CAMDEN NATIONAL CORP
Form 10-K
March 11, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2015

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

Commission File No. 0-28190

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

Maine	01-0413282
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
2 Elm Street, Camden, ME	04843
(Address of Principal Executive Offices)	(Zip Code)

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

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, without par value	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the Registrant's most recently completed second fiscal quarter: $215,029,196. Shares of the Registrant's common stock held by each executive officer, director and person who beneficially own 5% or more of the Registrant's outstanding common stock have been excluded, in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of each of the registrant's classes of common stock as of March 3, 2016 is 10,263,546.

Certain information required in response to Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K is incorporated by reference from Camden National Corporation's Definitive Proxy Statement for the 2016 Annual Meeting of Shareholders pursuant to Regulation 14A of the General Rules and Regulations of the Commission.

CAMDEN NATIONAL CORPORATION
2015 FORM 10-K ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

The discussions set forth below and in the documents we incorporate by reference herein contain certain statements that may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995, including certain plans, exceptions, goals, projections, and statements, which are subject to numerous risks, assumptions, and uncertainties. Forward-looking statements can be identified by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “assume,” “plan,” “target,” or “goal” or future or conditional verbs such as “will,” “may,” “i “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 Financial Accounting Standards Board ("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 I, Item 1A, “Risk Factors,” beginning on page 11. Readers should carefully review the risk factors described therein and should not place undue reliance on our forward-looking statements.

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

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PART I

Item 1. Business

Overview. Camden National Corporation (hereafter referred to as “we,” “our,” “us,” or the “Company”) is a publicly-held bank holding company, with $3.7 billion in assets, 64 banking centers, 85 ATMs, and three lending offices at December 31, 2015, incorporated under the laws of the State of Maine and headquartered in Camden, Maine. The Company, as a diversified financial services provider, pursues the objective of achieving long-term sustainable growth by balancing growth opportunities against profit, while mitigating risks inherent in the financial services industry. The primary business of the Company and its subsidiaries is to attract deposits from, and to extend loans to, consumer, institutional, municipal, non-profit and commercial customers. The Company offers commercial and consumer banking products and services through its subsidiary, Camden National Bank (the “Bank”), as well as brokerage and insurance services through Camden Financial Consultants (“Camden Financial”), a division of the Bank. The Bank's wholly-owned subsidiary, Healthcare Professional Funding Corporation ("HPFC"), provides specialized lending to dentists, optometrists and veterinarians across the United States ("U.S."). The Company also offers investment management and fiduciary services through its subsidiary, Acadia Trust, N.A. (“Acadia Trust”), a federally-regulated, non-depository trust company headquartered in Portland, Maine. The consolidated financial statements of the Company accompanying this Form 10-K include the accounts of the Company, the Bank and its subsidiaries and division, and Acadia Trust. All inter-company accounts and transactions have been eliminated in consolidation.

The Company is committed to the philosophy of serving the financial needs of customers in local communities, as described in its core purpose: Through each interaction, we will enrich the lives of people, help businesses succeed and vitalize communities.

The Company has achieved a five-year compounded annual asset growth rate of 10%, resulting in $3.7 billion in total assets at December 31, 2015. The following is a chronological time-line of significant events and factors contributing to the Company's asset growth over the past five years:

- 2012 — The acquisition of 14 branches, including $287.6 million in deposits and $5.7 million in small business loans, from Bank of America, National Association, in October 2012.
- 2013 — The divestiture of our five Franklin County branches, including $46.0 million in loans and $85.9 million in deposits and borrowings, in October 2013.
- 2014 — The Company had $192.2 million of organic loan growth, primarily within the commercial real estate and commercial loan portfolios. Also, in 2014, we expanded our franchise outside of Maine by opening a commercial loan office in Manchester, New Hampshire, providing us with a wider reach across northern New England.
- 2015 — The Company achieved organic asset growth of $80.0 million fueled by organic loan growth of $102.4 million. The Company completed the acquisition of SBM Financial, Inc. ("SBM") and The Bank of Maine, the wholly-owned subsidiary of SBM, on October 16, 2015. SBM was approximately one-third the size of the Company pre-acquisition with total assets of $840.1 million, total loans of $615.2 million and total deposits of $687.0 million. With the SBM acquisition, the Company expanded its reach in Southern and Central Maine and into Massachusetts, through an increase in its branch network in Maine, including lending offices in Falmouth, Maine, and Boston and Braintree, Massachusetts.

