CAMDEN NATIONAL CORP
Form 10-Q
November 04, 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 September 30, 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 November 1, 2016: Common stock (no par value) 15,440,981 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016
TABLE OF CONTENTS OF INFORMATION REQUIRED IN REPORT

2

PART I. FINANCIAL INFORMATION

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

(In Thousands, Except Number of Shares)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$99,458	$79,488
Securities:		
Available-for-sale securities, at fair value	788,880	750,338
Held-to-maturity securities, at amortized cost	94,205	84,144
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	23,201	21,513
Total securities	906,286	855,995
Loans held for sale	24,644	10,958
Loans	2,592,009	2,490,206
Less: allowance for loan losses	(23,290)	(21,166)
Net loans	2,568,719	2,469,040
Goodwill	94,697	95,657
Other intangible assets	7,240	8,667
Bank-owned life insurance	77,937	59,917
Premises and equipment, net	43,934	45,959
Deferred tax assets	34,632	39,716
Interest receivable	8,364	7,985
Other real estate owned	811	1,304
Other assets	37,244	34,658
Total assets	$3,903,966	$3,709,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	$427,349	$357,673
Interest checking	763,710	740,084
Savings and money market	979,085	912,668
Certificates of deposit	489,856	516,867
Brokered deposits	229,225	199,087
Total deposits	2,889,225	2,726,379
Short-term borrowings	489,749	477,852
Long-term borrowings	10,808	35,911
Subordinated debentures	58,716	58,599
Accrued interest and other liabilities	62,287	47,413
Total liabilities	3,510,785	3,346,154
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 15,434,856 and 15,330,717 shares as of September 30, 2016 and December 31, 2015, respectively	155,264	153,083
Retained earnings	242,092	222,329
Accumulated other comprehensive loss:		

Net unrealized gains (losses) on available-for-sale securities, net of tax	6,595	(3,801)
Net unrealized losses on cash flow hedging derivative instruments, net of tax	(8,838)	(6,374)
Net unrecognized losses on postretirement plans, net of tax	(1,932)	(2,047)
Total accumulated other comprehensive loss	(4,175)	(12,222)
Total shareholders' equity	393,181	363,190
Total liabilities and shareholders' equity	$3,903,966	$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 September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Interest Income				
Interest and fees on loans	$27,395	$ 18,651	$82,117	$ 56,077
Interest on U.S. government and sponsored enterprise obligations	4,049	3,598	12,055	11,187
Interest on state and political subdivision obligations	702	624	2,127	1,504
Interest on federal funds sold and other investments	448	183	1,051	393
Total interest income	32,594	23,056	97,350	69,161
Interest Expense				
Interest on deposits	2,204	1,557	6,355	4,630
Interest on borrowings	1,161	849	3,610	2,556
Interest on subordinated debentures	857	638	2,557	1,894
Total interest expense	4,222	3,044	12,522	9,080
Net interest income	28,372	20,012	84,828	60,081
Provision for credit losses	1,279	279	5,003	979
Net interest income after provision for credit losses	27,093	19,733	79,825	59,102
Non-Interest Income				
Debit card income	1,894	1,266	5,650	3,652
Service charges on deposit accounts	1,799	1,554	5,356	4,634
Other service charges and fees	591	416	1,494	1,124
Mortgage banking income, net	2,407	390	4,921	975
Income from fiduciary services	1,225	1,177	3,736	3,725
Bank-owned life insurance	585	443	1,899	1,267
Brokerage and insurance commissions	594	411	1,569	1,362
Net gain on sale of securities	—	4	4	4
Other income	1,906	900	4,841	2,275
Total non-interest income	11,001	6,561	29,470	19,018
Non-Interest Expense				
Salaries and employee benefits	12,044	8,691	35,634	25,550
Furniture, equipment and data processing	2,349	1,705	7,157	5,530
Net occupancy costs	1,685	1,194	5,352	3,905
Consulting and professional fees	742	470	2,609	1,734
Regulatory assessments	667	513	2,162	1,534
Debit card expense	669	431	2,107	1,299
Other real estate owned and collection costs	877	543	2,029	1,554
Amortization of intangible assets	475	288	1,427	862
Merger and acquisition costs	45	766	866	1,629
Other expenses	2,596	2,110	8,045	6,072
Total non-interest expense	22,149	16,711	67,388	49,669
Income before income taxes	15,945	9,583	41,907	28,451
Income Taxes	5,042	3,127	12,742	9,191
Net Income	$10,903	$ 6,456	$29,165	$ 19,260
Per Share Data				
Basic earnings per share	$0.70	$ 0.58	$1.88	$ 1.72

