

CAMDEN NATIONAL CORP
Form 10-K
February 28, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012**

o **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.)

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2 Elm Street, Camden, ME

04843

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (207) 236-8821

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Exchange on Which Registered

Common Stock, without par value

The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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 No

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

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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

Non-accelerated filer

Smaller reporting company

(Do not check if a 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: \$256,671,924.

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Shares of the Registrant's common stock held by each executive officer, director and person who beneficially owns 5% or more of the Registrant's outstanding common stock have been excluded, in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 28, 2013, is 7,623,500.

Certain information required in response to Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K is incorporated by reference from Camden National Corporation's Definitive Proxy Statement for the 2013 Annual Meeting of Shareholders pursuant to Regulation 14A of the General Rules and Regulations of the Commission.

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**CAMDEN NATIONAL CORPORATION
2012 FORM 10-K ANNUAL REPORT**

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FORWARD-LOOKING STATEMENTS

The discussions set forth below and in the documents we incorporate by reference herein contain certain statements that may be considered forward-looking statements under the Private Securities Litigation Reform

Act of 1995, including certain plans, exceptions, goals, projections, and statements, which are subject to numerous risks, assumptions, and uncertainties. Forward-looking statements can be identified by the use of the words believe, expect, anticipate, intend, estimate, assume, plan, target, or goal or future or such as will, may, might, should, could and other expressions which predict or indicate future events or and which do not relate to historical matters. Forward-looking statements should not be relied on, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

The following factors, among others, could cause the Company's financial performance to differ materially from the Company's goals, plans, objectives, intentions, expectations and other forward-looking statements:

continued weakness in the United States economy in general and the regional and local economies within the New England region and Maine, which could result in a reduction in demand for the Company's credit or fee-based products and services;

adverse changes in the local real estate market could result in a deterioration of credit quality and an increase in the allowance for loan loss, as most of the Company's loans are concentrated in Maine, and a substantial portion of these loans have real estate as collateral;

changes in trade, monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System;

inflation, interest rate, market and monetary fluctuations;

competitive pressures, including continued industry consolidation, the increased financial services provided by non-banks and banking reform;

continued volatility in the securities markets that could adversely affect the value or credit quality of the Company's assets, impairment of goodwill, the availability and terms of funding necessary to meet the Company's liquidity needs, and the Company's ability to originate loans and could lead to impairment in the value of securities in the Company's investment portfolios;

changes in information technology that require increased capital spending;

changes in consumer spending and savings habits;

new laws and regulations regarding the financial services industry including but not limited to, the Dodd-Frank Wall Street Reform & Consumer Protection Act and Basel III proposed capital rules;

changes in laws and regulations including laws and regulations concerning taxes, banking, securities and insurance; and

changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standard setters.

You should carefully review all of these factors, and be aware that there may be other factors that could cause differences, including the risk factors listed in Part II, Item 1A, Risk Factors, beginning on page 13. Readers should carefully review the risk factors described therein and should not place undue reliance on our forward-looking statements.

These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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PART I

Item 1. Business

Overview. Camden National Corporation (hereafter referred to as we, our, us, or the Company) is a publicly-held bank holding company, with \$2.6 billion in assets and 50 branches at December 31, 2012, incorporated under the laws of the State of Maine and headquartered in Camden, Maine. The Company, as a diversified financial services provider, pursues the objective of achieving long-term sustainable growth by balancing growth opportunities against profit, while mitigating risks inherent in the financial services industry. The primary business of the Company and its subsidiaries is to attract deposits from, and to extend loans to, consumer, institutional, municipal, non-profit and commercial customers. The Company makes its commercial and consumer banking products and services available directly and indirectly through its subsidiary, Camden National Bank (the Bank), and its brokerage and insurance services through Camden Financial Consultants (Camden Financial), a division of the Bank. The Company also offers investment management and fiduciary services through its subsidiary, Acadia Trust, N.A. (Acadia Trust), a federally-regulated, non-depository trust company headquartered in Portland, Maine. In addition to serving as a holding company, the Company provides managerial, operational, human resource, marketing, financial management, risk management and technology services to its subsidiaries. The Consolidated Financial Statements of the Company accompanying this Form 10-K include the accounts of the Company, the Bank and its divisions, and Acadia Trust. All inter-company accounts and transactions have been eliminated in consolidation.

The Company is committed to the philosophy of serving the financial needs of customers in local communities, as described in its core purpose: *Through each interaction, we will enrich the lives of people, help businesses succeed and vitalize communities.* The Company, through the Bank, has branches that are located in communities within the Company's geographic market areas. The Company believes that its comprehensive retail, small business and commercial loan products enable the Bank to effectively compete.

The Company has achieved a five-year compounded annual asset growth rate of 8.4%, resulting in \$2.6 billion in total assets as of the end of 2012. The primary factors contributing to the growth were the acquisitions of Union Trust Company in 2008 and 14 branches from Bank of America, National Association in 2012. The financial services industry continues to experience consolidations through mergers that could create opportunities for the Company to promote its value proposition to customers. The Company evaluates the possibility of expansion into new markets through both de novo expansion and acquisitions. In addition, the Company is focused on maximizing the potential for growth in existing markets, especially in markets where the Company has less of a presence.

Following is a timeline of recent major events of the Company:

On January 3, 2008, the Company acquired Union Bankshares Company, Maine, including its principal wholly-owned subsidiary, Union Trust Company. Union Trust Company became a division of the Bank.

On February 22, 2011, the Union Trust division was merged into the Bank.

On October 26, 2012, the Company acquired 15 branches including \$286.7 million in deposits and \$6.0 million in small business loans from Bank of America, National Association. As part of the transaction, we divested one branch as required by the Department of Justice and sold our former Bangor, Maine branch location.

Camden National Bank. The Bank is a national banking association chartered under the laws of the United States headquartered in Camden, Maine. Originally founded in 1875, the Bank became a direct, wholly-owned subsidiary of the Company as a result of a corporate reorganization in 1985. The Bank offers its products and services in the Maine counties of Androscoggin, Cumberland, Franklin, Hancock, Kennebec, Knox, Lincoln, Penobscot, Piscataquis,

Somerset, Waldo, Washington, and York, and focuses primarily on attracting deposits from the general public through its branches, and then using such deposits to originate residential mortgage loans, commercial business loans, commercial real estate loans and a variety of consumer loans. Customers may also access the Bank's products and services using other channels, including the Bank's website located at *www.camdennational.com*.

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Camden Financial Consultants, located at Camden National Bank. Camden Financial is a full-service brokerage and insurance division of the Bank, which is in the business of helping clients meet all of their financial needs by using a total wealth management approach. Its financial offerings include college, retirement, and estate planning, mutual funds, Strategic Asset Management accounts, and variable and fixed annuities.

Acadia Trust, N.A. Acadia Trust is a limited purpose national banking association chartered under the laws of the United States headquartered in Portland, Maine. Acadia Trust provides a broad range of trust, trust-related, investment and wealth management services to both individual and institutional clients. The financial services provided by Acadia Trust complement the services provided by the Bank by offering customers investment management services. Acadia Trust's website is located at www.acadiatrust.com.

The Company's Investor Relations information can be obtained through the Bank's internet address, www.camdennational.com. The Company makes available on or through its Investor Relations page, without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov. In addition, the Company makes available, free of charge, its press releases and Code of Ethics through the Company's Investor Relations page. Information on our website is not incorporated by reference into this document and should not be considered part of this Report.

Competition. Through the Bank and its division, Camden Financial, the Company competes throughout the State of Maine, and considers its primary market area to be in Knox, Hancock, Waldo, Penobscot, Androscoggin, Kennebec, Somerset, Piscataquis and Franklin counties, with a growing presence in Cumberland, Kennebec, Lincoln and York counties. The combined population of Knox and Waldo counties is approximately 81,000 people and their economies are based primarily on tourism and marine related industries and supported by a substantial population of retirees. The counties with the highest population levels within our primary market area are Kennebec county with approximately 122,000 people, Androscoggin county with approximately 108,000, and Penobscot county with approximately 154,000 people. The Bank's downeast and western Maine markets are characterized as rural areas. Major competitors in the Company's primary market area include local branches of large regional bank affiliates and brokerage houses, as well as local independent banks, financial advisors, thrift institutions and credit unions. Other competitors for deposits and loans within the Bank's primary market area include insurance companies, money market funds, consumer finance companies and financing affiliates of consumer durable goods manufacturers.

The Company and the Bank generally have effectively competed with other financial institutions by emphasizing customer service, which is branded as the Camden National Experience, highlighted by local decision-making, establishing long-term customer relationships, building customer loyalty and providing products and services designed to meet the needs of customers. The Company, through its non-bank subsidiary, Acadia Trust, competes for trust, trust-related, investment management, retirement and pension plan management services with local banks and non-banks, which may now, or in the future, offer a similar range of services, as well as with a number of brokerage firms and investment advisors with offices in the Company's market area. In addition, most of these services are widely available to the Company's customers by telephone and over the internet through firms located outside the Company's market area.

Employees. The Company employs approximately 550 people on a full- or part-time basis, which calculates into 518 people on a full-time equivalent basis. The Company's management measures the corporate culture every 18 months and is pleased with the most recent rating, which came in as a positive culture, signifying that employees understand and support the overall Company objectives and strategies. There are no known disputes between management and

employees.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to the Company and the Bank.

This regulatory framework is intended primarily to protect the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than the protection of shareholders of a bank holding company such as the Company.

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As a bank holding company, the Company is subject to regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the FRB) under the Bank Holding Company Act of 1956, as amended (the BHCA). The Bank is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the OCC). Acadia Trust is subject to regulation, supervision and examination by the OCC. As a limited purpose national bank, Acadia Trust does not take deposits.

The following is a summary of certain aspects of various statutes and regulations applicable to the Company and its subsidiaries. This summary is not a comprehensive analysis of all applicable law, however, and you should refer to the applicable statutes and regulations for more information. In addition, these statutes and regulations may change, or additional statutes or regulations could be adopted in the future, and we cannot predict what effect these changes or new statutes or regulations, if any, could have on our business.

The Dodd-Frank Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd- Frank Act) comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on us, our customers or the financial industry. Among other things, the Dodd-Frank Act:

grants the FRB increased supervisory authority and codified the source of strength doctrine, as discussed in more detail in Regulation of the Company Source of Strength below;

established new corporate governance and proxy disclosure requirements, as discussed in Regulation of the Company Corporate Governance and Executive Compensation below;

provides for new capital standards applicable to the Company, as discussed in more detail in Capital Requirements below;

modified the scope and costs associated with deposit insurance coverage, as discussed in Regulation of the Bank Deposit Insurance Premiums below;

permits well capitalized and well managed banks to acquire other banks in any state, subject to certain deposit concentration limits and other conditions, as discussed in Regulation of the Bank Acquisitions and Branching below;

permits the payment of interest on business demand deposit accounts;

established the Bureau of Consumer Financial Protection (the CFPB), as discussed in Consumer Protection Regulation below;

established a new standard for preemption of state consumer financial laws, which will affect national banking associations such as the Bank, as discussed in Consumer Protection Regulation Preemption of State Consumer Protection Laws below;

established new minimum mortgage underwriting standards for residential mortgages, as discussed in Consumer Protection Regulation Mortgage Reform below;

bars banking organizations, such as the Company and the Bank, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, as discussed in Regulation of Other Activities Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds below; and

established the Financial Stability Oversight Council and empowered it to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities.

Regulation of the Company

The Company is subject to regulation, supervision and examination by the FRB, which has the authority, among other things, to order bank holding companies to cease and desist from unsafe or unsound banking practices; to assess civil

money penalties; and to order termination of non-banking activities or termination of ownership and control of a non-banking subsidiary by a bank holding company.

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Source of Strength. Under the Dodd-Frank Act, the Company is required to serve as a source of financial strength for the Bank. In addition, any loans by a bank holding company to any of its bank subsidiaries are subordinate to the payment of deposits and to certain other indebtedness. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Acquisitions and Activities. The BHCA prohibits a bank holding company from acquiring substantially all the assets of a bank or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, or merging or consolidating with any bank holding company without prior approval of the FRB. The BHCA also prohibits a bank holding company from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks. However, a bank holding company may engage in and may own shares of companies engaged in certain activities that the FRB determines to be so closely related to banking or managing and controlling banks so as to be a proper incident thereto.

Limitations on Acquisitions of Company Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a BHC, such as the Company, unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a BHC with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute acquisition of control of the BHC. In addition, a company is required to obtain the approval of the FRB under the BHCA before acquiring 25% (5% in the case of an acquirer that is a BHC) or more of any class of outstanding voting securities of a BHC, or otherwise obtaining control or a controlling influence over that BHC. In 2008, the FRB released guidance on minority investments in banks which relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a BHC in certain instances discussed in the guidance.

