

CAMDEN NATIONAL CORP
Form 10-K
March 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-28190

CAMDEN NATIONAL CORPORATION
(Exact Name of Registrant As Specified in Its Charter)

Maine	01-0413282
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2 Elm Street, Camden, ME	04843
(Address of Principal Executive Offices)	(Zip Code)
Registrant's Telephone Number, Including Area Code: (207) 236-8821	

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

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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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial account standards provided pursuant to Section 13(a) of the Exchange Act.

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: \$652,073,793. Shares of the Registrant's common stock held by each executive officer, director and person who beneficially own 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 23, 2018 was 15,536,923.

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 2018 Annual Meeting of Shareholders pursuant to Regulation 14A of the General Rules and Regulations of the Commission.

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CAMDEN NATIONAL CORPORATION
2017 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 conditional verbs such as “will,” “may,” “r,” “should,” “could” and other expressions which predict or indicate future events or trends 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:

- 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 deterioration of credit quality, an increase in the allowance for loan losses or a reduced demand for the Company’s credit or fee-based products and services;
- changes in trade, monetary, and fiscal policies and laws, including 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 and the increased financial services provided by non-banks;
- 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 could lead to impairment in the value of securities in the Company’s investment portfolio;
- changes in information technology that require increased capital spending;
- changes in consumer spending and savings habits;
- changes in tax, banking, securities and insurance laws and regulations; and
- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board (“FASB”), 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 I, 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 \$4.1 billion in assets at December 31, 2017, incorporated under the laws of the State of Maine and headquartered in Camden, Maine. Camden National Bank (the “Bank”), a wholly-owned subsidiary of the Company, was founded in 1875. The Company was founded in 1984, went public in 1997 and is now registered with NASDAQ Global Market (“NASDAQ”) under the ticker symbol “CAC.”

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 subsidiary, Camden National Bank (the “Bank”), is to attract deposits from, and to extend loans to, consumer, institutional, municipal, non-profit and commercial customers. The Company, through the Bank, offers commercial and consumer banking products and services as well as investment management and fiduciary services. In addition, Camden Financial Consultants, a division of the Bank, offers brokerage and insurance services. For the year ended December 31, 2017, 2016 and 2015, net interest income was our primary revenue stream making up 75%, 74% and 76%, respectively, of our total revenues (sum of net interest income and non-interest income). Net interest income is the interest earned on our lending activities, investment securities and other interest-earning assets, less the interest paid on interest-bearing deposits and borrowings.

On October 16, 2015, the Company acquired SBM Financial, Inc. (“SBM”), the parent company of The Bank of Maine. This represented the largest acquisition in the Company's long history with total acquired assets of \$816.3 million, including loans of \$628.0 million, and liabilities of \$729.5 million, including deposits and borrowings of \$721.2 million.

The consolidated financial statements of the Company accompanying this Form 10-K include the accounts of the Company, the Bank and its subsidiaries and divisions. All inter-company accounts and transactions have been eliminated in consolidation. On September 30, 2016, the Company completed a three-for-two split of its common stock for shareholders of record as of September 15, 2016. Per share information presented in this Form 10-K has been adjusted to reflect the stock split.

The Company is committed to the philosophy of serving the financial needs of customers in our 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 has achieved a five-year compounded annual asset growth rate of 10%, resulting in \$4.1 billion in total assets at December 31, 2017. The following is a chronological time-line of significant events and factors contributing to the Company's asset growth over the past five years:

2013 — The divestiture of our five Franklin County branches, including \$46.0 million in loans and \$85.9 million in deposits and borrowings, in October 2013.

2014 — The Company achieved loan growth of \$192.2 million, primarily within the commercial real estate and commercial loan portfolios. Also, in 2014, we expanded our franchise outside of Maine by opening a commercial loan office in Manchester, New Hampshire, providing us with a wider reach across northern New England.

2015 — The Company completed the acquisition of SBM on October 16, 2015. SBM was approximately one-third the size of the Company pre-acquisition with total assets of \$840.1 million, total loans of \$615.2 million and total deposits of \$687.0 million. The acquisition provided the Company with an expanded presence in Southern and Central Maine, significant low cost deposits, and strengthened its mortgage banking platform, including an additional lending office in Braintree, Massachusetts. In addition, the Company achieved organic loan growth of \$102.4 million.

2016 — The Company achieved loan growth of \$104.4 million, primarily within the commercial real estate and commercial loan portfolios. In 2016, the Company originated approximately \$370.0 million of residential mortgages and sold approximately 65% of its production. This resulted in gains from loan sales of \$6.2 million, compared to \$1.3 million for 2015.

2017 — The Company achieved loan growth of \$187.9 million, or 7%, driven by commercial real estate loan growth of 11%, followed by residential loan growth of 7% and commercial loan growth of 6%. Deposits grew \$172.0 million, or 6%, in 2017, driven by low-cost deposits growth of 11%.

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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 continues to evaluate 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. Further details on the Company's financial information can be found within the consolidated financial statements within Item 8. Financial Statements and Supplementary Data of this report.

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 1984. The Bank provides a broad array of banking and other financial services to consumer, commercial, non-profit and municipal customers. As of December 31, 2017, the Bank had 60 branches spread across 13 of Maine's 16 counties, 75 ATMs and two additional lending offices, including a residential mortgage lending office in Braintree, Massachusetts and a commercial lending office in Manchester, New Hampshire. In the first quarter of 2018, the Bank opened an office in Portsmouth, New Hampshire that will provide commercial and residential mortgage lending.

Through Camden National Wealth Management, a department of the Bank, and Camden Financial Consultants, a division of the Bank, the Bank provides comprehensive wealth management, and investment, insurance and financial planning services.

Camden National Wealth Management provides a broad range of fiduciary and asset management services to both individual and institutional clients. The wealth management services provided by Camden National Wealth Management complement the services provided by the Bank, offering high net worth individuals and families, businesses and not-for profit customers investment management, financial planning and trustee services.

Camden Financial Consultants is in the business of helping clients meet all of their financial needs. Camden Financial Consultants provides full-service brokerage and insurance and its financial offerings include college, retirement, and estate planning, mutual funds, strategic asset management accounts, and variable and fixed annuities.

Securities are offered through LPL Financial, Member FINRA/SIPC. Camden Financial Consultants and the Bank are not registered broker/dealers and are not affiliated with LPL Financial. The investment products sold through LPL Financial are not insured by Bank deposits and are not insured by the Federal Deposit Insurance Corporation ("FDIC"). These products are not obligations of the Bank and are not endorsed, recommended or guaranteed by the Bank or any government agency. The value of the investment may fluctuate, the return on the investment is not guaranteed, and loss of principal is possible.

Customers may also access the Bank's products and services using other channels, including on-line at CamdenNational.com.

Healthcare Professional Funding Corporation. Healthcare Professional Funding Corporation ("HPFC") is a wholly-owned subsidiary of the Bank and, prior to the closing of ongoing operations on February 19, 2016, it provided specialized lending to dentists, optometrists and veterinarians across the U.S. HPFC was acquired in connection with the acquisition of SBM. HPFC's website address is www.camdennational.com/healthprofunding.

The Company's Investor Relations information can be obtained through the Bank's internet address, 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. The Company competes throughout Maine, New Hampshire and Massachusetts with our primary markets within Maine. We operate and manage the Bank's business within Maine's various regions, including Mid Coast, Southern, Central, Bangor and Downeast. Many of these markets that we operate in are characterized as rural areas. Major competitors in the Company's primary market area include local branches of large regional and national banking organizations 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.

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The Company and the Bank generally have effectively competed with other financial institutions by emphasizing customer service, 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 Camden National Wealth Management and Camden Financial Consultants, competes for trust, trust-related, investment management, individual retirement, foundation and endowment management services and brokerage 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.

Executive Officers of the Registrant. The following table sets forth certain information regarding the executive officers of the Company, as defined by Rule 3b-7 of the Securities and Exchange Act of 1934, as amended, as of December 31, 2017:

Executive Officer	Age	Position
Gregory A. Dufour	57	President and Chief Executive Officer
Deborah A. Jordan	52	Executive Vice President, Chief Operating and Financial Officer
Joanne T. Campbell	55	Executive Vice President, Risk Management Officer
Edmund M. Hayden III	62	Executive Vice President, Chief Credit Officer
Timothy P. Nightingale	60	Executive Vice President, Senior Loan Officer
Patricia A. Rose	54	Executive Vice President, Retail and Mortgage Banking Officer

Gregory A. Dufour has served as President and Chief Executive Officer ("CEO") of the Company since January 2009. Mr. Dufour joined the Company in April 2001 as Senior Vice President of Finance. In August of 2002, he assumed additional responsibility for Operations and Technology until December 2003. In January 2004, Mr. Dufour was named Chief Banking Officer for the Company and President and Chief Operating Officer for Camden National Bank, and in January 2006, he became President and CEO for Camden National Bank. He also serves on the Board of Directors of Camden National Bank. Prior to joining the Company, Mr. Dufour was Managing Director of Finance and a member of the Executive Operating Group for IBEX Capital Markets in Boston, Massachusetts. In addition to his experience at IBEX, Mr. Dufour held various financial management positions with FleetBoston Corporation and its affiliates, including Vice President and Controller of Debt Capital Markets, Controller of Investment Banking and Banking Group Controller. Mr. Dufour's extensive business and finance background, demonstrated ability to effectively manage growth, strong regulatory expertise and leadership capability contributes to his active support of the Board in his director capacity. Mr. Dufour has served in various volunteer capacities on numerous community-related organizations and currently serves as trustee of Coastal Healthcare Alliance system in Rockport, Maine and as trustee and vice chair of the board of Maine Health in Portland, Maine.

Deborah A. Jordan joined the Company in September 2008 as Senior Vice President, Chief Financial Officer ("CFO"), and Principal Financial and Accounting Officer and was promoted to Executive Vice President ("EVP") in January 2011. Effective January 1, 2015, Ms. Jordan was promoted to Chief Operating Officer ("COO"), and continues to serve as CFO, and Principal Financial and Accounting Officer. Ms. Jordan was previously EVP and CFO of Merrill Merchants Bancshares, Inc. in Bangor, Maine, from January 1993 to August 2008. Ms. Jordan worked at Arthur Andersen & Co. from 1987 to 1992. Ms. Jordan currently serves on the Board of Seven Islands Land Management Company.

Joanne T. Campbell joined the Company in 1996 as Vice President, Manager of Residential Real Estate. She was promoted to Senior Vice President, Compliance, Audit & CRA in 2002, and then to Senior Vice President, Risk Management in 2005 and to EVP in January 2011. Ms. Campbell currently serves as a member of the ABA Risk Management Conference Advisory Board.

Edmund M. Hayden III joined Camden National Bank as Executive Vice President and Chief Credit Officer upon completion of the merger of Camden National Corporation and SBM Financial, Inc. on October 16, 2015. Prior to joining Camden National Bank, Mr. Hayden served as the Chief Risk Officer and Chief Credit Officer of The Bank of Maine since 2011. Previously he was the Executive Vice President and Executive Credit Officer for TD Bank, NA (“TD”) covering the New England and Long Island markets. Mr. Hayden worked for TD (formerly TD Banknorth, NA) for 18 years (1992-2010) primarily in commercial banking. Prior to TD, Mr. Hayden worked for three years as the Senior Lending Officer for Martha’s Vineyard National Bank, and prior to that Mr. Hayden held a variety of positions primarily in commercial lending at Bank of Boston (formerly Bank of Vermont) from 1980 to 1989.

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Timothy P. Nightingale joined the Company in March 2000 as Regional Vice President of UnitedKingfield Bank. In 2001, Mr. Nightingale was named Senior Lending Officer at UnitedKingfield Bank and was promoted to Senior Vice President in 2003. In September 2006, the Company merged UnitedKingfield Bank into Camden National Bank, at which time Mr. Nightingale was named Senior Vice President, Senior Lending Officer for Camden National Bank. In January 2011, he was promoted to EVP. Mr. Nightingale is a member of the board of directors for the Finance Authority of Maine.

Patricia A. Rose joined Camden National Bank in September 2017 as Executive Vice President of Retail & Mortgage Banking. Ms. Rose came to the Company from Citizens Bank where she served for two years as Head of Strategic Onboarding & Orientation, and, prior to that, Director level roles in Retail Network Sales & Strategy at Santander Bank for six years. Ms. Rose began her career in banking at Fleet Bank and Sovereign Bank where she held a variety of leadership roles and served as Market President of Retail Banking in Eastern Massachusetts and New Hampshire.

All of the executive officers will hold office at the discretion of the Company's Board of Directors. There are no arrangements or understandings between any of the directors, officers or any other persons pursuant to which any of the officers have been selected as officers. There are no "family relationships" among the directors and executive officers, as the Securities and Exchange Commission defines that term.

Employees. The Company employed 636 people on a full- or part-time basis as of December 31, 2017.

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Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies and their subsidiaries. This regulatory framework is intended primarily for the maintenance of 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.

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”). As a national bank, the Bank is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency (the “OCC”).

The following is a summary of certain aspects of various statutes and regulations applicable to the Company and its direct and indirect 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.

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.

Source of Strength. Under the BHCA, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Company is required to serve as a source of financial strength for the Bank. This support may be required at times when the bank holding company may not have the resources to provide support to the Bank. 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, without prior approval of the FRB, from acquiring all or substantially all the assets of a bank, acquiring control of a bank, merging or consolidating with another bank holding company, or acquiring direct or indirect ownership or control of any voting shares of another bank or bank holding company if, after such acquisition, the acquiring bank holding company would control more than 5% of any class of the voting shares of such other bank or bank holding company. 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 has determined to be closely related to banking or managing and controlling banks as of November 11, 1999.

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 bank holding 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 bank holding company with a class of securities registered under Section 12 of the Exchange Act would constitute the acquisition of control of a bank holding company. In addition, the BHCA prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the FRB. Among other circumstances, under the BHCA, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank

holding company, or the FRB has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

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. The Bank is also subject to regulations issued by the Consumer Financial Protection Bureau, as enforced by the OCC. Pursuant to the Dodd-Frank Act, the FRB may directly examine the subsidiaries of the Company, including 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.

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Deposit Insurance. The deposit obligations of the Bank are insured by the FDIC's Deposit Insurance Fund ("DIF") up to \$250,000 per depositor for deposits held in the same right and capacity and are subject to deposit insurance assessments to maintain the DIF. The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio - to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year may not be less than 1.35%. Further, the Dodd-Frank Act required that, in setting assessments, the FDIC offset the effect of the increase in the minimum reserve ratio from 1.15% to 1.35% on banks with less than \$10 billion in assets.

To satisfy these requirements, on March 15, 2016, the FDIC's Board of Directors approved a final rule to increase the DIF's reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. The final rule imposes on large banks a surcharge of 4.5 basis points of their assessment base, after making certain adjustments. Large banks will pay quarterly surcharges in addition to their regular risk-based assessments. Overall regular risk-based assessment rates will decline once the reserve ratio reaches 1.15%. Small banks, such as the Bank, will receive credits to offset the portion of their assessments that help to raise the reserve ratio from 1.15% to 1.35%. After the reserve ratio reaches 1.38%, the FDIC will automatically apply a small bank's credits to reduce its regular assessment up to the entire amount of the assessment. The revised deposit insurance assessment pricing became effective on July 1, 2016.

Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and the applicable assessment rate. On April 26, 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks, generally those banks with less than \$10 billion of assets that have been insured for at least five years. The rule utilizes the CAMELS rating system, which is a supervisory rating system designed to take into account and reflect all financial and operational risks that a bank may face, including capital adequacy, asset quality, management capability, earnings, liquidity and sensitivity to market risk. Under the final rule, each of seven financial ratios and a weighted average of CAMELS component ratings is multiplied by a corresponding pricing multiplier. The sum of these products is added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). This method takes into account various measures, including an institution's leverage ratio, brokered deposit ratio, one year asset growth, the ratio of net income before taxes to total assets and considerations related to asset quality. Assessments for established small banks with a CAMELS rating of 1 or 2 range from 1.5 to 16 basis points, after adjustments. Assessment rates for established small banks with a CAMELS rating of 3 range from 3 to 30 basis points, after adjustments. Assessment rates for established small banks with a CAMELS composite rating of 4 or 5 range from 11 to 30 basis points, after adjustments.

The FDIC has the power to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank's FDIC insurance expense for the year ended December 31, 2017 was \$1.4 million.

Acquisitions and Branching. The Bank must seek prior regulatory approval from the OCC to acquire another bank or establish a new branch office. Well capitalized and well managed banks may acquire other banks in any state, subject to certain deposit concentration limits and other conditions, pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act. In addition, the Dodd-Frank Act authorizes a state-chartered bank, such as the Bank, to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches.

