CAMDEN NATIONAL CORP
Form 10-Q
May 07, 2015
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, 2015
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 5, 2015: Common stock (no par value) 7,442,559 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION

(In Thousands, Except Number of Shares)	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$53,074	$60,813
Securities:		
Available-for-sale securities, at fair value	752,164	763,063
Held-to-maturity securities, at amortized cost	41,010	20,179
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,391	20,391
Total securities	813,565	803,633
Trading account assets	2,308	2,457
Loans held for sale	625	—
Loans	1,791,080	1,772,610
Less: allowance for loan losses	(21,265)	(21,116)
Net loans	1,769,815	1,751,494
Bank-owned life insurance	58,222	57,800
Goodwill and other intangible assets	47,884	48,171
Premises and equipment, net	23,606	23,886
Deferred tax assets	14,118	14,434
Interest receivable	6,458	6,017
Other real estate owned	1,381	1,587
Other assets	20,148	19,561
Total assets	$2,811,204	$2,789,853
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities		
Deposits:		
Demand	$255,574	$263,013
Interest checking	480,528	480,521
Savings and money market	653,834	653,708
Certificates of deposit	314,532	317,123
Brokered deposits	261,706	217,732
Total deposits	1,966,174	1,932,097
Federal Home Loan Bank advances	56,020	56,039
Other borrowed funds	447,530	476,939
Junior subordinated debentures	44,050	44,024
Accrued interest and other liabilities	45,631	35,645
Total liabilities	2,559,405	2,544,744
Commitments and contingencies (Notes 6, 7, and 9)		

CONSOLIDATED STATEMENTS OF CONDITION (CONTINUED)

(In Thousands, Except Number of Shares)	March 31, 2015 (unaudited)	December 31, 2014
Shareholders’ Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 7,438,929 and 7,426,222 shares as of March 31, 2015 and December 31, 2014, respectively	41,889	41,555
Retained earnings	215,361	211,979
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities, net of tax	3,789	(319)
Net unrealized losses on derivative instruments, net of tax	(7,115)	(5,943)
Net unrecognized losses on postretirement plans, net of tax	(2,125)	(2,163)
Total accumulated other comprehensive loss	(5,451)	(8,425)
Total shareholders’ equity	251,799	245,109
Total liabilities and shareholders’ equity	$2,811,204	$2,789,853

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, 2015	2014
Interest Income		
Interest and fees on loans	$18,084	$16,780
Interest on U.S. government and sponsored enterprise obligations	3,872	4,230
Interest on state and political subdivision obligations	387	294
Interest on federal funds sold and other investments	108	89
Total interest income	22,451	21,393
Interest Expense		
Interest on deposits	1,529	1,551
Interest on borrowings	860	807
Interest on junior subordinated debentures	625	625
Total interest expense	3,014	2,983
Net interest income	19,437	18,410
Provision for credit losses	446	493
Net interest income after provision for credit losses	18,991	17,917
Non-Interest Income		
Service charges on deposit accounts	1,487	1,469
Other service charges and fees	1,510	1,395
Income from fiduciary services	1,220	1,184
Brokerage and insurance commissions	449	478
Bank-owned life insurance	422	306
Mortgage banking income, net	239	72
Net gain on sale of securities	—	166
Other income	817	615
Total non-interest income	6,144	5,685
Non-Interest Expense		
Salaries and employee benefits	8,375	7,980
Furniture, equipment and data processing	1,923	1,789
Net occupancy	1,472	1,380
Consulting and professional fees	591	518
Other real estate owned and collection costs	562	513
Regulatory assessments	510	481
Amortization of intangible assets	287	287
Merger and acquisition costs	735	—
Other expenses	2,346	2,177
Total non-interest expense	16,801	15,125
Income before income taxes	8,334	8,477
Income Taxes	2,723	2,762
Net Income	$5,611	$5,715
Per Share Data		
Basic earnings per share	$0.75	$0.76
Diluted earnings per share	$0.75	$0.75
Weighted average number of common shares outstanding	7,431,065	7,528,751
Diluted weighted average number of common shares outstanding	7,453,875	7,551,785