The financial services industry continues to experience consolidations through mergers that could create opportunities for the Company to promote its value proposition to customers. The Company evaluates the possibility of expansion into new markets through both de novo expansion and acquisitions. In addition, the Company is focused on maximizing the potential for growth in existing markets, especially in markets where the Company has less of a presence. Further details on the Company's financial information can be found within the consolidated financial statements within Item 8 of this report.

Camden National Bank. The Bank is a national banking association chartered under the laws of the United States headquartered in Camden, Maine. Originally founded in 1875, the Bank became a direct, wholly-owned subsidiary of the Company as a result of a corporate reorganization in 1984. The Bank offers its products and services across Maine, and focuses primarily on attracting deposits from the general public through its branches, and then leveraging this relationship to originate residential mortgage loans, commercial business loans, commercial real estate loans and a variety of consumer loans across New England. The Company has operations within 13 of Maine's 16 counties. Customers may also access the Bank’s products and services using other channels, including the Bank’s website address. The Bank's website address is www.CamdenNational.com.

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

Healthcare Professional Funding Corporation. HPFC is a wholly-owned subsidiary of the Bank and provides specialized lending to dentists, optometrists and veterinarians across the U.S. The Company acquired HPFC in connection with the SBM acquisition and The Bank of Maine. Shortly after the acquisition, the Company announced that it will be closing operations of HPFC on February 19, 2016. Refer to Note 25, Subsequent Events, within Item 8 of this report for further details. HPFC website address is www.healthprofunding.com.

Acadia Trust, N.A. Acadia Trust is a limited purpose national banking association chartered under the laws of the United States headquartered in Portland, Maine. Acadia Trust provides a broad range of trust, trust-related, investment and wealth management services to both individual and institutional clients. The financial services provided by Acadia Trust complement the services provided by the Bank by offering high net worth individuals, businesses and non-profit institutional customers investment management services, as well as serving as trustee. Acadia Trust's website address is www.acadiatrust.com.

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

Competition. Through the Bank and its subsidiaries and division of, the Company competes throughout Maine, New Hampshire and Massachusetts. Our primary markets within Maine run along Maine's coast and mid-interior through Bangor, Maine. We operate and manage the Bank's business within Maine's various regions, including Mid Coast, Southern, Central, Bangor region and Downeast. Many of these markets that we operate are characterized as rural areas. Major competitors in the Company's primary market area include local branches of large regional bank affiliates and brokerage houses, as well as local independent banks, financial advisors, thrift institutions and credit unions. Other competitors for deposits and loans within the Bank's primary market area include insurance companies, money market funds, consumer finance companies and financing affiliates of consumer durable goods manufacturers.

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

Employees. The Company employed 652 people on a full- or part-time basis as of December 31, 2015 through its subsidiaries, including the Bank (and its subsidiary, HPFC), Camden Financial, and Acadia Trust.

Supervision and Regulation

The following discussion addresses elements of the regulatory framework applicable to bank holding companies and their subsidiaries. This regulatory framework is intended primarily for the protection of the safety and soundness of depository institutions, the federal deposit insurance system, and depositors, rather than the protection of shareholders of a bank holding company such as the Company.

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

The following is a summary of certain aspects of various statutes and regulations applicable to the Company and its subsidiaries. This summary is not a comprehensive analysis of all applicable law, however, and you should refer to the applicable statutes and regulations for more information.