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

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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.

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 that have brokered deposits in excess of 10% of total assets will be subject to increased FDIC deposit insurance premium assessments. However, for institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits.

Community Reinvestment Act. The Community Reinvestment Act (the "CRA") requires the OCC 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 OCC'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. Failure of an institution to receive at least a "Satisfactory" rating could inhibit the Bank or the Company from undertaking certain activities, including engaging in activities permitted as a financial holding company under the Gramm-Leach-Bliley Act of 1999 (the "GLBA") and acquisitions of other financial institutions. The Bank currently has an "Outstanding" CRA rating.

Capital Adequacy and Safety and Soundness

Regulatory Capital Requirements. The FRB and the OCC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. These rules are intended to reflect the relationship between the banking organization's capital and the degree of risk associated with its operations based on transactions recorded on-balance sheet as well as off-balance sheet items. The FRB and the OCC may from time to time require that a banking organization maintain capital above the minimum levels discussed below, due to the banking organization's financial condition or actual or anticipated growth.

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier I capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier I capital for banks and bank holding companies generally consists of the sum of common equity Tier I capital, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries that does not qualify as common equity Tier I capital, less certain deductions. Tier II capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier I and Tier II capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative

perpetual preferred stock in Tier I capital, subject to limitations. However, the FRB's capital rule applicable to bank holding companies permanently grandfathers non-qualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier I capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier I capital; however, the Company was permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Company has made this election.

Under the capital rules, risk-based capital ratios are calculated by dividing common equity Tier I, Tier I and total risk-based capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned a risk weight based primarily on relative credit risk.

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Under the FRB's capital rules applicable to the Company and the OCC's capital rules applicable to the Bank, the Company and the Bank are each required to maintain a minimum common equity Tier I capital to risk-weighted assets ratio of 4.5%, a minimum Tier I capital to risk-weighted assets ratio of 6%, a minimum total capital to risk-weighted assets ratio of 8% and a minimum leverage ratio of 4%. Additionally, subject to a transition schedule, these rules require an institution to establish a capital conservation buffer of common equity Tier I capital in an amount above the minimum risk-based capital requirements for "adequately capitalized" institutions equal to 2.5% of total risk weighted assets, or face restrictions on the ability to pay dividends, pay discretionary bonuses, and to engage in share repurchases.

Under the FRB's rules, a bank holding company, such as the Company, is considered "well capitalized" if the bank holding company (i) has a total risk based capital ratio of at least 10%, (ii) has a Tier I risk-based capital ratio of at least 6%, and (iii) 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. Under the OCC's rules, an OCC supervised institution is considered "well capitalized" if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier I risk-based capital ratio of 8.0% or greater; (iii) a common Tier I equity ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (v) 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.

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 is federal bank regulator 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.

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—Capital Resources and Note 13, Shareholders' Equity within Item 8. Financial Statements and Supplementary Data.

The Bank is considered "well capitalized" under all regulatory definitions and the Company is considered "well capitalized" under the FRB's rules applicable to bank holding companies.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an

acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order restricting asset growth, requiring an institution to increase its ratio of tangible equity to assets or directing other actions of the types to which an undercapitalized institution is subject under the “prompt corrective action” provisions of the FDIA. See “— Regulatory Capital Requirements” above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

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Dividend Restrictions

The Company is a legal entity separate and distinct from its subsidiaries. The revenue of the Company (on a parent-only basis) is derived primarily from interest and dividends paid to it by the Bank. The right of the Company, and consequently the right of shareholders of the Company, to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of the Company in a creditor capacity may be recognized.

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. Further, the Company's ability to pay dividends is restricted if it does not maintain the capital conservation buffer. See "—Capital Adequacy and Safety and Soundness—Regulatory Capital Requirements" above.

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.

Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, "covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, 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, securities

borrowing or lending transactions 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. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, the Bank Holding Company Act Amendments of 1970 provide that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

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Consumer Protection Regulation

The Company and the Bank are subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices, including 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 GLBA, the Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the 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 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, deceptive or abusive 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 enforces CFPB rules with respect to the Bank.

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, and 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. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. 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.

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 initial and 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. However, an annual disclosure is not required to be provided by a financial institution if the financial institution only discloses information under exceptions from GLBA that do not require an opt out to be provided and if there has been no change in its privacy policies and practices since its most recent disclosure provided to consumers. The 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. Most states, including the states where the Bank operates, have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Bank must 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 any transaction or series of 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, 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

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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.”

OFAC. The U.S. has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by the U.S. Treasury’s Office of Foreign Assets Control (“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 or other transactions relating to a sanctioned country or with certain designated persons and entities; (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); and (iii) restrictions on transactions with or involving certain persons or entities. 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 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, 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 trading 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.

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 statements.

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

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

We primarily serve individuals and businesses located in Maine, as 81% of our loan portfolio is concentrated among borrowers in Maine, with higher concentrations of exposure in Cumberland, Hancock, Kennebec, Knox, Penobscot and York 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 large financial companies, 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. Some of these competitors have substantially greater resources and lending limits than those of the Bank and may offer services that the Bank does not or cannot provide. There is also increased competition by out-of-market competitors through the internet. 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.

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

At December 31, 2017, our commercial real estate and commercial loan portfolios comprised 57% of our total loan balances. 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.

As of December 31, 2017, the most significant industry concentration within our loan portfolio was non-residential building operators (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings), which was 11% of our total loans and 27% of our total commercial real estate portfolio. As of December 31, 2017, we had no other industry concentrations in excess of 10% of total loans.

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 allowance for loan losses to assess recent asset quality trends and impact on the Company's financial condition. On a quarterly basis, the allowance for loan losses is reviewed and approved at the Bank's Board of Directors meeting. If our 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.

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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 of operations or financial condition. 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 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 cost of funds for banking operations may increase as a result of loss of deposits or a change in deposit mix. Deposits are a low cost and stable source of funding. We compete with banks and other financial institutions for deposits. Funding costs may increase if we lose deposits and are forced to replace them with more expensive sources of funding, if clients shift their deposits into higher cost products or if we need to raise interest rates to avoid losing deposits. Higher funding costs reduce our net interest margin, net interest income and net income.

Potential downgrades of U.S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our financial results.

A possible future downgrade of the sovereign credit ratings of the U.S. government and a decline in the perceived creditworthiness of U.S. government-related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact on us. Among other things, a further downgrade in the U.S. government's credit rating could adversely impact the value of our securities portfolio and may trigger requirements that we post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U.S. government or the credit ratings of related institutions, agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on the business, financial condition and results of operations.

Wholesale funding sources may prove insufficient to replace deposits at maturity and support our operations and future growth.

We and our bank subsidiary must maintain sufficient funds to respond to the needs of depositors and borrowers. To manage liquidity, we draw upon a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include Federal Home Loan Bank advances, proceeds from the sale of investments and loans, and liquidity resources at the holding company. Our ability to manage liquidity will be severely constrained if we are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. In addition, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, operating margins and profitability would be adversely affected. Turbulence in the capital and credit markets may adversely affect our liquidity and financial condition and the willingness of certain counterparties and customers to do business with us.

We have credit and counterparty risk inherent in our securities portfolio and the soundness of other financial institutions that could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We maintain a diversified securities portfolio and have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions

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expose us to credit risk in the event of default of our counterparty or client. Furthermore, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

We believe that we have adequately reviewed our investment securities for impairment and we did not recognize any other-than-temporary impairments on our investment securities portfolio in 2017. 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 significant judgments involved, there is risk that material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses.

Market changes may adversely affect demand for our services and impact results of operations.

Channels for servicing our customers are evolving rapidly, with less reliance on traditional branches, more use of online and mobile banking, and increased demand for universal bankers and other relationship managers who can service multiples product lines. We compete with larger providers that are rapidly evolving their service offerings and escalating the costs of evolving the Bank's efforts to keep pace. We have a process for evaluating the profitability of our branches and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships.

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 investor confidence, all of which are beyond our control. While in recent years there has been gradual improvement in the U.S. economy, deterioration in any of these conditions could result in increases in loan delinquencies and non-performing assets, decreases in loan collateral values, the value of our investment portfolio and demand for our products and services. Furthermore, while the U.S. economy is improving, the recovery has been slow and there continues to be some uncertainty regarding the sustainability.

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. Fluctuations in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on our net interest income. 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 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 affecting us, 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 business is highly regulated and the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. These changes could adversely and materially impact us. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the 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 subject us to additional costs, limit the

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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, policies or supervisory guidance could result in enforcement and other legal actions by federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties, and/or reputational damage, which could have a material adverse effect on our business, financial condition, and results of operations. See Item 1. “Business-Supervision and Regulation.”

We are subject to capital and liquidity standards that require banks and bank holding companies to maintain more and higher quality capital and greater liquidity that has historically been the case.

We became subject to new capital requirements in 2015. These new standards, which now apply and will be fully phased-in by 2018, force bank holding companies and their bank subsidiaries to maintain substantially higher levels of capital as a percentage of their assets, with a greater emphasis on common equity as opposed to other components of capital. The need to maintain more and higher quality capital, as well as greater liquidity, and generally increased regulatory scrutiny with respect to capital levels, may at some point limit our business activities, including lending, and our ability to expand. It could also result in our being required to take steps to increase our regulatory capital and may dilute shareholder value or limit our ability to pay dividends or otherwise return capital to our investors through stock repurchases. Pursuant to the Dodd-Frank Act, we were permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. We made this election.

We face significant legal risks.

From time to time, we are named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. 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 may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

The financial services industry is subject to intense scrutiny from bank supervisors in the examination process and aggressive enforcement of federal and state regulations, particularly with respect to mortgage-related practices and other consumer compliance matters, and compliance with anti-money laundering, Bank Secrecy Act and Office of Foreign Assets Control regulations, and economic sanctions against certain foreign countries and nationals. Enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations; however, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there were systems and procedures designed to ensure compliance in place at the time. Failure to comply with these and other regulations, and supervisory expectations related thereto, may result in fines, penalties, lawsuits, regulatory sanctions, reputation damage, or restrictions on our business.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose community investment and nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the Community Reinvestment Act, the Equal Credit Opportunity Act, the Fair Housing Act or other fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

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We are subject to reputational risk.

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. 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, 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.

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 we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our 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 could be held responsible for environmental liabilities of properties we acquired through foreclosure.

In the course of business, we may acquire, through foreclosure, properties securing loans originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that material environmental violations could be discovered on these properties. In this event, we might be required to remedy these violations at the affected properties at our sole cost and expense. The cost of remedial action could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

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 may be 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, 2017, our goodwill and other identifiable intangible assets totaled \$99.7 million, which included

goodwill and core deposit intangible assets created in connection with the SBM acquisition on October 16, 2015 of \$49.9 million and \$6.6 million, respectively. 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 to fair value. We conduct an annual review, or more frequently if events or circumstances warrant such, to determine whether goodwill is impaired. We recently completed our goodwill impairment analysis as of November 30, 2017 and concluded goodwill was not impaired. We conduct a review of our other intangible assets for impairment should events or circumstances warrant such. There were no triggers for such review for impairment for other intangible assets for the year ended December 31, 2017. We cannot provide assurance that we will not be required to take an 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.

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Systems failures, interruptions or breaches of security concerning our information base, including the information we maintain relating to our customers, could have an adverse effect on our financial condition and results of operations.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our business and to store sensitive data, including financial information regarding customers. We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud, cyberattacks, hacking, identity theft and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. 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. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our customers' devices may be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers' or other third parties' business operations. If 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.

We regularly assess and test our security systems and disaster preparedness, including back-up systems, but the risks are substantially escalating. As a result, cybersecurity and the continued enhancement of our controls and processes to protect our systems, data and networks from attacks, unauthorized access or significant damage remain a priority. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures in our computer systems and networks, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through insurance maintained by us. Any such losses, which may be difficult to detect, could adversely affect our financial condition or results of operations. In addition, the occurrence of such a loss could expose the Company and the Bank to reputational risk, the loss of customer business and additional regulatory scrutiny.

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. We invest significant resources in information technology system enhancements in order to provide functionality and security at an appropriate level. 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. Failure to successfully implement and integrate future system enhancements could adversely impact the ability to provide timely and accurate financial information in compliance with legal and regulatory requirements, which could result in sanctions from regulatory authorities. Such sanctions could include fines and suspension of trading in our stock, among others. In addition, future system enhancements could have higher than expected costs and/or result in operating inefficiencies, which could increase the costs associated with the implementation as well as ongoing operations.

Failure to properly utilize system enhancements that are implemented in the future could result in impairment charges that adversely impact our financial condition and results of operations and could result in significant costs to remediate or replace the defective components. In addition, we may incur significant training, licensing, maintenance, consulting and amortization expenses during and after systems implementations, and any such costs may continue for an extended period of time.

We rely on other companies to provide key components of our business infrastructure.

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing. While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers or otherwise conduct our business efficiently and effectively. Replacing these third party vendors could also entail significant delay and expense.

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Natural disasters, acts of terrorism and other external events could harm our business.

Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

Camden National Wealth Management 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.

Due to strong competition, Camden National Wealth Management 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, and 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.

We are a holding company and dependent upon our subsidiary for dividends, distributions and other payments.

We are a legal entity separate and distinct from our direct and indirect subsidiaries. Our revenue (on a parent-only basis) is derived primarily from interest and dividends paid to us by the Bank. Our right, and consequently the right of our shareholders, to participate in any distribution of the assets or earnings of the Bank through the payment of such dividends or otherwise is necessarily subject to the prior claims of creditors of the Bank (including depositors), except to the extent that certain claims of us in a creditor capacity may be recognized.

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. The FRB has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. Additionally, the OCC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Further, our ability to pay dividends would be restricted under current regulatory capital rules if we do not maintain a capital conservation buffer. A reduction or elimination of dividends could adversely affect the market price of our common stock. See Part I, Item 1. “Business-Supervision and Regulation-Dividend Restrictions” and “Business-Supervision and Regulation-Regulatory Capital Requirements.”

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.

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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 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 recently issued financial instruments standard will, among other things, significantly change how loan loss provisions are determined once effective from an incurred loss model to an expected loss model.

Changes in tax laws and regulations and differences in interpretation of tax laws and regulations may adversely impact our financial statements.

Local, state or federal tax authorities may interpret tax laws and regulations differently than we do and challenge tax positions that we have taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have a material adverse effect on our results.

In December 2017, we recognized a write-down of \$14.3 million to our net deferred tax assets in connection with the adoption of the Tax Cuts and Jobs Act.

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.

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.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2017, the Company owns or leases a total of 64 facilities, excluding any properties designated as other real estate owned. All facilities are fully utilized and considered suitable and adequate for the purposes intended. The Company owns 42 of its facilities, none of which are subject to a mortgage, and the remaining branches and loan offices are leased by the Company. The Company has 60 branches located throughout Maine, and two loan production offices located in New Hampshire and Massachusetts.

The following table presents the Company's materially important locations and properties as of December 31, 2017:

Facility Name	Location	General Character of the Physical Property	Primary Business Segment	Property Status	Property Square Feet ⁽¹⁾
Main Office	Camden, Maine	3 story building	Branch and principal executive office	Owned	15,500
Canal Plaza	Portland, Maine	2 floors	Branch and executive office	Leased	16,355
Hanley Center	Rockport, Maine	2 story building	Service center	Owned	32,360
Gardiner	Gardiner, Maine	3 story building	Branch and service center	Owned	17,497
Kennebunk	Kennebunk, Maine	2 story building	Branch and service center	Owned	9,982
Auburn	Auburn, Maine	3 story building	Branch	Owned	13,000
Bangor	Bangor, Maine	1 floor	Branch	Leased	17,432
Ellsworth	Ellsworth, Maine	3 story building	Branch	Owned	44,000 ⁽²⁾
Rockland	Rockland, Maine	3 story building	Branch	Owned	21,600
Waterville	Waterville, Maine	3 story building	Branch	Owned	17,099

(1) Total square footage for leased locations represents the amount of space the Company occupies.

(2) Includes space leased to third parties.

For additional information regarding the Company's premises and equipment and lease obligations see Note 7, Premises and Equipment, within Item 8. Financial Statements and Supplementary Data.