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
(In Thousands)	2015	2014
Net income	$5,611	$5,715
Other comprehensive income:		
Available-for-sale securities:		
Net unrealized gains on available-for-sale securities arising during the period, net of tax of ($2,212) and ($1,041), respectively	4,108	1,933
Reclassification of gains included in net income, net of tax of $0 and $58, respectively[1]	—	(108)
Net change in unrealized gains on available-for-sale securities, net of tax	4,108	1,825
Net change in unrealized losses on cash flow hedging derivatives, net of tax of $631, and $583, respectively	(1,172)	(1,083)
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of ($21) and ($15), respectively[2]	38	27
Other comprehensive income	2,974	769
Comprehensive Income	$8,585	$6,484

(1) Reclassified into the consolidated statements of income in net gain on sale of securities.
(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.

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, 2013	7,579,913	$47,783	$195,660	$(12,347)	$231,096
Net income	—	—	5,715	—	5,715
Other comprehensive income, net of tax	—	—	—	769	769
Stock-based compensation expense	—	176	—	—	176
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	18,174	118	—	—	118
Common stock repurchased	(113,527)	(4,393)	—	—	(4,393)
Cash dividends declared ($0.27 per share)	—	—	(2,012)	—	(2,012)
Balance at March 31, 2014	7,484,560	$43,684	$199,363	$(11,578)	$231,469
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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31,	
(In Thousands)	2015	2014
Operating Activities		
Net income	$5,611	$5,715
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	446	493
Depreciation expense	764	944
Investment securities amortization and accretion, net	509	411
Stock-based compensation expense	198	176
Amortization of intangible assets	287	287
Net gain on sale of investment securities	—	(166)
Net increase in other real estate owned valuation allowance and loss on disposition	81	15
Originations of mortgage loans held for sale	(5,425)	—
Proceeds from the sale of mortgage loans	4,935	—
Gain on sale of mortgage loans	(129)	—
Decrease in trading assets	149	180
Decrease (increase) in other assets	169	(1,278)
Increase (decrease) in other liabilities	412	(366)
Net cash provided by operating activities	8,007	6,411
Investing Activities		
Proceeds from sales and maturities of available-for-sale securities	37,132	33,205
Purchase of available-for-sale securities	(20,344)	(19,395)
Purchase of held-to-maturity securities	(16,076)	(5,976)
Net increase in loans	(20,293)	(40,892)
Purchase of Federal Home Loan Bank stock	—	(693)
Proceeds from the sale of other real estate owned	1,564	—
Recoveries of previously charged-off loans	133	237
Purchase of premises and equipment	(464)	(283)
Net cash used by investing activities	(18,348)	(33,797)
Financing Activities		
Net increase in deposits	34,112	22,899
Repayments on Federal Home Loan Bank long-term advances	(19)	(18)
Net (decrease) increase in other borrowed funds	(29,392)	11,309
Common stock repurchased	—	(4,355)
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	136	118
Cash dividends paid on common stock	(2,235)	(2,045)
Net cash provided by financing activities	2,602	27,908
Net (decrease) increase in cash and cash equivalents	(7,739)	522
Cash and cash equivalents at beginning of year	60,813	51,355
Cash and cash equivalents at end of period	$53,074	$51,877
Supplemental information		
Interest paid	$3,015	$3,019
Income taxes paid	5	1,500
Transfer from loans to other real estate owned	1,439	532
Held-to-maturity securities purchased but unsettled	4,830	1,008