Corporate Governance and Executive Compensation. As required under the Dodd-Frank Act, the United States Securities and Exchange Commission (the SEC) adopted rules granting shareholders a non-binding vote on executive compensation and golden parachute payments. The Board of Directors of the Company has determined to hold an advisory vote on executive compensation on an annual basis. Pursuant to modifications of the proxy rules under the Dodd-Frank Act, the Company will be required to disclose the relationship between executive pay and financial performance, the ratio of the median pay of all employees to the pay of the chief executive officer, and employee and director hedging activities. The stock exchanges have amended their listing rules to require that each member of a listed company's compensation committee be independent and be granted the authority and funding to retain independent advisors and to prohibit the listing of any security of an issuer that does not adopt policies governing the claw back of excess executive compensation based on inaccurate financial statements. The federal regulatory agencies have proposed new regulations which prohibit incentive-based compensation arrangements that encourage executives and certain other employees to take inappropriate risks.

Regulation of the Bank

The Bank is subject to regulation, supervision, and examination by the OCC. Additionally, the Federal Deposit Insurance Corporation (the FDIC) has secondary supervisory authority as the insurer of the Bank's deposits. Pursuant to the Dodd-Frank Act, the FRB may directly examine the Bank. The enforcement powers available to the federal banking regulators include, among other things, the ability to issue cease and desist or removal orders to terminate insurance of deposits; to assess civil money penalties; to issue directives to increase capital; to place the Bank into receivership; and to initiate injunctive actions against banking organizations and institution-affiliated parties.

Deposit Insurance Premiums. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. For most banks and savings associations, including the Bank, FDIC rates depend upon a combination of CAMELS component ratings, profitability, credit quality, Tier 1 leverage ratio, and, if applicable, the level of brokered deposits. CAMELS ratings reflect the applicable bank regulatory agency's evaluation of the financial institution's capital, asset quality, management, earnings, liquidity and

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sensitivity to risk. Pursuant to the Dodd-Frank Act, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate.

Pursuant to an FDIC rule issued in 2009, the Bank prepaid its quarterly risk-based assessments to the FDIC for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 on December 30, 2009. The prepaid assessments were recorded as an asset (a prepaid expense) and bear a zero-percent risk weight for risk-based capital purposes. Each quarter the Bank records an expense for its regular quarterly assessment for the quarter and a corresponding credit to the prepaid assessment until the asset is exhausted. The FDIC will not refund or collect additional prepaid assessments because of a decrease or growth in deposits; however, should the prepaid assessment not be exhausted after collection of the amount due on June 30, 2013, the remaining amount of the prepayment will be returned to the Bank.

The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to \$250,000 per depositor. Additionally, the Dodd-Frank Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transactions accounts beginning December 31, 2010, and ending December 31, 2012.

Acquisitions and Branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal) and the Dodd-Frank Act permit well capitalized and well managed BHCs and banks, as determined by the FRB and the OCC, respectively, to acquire banks in any state subject to certain concentration limits and other conditions. Riegle-Neal also generally authorizes the interstate merger of banks. In addition, among other things, Riegle-Neal and the Dodd-Frank Act permit banks to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches. However, as a BHC, we are required to obtain prior FRB approval before acquiring more than 5% of a class of voting securities, or substantially all of the assets, of a BHC, bank or savings association.

Activities and Investments of National Banking Associations. National banking associations must comply with the National Bank Act and the regulations promulgated thereunder by the OCC, which limit the activities of national banking associations to those that are deemed to be part of, or incidental to, the business of banking. Activities that are part of, or incidental to, the business of banking include taking deposits, borrowing and lending money and discounting or negotiating promissory notes, drafts, bills of exchange, and other evidences of debt. Subsidiaries of national banking associations generally may only engage in activities permissible for the parent national bank. The Dodd-Frank Act bars the Bank from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances.

Lending Restrictions. Federal law limits a bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the bank's capital. The Dodd-Frank Act explicitly provides that an extension of credit to an insider includes credit exposure arising from a derivatives transaction, repurchase agreement, reverse repurchase agreement, securities lending transaction or securities borrowing transaction. Additionally, the Dodd-Frank Act requires that asset sale transactions with insiders must be on market terms, and if the transaction represents more than 10% of the capital and surplus of the Bank, be approved by a majority of the disinterested directors of the Bank.

A bank holding company and its subsidiaries are subject to prohibitions on certain tying arrangements. These institutions are generally prohibited from extending credit to or offering any other service on the condition that the client obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

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Brokered Deposits. Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is well capitalized or, with the FDIC's approval, adequately capitalized. Depository institutions, other than those in the lowest risk category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments. Additionally, depository institutions considered adequately capitalized that need FDIC approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits.

Community Reinvestment Act. The Community Reinvestment Act (CRA) requires the FDIC to evaluate the Bank's performance in helping to meet the credit needs of the entire communities it serves, including low and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. The Bank currently has an outstanding CRA rating.

Capital Requirements

The FRB and the OCC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth.

The FRB's capital adequacy guidelines generally require bank holding companies to maintain total capital of at least 8% of total risk-weighted assets, including off-balance sheet items, with at least 50% of that amount consisting of Tier 1 (or core) capital and the remaining amount consisting of Tier 2 (or supplementary) capital. Tier 1 capital for bank holding companies generally consists of the sum of common shareholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Future issuances of trust preferred securities have been disallowed as Tier 1 qualifying capital by the Dodd-Frank Act, although the Company's currently outstanding trust preferred securities have been grandfathered for Tier 1 eligibility. Under the proposed Basel III capital rules discussed below, the Company's currently outstanding trust preferred securities would be phased out from the calculation of Tier 1 capital over a ten-year period. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, perpetual preferred stock and trust preferred securities, to the extent not eligible to be included as Tier 1 capital, term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics. In addition to the risk-based capital requirements, the FRB requires most bank holding companies, including the Company, to maintain a minimum leverage capital ratio of Tier I capital to its average total consolidated assets of 4.0%. The Dodd-Frank Act requires the FRB to establish minimum risk-based and leverage capital requirements that may not be lower than those in effect on July 21, 2010. As of December 31, 2012, the Company's Tier 1 risk-based capital ratio was 14.31%, its total risk-based capital ratio was 15.56% and its Tier 1 leverage ratio was 8.94%.

The Company has not elected and does not currently expect to calculate its risk-based capital requirements under either the advanced or standard approach of the Basel II capital accords agreed to by the Basel Committee on Banking

Supervision in 2004. In 2010 and 2011, the members of the Basel Committee on Banking Supervision agreed to new global capital adequacy standards, known as Basel III. These standards provide for higher capital requirements, enhanced risk coverage, a global leverage ratio, liquidity standards and a provision for counter-cyclical capital. The federal banking agencies issued three joint proposed rules (the Proposed Capital Rules) that implement the Basel III capital standards and establish the

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minimum capital levels for banks and bank holding companies required under the Dodd-Frank Act. The Proposed Capital Rules establish a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets for a well capitalized institution and increase the minimum total Tier 1 capital ratio for a well capitalized institution from 6% to 8%. Additionally, the Proposed Capital Rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount equal to 2.5% of total risk weight assets above the 6.5% minimum risk-based capital requirement. The Proposed Capital Rules revise certain other capital definitions and, generally, impose more stringent capital requirements. Further, the Proposed Capital Rules increase the required capital for certain categories of assets, including higher-risk residential mortgages, higher-risk construction real estate loans and certain exposures related to securitizations. Under the Proposed Capital Rules, the amount of capital held against residential mortgages is based upon the loan-to-value ratio of the mortgage. Additionally, the Proposed Capital Rules remove the filter for accumulated other comprehensive income in the current capital rules which currently prevents unrealized gains and losses from being included in the calculation of the institution's capital. This change would result in the need for additional capital to be held against unrealized gains and losses on available for sale securities, hedges and any adjustments to the funded status of defined benefit plans, which could result in increased volatility in the amount of required capital. As noted above, the Proposed Capital Rules also eliminate the treatment of trust preferred securities as Tier 1 capital over a ten-year period.

The financial services industry, members of Congress and state regulatory agencies provided extensive comments on the Proposed Capital Rules to the federal banking agencies. In response to such commentary, the federal banking agencies extended the deadline for the Proposed Capital Rules to go into effect and indicated that a final rule would be issued in 2013. The final capital rule may differ significantly in substance or in scope from the Proposed Capital Rules. Accordingly, the Company is not yet in a position to determine the effect of Basel III and the Proposed Capital Rules on its capital requirements.

Prompt Corrective Action. The OCC has promulgated regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act (FDIA). Under the regulations, a bank is well capitalized if it has: (1) a total risk-based capital ratio of 10.0% or greater; (2) a Tier 1 risk-based capital ratio of 6.0% or greater; (3) a leverage ratio of 5.0% or greater; and (4) is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is adequately capitalized if it has: (1) a total risk-based capital ratio of 8.0% or greater; (2) a Tier 1 risk-based capital ratio of 4.0% or greater; and (3) a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a well capitalized bank. The OCC also must take into consideration: (1) concentrations of credit risk; (2) interest rate risk; and (3) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination.

At December 31, 2012, the Bank was deemed to be a well capitalized institution for the above purposes. Information concerning the Company and the Bank with respect to capital requirements is incorporated by reference from Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations, in the section entitled Capital Resources, and Item 8. Financial Statements and Supplementary Data, in the section entitled Note 19, Regulatory Capital Requirements.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is undercapitalized), becomes subject to the prompt corrective action provisions of Section 38 of FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that the OCC monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution's assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the

bank. A bank that is critically undercapitalized (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

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Dividend Restrictions

Restrictions on Bank Holding Company Dividends. The FRB has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. FRB policy further provides that a bank holding company should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company's ability to serve as a source of strength to bank subsidiaries. The ability of the Company to pay dividends to shareholders may also depend on the receipt of dividends from the Bank.

Under Maine law, a corporation's board of directors may declare, and the corporation may pay, dividends on its outstanding shares, in cash or other property, generally only out of the corporation's unreserved and unrestricted earned surplus, or out of the unreserved and unrestricted net earnings of the current fiscal year and the next preceding fiscal year taken as a single period, except under certain circumstances, including when the corporation is insolvent, or when the payment of the dividend would render the corporation insolvent or when the declaration would be contrary to the corporation's charter.

Restrictions on Bank Dividends. National banks generally may not declare a dividend in excess of the bank's undivided profits and, absent OCC approval, if the total amount of dividends declared by the national bank in any calendar year exceeds the total of the national bank's retained net income of that year to date combined with its retained net income for the preceding two years. National banks also are prohibited from declaring or paying any dividend if, after making the dividend, the national bank would be considered undercapitalized (as defined by reference to other OCC regulations). The OCC has the authority to use its enforcement powers to prohibit a national bank, such as the Bank, from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis.

Transactions with Affiliates

Under Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder, the Company, its non-bank subsidiaries and other affiliates of the Bank may borrow, obtain credit from or otherwise engage in covered transactions with the Bank to the extent that such transactions do not exceed 10% of the capital stock and surplus of the Bank (for covered transactions between the Bank and one affiliate) and 20% of the capital stock and surplus of the Bank (for covered transactions between the Bank and all affiliates). The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the Bank or one of its affiliates is an investment adviser. A covered transaction includes, among other things, a loan or extension of credit; an investment in securities issued by an affiliate; asset purchases; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company; the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate; a securities borrowing or lending transaction with an affiliate that creates a credit exposure to such affiliate; or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements.

Consumer Protection Regulation

The Company and the Bank are subject to a federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, the Home Ownership Protection Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), the Gramm-Leach-Bliley Act of 1999 (the GLBA), Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the

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Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The OCC examines the Bank for compliance with CFPB rules and enforce CFPB rules with respect to the Bank.

Preemption of State Consumer Protection Laws. The Dodd-Frank Act established a new standard for preemption of state consumer financial laws, which will affect national banking associations such as the Bank. Under the new standard, a state consumer protection law may only be preempted if it has a discriminatory effect against national banks, it prevents or significantly interferes with the exercise of a national bank's powers as determined by court order or by the OCC on a case-by-case basis or such law is preempted by a provision of federal law. This standard is expected to result in the preemption of fewer state consumer laws, thus, the Bank may have to comply with certain state laws that were considered preempted before the enactment of the Dodd-Frank Act.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan. The CFPB issued a final rule that requires creditors, such as the Bank, to make a reasonable good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling. The rule provides creditors with minimum requirements for making such ability-to-repay determinations. Creditors are required to consider the following eight underwriting factors: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (4) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. While the Dodd-Frank Act provides that qualified mortgages are entitled to a presumption that the creditor satisfied the ability-to-repay requirements, the final rule provides a safe harbor for loans that satisfy the definition of a qualified mortgage and are not higher priced. Higher-priced loans are subject to a rebuttable presumption. A qualified mortgage is a loan that does not contain certain risky features, such as negative amortization, interest-only payments, balloon payments, a term exceeding 30 years, has a debt-to-income ratio of not more than 43%, and for which the creditor considers and verifies the consumer's current debt obligations, alimony, and child support. The rule becomes effective on January 10, 2014.