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

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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 2017 and 2016) and cash dividends declared per share of the Company’s common stock, by calendar quarter for the past two years, were as follows:

	2017			2016		
	Market Price		Dividends Declared per Share	Market Price		Dividends Declared per Share
	High	Low		High	Low	
First Quarter	\$44.82	\$40.14	\$ 0.23	\$28.87	\$25.09	\$ 0.20
Second Quarter	\$44.12	\$40.20	\$ 0.23	\$29.17	\$26.97	\$ 0.20
Third Quarter	\$44.40	\$37.33	\$ 0.23	\$32.32	\$27.91	\$ 0.20
Fourth Quarter	\$47.00	\$41.70	\$ 0.25	\$45.24	\$29.70	\$ 0.23

As of February 23, 2018, there were 15,536,923 shares of the Company’s common stock outstanding by approximately 1,200 shareholders, as obtained through our transfer agent. Such number of shareholders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees.

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 Item 1. Business—Supervision and Regulation and Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources.

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, 2012 through December 31, 2017. For purposes of comparison, the graph illustrates comparable shareholder returns of the SNL \$1B – \$5B Bank Index and the Russell 2000 Stock Index. The graph assumes a \$100 investment on December 31, 2012 in each case and measures the amount by which the market value, assuming reinvestment of dividends, has changed as of December 31, 2017.

Stock Performance Graph

On September 24, 2013, the Board of Directors authorized a common stock repurchase program (the "2013 Repurchase Plan"). The 2013 Repurchase Plan allows for the repurchase of up to 375,000 shares of the Company's outstanding common stock. This program is expected to continue until the authorized number of shares is repurchased, or the Company's Board of Directors terminates the program. There is no specified expiration date of the 2013 Repurchase Plan. As of December 31, 2017, the Company had repurchased 374,250 shares at an average price of \$26.55, or 99.8% of the program's total allotment and 2.4% of total outstanding shares. The Company did not repurchase any shares of Company common stock for the year ended December 31, 2017.

Issuer's Purchases of Equity Securities

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or value) of appropriate shares (or units) that may yet be purchased under the plans or programs
01/01/2017 to 12/31/2017	—	—	—	750
Total	—	\$	—	750

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

The selected consolidated financial and other data of the Company set forth below does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information, including the consolidated financial statements and related notes, appearing elsewhere herein.

(In Thousands, Except per Share Data)	At or For The Year Ended					
	December 31,					
	2017 ⁽¹⁾	2016	2015 ⁽²⁾	2014	2013	
Financial Condition Data						
Investments	\$907,642	\$897,679	\$855,995	\$803,633	\$828,201	
Loans and loans held for sale	2,790,542	2,609,400	2,501,164	1,772,610	1,580,402	
Allowance for loan losses	(24,171)	(23,116)	(21,166)	(21,116)	(21,590)	
Total assets	4,065,398	3,864,230	3,709,344	2,789,853	2,603,829	
Deposits	3,000,491	2,828,529	2,726,379	1,932,097	1,813,824	
Borrowings	611,498	599,675	572,362	577,002	530,092	
Shareholders' equity	403,413	391,547	363,190	245,109	231,096	
Operating Data						
Net interest income	\$115,300	\$113,072	\$86,452	\$76,257	\$75,441	
Provision for credit losses	3,035	5,258	1,936	2,220	2,028	
Non-interest income	38,599	39,621	27,482	24,370	27,835	
Non-interest expense	88,510	89,896	81,139	62,397	66,333	
Income before income taxes	62,354	57,539	30,859	36,010	34,915	
Income taxes	33,878	17,472	9,907	11,440	12,132	
Net income	\$28,476	\$40,067	\$20,952	\$24,570	\$22,783	
Ratios						
Return on average assets	0.71	% 1.04	% 0.70	% 0.92	% 0.88	%
Return on average equity	7.00	% 10.47	% 7.54	% 10.37	% 9.74	%
Net interest margin (fully-taxable equivalent)	3.23	% 3.32	% 3.19	% 3.11	% 3.20	%
Tier I leverage capital ratio	9.07	% 8.83	% 8.74	% 9.26	% 9.43	%
Total risk-based capital ratio	14.14	% 14.04	% 12.98	% 15.16	% 16.45	%
Non-performing assets to total assets	0.50	% 0.67	% 0.66	% 0.82	% 1.18	%
Dividend payout ratio	51.43	% 32.22	% 50.60	% 33.73	% 36.30	%
Per common share data						
Basic earnings per share	\$1.83	\$2.59	\$1.73	\$2.19	\$1.98	
Diluted earnings per share	1.82	2.57	1.73	2.19	1.98	
Dividends declared per share	0.94	0.83	0.80	0.74	0.72	
Book value per share	25.99	25.30	23.69	22.00	20.33	
Non-GAAP measures⁽³⁾						
Adjusted net income	\$42,739	\$40,630	\$28,189	\$24,570	\$24,074	
Adjusted diluted earnings per share	2.73	2.61	2.33	2.19	2.09	
Tangible book value per share	19.57	18.74	16.89	17.68	15.99	
Efficiency ratio	57.05	% 57.53	% 61.13	% 61.58	% 62.78	%
Adjusted return on average assets	1.07	% 1.06	% 0.94	% 0.92	% 0.94	%
Return on average tangible equity	9.69	% 14.76	% 9.91	% 13.46	% 14.55	%
Adjusted return on average tangible equity	14.35	% 14.95	% 13.20	% 13.30	% 13.42	%
Tangible common equity ratio	7.66	% 7.71	% 7.18	% 7.18	% 7.12	%

In December 2017, the Tax Cuts and Jobs Act of 2017 was enacted, and the Company recognized a \$14.3 million (1) write-down of its deferred tax assets and liabilities upon revaluation using the lower federal corporate income tax rate of 21.0%.

(2)

On October 16, 2015, the Company completed its acquisition of SBM. The impact of the acquisition is included within the presented financial data and results as of and for the year ended December 31, 2015.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of
(3) Operations—Non-GAAP Financial Measures and Reconciliation to GAAP for discussion and reconciliations of non-GAAP measures.

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 year ended December 31, 2017, 2016 and 2015 and financial condition at December 31, 2017 and 2016 and, where appropriate, factors that may affect our future financial performance, unless stated otherwise. The dollar amounts within the tables are presented in thousands, except per share data. This discussion should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and selected consolidated financial data.

Acronyms and Abbreviations

The acronyms and abbreviations identified below are used throughout Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The following is provided to aid the reader and provide a reference page when reviewing this section of the Form 10-K.

AFS:	Available-for-sale	HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank
ALCO:	Asset/Liability Committee	HTM:	Held-to-maturity
ALL:	Allowance for loan losses	IRS:	Internal Revenue Service
AOCI:	Accumulated other comprehensive income (loss)	LIBOR:	London Interbank Offered Rate
ASC:	Accounting Standards Codification	LTIP:	Long-Term Performance Share Plan
ASU:	Accounting Standards Update	Management ALCO:	Management Asset/Liability Committee
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	MBS:	Mortgage-backed security
BOLI:	Bank-owned life insurance	MSPP:	Management Stock Purchase Plan
Board ALCO:	Board of Directors' Asset/Liability Committee	N.M.:	Not meaningful
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	OCC:	Office of the Comptroller of the Currency
CDs:	Certificate of deposits	OCI:	Other comprehensive income (loss)
Company:	Camden National Corporation	OREO:	Other real estate owned
CMO:	Collateralized mortgage obligation	OTTI:	Other-than-temporary impairment
DCRP:	Defined Contribution Retirement Plan	SBM:	SBM Financial, Inc., the parent company of The Bank of Maine
EPS:	Earnings per share	SERP:	Supplemental executive retirement plans
FASB:	Financial Accounting Standards Board	Tax Act:	Tax Cuts and Jobs Act of 2017, enacted on December 22, 2017
FDIC:	Federal Deposit Insurance Corporation	TDR:	Troubled-debt restructured loan
FHLB:	Federal Home Loan Bank	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
FHLBB:	Federal Home Loan Bank of Boston	U.S.:	United States of America
FRB:	Federal Reserve System Board of Governors	2003 Plan:	2003 Stock Option and Incentive Plan
FRBB:	Federal Reserve Bank of Boston	2012 Plan:	2012 Equity and Incentive Plan

GAAP: Generally accepted accounting principles in the United States

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Executive Overview

For the year ended December 31, 2017, we reported net income of \$28.5 million and diluted EPS of \$1.82 per share, compared to \$40.1 million and \$2.57 per share, respectively, for the year ended December 31, 2016. In the fourth quarter of 2017, the Tax Act was enacted, and we recognized \$14.3 million of additional income tax expense upon the revaluation of our deferred tax assets and liabilities. For the year ended December 31, 2017, our adjusted net income¹, which excludes the effect of the Tax Act, was \$42.7 million and adjusted diluted EPS¹ was \$2.73 per share, representing an increase over 2016 of 5%.

Our strong financial performance in 2017 was driven by:

Loan Growth of 7%— Our loan portfolio grew 7% to \$2.8 billion at December 31, 2017, led by commercial real estate loan growth of 11%, followed by residential mortgage growth of 7% and commercial loan growth of 6%.

Low Cost Deposit Growth of 11% — Our total deposit base grew 6% to \$3.0 billion at December 31, 2017, led by low cost deposits (demand, interest checking, savings and money market) growth of 11%.

Strong Asset Quality — Strong asset quality metrics resulted in a 42% decrease in our provision for credit losses to \$3.0 million for 2017. Our non-performing assets to total assets ratio decreased to 0.50% at December 31, 2017, compared to 0.67% at December 31, 2016, while our net charge-offs to average loans ratio for 2017 of 0.07%, compared to 0.13% for 2016.

In the fourth quarter of 2017, we increased our quarterly cash dividend 9% to \$0.25 per share, which was paid to our shareholders on January 31, 2018. For 2017, we declared cash dividends to our shareholders of \$0.94 per share, compared to \$0.83 per share in 2016. The increase in our fourth quarter 2017 dividend rate to shareholders reflects our strong financial performance in 2017 and the overall financial strength, which includes exceeding all regulatory capital standards and a tangible common equity ratio¹ of 7.66% at December 31, 2017.

Our 2016 reported financial results included the full year benefit of the acquisition of SBM that was completed on October 16, 2015, driving a 44% increase in adjusted net income¹ and 12% increase in adjusted diluted EPS¹, compared to 2015.

¹ The following was not calculated in accordance with GAAP. Refer to the "— Non-GAAP Financial Measures and Reconciliation to GAAP" within Item 7.

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Operating Results

Net income for the year ended December 31, 2017 was \$28.5 million, representing a decrease of \$11.6 million, or 29%, compared to last year. The decrease was driven by additional income tax expense of \$14.3 million upon enactment of the Tax Act on December 22, 2017 as a result of revaluing our deferred tax assets and liabilities using the lower federal corporate tax rate. Adjusted net income¹, which excludes certain non-recurring transactions, including the impact of the Tax Act, for the year ended December 31, 2017 was \$42.7 million, representing an increase of \$2.1 million, or 5%.

¹ The following was not calculated in accordance with GAAP. Refer to the "— Non-GAAP Financial Measures and Reconciliation to GAAP" within Item 7.

Diluted EPS for the year ended December 31, 2017 was \$1.82 per share, representing a decrease of \$0.75 per share, or 29%, compared last year. Adjusted diluted EPS¹ for the year ended December 31, 2017 was \$2.73 per share, representing an increase of \$0.12 per share, or 5% over 2016.

For the year ended December 31, 2017, our efficiency ratio¹ was 57.05%, adjusted return on average assets¹ was 1.07%, and our adjusted return on average tangible equity¹ was 14.35%.

Net income for the year ended December 31, 2016 was \$40.1 million and diluted EPS was \$2.57 per share, representing an increase of 91% and 49%, respectively. Adjusted net income¹ and adjusted diluted EPS¹ of \$40.6 million and \$2.61 increased 44% and 12%, respectively, over 2015. The increase highlights the benefits of the acquisition of SBM and our successful execution of our merger strategies, including an efficiency ratio¹ of 57.53%, an adjusted return on average assets¹ of 1.06%, and an adjusted return on average tangible equity¹ of 14.96% for 2016.

FINANCIAL CONDITION

Total assets at December 31, 2017 of \$4.1 billion increased \$201.2 million, or 5%, since December 31, 2016 driven by loan growth of \$187.9 million, or 7%, for the year.

¹ The following was not calculated in accordance with GAAP. Refer to the "— Non-GAAP Financial Measures and Reconciliation to GAAP" within Item 7.

For 2017, our loan growth was driven by commercial real estate with growth of \$113.2 million, or 11%, followed by residential real estate of \$55.9 million, or 7%, and commercial of \$39.8 million, or 12%.

At December 31, 2017, our commercial loan portfolio (includes commercial real estate and commercial loans) totaled \$1.6 billion and represented 57% of total loans, whereas our retail loan portfolio (includes residential real estate, consumer and home equity) totaled \$1.2 billion and represented 43% of total loans. In comparison, at December 31, 2016, our commercial loan portfolio represented 56% of total loans, while our retail loan portfolio represented 44% of total loans.

Total deposits at December 31, 2017 grew \$172.0 million, or 6%, over last year to \$3.0 billion. The increase in deposits was driven by low cost deposits growth (including demand, interest checking, saving and money market) of \$232.0 million, or 11% to \$2.3 billion.

At December 31, 2017, low cost deposits as a percentage of total funding was 64%, compared to 61% at December 31, 2016 and our loan-to-deposit ratio was 93% at December 31, 2017, compared to 92% at December 31, 2016.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. In preparing the Company's consolidated financial statements, management is required to make significant estimates and assumptions that affect assets, liabilities, revenues, and expenses reported. Actual results could materially 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 (i) the allowance for loan losses; (ii) accounting for acquisitions and the subsequent review of goodwill and core deposit intangible assets generated in an acquisition for impairment; (iii) OTTI of investments; and (iv) income taxes.

Allowance for Loan Losses. Management is committed to maintaining an ALL that is appropriate to absorb likely loss exposure in the loan portfolio. Evaluating the appropriateness of the ALL is a key management function and 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 reduction to total gross loans in the asset section of the consolidated statements of condition, and (ii) the reserve for unfunded commitments included in other liabilities on the consolidated statements of condition. 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, regulatory guidance, 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 three 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, and (iii) general loss allocations for other qualitative and environmental factors.

Loans for which a specific loss allocation may be required are identified and assessed at least quarterly by reviewing individual loans with a principal balance of \$500,000 or more that are risk rated as substandard or doubtful and are on non-accrual status in accordance with the Bank's policy. We believe loans that meet the above criteria most often demonstrate the qualities and characteristics of an impaired loan and are individually significant enough to the Company to warrant individual assessment. Prior to January 1, 2017, we individually identified and evaluated specific impaired loans that had a loan principal balance of \$250,000 or more that were risk rated as substandard or doubtful and are on non-accrual status in accordance with the Bank's policy. An allowance is established for each of these loans to reduce the net carrying value when the estimated value of the impaired loan is lower than the recorded investment of the loan. The estimated value of the impaired loans is determined using one of three methods: (i) calculating the present value of expected future cash flows discounted at the loan's effective interest rate (i.e. discounted cash flow method); (ii) the loan's observable market price; or (iii) the fair value of the collateral if the loan is collateral dependent and repayment of the loan is expected to be provided solely by the underlying collateral.

The remaining loan portfolio is separated into risk pools by portfolio segment and subject to a general reserve factor. At least annually, we reassess and revise the loss allocation factor used in constructing the reserve for each risk pool. The factors we consider in constructing each risk pool include: (i) risk rating; (ii) historical losses; (iii) market conditions; and (iv) other environmental 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 a year, 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.

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, 2017 determined it to be appropriate, under adversely different conditions or assumptions, we may need to increase the ALL. Monthly, management reviews the ALL to assess recent asset quality trends and impact on the Company's financial condition. Quarterly, the ALL is reviewed and approved at the Bank's Board of Directors meeting.

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.

Purchase Price Allocation and Impairment of Goodwill and Identifiable Intangible Assets. We record all acquired assets and liabilities at fair value, which is an estimate determined by the use of internal valuation techniques. We also may engage external valuation services to assist with the valuation of material assets and liabilities acquired, including, but not limited to, loans, core deposit intangibles and/or other intangible assets, real estate and time deposits. As part of purchase accounting, we typically acquire goodwill and other intangible assets as part of the

purchase price. These assets are subject to ongoing periodic impairment tests under differing accounting models. We did not acquire any other company or assets for the year ended December 31, 2017 or 2016.

Goodwill impairment evaluations are required to be performed at least annually, but may be required more frequently if certain conditions indicate a potential impairment may exist. Our policy is to perform the goodwill impairment analysis annually as of November 30th, or more frequently as warranted. The goodwill impairment evaluation is required to be performed at the reporting unit level and is performed using the two-step process outlined in ASC 350-20, Goodwill ("ASC 350-20"). The Company's reporting units are banking and financial services. The banking reporting unit is representative of our core banking business line, while the financial services reporting unit is representative of our wealth management and trust services business line.