Common stock repurchased but unsettled	—	358

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Tables Expressed in Thousands, Except Number of Shares and per Share Data)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated 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, 2015 and December 31, 2014, the consolidated statements of income for the three months ended March 31, 2015 and 2014, the consolidated statements of comprehensive income for the three months ended March 31, 2015 and 2014, the consolidated statements of changes in shareholders' equity for the three months ended March 31, 2015 and 2014, and the consolidated statements of cash flows for the three months ended March 31, 2015 and 2014. All significant intercompany transactions and balances are eliminated in consolidation. The income reported for the three months ended March 31, 2015 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, 2014 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
Act:	Medicare Prescription Drug, Improvement and Modernization Act	FDIC:	Federal Deposit Insurance Corporation
AFS:	Available-for-sale	FHLB:	Federal Home Loan Bank
ALCO:	Asset/Liability Committee	FHLBB:	Federal Home Loan Bank of Boston
ALL:	Allowance for loan losses	FRB:	Federal Reserve Bank
AOCI:	Accumulated other comprehensive income (loss)	Freddie Mac:	Federal Home Loan Mortgage Corporation
ASC:	Accounting Standards Codification	GAAP:	Generally accepted accounting principles in the United States
ASU:	Accounting Standards Update	HTM:	Held-to-maturity
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	IRS:	Internal Revenue Service
BOLI:	Bank-owned life insurance	LIBOR:	London Interbank Offered Rate
Board ALCO:	Board of Directors' Asset/Liability Committee	LTIP:	Long-Term Performance Share Plan
BSA:	Bank Secrecy Act	MaineHousing:	Maine State Housing Authority
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	Management ALCO:	Management Asset/Liability Committee
CDARS:	Certificate of Deposit Account Registry System	MBS:	Mortgage-backed security
CDs:	Certificate of deposits	MSRs:	Mortgage servicing rights

Company:	Camden National Corporation	MSPP:	Management Stock Purchase Plan
CSV:	Cash surrender value	OTTI:	Other-than-temporary impairment
CMO:	Collateralized mortgage obligation	NIM:	Net interest margin on a fully-taxable basis
DCRP:	Defined Contribution Retirement Plan	N.M.:	Not meaningful
EPS:	Earnings per share	Non-Agency:	Non-agency private issue collateralized mortgage obligation

NRV:	Net realizable value	TDR:	Troubled-debt restructured loan
OCC:	Office of the Comptroller of the Currency	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
OCI:	Other comprehensive income (loss)	U.S.:	United States of America
OFAC:	Office of Foreign Assets Control	2003 Plan:	2003 Stock Option and Incentive Plan
OREO:	Other real estate owned	2012 Plan:	2012 Equity and Incentive Plan
SERP:	Supplemental executive retirement plans	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,	
	2015	2014
Net income	$5,611	$5,715
Dividends and undistributed earnings allocated to participating securities(1)	(17)	(17)
Net income available to common shareholders	$5,594	$5,698
Weighted-average common shares outstanding for basic EPS	7,431,065	7,528,751
Dilutive effect of stock-based awards(2)	22,810	23,034
Weighted-average common and potential common shares for diluted EPS	7,453,875	7,551,785
Earnings per common share:		
Basic EPS	$0.75	$0.76
Diluted EPS	$0.75	$0.75
Awards excluded from the calculation of diluted EPS(3):		
Stock options	15,250	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.

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 is increased to include 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, 2015				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$4,964	$121	$—	$5,085
Obligations of states and political subdivisions	22,574	593	—	23,167
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	378,675	6,977	(930)	384,722
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	334,364	2,150	(3,133)	333,381
Private issue collateralized mortgage obligations	5,757	85	(33)	5,809
Total AFS securities	$746,334	$9,926	$(4,096)	$752,164
HTM Securities:				
Obligations of states and political subdivisions	$41,010	$529	$(40)	$41,499
Total HTM securities	$41,010	$529	$(40)	$41,499
December 31, 2014				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$4,962	$65	$—	$5,027
Obligations of states and political subdivisions	26,080	697	—	26,777
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	377,657	5,656	(2,005)	381,308
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	348,855	953	(5,911)	343,897
Private issue collateralized mortgage obligations	5,999	63	(8)	6,054
Total AFS securities	$763,553	$7,434	$(7,924)	$763,063
HTM Securities:				
Obligations of states and political subdivisions	$20,179	$265	$(19)	$20,425
Total HTM securities	$20,179	$265	$(19)	$20,425

Net unrealized gains on AFS securities at March 31, 2015 included in AOCI amounted to $3.8 million, net of a deferred tax liability of $2.0 million. Net unrealized losses on AFS securities at December 31, 2014 included in AOCI amounted to $319,000, net of a deferred tax benefit of $172,000.