The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages. Additionally, the CFPB has issued rules governing mortgage servicing, appraisals, escrow requirements for higher-priced mortgages and loan originator qualification and compensation.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any

customer. The Bank is also required to send a notice to customers whose sensitive information has been compromised if unauthorized use of this information is reasonably possible. A majority of states have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of

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data security breaches. Pursuant to the FACT Act, the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act (BSA), a financial institution, is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than \$10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than \$5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or affect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with shell banks.

Office of Foreign Assets Control (OFAC). The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by OFAC, take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on U.S. persons engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Company.

Regulation of Other Activities

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds. The Dodd-Frank Act limits banking organizations, such as the Company and the Bank, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, in a provision commonly referred to as the Volcker Rule. Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its own account. Hedge funds and private equity

funds are described by the Dodd-Frank Act as funds that would be registered under the 1940 Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Company, the Bank and all of their subsidiaries and affiliates.

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Legal Contingencies

In the normal course of business, the Company and its subsidiaries are subject to pending and threatened legal actions. Although the Company is not able to predict the outcome of such actions, after reviewing pending and threatened actions with counsel, management believes that based on the information currently available the outcome of such actions, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position as a whole.

Reserves are established for legal claims only when losses associated with the claims are judged to be probable, and the loss can be reasonably estimated. In many lawsuits and arbitrations, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case a reserve will not be recognized until that time.

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Item 1A. Risk Factors

If our allowance for loan losses is not adequate to cover actual loan losses, our earnings could decrease.

We make various assumptions and judgments about the collectability of our loan portfolio and provide an allowance for probable loan losses based on a number of factors. On a monthly basis, management reviews the assumptions, calculation methodology and balance of the allowance for loan losses with the Bank's board of directors. On a quarterly basis, our board of directors, as well as the Bank's board of directors, completes a similar review of the allowance for loan losses. If the assumptions are incorrect, the allowance for loan losses may not be sufficient to cover the losses we could experience, which would have an adverse effect on operating results, and may also cause us to increase the allowance for loan losses in the future. In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provisions for credit losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by regulatory authorities could have a material adverse effect on our consolidated results of operations and financial condition. If additional amounts are provided to the allowance for loan losses, our earnings could decrease.

Our loans are concentrated in certain areas of Maine and adverse conditions in those markets could adversely affect our operations.

We are exposed to real estate and economic factors throughout Maine, as virtually the entire loan portfolio is concentrated among borrowers in Maine, with higher concentrations of exposure in Cumberland, Hancock, Knox and Waldo counties. Further, because a substantial portion of the loan portfolio is secured by real estate in this area, the value of the associated collateral is also subject to regional real estate market conditions. Adverse economic, political or business developments or natural hazards may affect these areas and the ability of property owners in these areas to make payments of principal and interest on the underlying mortgages. If these regions experience adverse economic, political or business conditions, we would likely experience higher rates of loss and delinquency on these loans than if the loans were more geographically diverse.

We experience strong competition within our markets, which may impact our profitability.

Competition in the banking and financial services industry is strong. In our market areas, we compete for loans, deposits and other financial products and services with local independent banks, thrift institutions, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally as well as nationally. Many of these competitors have substantially greater resources and lending limits than those of our subsidiaries and may offer services that our subsidiaries do not or cannot provide. Our long-term success depends on the ability of our subsidiaries to compete successfully with other financial institutions in their service areas. Because we maintain a smaller staff and have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. If we are unable to attract and retain customers, we may be unable to achieve growth in the loan and core deposit portfolios, and our results of operations and financial condition may be negatively impacted.

Interest rate volatility may reduce our profitability.

Our profitability depends to a large extent upon our net interest income, which is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense related to interest-bearing liabilities, such as deposits and borrowed funds. Net interest income can be affected significantly by changes in market interest rates. In particular, changes in relative interest rates may reduce our net interest income as the difference between interest income and interest expense decreases. As a result, we have adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, there can be no assurance that a change in interest rates will not negatively impact our results from operations or financial position. Because market interest rates may change by differing magnitudes and at different times, significant changes in interest rates over an extended period of time could reduce overall net interest income. An increase in interest rates could also have a negative impact on our

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results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to our allowance for loan losses.

Our banking business is highly regulated, and we may be adversely affected by changes in law and regulation.

We are subject to regulation and supervision by the FRB, and the Bank is subject to regulation and supervision by the OCC and the FDIC. Federal laws and regulations govern numerous matters, including changes in the ownership or control of banks and bank holding companies, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible nonbanking activities, the level of reserves against deposits and restrictions on dividend payments. The OCC possesses the power to issue cease and desist orders to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to bank holding companies. These and other restrictions limit the manner in which we may conduct business and obtain financing.

Our banking business is also affected by the monetary policies of the FRB. Changes in monetary or legislative policies may affect the interest rates the Bank must offer to attract deposits and the interest rates it must charge on loans, as well as the manner in which it offers deposits and makes loans. These monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including the Bank.

Because our business is highly regulated, the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the recent performance of and government intervention in the financial services sector. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. See Item 1. Business Supervision and Regulation.

Additional requirements imposed by the Dodd-Frank Act could adversely affect us.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on us, our customers or the financial industry. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with the Bank's deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. Among other things, the Dodd-Frank Act established the Consumer Financial Protection Bureau, or the CFPB, as an independent bureau of the FRB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and

Our banking business is highly regulated, and we may be adversely affected by changes in law and regulation.

services or impose greater costs on us and our subsidiaries. The Dodd-Frank Act also established new minimum mortgage underwriting standards for residential mortgages and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities.

Current and future legal and regulatory requirements, restrictions, and regulations, including those imposed under the Dodd-Frank Act, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest

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significant management attention and resources to evaluate and make any changes required by the legislation and related regulations and may make it more difficult for us to attract and retain qualified executive officers and employees.

We may become subject to more stringent capital requirements.

The Dodd-Frank Act requires the federal banking agencies to establish minimum leverage and risk-based capital requirements that will apply to both insured banks and their holding companies. In addition, the federal banking agencies issued three joint proposed rules, or the Proposed Capital Rules, that implement the Basel III capital standards and establish the minimum capital levels required under the Dodd-Frank Act. The Proposed Capital Rules establish a minimum common equity Tier 1 capital ratio of 6.5% of risk-weighted assets for a well-capitalized institution, and increase the minimum total Tier 1 capital ratio for a well-capitalized institution from 6% to 8%. Additionally, the Proposed Capital Rules require an institution to establish a capital conservation buffer of common equity Tier 1 capital in an amount equal to 2.5% of total risk weight assets above the 6.5% minimum risk-based capital requirement. The proposed capital rules also phase out trust preferred securities from Tier 1 capital and increase the required capital for certain categories of assets, including higher-risk residential mortgages, higher-risk construction real estate loans and certain exposures related to securitizations, and remove the filter for accumulated other comprehensive income in the current capital rules which currently prevents unrealized gains and losses from being included in the calculation of the institution's capital.

The federal banking agencies extended the deadline for the Proposed Capital Rules to go into effect and indicated that final rules would be issued in 2013. The final capital rules may differ significantly in substance or in scope from the Proposed Capital Rules. However, the final capital rules are expected to increase our capital requirements and related compliance costs. Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures.

The Bank has traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a less costly source of funds than borrowings because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures or otherwise, the value of deposits at the Bank decreases relative to our overall banking operations, we may have to rely more heavily on borrowings as a source of funds in the future.

We are subject to liquidity risk.

Liquidity risk is the risk of potential loss if we are unable to meet our funding requirements at a reasonable cost. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us. Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger unfavorable contractual obligations.

We are dependent upon our subsidiaries for dividends, distributions and other payments.

We are a separate and distinct legal entity from our subsidiaries, and depend on dividends, distributions and other payments from our subsidiaries to fund dividend payments on our common stock and to fund all payments on our other obligations. Our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to us, which could impede access to funds we need to make payments on our obligations or dividend payments.

Under regulations prescribed by the OCC, without prior OCC approval, the Bank may not declare dividends in any year in excess of the Bank's (i) net income for the current year, (ii) plus its retained net

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income for the prior two years. If we are required to use dividends from the Bank to service unforeseen commitments in the future, we may be required to reduce the dividends paid to our shareholders going forward.

Prepayments of loans may negatively impact our business.

Generally, our customers may prepay the principal amount of their outstanding loans at any time. The speeds at which such prepayments occur, as well as the size of such prepayments, are within our customers' discretion. If customers prepay the principal amount of their loans, and we are unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, our interest income will be reduced. A significant reduction in interest income could have a negative impact on our results of operations and financial condition.

Our loan portfolio includes commercial real estate and commercial loans, which are generally riskier than other types of loans.

At December 31, 2012, our commercial real estate mortgage and commercial loan portfolios comprised 45% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

The two most significant industry exposures within our commercial real estate loan portfolio are non-residential building operators (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings) and lodging (inns, bed & breakfasts, ski lodges, tourist cabins, hotels, and motels). At December 31, 2012, exposure to these two industries, as a percentage of total commercial real estate loans was 29% and 23%, respectively.

We may incur significant losses as a result of ineffective risk management processes and strategies.

We seek to monitor and control our risk exposure through a risk and control framework encompassing a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems, internal controls, management review processes and other mechanisms. While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application may not be effective and may not anticipate every economic and financial outcome in all market environments or the specifics and timing of such outcomes. Market conditions over the last several years have involved unprecedented dislocations and highlight the limitations inherent in using historical data to manage risk.

We may be unable to attract and retain key personnel.

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that it depends upon for success. The unexpected loss of services of one or more of our key personnel could have a

material adverse impact on its business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

We have credit and counterparty risk inherent in our securities portfolio and bank-owned life insurance policies.

We maintain a diversified securities portfolio, which includes mortgage-backed securities issued by U.S. government and government sponsored agencies, obligations of the U.S. Treasury and government-sponsored agencies, securities issued by state and political subdivisions, private issue collateralized mortgage obligations

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and auction preferred securities. We also carry investments in bank-owned life insurance and Federal Home Loan Bank stock. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities.

The current economic environment and volatility of financial markets increase the difficulty of assessing investment securities impairment and the same influences tend to increase the risk of potential impairment of these assets. During the years ended December 31, 2012, 2011 and 2010, we recorded charges for other-than-temporary impairment of securities of \$39,000, \$109,000 and \$221,000, respectively. We believe that we have adequately reviewed our investment securities for impairment and that our investment securities are carried at fair value. However, over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change our judgment regarding impairment. In addition, if the counter-party should default, become insolvent, declare bankruptcy, or otherwise cease to exist, the value of our investment may be impaired. This could result in realized losses relating to other-than-temporary declines being charged against future income. Given the current market conditions and the significant judgments involved, there is continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses.

Increases in FDIC deposit insurance premiums will increase our non-interest expense.

Pursuant to the Dodd-Frank Act, the FDIC has amended the deposit insurance assessment by changing the calculation of deposit assessments. Under the new calculation, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (which the FDIC proposes to be defined as the amount of Tier 1 capital) and its applicable assessment rate. The new assessment formula was effective on April 1, 2011, and was used to calculate the June 30, 2011 assessment. Future expenses will be based on asset levels, Tier 1 capital levels, assessment rates, CAMELS ratings, and whether there are any future special assessments by the FDIC. Any increase in our deposit insurance premiums will result in an increase in our non-interest expense.

We could be held responsible for environmental liabilities of properties we acquired through foreclosure.

If we are forced to foreclose on a defaulted mortgage loan to recover our investment, we may be subject to environmental liabilities related to the underlying real property. Hazardous substances or wastes, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. The amount of environmental liability could exceed the value of the real property. There can be no assurance that we would not be fully liable for the entire cost of any removal and clean-up on an acquired property, that the cost of removal and clean-up would not exceed the value of the property, or that we could recoup any of the costs from any third party.

Due to the nature of our business, we may be subject to litigation from time to time, some of which may not be covered by insurance.

As a holding company and through the Bank, we operate in a highly regulated industry, and as a result, are subject to various regulations related to disclosures to our customers, our lending practices, and other fiduciary responsibilities, including those to our shareholders. From time to time, we have been, and may become, subject to legal actions

We have credit and counterparty risk inherent in our securities portfolio and bank-owned life insurance policies.

relating to our operations that have involved, or could involve, claims for substantial monetary damages. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case. As a result, a judgment against us in any such litigation could have a material adverse effect on our financial condition and results of operation.

