BAR HARBOR BANKSHARES
Form 10-Q
August 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: June 30, 2018
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-13349
BAR HARBOR BANKSHARES
(Exact name of registrant as specified in its charter)

Maine	01-0393663
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
PO Box 400	
82 Main Street, Bar Harbor, ME	04609-0400
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code: (207) 288-3314
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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer", "smaller reporting company", or "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)
Large Accelerated Filer o Accelerated Filer ý Non-Accelerated Filer o Smaller Reporting Company o
Emerging growth company o
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 accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes o No ý
The Registrant had 15,503,628 shares of common stock, par value $2.00 per share, outstanding as of August 3, 2018.

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BAR HARBOR BANKSHARES AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in thousands, except share data)	June 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$39,327	$34,262
Interest-bearing deposit with the Federal Reserve Bank	22,066	56,423
Total cash and cash equivalents	61,393	90,685
Securities available for sale, at fair value	710,147	717,242
Federal Home Loan Bank stock	38,712	38,105
Total securities	748,859	755,347
Commercial real estate	838,546	826,746
Commercial and industrial	400,293	379,423
Residential real estate	1,127,895	1,155,682
Consumer	118,332	123,762
Total loans	2,485,066	2,485,613
Less: Allowance for loan losses	(13,090)	(12,325)
Net loans	2,471,976	2,473,288
Premises and equipment, net	48,038	47,708
Other real estate owned	129	122
Goodwill	100,085	100,085
Other intangible assets	7,921	8,383
Cash surrender value of bank-owned life insurance	58,811	57,997
Deferred tax assets, net	10,309	7,180
Other assets	33,534	24,389
Total assets	$3,541,055	$3,565,184
Liabilities		
Demand and other non-interest bearing deposits	$341,773	$349,055
NOW deposits	449,715	466,610
Savings deposits	350,339	364,799
Money market deposits	260,642	305,275
Time deposits	972,252	866,346
Total deposits	2,374,721	2,352,085
Senior borrowings	735,924	786,688
Subordinated borrowings	43,003	43,033
Total borrowings	778,927	829,721
Other liabilities	31,444	28,737
Total liabilities	3,185,092	3,210,543

(continued)

Shareholders' equity		
Capital stock, par value $2.00; authorized 20,000,000 shares; issued 16,428,388 and 16,428,388 shares at June 30, 2018 and December 31, 2017, respectively	32,857	32,857
Additional paid-in capital	187,198	186,702

Retained earnings	156,139	144,977
Accumulated other comprehensive loss	(15,347)	(4,554)
Less: cost of 932,044 and 985,532 shares of treasury stock at June 30, 2018 and December 31, 2017, respectively	(4,884)	(5,341)
Total shareholders’ equity	355,963	354,641
Total liabilities and shareholders’ equity	$3,541,055	$3,565,184

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

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BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Interest and dividend income				
Loans	$25,934	$24,226	$51,060	$45,420
Securities and other	5,784	5,439	11,435	10,430
Total interest and dividend income	31,718	29,665	62,495	55,850
Interest expense				
Deposits	4,405	2,539	8,390	4,749
Borrowings	4,321	3,317	7,955	5,920
Total interest expense	8,726	5,856	16,345	10,669
Net interest income	22,992	23,809	46,150	45,181
Provision for loan losses	770	736	1,565	1,531
Net interest income after provision for loan losses	22,222	23,073	44,585	43,650
Non-interest income				
Trust and investment management fee income	3,122	3,324	6,084	6,188
Insurance brokerage service income	—	327	—	691
Customer service fees	2,347	1,991	4,571	3,764
Bank-owned life insurance income	377	386	823	785
Other income	1,275	530	1,881	1,076
Total non-interest income	7,121	6,558	13,359	12,504
Non-interest expense				
Salaries and employee benefits	10,375	10,127	21,364	20,448
Occupancy and equipment	2,925	2,829	5,998	5,495
Loss on premises and equipment, net	—	—	—	95
Outside services	581	716	1,141	1,313
Professional services	360	489	793	929
Communication	304	290	484	658
Amortization of intangible assets	207	211	414	391
Acquisition, conversion and other expenses	214	2,459	549	5,571
Other expenses	3,719	2,925	6,794	5,977
Total non-interest expense	18,685	20,046	37,537	40,877
Income before income taxes	10,658	9,585	20,407	15,277
Income tax expense	2,123	3,029	4,060	4,510
Net income	$8,535	$6,556	$16,347	$10,767
Earnings per share:				
Basic	$0.55	$0.43	$1.06	$0.72
Diluted	$0.55	$0.42	$1.05	$0.72
Weighted average common shares outstanding:				
Basic	15,482	15,393	15,465	14,935
Diluted	15,571	15,506	15,560	15,049