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 value 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, 2015 and December 31, 2014, 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, 2015						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$10,308	$(26)	$73,476	$(904)	$83,784	$(930)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	9,308	(171)	161,546	(2,962)	170,854	(3,133)
Private issue collateralized mortgage obligations	1,818	(33)	—	—	1,818	(33)
Total AFS securities	$21,434	$(230)	$235,022	$(3,866)	$256,456	$(4,096)
HTM Securities:						
Obligations of states and political subdivisions	$6,160	$(40)	$—	$—	$6,160	$(40)
Total HTM securities	$6,160	$(40)	$—	$—	$6,160	$(40)
December 31, 2014						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$42,856	$(171)	$125,439	$(1,834)	$168,295	$(2,005)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	75,723	(432)	182,512	(5,479)	258,235	(5,911)
Private issue collateralized mortgage obligations	1,785	(8)	—	—	1,785	(8)
Total AFS securities	$120,364	$(611)	$307,951	$(7,313)	$428,315	$(7,924)
HTM Securities:						
Obligations of states and political subdivisions	$5,756	$(19)	$—	$—	$5,756	$(19)
Total HTM securities	$5,756	$(19)	$—	$—	$5,756	$(19)

At March 31, 2015, the Company held 60 investment securities with a fair value of $262.6 million with unrealized losses totaling $4.1 million that are considered temporary. Of these, the Company had 38 MBS and CMO investments with a fair value of $235.0 million that have been in an unrealized loss position 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 credit deterioration or other factors with the Company's investment portfolio. At March 31, 2015, the Company had no Non-Agency investments in an unrealized loss position for 12 months or more.

Stress tests are performed monthly on the Company's Non-Agency investments, which are higher risk bonds within the investment portfolio, using current statistical data to determine expected cash flows and forecast potential losses. The results of the stress tests during the first three months of 2015 and 2014 indicated potential future credit losses that were lower than previously recorded OTTI and, as such, no additional OTTI was recorded during the first three months of 2015 or 2014.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at March 31, 2015 until the decline in value has recovered.

Sale of Securities

The following table details the Company’s sales of AFS securities for the period indicated below:

	Three Months Ended March 31,	
	2015	2014
Proceeds from sales of securities	$—	$9,437
Gross realized gains	—	166
Gross realized losses	—	—

For the three months ended March 31, 2015, the Company did not sell any investment securities. For the three months ended March 31, 2014, the Company sold certain AFS securities with a total carrying value of $9.3 million and recorded net gains on the sale of AFS securities of $166,000 within non-interest income in the consolidated statements of income. The Company had not previously recorded any OTTI on these securities sold.

Securities Pledged

At March 31, 2015 and December 31, 2014, securities with an amortized cost of $476.0 million and $486.2 million and estimated fair values of $479.4 million and $485.6 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, 2015, 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	$2,535	$2,588
Due after one year through five years	89,461	90,309
Due after five years through ten years	96,423	98,530
Due after ten years	557,915	560,737
	$746,334	$752,164
HTM Securities		
Due in one year or less	$—	$—
Due after one year through five years	1,118	1,159
Due after five years through ten years	2,299	2,316
Due after ten years	37,593	38,024
	$41,010	$41,499

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, 2015 and December 31, 2014 was as follows:

	March 31, 2015	December 31, 2014
Residential real estate	$585,008	$585,996
Commercial real estate	657,461	640,661
Commercial	257,763	257,515
Home equity	274,784	271,709
Consumer	16,599	17,257
Deferred fees, net of costs	(535)	(528)
Total	$1,791,080	$1,772,610

The Company’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.

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 first quarter of 2015.

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 Corporate Risk Management Group 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, and consumer.

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.

