CAMDEN NATIONAL CORP
Form 10-Q
May 06, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 0-28190
CAMDEN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

MAINE	01-0413282
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 ELM STREET, CAMDEN, ME	04843
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (207) 236-8821

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 periods 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 (§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 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Outstanding at May 3, 2016: Common stock (no par value) 10,272,083 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF CONDITION
(unaudited)

(In Thousands, Except Number of Shares)	March 31, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$72,201	$79,488
Securities:		
Available-for-sale securities, at fair value	800,029	750,338
Held-to-maturity securities, at amortized cost	87,950	84,144
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	21,605	21,513
Total securities	909,584	855,995
Loans held for sale	16,632	10,958
Loans	2,492,634	2,490,206
Less: allowance for loan losses	(21,339)	(21,166)
Net loans	2,471,295	2,469,040
Goodwill	95,267	95,657
Other intangible assets	8,191	8,667
Bank-owned life insurance	60,338	59,917
Premises and equipment, net	44,973	45,959
Deferred tax assets	36,154	39,716
Interest receivable	8,785	7,985
Other real estate owned	1,228	1,304
Other assets	37,898	34,658
Total assets	$3,762,546	$3,709,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	$349,586	$357,673
Interest checking	686,517	740,084
Savings and money market	949,309	912,668
Certificates of deposit	482,821	516,867
Brokered deposits	206,599	199,087
Total deposits	2,674,832	2,726,379
Federal Home Loan Bank advances	55,000	55,000
Other borrowed funds	545,473	458,763
Subordinated debentures	58,638	58,599
Accrued interest and other liabilities	53,146	47,413
Total liabilities	3,387,089	3,346,154
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 10,271,083 and 10,220,478 shares as of March 31, 2016 and December 31, 2015, respectively	154,437	153,083
Retained earnings	227,540	222,329
Accumulated other comprehensive loss:		
Net unrealized gains (losses) on available-for-sale securities, net of tax	3,968	(3,801)

Net unrealized losses on cash flow hedging derivative instruments, net of tax	(8,479)	(6,374)
Net unrecognized losses on postretirement plans, net of tax	(2,009)	(2,047)
Total accumulated other comprehensive loss	(6,520)	(12,222)
Total shareholders' equity	375,457	363,190
Total liabilities and shareholders' equity	$3,762,546	$3,709,344

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

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Three Months Ended March 31, 2016	2015
Interest Income		
Interest and fees on loans	$27,016	$ 18,084
Interest on U.S. government and sponsored enterprise obligations	3,990	3,872
Interest on state and political subdivision obligations	714	387
Interest on federal funds sold and other investments	261	105
Total interest income	31,981	22,448
Interest Expense		
Interest on deposits	2,042	1,529
Interest on borrowings	1,136	860
Interest on subordinated debentures	851	625
Total interest expense	4,029	3,014
Net interest income	27,952	19,434
Provision for credit losses	872	446
Net interest income after provision for credit losses	27,080	18,988
Non-Interest Income		
Service charges on deposit accounts	1,724	1,487
Other service charges and fees	2,328	1,510
Income from fiduciary services	1,169	1,220
Mortgage banking income, net	808	239
Brokerage and insurance commissions	458	449
Bank-owned life insurance	422	422
Other income	1,008	820
Total non-interest income	7,917	6,147
Non-Interest Expense		
Salaries and employee benefits	11,610	8,375
Furniture, equipment and data processing	2,427	1,923
Net occupancy	1,877	1,472
Consulting and professional fees	885	591
Other real estate owned and collection costs	656	562
Regulatory assessments	721	510
Amortization of intangible assets	476	287
Merger and acquisition costs	644	735
Other expenses	3,632	2,346
Total non-interest expense	22,928	16,801
Income before income taxes	12,069	8,334
Income Taxes	3,735	2,723
Net Income	$8,334	$ 5,611
Per Share Data		
Basic earnings per share	$0.81	$ 0.75
Diluted earnings per share	$0.81	$ 0.75
Weighted average number of common shares outstanding	10,259,995	7,431,065
Diluted weighted average number of common shares outstanding	10,298,177	7,453,875

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(In Thousands)	Three Months Ended March 31, 2016	2015
Net Income	$8,334	$5,611
Other comprehensive income:		
Net change in unrealized gains on available-for-sale securities, net of tax of ($4,183), and ($2,212), respectively	7,769	4,108
Net change in unrealized losses on cash flow hedging derivatives:		
Net change in unrealized loss on cash flow hedging derivatives, net of tax of $1,261, and $751, respectively	(2,342)	(1,395)
Net reclassification adjustment for effective portion of cash flow hedges included in interest expense, net of tax of ($128) and ($120), respectively(1)	237	223
Net change in unrealized losses on cash flow hedging derivatives, net of tax	(2,105)	(1,172)
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of ($21) and ($21), respectively(2)	38	38
Other comprehensive income	5,702	2,974
Comprehensive Income	$14,036	$8,585

(1) Reclassified into the consolidated statements of income in interest on subordinated debentures.
(2) Reclassified into the consolidated statements of income in salaries and employee benefits.