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

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BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Net income	$8,535	$6,556	$16,347	$10,767
Other comprehensive (loss) income, before tax:				
Changes in unrealized loss on securities available for sale	(3,087)	3,485	(13,789)	4,601
Changes in unrealized loss on derivative hedges	226	(481)	880	(704)
Changes in unrealized loss on pension	—	(15)	41	42
Income taxes related to other comprehensive (loss) income :				
Changes in unrealized loss on securities available for sale	731	(1,292)	3,274	(1,640)
Changes in unrealized loss on derivative hedges	(54)	242	(209)	325
Changes in unrealized loss on pension	—	18	(10)	(3)
Total other comprehensive (loss) income	(2,184)	1,957	(9,813)	2,621
Total comprehensive income	$6,351	$8,513	$6,534	$13,388

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total
Balance at December 31, 2016	$13,577	$23,027	$130,489	$ (4,326)	$(6,027)	$156,740
Comprehensive income:						
Net income	—	—	10,767	—	—	10,767
Other comprehensive income	—	—	—	2,621	—	2,621
Total comprehensive income	—	—	10,767	2,621	—	13,388
Cash dividends declared ($0.37 per share)	—	—	(5,744)	—	—	(5,744)
Acquisition of Lake Sunapee Bank Group	8,328	173,591	—	—	—	181,919
Treasury stock purchased (2,861 shares)	—	—	—	—	(86)	(86)
Net issuance (49,029 shares) to employee stock plans, including related tax effects	—	(68)	(40)	—	473	365
Three-for-two stock split	10,952	(10,952)	(16)	—	—	(16)
Recognition of stock based compensation	—	556	—	—	—	556
Balance at June 30, 2017	$32,857	$186,154	$135,456	$ (1,705)	$(5,640)	$347,122
Balance at December 31, 2017	$32,857	$186,702	$144,977	$ (4,554)	$(5,341)	$354,641
Comprehensive income:						
Net income	—	—	16,347	—	—	16,347
Other comprehensive loss	—	—	—	(9,813)	—	(9,813)
Total comprehensive income	—	—	16,347	(9,813)	—	6,534
Cash dividends declared ($0.39 per share)	—	—	(5,981)	—	—	(5,981)
Treasury stock purchased (9,294 shares)	—	—	—	—	(278)	(278)
Net issuance (62,782 shares) to employee stock plans, including related tax effects	—	(131)	—	—	735	604
Modified retrospective basis adoption of Revenue Recognition Accounting Codification Standard 606	—	—	(184)	—	—	(184)
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income for adoption of ASU 2018-02	—	—	980	(980)		—
Recognition of stock based compensation	—	627	—	—	—	627
Balance at June 30, 2018	$32,857	$187,198	$156,139	$ (15,347)	$(4,884)	$355,963

