TRANSCANADA CORP
Form 6-K
June 28, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of June 2012
Commission File No. 1-31690

TransCanada Corporation
(Translation of Registrant's Name into English)

450 – 1 Street S.W., Calgary, Alberta, T2P 5H1, Canada
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ¨ Form 40-F þ

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Exhibit 99.1 to this report, furnished on Form 6-K, is furnished, not filed, and will not be incorporated by reference into any registration statement filed by the registrant under the Securities Act of 1933, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 28, 2012

TRANSCANADA CORPORATION

By: /s/ Christine R. Johnston
Christine R. Johnston
Vice-President and Corporate Secretary

EXHIBIT INDEX

99.1 A copy of the registrant's News Release dated June 28, 2012.

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

(1) Represents dividends paid and undistributed earnings allocated to nonvested stock-based awards that contain non-forfeitable rights to dividends.
(2) Share and per share amounts have been adjusted to reflect the three-for-two stock split effective September 30, 2016, for all periods presented. Refer to Note 2.
(3) Represents the effect of the assumed exercise of stock options, vesting of restricted shares, vesting of restricted stock units, and vesting of LTIP awards that have met the performance criteria, as applicable, utilizing the treasury stock method.
(4) Represents stock-based awards not included in the computation of potential common shares for purposes of calculating diluted EPS as the exercise prices were greater than the average market price of the Company's common stock and are considered anti-dilutive.

Nonvested stock-based payment awards that contain non-forfeitable rights to dividends are participating securities and are included in the computation of EPS pursuant to the two-class method. The two-class method is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Certain of the Company's nonvested stock-based awards qualify as participating securities.

Net income is allocated between the common stock and participating securities pursuant to the two-class method. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period, excluding participating nonvested stock-based awards.

Diluted EPS is computed in a similar manner, except that the denominator includes the number of additional common shares that would have been outstanding if potentially dilutive common shares were issued using the treasury stock method.

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NOTE 4 – SECURITIES

The following tables summarize the amortized cost and estimated fair values of AFS and HTM securities, as of the dates indicated:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2016				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$ 15,721	$ 134	$ —	$ 15,855
Obligations of states and political subdivisions	9,763	238	—	10,001
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	442,099	8,366	(157)	450,308
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	305,039	2,222	(899)	306,362
Subordinated corporate bonds	5,481	223	—	5,704
Total AFS debt securities	778,103	11,183	(1,056)	788,230
Equity securities	632	18	—	650
Total AFS securities	$ 778,735	$ 11,201	$ (1,056)	$ 788,880
HTM Securities:				
Obligations of states and political subdivisions	$ 94,205	$ 3,898	$ (7)	$ 98,096
Total HTM securities	$ 94,205	$ 3,898	$ (7)	$ 98,096
December 31, 2015				
AFS Securities:				
Obligations of U.S. government-sponsored enterprises	$ 4,971	$ 69	$ —	$ 5,040
Obligations of states and political subdivisions	17,355	339	—	17,694
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	419,429	3,474	(3,857)	419,046
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	312,719	409	(6,271)	306,857
Subordinated corporate bonds	1,000	—	(4)	996
Total AFS debt securities	755,474	4,291	(10,132)	749,633
Equity securities	712	2	(9)	705
Total AFS securities	$ 756,186	$ 4,293	$ (10,141)	$ 750,338
HTM Securities:				
Obligations of states and political subdivisions	$ 84,144	$ 1,564	$ (61)	$ 85,647
Total HTM securities	$ 84,144	$ 1,564	$ (61)	$ 85,647

Net unrealized gains on AFS securities at September 30, 2016 included in AOCI amounted to $6.6 million, net of a deferred tax liability of $3.6 million. Net unrealized losses on AFS securities at December 31, 2015 included in AOCI amounted to $3.8 million, net of a deferred tax benefit of $2.0 million.

During the first nine months of 2016, the Company purchased investment securities totaling $140.7 million. The Company designated $130.3 million as AFS securities and $10.4 million as HTM securities.

During the first nine months of 2015, the Company purchased investment securities totaling $136.7 million. The Company designated $81.3 million as AFS securities and $55.4 million as HTM securities.

Impaired Securities

Management periodically reviews the Company’s investment portfolio to determine the cause, magnitude and duration of declines in the fair value of each security. Thorough evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the ability of the securities to meet cash flow requirements, levels of credit enhancements, risk of curtailment, and recoverability of invested amount over a reasonable period of time, and the length of time the security is in a loss position, for example, are applied in determining OTTI. Once a decline in value is determined to be other-than-temporary, the cost basis of the security is permanently reduced and a corresponding charge to earnings is recognized.

The following table presents the estimated fair values and gross unrealized losses of investment securities that were in a continuous loss position at September 30, 2016 and December 31, 2015, by length of time that individual securities in each category have been in a continuous loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$ 3,071	$ (5)	$ 32,128	$ (152)	$ 35,199	$ (157)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	33,636	(85)	79,213	(814)	112,849	(899)
Total AFS securities	$ 36,707	$ (90)	$ 111,341	$ (966)	$ 148,048	$ (1,056)
HTM Securities:						
Obligations of states and political subdivisions	$ 1,382	$ (7)	$—	$ —	$ 1,382	$ (7)
Total HTM securities	$ 1,382	$ (7)	$—	$ —	$ 1,382	$ (7)
December 31, 2015						
AFS Securities:						
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	$ 234,897	$ (2,351)	$ 45,629	$ (1,506)	$ 280,526	$ (3,857)
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	111,143	(1,068)	147,180	(5,203)	258,323	(6,271)
Subordinated corporate bonds	996	(4)	—	—	996	(4)
Equity Securities	615	(9)	—	—	615	(9)
Total AFS securities	$ 347,651	$ (3,432)	$ 192,809	$ (6,709)	$ 540,460	$ (10,141)
HTM Securities:						
Obligations of states and political subdivisions	$ 5,507	$ (61)	$—	$ —	$ 5,507	$ (61)
Total HTM securities	$ 5,507	$ (61)	$—	$ —	$ 5,507	$ (61)

At September 30, 2016 and December 31, 2015, the Company held 32 and 109 investment securities with a fair value of $149.4 million and $546.0 million with unrealized losses totaling $1.1 million and $10.2 million, respectively, that were considered temporary. Of these, the Company had 30 MBS and CMO investments with a fair value of $111.3 million that were in an unrealized loss position totaling $966,000 at September 30, 2016 and 28 MBS and CMO investments with a fair value of $192.8 million that were in an unrealized loss position totaling $6.7 million at December 31, 2015 for 12 months or more. The unrealized loss was reflective of current interest rates in excess of the yield received on investments and is not indicative of an overall change in credit quality or other factors with the Company's investment portfolio. At September 30, 2016 and

December 31, 2015, gross unrealized losses on the Company's AFS and HTM securities were 1% and 2%, respectively, of the respective investment securities fair value.

The Company has the intent and ability to retain its investment securities in an unrealized loss position at September 30, 2016 until the decline in value has recovered.

Sale of Securities
The following table details the Company’s sales of AFS securities for the period indicated below:

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

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

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

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

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

Securities Pledged
At September 30, 2016 and December 31, 2015, securities with an amortized cost of $594.9 million and $577.6 million and estimated fair values of $602.2 million and $570.9 million, respectively, were pledged to secure FHLBB advances, public deposits, and securities sold under agreements to repurchase and for other purposes required or permitted by law.

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Contractual Maturities

The amortized cost and estimated fair values of debt securities by contractual maturity at September 30, 2016, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
AFS Securities		
Due in one year or less	$ 1,440	$ 1,442
Due after one year through five years	105,688	107,064
Due after five years through ten years	101,074	104,023
Due after ten years	569,901	575,701
	$ 778,103	$ 788,230
HTM Securities		
Due after one year through five years	$ 2,943	$ 3,002
Due after five years through ten years	5,435	5,624
Due after ten years	85,827	89,470
	$ 94,205	$ 98,096

NOTE 5 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	September 30, 2016	December 31, 2015
Residential real estate[1]	$ 798,306	$ 821,074
Commercial real estate[1]	1,055,043	927,951
Commercial[1]	324,322	297,721
Home equity[1]	331,728	348,634
Consumer[1]	17,333	17,953
HPFC[1]	65,619	77,243
Deferred loan fees, net	(342)	(370)
Total loans	$ 2,592,009	$ 2,490,206

(1) The loan balances are presented net of the unamortized fair value mark discount associated with the purchase accounting for acquired loans of $9.6 million and $13.1 million at September 30, 2016 and December 31, 2015, respectively.

The Bank's lending activities are primarily conducted in Maine, and its footprint continues to expand into other New England states, including New Hampshire and Massachusetts. The Company originates single family and multi-family residential loans, commercial real estate loans, business loans, municipal loans and a variety of consumer loans. In addition, the Company makes loans for the construction of residential homes, multi-family properties and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy.

The HPFC loan portfolio consists of niche commercial lending to the small business medical field, including dentists, optometrists and veterinarians across the U.S. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the success of the borrower's business. Unlike the Bank's loan portfolio, there is, generally, little to no indication of credit quality issues and/or concerns of borrowers honoring their commitments until a payment is delinquent. Generally, once a payment is delinquent, if the payment is not received shortly thereafter to bring the loan current, the loan is deemed impaired (typically within 45 days). Effective February 19, 2016, the Company closed HPFC's operations and is no longer originating loans.

The ALL is management's best estimate of the inherent risk of loss in the Company's loan portfolio as of the consolidated statement of condition date. Management makes various assumptions and judgments about the collectability of the loan portfolio and provides an allowance for potential losses based on a number of factors including historical losses. If those assumptions are incorrect, the ALL may not be sufficient to cover losses and may cause an increase in the allowance in the future. Among the factors that could affect the Company's ability to collect loans and require an increase to the allowance in the future are: (i) financial condition of borrowers; (ii) real estate market changes; (iii) state, regional, and national economic conditions; and (iv) a requirement by federal and state regulators to increase the provision for loan losses or recognize additional charge-offs.

There were no significant changes in the Company's ALL methodology during the nine months ended September 30, 2016.

The Board of Directors monitors credit risk through the Directors' Loan Review Committee, which reviews large credit exposures, monitors the external loan review reports, reviews the lending authority for individual loan officers when required, and has approval authority and responsibility for all matters regarding the loan policy and other credit-related policies, including reviewing and monitoring asset quality trends, concentration levels, and the ALL

methodology. The Credit Risk Administration and the Credit Risk Policy Committee oversee the Company's systems and procedures to monitor the credit quality of its loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system, determine the adequacy of the ALL and support the oversight efforts of the Directors' Loan Review Committee and the Board of Directors. The Company's practice is to proactively manage the portfolio such that management can identify problem credits early, assess and implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Company continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. For

purposes of determining the ALL, the Company disaggregates its loans into portfolio segments, which include residential real estate, commercial real estate, commercial, home equity, consumer and HPFC. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. These risk characteristics unique to each portfolio segment include:

Residential Real Estate. Residential real estate loans held in the Company's loan portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines. Collateral consists of mortgage liens on one- to four-family residential properties.