We are subject to reputational risk.

Our actual or perceived failure to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements applicable to the Bank and to the Company; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal,

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reputational, credit, liquidity and market risks inherent in our products could give rise to reputational risk that could cause harm to the Bank and our business prospects. If we fail to address any of these issues in an appropriate manner, we could be subject to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Our ability to attract and retain customers and employees could be adversely affected to the extent our reputation is damaged.

To the extent that we acquire other companies, our business may be negatively impacted by certain risks inherent with such acquisitions.

We have acquired and will continue to consider the acquisition of other financial services companies. To the extent that we acquire other companies in the future, our business may be negatively impacted by certain risks inherent with such acquisitions. These risks include the following:

the risk that the acquired business will not perform in accordance with management's expectations;
the risk that difficulties will arise in connection with the integration of the operations of the acquired business with the operations of our businesses;

the risk that management will divert its attention from other aspects of our business;

the risk that we may lose key employees of the combined business; and

the risks associated with entering into geographic and product markets in which we have limited or no direct prior experience.

On October 26, 2012, the Bank completed the acquisition of 15 branches from Bank of America, National Association, and the divestiture of one of the acquired branches to The First, N.A. We believe that the acquisition of these branches will increase our customer base and the services that we offer, and thus contribute to the overall net growth of our enterprise; however, the branch acquisition could also have an adverse impact on our business and results of operations if, for example, we have a higher than expected loss of deposits or experience disruption of our business as a result of the acquisition.

We may be required to write down goodwill and other identifiable intangible assets.

When we acquire a business, a portion of the purchase price of the acquisition is allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2012, our goodwill and other identifiable intangible assets were approximately \$53.3 million. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets. We conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired. We recently completed such an impairment analysis and concluded that no impairment charge was necessary for the year ended December 31, 2012. We cannot provide assurance whether we will be required to take an additional impairment charge in the future. Any impairment charge would have a negative effect on our shareholders' equity and financial results and may cause a decline in our stock price.

We are subject to operational risk.

We are subject to certain operational risks, including, but not limited to, information technology system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We

depend upon information technology, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. If our information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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We must adapt to information technology changes in the financial services industry, which could present operational issues, require significant capital spending, or impact our reputation.

The financial services industry is constantly undergoing technological changes, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

The market value of wealth management assets under administration may be negatively affected by changes in economic and market conditions.

A substantial portion of income from fiduciary services is dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We may not be able to attract and retain wealth management clients at current levels.

Due to strong competition, our wealth management division may not be able to attract and retain clients at current levels. Competition is strong as there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Our ability to attract and retain wealth management clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services, marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

If we do not maintain net income growth, the market price of our common stock could be adversely affected.

Our return on shareholders' equity and other measures of profitability, which affect the market price of our common stock, depend in part on our continued growth and expansion. Our growth strategy has two principal components: internal growth and external growth. Our ability to generate internal growth is affected by the competitive factors described below as well as by the primarily rural characteristics and related demographic features of the markets we serve. Our ability to continue to identify and invest in suitable acquisition candidates on acceptable terms is an important component of our external growth strategy. In pursuing acquisition opportunities, we may be in competition with other companies having similar growth strategies. As a result, we may not be able to identify or acquire promising acquisition candidates on acceptable terms. Competition for these acquisitions could result in increased acquisition prices and a diminished pool of acquisition opportunities. An inability to find suitable acquisition candidates at reasonable prices could slow our growth rate and have a negative effect on the market price of our

common stock.

Our shareholders may not receive dividends on the common stock.

Holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors. Although we have historically declared cash dividends on our common stock, we are not required to do so and our board of directors may reduce or eliminate our common stock dividend in the future. Further, the FRB has issued guidelines for evaluating proposals by large bank holding companies to increase dividends or repurchase or redeem shares, which includes a requirement for such firms to develop a capital distribution plan. The FRB has indicated that it is considering expanding these requirements to cover all bank holding companies, which may in the future restrict our ability to pay dividends. A reduction or elimination of dividends could adversely affect the market price of our common stock.

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Changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board, or FASB, changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations. For example, the FASB's current financial instruments project could, among other things, significantly change the way loan loss provisions are determined from an incurred loss model to an expected loss model, and may also result in most financial instruments being required to be reported at fair value.

Our financial statements are based in part on assumptions and estimates, which, if wrong, could cause unexpected losses in the future.

Pursuant to U.S. generally accepted accounting principles, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves, reserves related to litigation and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying our financial statements are incorrect, we may experience material losses. For additional information, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies.

Our financial condition and results of operations have been adversely affected, and may continue to be adversely affected, by the U.S. and international financial market and economic conditions.

We have been and continue to be impacted by general business and economic conditions in the United States and, to a lesser extent, abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, unemployment and the strength of the U.S. economy and the local economies in which the Company operates, all of which are beyond the Company's control. Continued deterioration in any of these conditions could result in an increase in loan delinquencies, and non-performing assets, decreases in loan collateral values and a decrease in demand for the Company's products and services. While there are indications that the U.S. economy is stabilizing, there remains significant uncertainty regarding the sustainability of the economic recovery.

Continued market volatility may impact our business and the value of our common stock.

Our business performance and the trading price of shares of our common stock may be affected by many factors affecting financial institutions, including volatility in the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and the value of debt and mortgage-backed and other securities that we hold in our investment portfolio. Government action and legislation may also impact us and the value of our common stock. We cannot predict what impact, if any, volatility will have on our business or share price and for these and other reasons our shares of common stock may trade at a price lower than that at which they were purchased.

Item 1B. Unresolved Staff Comments

None

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The Company operates in 52 facilities, all of which are fully utilized and considered suitable and adequate for the purposes intended. The Company has a 50 branch network located in 13 counties throughout Maine. The Company owns 30 of its branch facilities, none of which are subject to a mortgage, and the remaining branch facilities and two parking lots are leased by the Company. Related rent expense appears in Note 6 of the Consolidated Financial Statements. The following table presents our materially important properties as of December 31, 2012.

Facility Name	Location	General Character of the Physical Property	Primary Business Segment	Property Status	Property Square Feet
Main Office	Camden, Maine	3 story building	Principal executive office	Owned	15,500
Hanley Center	Rockport, Maine	2 story building	Service center	Owned	32,360
Bangor	Bangor, Maine	1 floor	Branch	Leased	17,432 ⁽¹⁾
Acadia Trust	Portland, Maine	1 floor	Main office	Leased	4,212 ⁽¹⁾
Rockland	Rockland, Maine	3 story building	Branch	Owned	21,600
Ellsworth	Ellsworth, Maine	3 story building	Branch	Owned	44,000 ⁽²⁾
Waterville	Waterville, Maine	3 story building	Branch	Owned	17,099
Auburn	Auburn, Maine	2 floors	Branch	Leased	8,824 ⁽¹⁾

(1) Property square feet represents the square footage occupied by the Company.

(2) Includes space leased to third parties.

Item 3. Legal Proceedings

Various legal claims arise from time to time in the normal course of the Company's business, which in our opinion, are not expected to have a material effect on our Consolidated Financial Statements.

Item 4. Mine Safety Disclosures

None.

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The Company's common stock is currently traded on the NASDAQ Global Market (NASDAQ) under the ticker symbol CAC. The Company has paid quarterly dividends since its foundation in 1984. The high and low closing sales prices (as quoted by NASDAQ for 2012 and 2011) and cash dividends paid per share of the Company's common stock, by calendar quarter for the past two years, were as follows:

	2012		Dividends Paid per Share	2011		Dividends Paid per Share
	Market Price			Market Price		
	High	Low		High	Low	
First Quarter	\$ 37.25	\$ 31.90	\$ 0.25	\$ 37.63	\$ 31.74	\$ 0.25
Second Quarter	\$ 36.62	\$ 30.83	\$ 0.25	\$ 37.67	\$ 30.95	\$ 0.25
Third Quarter	\$ 39.73	\$ 33.87	\$ 0.25	\$ 34.57	\$ 25.19	\$ 0.25
Fourth Quarter	\$ 38.09	\$ 31.10	\$ 0.25	\$ 33.12	\$ 25.80	\$ 0.75

As of February 25, 2013, there were 7,622,750 shares of the Company's common stock outstanding held of record by approximately 1,300 shareholders, as obtained through our transfer agent. Such number of record holders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees, which is estimated to be 3,100 shareholders based on the number of requested copies from such institutions.

Although the Company has historically paid quarterly dividends on its common stock, the Company's ability to pay such dividends depends on a number of factors, including restrictions under federal laws and regulations on the Company's ability to pay dividends, and as a result, there can be no assurance that dividends will be paid in the future.

For further information on dividend restrictions, refer to the Capital Resources section in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following graph illustrates the annual percentage change in the cumulative total shareholder return of the Company's common stock for the period December 31, 2007 through December 31, 2012. For purposes of comparison, the graph illustrates comparable shareholder returns of the ABA NASDAQ Community Bank Index, the SNL \$1B - \$5B Bank Index, and the Russell 2000 Stock Index. The graph assumes a \$100 investment on December 31, 2007 in each case and measures the amount by which the market value, assuming reinvestment of dividends, has changed as of December 31, 2012.

Stock Performance Graph

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On September 27, 2011, the board of directors authorized the 2011 Common Stock Repurchase Program (2011 Repurchase Plan) for the repurchase of up to 500,000 shares, or approximately 6.5% of the Company's outstanding common stock. Under the 2011 Repurchase Plan, the Company repurchased 78,824 shares of common stock at an average price of \$31.53. The 2011 Repurchase Plan expired on October 1, 2012. On September 25, 2012, the board of directors authorized the 2012 Common Stock Repurchase Program (2012 Repurchase Plan). The 2012 Repurchase Plan allows for the repurchase of up to 500,000 shares, or approximately 6.5%, of the Company's outstanding common stock over a one-year term expiring on October 1, 2013. As of December 31, 2012, the Company had not repurchased any shares under the 2012 Repurchase Plan.

	Total number of shares purchases	Average price paid per share	Total number of shares purchased as part of publicly announced plan
Purchases of Equity Securities ⁽¹⁾			
10/1/2012 to 10/31/2012		\$	
11/1/2012 to 11/30/2012	1,678	33.96	1,678
12/1/2012 to 12/31/2012			
Total Purchases of Equity Securities	1,678	\$ 33.96	1,678

Pursuant to the Company's share-based compensation plans, employees may deliver back shares of stock previously (1) issued in payment of the exercise price of stock options or to satisfy the minimum tax withholdings obligation in conjunction with recipient's vesting of stock-based compensation.

Other information required by this item is incorporated by reference to Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Item 6. Selected Financial Data

(In Thousands, Except per Share Data)	At or for the Year Ended December 31,				
	2012 ⁽¹⁾	2011	2010	2009	2008
Financial Condition Data					
Investments	\$802,084	\$611,998	\$611,643	\$539,587	\$670,040
Loans and loans held for sale	1,563,866	1,520,089	1,530,280	1,526,758	1,500,908
Allowance for loan losses	23,044	23,011	22,293	20,246	17,691
Total assets	2,564,757	2,302,720	2,306,007	2,235,383	2,341,496
Deposits	1,929,469	1,591,366	1,515,811	1,495,807	1,489,517
Borrowings	360,163	456,233	559,919	527,347	661,805
Shareholders' equity	233,815	218,876	205,995	190,561	166,400
Operating Data					
Interest income	\$90,947	\$98,372	\$104,507	\$113,331	\$127,120
Interest expense	17,202	23,153	30,217	40,320	56,899
Net interest income	73,745	75,219	74,290	73,011	70,221
Provision for credit losses	3,816	4,735	6,299	8,213	4,397
	69,929	70,484	67,991	64,798	65,824

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Net interest income after provision for
credit losses

Non-interest income	23,412	23,053	20,825	19,423	1,723
Non-interest expense	59,031	55,579	52,937	51,005	46,829
Income before income taxes	34,310	37,958	35,879	33,216	20,718
Income taxes	10,882	11,781	11,113	10,443	5,383
Net income	\$23,428	\$26,177	\$24,766	\$22,773	\$15,335

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(In Thousands, Except per Share Data)	At or for the Year Ended December 31,				
	2012 ⁽¹⁾	2011	2010	2009	2008
Ratios					
Return on average assets	0.98 %	1.13 %	1.09 %	1.00 %	0.67 %
Return on average equity	10.31 %	12.16 %	12.42 %	12.81 %	9.15 %
Allowance for credit losses to total loans	1.48 %	1.52 %	1.46 %	1.33 %	1.18 %
Non-performing loans to total loans	1.78 %	1.82 %	1.47 %	1.29 %	0.85 %
Non-performing assets to total assets	1.13 %	1.27 %	1.08 %	1.13 %	0.71 %
Average equity to average assets	9.48 %	9.32 %	8.77 %	7.80 %	7.28 %
Efficiency ratio ⁽²⁾	57.45 %	54.68 %	55.74 %	54.26 %	52.44 %
Tier 1 leverage capital ratio	8.94 %	9.59 %	8.77 %	8.17 %	7.19 %
Tier 1 risk-based capital ratio	14.31 %	14.69 %	13.80 %	12.24 %	11.11 %
Total risk-based capital ratio	15.56 %	15.95 %	15.05 %	13.49 %	12.32 %
Per common share data					
Basic earnings per share	\$3.06	\$3.41	\$3.23	\$2.98	\$2.00
Diluted earnings per share	3.05	3.40	3.23	2.97	2.00
Dividends declared per share	1.00	1.50	1.00	1.00	1.00
Dividends paid per share	1.00	1.50	1.00	1.00	0.99
Book value per share	30.67	28.56	26.90	24.93	21.78
Tangible book value per share (Non-GAAP) ⁽²⁾	23.68	22.66	20.91	18.86	15.62
Dividend payout ratio	32.73 %	44.05 %	30.95 %	33.56 %	50.00 %

(1) The 2012 data includes the acquisition of 14 branches and \$287.6 million of deposits from Bank of America, National Association.