For the year ended December 31, 2017, we performed the annual impairment tests for each reporting unit as of November 30, 2017. For the banking reporting unit, we used the qualitative analysis (i.e. "step zero") outlined in ASC 350-20 to test the reporting unit's goodwill for impairment, and considered such factors as the macroeconomic environment; overall industry environment and performance; company specific factors, including, but not limited to, competition, performance and personnel. Through completion of our analysis, we concluded it was not more-likely-than-not that the banking reporting unit's carrying value exceeded its fair value. For the financial services reporting unit, we used the quantitative analysis (i.e. "step one") outlined in ASC 350-20 to test the reporting unit's goodwill for impairment. In doing so, we concluded that the estimated fair value of the financial services reporting unit exceeded its carrying value and goodwill was not impaired as of November 30, 2017. Furthermore, we are not aware of any indications and/or triggers subsequent to our goodwill impairment analysis performed as of November 30, 2017 that would lead us to believe there may be subsequent impairment of goodwill.

For the year ended December 31, 2016, we performed the annual impairment tests for each reporting unit as of November 30, 2016 using quantitative analysis, and concluded that neither reporting unit's goodwill was impaired.

Core deposit intangible assets have a finite life and are amortized over their estimated useful lives. Core deposit intangible assets are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Core deposit intangible assets are measured for impairment utilizing a cost recovery model. We did not identify any events or circumstances that occurred for the year ended December 31, 2017 or 2016 that would indicate that our core deposit intangible assets may be impaired and should be evaluated for such.

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 intent and ability to hold the security for the foreseeable future until recovered. The investment is written down to its current fair 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.

Income Taxes. We account for income taxes by deferring income taxes based on the estimated future tax effects of differences between the book and tax 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 our deferred tax assets, there is no guarantee that these assets will be realized.

On December 22, 2017, the Tax Act was enacted reducing the federal corporate income tax rate from 35.0% to 21.0%, effective January 1, 2018. In accordance with ASC 740, Income Taxes, we revalued our deferred tax assets and liabilities as of the enactment date, and, as a result, we recorded additional income tax expense for the year ended December 31, 2017 of \$14.3 million. Refer to "—Results of Operations—Income Tax Expense" for further discussion.

As of December 31, 2017, our federal income tax returns for the year ended December 31, 2016 and 2015 were open to audit by federal authorities, and our state income tax returns for the year ended December 31, 2016, 2015 and 2014 were open to audit by various state authorities. If, as a result of an audit, we were assessed interest and penalties, the amounts would be recorded through other non-interest expense on the consolidated statements of income.

In 2017, the IRS completed its examination of our 2014 and 2013 federal income tax returns, which resulted in no material changes to the Company's consolidated financial statements.

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 adjusted net income, adjusted diluted EPS, adjusted return on average assets, adjusted return on average equity and average tangible equity; the efficiency ratio; tax equivalent net interest income; tangible book value per share; and tangible common equity ratio. We utilize these non-GAAP financial measures for purposes of measuring our performance against our peer group and other financial institutions and analyzing our internal performance. We also believe these non-GAAP financial measures help investors better understand 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.

Adjusted Net Income, Adjusted Diluted EPS and Adjusted Return on Average Assets. The following tables provide a reconciliation of net income, diluted EPS, and return on average assets to adjusted net income, adjusted diluted EPS and adjusted return on average assets. Certain transactions have been excluded to calculate adjusted net income, adjusted diluted EPS and adjusted return on average assets. We believe the following adjusted financial metrics assist users of our financial statements with their financial analysis period-over-period as it adjusts for certain non-recurring items.

	For The Year Ended December 31,					
	2017	2016	2015	2014	2013	
Adjusted Net Income:						
Net income, as presented	\$28,476	\$40,067	\$20,952	\$24,570	\$22,783	
Add: impact of the Tax Act	14,263	—	—	—	—	
Add: merger and acquisition costs and divestiture costs, net of tax ⁽¹⁾	—	563	7,237	—	243	
Add: goodwill impairment ⁽¹⁾	—	—	—	—	2,830	
Less: gain on branch divestiture and sale ⁽¹⁾	—	—	—	—	(1,782)	
Adjusted net income	\$42,739	\$40,630	\$28,189	\$24,570	\$24,074	
Adjusted Diluted EPS:						
Diluted EPS, as presented	\$1.82	\$2.57	\$1.73	\$2.19	\$1.98	
Impact of adjustments to arrive at adjusted net income	0.91	0.04	0.60	—	0.11	
Adjusted diluted EPS	\$2.73	\$2.61	\$2.33	\$2.19	\$2.09	
Adjusted Return on Average Assets:						
Return on average assets, as presented	0.71	% 1.04	% 0.70	% 0.92	% 0.88	%
Impact of adjustments to arrive at adjusted net income	0.36	% 0.02	% 0.24	% —	% 0.06	%
Adjusted return on average assets	1.07	% 1.06	% 0.94	% 0.92	% 0.94	%

(1) Assumed a 35% tax rate for deductible expenses, with the exception of goodwill impairment as this was a non-taxable event.

Adjusted Return on Average Equity and Average Tangible Equity. The following tables provide a reconciliation of net return on average equity to adjusted return on average equity and average tangible equity. Certain transactions have been excluded to calculate adjusted return on average equity and tangible equity. We believe the following adjusted financial metrics assist users of our financial statements with their financial analysis period-over-period as it adjusts for certain non-recurring items.

	For The Year Ended				
	December 31,				
	2017	2016	2015	2014	2013
Net income, as presented	\$28,476	\$40,067	\$20,952	\$24,570	\$22,783
Add: impact of the Tax Act	14,263	—	—	—	—
Add: merger and acquisition costs and divestiture costs, net of tax ⁽¹⁾	—	563	7,237	—	243
Add: goodwill impairment ⁽¹⁾	—	—	—	—	2,830
Less: gain on branch divestiture and sale ⁽¹⁾	—	—	—	—	(1,782)
Adjusted net income	\$42,739	\$40,630	\$28,189	\$24,570	\$24,074
Add: amortization of intangible assets, net of tax ⁽¹⁾	1,176	1,237	849	746	747
Add: goodwill impairment ⁽¹⁾	—	—	—	—	2,830
Adjusted tangible net income	43,915	41,867	29,038	25,316	27,651
Average equity	\$406,628	\$382,507	\$277,716	\$236,849	\$233,888
Less: average goodwill and other intangible assets	(100,513)	(102,711)	(57,833)	(48,735)	(52,708)
Average tangible equity	\$306,115	\$279,796	\$219,883	\$188,114	\$181,180
Adjusted return on average tangible equity	14.35 %	14.96 %	13.21 %	13.46 %	15.26 %
Adjusted return on average equity	10.51 %	10.62 %	10.15 %	10.37 %	10.29 %
Return on average equity	7.00 %	10.47 %	7.54 %	10.37 %	9.74 %

(1) Assumed a 35.0% tax rate for deductible expenses, with the exception of goodwill impairment as this was a non-taxable event.

Efficiency Ratio. The efficiency ratio represents an approximate measure of the cost required for the Company to generate a dollar of revenue. This is a common measure within our industry and is a key ratio for evaluating Company performance. The efficiency ratio is calculated as the ratio of (i) total non-interest expense, adjusted for certain operating expenses to (ii) net interest income on a tax equivalent basis (assumed 35% tax rate) plus total non-interest income, adjusted for certain other income items.

	For The Year Ended December 31,					
	2017	2016	2015	2014	2013	
Non-interest expense, as presented	\$88,510	\$89,896	\$81,139	\$62,397	\$66,333	
Less: merger and acquisition costs, and divestiture cost	—	(866)	(10,415)	—	(374)	
Less: goodwill impairment	—	—	—	—	(2,830)	
Adjusted non-interest expense	\$88,510	\$89,030	\$70,724	\$62,397	\$63,129	
Net interest income, as presented	\$115,300	\$113,072	\$86,452	\$76,257	\$75,441	
Add: effect of tax-exempt income	2,105	2,121	1,763	1,157	808	
Non-interest income	38,599	39,621	27,482	24,370	27,835	
Less: net gains on sale of securities, net of OTTI	(855)	(51)	(4)	(451)	(785)	
Less: gain on branch divestiture and sale	—	—	—	—	(2,742)	
Adjusted net interest income plus non-interest income	\$155,149	\$154,763	\$115,693	\$101,333	\$100,557	
Efficiency ratio	57.05	% 57.53	% 61.13	% 61.58	% 62.78	%
Non-interest expense, as presented, to total revenues ⁽¹⁾	57.51	% 58.87	% 71.22	% 62.01	% 64.23	%

(1) Revenue is defined as net interest income plus non-interest income.

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 (assuming a 35% tax rate). This number attempts to enhance the comparability of the performance of assets that have different tax liabilities.

	For The Year Ended December 31,				
	2017	2016	2015	2014	2013
Net interest income, as presented	\$115,300	\$113,072	\$86,452	\$76,257	\$75,441
Effect of tax-exempt income	2,105	2,121	1,763	1,157	808
Net interest income, tax equivalent	\$117,405	\$115,193	\$88,215	\$77,414	\$76,249

Tangible Book Value per Share and Tangible Common Equity Ratio. 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. Tangible book value per share is a common measure within our industry when assessing the value of a Company as it removes goodwill and other intangible assets generated within purchase accounting upon a business combination.

Tangible common equity is the ratio of (i) shareholders' equity less goodwill and other intangible assets (the numerator) to (ii) total assets less goodwill and other intangible assets. This ratio is a measure used within our industry to assess whether or not a company is highly leveraged.

	December 31,					
	2017	2016	2015	2014	2013	
Tangible Book Value Per Share:						
Shareholders' equity, as presented	\$403,413	\$391,547	\$363,190	\$245,109	\$231,096	
Less: goodwill and other intangible assets	(99,652)	(101,461)	(104,324)	(48,171)	(49,319)	
Tangible equity	\$303,761	\$290,086	\$258,866	\$196,938	\$181,777	
Shares outstanding at period end	15,524,704	15,476,379	15,330,717	11,139,333	11,369,870	
Tangible book value per share	\$19.57	\$18.74	\$16.89	\$17.68	\$15.99	
Book value per share	\$25.99	\$25.30	\$23.69	\$22.00	\$20.33	
Tangible Common Equity Ratio:						
Total assets	\$4,065,398	\$3,864,230	\$3,709,344	\$2,789,853	\$2,603,829	
Less: goodwill and other intangibles	(99,652)	(101,461)	(104,324)	(48,171)	(49,319)	
Tangible assets	\$3,965,746	\$3,762,769	\$3,605,020	\$2,741,682	\$2,554,510	
Tangible common equity ratio	7.66	% 7.71	% 7.18	% 7.18	% 7.12	%
Shareholders' equity to total assets	9.92	% 10.13	% 9.79	% 8.79	% 8.88	%

Results of Operations

For the year ended December 31, 2017, we reported net income of \$28.5 million compared to \$40.1 million for the year ended December 31, 2016 and \$21.0 million for the year ended December 31, 2015. Diluted EPS for each of these years was \$1.82 per share, \$2.57 per share, and \$1.73 per share, respectively. The major components of these results, which include net interest income, provision for credit losses, non-interest income, non-interest expense, and income tax expense, are discussed below.

Net Interest Income

Net interest income is interest earned on loans, securities, and other interest-earning assets, plus net loan fees, origination costs and fair value marks on loans and/or time deposits created in purchase accounting, less the interest paid on interest-bearing deposits and borrowings. Net interest income, which is our largest source of revenue, accounted for 75%, 74% and 76% of total revenues (sum of net interest income and non-interest income) for the year end December 31, 2017, 2016 and 2015, respectively. Net interest income is affected by factors including, but not limited to, changes in interest rates, loan and deposit pricing strategies and competitive conditions, loan prepayment speeds, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of non-performing assets. Net interest margin is calculated as net interest income, on a fully-taxable equivalent basis, as a percentage of average interest-earning assets. Our net interest margin on a fully-taxable equivalent basis for the year ended December 31, 2017, 2016, and 2015 was 3.23%, 3.32%, and 3.19%.

2017 vs. 2016 Net Interest Income. For the year ended December 31, 2017, net interest income on a fully-taxable equivalent basis was \$117.4 million, compared to \$115.2 million for the year ended December 31, 2016, representing an increase of \$2.2 million, or 2%. For the year ended December 31, 2017, we recognized (i) accretion income on our

acquired loans and deposits and (ii) recoveries on previously charged-off acquired loans totaling \$3.2 million compared to \$6.2 million in 2016. Excluding these net interest income items:

• Net interest income on a fully-taxable equivalent basis for the year ended December 31, 2017 was \$114.2 million, representing an increase of \$5.2 million, or 5% over 2016.

• Net interest margin for the year ended December 31, 2017 decreased 1 basis point to 3.14% compared to 2016.

Interest income on a fully-taxable equivalent basis for the year ended December 31, 2017 was \$138.2 million, representing an increase over 2016 of \$6.5 million, or 5%. Our interest income growth in 2017 was primarily driven by an increase in average interest-earning assets of \$173.0 million, or 5%, over last year to \$3.6 billion. The factors impacting average interest-earnings assets for 2017 compared to 2016 included:

• Commercial real estate and commercial loan growth of \$116.4 million, or 12%, and \$44.0 million, or 15%, respectively.

• The retail loan portfolio (including residential real estate, consumer and home equity loans) increased less than 1%.

• HPFC loans continue to wind-down after our announcement in 2016 that HPFC is no longer originating loans, and, for 2017, average loan balances decreased \$18.2 million to \$52.0 million.

• Average investment securities balances increased \$29.0 million, or 3%, to \$928.6 million.

Our yield on interest-earning assets for the year ended December 31, 2017 and 2016 was 3.80%. Excluding (i) accretion income on our acquired loans and (ii) recoveries on previously charged-off acquired loans, our yield on interest-earning assets for the year ended December 31, 2017 was 3.72% compared to 3.65% for 2016. The increase in our yield on interest-earning assets reflects an improved loan yield of 7 basis points to 4.14% compared to 2016, when adjusted for the above interest income items. The higher loan yield was driven by repricing of our existing loan portfolio as benchmark interest rates increased in 2017.

Interest expense for the year ended December 31, 2017 was \$20.8 million, representing an increase of \$4.3 million, or 26%, compared to 2016. The increase was primarily driven by higher short-term borrowing rates as the Federal Open Market Committee raised the Federal Funds Rate 75 basis points throughout 2017, driving an increase in cost of funds of 10 basis points to 0.59% for 2017 compared to 2016. We continue to focus on low-cost deposits growth (including demand, interest checking, savings and money market) for which we saw solid momentum in the second half of 2017 with average low-cost deposits increasing \$91.5 million. Total average borrowings increased \$69.8 million in 2017.

2016 vs. 2015 Net Interest Income. Net interest income was \$115.2 million on a fully-taxable equivalent basis for 2016, compared to \$88.2 million for 2015, representing an increase of \$27.0 million, or 31%.

Interest income on a fully-taxable equivalent basis for 2016 was \$131.7 million, representing an increase over 2015 of \$30.8 million, or 31%. Our interest income growth for 2016 was primarily driven by an increase in average interest-earning assets of \$702.0 million, or 25%, over last year. We also benefited from a higher yield on interest-earning assets of 15 basis points in 2016 compared to last year.

Average interest-earning assets totaled \$3.5 billion for 2016, and our growth of 25% over last year was fueled by higher average loan balance of \$618.5 million, or 32%. The increase in average loan balances was due to the SBM acquisition in the fourth quarter of 2015, in which we acquired \$615.4 million of loan balances, as well 4% organic loan growth during 2016.

Our yield on interest-earning assets for 2016 was 3.80% compared to 3.65% last year. The increase reflects that benefits of the acquisition of SBM as our loan yield increased 8 basis points in 2016 over last year. As part of the acquisition of SBM, we acquired HPFC and it earned an average yield of 8.82% for 2016. However, effective February 19, 2016, we ceased HPFC's operations and loans are no longer being originated by HPFC and expect this loan portfolio to run off over the next several years. Also, due to the SBM acquisition, we benefited from higher loan and CD net fair value mark accretion of \$4.3 million compared to last year and one-time recoveries on previously charged-off acquired SBM loans of \$1.1 million for 2016. Our commercial real estate loan yield decreased 34 basis points in 2016 compared to 2015 due to the combination of (i) the competitive landscape across northern New England for strong credit commercial real estate loans, (ii) our strategy over the past two years to utilize back-to-back customer loan swaps on originated commercial real estate loans to protect us in a rising rate environment, and (iii) the low interest rate environment.