Commercial Real Estate. Commercial real estate loans consist of mortgage loans to finance investments in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational, health care facilities and other specific use properties. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Loan-to-value ratios at origination are governed by established policy and regulatory guidelines. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

Commercial. Commercial loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant & equipment, or real estate, if applicable. Commercial loans are primarily paid by the operating cash flow of the borrower. Commercial loans may be secured or unsecured.

Home Equity. Home equity loans and lines are made to qualified individuals for legitimate purposes secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity loan has a fixed rate and is billed as equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

Consumer. Consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as education, auto loans, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer loans may be secured or unsecured.

HPFC. HPFC is a niche lender that provides commercial lending to dentists, optometrists and veterinarians, many of which are start-up companies. HPFC's loan portfolio consists of term loan obligations extended for the purpose of financing working capital and/or purchase of equipment. Collateral may consist of pledges of business assets including, but not limited to, accounts receivable, inventory, and/or equipment. These loans are primarily paid by the operating cash flow of the borrower and the terms range from seven to ten years.

The following tables present the activity in the ALL and select loan information by portfolio segment for the three and nine months ended September 30, 2016 and 2015, and for the year ended December 31, 2015:

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

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

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	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	HPFC	Unallocated	Total
For The Year Ended December 31, 2015								
ALL:								
Beginning balance	$4,899	$7,951	$3,354	$2,247	$281	$—	$ 2,384	$21,116
Loans charged off	(801)	(481)	(655)	(525)	(154)	—	—	(2,616)
Recoveries	55	74	389	188	22	—	—	728
Provision (credit)[1]	392	2,888	153	821	44	24	(2,384)	1,938
Ending balance	$4,545	$10,432	$3,241	$2,731	$193	$24	$ —	$21,166
ALL balance attributable to loans:								
Individually evaluated for impairment	$544	$644	$92	$89	$—	$—	$ —	$1,369
Collectively evaluated for impairment	4,001	9,788	3,149	2,642	193	24	—	19,797
Total ending ALL	$4,545	$10,432	$3,241	$2,731	$193	$24	$ —	$21,166
Loans:								
Individually evaluated for impairment	$6,026	$4,610	$3,937	$588	$74	$—	$ —	$15,235
Collectively evaluated for impairment	814,591	923,341	293,784	348,046	17,879	77,330	—	2,474,971
Total ending loans balance	$820,617	$927,951	$297,721	$348,634	$17,953	$77,330	$ —	$2,490,206

(1) The provision (credit) for loan losses excludes any impact for the change in the reserve for unfunded commitments, which represents management's estimate of the amount required to reflect the probable inherent losses on outstanding letters of credit and unused lines of credit. The reserve for unfunded commitments is presented within accrued interest and other liabilities on the consolidated statements of condition. At September 30, 2016 and 2015, and December 31, 2015, the reserve for unfunded commitments was $14,000, $24,000 and $22,000, respectively.

The following table reconciles the three and nine months ended September 30, 2016 and 2015, and year ended December 31, 2015 provision for loan losses to the provision for credit losses as presented on the consolidated statement of income:

	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2016	2015	2016	2015	2015
Provision for loan losses	$1,287	$281	$5,011	$972	$ 1,938
Change in reserve for unfunded commitments	(8)	(2)	(8)	7	(2)
Provision for credit losses	$1,279	$279	$5,003	$979	$ 1,936

The provision for loan losses for the three and nine months ended September 30, 2016 increased $1.0 million and $4.0 million, respectively, compared to the three and nine months ended September 30, 2015. The increase was driven by (i) the increase in loans (excluding loans held for sale) of $761.9 million since September 30, 2015, of which $615.4 million the Company acquired as part of the SBM acquisition in the fourth quarter of 2015, as well as (ii) the deterioration of one commercial real estate and one commercial credit in the second quarter of 2016 accounting for $2.3 million of the provision for loan losses for the nine months ended September 30, 2016. The Company placed the commercial real estate loan on non-accrual status in the second quarter of 2016, and the commercial loan was

previously on non-accrual status. The recorded investment balance of the commercial real estate loan at September 30, 2016 was $11.3 million and the recorded investment balance of the commercial loan at September 30, 2016 was $1.6 million. The Company believes that the credit deterioration of these two credits were driven by specific facts and circumstances of the borrowers and does not represent a systemic issue across its commercial real estate or commercial loan portfolios. In the third quarter of 2016, the Company partially charged-off $1.4 million of the aforementioned commercial loan, which was previously reserved for in the second quarter of 2016.

The Company focuses on maintaining a well-balanced and diversified loan portfolio. Despite such efforts, it is recognized that credit concentrations may occasionally emerge as a result of economic conditions, changes in local demand, natural loan growth and runoff. To ensure that credit concentrations can be effectively identified, all commercial and commercial real estate loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. Shifts in portfolio concentrations are monitored by Credit Risk Administration. As of September 30, 2016, the non-residential building operators industry exposure was 13% of the Company's total loan portfolio and 33% of the total commercial real estate portfolio. There were no other industry exposures exceeding 10% of the Company's total loan portfolio as of September 30, 2016.

To further identify loans with similar risk profiles, the Company categorizes each portfolio segment into classes by credit risk characteristic and applies a credit quality indicator to each portfolio segment. The indicators for commercial, commercial real estate, residential real estate, and HPFC loans are represented by Grades 1 through 10 as outlined below. In general, risk ratings are adjusted periodically throughout the year as updated analysis and review warrants. This process may include, but is not limited to, annual credit and loan reviews, periodic reviews of loan performance metrics, such as delinquency rates, and quarterly reviews of adversely risk rated loans. The Company uses the following definitions when assessing grades for the purpose of evaluating the risk and adequacy of the ALL:

- Grade 1 through 6 — Grades 1 through 6 represent groups of loans that are not subject to adverse criticism as defined in regulatory guidance. Loans in these groups exhibit characteristics that represent low to moderate risks, which is measured using a variety of credit risk criteria, such as cash flow coverage, debt service coverage, balance sheet leverage, liquidity, management experience, industry position, prevailing economic conditions, support from secondary sources of repayment and other credit factors that may be relevant to a specific loan. In general, these loans are supported by properly margined collateral and guarantees of principal parties.
- Grade 7 — Loans with potential weakness (Special Mention). Loans in this category are currently protected based on collateral and repayment capacity and do not constitute undesirable credit risk, but have potential weakness that may result in deterioration of the repayment process at some future date. This classification is used if a negative trend is evident in the obligor’s financial situation. Special mention loans do not sufficiently expose the Company to warrant adverse classification.
- Grade 8 — Loans with definite weakness (Substandard). Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or by collateral pledged. Borrowers experience difficulty in meeting debt repayment requirements. Deterioration is sufficient to cause the Company to look to the sale of collateral.
- Grade 9 — Loans with potential loss (Doubtful). Loans classified as doubtful have all the weaknesses inherent in the substandard grade with the added characteristic that the weaknesses make collection or liquidation of the loan in full highly questionable and improbable. The possibility of some loss is extremely high, but because of specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.
- Grade 10 — Loans with definite loss (Loss). Loans classified as loss are considered uncollectible. The loss classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the asset because recovery and collection time may be protracted.

Asset quality indicators are periodically reassessed to appropriately reflect the risk composition of the Company’s loan portfolio. Home equity and consumer loans are not individually risk rated, but rather analyzed as groups taking into account delinquency rates and other economic conditions which may affect the ability of borrowers to meet debt service requirements, including interest rates and energy costs. Performing loans include loans that are current and loans that are past due less than 90 days. Loans that are past due over 90 days and non-accrual loans, including TDRs, are considered non-performing.

The following table summarizes credit risk exposure indicators by portfolio segment as of the following dates:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	HPFC	Total
September 30, 2016							
Pass (Grades 1-6)	$ 783,938	$ 994,867	$ 311,974	$—	$ —	$64,234	$2,155,013
Performing	—	—	—	331,449	17,412	—	348,861
Special Mention (Grade 7)	2,530	17,869	7,826	—	—	269	28,494
Substandard (Grade 8)	10,568	41,571	4,622	—	—	1,230	57,991
Non-performing	—	—	—	1,646	4	—	1,650
Total	$ 797,036	$ 1,054,307	$ 324,422	$333,095	$ 17,416	$65,733	$2,592,009
December 31, 2015							
Pass (Grades 1-6)	$ 802,873	$ 868,664	$ 281,553	$—	$ —	$70,173	$2,023,263
Performing	—	—	—	346,701	17,835	—	364,536
Special Mention (Grade 7)	3,282	20,732	7,527	—	—	3,179	34,720
Substandard (Grade 8)	14,462	38,555	8,641	—	—	3,978	65,636
Non-performing	—	—	—	1,933	118	—	2,051
Total	$ 820,617	$ 927,951	$ 297,721	$348,634	$ 17,953	$77,330	$2,490,206

The Company closely monitors the performance of its loan portfolio for both the Bank and HPFC. A loan is placed on non-accrual status when the financial condition of the borrower is deteriorating, payment in full of both principal and interest is not expected as scheduled or principal or interest has been in default for 90 days or more. Exceptions may be made if the asset is well-secured by collateral sufficient to satisfy both the principal and accrued interest in full and collection is reasonably assured. When one loan to a borrower is placed on non-accrual status, all other loans to the borrower are re-evaluated to determine if they should also be placed on non-accrual status. All previously accrued and unpaid interest is reversed at this time. A loan may return to accrual status when collection of principal and interest is assured and the borrower has demonstrated timely payments of principal and interest for a reasonable period. Unsecured loans, however, are not normally placed on non-accrual status because they are charged-off once their collectability is in doubt.

The following is a loan aging analysis by portfolio segment (including loans past due over 90 days and non-accrual loans) and a summary of non-accrual loans, which include TDRs, and loans past due over 90 days and accruing as of the following dates:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Outstanding	Loans > 90 Days Past Due and Accruing	Non-Accrual Loans
September 30, 2016								
Residential real estate	$ 1,460	$ 942	$2,818	$5,220	$791,816	$797,036	$ —	$ 3,986
Commercial real estate	557	151	12,710	13,418	1,040,889	1,054,307	—	12,917
Commercial	1,568	117	565	2,250	322,172	324,422	—	2,259
Home equity	394	178	1,314	1,886	331,209	333,095	—	1,646
Consumer	41	2	4	47	17,369	17,416	—	4
HPFC	492	—	216	708	65,025	65,733	—	216
Total	$ 4,512	$ 1,390	$17,627	$23,529	$2,568,480	$2,592,009	$ —	$ 21,028
December 31, 2015								
Residential real estate	$ 3,325	$ 571	$6,077	$9,973	$810,644	$820,617	$ —	$ 7,253
Commercial real estate	4,219	2,427	1,584	8,230	919,721	927,951	—	4,529
Commercial	267	550	1,002	1,819	295,902	297,721	—	4,489
Home equity	643	640	1,505	2,788	345,846	348,634	—	1,933

Consumer	112	7	118	237	17,716	17,953	—	118
HPFC	165	—	—	165	77,165	77,330	—	—
Total	$ 8,731	$ 4,195	$10,286	$23,212	$2,466,994	$2,490,206	$ —	$ 18,322

Interest income that would have been recognized if loans on non-accrual status had been current in accordance with their original terms was $251,000, $675,000, $103,000 and $375,000 for the three and nine months ended September 30, 2016 and 2015, respectively.