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

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BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(in thousands)	2018	2017
Cash flows from operating activities:		
Net income	$16,347	$10,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,565	1,531
Net amortization of securities	2,089	2,760
Deferred tax benefit	—	(237)
Change in unamortized net loan costs and premiums	214	(148)
Premises and equipment depreciation and amortization expense	1,676	1,827
Stock-based compensation expense	627	556
Accretion of purchase accounting entries, net	(1,240)	(1,594)
Amortization of other intangibles	414	391
Income from cash surrender value of bank-owned life insurance policies	(823)	(785)
Loss on premises and equipment, net	—	95
Net change in other assets and liabilities	(5,695)	(4,919)
Net cash provided by operating activities	15,174	10,244
Cash flows from investing activities:		
Proceeds from maturities, calls and prepayments of securities available for sale	48,942	61,299
Purchases of securities available for sale	(57,725)	(104,833)
Net change in loans	10,924	(20,056)
Purchase of loans	(10,231)	(18,621)
Purchase of Federal Home Loan Bank stock	(848)	(7,388)
Proceeds from sale of Federal Home Loan Bank stock	241	—
Purchase of premises and equipment, net	(2,002)	(2,413)
Acquisitions, net of cash (paid) acquired	—	39,537
Proceeds from sale of other real estate	94	322
Net cash used in investing activities	(10,605)	(52,153)
Cash flows from financing activities:		
Net increase in deposits	22,558	12,419
Net change in short-term advances from the Federal Home Loan Bank	(47,467)	228,833
Net change in long-term advances from the Federal Home Loan Bank	(3,297)	(77,554)
Net change in securities sold repurchase agreements	—	(5,754)
Exercise of stock options	604	263
Purchase of treasury stock	(278)	—
Common stock cash dividends paid	(5,981)	(5,744)
Net cash (used in) provided by financing activities	(33,861)	152,463
Net change in cash and cash equivalents	(29,292)	110,554
Cash and cash equivalents at beginning of year	90,685	8,439
Cash and cash equivalents at end of period	$61,393	$118,993
Supplemental cash flow information:		
Interest paid	$17,182	$10,698

Income taxes paid, net	6,218	3,084
Acquisition of non-cash assets and liabilities:		
Assets acquired	—	1,454,076
Liabilities assumed	—	1,406,672
Other non-cash changes:		
Real estate owned acquired in settlement of loans	124	32

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

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BAR HARBOR BANKSHARES AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements (the “financial statements”) of Bar Harbor Bankshares and its subsidiaries (the “Company” or “Bar Harbor”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Bar Harbor Bankshares is a Maine Financial Institution Holding Company for the purposes of the laws of the state of Maine, and as such is subject to the jurisdiction of the Superintendent of the Maine Bureau of Financial Institutions. These financial statements include the accounts of the Company, its wholly-owned subsidiary Bar Harbor Bank & Trust (the "Bank") and the Bank’s consolidated subsidiaries. The results of operations of companies or assets acquired are included only from the dates of acquisition. All material wholly-owned and majority-owned subsidiaries are consolidated unless GAAP requires otherwise.

In addition, these interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and accordingly, certain information and footnote disclosures normally included in financial statements prepared according to GAAP have been omitted.

The results for any interim period are not necessarily indicative of results for the full year. These consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures for the Company's Annual Report on Form 10-K for the year ended December 31, 2017 previously filed with the Securities and Exchange Commission (the "SEC"). In management's opinion, all adjustments necessary for a fair statement are reflected in the interim periods presented.

Reclassifications: Whenever necessary, amounts in the prior years’ financial statements are reclassified to conform to current presentation. The reclassifications had no impact on net income in the Company’s consolidated income statement.

Tax Cuts and Jobs Act

Public law No. 115-97, known as the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Also on December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Company estimated the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The provisional amount recorded in the fourth quarter of 2017 related to the remeasurement of the Company's deferred tax balance resulted in additional income tax expense of $4.0 million. The final impact of the Tax Act may differ from these estimates as a result of changes in management's interpretations and assumptions, as well as new guidance issued by the Internal Revenue Service.