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Common Stock Shares Outstanding	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2014	7,426,222	$41,555	$211,979	$(8,425)	$245,109
Net income	—	—	5,611	—	5,611
Other comprehensive income, net of tax	—	—	—	2,974	2,974
Stock-based compensation expense	—	198	—	—	198
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	12,707	136	—	—	136
Cash dividends declared ($0.30 per share)	—	—	(2,229)	—	(2,229)
Balance at March 31, 2015	7,438,929	$41,889	$215,361	$(5,451)	$251,799
Balance at December 31, 2015	10,220,478	$153,083	$222,329	$(12,222)	$363,190
Net income	—	—	8,334	—	8,334
Other comprehensive income, net of tax	—	—	—	5,702	5,702
Stock-based compensation expense	—	337	—	—	337
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	50,605	1,017	—	—	1,017
Cash dividends declared ($0.30 per share)	—	—	(3,123)	—	(3,123)
Balance at March 31, 2016	10,271,083	$154,437	$227,540	$(6,520)	$375,457

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In Thousands)	Three Months Ended March 31, 2016	2015
Operating Activities		
Net Income	$8,334	$5,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	872	446
Depreciation expense	1,427	764
Purchase accounting accretion, net	(1,055)	(66)
Investment securities amortization, net	652	509
Stock-based compensation expense	337	198
Amortization of intangible assets	476	287
Net increase in other real estate owned valuation allowance and loss on disposition	66	81
Originations of mortgage loans held for sale	(44,431)	(5,425)
Proceeds from the sale of mortgage loans	39,868	4,935
Gain on sale of mortgage loans	(972)	(129)
Increase in other assets	2,869	780
(Decrease) increase in other liabilities	(4,170)	16
Net cash provided by operating activities	4,273	8,007
Investing Activities		
Proceeds from maturities of available-for-sale securities	28,580	37,132
Purchase of available-for-sale securities	(66,849)	(20,344)
Purchase of held-to-maturity securities	(3,929)	(16,076)
Net increase in loans	(2,321)	(20,293)
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(92)	—
Proceeds from the sale of other real estate owned	42	1,564
Recoveries of previously charged-off loans	104	133
Purchase of premises and equipment	(464)	(464)
Net cash used by investing activities	(44,929)	(18,348)
Financing Activities		
Net (decrease) increase in deposits	(51,286)	34,112
Repayments on Federal Home Loan Bank long-term advances	—	(19)
Net increase (decrease) in other borrowed funds	86,726	(29,392)
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	1,017	136
Cash dividends paid on common stock	(3,088)	(2,235)
Net cash provided by financing activities	33,369	2,602
Net decrease in cash and cash equivalents	(7,287)	(7,739)
Cash and cash equivalents at beginning of period	79,488	60,813
Cash and cash equivalents at end of period	$72,201	$53,074
Supplemental information		
Interest paid	$4,029	$3,015
Income taxes paid	5	5
Transfer from loans to other real estate owned	32	1,439
Held-to-maturity securities purchased but unsettled	—	4,830
SBM acquisition measurement-period adjustments	390	—

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar Amounts In Tables Expressed in Thousands, Except Per Share Data)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated statements of condition of Camden National Corporation as of March 31, 2016 and December 31, 2015, the consolidated statements of income for the three months ended March 31, 2016 and 2015, the consolidated statements of comprehensive income for the three months ended March 31, 2016 and 2015, the consolidated statements of changes in shareholders' equity for the three months ended March 31, 2016 and 2015, and the consolidated statements of cash flows for the three months ended March 31, 2016 and 2015. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior period were reclassified to conform to the current period presentation. The income reported for the three months ended March 31, 2016 is not necessarily indicative of the results that may be expected for the full year. The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the year ended December 31, 2015 Annual Report on Form 10-K.

The acronyms and abbreviations identified below are used throughout this Form 10-Q, including Part I. "Financial Information" and Part II. "Other Information." The following is provided to aid the reader and provide a reference page when reviewing this Form 10-Q.