Regulation of the Company

The Company is subject to regulation, supervision and examination by the FRB, which has the authority, among other things, to order bank holding companies to cease and desist from unsafe or unsound banking practices; to assess civil money penalties; and to order termination of non-banking activities or termination of ownership and control of a non-banking subsidiary by a bank holding company.

Source of Strength. Under the BHCA, as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Company is required to serve as a source of financial strength for the Bank. This support may be required at times when the bank holding company may not have the resources to provide support to the Bank. In the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to a priority of payment.

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

Limitations on Acquisitions of Company Common Stock. The Change in Bank Control Act prohibits a person or group of persons from acquiring “control” of a bank holding company unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would constitute the acquisition of control of a bank holding company. In addition, the BHCA prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the FRB. Among other circumstances, under the BHCA, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank holding company, or the FRB has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

Regulation of the Bank

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

Deposit Insurance. The deposit obligations of the Bank are insured up to applicable limits by the FDIC's Deposit Insurance Fund ("DIF") and are subject to deposit insurance assessments to maintain the DIF. The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to $250,000 per depositor for deposits maintained in the same right and capacity at a particular insured depository institution. The Federal Deposit Insurance Act (the "FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, requires the FDIC to take steps as may be necessary to cause the ratio of deposit insurance reserves to estimated insured deposits - the designated reserve ratio - to reach 1.35% by September 30, 2020, and it mandates that the reserve ratio designated by the FDIC for any year may not be less than 1.35%. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. Assessment rates may also vary for certain institutions based on long-term debt issuer ratings, secured or brokered deposits. Deposit premiums are based on assets. To determine its deposit insurance premium, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of

Tier I capital) and the applicable assessment rate. The FDIC has the power to adjust deposit insurance assessment rates at any time. In addition, under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Bank's FDIC insurance expense for the year ended December 31, 2015 was $1.6 million.

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

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

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

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

Community Reinvestment Act. The Community Reinvestment Act (the "CRA") requires the FDIC to evaluate the Bank's performance in helping to meet the credit needs of the entire communities it serves, including low and moderate-income neighborhoods, consistent with its safe and sound banking operations, and to take this record into consideration when evaluating certain applications. The FDIC's CRA regulations are generally based upon objective criteria of the performance of institutions under three key assessment tests: (i) a lending test, to evaluate the institution's record of making loans in its service areas; (ii) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (iii) a service test, to evaluate the institution's delivery of services through its branches, ATMs, and other offices. Failure of an institution to receive at least a “Satisfactory” rating could inhibit the Bank or the Company from undertaking certain activities, including engaging in activities permitted as a financial holding company under the Gramm-Leach-Bliley Act of 1999 (the “GLBA”) and acquisitions of other financial institutions. The Bank currently has an “Outstanding” CRA rating.

Capital Adequacy and Safety and Soundness

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

The capital adequacy rules define qualifying capital instruments and specify minimum amounts of capital as a percentage of assets that banking organizations are required to maintain. Common equity Tier I capital generally includes common stock and related surplus, retained earnings and, in certain cases and subject to certain limitations, minority interest in consolidated subsidiaries, less goodwill, other non-qualifying intangible assets and certain other deductions. Tier I capital for banks and bank holding companies generally consists of the sum of common equity Tier I capital, non-cumulative perpetual preferred stock, and related surplus and, in certain cases and subject to limitations, minority interest in consolidated subsidiaries that does not qualify as common equity Tier I capital, less certain deductions. Tier II capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities, cumulative perpetual preferred stock, term subordinated debt and intermediate-term preferred stock, and, subject to limitations, allowances for loan losses. The sum of Tier I and Tier II capital less certain required deductions represents qualifying total risk-based capital. Prior to the effectiveness of certain provisions of the Dodd-Frank Act, bank holding companies were permitted to include trust preferred securities and cumulative perpetual preferred stock in Tier I capital, subject to limitations. However, the FRB's capital rule applicable to bank holding companies permanently grandfathers non-qualifying capital instruments, including trust preferred securities, issued before May 19, 2010 by depository institution holding companies with less than $15 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier I capital. In addition, under rules that became effective January 1, 2015, accumulated other comprehensive income (positive or negative) must be reflected in Tier I capital; however, the Company was permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Company has made this election.