TDRs:
The Company takes a conservative approach with credit risk management and remains focused on community lending and reinvesting. The Company works closely with borrowers experiencing credit problems to assist in loan repayment or term modifications. TDR loans consist of loans where the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that it would not otherwise consider. TDRs, typically, involve term modifications or a reduction of either interest or principal. Once such an obligation has been restructured, it will remain a TDR until paid in full, or until the loan is again restructured at current market rates and no concessions are granted.

The specific reserve allowance was determined by discounting the total expected future cash flows from the borrower at the original loan interest rate, or if the loan is currently collateral-dependent, using the NRV, which was obtained through independent appraisals and internal evaluations. The following is a summary of TDRs, by portfolio segment, and the associated specific reserve included within the ALL as of the periods indicated:

	Number of Contracts		Recorded Investment		Specific Reserve	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Residential real estate	21	22	$3,245	$ 3,398	$511	$ 544
Commercial real estate	3	6	1,017	1,459	—	48
Commercial	13	9	1,711	399	—	11
Home equity	1	1	17	21	—	—
Total	38	38	$5,990	$ 5,277	$511	$ 603

At September 30, 2016, the Company had performing and non-performing TDRs with a recorded investment balance of $4.4 million and $1.6 million, respectively. At December 31, 2015, the Company had performing and non-performing TDRs with a recorded investment balance of $4.8 million and $446,000, respectively.

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

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

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

During the third quarter of 2016, the Company completed the restructure of one commercial relationship, which resulted in six TDRs. As part of the restructure the Company committed to lend additional funds of up to $280,000. The Company did not have any other commitments to lend additional funds to borrowers with loans classified as TDRs as of September 30, 2016.

For the nine months ended September 30, 2016 and 2015, no loans were modified as TDRs within the previous 12 months for which the borrower subsequently defaulted.

Impaired Loans:
Impaired loans consist of non-accrual and TDR loans that are individually evaluated for impairment in accordance with the Company's policy. The following is a summary of impaired loan balances and the associated allowance by portfolio segment as of and for three and nine months ended September 30, 2016 and 2015, and as of and for the year-ended December 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Three Months Ended Average Recorded Investment	Three Months Ended Interest Income Recognized[1]	Nine Months Ended Average Recorded Investment	Nine Months Ended Interest Income Recognized
September 30, 2016:							
With an allowance recorded:							
Residential real estate	$ 3,041	$ 3,041	$ 511	$ 3,050	$ 56	$ 3,108	$ 81
Commercial real estate	11,354	11,354	1,284	7,582	—	3,092	—
Commercial	—	—	—	1,782	—	1,016	—
Home equity	302	302	88	303	—	307	—
Consumer	—	—	—	—	—	—	—
HPFC	106	106	74	35	—	97	—
Ending balance	14,803	14,803	1,957	12,752	56	7,620	81
Without an allowance recorded:							
Residential real estate	1,510	1,996	—	1,731	7	2,275	7
Commercial real estate	1,932	2,427	—	2,015	33	2,322	37
Commercial	2,243	4,667	—	1,354	(11)	2,639	12
Home equity	187	374	—	188	3	181	—
Consumer	7	10	—	7	4	7	—
HPFC	—	—	—	—	—	—	—
Ending balance	5,879	9,474	—	5,295	36	7,424	56
Total impaired loans	$ 20,682	$ 24,277	$ 1,957	$ 18,047	$ 92	$ 15,044	$ 137
September 30, 2015:							
With an allowance recorded:							
Residential real estate	$ 3,581	$ 3,581	$ 645	$ 4,409	$ 55	$ 4,168	$ 82
Commercial real estate	468	501	280	86	—	259	—
Commercial	247	247	92	199	5	218	6
Home equity	303	303	89	—	—	135	—
Consumer	140	140	78	140	—	140	—
HPFC	—	—	—	—	—	—	—
Ending Balance	4,739	4,772	1,184	4,834	60	4,920	88
Without an allowance recorded:							
Residential real estate	1,619	2,118	—	1,774	4	1,607	6
Commercial real estate	3,269	3,430	—	3,102	18	2,735	45
Commercial	703	876	—	503	4	567	8
Home equity	203	454	—	303	—	390	—
Consumer	17	37	—	17	—	17	—
HPFC	—	—	—	—	—	—	—
Ending Balance	5,811	6,915	—	5,699	26	5,316	59
Total impaired loans	$ 10,550	$ 11,687	$ 1,184	$ 10,533	$ 86	$ 10,236	$ 147

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

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

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

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

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

OREO:
The Company records its properties obtained through foreclosure or deed-in-lieu of foreclosure as OREO properties on the consolidated statements of condition at NRV. At September 30, 2016, the Company had two residential and three commercial real estate properties with a carrying value of $75,000 and $736,000, respectively, within OREO. At December 31, 2015, the Company had two residential real estate properties and seven commercial properties with a carrying value of $241,000 and $1.0 million, respectively, within OREO.

In-Process Foreclosure Proceedings:

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

FHLB Advances:

FHLB advances are those borrowings from the FHLBB greater than 90 days. FHLB advances are collateralized by a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one- to four-family properties, certain commercial real estate loans, certain pledged investment securities and other qualified assets. The carrying value of residential real estate and commercial loans pledged as collateral was $1.1 billion at September 30, 2016 and December 31, 2015.

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

NOTE 6 – SBM ACQUISITION

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

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

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

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

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recognized goodwill and certain identifiable intangible assets in connection with certain business combinations in prior years.

Goodwill as of September 30, 2016 and December 31, 2015 for each reporting unit is shown in the table below:

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

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

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

	Core Deposit Intangible			Trust Relationship Intangible		
	Total	Accumulated Amortization	Net	Total	Accumulated Amortization	Net
Balance at December 31, 2015	$23,908	$ (15,392)	$8,516	$ 753	$ (602)	$ 151
2016 amortization	—	(1,371)	(1,371)	—	(56)	(56)
Balance at September 30, 2016	$23,908	$ (16,763)	$7,145	$ 753	$ (658)	$ 95
Total carrying value of other intangible assets at December 31, 2015						$ 8,667
Total carrying value of other intangible assets at September 30, 2016						$ 7,240

The following table reflects the expected amortization schedule for intangible assets over the period of estimated economic benefit (assuming no additional intangible assets are created or impaired):

	Core Deposit Intangible	Trust Relationship Intangible	Total
2016	$ 457	$ 19	$476
2017	1,735	76	1,811
2018	725	—	725
2019	705	—	705
2020	682	—	682
Thereafter	2,841	—	2,841
Total	$ 7,145	$ 95	$7,240

NOTE 8 – REGULATORY CAPITAL REQUIREMENTS

The Company and the Bank are subject to various regulatory capital requirements administered by the FRB and the OCC. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

The Company and the Bank are required to maintain certain levels of capital based on risk-adjusted assets. These capital requirements represent quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital classification is also subject to qualitative judgments by our regulators about components, risk weightings and other factors. The quantitative measures established to ensure capital adequacy require us to maintain minimum amounts and ratios of total, Tier I capital, and common equity Tier I to risk-weighted assets, and of Tier I capital to average assets, or leverage ratio. These guidelines apply to the Company on a consolidated basis.

Under the current guidelines, banking organizations must have a minimum total risk-based capital ratio of 8.0%, a minimum Tier I risk-based capital ratio of 6.0%, a minimum common equity Tier I risk-based capital ratio of 4.5%, and a minimum leverage ratio of 4.0% in order to be "adequately capitalized." In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of common Tier I equity, subject to a transition schedule with a full phase-in by 2019. Effective January 1, 2016, the Company and the Bank were required to establish a capital conservation buffer of 0.625%, increasing the minimum required total risk-based capital, Tier I risk-based and common equity Tier I capital to risk-weighted assets they must maintain to avoid limits on capital distributions and certain bonus payments to executive officers and similar employees.

The Company and the Bank's risk-based capital ratios exceeded regulatory guidelines at September 30, 2016 and December 31, 2015. The following table presents the Company and Bank's regulatory capital ratios at the periods indicated:

	September 30, 2016		Minimum Regulatory Capital Required for Capital Adequacy plus Capital Conservation Buffer	Minimum Regulatory Provision To Be "Well Capitalized" Under Prompt Corrective Action Provisions	December 31, 2015		Minimum Regulatory Capital Required for Capital Adequacy	Minimum Regulatory Provision To Be "Well Capitalized" Under Prompt Corrective Action Provisions
	Amount	Ratio			Amount	Ratio		
Camden National Corporation:								
Total risk-based capital ratio	$360,340	13.60%	8.63%	N/A	$335,740	12.98%	8.00%	N/A
Tier I risk-based capital ratio	322,037	12.16%	6.63%	N/A	299,552	11.58%	6.00%	N/A
Common equity Tier I risk-based capital ratio	287,562	10.86%	5.13%	N/A	269,350	10.42%	4.50%	N/A
Tier I leverage capital ratio	322,037	8.48%	4.00%	N/A	299,552	8.74%	4.00%	N/A
Camden National Bank:								
Total risk-based capital ratio	$327,403	12.34%	8.63%	10.00%	$304,847	11.75%	8.00%	10.00%
Tier I risk-based capital ratio	304,100	11.46%	6.63%	8.00%	283,659	10.93%	6.00%	8.00%
Common equity Tier I risk-based capital ratio	304,100	11.46%	5.13%	6.50%	283,659	10.93%	4.50%	6.50%

Tier I leverage capital ratio	304,100	8.06	%	4.00	%	5.00	%	283,659	8.33	%	4.00	%	5.00	%

In addition, the OCC requires a minimum level of $2.5 million of Tier I capital to be maintained at Acadia Trust. As of September 30, 2016 and December 31, 2015, Acadia Trust met all of its capital requirements.

On October 8, 2015, the Company issued $15.0 million of 10 year subordinated debentures bearing interest at an annual rate of 5.50%. In addition, $43.0 million of junior subordinated debentures were issued in connection with the issuance of trust preferred securities in 2006 and 2008. Although the subordinated debentures and the junior subordinated debentures are recorded as liabilities on the Company's consolidated statements of condition, the Company is permitted, in accordance with regulatory guidelines, to include, subject to certain limits, each within its calculation of risk-based capital. At September 30, 2016 and December 31, 2015, $15.0 million of subordinated debentures were included as Tier II capital and were included in the calculation of the Company's total risk-based capital, and, at September 30, 2016 and December 31, 2015, $43.0 million of the junior subordinated debentures were included in Tier I and total risk-based capital for the Company.