Acadia Trust:	Acadia Trust, N.A., a wholly-owned subsidiary of Camden National Corporation	FASB:	Financial Accounting Standards Board
AFS:	Available-for-sale	FDIC:	Federal Deposit Insurance Corporation
ALCO:	Asset/Liability Committee	FHLB:	Federal Home Loan Bank
ALL:	Allowance for loan losses	FHLBB:	Federal Home Loan Bank of Boston
AOCI:	Accumulated other comprehensive income (loss)	FRB:	Federal Reserve Bank
ASC:	Accounting Standards Codification	Freddie Mac:	Federal Home Loan Mortgage Corporation
ASU:	Accounting Standards Update	GAAP:	Generally accepted accounting principles in the United States
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank
BOLI:	Bank-owned life insurance	HTM:	Held-to-maturity
Board ALCO:	Board of Directors' Asset/Liability Committee	IRS:	Internal Revenue Service
BSA:	Bank Secrecy Act	LIBOR:	London Interbank Offered Rate
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	LTIP:	Long-Term Performance Share Plan
CDARS:	Certificate of Deposit Account Registry System	Management ALCO:	Management Asset/Liability Committee
CDs:	Certificate of deposits	MBS:	Mortgage-backed security
Company:	Camden National Corporation	Merger:	On October 16, 2015, the two-step merger of Camden National Corporation, SBM

			Financial, Inc. and Atlantic Acquisitions, LLC, a wholly-owned subsidiary of Camden National Corporation, was completed
CSV:	Cash surrender value	Merger Agreement:	Plan of Merger, dated as of March 29, 2015, by and among Camden National Corporation, SBM Financial, Inc. and Atlantic Acquisitions, LLC, a wholly-owned subsidiary of the Company
CMO:	Collateralized mortgage obligation	MSHA:	Maine State Housing Authority
DCRP:	Defined Contribution Retirement Plan	MSRs:	Mortgage servicing rights
EPS:	Earnings per share	MSPP:	Management Stock Purchase Plan

OTTI:	Other-than-temporary impairment	SBM:	SBM Financial, Inc., the parent company of The Bank of Maine
NIM:	Net interest margin on a fully-taxable basis	SERP:	Supplemental executive retirement plans
N.M.:	Not meaningful	TDR:	Troubled-debt restructured loan
NRV:	Net realizable value	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
OCC:	Office of the Comptroller of the Currency	U.S.:	United States of America
OCI:	Other comprehensive income (loss)	2003 Plan:	2003 Stock Option and Incentive Plan
OFAC:	Office of Foreign Assets Control	2012 Plan:	2012 Equity and Incentive Plan
OREO:	Other real estate owned	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors

NOTE 2 – EPS

The following is an analysis of basic and diluted EPS, reflecting the application of the two-class method, as described below:

	Three Months Ended March 31, 2016	2015
Net income	$8,334	$ 5,611
Dividends and undistributed earnings allocated to participating securities(1)	(29)	(17)
Net income available to common shareholders	$8,305	$ 5,594
Weighted-average common shares outstanding for basic EPS	10,259,995	7,431,065
Dilutive effect of stock-based awards(2)	38,176	22,810
Weighted-average common and potential common shares for diluted EPS	10,298,171	7,453,875
Earnings per common share:		
Basic EPS	$0.81	$ 0.75
Diluted EPS	$0.81	$ 0.75
Awards excluded from the calculation of diluted EPS(3):		
Stock options	13,250	15,250

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.
(2) Represents the effect of the assumed exercise of stock options, vesting of restricted shares, vesting of restricted stock units, and vesting of LTIP awards that have met the performance criteria, as applicable, utilizing the treasury stock method.
(3) Represents stock-based awards not included in the computation of potential common shares for purposes of calculating diluted EPS as the exercise prices were greater than the average market price of the Company's common stock and are considered anti-dilutive.

Nonvested stock-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested stock-based awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested stock-based awards.

Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

NOTE 3 – SECURITIES

The following tables summarize the amortized cost and estimated fair values of AFS and HTM securities, as of the dates indicated:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$4,973	$ 146	$—	$5,119
Obligations of states and political subdivisions	15,254	286	—	15,540
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	460,604	6,612	(617)	466,599
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	308,902	2,126	(2,470)	308,558
Subordinated corporate bonds	3,480	18	(37)	3,461
Total AFS debt securities	793,213	9,188	(3,124)	799,277
Equity securities	712	40	—	752
Total AFS securities	$793,925	$ 9,228	$(3,124)	$800,029
HTM Securities:				
Obligations of states and political subdivisions	$87,950	$ 2,816	$(37)	$90,729
Total HTM securities	$87,950	$ 2,816	$(37)	$90,729
December 31, 2015				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$4,971	$ 69	$—	$5,040
Obligations of states and political subdivisions	17,355	339	—	17,694
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	419,429	3,474	(3,857)	419,046
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	312,719	409	(6,271)	306,857
Subordinated corporate bonds	1,000	—	(4)	996
Total AFS debt securities	755,474	4,291	(10,132)	749,633
Equity securities	712	2	(9)	705
Total AFS securities	$756,186	$ 4,293	$(10,141)	$750,338
HTM Securities:				
Obligations of states and political subdivisions	$84,144	$ 1,564	$(61)	$85,647
Total HTM securities	$84,144	$ 1,564	$(61)	$85,647

Net unrealized gains on AFS securities at March 31, 2016 included in AOCI amounted to $4.0 million, net of a deferred tax liability of $2.1 million. Net unrealized losses on AFS securities at December 31, 2015 included in AOCI amounted to $3.8 million, net of a deferred tax benefit of $2.0 million.