For 2016, our average deposits (excluding brokered deposits) totaled \$2.6 billion, representing an increase of \$656.4 million, or 35%, over last year. Our average core deposits (demand, interest checking, savings and money market) for 2016 were \$2.1 billion, representing an increase of \$525.4 million, or 34%, over last year. The increase in average deposits (excluding brokered deposits) was primarily due to the SBM acquisition in the fourth quarter of 2015, in which we acquired \$687.0 million of deposit balances. Our cost of funds of 0.49% for 2016 increased 2 basis points over last year, which was driven by higher deposit and overnight borrowings costs and \$15.0 million of subordinated debentures we issued in the fourth quarter of 2015 at a fixed interest rate of 5.50% per annum.

Our net interest margin on a fully-taxable equivalent basis for 2016 was 3.32%, representing an increase of 13 basis points over 2015. Our adjusted net interest margin for 2016, excluding fair value mark accretion generated in purchase accounting and one-time recoveries on previously charged-off acquired loans, was 3.15%, representing a decrease of 1 basis point compared to last year.

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:

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Average Balance, Interest and Yield/Rate Analysis
For The Year Ended
December 31,

	2017 Average Balance	Interest	Yield/Rate	2016 Average Balance	Interest	Yield/Rate	2015 Average Balance	Interest	Yield/Rate
ASSETS									
Interest-earning assets:									
Securities – taxable	\$826,749	\$18,777	2.27%	\$796,423	\$17,566	2.21%	\$739,168	\$15,715	2.13%
Securities – nontaxable ⁽⁴⁾	101,898	4,253	4.17%	103,086	4,363	4.23%	76,779	3,397	4.42%
Loans ⁽²⁾ :									
Residential real estate	838,781	34,517	4.12%	822,690	34,366	4.18%	636,516	26,505	4.16%
Commercial real estate ⁽³⁾	1,120,591	46,080	4.11%	1,004,169	41,228	4.11%	716,112	31,859	4.45%
Commercial ⁽¹⁾	336,685	14,180	4.21%	292,709	12,350	4.22%	254,514	9,726	3.82%
Municipal ⁽¹⁾	19,428	667	3.43%	19,238	572	2.97%	13,698	471	3.44%
Consumer	343,457	15,294	4.45%	358,098	15,111	4.22%	310,664	12,053	3.88%
HPFC	52,031	4,441	8.53%	70,188	6,191	8.82%	17,117	1,181	6.90%
Total loans	2,710,973	115,179	4.25%	2,567,092	109,818	4.28%	1,948,621	81,795	4.20%
Total interest-earning assets	3,639,620	138,209	3.80%	3,466,601	131,747	3.80%	2,764,568	100,907	3.65%
Cash and due from banks	85,289			87,319			55,256		
Other assets	287,765			305,440			200,857		
Less: ALL	(24,068)			(22,663)			(21,281)		
Total assets	\$3,988,606			\$3,836,697			\$2,999,400		
LIABILITIES & SHAREHOLDERS' EQUITY									
Deposits:									
Demand	\$430,706	\$—	— %	\$386,189	\$—	— %	\$292,776	\$—	— %
Interest checking	750,543	1,541	0.21%	724,222	921	0.13%	543,330	427	0.08%
Savings	492,483	310	0.06%	461,794	278	0.06%	306,536	180	0.06%
Money market	480,119	2,475	0.52%	490,155	2,053	0.42%	394,367	1,283	0.33%
Certificates of deposit	466,418	4,124	0.88%	489,040	3,793	0.78%	357,972	3,126	0.87%
Total deposits	2,620,269	8,450	0.32%	2,551,400	7,045	0.28%	1,894,981	5,016	0.26%
Borrowings:									
Brokered deposits	296,261	3,361	1.13%	231,610	1,588	0.69%	229,079	1,495	0.65%
Retail repurchase agreements	232,762	1,070	0.46%	198,403	555	0.28%	153,101	304	0.20%
Subordinated debentures	58,834	3,408	5.79%	58,718	3,415	5.82%	47,569	2,724	5.73%
Other borrowings	329,988	4,515	1.37%	359,281	3,951	1.10%	358,531	3,153	0.88%
Total borrowings	917,845	12,354	1.35%	848,012	9,509	1.12%	788,280	7,676	0.97%
Total funding liabilities	3,538,114	20,804	0.59%	3,399,412	16,554	0.49%	2,683,261	12,692	0.47%
Other liabilities	43,864			54,778			38,423		
Shareholders' equity	406,628			382,507			277,716		
Total liabilities and shareholders' equity	\$3,988,606			\$3,836,697			\$2,999,400		
		117,405			115,193			88,215	

Net interest income (fully-taxable equivalent)			
Less: fully-taxable equivalent adjustment	(2,105)	(2,121)	(1,763)
Net interest income	\$115,300	\$113,072	\$86,452
Net interest rate spread (fully-taxable equivalent)	3.21%	3.31%	3.18%
Net interest margin (fully-taxable equivalent)	3.23%	3.32%	3.19%
Net interest margin (fully-taxable equivalent), excluding fair value mark accretion and collection of previously charged-off acquired loans	3.14%	3.15%	3.16%

(1) Reported on a tax-equivalent basis calculated using a tax rate of 35%, including certain commercial loans.

(2) Non-accrual loans and loans held for sale are included in total average loans.

(3) Excludes the impact of the fair value mark accretion on loans and CDs generated in purchase accounting and collection of previously charged-off acquired loans for the year ended December 31, 2017, 2016 and 2015 totaling \$3.2 million, \$6.2 million and \$864,000, respectively.

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. The changes in volume (change in volume multiplied by prior year's rate), (b) changes in rates (change in rate multiplied prior year's volume), and (c) changes in rate/volume (change in rate multiplied by the change in volume), which is allocated to the change due to rate column.

	December 31, 2017 vs. 2016			December 31, 2016 vs. 2015		
	Increase (Decrease) Due to:			Increase (Decrease) Due to:		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:						
Securities – taxable	\$670	\$541	\$1,211	\$1,220	\$631	\$1,851
Securities – nontaxable	(50)	(60)	(110)	1,163	(197)	966
Residential real estate	673	(522)	151	7,745	116	7,861
Commercial real estate	4,785	67	4,852	12,819	(3,450)	9,369
Commercial	1,856	(26)	1,830	1,459	1,165	2,624
Municipal	6	89	95	191	(90)	101
Consumer	(618)	801	183	1,840	1,218	3,058
HPFC	(1,601)	(149)	(1,750)	3,662	1,348	5,010
Total interest income	5,721	741	6,462	30,099	741	30,840
Interest-bearing liabilities:						
Interest checking	34	586	620	145	349	494
Savings	18	14	32	93	5	98
Money market	(42)	464	422	316	454	770
Certificates of deposit	(176)	507	331	1,140	(473)	667
Brokered deposits	446	1,327	1,773	16	77	93
Customer repurchase agreements	96	419	515	91	160	251
Subordinated debentures	7	(14)	(7)	639	52	691
Other borrowings	(322)	886	564	7	791	798
Total interest expense	61	4,189	4,250	2,447	1,415	3,862
Net interest income (fully-taxable equivalent)	\$5,660	\$(3,448)	\$2,212	\$27,652	\$(674)	\$26,978

For the period indicated, we recognized within net interest income the following:

	Income Statement Location	For The Year Ended		
		December 31, 2017	2016	2015
Loan fees (cost)	Interest income	\$(209)	\$(394)	\$735
Net fair value mark accretion from purchase accounting	Interest income and Interest expense	2,837	5,082	812
Recoveries on previously charged-off acquired loans	Interest income	320	1,078	52
Total		\$2,948	\$5,766	\$1,599

Provision for Credit Losses

The provision for credit losses is made up of our provision for loan losses and the provision for unfunded commitments.

The provision for loan losses, which makes up the vast majority of the provision for credit losses, is a recorded expense determined by management that adjusts the ALL to a level that, 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 for loan losses reflects both the necessary increases in the ALL 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 loan losses for the year ended December 31, 2017 was \$3.0 million, or 0.11% of average loans, compared to \$5.3 million, or 0.21% of average loans, and \$1.9 million, or 0.10% of average loans, for the year ended December 31, 2016 and 2015, respectively.

The factors driving a decrease in the provision for loan losses of \$2.2 million for the year ended December 31, 2017 compared to 2016 were:

- A decrease in net charge-offs of \$1.3 million, highlighted by a net charge-offs to average loans ratio for 2017 of 0.07% compared to 0.13% for 2016.

• Overall asset quality improvement, highlighted by a decrease in non-performing loans of \$4.7 million to \$20.3 million, or 0.73% of total loans, compared to 0.97% of total loans at December 31, 2016.

The factors driving an increase in the provision for loan losses of \$3.3 million for the year ended December 31, 2016 compared to 2015 were:

Credit deterioration of two large loan relationships: (i) a syndication relationship we acquired as part of the acquisition of SBM that resulted in incremental provision expense in 2016 of \$1.4 million; and (ii) a large commercial real estate loan that was downgraded from passing to substandard in 2016 that resulted in incremental provision expense for 2016 of \$1.3 million. Our net charge-offs to average loans ratio for the year ended December 31, 2016 increased to 0.13% compared to 0.10% for 2015.

• Organic loan growth of \$104.4 million.

The provision for unfunded commitments represents management's estimate of the amount required to reflect the probable inherent losses on outstanding letters and unused lines of credit. The reserve for unfunded commitments is presented within accrued interest and other liabilities on the consolidated statement of condition.

Non-Interest Income

The following table presents the components of non-interest income for the year ended December 31, 2017, 2016, and 2015:

	For The Year Ended December 31,		Change from			Change from		
	2017	2016	2017 to 2016		2015	2016 to 2015		
			\$	%		\$	%	
Debit card income	\$8,079	\$7,578	\$501	7 %	\$5,277	\$2,301	44 %	
Service charges on deposit accounts	7,529	7,210	319	4 %	6,423	787	12 %	
Mortgage banking income, net	7,363	6,258	1,105	18 %	2,031	4,227	208 %	
Income from fiduciary services	5,108	4,960	148	3 %	4,918	42	1 %	
Bank-owned life insurance	2,370	2,594	(224)	(9) %	1,680	914	54 %	
Brokerage and insurance commissions	2,147	2,074	73	4 %	1,699	375	22 %	
Other service charges and fees	2,029	1,962	67	3 %	1,573	389	25 %	
Net gain on sale of securities	855	51	804	1,576 %	4	47	1,175 %	
Other income	3,119	6,934	(3,815)	(55) %	3,877	3,057	79 %	
Total non-interest income	\$38,599	\$39,621	\$(1,022)	(3) %	\$27,482	\$12,139	44 %	
Non-interest income as a percentage of total revenues ⁽¹⁾	25 %	26 %			24 %			

(1) Revenue is defined as net interest income plus non-interest income.

2017 vs. 2016 Non-Interest Income. The significant changes in non-interest income for the year ended December 31, 2017 compared to the same period of 2016 include:

An increase in mortgage banking income, net of \$1.1 million due to lower amortization costs on our servicing assets of \$754,000 and a recognized unrealized gain of \$384,000 on the change in valuation of our loans held for sale and forward commitments to investors on those loans, and fixed-rate mortgage interest rate lock commitments.

An increase in net gain on sale of securities of \$804,000 primarily due to the sale of several small lot investment positions with a total amortized cost of \$19.4 million.

A decrease in other income of \$3.8 million was driven by: (i) non-recurring transactions in 2016 that resulted in income of \$1.2 million from a legal settlement and liquidation of a mortgage insurance exchange; (ii) a decrease in loan sub-servicing income of \$1.7 million upon exiting of a significant sub-servicer relationship; and (iii) a decrease in fees from customer loans swap of \$530,000.

2016 vs. 2015 Non-Interest Income. The significant changes in non-interest income for the year ended December 31, 2016 compared to the same period of 2015 include:

An increase in mortgage banking income of \$4.2 million from the sale of \$232.0 million of residential mortgages in 2016 that generated net gains on sale of \$6.2 million compared to \$61.2 million of residential mortgage sales in 2015 that generated net gains on sale of \$1.3 million. The increase reflects our shift in our retail loan strategy and build-out of our mortgage banking team after the acquisition of SBM in the fourth quarter of 2015.

An increase in other income of \$3.1 million was driven by legal settlement proceeds of \$638,000 related to a previously charged-off acquired loan, higher income on customer loan swaps of \$590,000, one-time proceeds of \$577,000 upon liquidation of a mortgage insurance exchange, and an increase in third party loan servicing income of \$514,000.

An increase in debit card income of \$2.3 million, and an increase in service charges on deposit accounts of \$787,000 and other service charges and fees of \$389,000 was primarily due to the addition of new customer accounts in connection with the acquisition of SBM in the fourth quarter of 2015.

An increase in BOLI income due an additional investment of \$16.7 million made during 2016 and income from death benefits received of \$507,000.

Non-Interest Expenses

The following table presents the components of non-interest expense for the year ended December 31, 2017, 2016, and 2015:

	For The Year Ended December 31,		Change from			Change from		
	2017	2016	2017 to	2016	2015	2016 to	2015	
			\$	%	\$	%	%	
Salaries and employee benefits	\$49,965	\$48,072	\$1,893	4 %	\$37,220	\$10,852	29 %	
Furniture, equipment and data processing	9,894	9,557	337	4 %	8,057	1,500	19 %	
Net occupancy	6,884	7,088	(204)	(3) %	5,695	1,393	24 %	
Consulting and professional fees	3,118	3,234	(116)	(4) %	2,625	609	23 %	
Debit card expense	2,755	2,584	171	7 %	1,936	648	33 %	
Regulatory assessments	2,166	2,777	(611)	(22) %	2,184	593	27 %	
Amortization of intangible assets	1,810	1,903	(93)	(5) %	1,306	597	46 %	
OREO and collection costs	971	3,128	(2,157)	(69) %	2,491	637	26 %	
Merger and acquisition costs	—	866	(866)	(100) %	10,415	(9,549)	N.M.	
Other expenses	10,947	10,687	260	2 %	9,210	1,477	16 %	
Total non-interest expenses	\$88,510	\$89,896	\$(1,386)	(2) %	\$81,139	\$8,757	11 %	
Efficiency ratio (non-GAAP) ⁽¹⁾	57.05 %	57.53 %			61.13 %			

(1) Refer to "—Non-GAAP Financial Measures and Reconciliation to GAAP" for details of calculation.

2017 vs. 2016 Non-Interest Expense. The significant changes in non-interest expense for the year ended December 31, 2017 compared to the same period of 2016 include:

An increase in salary and employee benefits costs of \$1.9 million, or 4%, driven by normal merit increases, higher bonus and incentive costs of \$446,000 based on the Company's 2017 financial performance and a special cash bonus to all non-executive employees, and rising health insurance and related benefit premiums of \$757,000.

A decrease in OREO and collection costs of \$2.2 million driven by lower sub-servicer costs of \$1.9 million as a result of exiting a significant sub-servicer relationship, effective December 31, 2016.

A decrease in regulatory assessments fees of \$611,000 driven by the change in the FDIC fee structure that went into effect in the second half of 2016 that reduced our assessment rate.

A decrease in merger and acquisition costs of \$866,000.

2016 vs. 2015 Non-Interest Expense. The significant changes in non-interest expense for the year ended December 31, 2016 compared to the same period of 2015 was primarily due to the incremental costs associated with operating a larger organization upon completion of the acquisition of SBM in the fourth quarter of 2015, including, but not limited to, higher salary and employee costs due to an increase in headcount; higher costs associated with furniture, equipment and data processing as well as net occupancy costs due to the addition of over 20 new locations and facilities; higher regulatory fees due to an increase in average assets; and incremental intangible amortization as we capitalized \$6.6 million of core deposit intangible assets through purchase accounting. In addition, we make note of the following changes in non-interest expenses in 2016 compared to 2015:

A decrease in merger and acquisition costs associated with the acquisition of SBM of \$9.5 million as the acquisition occurred in the fourth quarter of 2015.

An increase in OREO and collections costs due to an increase in third party servicing costs and collection-related costs of \$1.1 million, partially offset by lower OREO-related costs of \$446,000 as our inventory of OREO properties decreased from nine at December 31, 2015 to six at December 31, 2016.

An increase in bonuses and incentives of \$931,000 due to the successful integration of SBM, and a strong financial performance for 2016.

Income Tax Expense

Income tax expense for the year ended December 31, 2017, 2016 and 2015 was \$33.9 million, \$17.5 million and \$9.9 million, respectively. Our effective income tax rate was 54.3%, 30.4% and 32.1% in each of the past three years, respectively.