Diluted earnings per share	$0.70	$ 0.57	$1.88	$ 1.71
Weighted average number of common shares outstanding	15,425,452	11,179,821	15,410,310	11,165,297
Diluted weighted average number of common shares outstanding	15,507,561	11,215,844	15,483,320	11,196,749

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(In Thousands)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income	$10,903	$6,456	$29,165	$19,260
Other comprehensive income:				
Net change in unrealized gains (losses) on available-for-sale securities:				
Net change in unrealized gains (losses) on available-for-sale securities, net of tax of $405, ($1,649), ($5,599) and ($1,723), respectively	(752)	3,064	10,399	3,202
Net reclassification adjustment for gains included in net income, net of tax of $0, $1, $1 and $1, respectively(1)	—	(3)	(3)	(3)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(752)	3,061	10,396	3,199
Net change in unrealized gains (losses) on cash flow hedging derivatives:				
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax of ($107), $1,221, $1,859, and $1,115, respectively	199	(2,267)	(3,453)	(2,070)
Net reclassification adjustment for effective portion of cash flow hedges included in interest expense, net of tax of ($187), ($271), ($532) and ($447), respectively(2)	347	504	989	829
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax	546	(1,763)	(2,464)	(1,241)
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of ($20), ($20), ($62) and ($61), respectively(3)	39	39	115	116
Other comprehensive income (loss)	(167)	1,337	8,047	2,074
Comprehensive Income	$10,736	$7,793	$37,212	$21,334

(1) Reclassified into the consolidated statements of income in net gain on sale of securities.
(2) Reclassified into the consolidated statements of income in interest on subordinated debentures.
(3) 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[1]	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2014	11,139,333	$41,555	$211,979	$(8,425)	$245,109
Net income	—	—	19,260	—	19,260
Other comprehensive income, net of tax	—	—	—	2,074	2,074
Stock-based compensation expense	—	542	—	—	542
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	41,734	512	—	—	512
Equity issuance costs	—	(537)	—	—	(537)
Cash dividends declared ($0.60 per share)[(1)]	—	—	(7,557)	—	(7,557)
Balance at September 30, 2015	11,181,067	$42,072	$223,682	$(6,351)	$259,403
Balance at December 31, 2015	15,330,717	$153,083	$222,329	$(12,222)	$363,190
Cumulative effect adjustment (Note 16)	—	72	(72)	—	—
Cash in-lieu, stock split (Note 2)	(173)	(5)	—	—	(5)
Net income	—	—	29,165	—	29,165
Other comprehensive income, net of tax	—	—	—	8,047	8,047
Stock-based compensation expense	—	1,521	—	—	1,521
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	104,312	593	—	—	593
Cash dividends declared ($0.60 per share)[(1)]	—	—	(9,330)	—	(9,330)
Balance at September 30, 2016	15,434,856	$155,264	$242,092	$(4,175)	$393,181

(1) Share and per share amounts have been adjusted to reflect the three-for-two stock split effective September 30, 2016, for all periods presented. Refer to Note 2.

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

6

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In Thousands)	Nine Months Ended September 30, 2016	2015
Operating Activities		
Net Income	$29,165	$19,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	5,003	979
Depreciation expense	3,498	2,130
Purchase accounting accretion, net	(3,792)	(295)
Investment securities amortization, net	2,234	1,638
Stock-based compensation expense	1,521	542
Amortization of intangible assets	1,427	862
Net (decrease) increase in other real estate owned valuation allowance and (gain) loss on disposition	(147)	348
Originations of mortgage loans held for sale	(180,182)	(25,341)
Proceeds from the sale of mortgage loans	170,765	24,985
Gain on sale of mortgage loans	(4,171)	(530)
Decrease (increase) in other assets	7,529	(2,944)
Increase in other liabilities	154	117
Net cash provided by operating activities	33,004	21,751
Investing Activities		
Proceeds from sales and maturities of available-for-sale securities	105,863	123,650
Purchase of available-for-sale securities	(130,254)	(81,262)
Purchase of held-to-maturity securities	(10,448)	(55,462)
Net increase in loans	(101,732)	(60,601)
Purchase of bank-owned life insurance, net of death benefit proceeds	(16,122)	—
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(7,341)	(56)
Proceeds from sale of Federal Home Loan Bank stock	5,652	—
Proceeds from the sale of other real estate owned	672	2,760
Recoveries of previously charged-off loans	381	554
Purchase of premises and equipment	(1,507)	(1,797)
Proceeds from the sale of premises and equipment	90	—
Net cash used by investing activities	(154,746)	(72,214)
Financing Activities		
Net increase in deposits	163,563	76,155
Net proceeds from (repayments of) borrowings less than 90 days	36,846	(12,081)
Proceeds from Federal Home Loan Bank advances	—	10,000
Repayments of Federal Home Loan Bank advances	(25,000)	(11,039)
Repayments of wholesale repurchase agreements	(25,000)	—
Equity issuance costs	—	(537)
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	593	512
Cash dividends paid on common stock and cash in-lieu paid for fractional shares due to stock split	(9,290)	(6,716)
Net cash provided by financing activities	141,712	56,294
Net increase in cash and cash equivalents	19,970	5,831