During the first three months of 2016, the Company purchased investment securities totaling $70.8 million. The Company designated $66.9 million as AFS securities and $3.9 million as HTM securities.

During the first three months of 2015, the Company purchased investment securities totaling $36.4 million. The Company designated $20.3 million as AFS securities and $16.1 million as HTM securities.

Impaired Securities

Management periodically reviews the Company’s investment portfolio to determine the cause, magnitude and duration of declines in the fair value of each security. Thorough evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the ability of the securities to meet cash flow requirements, levels of credit enhancements, risk of curtailment, recoverability of invested amount over a reasonable period of time, and the length of time the security is in a loss position, for example, are applied in determining OTTI. Once a decline in value is determined to be other-than-temporary, the cost basis of the security is permanently reduced and a corresponding charge to earnings is recognized.

The following table presents the estimated fair values and gross unrealized losses of investment securities that were in a continuous loss position at March 31, 2016 and December 31, 2015, by length of time that individual securities in each category have been in a continuous loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$14,453	$(82)	$49,596	$(535)	$64,049	$(617)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	8,240	(47)	145,716	(2,423)	153,956	(2,470)
Subordinated corporate bonds	1,963	(37)	—	—	1,963	(37)
Total AFS securities	$24,656	$(166)	$195,312	$(2,958)	$219,968	$(3,124)
HTM Securities:						
Obligations of states and political subdivisions	$2,181	$(37)	$—	$—	$2,181	$(37)
Total HTM securities	$2,181	$(37)	$—	$—	$2,181	$(37)
December 31, 2015						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$234,897	$(2,351)	$45,629	$(1,506)	$280,526	$(3,857)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	111,143	(1,068)	147,180	(5,203)	258,323	(6,271)
Subordinated corporate bonds	996	(4)	—	—	996	(4)
Equity Securities	615	(9)	—	—	615	(9)
Total AFS securities	$347,651	$(3,432)	$192,809	$(6,709)	$540,460	$(10,141)
HTM Securities:						
Obligations of states and political subdivisions	$5,507	$(61)	$—	$—	$5,507	$(61)
Total HTM securities	$5,507	$(61)	$—	$—	$5,507	$(61)

At March 31, 2016 and December 31, 2015, the Company held 42 and 109 investment securities with a fair value of $222.1 million and $546.0 million with unrealized losses totaling $3.2 million and $10.2 million, respectively, that were considered temporary. Of these, the Company had 29 MBS and CMO investments with a fair value of $195.3 million that were in an unrealized loss position totaling $3.0 million at March 31, 2016 and 28 MBS and CMO investments with a fair value of $192.8 million that were in an unrealized loss position totaling $6.7 million at December 31, 2015 for 12 months or more. The decline in the fair value of securities is reflective of current interest rates in excess of the yield received on investments and is not indicative of an overall change in credit quality or other factors with the Company's investment portfolio. At March 31, 2016

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and December 31, 2015, gross unrealized losses on the Company's AFS and HTM securities were 1% and 2%, respectively, of the respective investment securities fair value.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at March 31, 2016 until the decline in value has recovered.

For the three months ended March 31, 2016 and 2015, the Company did not sell any investment securities.

FHLBB and FRB Stock
As of March 31, 2016 and December 31, 2015, the Company's investment in FHLBB stock was $20.7 million and $20.6 million, respectively. As of March 31, 2016 and December 31, 2015, the Company's investment in FRB stock was $908,000.

Securities Pledged
At March 31, 2016 and December 31, 2015, securities with an amortized cost of $557.1 million and $577.6 million, respectively, and estimated fair values of $559.6 million and $570.9 million, respectively, were pledged to secure FHLBB advances, public deposits, and securities sold under agreements to repurchase and for other purposes required or permitted by law.

Contractual Maturities
The amortized cost and estimated fair values of debt securities by contractual maturity at March 31, 2016, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
AFS Securities		
Due in one year or less	$ 1,002	$ 1,016
Due after one year through five years	103,817	105,196
Due after five years through ten years	111,295	113,903
Due after ten years	577,099	579,162
	$ 793,213	$ 799,277
HTM Securities		
Due after one year through five years	$ 2,204	$ 2,260
Due after five years through ten years	2,494	2,538
Due after ten years	83,252	85,931
	$ 87,950	$ 90,729

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Company's loan portfolio, excluding residential loans held for sale, at March 31, 2016 and December 31, 2015 was as follows:

	March 31, 2016	December 31, 2015
Residential real estate[(1)]	$813,266	$821,074
Commercial real estate[(1)]	953,220	927,951
Commercial[(1)]	291,684	297,721
Home equity[(1)]	343,137	348,634
Consumer[(1)]	17,096	17,953
HPFC[(1)]	74,304	77,243
Deferred loan fees, net	(73)	(370)
Total loans	$2,492,634	$2,490,206

(1) The loan balances are presented net of the unamortized fair value mark discount associated with the purchase accounting for acquired loans of $12.1 million and $13.1 million at March 31, 2016 and December 31, 2015, respectively.

