

CAMDEN NATIONAL CORP
Form 10-Q
November 04, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Commission File No. 0-28190
CAMDEN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

MAINE 01-0413282
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2 ELM STREET, CAMDEN, ME 04843
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (207) 236-8821

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Outstanding at November 1, 2016: Common stock (no par value) 15,440,981 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED STATEMENTS OF CONDITION
(unaudited)

(In Thousands, Except Number of Shares)	September 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	\$99,458	\$79,488
Securities:		
Available-for-sale securities, at fair value	788,880	750,338
Held-to-maturity securities, at amortized cost	94,205	84,144
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	23,201	21,513
Total securities	906,286	855,995
Loans held for sale	24,644	10,958
Loans	2,592,009	2,490,206
Less: allowance for loan losses	(23,290)	(21,166)
Net loans	2,568,719	2,469,040
Goodwill	94,697	95,657
Other intangible assets	7,240	8,667
Bank-owned life insurance	77,937	59,917
Premises and equipment, net	43,934	45,959
Deferred tax assets	34,632	39,716
Interest receivable	8,364	7,985
Other real estate owned	811	1,304
Other assets	37,244	34,658
Total assets	\$3,903,966	\$3,709,344
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Demand	\$427,349	\$357,673
Interest checking	763,710	740,084
Savings and money market	979,085	912,668
Certificates of deposit	489,856	516,867
Brokered deposits	229,225	199,087
Total deposits	2,889,225	2,726,379
Short-term borrowings	489,749	477,852
Long-term borrowings	10,808	35,911
Subordinated debentures	58,716	58,599
Accrued interest and other liabilities	62,287	47,413
Total liabilities	3,510,785	3,346,154
Commitments and Contingencies		
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 15,434,856 and 15,330,717 shares as of September 30, 2016 and December 31, 2015, respectively	155,264	153,083
Retained earnings	242,092	222,329
Accumulated other comprehensive loss:		

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Net unrealized gains (losses) on available-for-sale securities, net of tax	6,595	(3,801)
Net unrealized losses on cash flow hedging derivative instruments, net of tax	(8,838	) (6,374)
Net unrecognized losses on postretirement plans, net of tax	(1,932	) (2,047)
Total accumulated other comprehensive loss	(4,175	) (12,222)
Total shareholders' equity	393,181	363,190	
Total liabilities and shareholders' equity	\$3,903,966	\$3,709,344	

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

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CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	\$27,395	\$ 18,651	\$82,117	\$ 56,077
Interest on U.S. government and sponsored enterprise obligations	4,049	3,598	12,055	11,187
Interest on state and political subdivision obligations	702	624	2,127	1,504
Interest on federal funds sold and other investments	448	183	1,051	393
Total interest income	32,594	23,056	97,350	69,161
Interest Expense				
Interest on deposits	2,204	1,557	6,355	4,630
Interest on borrowings	1,161	849	3,610	2,556
Interest on subordinated debentures	857	638	2,557	1,894
Total interest expense	4,222	3,044	12,522	9,080
Net interest income	28,372	20,012	84,828	60,081
Provision for credit losses	1,279	279	5,003	979
Net interest income after provision for credit losses	27,093	19,733	79,825	59,102
Non-Interest Income				
Debit card income	1,894	1,266	5,650	3,652
Service charges on deposit accounts	1,799	1,554	5,356	4,634
Other service charges and fees	591	416	1,494	1,124
Mortgage banking income, net	2,407	390	4,921	975
Income from fiduciary services	1,225	1,177	3,736	3,725
Bank-owned life insurance	585	443	1,899	1,267
Brokerage and insurance commissions	594	411	1,569	1,362
Net gain on sale of securities	—	4	4	4
Other income	1,906	900	4,841	2,275
Total non-interest income	11,001	6,561	29,470	19,018
Non-Interest Expense				
Salaries and employee benefits	12,044	8,691	35,634	25,550
Furniture, equipment and data processing	2,349	1,705	7,157	5,530
Net occupancy costs	1,685	1,194	5,352	3,905
Consulting and professional fees	742	470	2,609	1,734
Regulatory assessments	667	513	2,162	1,534
Debit card expense	669	431	2,107	1,299
Other real estate owned and collection costs	877	543	2,029	1,554
Amortization of intangible assets	475	288	1,427	862
Merger and acquisition costs	45	766	866	1,629
Other expenses	2,596	2,110	8,045	6,072
Total non-interest expense	22,149	16,711	67,388	49,669
Income before income taxes	15,945	9,583	41,907	28,451
Income Taxes	5,042	3,127	12,742	9,191
Net Income	\$10,903	\$ 6,456	\$29,165	\$ 19,260
Per Share Data				
Basic earnings per share	\$0.70	\$ 0.58	\$1.88	\$ 1.72

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Diluted earnings per share	\$0.70	\$ 0.57	\$1.88	\$ 1.71
Weighted average number of common shares outstanding	15,425,452	11,179,821	15,410,310	10,165,297
Diluted weighted average number of common shares outstanding	15,507,561	11,215,844	15,483,320	10,196,749