Cash and cash equivalents at beginning of period	79,488	60,813
Cash and cash equivalents at end of period	$99,458	$66,644
Supplemental information		
Interest paid	$12,673	$9,104
Income taxes paid	4,844	8,345
Transfer from loans to other real estate owned	32	1,725
Measurement-period adjustments	960	—

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 September 30, 2016 and December 31, 2015, the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015, the consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2016 and 2015, and the consolidated statements of cash flows for the nine months ended September 30, 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 and nine months ended September 30, 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 defined terms, 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	IRS:	Internal Revenue Service
AFS:	Available-for-sale	LIBOR:	London Interbank Offered Rate
ALCO:	Asset/Liability Committee	LTIP:	Long-Term Performance Share Plan
ALL:	Allowance for loan losses	Management ALCO:	Management Asset/Liability Committee
AOCI:	Accumulated other comprehensive income (loss)	MBS:	Mortgage-backed security
ASC:	Accounting Standards Codification	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
ASU:	Accounting Standards Update	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
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	MSHA:	Maine State Housing Authority
Board ALCO:	Board of Directors' Asset/Liability Committee	MSRs:	Mortgage servicing rights
BOLI:	Bank-owned life insurance	MSPP:	Management Stock Purchase Plan
BSA:	Bank Secrecy Act	OTTI:	Other-than-temporary impairment
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	NIM:	Net interest margin on a fully-taxable basis (non-GAAP)
CDARS:	Certificate of Deposit Account Registry System	N.M.:	Not meaningful
CDs:	Certificate of deposits	NRV:	Net realizable value
CMO:	Collateralized mortgage obligation	OCC:	Office of the Comptroller of the Currency
Company:	Camden National Corporation	OCI:	Other comprehensive income (loss)
CSV:	Cash surrender value	OFAC:	Office of Foreign Assets Control
DCRP:	Defined Contribution Retirement Plan	OREO:	Other real estate owned
EPS:	Earnings per share	SBM:	SBM Financial, Inc., the parent company of The Bank of Maine
FASB:	Financial Accounting Standards Board	SERP:	Supplemental executive retirement plans
FDIC:	Federal Deposit Insurance Corporation	TDR:	Troubled-debt restructured loan
FHLB:	Federal Home Loan Bank	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
FHLBB:		U.S.:	United States of America

	Federal Home Loan Bank of Boston		
FRB:	Federal Reserve Bank	USD:	United States Dollar
Freddie Mac:	Federal Home Loan Mortgage Corporation	2003 Plan:	2003 Stock Option and Incentive Plan
GAAP:	Generally accepted accounting principles in the United States	2012 Plan:	2012 Equity and Incentive Plan
HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors
HTM:	Held-to-maturity		

9

NOTE 2 - COMMON STOCK SPLIT

On August 30, 2016, the Company's board of directors declared a three-for-two stock split, effected in the form of a stock dividend, on the Company's common stock. Each shareholder of record on September 15, 2016, received one additional share of common stock for every two shares of common stock owned. The stock was issued September 30, 2016. All references in the financial statements to the number of shares outstanding, dividends declared and per share amounts of the Company's common stock have been restated to reflect the effect of the stock split for all periods presented.

The Company paid shareholders cash in-lieu of fractional shares of common stock in connection with the split, at a price of $31.75 per share, the closing price of the Company's common stock on September 14, 2016. The total cash in-lieu paid out for fractional shares was $5,000, and was accounted for as a reduction of capital stock.

