000	900,000
Loans originated for resale	(16,535,000)	(14,655,000)
Proceeds from sales and transfers of loans	15,710,000	14,988,000
Net gain on sales of loans	(379,000)	(333,000)
Net gain on sale or call of securities	(531,000)	(1,395,000)
Net amortization of premiums on investments	939,000	379,000
Net gain on sale of other real estate owned	(82,000)	(40,000)
Provision for losses on other real estate owned	—	21,000
Equity compensation expense	132,000	148,000
Tax benefit from vesting of restricted stock	32,000	—
Net increase in other assets and accrued interest	(2,468,000)	(1,556,000)
Net (decrease) increase in other liabilities	(384,000)	91,000
Amortization of investment in limited partnership	97,000	133,000
Net acquisition amortization	22,000	36,000
Net cash provided by operating activities	7,080,000	8,076,000
Cash flows from investing activities		
Increase in interest-bearing deposits in other banks	(3,555,000)	(21,006,000)
Proceeds from sales of securities available for sale	8,954,000	35,465,000
Proceeds from maturities, payments and calls of securities available for sale	25,544,000	15,872,000
Proceeds from maturities, payments and calls of securities to be held to maturity	43,876,000	32,414,000
Proceeds from sales of other real estate owned	972,000	2,129,000
Purchases of securities available for sale	(48,834,000)	(81,335,000)
Purchases of securities to be held to maturity	(20,059,000)	(5,644,000)
Redemption of restricted equity securities	(184,000)	—
Net increase in loans	(50,530,000)	(47,398,000)
Capital expenditures	(161,000)	(178,000)
Net cash used by investing activities	(43,977,000)	(69,681,000)
Cash flows from financing activities		
Net (decrease) increase in demand, savings, and money market accounts	(6,047,000)	40,886,000
Net increase in certificates of deposit	108,567,000	30,618,000
Net decrease in short-term borrowings	(64,362,000)	(41,903,000)
Advances on long-term borrowings	10,000,000	55,000,000
Repayment on long-term borrowings	—	(15,000,000)
Payment to repurchase common stock	(129,000)	(180,000)
Proceeds from sale of common stock	258,000	225,000
Dividends paid	(4,851,000)	(4,617,000)
Net cash provided by financing activities	43,436,000	65,029,000
Net increase in cash and cash equivalents	6,539,000	3,424,000
Cash and cash equivalents at beginning of period	14,299,000	13,057,000
Cash and cash equivalents at end of period	\$20,838,000	\$16,481,000

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Interest paid	\$5,132,000	\$5,175,000
Income taxes paid	2,802,000	1,840,000
Non-cash transactions		
Net transfer from loans to other real estate owned	\$487,000	\$517,000

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Notes to Consolidated Financial Statements

The First Bancorp, Inc. and Subsidiary

Note 1 – Basis of Presentation

The First Bancorp, Inc. ("the Company") is a financial holding company that owns all of the common stock of First National Bank ("the Bank"). The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of Management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the 2016 period is not necessarily indicative of the results that may be expected for the year ending December 31, 2016. For further information, refer to the consolidated financial statements and notes included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

Subsequent Events

Events occurring subsequent to June 30, 2016, have been evaluated as to their potential impact to the financial statements.

Note 2 – Investment Securities

The following table summarizes the amortized cost and estimated fair value of investment securities at June 30, 2016:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. Government-sponsored agencies	\$522,000	\$—	\$—	\$522,000
Mortgage-backed securities	214,303,000	5,274,000	(224,000)	219,353,000
State and political subdivisions	17,315,000	1,100,000	—	18,415,000
Other equity securities	3,034,000	48,000	(45,000)	3,037,000
	\$235,174,000	\$6,422,000	\$(269,000)	\$241,327,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	\$35,962,000	\$31,000	\$—	\$35,993,000
Mortgage-backed securities	37,096,000	1,651,000	(24,000)	38,723,000
State and political subdivisions	138,914,000	7,270,000	—	146,184,000
Corporate securities	4,300,000	—	—	4,300,000
	\$216,272,000	\$8,952,000	\$(24,000)	\$225,200,000
Restricted equity securities				
Federal Home Loan Bank Stock	\$13,404,000	\$—	\$—	\$13,404,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	\$14,441,000	\$—	\$—	\$14,441,000

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The following table summarizes the amortized cost and estimated fair value of investment securities at December 31, 2015:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	\$ 194,563,000	\$ 1,509,000	\$ (962,000)	\$ 195,110,000
State and political subdivisions	23,367,000	1,201,000	(62,000)	24,506,000
Other equity securities	3,381,000	48,000	(6,000)	3,423,000
	\$ 221,311,000	\$ 2,758,000	\$ (1,030,000)	\$ 223,039,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	\$ 71,000,000	\$ 40,000	\$ (2,284,000)	\$ 68,756,000
Mortgage-backed securities	42,193,000	1,305,000	(136,000)	43,362,000
State and political subdivisions	122,530,000	4,200,000	(25,000)	126,705,000
Corporate securities	4,300,000	—	—	4,300,000
	\$ 240,023,000	\$ 5,545,000	\$ (2,445,000)	\$ 243,123,000
Restricted equity securities				
Federal Home Loan Bank Stock	\$ 13,220,000	\$ —	\$ —	\$ 13,220,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	\$ 14,257,000	\$ —	\$ —	\$ 14,257,000