CAMDEN NATIONAL CORP
Form 10-Q
November 07, 2014

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, 2014
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 (State or other jurisdiction of incorporation or organization)	01-0413282 (I.R.S. Employer Identification No.)
2 ELM STREET, CAMDEN, ME (Address of principal executive offices)	04843 (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 3, 2014: Common stock (no par value) 7,421,472 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014
TABLE OF CONTENTS OF INFORMATION REQUIRED IN REPORT

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
Camden National Corporation

We have reviewed the accompanying interim consolidated financial information of Camden National Corporation and Subsidiaries as of September 30, 2014, and for the three and nine-month periods ended September 30, 2014 and 2013. These financial statements are the responsibility of the Company's management.

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

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

/s/ Berry Dunn McNeil & Parker, LLC
Berry Dunn McNeil & Parker, LLC

Portland, Maine
November 7, 2014

CONSOLIDATED STATEMENTS OF CONDITION

(In Thousands, Except Number of Shares)	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$59,450	$51,355
Securities:		
Available-for-sale securities, at fair value	771,806	808,477
Held-to-maturity securities, at amortized cost	11,490	—
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	20,379	19,724
Total securities	803,675	828,201
Trading account assets	2,418	2,488
Loans	1,726,227	1,580,402
Less: allowance for loan losses	(21,585)	(21,590)
Net loans	1,704,642	1,558,812
Bank-owned life insurance	57,338	46,363
Goodwill and other intangible assets	48,458	49,319
Premises and equipment, net	24,370	25,727
Deferred tax assets	14,987	16,047
Interest receivable	6,162	5,808
Other real estate owned	1,566	2,195
Other assets	18,923	17,514
Total assets	$2,741,989	$2,603,829
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Liabilities		
Deposits:		
Demand	$281,811	$241,866
Interest checking	484,259	453,909
Savings and money market	661,803	675,679
Certificates of deposit	321,704	343,034
Brokered deposits	178,966	99,336
Total deposits	1,928,543	1,813,824
Federal Home Loan Bank advances	56,058	56,112
Other borrowed funds	441,171	430,058
Junior subordinated debentures	43,998	43,922
Accrued interest and other liabilities	32,307	28,817
Total liabilities	2,502,077	2,372,733
Commitments and contingencies (Notes 6, 7, and 9)		
Shareholders’ Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 7,421,595 and 7,579,913 shares as of September 30, 2014 and December 31, 2013, respectively	41,238	47,783
Retained earnings	208,125	195,660
Accumulated other comprehensive loss:		
Net unrealized losses on available-for-sale securities, net of tax	(3,151)	(7,964)
Net unrealized losses on derivative instruments, net of tax	(4,530)	(2,542)
Net unrecognized losses on postretirement plans, net of tax	(1,770)	(1,841)
Total accumulated other comprehensive loss	(9,451)	(12,347)
Total shareholders’ equity	239,912	231,096

Total liabilities and shareholders’ equity	$2,741,989	$2,603,829

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

CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Number of Shares and Per Share Data)	2014	2013	2014	2013
Interest Income				
Interest and fees on loans	$18,112	$17,470	$52,649	$53,324
Interest on U.S. government and sponsored enterprise obligations	3,896	4,091	12,250	12,441
Interest on state and political subdivision obligations	319	292	927	889
Interest on federal funds sold and other investments	95	38	278	144
Total interest income	22,422	21,891	66,104	66,798
Interest Expense				
Interest on deposits	1,562	1,780	4,678	5,427
Interest on borrowings	848	767	2,500	2,352
Interest on junior subordinated debentures	638	637	1,894	1,894
Total interest expense	3,048	3,184	9,072	9,673
Net interest income	19,374	18,707	57,032	57,125
Provision for credit losses	539	665	1,675	2,034
Net interest income after provision for credit losses	18,835	18,042	55,357	55,091
Non-Interest Income				
Service charges on deposit accounts	1,600	1,750	4,689	5,189
Other service charges and fees	1,646	1,568	4,584	4,510
Income from fiduciary services	1,212	1,149	3,745	3,567
Brokerage and insurance commissions	441	354	1,378	1,175
Bank-owned life insurance	377	334	975	986
Net gain on sale of securities	—	647	451	785
Mortgage banking income, net	55	93	197	1,251
Other income	618	580	2,119	1,724
Total non-interest income	5,949	6,475	18,138	19,187
Non-Interest Expense				
Salaries and employee benefits	8,078	8,115	24,359	24,437
Furniture, equipment and data processing	1,704	1,668	5,236	5,203
Net occupancy costs	1,175	1,242	3,825	4,201
Consulting and professional fees	468	504	1,768	1,636
Other real estate owned and collection costs	637	489	1,665	1,355
Regulatory assessments	511	496	1,477	1,495
Amortization of intangible assets	287	289	861	863
Branch Acquisition and Divestiture costs	—	47	—	279
Other expenses	2,319	2,349	6,905	7,878
Total non-interest expense	15,179	15,199	46,096	47,347
Income before income taxes	9,605	9,318	27,399	26,931
Income Taxes	3,154	2,952	8,917	8,572
Net Income	$6,451	$6,366	$18,482	$18,359
Per Share Data				
Basic earnings per share	$0.87	$0.83	$2.47	$2.40
Diluted earnings per share	$0.86	$0.83	$2.46	$2.39
Weighted average number of common shares outstanding	7,421,592	7,643,720	7,459,972	7,636,352