NOTE 3 – 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$10,903	$ 6,456	$29,165	$ 19,260
Dividends and undistributed earnings allocated to participating securities(1)	(54)	(21)	(134)	(61)
Net income available to common shareholders	$10,849	$ 6,435	$29,031	$ 19,199
Weighted-average common shares outstanding for basic EPS(2)	15,425,452	11,179,821	15,410,310	11,165,297
Dilutive effect of stock-based awards(2)(3)	82,109	36,023	73,010	31,452
Weighted-average common and potential common shares for diluted EPS(2)	15,507,561	11,215,844	15,483,320	11,196,749
Earnings per common share(2):				
Basic EPS	$0.70	$ 0.58	$1.88	$ 1.72
Diluted EPS	$0.70	$ 0.57	$1.88	$ 1.71
Awards excluded from the calculation of diluted EPS(2)(4):				
Stock options	—	20,625	18,375	24,375

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.
(2) Share and per share amounts have been adjusted to reflect the three-for-two stock split effective September 30, 2016, for all periods presented. Refer to Note 2.
(3) 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.
(4) 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 4 – 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
September 30, 2016				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$ 15,721	$ 134	$ —	$ 15,855
Obligations of states and political subdivisions	9,763	238	—	10,001
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	442,099	8,366	(157)	450,308
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	305,039	2,222	(899)	306,362
Subordinated corporate bonds	5,481	223	—	5,704
Total AFS debt securities	778,103	11,183	(1,056)	788,230
Equity securities	632	18	—	650
Total AFS securities	$ 778,735	$ 11,201	$ (1,056)	$ 788,880
HTM Securities:				
Obligations of states and political subdivisions	$ 94,205	$ 3,898	$ (7)	$ 98,096
Total HTM securities	$ 94,205	$ 3,898	$ (7)	$ 98,096
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 September 30, 2016 included in AOCI amounted to $6.6 million, net of a deferred tax liability of $3.6 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 nine months of 2016, the Company purchased investment securities totaling $140.7 million. The Company designated $130.3 million as AFS securities and $10.4 million as HTM securities.

During the first nine months of 2015, the Company purchased investment securities totaling $136.7 million. The Company designated $81.3 million as AFS securities and $55.4 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, and 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 September 30, 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
September 30, 2016						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$3,071	$(5)	$32,128	$(152)	$35,199	$(157)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	33,636	(85)	79,213	(814)	112,849	(899)
Total AFS securities	$36,707	$(90)	$111,341	$(966)	$148,048	$(1,056)
HTM Securities:						
Obligations of states and political subdivisions	$1,382	$(7)	$—	$—	$1,382	$(7)
Total HTM securities	$1,382	$(7)	$—	$—	$1,382	$(7)
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 September 30, 2016 and December 31, 2015, the Company held 32 and 109 investment securities with a fair value of $149.4 million and $546.0 million with unrealized losses totaling $1.1 million and $10.2 million, respectively, that were considered temporary. Of these, the Company had 30 MBS and CMO investments with a fair value of $111.3 million that were in an unrealized loss position totaling $966,000 at September 30, 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 unrealized loss was 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 September 30, 2016 and

12

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 September 30, 2016 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds from sales of securities	$—	$12,426	$84	$12,426
Gross realized gains	—	221	4	221
Gross realized losses	—	(217)	—	(217)

For the three months ended September 30, 2016, the Company did not sell any securities. For the three months ended September 30, 2015, the Company sold certain AFS securities with total carrying value of $12.4 million and recorded net gains on the sale of AFS securities of $4,000 within non-interest income in the consolidated statements of income. As part of the Company’s securities portfolio restructuring due to its pending merger with SBM as of September 30, 2015 (which subsequently was completed on October 16, 2015) it sold all of its Non-Agency guaranteed CMO investments in the quarter ended September 30, 2015, along with $7.3 million of MBS investments experiencing high prepayment speeds. The Company recorded a net gain of $4,000 from the sale of its Non-Agency guaranteed CMO and MBS investments. The Company had previously recorded OTTI on its Non-Agency guaranteed CMO investments of $204,000.

For the nine months ended September 30, 2016, the Company sold certain AFS securities with a total carrying value of $84,000 and recorded net gains on the sale of AFS securities of $4,000 within non-interest income in the consolidated statements of income. The Company had not previously recorded any OTTI on these securities sold. For the nine months ended September 30, 2015, the Company sold certain AFS securities with total carrying value of $12.4 million and recorded net gains on sale of AFS securities of $4,000 within non-interest income in the consolidated statements of income.

The cost basis of securities sold is measured on a specific identification basis.

FHLBB and FRB Stock

As of September 30, 2016 and December 31, 2015, the Company's investment in FHLBB stock was $17.8 million and $20.6 million, respectively. As of September 30, 2016 and December 31, 2015, the Company's investment in FRB stock was $5.4 million and $908,000, respectively.

Securities Pledged

At September 30, 2016 and December 31, 2015, securities with an amortized cost of $594.9 million and $577.6 million and estimated fair values of $602.2 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.