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NOTE 9 – INCOME TAXES

The Company's effective income tax rate for the three and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Income tax expense	$5,042	$3,127	$12,742	$9,191
Income before income taxes	$15,945	$9,583	$41,907	$28,451
Effective tax rate	31.6 %	32.6 %	30.4 %	32.3 %

For the three and nine months ended September 30, 2016, the Company had the following discrete period items impacting its effective tax rate:

- In the second quarter of 2016, the Company adopted ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 was adopted effective as of January 1, 2016. Prior to the adoption of ASU 2016-09, the Company accounted for its windfall tax benefits or shortfalls generated upon exercise of a non-qualified stock option or a disqualifying incentive stock option, or upon vesting of its restricted shares through shareholders' equity (or as income tax expense to the extent the Company did not have a windfall tax benefit surplus). Upon adoption, the Company has accounted for its windfall tax benefits and shortfalls generated within income tax expense on the consolidated statements of income as a discrete period item in the quarter generated. For the three and nine months ended September 30, 2016, the Company recorded net windfall tax benefits of $63,000 and $427,000, respectively, reducing the Company's effective tax rate and increasing net income for the respective periods.
- In the second quarter of 2016, the Company received death benefits from its BOLI policy from one of its insureds totaling $578,000, of which $394,000 was recognized as income on the consolidated statements of income within bank-owned life insurance. The income recognized was non-taxable reducing the Company's effective tax rate for the nine months ended September 30, 2016.

In conjunction with the SBM acquisition, the Company incurred $537,000 of equity issuance costs for the nine months ended September 30, 2015 related to the registration of additional shares of the Company's common stock. These costs were non-deductible for tax purposes and increased the Company's effective tax rate for the nine months ended September 30, 2015. The Company did not incur any equity issuance costs for the three months ended September 30, 2015.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The Company sponsors unfunded, non-qualified SERPs for certain officers and provides medical and life insurance to certain eligible retired employees. The components of net period benefit cost for the periods ended September 30, 2016 and 2015 were as follows:

Supplemental Executive Retirement Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net periodic benefit cost	2016	2015	2016	2015
Service cost	$77	$77	$231	$231
Interest cost	108	106	324	318
Recognized net actuarial loss	55	54	165	162

Recognized prior service cost	2	5	6	15
Net period benefit cost[1]	$242	$242	$726	$726

(1) Presented within the consolidated statements of income within salaries and employee benefits.

Other Postretirement Benefit Plan:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net periodic benefit cost	2016	2015	2016	2015
Service cost	$15	$15	$45	$45
Interest cost	38	29	114	87
Recognized net actuarial loss	8	6	24	18
Amortization of prior service credit	(6)	(6)	(18)	(18)
Net period benefit cost(1)	$55	$44	$165	$132

(1) Presented within the consolidated statements of income within salaries and employee benefits.

NOTE 11 – STOCK-BASED COMPENSATION PLANS

For the nine months ended September 30, 2016, the Company granted share-based awards, subject to certain terms and conditions, to certain officers, executive officers, and directors of the Company, Bank and Acadia Trust. All share-based awards granted were issued under the 2012 Plan. The following outlines the details, and terms and conditions of the material awards granted during the nine months ended September 30, 2016, adjusted for the three-for-two stock split effective as of September 30, 2016:

- 8,688 restricted stock awards were granted to executive officers under the 2016-2018 LTIP, at a fair value of $28.87 per share, based on the closing market price of the Company's common stock on January 4, 2016. The restricted stock awards vest pro-rata over a three year period. The holders of the restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.
- 10,734 restricted stock awards and restricted stock units were granted at a fair value of $27.20 per share, based on the closing market price of the Company’s common stock on the March 17, 2016 grant date. The restricted stock awards vest pro-rata over a five-year period, while the restricted stock units vest pro-rata over a three-year period subject to the achievement of certain performance measures. The holders of the restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.
- 16,000 shares of the Company's common stock were purchased under the MSPP at a one-third discount, based on the closing market price of the Company's common stock on the February 23, 2016 grant date of $25.41 (10,428 shares) and the March 17, 2016 grant date of $27.20 (5,572 shares), in lieu of the officers and executive officers annual incentive bonus. The shares fully vest after two years of service from the grant date.
- 4,094 deferred stock awards were issued to certain executive officers under the DCRP. Of the 4,094 awards granted, 1,741 vested immediately on the grant date, the remainder will vest pro-rata until the recipient reaches age 65. The stock awards have been determined to have a fair value of $27.03 per unit, based on the closing market price of the Company's common stock on the March 15, 2016 grant date.

- 7,308 unrestricted stock awards were issued to the directors of the Company and the Bank under the Independent Directors' Equity Compensation Program. The unrestricted stock awards fully vested immediately on the May 1, 2016 grant date. The fair value of the share awards issued was determined using the closing price of the Company's stock on April 29, 2016 of $29.01 per share.

12 – BORROWINGS

The following table summarizes other borrowed funds as presented on the consolidated statements of condition at:

	September 30, 2016	December 31, 2015
Short-Term Borrowings (mature within one year):		
FHLBB advances	$ 240,000	$ 255,000
Customer repurchase agreements	228,464	184,989
FHLBB and correspondent bank overnight borrowings	16,200	12,800
Wholesale repurchase agreements	5,019	25,000
Capital lease obligation	66	63
Total short-term borrowings	$ 489,749	$ 477,852
Long-Term Borrowings (maturity greater than one year):		
FHLBB advances	$ 10,000	$ 30,000
Capital lease obligation	808	859
Wholesale repurchase agreements	—	5,052
Total long-term borrowings	$ 10,808	$ 35,911

NOTE 13 – REPURCHASE AGREEMENTS

The Company can raise additional liquidity by entering into repurchase agreements at its discretion. In a security repurchase agreement transaction, the Company will generally sell a security, agreeing to repurchase either the same or substantially identical security on a specified later date, at a greater price than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense on the consolidated statement of income. The securities underlying the agreements are delivered to counterparties as security for the repurchase obligations. Since the securities are treated as collateral and the agreement does not qualify for a full transfer of effective control, the transactions does not meet the criteria to be classified as a sale, and is therefore considered a secured borrowing transaction for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement, the Company is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, the Company either deals with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Company's safekeeping agents.

The table below sets forth information regarding the Company’s repurchase agreements accounted for as secured borrowings and types of collateral as of September 30, 2016 and December 31, 2015:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30 - 90 Days	Greater than 90 Days	Total
September 30, 2016:					
Customer Repurchase Agreements:					
Obligations of states and political subdivisions	$613	$ —	$ —	$—	$613
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	155,336	—	—	—	155,336
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	72,515	—	—	—	72,515
Total Customer Repurchase Agreements	228,464	—	—	—	228,464
Wholesale Repurchase Agreements:					
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	—	—		3,642	3,642
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	—	—		1,377	1,377
Total Wholesale Repurchase Agreements	—	—	—	5,019	5,019
Total Repurchase Agreements	$228,464	$ —	$ —	$5,019	$233,483
December 31, 2015:					
Customer Repurchase Agreements:					
Obligations of states and political subdivisions	$556	$ —	$ —	$—	$556
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	95,967	—	—	—	95,967
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	88,466	—	—	—	88,466
Total Customer Repurchase Agreements	184,989	—	—	—	184,989
Wholesale Repurchase Agreements:					
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	—	—	—	22,016	22,016
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	—	—	—	8,036	8,036
Total Wholesale Repurchase Agreements	—	—	—	30,052	30,052
Total Repurchase Agreements	$184,989	$ —	$ —	$30,052	$215,041

Certain customers held CDs totaling $916,000 and $914,000 with the Bank at September 30, 2016 and December 31, 2015, respectively, that were collateralized by CMO and MBS securities that were overnight repurchase agreements.

Certain counterparties monitor collateral, and may request additional collateral to be posted from time to time.

NOTE 14 – FAIR VALUE MEASUREMENT AND DISCLOSURE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined using quoted market prices. However, in many instances, quoted market prices are not available. In such instances, fair values are determined using various valuation techniques. Various assumptions and observable inputs must be relied upon in applying these techniques. GAAP establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

GAAP permits an entity to choose to measure eligible financial instruments and other items at fair value. The Company has elected the fair value option for its loans held for sale. Electing the fair value option for loans held for sale enables the Company’s financial position to more clearly align with the economic value of the actively traded asset.

The fair value hierarchy for valuation of an asset or liability is as follows:

Level 1: Valuation is based upon unadjusted quoted prices in active markets for identical assets and liabilities that the entity has the ability to access as of the measurement date.

Level 2: Valuation is determined from quoted prices for similar assets or liabilities in active markets, from quoted prices for identical or similar instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3: Valuation is derived from model-based and other techniques in which at least one significant input is unobservable and which may be based on the Company’s own estimates about the assumptions that market participants would use to value the asset or liability.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon model-based techniques incorporating various assumptions including interest rates, prepayment speeds and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Financial Instruments Recorded at Fair Value on a Recurring Basis
Loans Held For Sale: The fair value of loans held for sale is determined using quoted secondary market prices or executed sales agreements and is classified as Level 2.

AFS Securities: The fair value of debt AFS securities is reported utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the bond’s terms and conditions. The fair value of debt securities are classified as Level 2.

The fair value of equity AFS securities is reported utilizing market prices based on recent trading activity. The equity securities are traded on inactive markets and are classified as Level 2.

Derivatives: The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3

inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of September 30, 2016 and December 31, 2015, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.

The fair value of interest rate lock commitments is determined based on current market prices for similar assets in the secondary market and, therefore, classified as Level 2 within the fair value hierarchy.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Company Determined Fair Value (Level 3)
September 30, 2016				
Financial assets:				
Loans held for sale	$24,644	$ —	$ 24,644	$ —
AFS securities:				
Obligations of U.S. government-sponsored enterprises	15,855	—	15,855	—
Obligations of states and political subdivisions	10,001	—	10,001	—
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	450,308	—	450,308	—
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	306,362	—	306,362	—
Subordinated corporate bonds	5,704	—	5,704	—
Equity securities	650	—	650	—
Customer loan swaps	14,212	—	14,212	—
Interest rate lock commitments	749	—	749	—
Financial liabilities:				
Junior subordinated debt interest rate swaps	12,678	—	12,678	—
FHLBB advance interest rate swaps	847	—	847	—
Customer loan swaps	14,212	—	14,212	—
December 31, 2015				
Financial assets:				
Loans held for sale	$10,958	$ —	$ 10,958	$ —
AFS securities:				
Obligations of U.S. government-sponsored enterprises	5,040	—	5,040	—
Obligations of states and political subdivisions	17,694	—	17,694	—
Mortgage-backed securities issued or guaranteed by U.S. government-sponsored enterprises	419,046	—	419,046	—
Collateralized mortgage obligations issued or guaranteed by U.S. government-sponsored enterprises	306,857	—	306,857	—
Subordinated corporate bonds	996	—	996	—
Equity securities	705	—	705	—
Customer loan swaps	3,166	—	3,166	—
Interest rate lock commitments	139	—	139	—
Financial liabilities:				
Junior subordinated debt interest rate swaps	9,229	—	9,229	—
FHLBB advance interest rate swaps	576	—	576	—
Customer loan swaps	3,166	—	3,166	—

The Company did not have any transfers between Level 1 and Level 2 of the fair value hierarchy during the nine months ended September 30, 2016. The Company's policy for determining transfers between levels occurs at the end of the reporting period when circumstances in the underlying valuation criteria change and result in transfer between levels.

Financial Instruments Recorded at Fair Value on a Nonrecurring Basis
The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period.