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

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

Under the FRB's rules, a bank holding company, such as the Company, is considered "well capitalized" if the bank holding company (i) has a total risk based capital ratio of at least 10%, (ii) has a Tier I risk-based capital ratio of at least 6%, and (iii) is not subject to any written agreement order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. Under the OCC's rules, an OCC supervised institution is considered "well capitalized" if it (i) has a total risk-based capital ratio of 10.0% or greater; (ii) a Tier I risk-based capital ratio of 8.0% or greater; (iii) a common Tier I equity ratio of at least 6.5% or greater, (iv) a leverage capital ratio of 5.0% or greater; and (iv) is not subject to any written agreement, order, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure.

Information concerning the Company and the Bank with respect to capital requirements is incorporated by reference from Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources," and Item 8. "Financial Statements and Supplementary Data", in the section entitled "Note 22, Regulatory Capital

Requirements."

The Company and the Bank are considered "well capitalized" under all regulatory definitions.

Safety and Soundness Standards. The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, risk management, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the federal banking agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the FDIA. See "—Regulatory Capital Requirements" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Dividend Restrictions

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

Restrictions on Bank Holding Company Dividends. The FRB has the authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. The FRB has indicated generally that it may be an unsafe or unsound practice for bank holding companies to pay dividends unless the bank holding company's net income over the preceding year is sufficient to fund the dividends and the expected rate of earnings retention is consistent with the organization's capital needs, asset quality and overall financial condition. Further, the Company's ability to pay dividends is restricted if it does not maintain the capital conservation buffer. See "—Capital Adequacy and Safety and Soundness—Regulatory Capital Requirements" above.

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

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

Certain Transactions by Bank Holding Companies with their Affiliates

There are various statutory restrictions on the extent to which bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution subsidiaries. The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. An insured depository institution (and its subsidiaries) may not lend money to, or engage in covered transactions with, its non-depository institution affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction exceeds the following limits: (i) in the case of any one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and (ii) in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution. For this purpose, "covered transactions" are defined by statute to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms and not otherwise unduly favorable to the holding company or an affiliate of the holding company. Moreover, the Bank Holding Company Act Amendments of 1970 provide that, to further competition, a bank holding

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company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Consumer Protection Regulation

The Company and the Bank are subject to federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices, including the Equal Credit Opportunity Act, the Fair Housing Act, the Home Ownership Protection Act, the Fair Credit Reporting Act, as amended by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), the GLBA, the Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The OCC examines the Bank for compliance with CFPB rules and enforces CFPB rules with respect to the Bank.

Mortgage Reform. The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan, and allows borrowers to assert violations of certain provisions of the Truth in Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. In addition, the Dodd-Frank Act prohibits mortgage originators from receiving compensation based on the terms of residential mortgage loans and generally limits the ability of a mortgage originator to be compensated by others if compensation is received from a consumer. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

Privacy and Customer Information Security. The GLBA requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to nonaffiliated third parties. In general, the Bank must provide its customers with an initial and annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. However, an annual disclosure is not required to be provided by a financial institution if the financial institution only discloses information under exceptions from GLBA that do not require an opt out to be provided and if there has been no change in its privacy policies and practices since its most recent disclosure provided to consumers. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose sensitive information has been compromised if unauthorized use of this information is reasonably possible. Most states, including the states where the Bank operates, have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of data security breaches. Pursuant to the FACT Act, the Bank must develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

Anti-Money Laundering

The Bank Secrecy Act. Under the Bank Secrecy Act (“BSA”), a financial institution, is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for any transaction or series of transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”), which amended the BSA, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement

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additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or affect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with “shell banks.”