13

Contractual Maturities

The amortized cost and estimated fair values of debt securities by contractual maturity at September 30, 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	$ 1,440	$ 1,442
Due after one year through five years	105,688	107,064
Due after five years through ten years	101,074	104,023
Due after ten years	569,901	575,701
	$ 778,103	$ 788,230
HTM Securities		
Due after one year through five years	$ 2,943	$ 3,002
Due after five years through ten years	5,435	5,624
Due after ten years	85,827	89,470
	$ 94,205	$ 98,096

NOTE 5 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Company's loan portfolio, excluding residential loans held for sale, at September 30, 2016 and December 31, 2015 was as follows:

	September 30, 2016	December 31, 2015
Residential real estate[1]	$ 798,306	$ 821,074
Commercial real estate[1]	1,055,043	927,951
Commercial[1]	324,322	297,721
Home equity[1]	331,728	348,634
Consumer[1]	17,333	17,953
HPFC[1]	65,619	77,243
Deferred loan fees, net	(342)	(370)
Total loans	$ 2,592,009	$ 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 $9.6 million and $13.1 million at September 30, 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.

The HPFC loan portfolio consists of 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 nine months ended September 30, 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 present the activity in the ALL and select loan information by portfolio segment for the three and nine months ended September 30, 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 and Nine Months Ended September 30, 2016								
ALL for the three months ended:								
Beginning balance	$4,431	$11,559	$4,558	$2,946	$193	$30	$ —	$23,717
Loans charged off	—	(32)	(1,541)	(44)	(19)	(205)	—	(1,841)
Recoveries	1	7	118	—	1	—	—	127
Provision (credit)(1)	163	1,046	148	(335)	(13)	278	—	1,287
Ending balance	$4,595	$12,580	$3,283	$2,567	$162	$103	$ —	$23,290
ALL for the nine months ended:								
Beginning balance	$4,545	$10,432	$3,241	$2,731	$193	$24	$ —	$21,166
Loans charged off	(229)	(273)	(1,970)	(229)	(60)	(507)	—	(3,268)
Recoveries	72	50	252	2	5	—	—	381
Provision(1)	207	2,371	1,760	63	24	586	—	5,011
Ending balance	$4,595	$12,580	$3,283	$2,567	$162	$103	$ —	$23,290
ALL balance attributable to loans:								
Individually evaluated for impairment	$511	$1,284	$—	$88	$—	$74	$ —	$1,957
Collectively evaluated for impairment	4,084	11,296	3,283	2,479	162	29	—	21,333
Total ending ALL	$4,595	$12,580	$3,283	$2,567	$162	$103	$ —	$23,290
Loans:								
Individually evaluated for impairment	$4,551	$13,286	$2,243	$489	$7	$106	$ —	$20,682
Collectively evaluated for impairment	792,485	1,041,021	322,179	332,606	17,409	65,627	—	2,571,327
Total ending loans balance	$797,036	$1,054,307	$324,422	$333,095	$17,416	$65,733	$ —	$2,592,009
For The Three and Nine Months Ended September 30, 2015								
ALL for the three months ended:								
Beginning balance	$4,689	$8,160	$3,315	$2,144	$268	$—	$ 2,618	$21,194
Loans charged off	(176)	(71)	(144)	(198)	(23)	—	—	(612)
Recoveries	15	4	115	132	3	—	—	269
Provision (credit)(1)	4	884	(138)	(6)	13	—	(476)	281
Ending balance	$4,532	$8,977	$3,148	$2,072	$261	$—	$ 2,142	$21,132

ALL for the nine months ended:								
Beginning balance	$4,899	$7,951	$3,354	$2,247	$281	$—	$ 2,384	$21,116
Loans charged off	(468)	(174)	(387)	(439)	(42)	—	—	(1,510)
Recoveries	35	68	297	137	17	—	—	554
Provision (credit)[1]	66	1,132	(116)	127	5	—	(242)	972
Ending balance	$4,532	$8,977	$3,148	$2,072	$261	$—	$ 2,142	$21,132
ALL balance attributable to loans:								
Individually evaluated for impairment	$645	$280	$92	$89	$78	$—	$ —	$1,184
Collectively evaluated for impairment	3,887	8,697	3,056	1,983	183	—	2,142	19,948
Total ending ALL	$4,532	$8,977	$3,148	$2,072	$261	$—	$ 2,142	$21,132
Loans:								
Individually evaluated for impairment	$5,200	$3,737	$950	$506	$157	$—	$ —	$10,550
Collectively evaluated for impairment	577,876	687,198	257,155	280,986	16,378	—	—	1,819,593
Total ending loans balance	$583,076	$690,935	$258,105	$281,492	$16,535	$—	$ —	$1,830,143

17

	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 September 30, 2016 and 2015, and December 31, 2015, the reserve for unfunded commitments was $14,000, $24,000 and $22,000, respectively.