Diluted weighted average number of common shares outstanding	7,439,948	7,666,305	7,479,327	7,651,870

See Report of Independent Registered Public Accounting Firm.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2014	2013	2014	2013
Net income	$6,451	$6,366	$18,482	$18,359
Other comprehensive income (loss):				
Available-for-sale securities:				
Net unrealized gains (losses) on available-for-sale securities arising during the period, net of tax of $1,189, $1,111, ($2,749) and $9,426, respectively	(2,208)	(2,063)	5,106	(17,506)
Reclassification of gains included in net income, net of tax of $0, $227, $158 and $275, respectively(1)	—	(420)	(293)	(510)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(2,208)	(2,483)	4,813	(18,016)
Net change in unrealized (losses) gains on cash flow hedging derivatives, net of tax of $50, ($239), $1,070 and ($1,933), respectively	(93)	445	(1,988)	3,591
Reclassification of amortization of net unrecognized actuarial loss and prior service credit, net of tax of ($13), ($25), ($40) and ($75), respectively(2)	24	47	71	141
Other comprehensive income (loss)	(2,277)	(1,991)	2,896	(14,284)
Comprehensive income	$4,174	$4,375	$21,378	$4,075

(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.

See Report of Independent Registered Public Accounting Firm.
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 Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2012	7,622,750	$49,667	$181,151	$2,997	$233,815
Net income	—	—	18,359	—	18,359
Other comprehensive loss, net of tax	—	—	—	(14,284)	(14,284)
Stock-based compensation expense	—	340	—	—	340
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	23,914	258	—	—	258
Cash dividends declared ($0.81 per share)	—	—	(6,206)	—	(6,206)
Balance at September 30, 2013	7,646,664	$50,265	$193,304	$(11,287)	$232,282
Balance at December 31, 2013	7,579,913	$47,783	$195,660	$(12,347)	$231,096
Net income	—	—	18,482	—	18,482
Other comprehensive income, net of tax	—	—	—	2,896	2,896
Stock-based compensation expense	—	453	—	—	453
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	23,037	157	—	—	157
Common stock repurchased	(181,355)	(7,155)	—	—	(7,155)
Cash dividends declared ($0.81 per share)	—	—	(6,017)	—	(6,017)
Balance at September 30, 2014	7,421,595	$41,238	$208,125	$(9,451)	$239,912