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Recent Accounting Pronouncements

The following table provides a brief description of recent accounting standards updates ("ASU") that could have a material impact to the Company's consolidated financial statements upon adoption:

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2018			
ASU 2014-09, Revenue from Contracts with Customers ASU 2015-14, Deferral of the Effective Date ASU 2016-08, Principal versus Agent Considerations ASU 2016-10, Identifying Performance Obligations and Licensing ASU 2016-12, Narrow-Scope Improvements and Practical Expedience ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers	This ASU supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry topics of the Codification. The core principle of the ASU is an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU may be adopted either retrospectively or on a modified retrospective basis.	January 1, 2018	The Company adopted this ASU as of January 1, 2018, upon completion of an analysis to identify all revenue streams within the scope of this accounting guidance. After reviewing the related contracts as prescribed by the five steps within this ASU, one contract resulted in recognition of a $241,000 liability with a $184,000 impact to retained earnings net of tax. The remaining changes had no material impact on the consolidated financial statements. See Note 11 for more detail and transitional disclosures.
ASU 2016-01, Recognition and Measurement of Financial Assets and Liabilities ASU-2018-03, Technical Corrections and Improvements to Financial Instruments	This ASU amends ASC Topic 825, Financial Instruments-Overall, and addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Among other minor amendments applicable to the Company, the main provisions require investments in equity securities to be measured at fair value with changes in fair value recognized through net income unless they qualify for a practicability exception (excludes investments accounted for under the equity method of accounting or those that result in consolidation of the investee). Except for disclosure requirements that will be adopted	January 1, 2018	The Company adopted this ASU as of January 1, 2018, although it did not have any equity securities that would be in scope of this ASU. However, the Company is subject to the exit pricing notion required in fair value disclosures and after calculating the fair value, the Company had no material impact to its consolidated financial statements.

	prospectively, the ASU must be adopted on a modified retrospective basis.		
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU amends Topic 230, Statement of Cash Flows, and provides clarification with respect to classification within the statement of cash flows where current guidance is unclear or silent. The ASU should be adopted retrospectively. If it is impractical to apply the guidance retrospectively for an issue, the amendments related to the issue would be applied prospectively.	January 1, 2018	The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.
ASU 2017-07, Compensation-Retirement Benefits	This ASU amends Topic 715, Retirement Benefits, and provides more prescriptive guidance around the presentation of net period pension and postretirement benefit cost in the income statement. The amendment requires the service cost component be disaggregated from other components of net periodic benefit cost in the income statement.	January 1, 2018 Early adoption is permitted.	The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

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Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2018 (continued)			
ASU 2017-09, Stock Compensation: Scope of Modification Accounting	This ASU amends Topic 718, Compensation- Stock Compensation, and clarifies when modification accounting should be applied to changes in terms or conditions of share-based payment awards. The amendments narrow the scope of modification accounting by clarifying that modification accounting should be applied to awards if the change affects the fair value, vesting conditions, or classification of the award. The amendments do not impact current disclosure requirements for modifications, regardless of whether modification accounting is required under the new guidance.	January 1, 2018	The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ASU 2018-05, Income Taxes (Topic 740) SEC Amendments	The ASU amends Topic 220, Income Statement-Reporting Comprehensive Income, and is intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the recently enacted Tax Reform. The guidance allows entities to reclassify stranded tax effects in accumulated other comprehensive income to retained earnings.	January 1, 2019 Early adoption is permitted.	The Company adopted this ASU as of March 31, 2018. The effect of the reclassification resulted in an increase to retained earnings and a decrease to accumulated other comprehensive income of $980,000 with zero net effect on total stockholders' equity.
ASU 2018-06, Codification Improvements to Topic 942, Financial Services - Depository and Lending	Circular 202, issued on July 2, 1985, was rescinded by the Office of the Comptroller of the Currency. The circular limited the net deferred tax debits that could be carried on the bank's balance sheet for regulatory purposes to the amount that would be coverable by the net operating loss carrybacks. The language is no longer relevant and has been removed from the guidance.	May 2018	The adoption of this ASU had no impact on the Company's consolidated financial statements.