The Bank's lending activities are primarily conducted in Maine, and its footprint continues to expand into other New England states, including New Hampshire and Massachusetts. The Company originates single family and multi-family residential loans, commercial real estate loans, business loans, municipal loans and a variety of consumer loans. In addition, the Company makes loans for the construction of residential homes, multi-family properties and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy.

HPFC provides niche commercial lending to the small business medical field, including dentists, optometrists and veterinarians across the U.S. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the success of the borrower's business. Unlike the Bank's loan portfolio, there is, generally, little to no indication of credit quality issues and/or concerns of borrowers honoring their commitments until a payment is delinquent. Generally, once a payment is delinquent, if the payment is not received shortly thereafter to bring the loan current, the loan is deemed impaired (typically within 45 days). Effective February 19, 2016, the Company closed HPFC's operations and is no longer originating loans.

The ALL is management's best estimate of the inherent risk of loss in the Company's loan portfolio as of the consolidated statement of condition date. Management makes various assumptions and judgments about the collectability of the loan portfolio and provides an allowance for potential losses based on a number of factors including historical losses. If those assumptions are incorrect, the ALL may not be sufficient to cover losses and may cause an increase in the allowance in the future. Among the factors that could affect the Company's ability to collect loans and require an increase to the allowance in the future are: (i) financial condition of borrowers; (ii) real estate market changes; (iii) state, regional, and national economic conditions; and (iv) a requirement by federal and state regulators to increase the provision for loan losses or recognize additional charge-offs.

There were no significant changes in the Company's ALL methodology during the three months ended March 31, 2016.

The board of directors monitors credit risk through the Directors' Loan Review Committee, which reviews large credit exposures, monitors the external loan review reports, reviews the lending authority for individual loan officers when required, and has approval authority and responsibility for all matters regarding the loan policy and other credit-related policies, including reviewing and monitoring asset quality trends, concentration levels, and the ALL methodology. The Credit Risk Administration and the Credit Risk Policy Committee oversee the Company's systems and procedures to monitor the credit quality of its loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system, determine the adequacy of the ALL and support the oversight efforts of the Directors' Loan Review Committee and the board of directors. The Company's practice is to proactively manage the portfolio such that management can identify problem credits early, assess and implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Company continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. For purposes of determining the ALL, the Company disaggregates its loans into portfolio segments, which include residential real estate, commercial real estate, commercial, home equity, consumer and HPFC. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. These risk characteristics unique to each portfolio segment include:

Residential Real Estate. Residential real estate loans held in the Company's loan portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines. Collateral consists of mortgage liens on one- to four-family residential properties.

Commercial Real Estate. Commercial real estate loans consist of mortgage loans to finance investments in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational, health care facilities and other specific use properties. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Loan-to-value ratios at origination are governed by established policy and regulatory guidelines. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

Commercial. Commercial loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant & equipment, or real estate, if applicable. Commercial loans are primarily paid by the operating cash flow of the borrower. Commercial loans may be secured or unsecured.

Home Equity. Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity loan has a fixed rate and is billed as equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

Consumer. Consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer loans may be secured or unsecured.

HPFC. HPFC is a niche lender that provides commercial lending to dentists, optometrists and veterinarians, many of which are start-up companies. HPFC's loan portfolio consists of term loan obligations extended for the purpose of financing working capital and/or purchase of equipment. Collateral may consist of pledges of business assets including, but not limited to, accounts receivable, inventory, and/or equipment. These loans are primarily paid by the operating cash flow of the borrower and the terms range from seven to ten years.