The following table presents the activity in the ALL and select loan information by portfolio segment for the three months ended March 31, 2015 and 2014, and for the year ended December 31, 2014:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	Unallocated	Total
For The Three Months Ended March 31, 2015							
ALL:							
Beginning balance	$4,899	$4,482	$6,823	$2,247	$281	$2,384	$21,116
Loans charged off	(113)	(55)	(159)	(89)	(8)	—	(424)
Recoveries	3	10	104	5	11	—	133
Provision (reduction)	46	324	132	84	(14)	(132)	440
Ending balance	$4,835	$4,761	$6,900	$2,247	$270	$2,252	$21,265
ALL balance attributable to loans:							
Individually evaluated for impairment	$1,103	$278	$264	$488	$100	$—	$2,233
Collectively evaluated for impairment	3,732	4,483	6,636	1,759	170	2,252	19,032
Total ending ALL	$4,835	$4,761	$6,900	$2,247	$270	$2,252	$21,265
Loans:							
Individually evaluated for impairment	$9,103	$4,696	$1,790	$1,689	$253	$—	$17,531
Collectively evaluated for impairment	575,370	652,765	255,973	273,095	16,346	—	1,773,549
Total ending loans balance	$584,473	$657,461	$257,763	$274,784	$16,599	$—	$1,791,080
For The Three Months Ended March 31, 2014							
ALL:							
Beginning balance	$5,603	$4,374	$6,220	$2,403	$319	$2,671	$21,590
Loans charged off	(183)	(171)	(219)	(62)	(14)	—	(649)
Recoveries	92	39	96	3	7	—	237
Provision (reduction)	(101)	286	195	329	(2)	(215)	492
Ending balance	$5,411	$4,528	$6,292	$2,673	$310	$2,456	$21,670
ALL balance attributable to loans:							
Individually evaluated for impairment	$1,628	$557	$177	$754	$141	$—	$3,257
Collectively evaluated for impairment	3,783	3,971	6,115	1,919	169	2,456	18,413
Total ending ALL	$5,411	$4,528	$6,292	$2,673	$310	$2,456	$21,670
Loans:							
Individually evaluated for impairment	$13,041	$9,339	$2,372	$2,011	$446	$—	$27,209
Collectively evaluated for impairment	554,702	565,356	188,699	267,900	16,320	—	1,592,977
	$567,743	$574,695	$191,071	$269,911	$16,766	$—	$1,620,186

Total ending loans balance							
For The Year Ended December 31, 2014							
ALL:							
Beginning balance	$5,603	$4,374	$6,220	$2,403	$319	$2,671	$21,590
Loans charged off	(785)	(361)	(1,544)	(611)	(143)	—	(3,444)
Recoveries	165	135	395	19	32	—	746
Provision (reduction)	(84)	334	1,752	436	73	(287)	2,224
Ending balance	$4,899	$4,482	$6,823	$2,247	$281	$2,384	$21,116
ALL balance attributable to loans:							
Individually evaluated for impairment	$1,220	$251	$168	$496	$104	$—	$2,239
Collectively evaluated for impairment	3,679	4,231	6,655	1,751	177	2,384	18,877
Total ending ALL	$4,899	$4,482	$6,823	$2,247	$281	$2,384	$21,116
Loans:							
Individually evaluated for impairment	$9,656	$7,658	$1,853	$1,741	$271	$—	$21,179
Collectively evaluated for impairment	575,812	633,003	255,662	269,968	16,986	—	1,751,431
Total ending loans balance	$585,468	$640,661	$257,515	$271,709	$17,257	$—	$1,772,610

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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 the Corporate Risk Management Group. As of March 31, 2015, the Company did not have any industry exposures exceeding 10% of the Company's total loan portfolio. At March 31, 2015, the two most significant industry exposures within the commercial real estate loan portfolio were: (i) non-residential building operators (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings) at 26%; and (ii) lodging (inns, bed & breakfasts, ski lodges, tourist cabins, hotels and motels) at 25%.

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.

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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	Total
March 31, 2015						
Pass (Grades 1-6)	$572,006	$621,799	$245,990	$—	$—	$1,439,795
Performing	—	—	—	273,095	16,346	289,441
Special Mention (Grade 7)	3,416	8,022	5,588	—	—	17,026
Substandard (Grade 8)	9,051	27,640	6,185	—	—	42,876
Non-performing	—	—	—	1,689	253	1,942
Total	$584,473	$657,461	$257,763	$274,784	$16,599	$1,791,080
December 31, 2014						
Pass (Grades 1-6)	$572,589	$606,387	$244,930	$—	$—	$1,423,906
Performing	—	—	—	269,968	16,986	286,954
Special Mention (Grade 7)	3,579	4,690	6,023	—	—	14,292
Substandard (Grade 8)	9,300	29,584	6,562	—	—	45,446
Non-performing	—	—	—	1,741	271	2,012
Total	$585,468	$640,661	$257,515	$271,709	$17,257	$1,772,610