Collateral-Dependent Impaired Loans: Loans for which 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. The Company's policy is to individually evaluate for impairment loans with a principal balance greater than $250,000 or more and are classified as substandard or doubtful and are on non-accrual status. Once the population of loans is identified for individual impairment assessment, the Company measures these loans for impairment by comparing NRV, which is the fair value of the collateral, less estimated costs to sell, to the carrying value of the loan. If the NRV of the loan is less than the carrying value of the loan, then a loss is recognized as part of the ALL to adjust the loan's carrying value to NRV. Accordingly, certain collateral-dependent impaired loans are subject to measurement at fair value on a non-recurring basis. Management has estimated the fair values of these assets using Level 2 inputs, such as the fair value of collateral based on independent third-party market approach appraisals for collateral-dependent loans, and Level 3 inputs where circumstances warrant an adjustment to the appraised value based on the age of the appraisal and/or comparable sales, condition of the collateral, and market conditions.

MSRs: The Company accounts for mortgage servicing assets at cost, subject to impairment testing. When the carrying value of a tranche exceeds fair value, a valuation allowance is established to reduce the carrying cost to fair value. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The Company obtains a third-party valuation based upon loan level data including note rate, type and term of the underlying loans. The model utilizes a variety of observable inputs for its assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Other assumptions include delinquency rates, servicing cost inflation and annual unit loan cost. MSRs are classified within Level 2 of the fair value hierarchy.

Non-Financial Assets and Non-Financial Liabilities Recorded at Fair Value on a Non-Recurring Basis
The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Non-financial assets measured at fair value on a non-recurring basis consist of OREO and goodwill and other intangible assets.

OREO: OREO properties acquired through foreclosure or deed in lieu of foreclosure are recorded at NRV, which is the fair value of the real estate, less estimated costs to sell. Any write-down of the recorded investment in the related loan is charged to the ALL upon transfer to OREO. Upon acquisition of a property, a current appraisal is used or an internal valuation is prepared to substantiate fair value of the property. After foreclosure, management periodically, but at least annually, obtains updated valuations of the OREO properties and, if additional impairments are deemed necessary, the subsequent write-downs for declines in value are recorded through a valuation allowance and a provision for losses charged to other non-interest expense within the consolidated statements of income. As management considers appropriate, adjustments are made to the appraisal obtained for the OREO property to account for recent sales activity of comparable properties, changes in the condition of the property, and changes in market conditions. These adjustments are not observable in an active market and are classified as Level 3.

Goodwill and Other Intangible Assets: Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. The fair value of goodwill is estimated by utilizing several standard valuation techniques, including discounted cash flow analyses, bank merger multiples, and/or an estimation of the impact of business conditions and investor activities on the long-term value of the goodwill. Should an impairment of either reporting unit's goodwill occur, the associated goodwill is written-down to fair value and the impairment charge is recorded within non-interest expense in the consolidated statements of income. The Company conducts an annual impairment

test of goodwill in the fourth quarter each year, or more frequently as necessary. There have been no indications or triggering events during for the nine months ended September 30, 2016 for which management believes that it is more likely than not that goodwill is impaired.

The Company's core deposit intangible assets represent the estimated value of acquired customer relationships and are amortized on a straight-line basis over the estimated life of those relationships. Core deposit intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If necessary, management will test the core deposit intangibles for impairment by comparing its carrying value to the expected undiscounted cash flows of the assets. If the undiscounted cash flows of the intangible assets exceed its carrying value then the intangible assets are deemed to be fully recoverable and not impaired. However, if the undiscounted cash flows of the intangible assets are less than its carrying value, then an impairment charge is recorded to mark the carrying value of the intangible assets to fair value. There were no events or changes in circumstances for the nine months ended September 30, 2016 that indicated the carrying amount may not be recoverable.

The table below highlights financial and non-financial assets measured and recorded at fair value on a non-recurring basis as of September 30, 2016 and December 31, 2015.

	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Data (Level 2)	Company Determined Fair Value (Level 3)
September 30, 2016				
Financial assets:				
Collateral-dependent impaired loans	$10,563	$ —	$ —	$ 10,563
MSRs(1)	1,328	—	1,328	—
Non-financial assets:				
OREO	811	—	—	811
December 31, 2015				
Financial assets:				
Collateral-dependent impaired loans	$1,971	$ —	$ —	$ 1,971
MSRs(1)	440	—	440	—
Non-financial assets:				
OREO	1,304	—	—	1,304

(1) Represents MSRs deemed to be impaired and a valuation allowance established to carry at fair value.

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a non-recurring basis at September 30, 2016 and December 31, 2015:

	Fair Value	Valuation Methodology	Unobservable input	Discount Range (Weighted-Average)	
September 30, 2016					
Collateral-dependent impaired loans:					
Partially charged-off	$ 109	Market approach appraisal of collateral	Management adjustment of appraisal	0%	(0%)
			Estimated selling costs	0 - 10%	(8%)
Specifically reserved	10,454	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 60%	(58%)
			Estimated selling costs	0 - 28%	(1%)
OREO	811	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 73%	(11%)
			Estimated selling cost	10%	(10%)
December 31, 2015					
Collateral-dependent impaired loans:					
Partially charged-off	$ 399	Market approach appraisal of collateral	Management adjustment of appraisal	0%	(0%)
			Estimated selling costs	0 - 10%	(7%)
Specifically reserved	1,572	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 57%	(45%)
			Estimated selling costs	10%	(10%)
OREO	1,304	Market approach appraisal of collateral	Management adjustment of appraisal	0 - 43%	(18%)
			Estimated selling costs	10%	(10%)

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The following methods and assumptions were used by the Company in estimating the fair values of its other financial instruments.

Cash and Due from Banks: The carrying amounts reported in the consolidated statements of condition approximate fair value.

HTM securities: The fair value is estimated utilizing prices provided by an independent pricing service based on recent trading activity and other observable information including, but not limited to, dealer quotes, market spreads, cash flows, market interest rate curves, market consensus prepayment speeds, credit information, and the bond’s terms and conditions. The fair value is classified as Level 2.

Loans: For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Interest Receivable and Payable: The carrying amounts reported in the consolidated statements of condition approximate fair value.

Deposits: The fair value of demand, interest checking, savings and money market deposits is determined as the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the estimated future cash flows using market rates offered for deposits of similar remaining maturities.

Borrowings: The carrying amounts of short-term borrowings from the FHLB, securities sold under repurchase agreements, notes payable and other short-term borrowings approximate fair value. The fair values of long-term borrowings and commercial repurchase agreements are based on the discounted cash flows using current rates for advances of similar remaining maturities.

Subordinated Debentures: The fair values of are based on quoted prices from similar instruments in inactive markets.

The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities measured at September 30, 2016:

	Carrying Amount	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Prices (Level 2)	Company Determined Market Prices (Level 3)
Financial assets:					
Cash and due from banks	$99,458	$99,458	$ 99,458	$—	$ —
AFS securities	788,880	788,880	—	788,880	—
HTM securities	94,205	98,096	—	98,096	—
Loans held for sale	24,644	24,644	—	24,644	—
Residential real estate loans[1]	792,441	787,857	—	—	787,857
Commercial real estate loans[1]	1,041,727	1,024,750	—	—	1,024,750
Commercial loans[1][2]	386,769	390,021	—	—	390,021
Home equity loans[1]	330,528	331,821	—	—	331,821
Consumer loans[1]	17,254	18,221	—	—	18,221
MSRs[3]	1,363	1,328	—	1,328	—
Interest receivable	8,364	8,364	—	8,364	—
Customer loan swaps	14,212	14,212	—	14,212	—
Interest rate lock commitments	749	749	—	749	—
Financial liabilities:					
Deposits	$2,889,225	$2,892,196	$ —	$2,892,196	$ —
Short-term borrowings	489,749	490,654	—	490,654	—
Long-term borrowings	10,808	11,002	—	11,002	—
Subordinated debentures	58,716	40,800	—	40,800	—
Interest payable	490	490	—	490	—
Junior subordinated debt interest rate swaps	12,678	12,678	—	12,678	—
FHLBB advance interest rate swaps	847	847	—	847	—
Customer loan swaps	14,212	14,212	—	14,212	—

(1) The presented carrying amount is net of the allocated ALL.
(2) Includes the HPFC loan portfolio.
(3) Reported fair value represents all MSRs currently being serviced by the Company, regardless of carrying amount.

The following table presents the carrying amounts and estimated fair value for financial instrument assets and liabilities measured at December 31, 2015:

	Carrying Amount	Fair Value	Readily Available Market Prices (Level 1)	Observable Market Prices (Level 2)	Company Determined Market Prices (Level 3)
Financial assets:					
Cash and due from banks	$79,488	$79,488	$ 79,488	$—	$ —
AFS securities	750,338	750,338	—	750,338	—
HTM securities	84,144	85,647	—	85,647	—
Loans held for sale	10,958	10,958	—	10,958	—
Residential real estate loans[1]	808,180	820,774	—	—	820,774
Commercial real estate loans[1]	922,257	911,316	—	—	911,316
Commercial loans[1][2]	371,684	371,854	—	—	371,854
Home equity loans[1]	349,215	348,963	—	—	348,963
Consumer loans[1]	17,704	18,163	—	—	18,163
MSRs[3]	2,161	2,947	—	2,947	—
Interest receivable	7,985	7,985	—	7,985	—
Customer loan swaps	3,166	3,166	—	3,166	—
Interest rate lock commitments	139	139	—	139	—
Financial liabilities:					
Deposits	$2,726,379	$2,726,300	$ —	$2,726,300	$ —
Short-term borrowings	477,852	479,403	—	479,403	—
Long-term borrowings	35,911	36,307	—	36,307	—
Subordinated debentures	58,599	42,950	—	42,950	—
Interest payable	641	641	—	641	—
Junior subordinated debt interest rate swaps	9,229	9,229	—	9,229	—
FHLBB advance interest rate swaps	576	576	—	576	—
Customer loan swaps	3,166	3,166	—	3,166	—

(1) The presented carrying amount is net of the allocated ALL.
(2) Includes the HPFC loan portfolio.
(3) Reported fair value represents all MSRs currently being serviced by the Company, regardless of carrying amount.

NOTE 15 – COMMITMENTS, CONTINGENCIES AND DERIVATIVES

Legal Contingencies

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

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

As of September 30, 2016 and December 31, 2015, the Company did not have any material loss contingencies for which accruals were provided for and/or disclosure was deemed necessary.

In the third quarter of 2016, the Company, as claimant, received legal proceeds from the settlement of a legal matter of $638,000. The proceeds have been recorded within other income on the Company's consolidated statements of income for three and nine months ended September 30, 2016.

Financial Instruments
In the normal course of business, the Company is a party to both on- and off-balance sheet financial instruments involving, to varying degrees, elements of credit risk and interest rate risk in addition to the amounts recognized in the consolidated statements of condition.