On December 22, 2017, the Tax Act passed reducing the federal corporate tax rate from 35.0% to 21.0%, effective January 1, 2018. ASC Topic 740, Accounting for Income Taxes (“ASC 740”), requires companies to recognize the effect of tax law changes in the period of enactment even though the effective date for most provisions of the Tax Act was January 1, 2018. As of December 31, 2017, the Company has completed its accounting for the tax effects of the Tax Act, which resulted in a reduction to net deferred tax assets and a corresponding charge to income tax expense of \$14.3 million. At December 31, 2017 and 2016, the Company had net deferred tax assets of \$22.8 million and \$39.3 million, respectively, that are determined and reported utilizing a deferred tax rate of 21.5% and 35.0%, respectively.

Our 2017 effective income tax rate differs from our marginal tax rate of 35.7% (federal income tax rate and state income tax rate, net of federal tax benefit) primarily due to the Tax Act in 2017. Our effective income tax rates for 2017, 2016 and 2015 also differ from the marginal tax rate due to our non-taxable interest income from our municipal bonds and certain qualifying loans, non-taxable life insurance income, tax credits received, and, effective January 1, 2016, the benefit (or detriment) from windfall tax benefits (or shortfall) upon vesting of restricted stock awards and exercise of non-qualified stock options.

For 2018, we anticipate a lower effective tax rate due to the aforementioned decrease in the federal corporate income tax rate.

In connection with the SBM acquisition, we acquired certain net operating losses and tax credit carryforwards as of the acquisition date, including federal net operating losses of \$71.2 million and State of Maine net operating losses of \$213,000. We determined we would not be able to utilize \$6.8 million of the acquired federal net operating losses by the expiration date and wrote-off this amount within purchase accounting. Due to Internal Revenue Code Section 382(g) limitations, our use of the federal net operating losses acquired is limited to \$3.9 million annually (and \$803,000 for fiscal year 2015), which was determined using the applicable federal rate and the fair value of consideration paid for the acquisition at the acquisition date. The acquired federal net operating losses will expire between 2030 and 2034. We continuously monitor and assess the need for a valuation allowance on the acquired federal net operating losses and, at December 31, 2017, we determined that no valuation allowance was necessary.

Refer to Note 12, Income Taxes, within Item 8. Financial Statements and Supplementary Data for further discussion of income taxes.

Impact of Inflation and Changing Prices

The consolidated financial statements and the notes to the consolidated financial statements presented in Item 8. “Financial Statements and Supplementary Data,” have been prepared in accordance with GAAP, which require the measurement of the 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

Investment Securities

We purchase and hold investment securities to diversify our revenues, interest rate and credit risk, and provide for liquidity and funding needs. Our investment securities portfolio is primarily made up of MBS (pass through securities and CMOs), which accounted for 98% of our total investment securities portfolio at December 31, 2017 and 2016, followed by municipal bonds, subordinated corporate bonds, and a minority (less than 5%) equity position in certain bank stocks. Additionally, the Bank is a member of the FHLBB and FRBB and is required to hold a certain amount of FHLBB and FRBB common stock.

With the exception of our municipal bonds portfolio, we have historically designated our investment securities as AFS to provide us greater flexibility in managing our liquidity and funding needs in conjunction with our overall asset/liability management program. At December 31, 2017 and 2016, the fair value of investment securities designated as AFS was \$789.9 million and \$779.9 million, respectively, whereas the carrying value of our municipal bonds designated as HTM was \$94.1 million and \$94.6 million, respectively. AFS securities are carried at fair value on the consolidated statements of condition with the associated unrealized gains or losses recorded in AOCI, net of tax. HTM securities are carried at amortized cost.

Our investments in FHLBB and FRB common stock are carried at cost. We are required to maintain a level of investment in FHLBB stock based on our level of FHLBB advances, and maintain a level of investment in FRB common stock based on the Bank's capital levels. As of December 31, 2017 and 2016, our investment in FHLBB stock totaled \$18.3 million and \$17.8 million, respectively, and our investment in FRB stock was \$5.4 million.

At December 31, 2017 and 2016, our investment securities portfolio was 22% and 23% of our total assets, respectively.

The following table presents the activity within our investment securities portfolio for the period indicated:

	Debt			Equity			
	AFS	HTM	Total	AFS	Cost	Total	Total
Carrying value at January 1, 2017	\$779,126	\$94,609	\$873,735	\$741	\$23,203	\$23,944	\$897,679
Purchases	170,495	—	170,495	—	12,290	12,290	182,785
Sales, carrying value	(19,433)	—	(19,433)	(78)	(11,823)	(11,901)	(31,334)
Principal repayments, maturities and calls	(134,607)	—	(134,607)	—	—	—	(134,607)
Amortization, net	(2,586)	(536)	(3,122)	—	—	—	(3,122)
Change in unrealized gains (losses)	(3,902)	—	(3,902)	143	—	143	(3,759)
Carrying value at December 31, 2017	\$789,093	\$94,073	\$883,166	\$806	\$23,670	\$24,476	\$907,642

For the year ended December 31, 2017, 2016 and 2015, we recognized net gains on the sale of investment securities of \$855,000, \$51,000 and \$4,000 respectively.

The following table sets forth the carrying value of AFS securities and HTM securities along with the percentage distribution:

	December 31, 2017		2016		2015	
	Carrying Value	Percent of Reported Balance	Carrying Value	Percent of Reported Balance	Carrying Value	Percent of Reported Balance
AFS Securities:						
Obligations of U.S. government sponsored enterprises	\$—	— %	\$—	— %	\$5,040	1 %
Obligations of states and political subdivisions	7,335	1 %	9,001	1 %	17,694	2 %
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	503,302	64 %	480,622	62 %	419,046	56 %
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	272,799	34 %	283,890	36 %	306,857	41 %
Subordinated corporate bonds	5,657	1 %	5,613	1 %	996	— %
Total AFS debt securities	789,093	100 %	779,126	100 %	749,633	100 %
Equity securities	806	— %	741	— %	705	— %
Total AFS securities	789,899	100 %	779,867	100 %	750,338	100 %
HTM Securities:						
Obligations of states and political subdivisions	94,073	100 %	94,609	100 %	84,144	100 %
Total HTM securities	94,073	100 %	94,609	100 %	84,144	100 %
Total	\$883,972		\$874,476		\$834,482	

We continuously monitor and evaluate our investment securities portfolio to identify and assess risks within our portfolio, including, but not limited to, the impact of the current rate environment and the related prepayment risk, and review credit ratings. The overall mix of debt securities at December 31, 2017 compared to December 31, 2016 remains relatively unchanged and well positioned to provide a stable source of cash flow. The duration of our debt investment securities portfolio at December 31, 2017 was 3.71 years as compared to last year of 4.08 years. We continue to invest in debt securities with a short period until maturity or call option to limit prepayment risk.

MBS securities are directly impacted by the interest rate environment and the yield curve. A low interest rate environment directly affects the interest income earned on these investments by accelerating prepayments and, consequently, the acceleration of our premium amortization. Additionally, a low rate environment and a flatter yield curve will decrease the yield earned upon reinvestment of the prepayment proceeds back into other MBS securities, impacting our net interest income and margin. As of December 31, 2017, the amount of net premiums on our investment securities to be recognized in future periods totaled \$12.1 million, which equated to a weighted-average premium above par of approximately 1%. Subsequent changes to the interest rate environment will continue to impact our investment yield and earned net interest income.

The following table presents the book value (i.e. amortized cost) and fully-taxable equivalent weighted-average yields of debt securities by contractual maturity for the periods indicated. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in 1 year or less	Due in 1 – 5 years	Due in 5 – 10 years	Due in over 10 years	December 31,		
					2017 Book Value	2016 Book Value	2015 Book Value
Debt securities:							
Obligations of U.S. government sponsored enterprises	\$—	\$—	\$—	\$—	\$—	\$—	\$4,971
Obligations of states and political subdivisions	2,301	8,605	10,369	80,030	101,305	103,457	101,499
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	16	61,966	151,332	296,862	510,176	485,222	419,429
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	3,420	38,428	55,734	181,993	279,575	289,046	312,719
Private issue collateralized mortgage obligations	—	—	—	—	—	—	—
Subordinated corporate bonds	—	—	5,484	—	5,484	5,481	1,000
Total debt securities	\$5,737	\$108,999	\$222,919	\$558,885	\$896,540	\$883,206	\$839,618
Weighted-average yield on debt securities	3.16	% 2.22	% 2.24	% 2.43	% 2.36	% 2.33	% 2.36

We review our investment securities portfolio quarterly for impairment in accordance with our internal policy. Our assessment includes, but is not limited to, reviewing available financial data, assessing credit rating changes, if any, and consideration of our intent and ability to hold temporarily impaired investment securities until we expect them to recover. At December 31, 2017 and 2016, we held investment securities that were in an unrealized loss position totaling \$14.5 million and \$13.2 million, respectively, that we concluded were temporarily impaired and we have the intent and ability to hold these securities until they recover. The decline in the fair value of the debt securities was reflective of current interest rates in excess of the yield received on investments and was not indicative of an overall credit deterioration or other factors within our investment securities portfolio. Refer to Note 3, Securities, within Item 8. Financial Statements and Supplementary Data for further discussion.

Loans

We provide loans primarily to customers located within our geographic market area. Our primary market continues to be in Maine, making up 81% of our loan portfolio at December 31, 2017, followed by Massachusetts and New Hampshire, making up 7% and 5%, respectively. Our distribution channels include 60 branches within Maine, one residential mortgage lending office in Braintree, Massachusetts, one commercial lending office in Manchester, New Hampshire, and an on-line loan platform for residential mortgage loans. In the first quarter of 2018, we opened a loan office in Portsmouth, New Hampshire, that will provide commercial and residential mortgage lending.

Our total residential mortgage production in 2017 totaled \$414.7 million, an increase of 12% over 2016 residential real estate originations of \$370.0 million. We sold to the secondary market 53% and 65% of our production in 2017 and 2016, respectively.

The following table sets forth the composition of our loan portfolio at the dates indicated.

	December 31,									
	2017		2016		2015		2014		2013	
Residential real estate	\$858,369	31 %	\$802,494	31 %	\$820,617	33 %	\$585,468	33 %	\$569,819	36 %
Commercial real estate	1,164,023	42 %	1,050,780	41 %	927,951	37 %	640,661	36 %	541,099	34 %
Commercial	373,400	13 %	333,639	13 %	297,721	12 %	257,515	15 %	179,203	11 %
Consumer and home equity	341,527	12 %	347,239	13 %	366,587	15 %	288,966	16 %	290,281	19 %
HPFC	45,120	2 %	60,412	2 %	77,330	3 %	—	— %	—	— %
Total loans	\$2,782,439	100%	\$2,594,564	100%	\$2,490,206	100%	\$1,772,610	100%	\$1,580,402	100%
Loan portfolio mix:										
Retail	1,199,896	43 %	1,149,733	44 %	1,187,204	48 %	874,434	49 %	860,100	55 %
Commercial	1,582,543	57 %	1,444,831	56 %	1,303,002	52 %	898,176	51 %	720,302	45 %

On October 16, 2015, we completed our acquisition of SBM. The following table presents the composition of the acquired loan portfolio as of the acquisition date (at fair value) and the calculated organic loan growth in 2015:

	December 31,		Change		SBM Acquisition	Year Ended December 31, 2015		
	2015	2014	(\$)	(%)		Organic Growth		
Residential	\$820,617	\$585,468	\$235,149	40 %	\$234,619	\$530	—	%
Commercial real estate	927,951	640,661	287,290	45 %	193,883	93,407	15	%
Commercial	297,721	257,515	40,206	16 %	35,417	4,789	2	%
Home equity	348,634	271,709	76,925	28 %	71,005	5,920	2	%
Consumer	17,953	17,257	696	4 %	2,526	(1,830)	(11)	%
HPFC	77,330	—	77,330	N.M.	77,773	(443)	N.M.	
Total loans	\$2,490,206	\$1,772,610	\$717,596	40 %	\$615,223	\$102,373	6	%

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 30 years or less. At December 31, 2017, our residential real estate loans totaled \$858.4 million, representing an increase of \$55.9 million, or 7%, since December 31, 2016.

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. At December 31, 2017, our commercial real estate loans totaled \$1.2 billion, representing an increase of \$113.2 million, or 11%, over last year.

The most significant industry concentration within our commercial real estate loan portfolio at December 31, 2017 was the non-residential building operators industry (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings). At December 31, 2017, the non-residential building operators' industry concentration was 27% of our total commercial real estate portfolio and 11% of our total loan portfolio. There were no other industry concentrations within our loan portfolio at December 31, 2017 that exceeded 10% of total loans.

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. At December 31, 2017, our commercial loans totaled \$373.4 million, representing an increase of \$39.8 million, or 12%, over last year.

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. At December 31, 2017, our consumer and home equity loans totaled \$341.5 million, representing a decrease of \$5.7 million, or 2%, since December 31, 2016.

HPFC. HPFC is a wholly-owned subsidiary of the Bank that provided commercial lending to dentists, optometrists and veterinarians, many of which are start-up companies. HPFC's loan portfolio consists of term loan obligations extended for the purpose of financing working capital and/or purchase of equipment. Collateral may consist of pledges of business assets including, but not limited to, accounts receivable, inventory, and/or equipment. These loans are primarily paid by the operating cash flow of the borrower and the terms range from seven to ten years. At December 31, 2017, our HPFC commercial loan portfolio totaled \$45.1 million, representing a decrease of \$15.3 million, or 25%, since December 31, 2016. The HPFC loan portfolio will continue to decrease until all loans have matured as we ceased operations of HPFC, effective February 2016.

Asset Quality

The Bank's Board of Directors monitors credit risk through the Directors' Loan Review Committee, which reviews large credit exposures, monitors the external loan review reports, reviews the lending authority for individual loan officers when required, and has approval authority and responsibility for all matters regarding the loan policy and other credit-related policies, including reviewing and monitoring asset quality trends, concentration levels, and the ALL methodology. Credit Risk Administration and the Credit Risk Policy Committee oversee 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, determine the adequacy of the ALL, and support the oversight efforts of the Directors' Loan Review Committee and the Board of Directors. Our practice is to proactively manage the portfolio such that management can identify problem credits early, assess and implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, 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 OREO. The level of our non-performing assets over the past five years is shown in the table below.

	December 31,					
	2017	2016	2015	2014	2013	
Non-accrual loans:						
Residential real estate loans	\$4,979	\$3,945	\$7,253	\$6,056	\$10,520	
Commercial real estate	5,642	12,849	4,529	7,043	7,799	
Commercial loans	2,000	2,088	4,489	1,529	2,146	
Consumer and home equity loans	1,650	1,624	2,051	2,011	2,012	
HPFC	1,043	207	—	—	—	
Non-accrual loans	15,314	20,713	18,322	16,639	22,477	
Accruing loans past due 90 days	—	—	—	—	455	
Accruing TDRs (not included above)	5,012	4,338	4,861	4,539	5,468	
Total non-performing loans	20,326	25,051	23,183	21,178	28,400	
Other real estate owned	130	922	1,304	1,587	2,195	
Total non-performing assets	\$20,456	\$25,973	\$24,487	\$22,765	\$30,595	
Non-accrual loans to total loans	0.55	% 0.80	% 0.74	% 0.94	% 1.44	%
Non-performing loans to total loans	0.73	% 0.97	% 0.93	% 1.19	% 1.82	%
Allowance for loan losses to non-performing loans	118.92	% 92.28	% 91.30	% 99.71	% 76.02	%
Non-performing assets to total assets	0.50	% 0.67	% 0.66	% 0.82	% 1.18	%

Allowance for loan losses to non-performing assets 118.16 % 89.00 % 86.44 % 92.76 % 70.57 %

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. At this time, we may reclassify the loan to performing. For loans that qualify as TDRs, we will classify the interest collected as interest income once the aforementioned criteria for non-accrual loans is met and demonstrated. However, loans classified as TDRs remain classified as such for the life of the loan, except in limited circumstances, when it is determined that the borrower is performing under the modified terms and the loan is subsequently restructured and re-written in a new agreement at an (i) interest rate greater than or equal to an acceptable market rate for a comparable new loan at the time of the restructuring, and (ii) there has been no principal forgiveness.