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted			
ASU 2016-02, Leases ASU 2018-01, Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842	This ASU creates ASU Topic 842, Leases, and supersedes Topic 840, Leases. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year. There are not significant changes to lessor accounting; however, there are certain improvements made to align lessor accounting with the lessee accounting model and Topic	January 1, 2019	The Company is currently evaluating its operating lease arrangement under this ASU. Early indications suggest the Company will need to recognize right-of-use assets and lease liabilities for most of its operating lease

ASU 2018-10, Codification Improvements to Topic 842, Leases	606, Revenue from Contracts with Customers. This guidance expands both quantitative and qualitative required disclosures. This ASU should be adopted on a modified retrospective basis.	commitments.

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Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted (continued)			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	This ASU amends Topic 326, Financial Instruments-Credit Losses to replace the current incurred loss accounting model with a current expected credit loss approach (CECL) for financial instruments measured at amortized cost and other commitments to extend credit. The amendments require entities to consider all available relevant information when estimating current expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is to reflect the portion of the amortized cost basis that the entity does not expect to collect. The amendments also eliminate the current accounting model for purchased credit impaired loans and debt securities. Additional quantitative and qualitative disclosures are required upon adoption. While the CECL model does not apply to available for sale debt securities, the ASU does require entities to record an allowance when recognizing credit losses for available for sale securities, rather than reduce the amortized cost of the securities by direct write-offs. The ASU should be adopted on a modified retrospective basis. Entities that have loans accounted for under ASC 310-30 at the time of adoption should prospectively apply the guidance in this amendment for purchase credit deteriorated assets.	January 1, 2020	Adoption of this ASU is expected to primarily change how the Company estimates credit losses with the application of the expected credit loss model. In addition, the Company expects the ASU to change the presentation of credit losses for AFS debt securities through an allowance method rather than as a direct write-off. The Company is in the process of evaluating loan loss estimation models to comply with the guidance under this ASU, which may result in a higher credit loss estimate.
ASU 2017-04, Simplifying the Test for Goodwill Impairment	This ASU amends Topic 350, Intangibles-Goodwill and Other, and eliminates Step 2 from the goodwill impairment test.	January 1, 2020 Early adoption is permitted.	Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	This ASU amends ASC 815, Derivatives and Hedging to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.	January 1, 2019	Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.
ASU 2018-07, Share Based Payment Accounting	This ASU expands the scope of Topic 718, Compensation- Stock Compensation to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU	January 1, 2019	The Company is currently evaluating this guidance to determine any impact on the Company's consolidated financial statements. The Company does not participate in these types of

	supersedes Subtopic 505-50, Equity-Based Payments to Non-Employees.		arrangements in the normal course of business, except for board director compensation.
ASU 2018-09, Codification Improvements	This ASU does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different areas based on comments and suggestions by various stakeholders. Topics that may be relevant to the company currently or in the future include (1) comprehensive income, (2) income tax for stock compensation and business combinations, (3) derivatives and hedging, and (4) fair value measurements.	January 1, 2019	The Company is currently evaluating this guidance to determine any impact on the Company's consolidated financial statements.

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NOTE 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Securities available for sale				
Debt securities:				
Obligations of US Government-sponsored enterprises	$ 3,991	$ —	$ 3	$ 3,988
Mortgage-backed securities:				
US Government-sponsored enterprises	459,957	521	13,628	446,850
US Government agency	88,545	195	2,486	86,254
Private label	446	124	6	564
Obligations of states and political subdivisions thereof	135,374	1,053	2,041	134,386
Corporate bonds	38,364	182	441	38,105
Total securities available for sale	$ 726,677	$ 2,075	$ 18,605	$ 710,147
December 31, 2017				
Securities available for sale				
Debt securities:				
Obligations of US Government-sponsored enterprises	$ 6,967	$ 5	$ —	$ 6,972
Mortgage-backed securities:				
US Government-sponsored enterprises	447,081	1,738	5,816	443,003
US Government agency	96,357	413	1,174	95,596
Private label	529	150	5	674
Obligations of states and political subdivisions thereof	138,522	2,407	729	140,200
Corporate bonds	30,527	323	53	30,797
Total securities available for sale	$ 719,983	$ 5,036	$ 7,777	$ 717,242