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In Thousands)	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net Income	\$10,903	\$6,456	\$29,165	\$19,260
Other comprehensive income:				
Net change in unrealized gains (losses) on available-for-sale securities:				
Net change in unrealized gains (losses) on available-for-sale securities, net of tax of \$405, (\$1,649), (\$5,599) and (\$1,723), respectively	(752)	3,064	10,399	3,202
Net reclassification adjustment for gains included in net income, net of tax of \$0, \$1, \$1 and \$1, respectively ⁽¹⁾	—	(3)	(3)	(3)
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(752)	3,061	10,396	3,199
Net change in unrealized gains (losses) on cash flow hedging derivatives:				
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax of (\$107), \$1,221, \$1,859, and \$1,115, respectively	199	(2,267)	(3,453)	(2,070)
Net reclassification adjustment for effective portion of cash flow hedges included in interest expense, net of tax of (\$187), (\$271), (\$532) and (\$447), respectively ⁽²⁾	347	504	989	829
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax	546	(1,763)	(2,464)	(1,241)
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of (\$20), (\$20), (\$62) and (\$61), respectively ⁽³⁾	39	39	115	116
Other comprehensive income (loss)	(167)	1,337	8,047	2,074
Comprehensive Income	\$10,736	\$7,793	\$37,212	\$21,334

(1) Reclassified into the consolidated statements of income in net gain on sale of securities.

(2) Reclassified into the consolidated statements of income in interest on subordinated debentures.

(3) Reclassified into the consolidated statements of income in salaries and employee benefits.

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(In Thousands, Except Number of Shares and Per Share Data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares Outstanding ¹	Amount			
Balance at December 31, 2014	11,139,333	\$41,555	\$211,979	\$(8,425)	\$245,109
Net income	—	—	19,260	—	19,260
Other comprehensive income, net of tax	—	—	—	2,074	2,074
Stock-based compensation expense	—	542	—	—	542
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	41,734	512	—	—	512
Equity issuance costs	—	(537)	—	—	(537)
Cash dividends declared (\$0.60 per share) ⁽¹⁾	—	—	(7,557)	—	(7,557)
Balance at September 30, 2015	11,181,067	\$42,072	\$223,682	\$(6,351)	\$259,403
Balance at December 31, 2015	15,330,717	\$153,083	\$222,329	\$(12,222)	\$363,190
Cumulative effect adjustment (Note 16)	—	72	(72)	—	—
Cash in-lieu, stock split (Note 2)	(173)	(5)	—	—	(5)
Net income	—	—	29,165	—	29,165
Other comprehensive income, net of tax	—	—	—	8,047	8,047
Stock-based compensation expense	—	1,521	—	—	1,521
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings and tax benefit	104,312	593	—	—	593
Cash dividends declared (\$0.60 per share) ⁽¹⁾	—	—	(9,330)	—	(9,330)
Balance at September 30, 2016	15,434,856	\$155,264	\$242,092	\$(4,175)	\$393,181

(1) 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.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended	
(In Thousands)	September 30, 2016	2015
Operating Activities		
Net Income	\$29,165	\$19,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	5,003	979
Depreciation expense	3,498	2,130
Purchase accounting accretion, net	(3,792)	(295)
Investment securities amortization, net	2,234	1,638
Stock-based compensation expense	1,521	542
Amortization of intangible assets	1,427	862
Net (decrease) increase in other real estate owned valuation allowance and (gain) loss on disposition	(147)	348
Originations of mortgage loans held for sale	(180,182)	(25,341)
Proceeds from the sale of mortgage loans	170,765	24,985
Gain on sale of mortgage loans	(4,171)	(530)
Decrease (increase) in other assets	7,529	(2,944)
Increase in other liabilities	154	117
Net cash provided by operating activities	33,004	21,751
Investing Activities		
Proceeds from sales and maturities of available-for-sale securities	105,863	123,650
Purchase of available-for-sale securities	(130,254)	(81,262)
Purchase of held-to-maturity securities	(10,448)	(55,462)
Net increase in loans	(101,732)	(60,601)
Purchase of bank-owned life insurance, net of death benefit proceeds	(16,122)	—
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(7,341)	(56)
Proceeds from sale of Federal Home Loan Bank stock	5,652	—
Proceeds from the sale of other real estate owned	672	2,760
Recoveries of previously charged-off loans	381	554
Purchase of premises and equipment	(1,507)	(1,797)
Proceeds from the sale of premises and equipment	90	—
Net cash used by investing activities	(154,746)	(72,214)
Financing Activities		
Net increase in deposits	163,563	76,155
Net proceeds from (repayments of) borrowings less than 90 days	36,846	(12,081)
Proceeds from Federal Home Loan Bank advances	—	10,000
Repayments of Federal Home Loan Bank advances	(25,000)	(11,039)
Repayments of wholesale repurchase agreements	(25,000)	—
Equity issuance costs	—	(537)
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings and tax benefit	593	512
Cash dividends paid on common stock and cash in-lieu paid for fractional shares due to stock split	(9,290)	(6,716)
Net cash provided by financing activities	141,712	56,294
Net increase in cash and cash equivalents	19,970	5,831