The following tables presents the activity in the ALL and select loan information by portfolio segment for the three months ended March 31, 2016 and 2015, and for the year ended December 31, 2015:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	HPFC	Unallocated	Total
For The Three Months Ended March 31, 2016								
ALL for the three months ended:								
Beginning balance	$4,545	$10,432	$3,241	$2,731	$193	$24	$—	$21,166
Loans charged off	(210)	(222)	(226)	(128)	(15)	—	—	(801)
Recoveries	40	9	52	1	2	—	—	104
Provision(1)	141	161	231	18	2	317	—	870
Ending balance	$4,516	$10,380	$3,298	$2,622	$182	$341	$—	$21,339
ALL balance attributable to loans:								
Individually evaluated for impairment	$512	$158	$214	$89	$—	$307	$—	$1,280
Collectively evaluated for impairment	4,004	10,222	3,084	2,533	182	34	—	20,059
Total ending ALL	$4,516	$10,380	$3,298	$2,622	$182	$341	$—	$21,339
Loans:								
Individually evaluated for impairment	$6,033	$3,130	$3,862	$492	$7	$357	$—	$13,881
Collectively evaluated for impairment	805,941	949,351	288,202	344,005	17,182	74,072	—	2,478,753
Total ending loans balance	$811,974	$952,481	$292,064	$344,497	$17,189	$74,429	$—	$2,492,634
For The Three Months Ended March 31, 2015								
ALL for the three months ended:								
Beginning balance	$4,899	$7,951	$3,354	$2,247	$281	$—	$2,384	$21,116
Loans charged off	(113)	(55)	(159)	(89)	(8)	—	—	(424)
Recoveries	3	10	104	5	11	—	—	133
Provision (credit)(1)	46	328	128	84	(14)	—	(132)	440
Ending balance	$4,835	$8,234	$3,427	$2,247	$270	$—	$2,252	$21,265
ALL balance attributable to loans:								
Individually evaluated for impairment	$743	$132	$139	$—	$78	$—	$—	$1,092
Collectively evaluated for impairment	4,092	8,102	3,288	2,247	192	—	2,252	20,173
Total ending ALL	$4,835	$8,234	$3,427	$2,247	$270	$—	$2,252	$21,265
Loans:								
Individually evaluated for impairment	$6,107	$2,696	$823	$302	$156	$—	$—	$10,084
Collectively evaluated for impairment	578,366	654,765	256,940	274,482	16,443	—	—	1,780,996
	$584,473	$657,461	$257,763	$274,784	$16,599	$—	$—	$1,791,080

Total ending loans balance

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	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	HPFC	Unallocated	Total
For The Year Ended December 31, 2015								
ALL:								
Beginning balance	$4,899	$7,951	$3,354	$2,247	$281	$—	$ 2,384	$21,116
Loans charged off	(801)	(481)	(655)	(525)	(154)	—	—	(2,616)
Recoveries	55	74	389	188	22	—	—	728
Provision (credit)(1)	392	2,888	153	821	44	24	(2,384)	1,938
Ending balance	$4,545	$10,432	$3,241	$2,731	$193	$24	$ —	$21,166
ALL balance attributable to loans:								
Individually evaluated for impairment	$544	$644	$92	$89	$—	$—	$ —	$1,369
Collectively evaluated for impairment	4,001	9,788	3,149	2,642	193	24	—	19,797
Total ending ALL	$4,545	$10,432	$3,241	$2,731	$193	$24	$ —	$21,166
Loans:								
Individually evaluated for impairment	$6,026	$4,610	$3,937	$588	$74	$—	$ —	$15,235
Collectively evaluated for impairment	814,591	923,341	293,784	348,046	17,879	77,330	—	2,474,971
Total ending loans balance	$820,617	$927,951	$297,721	$348,634	$17,953	$77,330	$ —	$2,490,206

(1) The provision (credit) for loan losses excludes any impact for the change in the reserve for unfunded commitments, which represents management's estimate of the amount required to reflect the probable inherent losses on outstanding letters of credit and unused lines of credit. The reserve for unfunded commitments is presented within accrued interest and other liabilities on the consolidated statements of condition. At March 31, 2016 and 2015, and December 31, 2015, the reserve for unfunded commitments was $24,000, $23,000 and $22,000, respectively.

The following table reconciles the three months ended March 31, 2016 and 2015, and year ended December 31, 2015 provision for loan losses to the provision for credit losses as presented on the consolidated statement of income:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Year Ended December 31, 2015
Provision for loan losses	$870	$440	$ 1,938
Change in reserve for unfunded commitments	2	6	(2)
Provision for credit losses	$872	$446	$ 1,936

The Company focuses on maintaining a well-balanced and diversified loan portfolio. Despite such efforts, it is recognized that credit concentrations may occasionally emerge as a result of economic conditions, changes in local demand, natural loan growth and runoff. To ensure that credit concentrations can be effectively identified, all commercial and commercial real estate loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. Shifts in portfolio concentrations are monitored by Credit Risk Administration. As of March 31, 2016, the non-residential building operators industry exposure was 11% of the Company's total loan portfolio and 29% of the total commercial real estate portfolio. There were no other industry exposures exceeding 10% of the Company's total loan portfolio as of March 31, 2016.