The amortized cost and estimated fair value of available for sale ("AFS") securities segregated by contractual maturity at June 30, 2018 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable.

(in thousands)	Available for sale	
	Amortized Cost	Fair Value
Within 1 year	$4,021	$4,018
Over 1 year to 5 years	15,681	15,541
Over 5 years to 10 years	46,469	46,445
Over 10 years	111,558	110,475
Total bonds and obligations	177,729	176,479
Mortgage-backed securities	548,948	533,668
Total securities available for sale	$726,677	$710,147

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Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

(In thousands)	Less Than Twelve Months Gross Unrealized Losses	Less Than Twelve Months Fair Value	Over Twelve Months Gross Unrealized Losses	Over Twelve Months Fair Value	Total Gross Unrealized Losses	Total Fair Value
June 30, 2018						
Securities available for sale						
Debt securities:						
Obligations of US Government-sponsored enterprises	$ 3	$ 3,988	$ —	$ —	$ 3	$ 3,988
Mortgage-backed securities:						
US Government-sponsored enterprises	7,001	294,523	6,627	115,694	13,628	410,217
US Government agency	1,342	46,242	1,144	29,828	2,486	76,070
Private label	1	115	5	51	6	166
Obligations of states and political subdivisions thereof	476	31,838	1,565	27,847	2,041	59,685
Corporate bonds	441	23,668	—	—	441	23,668
Total securities available for sale	$ 9,264	$ 400,374	$ 9,341	$ 173,420	$ 18,605	$ 573,794
December 31, 2017						
Securities available for sale						
Debt securities:						
Mortgage-backed securities:						
US Government-sponsored enterprises	$ 1,895	$ 189,486	$ 3,921	$ 117,156	$ 5,816	$ 306,642
US Government agency	559	45,221	615	30,155	1,174	75,376
Private label	—	8	5	130	5	138
Obligations of states and political subdivisions thereof	58	8,298	671	27,727	729	36,025
Corporate bonds	53	8,943	—	—	53	8,943
Total securities available for sale	$ 2,565	$ 251,956	$ 5,212	$ 175,168	$ 7,777	$ 427,124

Securities Impairment: As a part of the Company’s ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. For the three months ended June 30, 2018 and 2017 the Company did not record any other-than-temporary impairment (“OTTI”) losses.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Estimated credit losses as of prior year-end	$1,697	$1,697
Reductions for securities paid off during the period	—	—
Estimated credit losses at end of the period	$1,697	$1,697

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Estimated credit losses as of prior year-end,	$1,697	$1,697

Reductions for securities paid off during the period	—	—
Estimated credit losses at end of the period	$1,697	$1,697

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The Company expects to recover its amortized cost basis on all securities in its AFS portfolio. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of June 30, 2018, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

The following summarizes, by investment security type, the basis for the conclusion that securities in an unrealized loss position were not other-than-temporarily impaired at June 30, 2018:

Obligations of US Government-sponsored enterprises
At June 30, 2018, the one security in the Company's portfolio of AFS US Government sponsored enterprises was in an unrealized loss position. Aggregate unrealized losses represented 0.1% of the amortized cost of securities in unrealized loss positions.The Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") guarantee the contractual cash flows of all of the Company's US Government-sponsored enterprises. The security is investment grade rated and there were no material underlying credit downgrades during the quarter. The Security is performing.