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In Thousands)	Nine Months Ended September 30, 2014	2013
Operating Activities		
Net income	$18,482	$18,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,675	2,034
Depreciation and amortization expense	2,199	2,300
Investment securities amortization and accretion, net	1,301	1,745
Stock-based compensation expense	453	340
Amortization of intangible assets	861	863
Net gain on sale of investment securities	(451)	(785)
Net increase in other real estate owned valuation allowance and loss on disposition	222	97
Originations of mortgage loans held for sale	(399)	(29,515)
Proceeds from the sale of mortgage loans	416	28,886
Gain on sale of mortgage loans	(17)	(684)
Decrease (increase) in trading assets	70	(9)
Increase in other assets	(3,508)	(87)
Increase (decrease) in other liabilities	806	(2,539)
Net cash provided by operating activities	22,110	21,005
Investing Activities		
Proceeds from sales and maturities of available-for-sale securities	105,818	121,793
Purchase of available-for-sale securities	(62,494)	(138,300)
Purchase of held-to-maturity securities	(11,589)	—
Net increase in loans	(148,967)	(29,168)
Purchase of bank-owned life insurance	(10,000)	—
Purchase of Federal Home Loan Bank stock	(706)	—
Proceeds from sale of Federal Home Loan Bank and Federal Reserve Bank stock	51	1,310
Proceeds from the sale of other real estate owned	1,591	530
Recoveries of previously charged-off loans	538	436
Cash settlement in Branch Acquisition	—	(3,278)
Purchase of premises and equipment	(831)	(1,203)
Net cash used by investing activities	(126,589)	(47,880)
Financing Activities		
Net increase in deposits	114,850	44,210
Repayments on Federal Home Loan Bank long-term advances	(54)	(271)
Net increase (decrease) in other borrowed funds	11,171	(12,479)
Common stock repurchased	(7,475)	—
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	157	258
Cash dividends paid on common stock	(6,075)	(6,047)
Net cash provided by financing activities	112,574	25,671
Net increase (decrease) in cash and cash equivalents	8,095	(1,204)
Cash and cash equivalents at beginning of year	51,355	58,290
Cash and cash equivalents at end of period	$59,450	$57,086
Supplemental information		
Interest paid	$9,129	$9,952

Income taxes paid	10,147	8,750
Transfer from loans to other real estate owned	1,184	1,116
Securities purchased but unsettled	—	14,363

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

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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 September 30, 2014 and December 31, 2013, the consolidated statements of income for the three and nine months ended September 30, 2014 and 2013, the consolidated statements of comprehensive income for the three and nine months ended September 30, 2014 and 2013, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2014 and 2013, and the consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior year were reclassified to conform to the current year presentation. The income reported for the three and nine months ended September 30, 2014 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, 2013 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	DCRP:	Defined Contribution Retirement Plan
Act:	Medicare Prescription Drug, Improvement and Modernization Act	EPS:	Earnings per share
AFS:	Available-for-sale	FASB:	Financial Accounting Standards Board
ALCO:	Asset/Liability Committee	FDIC:	Federal Deposit Insurance Corporation
ALL:	Allowance for loan losses	FHLB:	Federal Home Loan Bank
AOCI:	Accumulated other comprehensive income (loss)	FHLBB:	Federal Home Loan Bank of Boston
ASC:	Accounting Standards Codification	FRB:	Federal Reserve Bank
ASU:	Accounting Standards Update	Freddie Mac:	Federal Home Loan Mortgage Corporation
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	GAAP:	Generally accepted accounting principles in the United States
BOLI:	Bank-owned life insurance	HTM:	Held-to-maturity
Board ALCO:	Board of Directors' Asset/Liability Committee	IRS:	Internal Revenue Service
bp or bps:	Basis point(s)	LIBOR:	London Interbank Offered Rate
Branch Acquisition:	The acquisition of 14 branches from Bank of America, N.A. in 2012, after divesting of one branch as required by the Department of Justice	LTIP:	Long-Term Performance Share Plan
		MaineHousing:	Maine State Housing Authority

Branch Divestiture:	The divestiture of five Franklin County branches in 2013		
BSA:	Bank Secrecy Act	Management ALCO:	Management Asset/Liability Committee
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	MBS:	Mortgage-backed security
CSV:	Cash surrender value	MSPP:	Management Stock Purchase Plan
CMO:	Collateralized mortgage obligation	MSRs:	Mortgage servicing rights
Company:	Camden National Corporation	NIM:	Net interest margin on a fully-taxable basis

N/M:	Not meaningful	TDR:	Troubled-debt restructured loan
Non-Agency:	Non-agency private issue collateralized mortgage obligation	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
OCC:	Office of the Comptroller of the Currency	U.S.:	United States of America
OCI:	Other comprehensive income (loss)	2003 Plan:	2003 Stock Option and Incentive Plan
OFAC:	Office of Foreign Assets Control	2012 Plan:	2012 Equity and Incentive Plan
OREO:	Other real estate owned	2012 Repurchase Program:	2012 Common Stock Repurchase Program, approved by the Company's Board of Directors
OTTI:	Other-than-temporary impairment	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors
SERP:	Supplemental executive retirement plans		