The following table reconciles the three and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
Provision for loan losses	$1,287	$281	$5,011	$972	$ 1,938
Change in reserve for unfunded commitments	(8)	(2)	(8)	7	(2)
Provision for credit losses	$1,279	$279	$5,003	$979	$ 1,936

The provision for loan losses for the three and nine months ended September 30, 2016 increased $1.0 million and $4.0 million, respectively, compared to the three and nine months ended September 30, 2015. The increase was driven by (i) the increase in loans (excluding loans held for sale) of $761.9 million since September 30, 2015, of which $615.4 million the Company acquired as part of the SBM acquisition in the fourth quarter of 2015, as well as (ii) the deterioration of one commercial real estate and one commercial credit in the second quarter of 2016 accounting for $2.3 million of the provision for loan losses for the nine months ended September 30, 2016. The Company placed the commercial real estate loan on non-accrual status in the second quarter of 2016, and the commercial loan was previously on non-accrual status. The recorded investment balance of the commercial real estate loan at September 30, 2016 was $11.3 million and the recorded investment balance of the commercial loan at September 30, 2016 was $1.6 million. The Company believes that the credit deterioration of these two credits were driven by specific facts and circumstances of the borrowers and does not represent a systemic issue across its commercial real estate or commercial loan portfolios. In the third quarter of 2016, the Company partially charged-off $1.4 million of the aforementioned commercial loan, which was previously reserved for in the second quarter of 2016.

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 September 30, 2016, the non-residential building operators industry exposure was 13% of the Company's total loan portfolio and 33% of the total commercial real estate portfolio. There were no other industry exposures exceeding 10% of the Company's total loan portfolio as of September 30, 2016.

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, residential real estate, and HPFC 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.

19

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
September 30, 2016							
Pass (Grades 1-6)	$ 783,938	$ 994,867	$ 311,974	$—	$ —	$64,234	$2,155,013
Performing	—	—	—	331,449	17,412	—	348,861
Special Mention (Grade 7)	2,530	17,869	7,826	—	—	269	28,494
Substandard (Grade 8)	10,568	41,571	4,622	—	—	1,230	57,991
Non-performing	—	—	—	1,646	4	—	1,650
Total	$ 797,036	$ 1,054,307	$ 324,422	$333,095	$ 17,416	$65,733	$2,592,009
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
September 30, 2016								
Residential real estate	$ 1,460	$ 942	$2,818	$5,220	$791,816	$797,036	$ —	$ 3,986
Commercial real estate	557	151	12,710	13,418	1,040,889	1,054,307	—	12,917
Commercial	1,568	117	565	2,250	322,172	324,422	—	2,259
Home equity	394	178	1,314	1,886	331,209	333,095	—	1,646
Consumer	41	2	4	47	17,369	17,416	—	4
HPFC	492	—	216	708	65,025	65,733	—	216
Total	$ 4,512	$ 1,390	$17,627	$23,529	$2,568,480	$2,592,009	$ —	$ 21,028
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

20

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was $251,000, $675,000, $103,000 and $375,000 for the three and nine months ended September 30, 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	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Residential real estate	21	22	$3,245	$ 3,398	$511	$ 544
Commercial real estate	3	6	1,017	1,459	—	48
Commercial	13	9	1,711	399	—	11
Home equity	1	1	17	21	—	—
Total	38	38	$5,990	$ 5,277	$511	$ 603

At September 30, 2016, the Company had performing and non-performing TDRs with a recorded investment balance of $4.4 million and $1.6 million, 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.

The following represents loan modifications that occurred for the three and nine months ended September 30, 2016 and 2015 that qualify as TDRs and the type of loan modification made by portfolio segment at September 30:

	Number of Contracts		Pre-Modification Outstanding Recorded Investment		Post-Modification Outstanding Recorded Investment		Specific Reserve	
	2016	2015	2016	2015	2016	2015	2016	2015
For the three months ended								
Residential real estate:								
Court ordered	—	1	$ —	$ 74	$ —	$ 78	$ —	$ —
Commercial:								
Maturity concession	6	—	1,344	—	1,652	—	—	—
Total	6	1	$ 1,344	$ 74	$ 1,652	$ 78	$ —	$ —
For the nine months ended								
Residential real estate:								
Court ordered	—	1	$ —	$ 74	$ —	$ 78	$ —	$ —
Commercial:								

Maturity concession	6	—	1,344	—	1,652	—	—	—
Total	6	1	$ 1,344	$ 74	$ 1,652	$ 78	$ —	$ —