US Government-sponsored enterprises
At June 30, 2018, 495 out of the total 777 securities in the Company's portfolios of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 3.2% of the amortized cost of securities in unrealized loss positions.The FNMA and FHLMC guarantee the contractual cash flows of all of the Company's US Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

US Government agency
At June 30, 2018, 120 out of the total 200 securities in the Company's portfolios of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 3.2% of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of all of the Company's US Government agency securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

Private label
At June 30, 2018, ten of the total 26 securities in the Company's portfolio of AFS private-label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 3.3% of the amortized cost of securities in unrealized loss positions. Based upon the foregoing considerations, and the expectation that the Company will receive all of the future contractual cash flows related to the amortized cost on these securities, the Company does not consider there to be any additional other-than-temporary impairment with respect to these securities.

Obligations of states and political subdivisions thereof
At June 30, 2018, 119 of the total 262 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.3% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for the risk. There were no material underlying credit downgrades during the quarter. All securities are performing.

Corporate bonds
At June 30, 2018, nine out of the total 17 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 1.8% of the amortized cost of bonds in unrealized

loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

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Visa Class B Common Shares

The Company was a member of the Visa USA payment network and was issued Class B shares in connection with the Visa Reorganization and the Visa Inc. initial public offering in March 2008. The Visa Class B shares are transferable only under limited circumstances until they can be converted into shares of the publicly traded class of Visa stock. This conversion cannot happen until the settlement of certain litigation, which is indemnified by Visa members. Since its initial public offering, Visa has funded a litigation reserve based upon a change in the conversion ratio of Visa Class B shares into Visa Class A shares. At its discretion, Visa may continue to increase the conversion rate in connection with any settlements in excess of amounts then in escrow for that purpose and reduce the conversion rate to the extent it adds any funds to the escrow in the future. Based on the existing transfer restriction and the uncertainty of the litigation, the Company has recorded its Visa Class B shares on its statements of condition at zero value for all reporting periods since 2008. At June 30, 2018, the Company owned 11,623 of Visa Class B shares with a then current conversion ratio to Visa Class A shares of 1.6298 (or 18,943 Visa Class A shares). Upon termination of the existing transfer restriction and settlement of the litigation, and to the extent the Company continues to own such Visa Class B shares in the future, the Company expects to record its Visa Class B shares at fair value.

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NOTE 3. LOANS

The Company’s loan portfolio is comprised of the following segments: commercial real estate, commercial and industrial, residential real estate, and consumer loans. Commercial real estate loans includes commercial construction and land development and other commercial real estate loans. Commercial and industrial loans includes loans to commercial businesses, agricultural, and tax exempt loans. Residential real estate loans consists of mortgages for 1-4 family housing. Consumer loans include home equity loans and other installment lending.

The Company’s lending activities are principally conducted in Maine, New Hampshire, and Vermont.

Total loans include business activity loans and acquired loans. Acquired loans are those loans acquired from Lake Sunapee Bank Group. The following is a summary of total loans:

	June 30, 2018			December 31, 2017		
(in thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Commercial Real Estate:						
Construction and land development	$27,722	$9,542	$37,264	$28,892	$16,781	$45,673
Other commercial real estate	540,580	260,702	801,282	505,119	275,954	781,073
Total Commercial Real Estate	568,302	270,244	838,546	534,011	292,735	826,746
Commercial and Industrial:						
Other Commercial	226,143	62,253	288,396	198,051	68,069	266,120
Agricultural	25,284	—	25,284	27,588	—	27,588
Tax exempt	45,400	41,213	86,613	42,365	43,350	85,715
Total Commercial and Industrial	296,827	103,466	400,293	268,004	111,419	379,423
Total Commercial Loans	865,129	373,710	1,238,839	802,015	404,154	1,206,169
Residential Real Estate:						
Residential mortgages	606,128	521,767	1,127,895	591,411	564,271	1,155,682
Total Residential Real Estate	606,128	521,767	1,127,895	591,411	564,271	1,155,682
Consumer:						
Home equity	53,853	54,457	108,310	51,376	62,217	113,593
Other consumer	8,215	1,807	10,022	7,828	2,341	10,169
Total Consumer	62,068	56,264	118,332	59,204	64,558	123,762
Total Loans	$1,533,325	$951,741	$2,485,066	$1,452,630	$1,032,983	$2,485,613