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$6,451	$6,366	$18,482	$18,359
Dividends and undistributed earnings allocated to participating securities(1)	(20)	(20)	(57)	(50)
Net income available to common shareholders	$6,431	$6,346	$18,425	$18,309
Weighted-average common shares outstanding for basic EPS	7,421,592	7,643,720	7,459,972	7,636,352
Dilutive effect of stock-based awards(2)	18,356	22,585	19,355	15,518
Weighted-average common and potential common shares for diluted EPS	7,439,948	7,666,305	7,479,327	7,651,870
Earnings per common share:				
Basic EPS	$0.87	$0.83	$2.47	$2.40
Diluted EPS	$0.86	$0.83	$2.46	$2.39
Awards excluded from the calculation of diluted EPS(3):				
Stock options	30,750	14,250	14,750	31,000

(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
September 30, 2014				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$4,960	$22	$—	$4,982
Obligations of states and political subdivisions	27,240	806	—	28,046
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	377,375	5,108	(4,279)	378,204
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	360,830	867	(7,384)	354,313
Private issue collateralized mortgage obligations	6,249	76	(64)	6,261
Total AFS securities	$776,654	$6,879	$(11,727)	$771,806
HTM Securities:				
Obligations of states and political subdivisions	$11,490	$210	$(41)	$11,659
Total HTM securities	$11,490	$210	$(41)	$11,659
December 31, 2013				
AFS Securities:				
Obligations of states and political subdivisions	$30,143	$1,075	$(11)	$31,207
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	397,409	5,528	(7,034)	395,903
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	385,847	912	(12,324)	374,435
Private issue collateralized mortgage obligations	7,329	10	(407)	6,932
Total AFS securities	$820,728	$7,525	$(19,776)	$808,477

Net unrealized losses on AFS securities at September 30, 2014 and December 31, 2013 included in AOCI amounted to $3.2 million and $8.0 million, net of a deferred tax benefit of $1.7 million and $4.3 million, respectively.

During the first nine months of 2014, the Company purchased investment securities totaling $74.1 million. The Company designated $62.5 million as AFS securities and $11.6 million as HTM securities. The Company did not carry any HTM securities at December 31, 2013.

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 September 30, 2014 and December 31, 2013, 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, 2014						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$61,223	$(460)	$127,219	$(3,819)	$188,442	$(4,279)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	80,475	(393)	195,373	(6,991)	275,848	(7,384)
Private issue collateralized mortgage obligations	4,719	(64)	—	—	4,719	(64)
Total AFS securities	$146,417	$(917)	$322,592	$(10,810)	$469,009	$(11,727)
HTM Securities:						
Obligations of states and political subdivisions	$3,401	$(41)	$—	$—	$3,401	$(41)
Total HTM securities	$3,401	$(41)	$—	$—	$3,401	$(41)
December 31, 2013						
AFS Securities:						
Obligations of states and political subdivisions	$2,143	$(11)	$—	$—	$2,143	$(11)
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	145,424	(4,189)	43,915	(2,845)	189,339	(7,034)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	239,278	(7,738)	73,376	(4,586)	312,654	(12,324)
Private issue collateralized mortgage obligations	122	(4)	4,945	(403)	5,067	(407)
Total AFS securities	$386,967	$(11,942)	$122,236	$(7,834)	$509,203	$(19,776)

At September 30, 2014, the Company held 83 investment securities with a fair value of $472.4 million with unrealized losses totaling $11.8 million that are considered temporary. Of these, the Company had 49 MBS and CMO investments with a fair value of $322.6 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 September 30, 2014, 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 nine months of 2014 indicated potential future credit losses that were lower than previously recorded OTTI and, as such, no additional OTTI was recorded during the first nine months of 2014.