(2) Please see Non-GAAP Financial Measures and Reconciliation to GAAP on page 28.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion below focuses on the factors affecting our consolidated results of operations for the years ended December 31, 2012, 2011 and 2010 and financial condition at December 31, 2012 and 2011 and, where appropriate, factors that may affect our future financial performance. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Selected Consolidated Financial Data.

Executive Overview

The Company reported net income for the year ended December 31, 2012 of \$23.4 million and diluted earnings per share of \$3.05, for 2012 compared to net income and diluted earnings per share of \$26.2 million and \$3.40, respectively, for 2011. Return on average assets and return on average equity for 2012 were 0.98% and 10.31%, respectively.

On April 23, 2012, the Company announced a definitive agreement to acquire 15 branches from Bank of America, National Association. The acquisition was finalized on October 26, 2012. As part of the transaction, Camden National also divested one branch as required by the Department of Justice and sold its former Bangor, Maine, branch location.

In addition to the branches, we acquired \$286.7 million in deposits and \$6.0 million in small business loans in the transaction. The \$13.9 million investment made in the branch acquisition to acquire branch facilities and deposits has the potential to provide attractive long-term financial returns. In Maine, where our population, and therefore customer growth, is limited, we were able to increase our customer base by approximately 30% at a per account cost of only \$195.

Total assets grew 11% to \$2.6 billion at December 31, 2012, with loans growing 3% and deposits increasing over 21%, as a result of the branch transaction and organic growth. Net income for 2012 declined \$2.7 million, or 11%, compared to the record earnings level of \$26.2 million in 2011. The financial results for 2012 include one-time conversion and integration-related costs associated with the branch acquisition, a decline in core net interest income as a result of the interest rate environment and an increase in operating costs primarily due to recurring operating expenses of the newly acquired branches.

Critical Accounting Policies

In preparing the Company's Consolidated Financial Statements, management is required to make significant estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from our current estimates, as a result of changing conditions and future events. Several estimates are particularly critical and are susceptible to significant near-term change, including the allowance for credit losses, accounting for acquisitions and our review of goodwill and other identifiable intangible assets for impairment, valuation of other real estate owned, other-than-temporary impairment of investments, accounting for postretirement plans, and income taxes. Our significant accounting policies and critical estimates are summarized in Note 1 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Allowance for Credit Losses. Management is committed to maintaining an allowance for loan losses (ALL) that is appropriate to absorb likely loss exposure in the loan portfolio. Evaluating the appropriateness of the ALL is a key management function, one that requires the most significant amount of management estimates and assumptions. The

ALL, which is established through a charge to the provision for credit losses, consists of two components: (i) a contra to total gross loans in the asset section of the balance sheet, and (ii) the reserve for unfunded commitments included in other liabilities on the balance sheet. We regularly evaluate the ALL for adequacy by taking into consideration, among other factors, historical trends in charge-offs and delinquencies, overall risk characteristics and size of the portfolios, ongoing review of significant individual loans, trends in levels of watched or criticized assets, business and economic conditions, local industry trends, evaluation of results of examinations by regulatory authorities and other third parties, and other relevant factors.

In determining the appropriate level of ALL, we use a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio. The methodology focuses on four key elements: (i) identification of loss allocations for specific loans, (ii) loss allocation factors for certain loan types based on credit grade and loss experience, (iii) general loss allocations for other environmental factors,

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and (iv) the unallocated portion of the allowance. The specific loan component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. This methodology is in accordance with accounting principles generally accepted in the United States of America.

We use a risk rating system to determine the credit quality of our loans and apply the related loss allocation factors. In assessing the risk rating of a particular loan, we consider, among other factors, the obligor's debt capacity, financial condition, the level of the obligor's earnings, the amount and sources of repayment, the performance with respect to loan terms, the adequacy of collateral, the level and nature of contingent liabilities, management strength, and the industry in which the obligor operates. These factors are based on an evaluation of historical information, as well as a subjective assessment and interpretation of current conditions. Emphasizing one factor over another, or considering additional factors that may be relevant in determining the risk rating of a particular loan but which are not currently an explicit part of our methodology, could impact the risk rating assigned to that loan.

Three times annually, management conducts a thorough review of adversely risk rated commercial and commercial real estate exposures exceeding certain thresholds to re-evaluate the risk rating and identify impaired loans. This extensive review takes into account the obligor's repayment history and financial condition, collateral value, guarantor support, local economic and industry trends, and other factors relevant to the particular loan relationship. Allocations for impaired loans are based upon discounted cash flows or collateral values and are made in accordance with accounting principles generally accepted in the United States of America.

We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of loss experience. Portfolios of more homogenous populations of loans including home equity and consumer loans are 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. An additional allocation is determined based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors. Finally, an unallocated portion of the total allowance is maintained to allow for measurement imprecision attributable to uncertainty in the economic environment.

Because the methodology is based upon historical experience and trends as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk, declines in local property values, and the results of regulatory examinations. While management's evaluation of the ALL as of December 31, 2012 determined the allowance to be appropriate, under adversely different conditions or assumptions, we may need to increase the allowance. The Credit Risk Policy Committee, which is comprised of the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President Senior Loan Officer, Executive Vice President Retail Banking, Executive Vice President Risk Management, Vice President of Credit Risk and Corporate Controller, reviews the ALL with the Bank's board of directors on a monthly basis. A more comprehensive review of the ALL is reviewed with the Company's board of directors, as well as the Bank's board of directors, on a quarterly basis.

The adequacy of the reserve for unfunded commitments is determined in a similar manner as the ALL, with the exception that management must also estimate the likelihood of these commitments being funded and becoming loans. This is accomplished by evaluating the historical utilization of each type of unfunded commitment and estimating the likelihood that the historical utilization rates could change in the future.

Branch Purchase Price Allocation and Impairment of Goodwill and Identifiable Intangible Assets. We record all assets and liabilities acquired in purchase acquisitions at fair value, which is an estimate determined by the use of internal and other valuation techniques. We utilize third-party services for the valuation of real estate and core deposit intangibles. These valuation estimates result in goodwill and other intangible assets and are subject to ongoing periodic impairment tests and are evaluated using various fair value techniques. Goodwill impairment evaluations are required to be performed annually and may be required more frequently

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if certain conditions indicating potential impairment exist. Identifiable intangible assets are amortized over their estimated useful lives and are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. If we were to determine that our goodwill was impaired, the recognition of an impairment charge could have an adverse impact on our results of operations in the period that the impairment occurred or on our financial position. Goodwill is evaluated for impairment using several standard valuation techniques including discounted cash flow analyses, as well as an estimation of the impact of business conditions. The use of different estimates or assumptions could produce different estimates of carrying value.

Valuation of Other Real Estate Owned (OREO). Periodically, we acquire property in connection with foreclosures or in satisfaction of debt previously contracted. The valuation of this property is accounted for individually based on its fair value on the date of acquisition. At the acquisition date, if the fair value of the property less the costs to sell is less than the book value of the loan, a charge or reduction in the ALL is recorded. If the value of the property becomes permanently impaired, as determined by an appraisal or an evaluation in accordance with our appraisal policy, we will record the decline by charging against current earnings. Upon acquisition of a property, we use a current appraisal or broker's opinion to substantiate fair value for the property.

Other-Than-Temporary Impairment (OTTI) of Investments. We record an investment impairment charge at the point we believe an investment has experienced a decline in value that is other-than-temporary. In determining whether an OTTI has occurred, we review information about the underlying investment that is publicly available, analysts' reports, applicable industry data and other pertinent information, and assess our ability to hold the securities for the foreseeable future. The investment is written down to its current market value at the time the impairment is deemed to have occurred. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

Effectiveness of Hedging Derivatives. The Company maintains an overall interest rate risk management strategy that incorporates the use of interest rate contracts, which are generally non-leveraged generic interest rate and basis swaps, to minimize significant fluctuations in earnings that are caused by interest rate volatility. Interest rate contracts are used by the Company in the management of its interest rate risk position. The Company's goal is to manage interest rate sensitivity so that movements in interest rates do not significantly adversely affect earnings. When interest rates fluctuate, hedged assets and liabilities appreciate or depreciate in fair value or cash flows. Gains or losses on the derivative instruments that are linked to the hedged assets and liabilities are expected to substantially offset this unrealized appreciation or depreciation or changes in cash flows. The Company utilizes a third-party service to evaluate the effectiveness of its cash flow hedges on a quarterly basis. The effective portion of a gain or loss on a cash flow hedge is recorded in other comprehensive income, net of tax, and other assets or other liabilities on the Consolidated Statements of Condition. The ineffective portions of cash flow hedging transactions are included in other income in the Consolidated Statements of Income, if material.

Accounting for Postretirement Plans. We use a December 31 measurement date to determine the expenses for our postretirement plans and related financial disclosure information. Postretirement plan expense is sensitive to changes in the number of eligible employees (and their related demographics) and to changes in the discount rate and other expected rates, such as medical cost trends rates. As with the computations on plan expense, cash contribution requirements are also sensitive to such changes.

Stock-Based Compensation. The fair value of restricted stock and stock options is determined on the date of grant and amortized to compensation expense, with a corresponding increase in common stock, over the longer of the service period or performance period, but in no event beyond an employee's retirement date. For performance-based restricted stock, we estimate the degree to which performance conditions will be met to determine the number of shares that will

vest and the related compensation expense. Compensation expense is adjusted in the period such estimates change. Non-forfeitable dividends, if any, paid on shares of restricted stock are recorded to retained earnings for shares that are expected to vest and to compensation expense for shares that are not expected to vest.

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Income Taxes. We account for income taxes by deferring income taxes based on the estimated future tax effects of differences between the tax and book bases of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Statements of Condition. We must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined not likely to be recoverable. Judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although we have determined a valuation allowance is not required for all deferred tax assets, there is no guarantee that these assets will be realized. Although not currently under review, income tax returns for the years ended December 31, 2009 through 2011 are open to audit by federal and Maine authorities. If we, as a result of an audit, were assessed interest and penalties, the amounts would be recorded through other non-interest expense.

Non-GAAP Financial Measures and Reconciliation to GAAP

In addition to evaluating the Company's results of operations in accordance with GAAP, management supplements this evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency and tangible equity ratios, tangible book value per share, and tax equivalent net interest income. We believe these non-GAAP financial measures help investors in understanding the Company's operating performance and trends and allow for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of unusual items that may obscure trends in the Company's underlying performance. These disclosures should not be viewed as a substitute for GAAP operating results, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other financial institutions.

Efficiency Ratio. The efficiency ratio, which represents an approximate measure of the cost required for the Company to generate a dollar of revenue, is the ratio of (i) total non-interest expense excluding prepayment penalties and acquisition costs (the numerator) to (ii) net interest income on a fully taxable equivalent basis plus total non-interest income excluding net gains or losses on sale of securities, OTTI, and proceeds from a 2010 legal settlement (the denominator).