The carrying amount of the acquired loans at June 30, 2018 totaled $951.7 million. A subset of these loans was determined to have evidence of credit deterioration at acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently maintain a carrying value of $11.6 million (and total note balances of $15.9 million). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Acquired loans considered not impaired at acquisition date had a carrying amount of $940.1 million as of June 30, 2018.

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The following table summarizes activity in the accretable yield for the acquired loan portfolio that falls under the purview of ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer:

	Three Months Ended June 30,	
(in thousands)	2018	2017
Balance at beginning of period	$3,347	$3,194
Reclassification from nonaccretable difference for loans with (decreased) improved cash flows	(153)	1,745
Accretion	(387)	(372)
Balance at end of period	$2,807	$4,567

	Six Months Ended June 30,	
(in thousands)	2018	2017
Balance at beginning of period	$3,509	$—
Acquisitions	—	3,398
Reclassification from nonaccretable difference for loans with improved cash flows	46	1,745
Accretion	(748)	(576)
Balance at end of period	$2,807	$4,567

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The following is a summary of past due loans at June 30, 2018 and December 31, 2017:

Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
June 30, 2018							
Commercial Real Estate:							
Construction and land development	$ —	$ —	$2	$ 2	$27,720	$27,722	$ —
Other commercial real estate	483	954	6,636	8,073	532,507	540,580	—
Total Commercial Real Estate	483	954	6,638	8,075	560,227	568,302	—
Commercial and Industrial:							
Other commercial	79	8	604	691	225,452	226,143	—
Agricultural	—	37	130	167	25,117	25,284	—
Tax exempt	—	—	—	—	45,400	45,400	—
Total Commercial and Industrial	79	45	734	858	295,969	296,827	—
Total Commercial Loans	562	999	7,372	8,933	856,196	865,129	—
Residential Real Estate:							
Residential mortgages	1,122	483	3,690	5,295	600,833	606,128	—
Total Residential Real Estate	1,122	483	3,690	5,295	600,833	606,128	—
Consumer:							
Home equity	49	85	241	375	53,478	53,853	—
Other consumer	4	8	—	12	8,203	8,215	—
Total Consumer	53	93	241	387	61,681	62,068	—
Total Loans	$ 1,737	$ 1,575	$11,303	$ 14,615	$1,518,710	$1,533,325	$ —

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Business Activities Loans

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2017							
Commercial Real Estate:							
Construction and land development	$ —	$ —	$ 637	$ 637	$ 28,255	$ 28,892	$ —
Other commercial real estate	965	1,659	5,065	7,689	497,430	505,119	119
Total Commercial Real Estate	965	1,659	5,702	8,326	525,685	534,011	119
Commercial and Industrial:							
Other commercial	186	329	702	1,217	196,834	198,051	21
Agricultural	42	159	198	399	27,189	27,588	155
Tax exempt	—	—	—	—	42,365	42,365	—
Total Commercial and Industrial	228	488	900	1,616	266,388	268,004	176
Total Commercial Loans	1,193	2,147	6,602	9,942	792,073	802,015	295
Residential Real Estate:							
Residential mortgages	3,096	711	975	4,782	586,629	591,411	—
Total Residential Real Estate	3,096	711	975	4,782	586,629	591,411	—
Consumer:							
Home equity	515	—	199	714	50,662	51,376	199
Other consumer	36	24	—	60	7,768	7,828	—
Total Consumer	551	24	199	774	58,430	59,204	199
Total Loans	$ 4,840	$ 2,882	$ 7,776	$ 15,498	$ 1,437,132	$	