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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,	
	2014	2013	2014	2013
Proceeds from sales of securities	$—	$12,738	$25,695	$17,613
Gross realized gains	—	647	451	785
Gross realized losses	—	—	—	—

For the three months ended September 30, 2014, the Company did not sell any securities. For the three months ended September 30, 2013, the Company sold certain AFS securities with a total carrying value of $12.1 million and recorded net gains on the sale of AFS securities of $647,000 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, 2014 and 2013, the Company sold certain AFS securities with a total carrying value of $25.2 million and $16.8 million, respectively. For the nine months ended September 30, 2014 and 2013, the Company recorded net gains on the sale of AFS securities of $451,000 and $785,000, respectively, within non-interest income in the consolidated statements of income. The Company had not previously recorded any OTTI on these securities sold.

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

Securities Pledged

At September 30, 2014 and December 31, 2013, securities with an amortized cost of $480.5 million and $479.2 million and estimated fair values of $478.9 million and $474.7 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 September 30, 2014, 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	$2,186	$2,209
Due after one year through five years	82,230	82,383
Due after five years through ten years	112,277	113,046
Due after ten years	579,961	574,168
	$776,654	$771,806
HTM Securities		
Due in one year or less	$—	$—
Due after one year through five years	—	—
Due after five years through ten years	2,334	2,358
Due after ten years	9,156	9,301
	$11,490	$11,659

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NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Company’s loan portfolio at September 30, 2014 and December 31, 2013 was as follows:

	September 30, 2014	December 31, 2013
Residential real estate loans	$577,515	$570,391
Commercial real estate loans	613,510	541,099
Commercial loans	245,612	179,203
Home equity loans	271,858	272,630
Consumer loans	18,149	17,651
Deferred loan fees, net of costs	(417)	(572)
Total loans	$1,726,227	$1,580,402

The Company’s lending activities are primarily conducted in Maine. 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 Company did not sell any loans during the three months ended September 30, 2014. For the three months ended September 30, 2013, the Company sold $7.3 million of fixed-rate residential mortgage loans on the secondary market that resulted in net gains on the sale of loans of $32,000. For the nine months ended September 30, 2014 and 2013, the Company sold $399,000 and $28.2 million, respectively, of fixed-rate residential mortgage loans on the secondary market that resulted in net gains on the sale of loans of $17,000 and $684,000, respectively.

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 ALL 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.

In the second quarter of 2014, the Company made one revision to its ALL methodology specific to the allowance allocation for overdrawn checking accounts. Historically, the allocation was determined using the previous four quarters gross charge-offs. The methodology was revised to calculate the allowance using the previous four quarters net charge-off information, which is now consistent with the Company's overall allowance methodology and approach. The change in methodology was reviewed and approved by the Company's Board of Directors prior to implementation. The change resulted in a decrease of $165,000 in the unallocated portion of the ALL.

The Company's 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 timely 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.

The following table presents the activity in the ALL and select loan information by portfolio segment for the three and nine months ended September 30, 2014:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	Unallocated	Total
ALL for the three months ended:							
Beginning balance	$5,141	$4,361	$6,484	$2,752	$318	$2,849	$21,905
Loans charged off	(9)	(100)	(675)	(166)	(59)	—	(1,009)
Recoveries	2	17	117	8	11	—	155
Provision (reduction)	122	82	35	(63)	23	335	534
Ending balance	$5,256	$4,360	$5,961	$2,531	$293	$3,184	$21,585
ALL for the nine months ended:							
Beginning balance	$5,603	$4,374	$6,220	$2,403	$319	$2,671	$21,590
Loans charged off	(370)	(276)	(1,201)	(272)	(99)	—	(2,218)
Recoveries	136	67	286	19	30	—	538
Provision (reduction)	(113)	195	656	381	43	513	1,675
Ending balance	$5,256	$4,360	$5,961	$2,531	$293	$3,184	$21,585
ALL balance attributable to loans:							
Individually evaluated for impairment	$1,420	$222	$121	$573	$111	$—	$2,447
Collectively evaluated for impairment	3,836	4,138	5,840	1,958	182	3,184	19,138
Total ending ALL	$5,256	$4,360	$5,961	$2,531	$293	$3,184	$21,585
Loans:							
Individually evaluated for impairment	$10,964	$6,710	$3,380	$1,860	$309	$—	$23,223
Collectively evaluated for impairment	566,134	606,800	242,232	269,998	17,840	—	1,703,004
Total ending loans balance	$577,098	$613,510	$245,612				