(In Thousands)	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Non-interest expense, as presented	\$59,031	\$55,579	\$52,937	\$51,005	\$46,829
Less acquisition costs	2,324				
Less prepayment penalty on borrowings	2,030	2,318			
Adjusted non-interest expense	\$54,677	\$53,261	\$52,937	\$51,005	\$46,829
Net interest income, as presented	\$73,745	\$75,219	\$74,290	\$73,011	\$70,221
Effect of tax-exempt income	988	1,212	1,452	1,628	1,765
Non-interest income	23,412	23,053	20,825	19,423	1,723
Less gains (losses) on sale of securities and OTTI	2,498	2,076	(409)	41	(15,574)
Less other non-recurring gains	479				
Less legal settlement proceeds			2,000		
Adjusted net interest income plus non-interest income	\$95,168	\$97,408	\$94,976	\$94,021	\$89,283
Non-GAAP efficiency ratio	57.45 %	54.68 %	55.74 %	54.26 %	52.44 %
GAAP efficiency ratio	60.76 %	56.49 %	55.53 %	55.17 %	53.89 %

Tax Equivalent Net Interest Income. Tax-equivalent net interest income is net interest income plus the taxes that would have been paid had tax-exempt securities been taxable. This number attempts to enhance the comparability of the performance of assets that have different tax liabilities. The following table provides a reconciliation of tax equivalent net interest income to GAAP net interest income using a 35% tax rate.

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(In Thousands)	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Net interest income, as presented	\$ 73,745	\$ 75,219	\$ 74,290	\$ 73,011	\$ 70,221
Effect of tax-exempt income	988	1,212	1,452	1,628	1,765
Net interest income, tax equivalent	\$ 74,733	\$ 76,431	\$ 75,742	\$ 74,639	\$ 71,986

Tangible Book Value per Share. Tangible book value per share is the ratio of (i) shareholders' equity less goodwill, premium on deposits and other acquisition-related intangibles (the numerator) to (ii) total common shares outstanding at period end. The following table reconciles tangible book value per share to book value per share.

(In Thousands, Except per Share Data)	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Shareholders' equity	\$233,815	\$218,876	\$205,995	\$190,561	\$166,400
Less goodwill and other intangibles	53,299	45,194	45,821	46,379	47,083
Tangible shareholders' equity	\$180,516	\$173,682	\$160,174	\$144,182	\$119,317
Shares outstanding at period end	7,622,750	7,664,975	7,658,496	7,644,837	7,638,713
Tangible book value per share	\$23.68	\$22.66	\$20.91	\$18.86	\$15.62
Book value per share	\$30.67	\$28.56	\$26.90	\$24.93	\$21.78

Results of Operations

For the year ended December 31, 2012, we reported net income of \$23.4 million compared to \$26.2 million for the year ended December 31, 2011, and \$24.8 million for the year ended December 31, 2010. Diluted earnings per share for each of these years were \$3.05, \$3.40, and \$3.23, respectively. The major components of these results, which include net interest income, provision for credit losses, non-interest income, non-interest expense, and income taxes, are discussed below.

Net Interest Income

Net interest income is interest earned on loans, securities, and other earning assets, plus loan fees, less the interest paid on interest-bearing deposits and borrowings. Net interest income, which is our largest source of revenue and accounts for approximately 76% of total revenues, is affected by factors including, but not limited to: changes in interest rates, loan and deposit pricing strategies and competitive conditions, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. Net interest margin is the difference between the fully-taxable equivalent yield on earning assets and cost on funding as a percentage of earning assets.

Net interest income was \$74.7 million on a fully-taxable equivalent basis for 2012, compared to \$76.4 million for 2011, a decrease of \$1.7 million, or 2%, reflecting the challenging interest rate environment in 2012. The low interest rate environment in 2012 adversely affected our net interest income by (i) reducing the yield on our interest-earning assets, and (ii) increasing the rate of borrower repayment of loans, which further decreased our interest-earnings assets.

The net interest margin decreased 21 basis points from 3.57% in 2011 to 3.36% in 2012. The decrease was primarily attributable to a 51 basis point decrease in yield on our average earning assets compared to a 31 basis point decrease in our average cost of funding. Yield on our earning assets averaged 4.14% in 2012 compared to 4.65% in 2011, as amortization and prepayments on loans and investments were reinvested at lower rates, particularly in the investment portfolio. The average investment balances for 2012 increased \$69.4 million, or 11%, as the Company actively

redeployed investment cash flows and pre-invested a portion of the liquidity expected from the branch acquisition.

The cost of funds averaged 0.81% in 2012, compared to 1.12% in 2011. The decrease in the cost of funds was reflective of disciplined deposit pricing, whereby interest rates on various deposit products were lowered throughout 2012 in response to market conditions. Additionally, customer deposits held in higher costing time deposits continued to decline as customers continue to shift to more liquid deposit instruments given the current low interest rate environment. Average balance sheet growth was funded primarily by growth in average core deposits (demand deposits, interest checking, savings and money market accounts) of \$108.6 million, or 9%. Average deposits in 2012 were

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\$51.2 million higher than 2011 due to the branch acquisition in fourth quarter. Average borrowings (including brokered deposits) decreased \$38.7 million in 2012 as compared to the prior year.

Net interest income was \$76.4 million on a fully-taxable equivalent basis for 2011, compared to \$75.7 million for 2010, an increase of \$689,000, or 1%. The increase in net interest income was primarily due to a growth in our average earning assets of \$39.2 million, partially offset by a three basis point decline in our net interest margin. The tax equivalent net interest margin was 3.57% and 3.60% for the years ended December 31, 2011 and 2010, respectively. The yield on our earning assets averaged 4.65% in 2011 compared to 5.04% in 2010, a decrease of 39 basis points, as amortization and prepayments on loans and investments are reinvested at lower rates, particularly in the investment portfolio. The cost of funds averaged 1.12% in 2011, compared to 1.47% in 2010, as a result of lower interest rates and a favorable shift in the deposit mix to lower cost transaction accounts. Average balance sheet growth was funded primarily by growth in average core deposits (demand deposits, interest checking, savings and money market accounts) of \$112.3 million, or 12%. Average balances on retail certificates of deposit declined \$84.0 million as customers continue to shift to more liquid deposit instruments given the current low interest rate environment.

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The following table presents, for the years noted, average balances, interest income, interest expense, and the corresponding average yields earned and rates paid, as well as net interest income, net interest rate spread and net interest margin:

- (1) Reported on tax-equivalent basis calculated using a rate of 35%.
- (2) Non-accrual loans are included in total average loans.

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The following table presents certain information on a fully-taxable equivalent basis regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to rate and volume.

(Dollars in Thousands)	December 31, 2012 vs. 2011			December 31, 2011 vs. 2010		
	Increase (Decrease) Due to Volume	Rate	Total	Increase (Decrease) Due to Volume	Rate	Total
Interest-earning assets:						
Securities taxable	\$2,501	\$(4,352)	\$(1,851)	\$2,099	\$(4,028)	\$(1,929)
Securities nontaxable	(404)	(22)	(426)	(614)	(77)	(691)
Trading account assets	(1)	5	4	5	(2)	3
Federal funds sold		14	14			
Residential real estate	(870)	(2,104)	(2,974)	(1,611)	(1,370)	(2,981)
Commercial real estate	1,541	(2,350)	(809)	1,115	(1,220)	(105)
Commercial	(344)	(702)	(1,046)	147	(604)	(457)
Municipal	(233)	17	(216)	167	(158)	9
Consumer	258	(603)	(345)	72	(297)	(225)
Total interest income	2,448	(10,097)	(7,649)	1,380	(7,756)	(6,376)
Interest-bearing liabilities:						
Interest checking accounts	183	(356)	(173)	19	(371)	(352)
Savings accounts	59	(200)	(141)	46	(87)	(41)
Money market accounts	261	(611)	(350)	425	(464)	(39)
Certificates of deposit	(676)	(648)	(1,324)	(1,571)	(1,754)	(3,325)
Brokered deposits	(38)	(272)	(310)	298	(93)	205
Junior subordinated debentures	6	(74)	(68)	7	(210)	(203)
Borrowings	(724)	(2,861)	(3,585)	(762)	(2,548)	(3,310)
Total interest expense	(929)	(5,022)	(5,951)	(1,538)	(5,527)	(7,065)
Net interest income (fully-taxable equivalent)	\$3,377	\$(5,075)	\$(1,698)	\$2,918	\$(2,229)	\$689

Provision and Allowance for Loan Losses

The provision for loan losses is a recorded expense determined by management that adjusts the allowance for loan losses to a level, which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses reflects loan quality trends, including, among other factors, the levels of and trends related to non-accrual loans, past due loans, potential problem loans, criticized loans, net charge-offs or recoveries and growth in the loan portfolio. Accordingly, the amount of the provision reflects both the necessary increases in the allowance for loan losses related to newly identified criticized loans, as well as the actions taken related to other loans including, among other things, any necessary increases or decreases in required allowances for specific loans or loan pools. The provision for credit losses for 2012 totaled \$3.8 million, or 0.25% of average loans, compared with \$4.7 million in 2011 and \$6.3 million in 2010. Please see Financial Condition Asset Quality for additional discussion regarding the allowance for loan losses.

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Non-interest income of \$23.4 million for 2012 increased \$359,000, or 2%, compared to \$23.1 million for 2011. The following table presents the components of non-interest income:

(Dollars in Thousands)	Year Ended December 31,		
	2012	2011	2010
Service charges on deposit accounts	\$ 5,557	\$ 5,134	\$ 4,911
Income from fiduciary services	5,038	6,027	6,236
Other service charges and fees	4,061	3,577	3,345
Brokerage and insurance commissions	1,491	1,363	1,449
Bank-owned life insurance	1,382	2,173	1,478
Proceeds from legal settlement			2,000
Mortgage banking income, net	588	729	761
Other income	2,797	1,974	1,054
Non-interest income before security gains (losses)	20,914	20,977	21,234
Net gains (losses) on sale of securities	2,537	2,185	(188)
Other-than-temporary impairment of securities	(39)	(109)	(221)
Total non-interest income	\$ 23,412	\$ 23,053	\$ 20,825
Non-interest income/operating income ⁽¹⁾	22.1 %	21.8 %	22.2 %

(1) For purposes of this ratio, non-interest income excludes net securities gains, losses, and OTTI. Operating income is defined as net interest income plus non-interest income, excluding net securities gains, losses, and OTTI.

The significant changes in non-interest income in 2012 compared to 2011 include:

Increase in deposit-related service fees (including other service charges and fees) of \$907,000 as result of an increase in service fees associated with the redesign of our deposit products and two months of fees from new customers we acquired through the branch acquisition;

Decrease in fiduciary income of \$989,000 as a result of the outsourcing of the Company's employee benefits business line;

Increases in other income of \$823,000 primarily due to a \$479,000 gain on the sale of a branch facility;

Decrease in bank-owned life insurance income of \$791,000 due to non-recurring life insurance proceeds of \$740,000 recorded in 2011; and

Increase in net gains on the sale of securities of \$352,000.

Non-interest income increased to \$23.1 million for the year ended December 31, 2011, compared to non-interest income of \$20.8 million in 2010, an increase of \$2.2 million. The increase was primarily related to:

Increase in net gains on sale of securities of \$2.4 million related to sale of \$54.6 million in available-for-sale (AFS) securities during 2011 and a decrease in OTTI of \$112,000;

Increase in other income primarily related to a \$1.1 million increase in loan servicing income resulted from the growth of our loan servicing business, which services 9,000 MaineHousing loans;

Increase in bank-owned life insurance income of \$695,000, primarily related to life insurance proceeds of \$740,000; and

Legal settlement proceeds of \$2.0 million recorded in 2010, related to the Company's investment in auction pass-through certificates with Federal Home Loan Mortgage Corporation (Freddie Mac) for preferred stock assets which resulted in an OTTI write-down of \$15.0 million in 2008.

TABLE OF CONTENTS**Non-Interest Expenses**

Non-interest expenses increased \$3.5 million, or 6%, for the year ended December 31, 2012, compared to the year ended December 31, 2011. The following table presents the components of non-interest expense:

(Dollars in Thousands)	Year Ended December 31,		
	2012	2011	2010
Salaries and employee benefits	\$ 29,689	\$ 28,627	\$ 26,337
Furniture, equipment and data processing	5,079	4,773	4,647
Net occupancy	4,365	3,949	3,833
OREO and collection costs	2,284	2,104	3,459
Consulting and professional fees	1,818	2,629	2,596
Regulatory assessments	1,793	1,955	2,868
Amortization of identifiable intangible assets	657	577	577
Other expenses	8,992	8,647	8,620
Non-interest expenses before non-operating expenses	54,677	53,261	52,937
Acquisition costs	2,324		
Prepayment fees on borrowings	2,030	2,318	
Total non-interest expenses	\$ 59,031	\$ 55,579	\$ 52,937
Efficiency ratio ⁽¹⁾	57.45 %	54.68 %	55.74 %

Computed by dividing non-interest expense excluding prepayment penalties and acquisition costs by the sum of net (1) interest income on a tax equivalent basis and non-interest income excluding investment securities gains/losses, OTTI and gains on disposal of assets.