The Company closely monitors the performance of its loan portfolio. 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 by a specific event such as the closing of a pending sale contract. 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 be returned 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, 2015								
Residential real estate	$934	$288	$4,197	$5,419	$579,054	$584,473	$—	$ 5,630
Commercial real estate	1,133	784	1,633	3,550	653,911	657,461	—	4,083
Commercial	142	2	1,253	1,397	256,366	257,763	—	1,442
Home equity	684	354	1,052	2,090	272,694	274,784	—	1,689
Consumer	54	2	251	307	16,292	16,599	—	253
Total	$2,947	$1,430	$8,386	$12,763	$1,778,317	$1,791,080	$—	$ 13,097
December 31, 2014								
	$1,206	$426	$4,531	$6,163	$579,305	$585,468	$—	$ 6,056

Residential real estate								
Commercial real estate	1,696	—	3,791	5,487	635,174	640,661	—	7,043
Commercial	456	269	1,139	1,864	255,651	257,515	—	1,529
Home equity	889	88	1,129	2,106	269,603	271,709	—	1,741
Consumer	28	—	254	282	16,975	17,257	—	271
Total	$4,275	$783	$10,844	$15,902	$1,756,708	$1,772,610	$—	$ 16,640

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was $143,000 and $230,000 for the three months ended March 31, 2015 and 2014, respectively.

TDRs:

The Company takes a conservative approach in 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 were 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:

	Number of Contracts		Recorded Investment		Specific Reserve	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Residential real estate	23	24	$3,659	$3,786	$591	$635
Commercial real estate	7	7	1,684	1,702	—	—
Commercial	9	9	429	426	13	10
Consumer and home equity	1	1	28	29	—	—
Total	40	41	$5,800	$5,943	$604	$645

At March 31, 2015, the Company had performing and non-performing TDRs of $4.4 million and $1.4 million, respectively. At December 31, 2014, the Company had performing and non-performing TDRs of $4.5 million and $1.5 million, respectively. As of March 31, 2015, the Company did not have any commitments to lend additional funds to borrowers with loans classified as TDRs.

The following represents loan modifications that occurred during the three months ended March 31, 2015 and 2014 that qualify as TDRs, by portfolio segment, and the associated specific reserve included within the ALL:

	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		Specific Reserve	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Residential real estate	—	1	$—	$136	$—	$149	$—	$45
Total	—	1	$—	$136	$—	$149	$—	$45

For the three months ended March 31, 2015, no loans were modified as a TDR within the previous 12 months for which the borrower subsequently defaulted. For the three months ended March 31, 2014, one commercial loan with a recorded investment of $46,000 was modified as a TDR within the previous 12 months for which the borrower subsequently defaulted.

Impaired Loans:

Impaired loans consist of non-accrual loans and TDRs. All impaired loans are allocated a portion of the allowance to cover potential losses. The following is a summary of impaired loan balances and associated allowance by portfolio segment as of and for the three months ended March 31, 2015 and 2014:

				Three Months Ended	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2015:					
With an allowance recorded:					
Residential real estate	$7,338	$7,338	$1,103	$7,520	$29
Commercial real estate	2,256	2,265	278	2,446	—
Commercial	1,200	1,200	264	1,533	—
Home equity	1,387	1,387	488	1,410	—
Consumer	237	237	100	248	—
Ending Balance	12,418	12,427	2,233	13,157	29
Without an allowance recorded:					
Residential real estate	1,765	2,289	—	2,253	2
Commercial real estate	2,440	2,748	—	3,264	8
Commercial	590	754	—	428	4
Home equity	302	505	—	303	—
Consumer	16	37	—	17	—
Ending Balance	5,113	6,333	—	6,265	14
Total impaired loans	$17,531	$18,760	$2,233	$19,422	$43
March 31, 2014:					
With an allowance recorded:					
Residential real estate	$10,091	$10,091	$1,628	$10,894	$29
Commercial real estate	7,845	7,844	557	7,252	5
Commercial	1,980	1,980	177	1,963	5
Home equity	1,593	1,593	754	1,557	—
Consumer	429	430	141	427	—
Ending Balance	21,938	21,938	3,257	22,093	39
Without an allowance recorded:					
Residential real estate	2,950	3,371	—	2,345	5
Commercial real estate	1,494	2,088	—	1,735	10
Commercial	392	484	—	569	1
Home equity	418	594	—	418	—
Consumer	17	37	—	17	—
Ending Balance	5,271	6,574	—	5,084	16
Total impaired loans	$27,209	$28,512	$3,257	$27,177	$55