The following is a summary of the contractual and notional amounts of the Company’s financial instruments:

	September 30, 2016	December 31, 2015
Lending-Related Instruments:		
Loan origination commitments and unadvanced lines of credit:		
Home equity	$ 469,849	$ 464,701
Commercial and commercial real estate	55,663	94,791
Residential	23,341	16,256
Letters of credit	2,905	4,468
Other commitments	451	433
Derivative Financial Instruments:		
Customer loan swaps	$ 537,904	$ 285,888
FHLBB advance interest rate swaps	50,000	50,000
Junior subordinated debt interest rate swaps	43,000	43,000
Interest rate lock commitments	55,221	20,735

Lending-Related Instruments
The contractual amounts of the Company’s lending-related financial instruments do not necessarily represent future cash requirements since certain of these instruments may expire without being funded and others may not be fully drawn upon. These instruments are subject to the Company’s credit approval process, including an evaluation of the customer’s creditworthiness and related collateral requirements. Commitments generally have fixed expiration dates or other termination clauses.

Derivative Financial Instruments
The Company uses derivative financial instruments for risk management purposes (primarily interest rate risk) and not for trading or speculative purposes. The Company controls the credit risk of these instruments through collateral, credit approvals and monitoring procedures. Additionally, as part of Company's normal mortgage origination process, it provides 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, the Company is subject to the risk of interest rate change. In an effort to mitigate such risk the Company may enter into forward delivery sales commitments, typically on a "best-efforts" basis, with certain approved investors.

Derivative instruments are carried at fair value in the Company’s financial statements. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies and has been designated as a hedge for accounting purposes, and further, by the type of hedging relationship.

The Company has designated its interest rate swaps on its junior subordinated debentures and its interest rate swaps on forecasted 30-day FHLBB borrowings as cash flow hedges. The change in the fair value of the Company's cash flow hedges is accounted for within OCI, net of tax. Quarterly, in conjunction with financial reporting, the Company assesses each cash flow hedge for ineffectiveness. To the extent any significant ineffectiveness is identified, this

amount is recorded within the consolidated statements of income. Furthermore, the Company will reclassify the gain or loss on the effective portion of the cash flow hedge from OCI into interest within the consolidated statements of income in the period the hedged transaction affects earnings.

The change in fair value of the Company's other derivative instruments, not designated and qualifying as hedges, are accounted for within the consolidated statements of income.

Junior Subordinated Debt Interest Rate Swaps:
The Company, from time to time, will enter into an interest rate swap agreement with a counterparty to manage interest rate risk associated with its variable rate borrowings. The Company’s interest rate swap arrangements contain provisions that require the Company to post cash collateral with the counterparty for contracts that are in a net liability position based on their fair values and the Company’s credit rating. If the interest rate swaps are in a net asset position based on their fair value, the counterparty is required to post collateral to the Company. The collateral posted by the Company (or counterparty) is not readily available and has been presented within cash and due from banks on the consolidated statements of condition. At September 30, 2016 and December 31, 2015, the Company had a notional amount of $43.0 million in variable-for-fixed interest rate swap agreements on its junior subordinated debentures and $13.5 million of cash as collateral to the counterparty at September 30, 2016.

The details of the interest rate swap agreements are as follows:

					September 30, 2016	December 31, 2015
Notional Amount	Trade Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Fair Value(1)	Fair Value(1)
$10,000	3/18/2009	6/30/2021	3-Month USD LIBOR	5.09%	$ (1,193)	$ (1,038)
10,000	7/8/2009	6/30/2029	3-Month USD LIBOR	5.84%	(3,438)	(2,537)
10,000	5/6/2010	6/30/2030	3-Month USD LIBOR	5.71%	(3,473)	(2,477)
5,000	3/14/2011	3/30/2031	3-Month USD LIBOR	4.35%	(1,832)	(1,301)
8,000	5/4/2011	7/7/2031	3-Month USD LIBOR	4.14%	(2,742)	(1,876)
$43,000					$ (12,678)	$ (9,229)

(1) Presented within accrued interest and other liabilities on the consolidated statements of condition.

For the three and nine months ended September 30, 2016 or 2015, the Company did not record any ineffectiveness on these cash flow hedges within the consolidated statements of income.

Net payments to the counterparty for the nine months ended September 30, 2016 and 2015 were $1.2 million and $1.3 million and have been classified as cash flows from operating activities in the consolidated statements of cash flows.

FHLBB Advance Interest Rate Swaps:
The Bank has two interest rate swap arrangements with a counterparty on two tranches of 30-day FHLBB advances with a total notional amount of $50.0 million. Each derivative arrangement commenced on February 25, 2016, with one contract set to expire on February 25, 2018 and the other on February 25, 2019. The Bank entered into these interest rate swaps to mitigate its interest rate exposure on borrowings in a rising interest rate environment. The Bank has designated each arrangement as a cash flow hedge in accordance with GAAP, and, therefore, the change in unrealized gains or losses on the derivative instruments is recorded within AOCI, net of tax. Also, quarterly, in conjunction with financial reporting, the Company assesses each derivative instrument for ineffectiveness. To the extent any significant ineffectiveness is identified this amount would be recorded within the consolidated statements of income. For the three and nine months ended September 30, 2016, the Company did not record any ineffectiveness within the consolidated statements of income.

The Bank's arrangement with the counterparty requires it to post cash collateral for contracts in a net liability position based on their fair values and the Bank's credit rating. If the interest rate swaps are in a net asset position based on their fair value, the counterparty is required to post collateral to the Company. The collateral posted by the Company (or counterparty) is not readily available and is presented within cash and due from banks on the consolidated statements of condition. At September 30, 2016, the Bank posted cash collateral to the counterparty of $898,000.

The details of the interest rate swap agreements are as follows:

Notional Amount	Trade Date	Maturity Date	Variable Index Received	Fixed Rate Paid	September 30, 2016 Fair Value[1]	December 31, 2015 Fair Value[1]
$25,000	2/25/2015	2/25/2018	1-Month USD LIBOR	1.54%	$ (288)	$ (230)
25,000	2/25/2015	2/25/2019	1-Month USD LIBOR	1.74%	(559)	(346)
$50,000					$ (847)	$ (576)

(1) Presented within accrued interest and other liabilities on the consolidated statements of condition.

Net payments to the counterparty for the nine months ended September 30, 2016 were $351,000 and have been classified as cash flows from operating activities in the consolidated statements of cash flows.

Customer Loan Swaps:
The Company will enter into interest rate swaps with its commercial customers, from time to time, to provide them with a means to lock into a long-term fixed rate, while simultaneously the Company enters into an arrangement with a counterparty to swap the fixed rate to a variable rate to allow it to effectively manage its interest rate exposure.

The Company's customer loan level derivative program is not designated as a hedge for accounting purposes. As the interest rate swap agreements have substantially equivalent and offsetting terms, they do not materially change the Company’s interest rate risk or present any material exposure to the Company's consolidated statements of income. The Company records its customer loan swaps at fair value and presents such on a gross basis within other assets and accrued interest and other liabilities on the consolidated statements of condition.

The following table presents the total positions, notional and fair value of the Company's customer loans swaps with its commercial customers and the corresponding interest rate swap agreements with counterparty for the periods indicated:

	September 30, 2016			December 31, 2015		
	Number of Positions	Notional	Fair Value	Number of Positions	Notional	Fair Value
Receive fixed, pay variable(1)	50	$268,952	$14,212	28	$142,944	$3,166
Pay fixed, received variable(2)	50	268,952	(14,212)	28	142,944	(3,166)

(1) Presented within other assets on the consolidated statements of condition.
(2) Presented within accrued interest and other liabilities on the consolidated statements of condition.

The Company seeks to mitigate its customer counterparty credit risk exposure through its loan policy and underwriting process, which includes credit approval limits, monitoring procedures, and obtaining collateral, where appropriate. The Company seeks to mitigate its institutional counterparty credit risk exposure by limiting the institutions for which it will enter into interest swap arrangements through an approved listing by the Company's board of directors. The Company's arrangement with an institutional counterparty requires it to post collateral for contracts in a net liability position based on their fair values and the Bank's credit rating or receive collateral for contracts in a net asset position. At September 30, 2016, the Company posted cash collateral with the counterparty of $15.1 million. The collateral posted by the Company (or counterparty) is not readily available and is presented within cash and due from banks on the consolidated statements of condition.

Interest Rate Locks Commitments:
As part of originating residential and commercial loans, the Company may enter into rate lock agreements with customers and may issue commitment letters to customers, which are considered interest rate lock commitments. At September 30, 2016 and December 31, 2015, our pipeline of mortgage loans with interest rate lock commitments were as follows:

	September 30, 2016		December 31, 2015	
	Notional	Fair Value	Notional	Fair Value
Mortgage interest rate locks(1)	$55,221	$ 749	$20,735	$ 139

(1) Presented within other assets on the consolidated statements of condition.

For the three months ended September 30, 2016 and 2015, the unrealized gains from the change in fair value on the Company's mortgage interest rate locks reported within mortgage banking income, net, on the consolidated statements of income were $226,000 and $14,000, respectively. For the nine months ended September 30, 2016 and 2015, the unrealized gains from the change in fair value on the Company's mortgage interest rate locks were $610,000 and $33,000, respectively.

The table below presents the effect of the Company’s derivative financial instruments included in OCI and current earnings for the periods indicated:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2016	2015	2016	2015

Derivatives designated as cash flow hedges				
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax (effective portion)	$546	$(1,763)	$(2,464)	$(1,241)
Net reclassification adjustment for effective portion of cash flow hedges included in interest expense, gross	$534	$775	$1,521	$1,276

The Company expects approximately $1.9 million (pre-tax) to be reclassified to interest expense from OCI, related to the Company's cash flow hedges, in the next twelve months. This reclassification is due to anticipated payments that will be made and/or received on the swaps based upon the forward curve as of September 30, 2016.

NOTE 16 – RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The ASU was issued to provide guidance on eight specific cash flow issues with the objective of reducing diversity in practice. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within that fiscal year. The Company does not expect the ASU to have a material effect on its consolidated financial statements.

In the second quarter of 2016, the Company elected to early adopt ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, issued by the FASB in March 2016. The Company applied the provisions of the ASU effective as of January 1, 2016, and, as such, previously reported balances on the Company's consolidated statements of income for the three months ended March 31, 2016 were updated to account for the ASU adoption as follows:

	Three Months Ended March 31, 2016		
	As Previously Reported	As Adjusted	Change
Net income	$8,334	$ 8,646	$ 312
Basic EPS[(1)]	$0.54	$ 0.56	$ 0.02
Diluted EPS[(1)]	$0.54	$ 0.56	$ 0.02

(1) Period presented adjusted for three-for-two stock split on September 30, 2016. Refer to Note 2.

Two of the more significant provisions of the ASU that impacted the Company's consolidated financial statements were (i) the accounting for windfall tax benefits or shortfalls within income tax expense as a discrete period item in the quarter the event occurred and (ii) a policy election to not estimate the forfeiture rate on unvested share-based compensation awards. As a result of the ASU adoption in the second quarter of 2016, net income for the three and nine months ended September 30, 2016 increased $63,000 and $425,000, respectively. Basic and diluted EPS both increased $0.02 per share for the nine months ended September 30, 2016 upon adoption of the ASU, while for the three months ended September 30, 2016 there was no change to basic or diluted EPS.