The significant changes in non-interest expenses in 2012 compared to 2011 include:

One-time conversion and integration costs of acquired branches of \$2.3 million;
 Increase in salaries and employee benefits of \$1.1 million, or 4%, primarily due to merit increases and new positions associated with the branch acquisition, and increased health insurance cost of \$245,000, or 8%;
 Decrease in consulting and professional fees of \$811,000 during the year primarily due to the outsourcing of the employee benefits business line;
 Total non-interest expense increased \$2.6 million, or 5%, for the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase was primarily due to:

Prepayment penalty on wholesale borrowings of \$2.3 million as a result of the refinancing of \$70.0 million of wholesale borrowings that had an average cost of 4.90% into lower cost short-term funds;
 An increase in salaries and employee benefits of \$2.3 million, or 9%, primarily due to increases in incentive compensation of \$1.4 million, based on the Company's 2011 financial performance, which exceeded the benchmarks determined by the board of directors, salaries of \$522,000, or 3%, due to merit increases and new positions, and health insurance cost and retirement expenses of \$414,000, or 12%;
 A decrease in OREO and collection costs of \$1.4 million, or 39%, primarily due to a \$1.4 million decrease in write-downs on OREO properties;
 A decrease in regulatory assessments of \$913,000, or 32%, primarily due to a decrease in the FDIC deposit assessment fee related to change in the assessment base from deposits to assets minus tangible equity; and

Income Taxes

Income tax expense totaled \$10.9 million, \$11.8 million, and \$11.1 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company's effective income tax rate was approximately

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31.7%, 31.0%, and 31.0%, in each of the past three years, respectively. These effective rates differ from our marginal rate of about 35%, primarily due to our non-taxable interest income from state and political subdivisions obligations and life insurance income. A full detail of these amounts can be found in Note 11 to the Consolidated Financial Statements.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Data, have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars and, in some case, current fair values without considering changes in the relative purchasing power of money over time due to inflation. Unlike many industrial companies, substantially all of our assets and virtually all of our liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the general level of inflation. Over short periods of time, interest rates and the yield curve may not necessarily move in the same direction or in the same magnitude as inflation.

Financial Condition

Overview

Total assets at December 31, 2012, were \$2.6 billion, an increase of \$262.0 million compared to December 31, 2011. The increase in total assets was primarily due to total investment securities, which increased \$190.1 million to \$802.1 million at December 31, 2012. Total loans increased \$49.8 million, or 3%, to \$1.6 billion at December 31, 2012. This increase was driven by solid growth in the commercial real estate loan portfolio, which expanded by \$36.2 million, or 8%. The consumer and home equity portfolios also grew \$14.3 million, or 5%, largely due to a ten-year fixed rate home equity promotion and a car loan campaign. Commercial loan balances increased \$5.4 million primarily due to loans acquired with the branch acquisition. Residential real estate loan balances declined \$6.0 million since year-end 2011, partially due to a shift to the home equity product and mortgage loan sales of \$16.9 million in 2012.

Total liabilities increased \$247.1 million as total deposits (including brokered deposits) increased \$338.1 million, partially offset by a decrease in total borrowings of \$96.1 million. Total deposits grew 21% since year-end 2011, primarily due to the branch acquisition, which resulted in \$287.6 million in acquired deposits as well as our continued organic growth in core deposits. Total shareholders' equity increased \$14.9 million, which was a result of earnings in 2012 of \$23.4 million offset by dividends declared of \$7.7 million.

Average assets during 2012 were \$2.4 billion, an increase of \$86.2 million, compared to 2011. This increase was primarily the result of an increase in average investments of \$69.4 million and an increase in average loans of \$5.0 million. Average funding liabilities increased \$63.3 million in 2012 compared to 2011, which reflects an increase in average core deposits (demand, interest checking, savings and money market accounts) of \$148.1 million, partially offset by a decline in average retail certificates of deposit of \$46.2 million and average wholesale funding (including brokered deposits) of \$38.7 million.

Investment Securities

We invest in securities of U.S. government sponsored enterprises, states and political subdivisions, mortgage-backed securities (collateralized mortgage obligations and pass-through securities), Federal Home Loan Bank (FHLB) and

FRB stock, investment grade corporate bonds and equities to diversify our revenues, interest rate and credit risk, and to provide for liquidity and funding needs. Total investment securities increased \$190.1 million to \$802.1 million at December 31, 2012. During the second half of 2012, in anticipation of receiving cash from the branch acquisition, we purchased approximately \$150.0 million of securities.

Our portfolio of residential mortgage-backed securities is directly impacted by the interest rate environment and yield curve. The FRB's actions, designed to lower longer term interest rates, have directly affected the interest income earned on our residential mortgage backed securities by accelerating prepayments and, consequently, the timing of our premium amortization due to the retroactive catch up adjustment required

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under the application of the interest method. In addition, the current rate environment and yield curve also decrease the yield earned upon reinvestment of the repayment proceeds, impacting our net interest income and margin. As of December 31, 2012, the amount of net premiums on our mortgage-backed securities to be recognized in future periods amounted to \$8.3 million, which equated to a weighted average premium above par of approximately 1.2%.

Subsequent changes to the interest rate environment will continue to impact our yield.

Our available for sale (AFS) securities portfolio is primarily invested in residential mortgage-backed securities, which comprised 95% and 86% of our total available for sale portfolio at December 31, 2012 and 2011, respectively. During 2012, the Company purchased approximately \$456.0 million in mortgage-backed securities (\$150.0 million in pass-through securities and \$306.0 million in collateralized mortgage obligation). During 2012, the Company sold \$112.0 million in securities, primarily pass-through securities based on an assessment of their potential prepayment risk. With these purchases and sales, the overall mix of securities within the portfolio over the last year has changed, with an increase in collateralized mortgage obligations. We invest in these bonds because they provide us with a more stable and consistent cash flows in various interest rate environments. The portfolio remains well positioned to provide a stable source of cash flow. The duration of our securities available for sale increased modestly to 3.64 years at December 31, 2012 from 3.09 years at December 31, 2011.

Unrealized gains or losses on securities classified as AFS are recorded as adjustments to shareholders' equity, net of related deferred income taxes and are a component of other comprehensive income in the Consolidated Statements of Changes in Shareholders' Equity and Consolidated Statements of Comprehensive Income. At December 31, 2012, we had \$12.9 million of unrealized gains on AFS securities, net of deferred taxes, compared to \$11.1 million of unrealized gains, net of deferred taxes, at December 31, 2011. The unrealized gain represents the difference between the fair value and the amortized cost of our securities that fluctuates in response to changes in market interest rates, changes in credit spreads, or levels of liquidity in the market. The increase in unrealized gains from 2011 to 2012 is primarily attributed to a decline in market interest rates.

Within our AFS portfolio, we hold senior tranches of non-agency collateralized mortgage obligations (non-agency), which were rated Triple-A by Moody's, S&P and/or Fitch at the time of purchase. At December 31, 2012, six of our non-agencies were non-investment grade, with fair values of \$7.5 million, and unrealized losses of \$669,000. We believe that the decline in the fair values is temporary and does not reflect deterioration in the credit. The Company has the intent and ability to hold these securities until recovery and will continue to evaluate the unrealized losses within our portfolio each quarter to determine if the impairment is other than temporary.

Each month we determine if a security has OTTI by evaluating the present value of projected credit losses that result from a discounted cash flow analysis. The analyses include several stress tests scenarios, which determine expected cash flows and forecast potential losses. Stress tests, which are performed monthly on higher risk investments (non-investment grade and/or coverage ratio of less than 1.00), use current statistical data to determine expected cash flows and forecast potential losses. Information on the securities is sourced from the Bloomberg and FTM models, which enables management to track loan and performance data for the individual tranche and the entire issue as well as prepayment history. We review the significant inputs of the discounted cash flow analysis to ensure reasonableness and a prudent measure; we compare the Bloomberg assumptions to the assumptions used by FTN Financial, which is a division of First Tennessee Bank. Included in the monthly analyses is a review of the performance of the individual tranches held and the related entire issue, a base case and several stress test scenarios. The base case stress test uses both current data and historical performance and provides a basis for determining if a credit loss is projected during the life of the investment. When deemed appropriate, the significant inputs for the base case stress test are adjusted to better reflect future expected cash flows.

Based on the results of this analysis, the Company recorded \$39,000 in OTTI write-downs on two non-agencies during 2012, compared to \$109,000 in OTTI write-downs in 2011, and \$221,000 in 2010. During the fourth quarter of 2012, the Company recorded proceeds of \$2.0 million on the sale of one below investment grade non-agency investment classified as AFS, which resulted in a realized loss of \$39,000. This

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security experienced a permanent loss of \$14,000 and had an additional \$10,000 write-down recorded in OTTI as a result of the quarterly analysis performed during the third quarter of 2012. The Company's decision to sell the security was due to the rating downgrade in the fourth quarter to D as well as the deterioration of several other credit factors.

During 2011, the Company recorded proceeds of \$7.8 million on the sale of three investment grade non-agency investments classified as AFS, which resulted in a net realized gain of \$153,000.

The following table presents the carrying amount and fully-taxable equivalent weighted average yields of our investment securities by contractual maturity as of the dates indicated.

(In thousands)	Due in 1 year or less	Due in 1 5 years	Due in 5 years	10Due in over 10 years	December 31,		
					2012 Carrying Value	2011 Carrying Value	2010 Carrying Value
Available-for-sale Obligations of U.S. government sponsored enterprises	\$	\$	\$	\$	\$	\$30,107	\$49,357
Obligations of states and political subdivisions	698	7,558	24,784		33,040	39,758	14,220
Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises	2,740	7,551	67,000	280,857	358,148	376,934	373,871
Collateralized mortgage obligations issued or guaranteed by U.S. government sponsored enterprises		7,233	54,578	319,877	381,688	128,450	90,971
Private issue collateralized mortgage obligations				8,174	8,174	10,641	20,722
Total debt securities	3,438	22,342	146,362	608,908	781,050	585,890	549,141
Equity securities (no fixed maturity)						4,146	4,438
Total securities available-for-sale	3,438	22,342	146,362	608,908	781,050	590,036	553,579
Weighted average yield on securities available-for-sale	4.92 %	2.85 %	2.83 %	2.24 %			
Held-to-maturity Obligations of states and political subdivisions							36,102
Total securities held-to-maturity							36,102
Total investments	\$3,438	\$22,342	\$146,362	\$608,908	\$781,050	\$590,036	\$589,681

Federal Home Loan Bank Stock

We are required to maintain a level of investment in FHLB of Boston (FHLBB) stock based on the level of our FHLBB advances. As of December 31, 2012, our investment in FHLBB stock totaled \$20.1 million. No market exists for shares of the FHLBB. FHLBB stock may be redeemed at par value five years following termination of FHLBB membership, subject to limitations or restrictions that may be imposed by the FHLBB or its regulator, the Federal Housing Finance Agency, to maintain capital adequacy of the FHLBB. While we currently have no intention to terminate our FHLBB membership, the ability to redeem our investment in FHLBB stock would be subject to the conditions imposed by the FHLBB. During the first quarter of 2012, the FHLBB announced they would repurchase a targeted amount of members' excess capital stock. This was the first such repurchase since the FHLBB's moratorium was established and they indicated this will be the only such repurchase it intends to make in 2012. As a result, \$928,000 of FHLBB stock was repurchased from the Company in March 2012.

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We provide loans primarily to customers located within our geographic market area. At December 31, 2012, total loans of \$1.6 billion (including loans held-for-sale) increased \$43.8 million from December 31, 2011, primarily related to the commercial real estate loan portfolio, which increased by \$36.2 million. The consumer and home equity portfolios also grew \$14.3 million, or 5%, primarily due to a ten-year fixed rate home equity promotion and a car loan campaign. Commercial loan balances increased \$5.4 million primarily due to loans acquired in connection with the branch acquisition. Residential real estate loan balances declined \$6.0 million since year-end 2011, partially due to a shift to home equity products and mortgage loan sales of \$16.9 million in 2012, which assisted in managing the Company's interest rate risk profile. The following table sets forth the composition of our loan portfolio at the dates indicated.

December 31, (Dollars in Thousands)	2012		2011		2010		2009		2008	
Residential real estate	\$572,173	37 %	\$578,262	38 %	\$596,308	39 %	\$627,655	41 %	\$621,048	41 %
Commercial real estate	506,231	32 %	470,061	31 %	464,037	30 %	434,783	28 %	400,312	27 %
Commercial	190,454	12 %	185,045	12 %	180,592	12 %	191,214	13 %	213,683	14 %
Consumer and home equity	295,008	19 %	280,660	19 %	283,815	19 %	273,106	18 %	265,865	18 %
Total loans	\$1,563,866	100%	\$1,514,028	100%	\$1,524,752	100%	\$1,526,758	100%	\$1,500,908	100%

Residential real estate loans. Residential real estate loans consist of loans secured by one-to four-family residences.