During the third quarter of 2016, the Company completed the restructure of one commercial relationship, which resulted in six TDRs. As part of the restructure the Company committed to lend additional funds of up to $280,000. The Company did not have any other commitments to lend additional funds to borrowers with loans classified as TDRs as of September 30, 2016.
For the nine months ended September 30, 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 and nine months ended September 30, 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[1]	Nine Months Ended Average Recorded Investment	Nine Months Ended Interest Income Recognized
September 30, 2016:							
With an allowance recorded:							
Residential real estate	$ 3,041	$ 3,041	$ 511	$ 3,050	$ 56	$ 3,108	$ 81
Commercial real estate	11,354	11,354	1,284	7,582	—	3,092	—
Commercial	—	—	—	1,782	—	1,016	—
Home equity	302	302	88	303	—	307	—
Consumer	—	—	—	—	—	—	—
HPFC	106	106	74	35	—	97	—
Ending balance	14,803	14,803	1,957	12,752	56	7,620	81
Without an allowance recorded:							
Residential real estate	1,510	1,996	—	1,731	7	2,275	7
Commercial real estate	1,932	2,427	—	2,015	33	2,322	37
Commercial	2,243	4,667	—	1,354	(11)	2,639	12
Home equity	187	374	—	188	3	181	—
Consumer	7	10	—	7	4	7	—
HPFC	—	—	—	—	—	—	—
Ending balance	5,879	9,474	—	5,295	36	7,424	56
Total impaired loans	$ 20,682	$ 24,277	$ 1,957	$ 18,047	$ 92	$ 15,044	$ 137
September 30, 2015:							
With an allowance recorded:							
Residential real estate	$ 3,581	$ 3,581	$ 645	$ 4,409	$ 55	$ 4,168	$ 82
Commercial real estate	468	501	280	86	—	259	—
Commercial	247	247	92	199	5	218	6
Home equity	303	303	89	—	—	135	—
Consumer	140	140	78	140	—	140	—
HPFC	—	—	—	—	—	—	—
Ending Balance	4,739	4,772	1,184	4,834	60	4,920	88
Without an allowance recorded:							
Residential real estate	1,619	2,118	—	1,774	4	1,607	6
Commercial real estate	3,269	3,430	—	3,102	18	2,735	45
Commercial	703	876	—	503	4	567	8
Home equity	203	454	—	303	—	390	—
Consumer	17	37	—	17	—	17	—
HPFC	—	—	—	—	—	—	—
Ending Balance	5,811	6,915	—	5,699	26	5,316	59
Total impaired loans	$ 10,550	$ 11,687	$ 1,184	$ 10,533	$ 86	$ 10,236	$ 147

(1) Negative interest income represents the re-allocation of income between "with an allowance recorded" and "without an allowance recorded" (or vice versa) during the period.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended Average Recorded Investment	Interest Income Recognized
December 31, 2015:					
With an allowance recorded:					
Residential real estate	$ 3,191	$ 3,191	$ 544	$ 6,064	$ 112
Commercial real estate	1,825	1,857	644	1,753	—
Commercial	156	156	92	945	2
Home equity	303	303	89	900	—
Consumer	—	—	—	195	—
HPFC	—	—	—	—	—
Ending Balance	5,475	5,507	1,369	9,857	114
Without an allowance recorded:					
Residential real estate	2,835	4,353	—	2,175	8
Commercial real estate	2,785	3,426	—	2,719	65
Commercial	3,781	4,325	—	1,412	17
Home equity	285	688	—	369	—
Consumer	74	150	—	20	—
HPFC	—	—	—	—	—
Ending Balance	9,760	12,942	—	6,695	90
Total impaired loans	$ 15,235	$ 18,449	$ 1,369	$ 16,552	$ 204

The impaired loan information presented for the three and nine months ended September 30, 2015 and year ended December 31, 2015 was revised to disclose only those impaired loans that are individually evaluated for impairment in accordance with the Company's policy, which includes (i) loans with a principal balance greater than $250,000 or more and are classified as substandard or doubtful and are on non-accrual status and (ii) all TDRs. Previously, the Company's impaired loan disclosures included certain non-accrual loans which were collectively evaluated under ASC 450-20. The revision of prior period information had no impact on the Company's ALL, provision for loan losses, or its asset quality ratios as of September 30, 2016, and for the three and nine months ended September 30, 2015 and year ended December 31, 2015.

Loan Sales:
For the three and nine months ended September 30, 2016 and 2015, the Company sold $71.4 million, $166.6 million, $11.9 million and $24.5 million, respectively, of fixed rate residential mortgage loans on the secondary market that resulted in gains on the sale of loans (net of costs) of $2.0 million, $4.2 million, $243,000 and $530,000, respectively.