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

Regulation of Other Activities

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds. The Dodd-Frank Act bars banking organizations, such as the Company and the Bank, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain circumstances, in a provision commonly referred to as the “Volcker Rule.” Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its trading account. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the 1940 Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Company, the Bank and all of their subsidiaries and affiliates.

Legal Contingencies

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

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

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Item 1A. Risk Factors

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

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

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

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

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

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

Interest rate volatility may reduce our profitability.

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

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

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

We are subject to liquidity risk.

Liquidity risk is the risk of potential loss if we are unable to meet our funding requirements at a reasonable cost. Our liquidity could be impaired by an inability to access the capital markets or by unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us.

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

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

Prepayments of loans may negatively impact our business.

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

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

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

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

Our business is highly regulated and the laws, rules, regulations, and supervisory guidance and policies applicable to us are subject to regular modification and change. It is impossible to predict the competitive impact that any such changes would have on the banking and financial services industry in general or on our business in particular. Such changes may, among other things, increase the cost of doing business, limit permissible activities, or affect the competitive balance between banks and other financial institutions. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes in light of the performance of and government intervention in the financial services sector. Other changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, policies or supervisory guidance could result in

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

We have become subject to more stringent capital requirements.

The federal banking agencies issued a joint final rule, or the “Final Capital Rule,” that implemented the Basel III capital standards and established the minimum capital levels required under the Dodd-Frank Act. As of January 1, 2015, we were required to comply with the Final Capital Rule. The Final Capital Rule requires banks and bank holding companies to maintain a minimum common equity Tier I capital ratio of 4.5% of risk-weighted assets, a minimum Tier I capital ratio of 6.0% of risk-weighted assets, a minimum total capital ratio of 8.0% of risk-weighted assets, and a minimum leverage ratio of 4.0%. Additionally, subject to a transition period, the Final Capital Rule requires banks and bank holding companies to maintain a 2.5% common equity Tier I capital conservation buffer above the minimum risk-based capital requirements for adequately capitalized institutions to avoid restrictions on the ability to pay dividends, discretionary bonuses, and to engage in share repurchases. The Company and the Bank met these requirements as of December 31, 2015. The Final Capital Rule permanently grandfathered trust preferred securities issued before May 19, 2010 for institutions with less than $15.0 billion in total assets as of December 31, 2009, subject to a limit of 25% of Tier I capital. The Final Capital Rule increased the required capital for certain categories of assets, including high volatility construction real estate loans and certain exposures related to securitizations; however, the Final Capital Rule retained the previous capital treatment of residential mortgages. Under the Final Capital Rule, we were permitted to make a one-time, permanent election to continue to exclude accumulated other comprehensive income from capital. The Company has made this election.

Implementation of these standards, or any other new regulations, may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our results of operations or financial condition.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

From time to time, we are named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties. There is no assurance that litigation with private parties will not increase in the future. Future actions against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operations, or cause serious reputational harm to us. As a participant in the financial services industry, we are exposed to a high level of potential litigation related to our businesses and operations. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case. As a result, a judgment against us in any such litigation could have a material adverse effect on our financial condition and results of operation.

Our businesses and operations are also subject to increasing regulatory oversight and scrutiny, which may lead to additional regulatory investigations or enforcement actions. These and other initiatives from federal and state officials may subject us to further judgments, settlements, fines or penalties, or cause us to be required to restructure our operations and activities, all of which could lead to reputational issues, or higher operational costs, thereby reducing our revenue.

We may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

We maintain systems and procedures designed to ensure that we comply with applicable laws and regulations. However, some legal/regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, we are subject to regulations issued by the OFAC that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries and certain other persons or entities whose interest in property is blocked by OFAC-administered sanctions. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage our reputation as described below and could restrict the ability of institutional investment managers to invest in our securities.