At December 31, 2017, non-accrual loans were \$15.3 million, representing a decrease of \$5.4 million, or 26%, since December 31, 2016. The decrease was driven by the resolution of one significant loan within commercial real estate that had a recorded investment balance at December 31, 2016 of \$11.3 million. Otherwise, non-accrual loans within commercial real estate, residential real estate and HPFC all increased; however, we do not believe this is indicative of overall credit deterioration across these loan portfolios. At December 31, 2017, our asset quality remained strong with non-performing assets to total assets of 0.50% and non-performing loans to total loans of 0.73%, compared to 0.67% and 0.97% at December 31, 2016, respectively.

The following table highlights the interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms ("foregone interest income") and the interest income recognized on non-performing loans and performing TDRs for the periods indicated.

	For The Year Ended December 31,		
	2017	2016	2015
Foregone interest income	\$843	\$888	\$586
Interest income recognized on non-performing loans and performing TDRs	215	182	204

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, 2017 potential problem loans amounted to \$838,000, or 0.03% of total loans.

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

	December 31,	
	2017	2016
Loans 30 – 89 days past due:		
Residential real estate loans	\$5,277	\$2,470
Commercial real estate loans	1,135	971
Commercial loans	518	851
Consumer and home equity loans	1,197	1,018
HPFC	887	1,029
Total loans 30 – 89 days past due	\$9,014	\$6,339

Loans 30 – 89 days past due to total loans 0.32 % 0.24 %

ALL. 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.

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As part of normal course, we continuously monitor, and, at least annually, update our factors used to determine the general allowance for each loan portfolio segment. To derive our general allowance loss factors we utilize: (i) our historical loss data for each respective loan portfolio segment; (ii) identify other inherent risks within each portfolio segment, including, but not limited to, concentration risks, loans approved by the Company's Board of Directors that are an exception to our internal loan policy, and construction loans; and (iii) consider certain qualitative factors that may influence a borrower's ability to repay their loan.

Effective January 1, 2017, our internal policy for assessing individual loans for impairment was changed to increase the principal balance threshold for a loan from \$250,000 to \$500,000. The qualitative factors for assessing a loan individually for impairment in accordance with the Company's internal policy were unchanged, and continue to require the loan to be classified as substandard or doubtful and on non-accrual status. There were no other significant changes in the Company's ALL methodology during the year ended December 31, 2017. Loans are deemed impaired if it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Loans that are individually-evaluated for impairment in accordance with our policy are excluded from allocation of any general loss factor.

In conjunction with the annual review of our ALL policy in the fourth quarter of 2017, we revised our methodology for calculating the ALL on construction and development loans before reaching permanent financing. This change in ALL methodology did not have a material impact on the Company's reported ALL as of December 31, 2017.

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:

	At or For the Year Ended					
	December 31,					
	2017	2016	2015	2014	2013	
ALL at the beginning of period	\$23,116	\$21,166	\$21,116	\$21,590	\$23,044	
Provision for loan losses	3,026	5,269	1,938	2,224	2,052	
Charge-offs:						
Residential real estate	482	356	801	785	1,059	
Commercial real estate	124	315	481	361	952	
Commercial	1,014	2,218	655	1,544	1,426	
Consumer and home equity	558	409	679	754	837	
HPFC	290	507	—	—	—	
Total loan charge-offs	2,468	3,805	2,616	3,444	4,274	
Recoveries:						
Residential real estate	30	95	55	165	35	
Commercial real estate	141	50	74	135	121	
Commercial	301	332	389	395	495	
Consumer and home equity	19	9	210	51	117	
HPFC	6	—	—	—	—	
Total loan recoveries	497	486	728	746	768	
Net charge-offs	1,971	3,319	1,888	2,698	3,506	
ALL at the end of the period	\$24,171	\$23,116	\$21,166	\$21,116	\$21,590	
Components of allowance for credit losses:						
ALL	\$24,171	\$23,116	\$21,166	\$21,116	\$21,590	
Liability for unfunded credit commitments	20	11	22	17	21	
Balance of allowance for credit losses at end of the period	\$24,191	\$23,127	\$21,188	\$21,133	\$21,611	
Net charge-offs to average loans outstanding	0.07	% 0.13	% 0.10	% 0.16	% 0.22	%
Provision for loan losses to average loans outstanding	0.11	% 0.21	% 0.10	% 0.13	% 0.13	%
ALL to total loans	0.87	% 0.89	% 0.85	% 1.19	% 1.38	%
ALL to net charge-offs	1,226.33%	696.47	% 1,121.08%	782.65	% 615.80	%

For further discussion of the ALL, please refer to “—Critical Accounting Policies”, as well as Note 1, Business and Summary of Significant Accounting Policies, and Note 4, Loans and Allowance for Loan Losses, within Item 8. Financial Statements and Supplementary Data.

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

	December 31, 2017			2016			2015			2014			2013		
	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	%
Residential real estate loans	\$5,086	31	%	\$4,160	31	%	\$4,545	33	%	\$4,899	33	%	\$5,603	36	%
Commercial real estate loans	11,863	42	%	12,154	41	%	10,432	37	%	7,951	36	%	4,374	34	%
Commercial loans	4,171	13	%	3,755	13	%	3,241	12	%	3,354	15	%	6,220	11	%
Consumer and home equity loans	2,600	12	%	2,375	13	%	2,924	15	%	2,528	16	%	2,722	19	%
HPFC	451	2	%	672	2	%	24	3	%	—	—	%	—	—	%
Unallocated	—	—	%	—	—	%	—	—	%	2,384	—	%	2,671	—	%
	\$24,171	100	%	\$23,116	100	%	\$21,166	100	%	\$21,116	100	%	\$21,590	100	%

Refer to Note 4, Loans and Allowance for Loan Losses, within Item 8. Financial Statements and Supplementary Data of for discussion of the risk characteristics for each portfolio segment considered when evaluating the ALL.

Investment in BOLI

Our BOLI asset totaled \$87.5 million and \$78.1 million at December 31, 2017 and 2016, respectively. The increase year-over-year reflects additional purchases in 2017 of \$7.0 million. BOLI provides a means to mitigate increasing employee benefit costs. We expect to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is invested in the “general account” of quality insurance companies or in separate account products. Each insurance carrier had an A.M. Best rating of "A-" or better at December 31, 2017. BOLI is included in the consolidated statements of condition at its cash surrender value. Increases in BOLI’s cash surrender value are reported as a component of non-interest income in the consolidated statements of income.

Deposits

The Company, through the Bank, receives checking, savings and time deposits primarily from customers located within its geographic market area. Other forms of deposits include brokered deposits and deposits with the Certificate of Deposit Account Registry System. Total deposits at December 31, 2017 were \$3.0 billion, which included brokered deposits of \$205.8 million. Total deposits at December 31, 2017 increased \$172.0 million, or 6%, over December 31, 2016.

The following table presents certain deposit information for the periods indicated.

	For the Year Ended					
	December 31, 2017		2016		2015	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Deposits:						
Demand	\$430,706	— %	\$386,189	— %	\$292,776	— %
Interest checking	750,543	0.21 %	724,222	0.13 %	543,330	0.08 %
Savings	492,483	0.06 %	461,794	0.06 %	306,536	0.06 %
Money market	480,119	0.52 %	490,155	0.42 %	394,367	0.33 %
Total core deposits	2,153,851	0.20 %	2,062,360	0.16 %	1,537,009	0.12 %
Certificates of deposit	466,418	0.88 %	489,040	0.78 %	357,972	0.87 %
Total deposits	2,620,269	0.32 %	2,551,400	0.28 %	1,894,981	0.26 %
Brokered deposits	296,261	1.13 %	231,610	0.69 %	229,079	0.65 %
Total deposits, including brokered deposits	\$2,916,530	0.40 %	\$2,783,010	0.31 %	\$2,124,060	0.31 %

Borrowings and Advances

We utilize a variety of funding sources to manage our borrowings, including, but not limited to, FHLBB and correspondent bank overnight borrowings, FHLBB advances due in less than 90 days and more than 90 days, customer and wholesale repurchase agreements, and subordinated debentures. We pro-actively monitor our borrowings through Management and Board ALCO as part of prudent balance sheet, earnings, and liquidity management. We manage and designate our borrowings internally, and manage to such, through use of short-term borrowings and long-term borrowings. Short-term borrowings include, but are not limited to, FHLBB and correspondent bank overnight borrowings, FHLBB advances due in less than 90 days, and customer repurchase agreements. Long-term borrowings include, but are not limited to, FHLBB advances greater than 90 days, wholesale repurchase agreements, and subordinated debentures.

At December 31, 2017, our total borrowings were \$611.5 million, representing an increase since December 31, 2016 of \$11.8 million. Our borrowing strategy has been primarily to remain short given our current interest rate risk position. We continue to assess the need to extend funding advances based on the likelihood and timing of interest rates rising as part of Management and Board ALCO.

We issued \$15.0 million of subordinated debt on October 8, 2015, which qualifies as Tier II regulatory capital. The interest rate on the subordinated debt was 5.50% per annum, fixed for the ten-year term and payable semi-annually on April 15 and October 15 each year. We may redeem the subordinated debt at par starting on October 15, 2020 plus accrued and unpaid interest, or earlier if (i) they no longer qualify as Tier II capital for regulatory capital purposes; (ii) a change in law that prevents us from deducting interest payable for U.S. federal income tax purposes, or (iii) we are required to register as an investment company pursuant to the Investment Company Act of 1940. The subordinated debt is schedule to mature on October 15, 2025.

The following table below provides certain information on our short-term borrowings (as described for managing borrowings) at and for the period ended:

	December 31,				
	2017	2016	2015		
FHLBB and correspondent bank overnight borrowings:					
Balance outstanding at end of year	\$47,150	\$89,450	\$12,800		
Average daily balance outstanding	73,487	36,492	18,229		
Maximum balance outstanding at any month end	135,550	157,197	70,000		
Weighted average interest rate for the year	1.19	% 0.57	% 0.35	%	
Weighted average interest rate at end of year	1.59	% 0.80	% 0.51	%	
FHLBB advances less than 90 days:					
Balance outstanding at end of year	\$250,000	\$190,000	\$230,000		
Average daily balance outstanding	233,305	258,713	253,679		
Maximum balance outstanding at any month end	330,000	370,000	285,000		
Weighted average interest rate for the year	1.23	% 0.71	% 0.25	%	
Weighted average interest rate at end of year	1.53	% 0.76	% 0.46	%	
Customer repurchase agreements:					
Balance outstanding at end of year	\$244,646	\$225,605	\$184,989		
Average daily balance outstanding	232,762	198,403	153,101		
Maximum balance outstanding at any month end	265,627	239,862	194,625		
Weighted average interest rate for the year	0.46	% 0.28	% 0.20	%	
Weighted average interest rate at end of year	0.56	% 0.31	% 0.24	%	

FHLBB short-term and long-term borrowings are collateralized by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one- to four-family properties, certain commercial real estate loans, certain pledged investment securities and other qualified assets. The carrying value of residential real estate and commercial loans pledged as collateral was \$1.1 billion at December 31, 2017 and 2016. The carrying value of securities pledged as collateral at the FHLBB was \$215,000 and \$400,000 at December 31, 2017 and 2016, respectively.

Shareholders' Equity

Total shareholders' equity at December 31, 2017 was \$403.4 million, which was an increase of \$11.9 million, or 3%, since December 31, 2016. The increase in our shareholders' equity was driven by normal operating activity, including, but not limited to, net income of \$28.5 million for the year ended December 31, 2017, partially offset by dividends declared to our shareholders of \$14.6 million.

The Company's Board of Directors declared cash dividends for the year ended December 31, 2017 of \$0.94 per share, compared to \$0.83 per share for 2016 and \$0.80 per share for 2015. The increase in cash dividends paid to its shareholders highlights the strong capital position of the Company. At December 31, 2017 and 2016, the Company and the Bank exceeded all regulatory capital guidelines, and, specifically, the Bank was "well capitalized" under prompt correct action provisions for each period. There were no conditions or events that occurred subsequent to December 31, 2017 that would change the Company or Bank's regulatory capital categorization.

Refer to "—Capital Resources" and Note 13, Shareholders' Equity, within Item 8. Financial Statements and Supplementary Data of for further discussion of the Company's capital position.

The following table presents certain information regarding shareholders' equity for the year ended:

	December 31,			
	2017	2016	2015	
Return on average assets	0.71	% 1.04	% 0.70	%
Adjusted return on average assets ⁽¹⁾	1.07	% 1.06	% 0.94	%
Return on average equity	7.00	% 10.47	% 7.54	%
Adjusted return on average equity ⁽¹⁾	10.51	% 10.62	% 10.15	%
Adjusted return on average tangible equity ⁽¹⁾	14.35	% 14.96	% 13.21	%
Average equity to average assets	10.19	% 9.97	% 9.26	%
Dividend payout ratio	51.43	% 32.22	% 50.60	%
Book value per share	\$25.99	\$25.30	\$23.69	
Tangible book value per share ⁽¹⁾	\$19.57	\$18.74	\$16.89	
Dividends declared per share	\$0.94	\$0.83	\$0.80	

(1) The following was not calculated in accordance with GAAP. Refer to the "— Non-GAAP Financial Measures and Reconciliation to GAAP" within Item 7.

Liquidity

Our liquidity needs require the availability of cash to meet the withdrawal demands of depositors and credit commitments to borrowers. Liquidity is defined as our ability to maintain availability of funds to meet customer needs, as well as to support our asset base. The primary objective of liquidity management is to maintain a balance between sources and uses of funds to meet our cash flow needs in the most economical and expedient manner. Due to the potential for unexpected fluctuations in both deposits and loans, active management of liquidity is necessary. We maintain various sources of funding and levels of liquid assets in excess of regulatory guidelines in order to satisfy their varied liquidity demands. We monitor liquidity in accordance with internal guidelines and all applicable regulatory requirements. At December 31, 2017 and 2016, our level of liquidity exceeded target levels. We believe that we currently have appropriate liquidity available to respond to liquidity demands. Sources of funds that we utilize consist of deposits, borrowings from the FHLBB and other sources, cash flows from operations, prepayments and maturities of outstanding loans, investments and mortgage-backed securities and the sale of mortgage loans.

Deposits continue to represent our primary source of funds. For the year ended December 31, 2017, average deposits (excluding brokered deposits) of \$2.6 billion increased \$68.9 million, or 3%, compared to the same period of 2016. The increase in average deposit balances (excluding brokered deposits) reflects organic deposit growth during 2017. Included within our money market deposits at December 31, 2017 and 2016 were \$57.1 million and \$72.1 million, respectively, of deposits from Camden National Wealth Management, the Bank's wealth management department, which represent client funds. These deposits fluctuate with changes in the portfolios of the clients of Camden National Wealth Management.

Borrowings are used to supplement deposits as a source of liquidity. In addition to borrowings and advances from the FHLBB, we utilize brokered deposits, purchase federal funds, and sell securities under agreements to repurchase. For the year ended December 31, 2017 and 2016, average total borrowings (including brokered deposits) were \$917.8 million and \$848.0 million, respectively. The increase in average borrowings was driven by an increase in loan activity. We secure borrowings from the FHLBB, whose advances remain the largest non-deposit-related funding source, with qualified residential real estate loans, certain investment securities and certain other assets available to be pledged. Through the Bank, we have available lines of credit with the FHLBB of \$9.9 million, with PNC Bank of \$50.0 million, and with the FRB Discount Window of \$99.8 million at December 31, 2017. There were no outstanding balances on these lines of credit at December 31, 2017. The Company also has a \$10.0 million line of credit with a maturity date of December 20, 2018. There was no outstanding balance on this line of credit at December 31, 2017. From time to time, we will enter into wholesale repurchase agreements with major brokerage firms as another source of funding. At December 31, 2016, we had \$5.0 million of wholesale repurchase agreements that matured during

2017. We had no outstanding wholesale repurchase agreements at December 31, 2017.

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We believe the investment portfolio and residential loan portfolio provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales of those portfolios. We also believe that we have additional untapped access to the brokered deposit market, wholesale reverse repurchase transaction market and the FRB discount window. These sources are considered as liquidity alternatives in our contingent liquidity plan. We believe that the level of liquidity is sufficient to meet current and future funding requirements; however, changes in economic conditions, including consumer saving habits and the availability or access to the national brokered deposit and wholesale repurchase markets, could significantly impact our liquidity position.

The maturity dates of CDs, including brokered CDs, in denominations of \$100,000 or more as of December 31, 2017 are set forth in the following table. We did not hold any other time deposits in denominations of \$100,000 or more at December 31, 2017. These deposits are generally considered to be more interest rate sensitive than other deposits and, therefore, more likely to be withdrawn to obtain higher yields elsewhere if available.