At September 30, 2016 and December 31, 2015, the Company had certain residential mortgage loans with a principal balance of $24.4 million and $10.8 million, respectively, designated as held for sale. The Company has elected the fair value option of accounting for its loans held for sale and for the three and nine months ended September 30, 2016 and 2015, the Company recorded within non-interest income on its consolidated statements of income the net change in unrealized gains (losses) of $(55,000), $99,000, $(15,000) and $4,000, respectively.

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 September 30, 2016, the Company had two residential and three commercial real estate properties with a carrying value of $75,000 and $736,000, respectively, within OREO. At December 31, 2015, the Company had two residential real estate properties and seven commercial properties with a carrying value of $241,000 and $1.0 million, respectively, within OREO.

23

In-Process Foreclosure Proceedings:

At September 30, 2016 and December 31, 2015, the Company had $1.5 million and $2.9 million, respectively, of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process, representing 27% and 32%, respectively, of non-accrual loans within the Company's residential, consumer and home equity portfolios. The Company continues to be focused on working these consumer mortgage loans through the foreclosure process to resolution; however, the foreclosure process, typically, will take 18 to 24 months due to the State of Maine foreclosure laws.

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 $1.1 billion at September 30, 2016 and December 31, 2015.

Refer to Notes 4 and 13 of the consolidated financial statements for discussion of securities pledged as collateral.

NOTE 6 – SBM ACQUISITION

On October 16, 2015, the Company completed its acquisition of SBM, as previously reported. For the nine months ended September 30, 2016, the Company made certain measurement-period adjustments to its initial purchase accounting that decreased goodwill reported at December 31, 2015 by $960,000. These measurement-period adjustments increased the previously reported loan balance by $137,000, increased acquired interest receivable and other assets by $157,000, and increased acquired deferred tax assets $666,000. The measurement-period adjustments will not have a material effect on current or future years' net income and were presented and disclosed prospectively in accordance with ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.

The Company completed its purchase accounting for the SBM acquisition in the second quarter of 2016. The following table summarizes the fair value of the assets acquired and liabilities assumed:

	As Acquired	Fair Value Adjustments (Previously Reported)	Measurement-Period Adjustments	As Recorded at Acquisition
Consideration Paid:				
Cash				$ 26,125
Company common stock (4,124,643 shares at $26.32 per share)(1)				108,561
Non-qualified stock options				1,990
Total consideration paid				136,676
Recognized identifiable assets acquired and liabilities assumed, at fair value:				
Loans and loans held for sale	$ 639,390	$ (11,497)	$ 137	628,030
Cash and due from banks	86,042	—	—	86,042
Investments	39,716	26	—	39,742
Deferred tax assets	26,293	(1,177)	666	25,782
Premises and equipment	16,851	7,093	—	23,944
OREO	2,530	(1,801)	—	729
Core deposit intangible assets	—	6,608	—	6,608
Other assets	5,421	(170)	157	5,408
Deposits and borrowings	719,640	1,546	—	721,186
Other liabilities	8,512	(198)	—	8,314
Total identified assets acquired and liabilities assumed, at fair value	$ 88,091	$ (2,266)	$ 960	86,785
Goodwill				$ 49,891

(1) The number of shares and price per share have been adjusted to reflect the three-for-two stock split effective September 30, 2016.

NOTE 7 – 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 September 30, 2016 and December 31, 2015 for each reporting unit is shown in the table below:

	Goodwill		
	Banking	Financial Services	Total
December 31, 2015:			
Goodwill, gross	$91,753	$7,474	$99,227
Accumulated impairment losses	—	(3,570)	(3,570)
Reported goodwill at December 31, 2015	91,753	3,904	95,657
2016 measurement-period adjustments	(960)	—	(960)
Reported goodwill at September 30, 2016	$90,793	$3,904	$94,697

Refer to Note 6 of the consolidated financial statements for further detail and discussion of the measurement-period adjustments recorded pertaining to the SBM acquisition. The Company finalized its accounting for the SBM acquisition in the second quarter of 2016.

The changes in core deposit and trust relationship intangible assets for the nine months ended September 30, 2016 are shown in the table below:

	Core Deposit Intangible			Trust Relationship Intangible		
	Total	Accumulated Amortization	Net	Total	Accumulated Amortization	Net
Balance at December 31, 2015	$23,908	$ (15,392)	$8,516	$ 753	$ (602)	$ 151
2016 amortization	—	(1,371)	(1,371)	—	(56)	(56)
Balance at September 30, 2016	$23,908	$ (16,763)	$7,145	$ 753	$ (658)	$ 95
Total carrying value of other intangible assets at December 31, 2015						$ 8,667
Total carrying value of other intangible assets at September 30, 2016						