We generally retain in our portfolio adjustable-rate mortgages and fixed-rate mortgages with original terms of 20 years or less. Based on market risk assessments, we may retain 30-year fixed-rate mortgages. During the first half of 2012, we originated and sold \$16.9 million in residential fixed-rate 30-year production on the secondary market to the Federal Home Loan Mortgage Corporation. During the second half of 2012, the Company began holding the 30-year production in the portfolio based on our current interest rate position and did not have any loans held for sale at December 31, 2012. However, we intend to resume the sale of our 30-year production on the secondary market in 2013. Residential real estate loan balances declined \$6.1 million in 2012 partially due to a shift to the home equity loan product and mortgage loan sales of \$16.9 million in 2012. In 2011, residential real estate loan balances decreased \$18.0 million, or 3% from 2010 due to the sale of \$28.6 million in production on the secondary market.

Commercial real estate loans. Commercial real estate loans consist of loans secured by income and non-income producing commercial real estate. We focus on lending to financially sound business customers primarily within our geographic marketplace, as well as offering loans for the acquisition, development and construction of commercial real estate. The most significant industry concentrations are the non-residential building operators industry (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings) and the lodging industry (inns, bed & breakfasts, ski lodges, tourist cabins, hotels, and motels). At December 31, 2012, exposure to these two industries, as a percentage of total commercial real estate loans was 29% and 23%, respectively. Within the lodging sector, we have \$39.4 million in loans that are located within the New England market. In 2012, commercial real estate loans increased \$36.2 million, or 8%, from the prior year, and in 2011, commercial real estate loans increased \$6.0 million, or 1%, from 2010. We have experienced five consecutive years of growth in the commercial real estate portfolio because of the opportunity created by many financial institutions retreating from this segment.

Commercial loans. Commercial loans consist of loans secured by various corporate assets, as well as loans to provide working capital in the form of lines of credit, which may be secured or unsecured. Municipal loans primarily consist of short-term tax anticipation notes made to municipalities for fixed asset or construction-related purposes and are

included in commercial loans. We focus on lending to financially sound business customers and municipalities within our geographic marketplace. In 2012, commercial loans increased \$5.4 million, or 3%, from 2011, which was primarily due to loans acquired with the branch acquisition of \$5.7 million. In 2011, commercial loans increased \$4.5 million, or 2%, from 2010.

Consumer loans and home equity loans. Consumer loans and home equity loans are originated for a wide variety of purposes designed to meet the needs of our customers. Consumer loans include overdraft protection, automobile, boat, recreational vehicle, and mobile home loans, home equity loans and lines, and secured and unsecured personal loans.

In 2012, consumer and home equity loans increased by \$14.3 million,

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or 5%, from 2011, largely due to a ten-year fixed-rate home equity promotion and a car loan campaign. In 2011, consumer loans decreased by \$3.2 million, or 1%, from 2010.

Asset Quality

The board of directors monitors credit risk management through the Directors Loan Committee and Credit Risk Policy Committee. The Directors Loan Committee reviews large exposure credit requests, monitors asset quality on a regular basis and has approval authority for credit-related policies. The Corporate Risk Management group oversees management's systems and procedures to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the ALL. Our practice is to identify problem credits early and take charge-offs as promptly as practical. In addition, management continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions.

Non-Performing Assets. Non-performing assets include non-accrual loans, accruing loans 90 days or more past due, accruing renegotiated loans and property acquired through foreclosure or repossession. The level of our non-performing assets over the past five years is shown in the table below. Non-performing assets represented 1.13% of total assets as of December 31, 2012, compared to 1.27% at year-end 2011.

(Dollars in Thousands)	December 31,				
	2012	2011	2010	2009	2008
Non-accrual loans					
Residential real estate loans	\$10,584	\$9,503	\$7,225	\$6,161	\$4,048
Commercial real estate	6,719	7,830	6,072	6,476	4,957
Commercial loans	3,409	3,955	4,421	4,145	2,384
Consumer and home equity loans	1,771	2,822	1,721	1,158	1,112
Non-accrual loans	22,483	24,110	19,439	17,940	12,501
Accruing loans past due 90 days	611	236	711	1,135	206
Accruing renegotiated loans not included above	4,674	3,276	2,295	581	
Total non-performing loans	27,768	27,622	22,445	19,656	12,707
Other real estate owned	1,313	1,682	2,387	5,479	4,024
Total non-performing assets	\$29,081	\$29,304	\$24,832	\$25,135	\$16,731
Non-performing loans to total loans	1.78 %	1.82 %	1.47 %	1.29 %	0.85 %
Allowance for credit losses to non-performing loans	83.15 %	83.38 %	99.44 %	103.26 %	139.22 %
Non-performing assets to total assets	1.13 %	1.27 %	1.08 %	1.13 %	0.71 %
Allowance for credit losses to non-performing assets	79.40 %	78.59 %	89.88 %	80.75 %	105.73 %

Generally, a loan is classified as non-accrual when interest and/or principal payments are 90 days past due or when management believes collecting all principal and interest owed is in doubt. All previously accrued but unpaid interest on non-accrual loans is reversed from interest income in the current period. Interest payments received on non-accrual loans (including impaired loans) are applied as a reduction of principal. A loan remains on non-accrual status until all principal and interest amounts contractually due are brought current, all future principal and interest payments are reasonably assured, and a consistent repayment record, generally six consecutive payments, has been demonstrated.

Non-accrual loans at December 31, 2012 were \$22.5 million compared to \$24.1 million at December 31, 2011. This

\$1.6 million decrease in non-accruals was primarily due to restoring \$1.4 million in non-accrual loans to accrual status and lower overall additions to non-accrual reflecting slight improvement in overall asset quality trends and an increase in restructured loans, reflecting the Company's commitment to working with borrowers during challenging economic times.

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was approximately \$1.1 million for both 2012 and 2011, and \$985,000

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for 2010. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately \$186,000, \$141,000, and \$36,000 in 2012, 2011 and 2010, respectively.

The OREO balance at December 31, 2012 consisted of nine properties, including six residential properties and three commercial/mixed use properties. After foreclosure, management periodically obtains updated valuations of the OREO assets and, if additional impairments are deemed necessary, the subsequent write-downs for declines in value are recorded. During 2012, the Company recorded OREO write-downs of \$161,000 related to four properties.

Potential Problem Loans. Potential problem loans consist of classified accruing commercial and commercial real estate loans that were between 30 and 89 days past due. Such loans are characterized by weaknesses in the financial condition of our borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve due to changes in collateral values or the financial condition of the borrowers, while the credit quality of other loans may deteriorate, resulting in some amount of loss. These loans are not included in the above analysis of non-accrual loans. At December 31, 2012, potential problem loans amounted to approximately \$2.2 million, or 0.14% of total loans, compared to \$1.6 million, or 0.11% of total loans, at December 31, 2011.

Past Due Loans. Past due loans consist of accruing loans that were between 30 and 89 days past due. The following table sets presents past due loans at the dates indicated:

(Dollars in Thousands)	December 31, 2012	December 31, 2011
Loans 30 - 89 days past due:		
Residential real estate loans	\$ 1,658	\$ 2,429
Commercial real estate loans	2,618	2,107
Commercial loans	1,043	911
Consumer and home equity loans	2,721	1,793
Total loans 30 - 89 days past due	\$ 8,040	\$ 7,240
Loans 30 - 89 days past due to total loans	0.51 %	0.48 %

Allowance for Loan Losses. We use a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient ALL. The ALL is management's best estimate of the probable loan losses as of the balance sheet date. The allowance is increased by provisions charged to earnings and by recoveries of amounts previously charged-off, and is reduced by charge-offs on loans. During 2012, there were no significant changes to the allowance assessment methodology.

Reserve for Unfunded Commitments. The reserve for unfunded commitments is based on management's estimate of the amount required to reflect the probable inherent losses on outstanding letters and unused loan credit lines. Adequacy of the reserve is determined using a methodology similar to the one that analyzes the allowance for loan losses. Additionally, management must also estimate the likelihood that these commitments would be funded and become loans.

The following table sets forth information concerning the activity in our ALL during the periods indicated:

(Dollars in Thousands)	Years Ended December 31,				
	2012	2011	2010	2009	2008
Allowance for loan losses at the beginning of period	\$ 23,011	\$ 22,293	\$ 20,246	\$ 17,691	\$ 13,653

Acquired from Union Trust					4,369
Provision for loan losses	3,791	4,741	6,325	8,162	4,397

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(Dollars in Thousands)	Years Ended December 31,									
	2012		2011		2010		2009		2008	
Charge-offs:										
Residential real estate loans	1,197		1,216		1,262		792		221	
Commercial real estate loans	593		1,633		1,382		1,844		3,236	
Commercial loans	1,393		1,256		1,502		2,640		1,286	
Consumer and home equity loans	1,319		920		1,401		1,180		810	
Total loan charge-offs	4,502		5,025		5,547		6,456		5,553	
Recoveries:										
Residential real estate loans	73		120		225		10		12	
Commercial real estate loans	222		374		232		127		78	
Commercial loans	406		296		553		306		422	
Consumer and home equity loans	43		212		259		406		313	
Total loan recoveries	744		1,002		1,269		849		825	
Net charge-offs	3,758		4,023		4,278		5,607		4,728	
Allowance for loan losses at the end of the period	\$23,044		\$23,011		\$22,293		\$20,246		\$17,691	
Components of allowance for credit losses:										
Allowance for loan losses	\$23,044		\$23,011		\$22,293		\$20,246		\$17,691	
Liability for unfunded credit commitments	45		20		25		51			
Balance of allowance for credit losses at end of the period	\$23,089		\$23,031		\$22,318		\$20,297		\$17,691	
Average loans outstanding	\$1,535,648		\$1,530,640		\$1,534,069		\$1,508,204		\$1,517,863	
Net charge-offs to average loans outstanding	0.24	%	0.26	%	0.28	%	0.37	%	0.31	%
Provision for credit losses to average loans outstanding	0.25	%	0.31	%	0.41	%	0.54	%	0.29	%
Allowance for loan losses to total loans	1.48	%	1.52	%	1.46	%	1.33	%	1.18	%
Allowance for credit losses to net charge-offs	613.20	%	572.59	%	521.61	%	361.99	%	374.18	%
Allowance for loan losses to non-performing loans	82.99	%	83.31	%	99.32	%	103.00	%	39.22	%

During 2012, the Company provided \$3.8 million of expense to the ALL compared to \$4.7 million for 2011. The decrease in the provision for loan losses was primarily a result of stabilized asset quality ratios and a decline in net loan charge-offs. Non-performing assets as a percentage of total assets was 1.13% at December 31, 2012 compared to 1.27% and 1.08% at December 30, 2011 and 2010, respectively. Overall, economic conditions in Maine experienced minimal change during 2012 with the unemployment rate and real estate values essentially flat. Weaknesses in the real estate markets persist, particularly residential, where consumers face employment uncertainty and income pressures related to food and energy prices. Economic forecasts for Maine continue to push the state's recovery out past 2015, lagging the national recovery by one to two years. However, recently we have experienced improved foreclosure and delinquency rates. We remain vigilant in the monitoring of asset quality and continue to be proactive in resolving credit issues and managing through the economic cycle. We believe the ALL of \$23.1 million, or 1.48% of total loans outstanding and 82.99% of total non-performing loans at December 31, 2012, was appropriate given the current economic conditions in our service area and the condition of the loan portfolio, although, if conditions continue to deteriorate, the provision will likely be increased. The ALL was 1.52% of total loans outstanding and 83.31% of total non-performing loans at December 31, 2011.

For further discussion of the ALL, please refer to Critical Accounting Policies above and Notes 1 and 4 to the Consolidated Financial Statements.

The following table sets forth information concerning the allocation of the ALL by loan categories at the dates indicated.

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As of December 31,		2012		2011		2010		2009		2008	
(Dollars in Thousands)	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	
Balance at end of year applicable to:											
Residential real estate loans	\$6,996	37 %	\$6,398	38 %	\$3,273	39 %	\$2,693	41 %	\$2,985	41 %	
Commercial real estate loans	4,549	32 %	5,702	31 %	8,198	30 %	6,930	28 %	7,402	27 %	
Commercial loans	5,933	12 %	4,846	12 %	5,633	12 %	5,015	13 %	2,734	14 %	
Consumer and home equity loans	2,704	19 %	3,124	19 %	2,253	19 %					