Time remaining until maturity:	December 31, 2017
Less than 3 months	\$ 21,924
3 months through 6 months	35,812
6 months through 12 months	65,671
Over 12 months	126,311
Total	\$ 249,718

Loan demand also affects our liquidity position. As of December 31, 2017, 58% of our total loan portfolio consisted of variable rate loans. The following table presents the maturities of loans at December 31, 2017:

	< 1 Year	1 - 5 Years	More than 5 Years	Total
Maturity Distribution:				
Fixed Rate:				
Residential real estate	\$482	\$5,224	\$512,166	\$517,872
Commercial real estate	7,857	106,939	106,786	221,582
Commercial	6,038	59,400	87,710	153,148
Consumer and home equity	1,831	13,222	265,045	280,098
Total fixed rate	16,208	184,785	971,707	1,172,700
Variable Rate:				
Residential real estate	2,403	1,517	336,577	340,497
Commercial real estate	13,383	77,294	851,764	942,441
Commercial	60,135	105,408	99,827	265,370
Consumer and home equity	26	10,784	50,618	61,428
Total variable rate	75,947	195,003	1,338,786	1,609,736
Total loans	\$92,155	\$379,788	\$2,310,493	\$2,782,436

Capital Resources

As part of our goal to operate a safe, sound and profitable financial organization, we are committed to maintaining a strong capital base. Shareholders' equity totaled \$403.4 million and \$391.5 million at December 31, 2017 and December 31, 2016, respectively, which amounted to 10% of total assets as of the respective dates. Refer to "— Financial Condition — Liabilities and Shareholders' Equity" for discussion regarding changes in shareholders' equity since December 31, 2016.

Our principal cash requirement is the payment of dividends on our common stock, as and when declared by the Company's Board of Directors. We paid dividends to shareholders in the aggregate amount of \$14.6 million, \$12.9 million and \$10.6 million for the year ended December 31, 2017, 2016 and 2015, respectively. The Company's Board of Directors approves cash dividends on a quarterly basis after careful analysis and consideration of various factors, including the following: (i) capital position relative to total assets, (ii) risk-based assets, (iii) total classified assets, (iv) economic conditions, (v) growth rates for total assets and total liabilities, (vi) earnings performance and projections and (vii) strategic initiatives and related capital requirements. All dividends declared and distributed by the Company will be in compliance with applicable state corporate law and regulatory requirements.

We are primarily dependent upon the payment of cash dividends by the Bank, our wholly-owned subsidiary, to service our commitments. We, as the sole shareholder of the Bank, are entitled to dividends, when and as declared by the Bank's Board of Directors from legally available funds. For the year ended December 31, 2017, 2016, and 2015, the Bank declared dividends payable to the Company in the amount of \$16.8 million, \$16.0 million, and \$39.2 million which included a \$30.0 million special dividend that was paid in connection with the acquisition of SBM, respectively. 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 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.

Please refer to Note 13, Shareholders' Equity, within Item 8. Financial Statements and Supplementary Data for discussion and details of the Company and Bank's capital regulatory requirements. At December 31, 2017 and 2016, the Company and Bank met all regulatory capital requirements and the Bank continues to be classified as "well capitalized" under the prompt correction action provisions.

Contractual Obligations and Off-Balance Sheet Commitments

Off-Balance Sheet Financial Instruments

Credit Commitments. In the normal course of business, we are a party to credit related financial instruments with off-balance sheet risk, which are not reflected in the consolidated statements of condition. These financial instruments include lending commitments and letters of credit. Those instruments involve varying degrees of credit risk in excess of the amount recognized in the consolidated statements of condition. We follow the same credit policies in making commitments to extend credit and conditional obligations as we do for on-balance sheet instruments, including requiring similar collateral or other security to support financial instruments with credit risk. Our exposure to credit loss in the event of nonperformance by the customer is represented by the contractual amount of those instruments. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

Derivatives. We use derivative financial instruments for risk management purposes (primarily interest rate risk) and not for trading or speculative purposes. We control the credit risk of these instruments through collateral, credit approvals and monitoring procedures. Additionally, as part of our normal mortgage origination process, we provide the borrower with the option to lock their interest rate based on current market prices. During the period from

commitment date to the loan closing date, we are subject to the risk of interest rate change. In an effort to mitigate such risk, we may enter into forward delivery sales commitments, typically on a best-efforts basis, with certain approved investors. We account for its interest rate lock commitments on loans within the normal origination process for which we intend to sell as a derivative instrument. Furthermore, we record a derivative for our best-effort forward delivery commitments upon origination of a loan identified as held for sale. Should we enter into a forward delivery commitment on a mandatory delivery arrangement with an investor it accounts for the forward delivery commitment upon execution of the contract.

Hedge Instruments. From time to time, we may enter into derivative instruments as partial hedges against large fluctuations in interest rates. We may also enter into fixed-rate interest rate swaps and floor instruments to partially hedge against potentially lower yields on the variable prime rate loan category in a declining rate environment. If interest rates were to decline, resulting in reduced income on the adjustable rate loans, there would be an increased income flow from the interest

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rate swap and floor instrument. We may also enter into variable rate interest rate swaps and cap instruments to partially hedge against increases in short-term borrowing rates. If interest rates were to rise, resulting in an increased interest cost, there would be an increased income flow from the interest rate swaps and cap instruments. These financial instruments are factored into our overall interest rate risk position. We regularly review the credit quality of the counterparty from which the instruments have been purchased.

Refer to Note 18, Commitments, Contingencies and Derivatives, within Item 8. Financial Statements and Supplementary Data for further discussion of our derivatives and hedge instruments.

At December 31, 2017, we had the following levels of off-balance sheet financial instruments:

Off-Balance Sheet Financial Instruments	Total Amount Committed	Commitment Expires in:			
		< 1 Year	1 – 3 Years	4 – 5 Years	> 5 Years
Home equity line of credit commitments	\$477,401	\$176,021	\$66,946	\$6,228	\$228,206
Commercial commitment letters	49,482	49,482	—	—	—
Residential loan origination	41,368	41,368	—	—	—
Letters of credit	2,848	2,848	—	—	—
Other commitments to extend credit	523	523	—	—	—
Customer loan swaps - notional value	703,336	—	18,793	153,808	530,735
FHLBB advance interest rate swaps - notional value	50,000	25,000	25,000	—	—
Junior subordinated debt interest rate swaps - notional value	43,000	—	—	10,000	33,000
Fixed-rate mortgage interest rate lock commitments -notional value	21,746	21,746	—	—	—
Forward delivery commitments - notional value	8,065	8,065	—	—	—
Total	\$1,397,769	\$325,053	\$110,739	\$170,036	\$791,941

Contractual Obligations and Commitments

We are a party to several contractual obligations through lease agreements on a number of branches. Our operating leases represent off-balance sheet arrangements, while our one capital lease is reflected on our consolidated statements of condition. Refer to Note 7, Premises and Equipment, within Item 8. Financial Statements and Supplementary Data for additional details.

We enter into agreements routinely as part of our normal business to manage deposits and borrowings.

At December 31, 2017, we had an obligation and commitment to make future payments under each of these contracts as follows:

Contractual obligations and commitments	Total Amount Committed	Payments Due Per Period			
		< 1 Year	1 – 3 Years	4 – 5 Years	> 5 Years
Operating leases	\$ 6,397	\$1,429	\$2,282	\$1,155	\$1,531
Capital leases	1,064	126	252	261	425
FHLBB borrowings – overnight	47,150	47,150	—	—	—
FHLBB advances less than 90 days	250,000	250,000	—	—	—
FHLBB advances – other	10,000	—	10,000	—	—
Retail repurchase agreements	244,646	244,646	—	—	—
Junior subordinated debentures	44,331	—	—	—	44,331
Subordinated debentures	14,580	—	—	—	14,580
Other contractual obligations	1,230	1,230	—	—	—

Total	\$ 619,398	\$ 544,581	\$ 12,534	\$ 1,416	\$ 60,867
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Borrowings from the FHLBB consist of short- and long-term fixed and variable rate borrowings that are collateralized by all stock in the FHLBB and a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one-to four-family properties, certain pledged investment securities and other qualified assets.

We have an obligation and commitment to repay all short- and long-term borrowings. These commitments and borrowings and the related payments are made during the normal course of business.

Loan Servicing

At December 31, 2017 and 2016, as sub-servicer, we serviced loans for other third party investors totaling \$349.7 million and \$938.8 million, respectively. At December 31, 2017 and 2016, custodial escrow balances maintained in connection with the loans serviced totaled \$4.2 million and \$11.9 million, respectively. Effective close of business on December 31, 2016, we exited a significant sub-servicer relationship driving the decrease in total sub-serviced loans and escrow balances.

The servicing agreements with our third party investors, generally, provide broad rights for them. For example, each investor typically claims the right to demand that we repurchase loans that breach the seller's representations and warranties made in connection with the initial sale of the loans. In addition, as the servicer of the loans, the servicer guides impose certain time-lines for resolving delinquent loans through workout efforts or liquidation and impose compensatory fees on us if those deadlines are not satisfied other than for reasons beyond our control. The investors also have a contractual right to demand indemnification or loan repurchase for certain servicing breaches. For example, we would be required to indemnify them for or against failures by us to perform our servicing obligations or acts or omissions that involve willful malfeasance, bad faith or gross negligence in the performance of, or reckless disregard of, our duties. We record expenses for servicing-related claims and loan repurchases when it is probable that such claims or repurchases will be made and the amounts are reasonably estimable.

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk. The ongoing monitoring and management of this risk is an important component of our asset and liability management process, which is governed by policies established by the Bank's Board of Directors that are reviewed and approved annually. The Board ALCO delegates responsibility for carrying out the asset/liability management policies to Management ALCO. In this capacity, Management ALCO develops guidelines and strategies impacting our asset/liability management-related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels/trends. Management ALCO and Board ALCO jointly meet on a quarterly basis to review strategies, policies, economic conditions and various activities as part of the management of these risks.

Interest Rate Risk

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and expense streams associated with our financial instruments also change, thereby impacting net interest income, the primary component of our earnings. Board ALCO and Management ALCO utilize the results of a detailed and dynamic simulation model to quantify the estimated exposure of net interest income to sustained interest rate changes. While Board ALCO and Management ALCO routinely monitor simulated net interest income sensitivity over a rolling two-year horizon, they also utilize additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on our consolidated statements of

condition, as well as for derivative financial instruments. This sensitivity analysis is compared to ALCO policy limits, which specify a maximum tolerance level for net interest income exposure over a one- and two-year horizon, assuming no balance sheet growth, given a 200 basis point upward and downward shift in interest rates. Although our policy specifies a downward shift of 200 basis points, this would result in negative rates as many deposit and funding rates are now below 2.00%. Our current downward shift is 100 basis points. A parallel and pro rata shift in rates over a 12-month period is assumed. Using this approach, we are able to produce simulation results that illustrate the effect that both a gradual change of rates and a “rate shock” have on earnings expectations. In the down 100 basis points scenario, Federal Funds and Treasury yields are floored at 0.01% while Prime is floored at 3.00%. All other market rates are floored at 0.25%.

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For the year ended December 31, 2017 and 2016, our net interest income sensitivity analysis reflected the following changes to net interest income assuming no balance sheet growth and a parallel shift in interest rates. All rate changes were “ramped” over the first 12-month period and then maintained at those levels over the remainder of the ALCO simulation horizon.

	Estimated Changes in Net Interest Income	
Rate Change from Year 1 – Base	2017	2016
Year 1		
+200 basis points	(0.22)%	(0.93)%
-100 basis points	(3.06)%	(1.45)%
Year 2		
+200 basis points	6.86 %	3.63 %
-100 basis points	(8.08)%	(7.73)%

The preceding sensitivity analysis does not represent a forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits and reinvestment/replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

If rates remain at or near current levels, net interest income is projected to trend slightly upward as assets continue to settle into marginally higher rates while funding costs remain relatively stable. Beyond the first year, net interest income increases slightly. If rates decrease 100 basis points, net interest income is projected to decrease as loans reprice into lower yields and funding costs have limited capacity to reduce the cost of funds in the first year. In the second year, net interest income is projected to continue to decrease as loans and investment cash flow reprice into lower yields as prepayments increase while reduction in the cost of funds becomes limited. If rates increase 200 basis points, net interest income is projected to decrease slightly in the first year due to the repricing of short-term funding. In the second year, net interest income is projected to increase as loan and investment yields continue to reprice/reset into higher yields and the cost of funds lags.

Periodically, if deemed appropriate, we use interest rate swaps, floors and caps, which are common derivative financial instruments, to hedge our interest rate risk position. The Board of Directors has approved hedging policy statements governing the use of these instruments. As of December 31, 2017, we had interest rate swap agreements with a total notional of \$43.0 million related to the junior subordinated debentures, \$50.0 million of notional on FHLBB interest swap agreements related to our short-term funding and \$226.9 million of notional interest rate swap agreements related to our commercial loan level derivative program with both our commercial customers and a corresponding swap dealer. The Board and Management ALCO monitor derivative activities relative to their expectations and our hedging policies.

Other Market Risk(s)

We are also subject to other market risks, including but not limited to, operational risks, actions of government agencies, solvency of counter-parties, changes in investment markets, and changes in consumer demand. For further descriptions of these additional market risks, refer to Item 1A. Risk Factors.

Recent Accounting Pronouncements

See Note 1, Business and Summary of Significant Accounting Policies, within Item 8. Financial Statements and Supplemental Data for details of recently issued accounting pronouncements and their expected impact on our financial statements.

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Related Party Transactions

The Bank is permitted, in its normal course of business, to make loans to certain officers and directors of the Company and its subsidiaries under terms that are consistent with the Bank's lending policies and regulatory requirements. In addition to extending loans to certain officers and directors of the Company and its subsidiaries on terms consistent with the Bank's lending policies, federal banking regulations also require training, audit and examination of the adherence to this policy by representatives of the federal and national regulators (also known as "Regulation O" requirements). Note 4, Loans and Allowance for Loan Losses, and Note 9, Deposits, within Item 8. Financial Statements and Supplemental Data provide related party lending and deposit information, respectively. We have not entered into significant non-lending related party transactions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information contained in the Market Risk section of Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

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Item 8. Financial Statements and Supplementary Data

CONSOLIDATED STATEMENTS OF CONDITION

(In thousands, except number of shares)	December 31,	
	2017	2016
ASSETS		
Cash and due from banks	\$48,107	\$52,168
Interest-bearing deposits in other banks	54,864	35,539
Total cash and cash equivalents	102,971	87,707
Investments:		
Available-for-sale securities, at fair value	789,899	779,867
Held-to-maturity securities, at amortized cost (fair value of \$94,913 and \$94,596, respectively)	94,073	94,609
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	23,670	23,203
Total investments	907,642	897,679
Loans held for sale, at fair value	8,103	14,836
Loans:	2,782,439	2,594,564
Less: allowance for loan losses	(24,171)	(23,116)
Net loans	2,758,268	2,571,448
Goodwill	94,697	94,697
Other intangible assets	4,955	6,764
Bank-owned life insurance	87,489	78,119
Premises and equipment, net	41,891	42,873
Deferred tax assets	22,776	39,263
Other assets	36,606	30,844
Total assets	\$4,065,398	\$3,864,230
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	\$478,643	\$406,934
Interest checking	855,570	701,494
Savings and money market	985,508	979,263
Retail certificates of deposit	475,010	468,203
Brokered deposits	205,760	272,635
Total deposits	3,000,491	2,828,529
Short-term borrowings	541,867	530,129
Long-term borrowings	10,720	10,791
Subordinated debentures	58,911	58,755
Accrued interest and other liabilities	49,996	44,479
Total liabilities	3,661,985	3,472,683
Commitments and contingencies		
Shareholders' Equity		
Common stock, no par value: authorized 40,000,000 shares, issued and outstanding 15,524,704 and 15,476,379 on December 31, 2017 and 2016, respectively	156,904	156,041
Retained earnings	266,723	249,415
Accumulated other comprehensive loss:		
Net unrealized losses on available-for-sale securities, net of tax	(10,300)	(6,085)
Net unrealized losses on cash flow hedging derivative instruments, net of tax	(5,926)	(5,694)

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Net unrecognized losses on postretirement plans, net of tax	(3,988)	(2,130)
Total accumulated other comprehensive loss	(20,214)	(13,909)
Total shareholders' equity	403,413		391,547	
Total liabilities and shareholders' equity	\$4,065,398		\$3,864,230	

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

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CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except number of shares and per share data)	For The Year Ended		
	December 31,		
	2017	2016	2015
Interest Income			
Interest and fees on loans	\$ 114,563	\$ 109,224	\$ 81,221
Interest on U.S. government and sponsored enterprise obligations (taxable)			