In accordance with the ASU, the Company applied the provisions to account for windfall tax benefits or shortfalls within income tax expense on a prospective basis as of January 1, 2016. In accordance with the ASU, the Company applied its policy election to not estimate the forfeiture rate on unvested share-based compensation awards on a modified-retrospective basis. The impact of such resulted in a reclassification of $72,000 from retained earnings to common stock shown as a cumulative effect adjustment on the consolidated statements of changes in shareholders' equity. The other provisions of the ASU did not have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU was issued to require timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years, for public companies. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods within that fiscal year. The Company is evaluating the potential impact of the ASU; however, anticipates that it will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and liabilities (including operating

leases) on the balance sheet and disclosing key information about leasing arrangements. Current lease accounting does not require the inclusion of operating leases in the balance sheet. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, early application is permitted. The Company expects the ASU will have a material effect on its consolidated financial statements and is currently evaluating the impact.

In January 2016, the FASB issued ASU No. 2016-01, Income Statement - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities. The ASU was issued to enhance the reporting

model for financial instruments to provide the users of financial statements with more useful information for decisions. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for only one of the six amendments, otherwise it is not permitted. The Company is evaluating the potential impact of the ASU on its consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The ASU was issued to defer the effective date of Update 2014-09, Revenue from Contracts with Customers (Topic 606), for all entities by one year. ASU 2014-09 was issued to clarify the principles for recognizing revenue and to develop a common revenue standard. ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company continues to evaluate the potential impact of ASU 2014-09, as updated by ASU 2015-14, but currently does not expect the ASU to have a material effect on its consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollar Amounts in Tables Expressed in Thousands, Except Per Share Data)

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;
- changes in accounting policies, practices and standards, as may be adopted by the regulatory agencies as well as the FASB and other accounting standard setters; and
- the ability of the Company to achieve cost savings as a result of the merger or in achieving such cost savings within the projected timeframe.

You should carefully review all of these factors, and be aware that there may be other factors that could cause differences, including the risk factors listed in Part II, Item 1A. “Risk Factors” of this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, as updated by the Company's quarterly reports on Form 10-Q, including this report, and other filings with the Securities and Exchange Commission. 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 undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes, except to the extent required by applicable law or regulation.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are 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 credit losses; (ii) accounting for acquisitions and the subsequent review of goodwill and other identifiable intangible assets generated in an acquisition for impairment; (iii) OTTI of investments; (iv) accounting for postretirement plans; and (v) income taxes. There have been no material changes to our critical accounting policies as disclosed within our Annual Report on Form 10-K for the year ended December 31, 2015. Refer to the Annual Report on Form 10-K for the year ended December 31, 2015 for discussion of the Company's critical accounting policies.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATION TO GAAP

In addition to evaluating our results of operations in accordance with GAAP, management supplements this evaluation with an analysis of certain non-GAAP financial measures. We believe these non-GAAP financial measures help investors to understand our operating performance and trends and allow for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of certain items that may obscure trends in our underlying performance. These disclosures should not be viewed as a substitute for GAAP financial results, nor are they necessarily comparable to non-GAAP financial measures that may be presented by other financial institutions.

Efficiency Ratio. The efficiency ratio, which represents an approximate measure of the cost required for the Company to generate a dollar of revenue, is the ratio of (i) total non-interest expense, excluding merger and acquisition costs (the numerator) to (ii) net interest income on a fully taxable equivalent basis (assumed 35% tax rate) plus total non-interest income, adjusted for net gain on sale of securities, BOLI death benefits and legal settlement proceeds (the denominator). Certain revenues are excluded from reported non-interest income and certain expenses are excluded from reported non-interest expense to remove the effect of certain transactions as we do not believe these depict our normal run-rate operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Non-interest expense, as presented	$22,149	$16,711	$67,388	$49,669
Less: merger and acquisition costs	(45)	(766)	(866)	(1,629)
Adjusted non-interest expense	$22,104	$15,945	$66,522	$48,040
Net interest income, as presented	$28,372	$20,012	$84,828	$60,081
Add: effect of tax-exempt income	533	483	1,588	1,239
Non-interest income, as presented	11,001	6,561	29,470	19,018
Less: net gain on sale of securities	—	(4)	(4)	(4)
Less: BOLI death benefits	—	—	(394)	—
Less: legal settlement proceeds	(638)	—	(638)	—
Adjusted net interest income plus non-interest income	$39,268	$27,052	$114,850	$80,334
Non-GAAP efficiency ratio	56.29 %	58.94 %	57.92 %	59.80 %
GAAP efficiency ratio	56.25 %	62.89 %	58.96 %	62.79 %

Tax Equivalent Net Interest Income. Tax-equivalent net interest income is net interest income plus the taxes that would have been paid (assumed 35% tax rate) had tax-exempt securities been taxable. This number attempts to

enhance the comparability of the performance of assets that have different tax implications.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest income, as presented	$28,372	$20,012	$84,828	$60,081
Add: effect of tax-exempt income	533	483	1,588	1,239
Net interest income, tax equivalent	$28,905	$20,495	$86,416	$61,320

Tangible Book Value Per Share and Tangible Common Equity Ratio. Tangible book value per share is the ratio of (i) shareholders' equity less goodwill and other intangibles (the numerator) to (ii) total common shares outstanding at period end (the denominator). We believe this is a meaningful measure as it provides information to assess capital adequacy and is a common measure within our industry.

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

	September 30, 2016	December 31, 2015
Tangible Book Value Per Share		
Shareholders' equity	$393,181	$363,190
Less: goodwill and other intangibles	(101,937)	(104,324)
Tangible shareholders' equity	$291,244	$258,866
Shares outstanding at period end	15,434,856	15,330,717
Tangible book value per share	$18.87	$16.89
Book value per share	$25.47	$23.69
Tangible Common Equity Ratio		
Total assets	$3,903,966	$3,709,344
Less: goodwill and other intangibles	(101,937)	(104,324)
Tangible assets	$3,802,029	$3,605,020
Tangible common equity ratio	7.66 %	7.18 %
Shareholders' equity to assets	10.07 %	9.79 %

Return On Average Tangible Equity. Return on average tangible equity is the ratio of (i) net income, adjusted for tax effected amortization of intangible assets, net of tax (the numerator) to (ii) average shareholders' equity, less average goodwill and other intangible assets (the denominator). We believe this is a meaningful measure of our financial performance as it reflects our return on tangible equity in our business, excluding amortization of intangible assets. The return on average tangible equity is a common measure of operating performance within our industry.

Core Return On Average Tangible Equity. Core return on average tangible equity is the ratio of (i) net income, adjusted for (a) tax effected amortization of intangible assets, net of tax and (b) merger and acquisition costs, net of tax (the numerator) to (ii) average shareholders' equity, adjusted for average goodwill and other intangible assets. We believe this is a meaningful measure of our financial performance as it reflects our return on tangible equity in our business, excluding the financial impact of transactions that management does not believe are reflective of its core operating activities and the amortization of intangible assets.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income, as presented	$10,903	$6,456	$29,165	$19,260
Amortization of intangible assets, net of tax[(1)]	309	187	928	560
Net income, adjusted	$11,212	$6,643	$30,093	$19,820
Merger and acquisition costs, net of tax[(2)]	30	498	562	1,266
Core tangible operating earnings	$11,242	$7,141	$30,655	$21,086
Average shareholders' equity	$387,972	$256,326	$378,647	$252,802
Less: average goodwill and other intangible assets	(102,168)	(47,446)	(103,054)	(47,730)
Average tangible equity	$285,804	$208,880	$275,593	$205,072
Return on average equity	11.18 %	9.99 %	10.29 %	10.19 %

Return on average tangible equity	15.61 %	12.62 %	14.59 %	12.92 %
Core return on average tangible equity	15.65 %	13.56 %	14.86 %	13.75 %

(1) Assumed a 35% tax rate.
(2) Assumed a 35% tax rate for deductible expenses.

Core Operating Earnings and Core Diluted EPS. The following tables provide a reconciliation of GAAP net income and GAAP diluted EPS for the three and nine months ended September 30, 2016 and 2015 to exclude the financial impact of certain transactions for which management does not believe are representative of its core operations. Management utilizes core operating earnings and core diluted EPS to compare and assess financial results period-over-period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Core Operating Earnings:				
Net income, as presented	$10,903	$6,456	$29,165	$19,260
Merger and acquisition costs, net of tax[1]	30	498	562	1,266
Core operating earnings	$10,933	$6,954	$29,727	$20,526
Core Diluted EPS:				
Diluted EPS, as presented	$0.70	$0.57	$1.88	$1.71
Non-core transactions impact	—	0.05	0.03	0.12
Core diluted EPS	$0.70	$0.62	$1.91	$1.83

(1) Assumed a 35% tax rate for deductible expenses.

Normalized Net Interest Margin. Normalized net interest margin represents our net interest margin for the three and nine months ended, adjusted to exclude the effects of (a) fair value mark accretion from purchase accounting and (b) the collection of previously charged-off acquired loans (numerator) over average total interest-earning assets (denominator). Management believes this is a meaning financial measure as it excludes the financial impact of certain transactions that we do not believe are representative of our core operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest income, tax equivalent, as presented	$28,905	$20,495	$86,416	$61,320
Less: fair value mark accretion from purchase accounting	(1,030)	(23)	(4,170)	(75)
Less: collection of previously charged-off acquired loans	(208)	—	(984)	—
Normalized net interest income, tax equivalent	$27,667	$20,472	$81,262	$61,245
Average total interest-earnings assets	$3,526,353	$2,634,481	$3,457,434	$2,607,816
Net interest margin (fully-taxable equivalent)[1]	3.24%	3.08%	3.31%	3.12%
Normalized net interest margin (fully-taxable equivalent)[1]	3.10%	3.08%	3.11%	3.12%

(1) Annualized.

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EXECUTIVE OVERVIEW

In the third quarter of 2016, we announced two major strategic initiatives, including a three-for-two split of the Company's common stock effective September 30, 2016 and the proposed merger of of Acadia Trust into the Bank and creating Camden National Wealth Management. The proposed merger of Acadia Trust into the Bank will align all of our brands, including our brokerage group, Camden Financial Consultants, to provide a comprehensive offering of banking, wealth management and brokerage products and services. Subject to regulatory approval, we expect that the merger of Acadia Trust into the Bank will occur in the fourth quarter of 2016.

Net income for the three and nine months ended September 30, 2016 was $10.9 million and $29.2 million, respectively, compared to $6.5 million and $19.3 million for the same periods last year. Diluted EPS for the three and nine months ended September 30, 2016 was $0.70 per share and $1.88 per share, respectively, representing an increase of 23% and 10% compared to the same periods last year. Our strong performance reflects the growth from our traditional markets and those acquired through our merger in October 2015, as well as our continued focus on operating efficiencies. For the nine months ended September 30, 2016, our return on average assets increased 11 basis points to 1.02% and our return on average shareholders' equity increased 10 basis points to 10.29% compared to the same period last year.