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To further identify loans with similar risk profiles, the Company categorizes each portfolio segment into classes by credit risk characteristic and applies a credit quality indicator to each portfolio segment. The indicators for commercial, commercial real estate and residential real estate loans are represented by Grades 1 through 10 as outlined below. In general, risk ratings are adjusted periodically throughout the year as updated analysis and review warrants. This process may include, but is not limited to, annual credit and loan reviews, periodic reviews of loan performance metrics, such as delinquency rates, and quarterly reviews of adversely risk rated loans. The Company uses the following definitions when assessing grades for the purpose of evaluating the risk and adequacy of the ALL:

- Grade 1 through 6 — Grades 1 through 6 represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risks, which is measured using a variety of credit risk criteria, such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.
- Grade 7 — Loans with potential weakness (Special Mention). Loans in this category are currently protected based on collateral and repayment capacity and do not constitute undesirable credit risk, but have potential weakness that may result in deterioration of the repayment process at some future date. This classification is used if a negative trend is evident in the obligor’s financial situation. Special mention loans do not sufficiently expose the Company to warrant adverse classification.
- Grade 8 — Loans with definite weakness (Substandard). Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or by collateral pledged. Borrowers experience difficulty in meeting debt repayment requirements. Deterioration is sufficient to cause the Company to look to the sale of collateral.
- Grade 9 — Loans with potential loss (Doubtful). Loans classified as doubtful have all the weaknesses inherent in the substandard grade with the added characteristic that the weaknesses make collection or liquidation of the loan in full highly questionable and improbable. The possibility of some loss is extremely high, but because of specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.
- Grade 10 — Loans with definite loss (Loss). Loans classified as loss are considered uncollectible. The loss classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset because recovery and collection time may be protracted.

Asset quality indicators are periodically reassessed to appropriately reflect the risk composition of the Company’s loan portfolio. Home equity and consumer loans are not individually risk rated, but rather analyzed as groups taking into account delinquency rates and other economic conditions which may affect the ability of borrowers to meet debt service requirements, including interest rates and energy costs. Performing loans include loans that are current and loans that are past due less than 90 days. Loans that are past due over 90 days and non-accrual loans, including TDRs, are considered non-performing.

The following table summarizes credit risk exposure indicators by portfolio segment as of the following dates:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	HPFC	Total
March 31, 2016							
Pass (Grades 1-6)	$ 795,256	$ 886,346	$ 277,568	$—	$ —	$72,615	$2,031,785
Performing	—	—	—	342,929	17,185	—	360,114
Special Mention (Grade 7)	3,043	32,330	7,778	—	—	301	43,452
Substandard (Grade 8)	13,675	33,805	6,718	—	—	1,513	55,711
Non-performing	—	—	—	1,568	4	—	1,572
Total	$ 811,974	$ 952,481	$ 292,064	$344,497	$ 17,189	$74,429	$2,492,634
December 31, 2015							
Pass (Grades 1-6)	$ 802,873	$ 868,664	$ 281,553	$—	$ —	$70,173	$2,023,263
Performing	—	—	—	346,701	17,835	—	364,536
Special Mention (Grade 7)	3,282	20,732	7,527	—	—	3,179	34,720
Substandard (Grade 8)	14,462	38,555	8,641	—	—	3,978	65,636
Non-performing	—	—	—	1,933	118	—	2,051
Total	$ 820,617	$ 927,951	$ 297,721	$348,634	$ 17,953	$77,330	$2,490,206

The Company closely monitors the performance of its loan portfolio for both the Bank and HPFC. A loan is placed on non-accrual status when the financial condition of the borrower is deteriorating, payment in full of both principal and interest is not expected as scheduled or principal or interest has been in default for 90 days or more. Exceptions may be made if the asset is well-secured by collateral sufficient to satisfy both the principal and accrued interest in full and collection is reasonably assured. When one loan to a borrower is placed on non-accrual status, all other loans to the borrower are re-evaluated to determine if they should also be placed on non-accrual status. All previously accrued and unpaid interest is reversed at this time. A loan may return to accrual status when collection of principal and interest is assured and the borrower has demonstrated timely payments of principal and interest for a reasonable period. Unsecured loans, however, are not normally placed on non-accrual status because they are charged-off once their collectability is in doubt.

The following is a loan aging analysis by portfolio segment (including loans past due over 90 days and non-accrual loans) and a summary of non-accrual loans, which include TDRs, and loans past due over 90 days and accruing as of the following dates:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Outstanding	Loans > 90 Days Past Due and Accruing	Non-Accrual Loans
March 31, 2016								
Residential real estate	$ 965	$ 719	$4,764	$6,448	$805,526	$811,974	$ —	$ 6,275
Commercial real estate	3,077	1,357	2,369	6,803	945,678	952,481	—	3,044
Commercial	664	123	1,255	2,042	290,022	292,064	—	4,128
Home equity	568	221	1,325	2,114	342,383	344,497	—	1,568
Consumer	34	9	7	50	17,139	17,189	—	4
HPFC	624	320	—	944	73,485	74,429	—	357
Total	$ 5,932	$ 2,749	$9,720	$18,401	$2,474,233	$2,492,634	$ —	$ 15,376
December 31, 2015								
Residential real estate	$ 3,325	$ 571	$6,077	$9,973	$810,644	$820,617	$ —	$ 7,253
Commercial real estate	4,219	2,427	1,584	8,230	919,721	927,951	—	4,529
Commercial	267	550	1,002	1,819	295,902	297,721	—	4,489
Home equity	643	640	1,505	2,788	345,846	348,634	—	1,933