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Cash and cash equivalents at beginning of period	79,488	60,813
Cash and cash equivalents at end of period	\$99,458	\$66,644
Supplemental information		
Interest paid	\$12,673	\$9,104
Income taxes paid	4,844	8,345
Transfer from loans to other real estate owned	32	1,725
Measurement-period adjustments	960	—

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar Amounts in Tables Expressed in Thousands, Except Per Share Data)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated statements of condition of Camden National Corporation as of September 30, 2016 and December 31, 2015, the consolidated statements of income for the three and nine months ended September 30, 2016 and 2015, the consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2016 and 2015, and the consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior period were reclassified to conform to the current period presentation. The income reported for the three and nine months ended September 30, 2016 is not necessarily indicative of the results that may be expected for the full year. The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the year ended December 31, 2015 Annual Report on Form 10-K.

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The defined terms, acronyms and abbreviations identified below are used throughout this Form 10-Q, including Part I. "Financial Information" and Part II. "Other Information." The following is provided to aid the reader and provide a reference page when reviewing this Form 10-Q.

Acadia Trust:	Acadia Trust, N.A., a wholly-owned subsidiary of Camden National Corporation	IRS:	Internal Revenue Service
AFS:	Available-for-sale	LIBOR:	London Interbank Offered Rate
ALCO:	Asset/Liability Committee	LTIP:	Long-Term Performance Share Plan
ALL:	Allowance for loan losses	Management ALCO:	Management Asset/Liability Committee
AOCI:	Accumulated other comprehensive income (loss)	MBS:	Mortgage-backed security
ASC:	Accounting Standards Codification	Merger:	On October 16, 2015, the two-step merger of Camden National Corporation, SBM Financial, Inc. and Atlantic Acquisitions, LLC, a wholly-owned subsidiary of Camden National Corporation, was completed
ASU:	Accounting Standards Update	Merger Agreement:	Plan of Merger, dated as of March 29, 2015, by and among Camden National Corporation, SBM Financial, Inc. and Atlantic Acquisitions, LLC, a wholly-owned subsidiary of the Company
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	MSHA:	Maine State Housing Authority
Board ALCO:	Board of Directors' Asset/Liability Committee	MSRs:	Mortgage servicing rights
BOLI:	Bank-owned life insurance	MSPPP:	Management Stock Purchase Plan
BSA:	Bank Secrecy Act	OTTI:	Other-than-temporary impairment
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	NIM:	Net interest margin on a fully-taxable basis (non-GAAP)
CDARS:	Certificate of Deposit Account Registry System	N.M.:	Not meaningful
CDs:	Certificate of deposits	NRV:	Net realizable value
CMO:	Collateralized mortgage obligation	OCC:	Office of the Comptroller of the Currency
Company:	Camden National Corporation	OCI:	Other comprehensive income (loss)
CSV:	Cash surrender value	OFAC:	Office of Foreign Assets Control
DCRP:	Defined Contribution Retirement Plan	OREO:	Other real estate owned
EPS:	Earnings per share	SBM:	SBM Financial, Inc., the parent company of The Bank of Maine
FASB:	Financial Accounting Standards Board	SERP:	Supplemental executive retirement plans
FDIC:	Federal Deposit Insurance Corporation	TDR:	Troubled-debt restructured loan
FHLB:	Federal Home Loan Bank	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
FHLBB:		U.S.:	United States of America

	Federal Home Loan Bank of Boston		
FRB:	Federal Reserve Bank	USD:	United States Dollar
Freddie Mac:	Federal Home Loan Mortgage Corporation	2003 Plan:	2003 Stock Option and Incentive Plan
GAAP:	Generally accepted accounting principles in the United States	2012 Plan:	2012 Equity and Incentive Plan
HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors
HTM:	Held-to-maturity		

NOTE 2 - COMMON STOCK SPLIT

On August 30, 2016, the Company's board of directors declared a three-for-two stock split, effected in the form of a stock dividend, on the Company's common stock. Each shareholder of record on September 15, 2016, received one additional share of common stock for every two shares of common stock owned. The stock was issued September 30, 2016. All references in the financial statements to the number of shares outstanding, dividends declared and per share amounts of the Company's common stock have been restated to reflect the effect of the stock split for all periods presented.

The Company paid shareholders cash in-lieu of fractional shares of common stock in connection with the split, at a price of \$31.75 per share, the closing price of the Company's common stock on September 14, 2016. The total cash in-lieu paid out for fractional shares was \$5,000, and was accounted for as a reduction of capital stock.

NOTE 3 – EPS

The following is an analysis of basic and diluted EPS, reflecting the application of the two-class method, as described below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	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.

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						