The following is a summary of impaired loan balances and associated allowance by portfolio segment as of and for the year ended December 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended Average Recorded Investment	Interest Income Recognized
With an allowance recorded:					
Residential real estate	$7,713	$7,713	$1,220	$9,524	$125
Commercial real estate	3,419	3,419	251	4,911	—
Commercial	1,390	1,390	168	2,466	8
Home equity	1,410	1,410	496	1,545	—
Consumer	254	254	104	358	—
Ending Balance	14,186	14,186	2,239	18,804	133
Without an allowance recorded:					
Residential real estate	1,943	2,604	—	2,257	13
Commercial real estate	4,239	4,502	—	2,869	59
Commercial	463	606	—	791	11
Home equity	331	581	—	399	—
Consumer	17	37	—	21	—
Ending Balance	6,993	8,330	—	6,337	83
Total impaired loans	$21,179	$22,516	$2,239	$25,141	$216

Loan Sales:

For the three months ended March 31, 2015, the Company sold $4.8 million of 30-year fixed rate residential mortgage loans on the secondary market that resulted in net gains on the sale of loans of $129,000. At March 31, 2015, the Company had certain 30-year fixed rate mortgage loans with a total principal of $619,000 designated as held for sale. The Company has elected to record its loans held for sale at fair value. At March 31, 2015, the Company recorded an unrealized gain of $6,000 within non-operating income on its consolidated statements of income for the three months ended March 31, 2015.

The Company did not sell any loans on the secondary market for the three months ended March 31, 2014 nor have any loans designated as held for sale at March 31, 2014.

OREO:

The Company records its properties obtained through foreclosure or deed-in-lieu of foreclosure as OREO properties on the consolidated statements of condition at NRV. At March 31, 2015, the Company had 11 residential real estate properties and 5 commercial properties with a carrying value of $533,000 and $848,000, respectively, within OREO. At December 31, 2014, the Company had 11 residential real estate properties and 6 commercial properties with a carrying value of $575,000 and $1.0 million, respectively, within OREO.

In-Process Foreclosure Proceedings:

At March 31, 2015 and December 31, 2014, the Company had $4.5 million and $4.9 million, respectively, of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process, representing 60% and 61%, respectively, of non-performing loans within the Company's residential, consumer and home equity portfolios.

FHLB Advances:

FHLB advances are those borrowings from the FHLBB greater than 90 days. FHLB advances are collateralized by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one- to four-family properties, certain commercial real estate loans, certain pledged investment securities and other qualified assets. The carrying value of residential real estate and commercial loans pledged as collateral was $836.7 million and $843.2 million at March 31, 2015 and December 31, 2014, respectively. The carrying value of securities pledged as collateral was $743,000 and $833,000 at March 31, 2015 and December 31, 2014, respectively.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recognized goodwill and certain identifiable intangible assets in connection with certain business combinations in prior years.

Goodwill as of March 31, 2015 and December 31, 2014 for each reporting unit is shown in the table below:

	Goodwill		
	Banking	Financial Services	Total
March 31, 2015 and December 31, 2014:			
Goodwill, gross	$40,902	$7,474	$48,376
Accumulated impairment losses	—	(3,570)	(3,570)
Reported goodwill at March 31, 2015 and December 31, 2014	$40,902	$3,904	$44,806

The changes in core deposit and trust relationship intangible assets for the three months ended March 31, 2015 are shown in the table below:

Core Deposit Intangible