Consumer	112	7	118	237	17,716	17,953	—	118
HPFC	165	—	—	165	77,165	77,330	—	—
Total	$ 8,731	$ 4,195	$10,286	$23,212	$2,466,994	$2,490,206	$ —	$ 18,322

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Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was $184,000 and $143,000 for the three months ended March 31, 2016 and 2015, respectively.

TDRs:

The Company takes a conservative approach with credit risk management and remains focused on community lending and reinvesting. The Company works closely with borrowers experiencing credit problems to assist in loan repayment or term modifications. TDR loans consist of loans where the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that it would not otherwise consider. TDRs, typically, involve term modifications or a reduction of either interest or principal. Once such an obligation has been restructured, it will remain a TDR until paid in full, or until the loan is again restructured at current market rates and no concessions are granted.

The specific reserve allowance was determined by discounting the total expected future cash flows from the borrower at the original loan interest rate, or if the loan is currently collateral-dependent, using the NRV, which was obtained through independent appraisals and internal evaluations. The following is a summary of TDRs, by portfolio segment, and the associated specific reserve included within the ALL as of the periods indicated:

	Number of Contracts		Recorded Investment		Specific Reserve	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Residential real estate	22	22	$3,343	$ 3,398	$336	$ 544
Commercial real estate	4	6	1,109	1,459	—	48
Commercial	7	9	325	399	1	11
Home equity	1	1	20	21	—	—
Total	34	38	$4,797	$ 5,277	$337	$ 603

At March 31, 2016, the Company had performing and non-performing TDRs with a recorded investment balance of $4.6 million and $227,000, respectively. At December 31, 2015, the Company had performing and non-performing TDRs with a recorded investment balance of $4.8 million and $446,000, respectively. As of March 31, 2016 and December 31, 2015, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

There were no loan modifications that occurred during the three months ended March 31, 2016 or 2015 that qualify as TDRs.

For the three months ended March 31, 2016 and 2015, no loans were modified as TDRs within the previous 12 months for which the borrower subsequently defaulted.

Impaired Loans:

Impaired loans consist of non-accrual and TDR loans that are individually evaluated for impairment in accordance with the Company's policy. The following is a summary of impaired loan balances and the associated allowance by portfolio segment as of and for three months ended March 31, 2016 and 2015, and as of and for the year-ended December 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended Average Recorded Investment	Three Months Ended Interest Income Recognized
March 31, 2016:					
With an allowance recorded:					
Residential real estate	$ 3,137	$ 3,137	$ 512	$ 3,156	$ 27
Commercial real estate	540	538	158	1,256	—
Commercial	321	334	214	239	—
Home equity	303	303	89	303	—
Consumer	—	—	—	—	—
HPFC	357	383	307	230	—
Ending balance	4,658	4,695	1,280	5,184	27
Without an allowance recorded:					
Residential real estate	2,896	3,832	—	2,954	2
Commercial real estate	2,590	3,327	—	2,643	11
Commercial	3,541	3,996	—	3,664	4
Home equity	189	452	—	218	—
Consumer	7	10	—	7	—
HPFC	—	—	—	—	—
Ending balance	9,223	11,617	—	9,486	17
Total impaired loans	$ 13,881	$ 16,312	$ 1,280	$ 14,670	$ 44
March 31, 2015:					
With an allowance recorded:					
Residential real estate	$ 4,342	$ 4,341	$ 743	$ 4,409	$ 29
Commercial real estate	256	266	132	86	—
Commercial	233	233	139	199	—
Home equity	—	—	—	—	—
Consumer	139	140	78	140	—
HPFC	—	—	—	—	—
Ending Balance	4,970	4,980	1,092	4,834	29
Without an allowance recorded:					
Residential real estate	1,765	2,289	—	1,774	2
Commercial real estate	2,440	2,748	—	3,102	8
Commercial	590	754	—	503	4
Home equity	302	505	—	303	—
Consumer	17	37	—	17	—
HPFC	—	—	—	—	—
Ending Balance	5,114	6,333	—	5,699	14
Total impaired loans	$ 10,084	$ 11,313	$ 1,092	$ 10,533	$ 43

			Year Ended
Recorded Investment	Unpaid Principal Balance	Related Allowance	