Loan growth (excluding loans held for sale) of $101.8 million for the nine months ended September 30, 2016, or 5% annualized, was driven by our commercial loan portfolio, which increased $141.5 million since year-end. The growth within our commercial loan portfolio was centered in commercial real estate, which increased $126.4 million since year-end. Our retail loan portfolio decreased $39.7 million since year-end with a decline in our residential and consumer loan portfolio of 3% and 4%, respectively, since year-end. For the nine months ended September 30, 2016, the Company originated $291.6 million of residential mortgages and sold approximately 70% of this production.

Total deposits at September 30, 2016 were $2.9 billion, representing an increase of $162.8 million since year-end. Core deposits (demand, interest checking, savings and money market) at September 30, 2016 totaled $2.2 billion, representing an increase of $159.7 million, or 11% annualized, since year-end. Total borrowings at September 30, 2016 were $559.3 million, representing $13.1 million decrease since year-end.

Tangible book value per share[1] increased 12% to $18.87 at September 30, 2016 since year-end. The Company declared cash dividends of $0.60 per share for the nine months ended September 30, 2016, representing a dividend payout ratio of 31.99%.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the interest earned on loans, securities, and other interest-earning assets, plus net loan fees, origination costs, and accretion or amortization of fair value marks on loans and/or CDs created in purchase accounting, less the interest paid on interest-bearing deposits and borrowings. Net interest income, which is our largest source of revenue and accounts for 74% and 76% of total revenues (net interest income and non-interest income) for the nine months ended September 30, 2016 and 2015, respectively, is affected by factors including, but not limited to, changes in interest rates, loan and deposit pricing strategies and competitive conditions, the volume and mix of interest-earning assets and liabilities, and the level of non-performing assets.

Net Interest Income - Three months ended September 30, 2016 and 2015. Net interest income was $28.9 million on a fully-taxable equivalent basis for the third quarter of 2016 compared to $20.5 million for the same period last year, representing an increase of $8.4 million, or 41%. The increase was driven by higher average interest-earning assets of $891.9 million, or 34%, due to the acquisition of $628.0 million of loans and $39.7 million of investments in the

fourth quarter of 2015 as part of the SBM acquisition, combined with strong organic loan growth period-over-period. Our average loan balance for the third quarter of 2016 totaled $2.6 billion, representing an increase of $788.4 million, or 43%, over the third quarter of 2015. Our NIM (fully-taxable equivalent) for the third quarter of 2016 increased 16 basis points to 3.24% over the third quarter of 2015. Our third quarter 2016 NIM (fully-taxable equivalent) benefited from HPFC's higher yielding commercial loans, which will continue to decrease through normal amortization and payoffs of the existing portfolio as we are no longer originating these loans; from accretion of the loan and CD fair value marks created in purchase accounting totaling $1.0 million for the third quarter of 2016; and collection of previously charged-off acquired SBM loans of $208,000 for the third quarter of 2016. Excluding these transactions, our normalized NIM on a fully-taxable equivalent basis for the third quarter of 2016 was 3.10%, compared to 3.08% for the third quarter of 2015.

For the three months ended September 30, 2016, our interest expense associated with deposits and borrowings totaled $4.2 million compared to $3.0 million for the same period of 2015, representing an increase of $1.2 million, or 39%. Our average deposit base increased 46% due to $687.0 million of deposits acquired as part of the SBM acquisition in the fourth quarter of 2015 and strong organic deposit growth, highlighted by annualized core deposit growth of 11% since year-end.

The SBM acquisition in the fourth quarter of 2015 improved our interest rate risk position in a rising rate environment due to the level of floating rate loans within the acquired loan portfolio as well as total deposits acquired of $687.0 million. Additionally, we continue to utilize customer loans swaps within our commercial real estate loan portfolio to improve our interest rate risk position in a rising rate environment by swapping fixed rate for variable rate. At September 30, 2016, our total notional on customer loan swaps with our borrowers totaled $269.0 million compared to $142.9 million at December 31, 2015 and $85.7 million at September 30, 2015 (we have matching notional agreements with a counterparty).

The following table presents average balances, interest income, interest expense, and the corresponding average yields earned and cost of funds, as well as net interest income, net interest rate spread and NIM (fully-taxable equivalent) for the three months ended September 30, 2016 and 2015:

Quarterly Average Balance, Interest and Yield/Rate Analysis

	For The Three Months Ended							
	September 30, 2016				September 30, 2015			
	Average Balance	Interest	Yield/Rate		Average Balance	Interest	Yield/Rate	
Assets								
Interest-earning assets:								
Securities - taxable	$810,747	$4,497	2.22	%	$723,549	$3,781	2.09	%
Securities - nontaxable(1)	103,657	1,081	4.17	%	87,390	959	4.39	%
Loans(2):								
Residential real estate	824,985	8,664	4.20	%	586,631	6,019	4.10	%
Commercial real estate	1,031,674	10,394	3.94	%	677,329	7,326	4.23	%
Commercial(1)	307,184	3,052	3.89	%	245,482	2,427	3.87	%
Municipal(1)	24,628	165	2.66	%	16,379	131	3.16	%
Consumer	355,144	3,854	4.32	%	297,721	2,896	3.86	%
HPFC	68,334	1,420	8.13	%	—	—	—	%
Total loans	2,611,949	27,549	4.17	%	1,823,542	18,799	4.07	%
Total interest-earning assets	3,526,353	33,127	3.72	%	2,634,481	23,539	3.54	%
Cash and due from banks	97,755				54,497			
Other assets	314,062				178,119			
Less: ALL	(23,984)				(21,279)			
Total assets	$3,914,186				$2,845,818			
Liabilities & Shareholders' Equity								
Deposits:								
Demand	$415,558	$—	—	%	$299,506	$—	—	%
Interest checking	721,459	255	0.14	%	503,417	104	0.08	%
Savings	466,113	71	0.06	%	281,556	42	0.06	%
Money market	488,793	528	0.43	%	369,983	310	0.33	%
Certificates of deposit	486,698	971	0.79	%	315,390	732	0.92	%
Total deposits	2,578,621	1,825	0.28	%	1,769,852	1,188	0.27	%
Borrowings:								
Brokered deposits	239,975	379	0.63	%	237,308	369	0.62	%
Subordinated debentures	58,697	857	5.81	%	44,088	638	5.74	%
Other borrowings	586,367	1,161	0.79	%	503,542	849	0.67	%
Total borrowings	885,039	2,397	1.08	%	784,938	1,856	0.94	%
Total funding liabilities	3,463,660	4,222	0.49	%	2,554,790	3,044	0.47	%
Other liabilities	62,554				34,702			
Shareholders' equity	387,972				256,326			
Total liabilities & shareholders' equity	$3,914,186				$2,845,818			
Net interest income (fully-taxable equivalent)		28,905				20,495		
Less: fully-taxable equivalent adjustment		(533)				(483)		
Net interest income		$28,372				$20,012		
Net interest rate spread (fully-taxable equivalent)			3.23	%			3.07	%
Net interest margin (fully-taxable equivalent)			3.24	%			3.08	%

(1) Reported on 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.

Net Interest Income - Nine Months Ended September 30, 2016 and 2015. Net interest income for the nine months ended September 30, 2016 was $86.4 million on a fully-taxable equivalent basis, compared to $61.3 million for the same period last year, representing an increase of $25.1 million, or 41%. The increase was driven by higher average interest-earning assets of $849.6 million, or 33%, due to the acquisition of $628.0 million of loans and $39.7 million of investments in the fourth quarter of 2015 as part of the SBM acquisition, combined with strong organic loan growth period-over-period. Our average loan balance for the nine months ended September 30, 2016 totaled $2.6 billion, representing an increase of $754.0 million, or 42%, over the same period of 2015. Our NIM (fully-taxable equivalent) for the nine months ended September 30, 2016 was 3.31% compared to 3.12% for the same period last year. Our nine months ended September 30, 2016 NIM (fully-taxable equivalent) benefited from HPFC's higher yielding commercial loans, which will continue to decrease through normal amortization and payoffs of the existing portfolio as we are no longer originating these loans; from accretion of the loan and CD fair value marks created in purchase accounting totaling $4.2 million for the nine months ended September 30, 2016; and collection of previously charged-off acquired SBM loans of $984,000 for the nine months ended September 30, 2016. Excluding these transactions, our normalized NIM on a fully-taxable equivalent basis for the nine months ended September 30, 2016 was 3.11%, compared to 3.12% for the same period last year. Additionally, in the second quarter of 2015, we received a one-time income pick-up of $734,000 from the settlement and full pay-off of one significant commercial real estate loan that was on non-accrual status. This contributed to a one-time yield and NIM increase of 4 basis points for the nine months ended September 30, 2015. Excluding this one-time income pick-up, our NIM for the nine months ended September 30, 2015 was 3.08%.

For the nine months ended September 30, 2016, our interest expense associated with deposits and borrowings totaled $12.5 million compared to $9.1 million for the same period of 2015, representing an increase of $3.4 million, or 38%. Our average deposit base increased 46% due to $687.0 million of deposits and borrowings acquired as part of the SBM acquisition in the fourth quarter of 2015 and strong organic deposit growth, highlighted by annualized core deposit growth of 11% since year-end.

The following table presents average balances, interest income, interest expense, and the corresponding average yields earned and cost of funds, as well as net interest income, net interest rate spread and NIM for the nine months ended September 30, 2016 and 2015:

Year-To-Date Average Balance, Interest and Yield/Rate Analysis

	For The Nine Months Ended							
	September 30, 2016				September 30, 2015			
(In Thousands)	Average Balance	Interest	Yield/Rate		Average Balance	Interest	Yield/Rate	
Assets								
Interest-earning assets:								
Securities - taxable	$798,054	$13,106	2.19	%	$736,077	$11,580	2.10	%
Securities - nontaxable[1]	102,812	3,273	4.24	%	69,195	2,313	4.46	%
Loans[2]:								
Residential real estate	825,660	25,915	4.18	%	585,655	18,087	4.12	%
Commercial real estate[3]	988,329	30,690	4.08	%	663,032	22,319	4.44	%
Commercial[1]	290,459	9,318	4.21	%	246,128	7,200	3.86	%
Municipal[1]	18,655	419	3.00	%	13,641	349	3.42	%
Consumer	361,085	11,399	4.22	%	294,088	8,552	3.89	%
HPFC	72,380	4,818	8.75	%	—	—	—	%
Total loans	2,556,568	82,559	4.27	%	1,802,544	56,507	4.16	%
Total interest-earning assets	3,457,434	98,938	3.79	%	2,607,816	70,400	3.58	%
Cash and due from banks	87,248				49,415			
Other assets	305,890				179,408			
Less: ALL	(22,446)				(21,303)			
Total assets	$3,828,126				$2,815,336			
Liabilities & Shareholders' Equity								
Deposits:								
Demand	$372,131	$—	—	%	$271,665	$—	—	%
Interest checking	722,764	649	0.12	%	493,501	291	0.08	%
Savings	455,134	204	0.06	%	272,773	119	0.06	%
Money market	485,611	1,532	0.42	%	378,507	895	0.32	%
Certificates of deposit	492,892	2,835	0.77	%	313,705	2,172	0.93	%
Total deposits	2,528,532	5,220	0.28	%	1,730,151	3,477	0.27	%
Borrowings:								