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

At December 31, 2015, our commercial real estate and commercial loan portfolios comprised 52% of total loans. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

As of December 31, 2015, the most significant industry concentration within our loan portfolio was non-residential building operators (operators of commercial and industrial buildings, retail establishments, theaters, banks and insurance buildings). At December 31, 2015, the non-residential building operators industry was 10% of our total loans, and 27% of our total commercial real estate portfolio. We had no other industry concentrations as of December 31, 2015 in excess of 10% of total loans.

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

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

We may be unable to attract and retain key personnel.

Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We maintain a diversified securities portfolio and have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. Furthermore, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

We believe that we have adequately reviewed our investment securities for impairment and we did not recognize any other-than-temporary impairments on our investment securities portfolio in 2015. However, over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change our judgment regarding impairment. In addition, if the counter-party should default, become insolvent, declare bankruptcy, or otherwise cease to exist, the value of our investment may be impaired. This could result in realized losses relating to other-than-temporary declines being charged against future income. Given the significant judgments involved, there is risk that material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses.

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

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

We are subject to reputational risk.

We are dependent on our reputation within our market area, as a trusted and responsible financial company, for all aspects of our relationships with customers, employees, vendors, third-party service providers, and others, with whom we conduct business or potential future business. Our actual or perceived failure to (a) identify and address potential conflicts of interest, ethical issues, money-laundering, or privacy issues; (b) meet legal and regulatory requirements applicable to the Bank and to the Company; (c) maintain the privacy of customer and accompanying personal information; (d) maintain adequate record keeping; (e) engage in proper sales and trading practices; and (f) identify the legal, reputational, credit, liquidity and market risks inherent in our products could give rise to reputational risk that could cause harm to the Bank and our business prospects. If we fail to address any of these issues in an appropriate manner, we could be subject to additional legal risks, which, in turn, could increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses. Our ability to attract and retain customers and employees could be adversely affected to the extent our reputation is damaged.

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

When we acquire a business, a portion of the purchase price of the acquisition may be allocated to goodwill and other identifiable intangible assets. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired determines the amount of the purchase price that is allocated to goodwill acquired. At December 31, 2015, our goodwill and other identifiable intangible assets totaled $104.3 million, which included goodwill and core deposit intangible assets created in connection with the SBM acquisition on October 16, 2015 of $50.9 million and $6.6 million, respectively. Under current accounting standards, if we determine goodwill or intangible assets are impaired, we would be required to write down the value of these assets to fair value. We conduct an annual review, or more frequently if events or circumstances warrant such, to determine whether goodwill is impaired. We recently completed our goodwill impairment analysis as of November 30, 2015 and concluded goodwill was not impaired. We conduct a review of our other intangible assets for impairment should events or circumstances warrant such. There were no triggers for such review for impairment for other intangible assets for the year ended December 31, 2015. We cannot provide assurance that we will not be required to take an impairment charge in the future. Any impairment charge would have a negative effect on our shareholders’ equity and financial results and may cause a decline in our stock price.

Systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite instituted safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. Information security risks have increased significantly due to the use of online, telephone and mobile banking channels by customers and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. Our technologies, systems, networks and our customers' devices may be the target of, cyber-attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, the theft of customer assets through fraudulent transactions or disruption of our or our customers' or other third parties' business operations. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

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

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

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

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

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

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

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

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

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

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

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

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Holders of our common stock are entitled to receive dividends only when, and if declared by our board of directors. Although we have historically declared cash dividends on our common stock, we are not required to do so and our board of directors may reduce or eliminate our common stock dividend in the future. The FRB has authority to prohibit bank holding companies from paying dividends if such payment is deemed to be an unsafe or unsound practice. Additionally, the OCC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Further, when the Final Capital Rule comes into effect, our ability to pay dividends would be restricted if we do not maintain a capital conservation buffer. A reduction or elimination of dividends could adversely affect the market price of our common stock. See Part I, Item 1. "Business—Supervision and Regulation—Dividend Restrictions" and "Business—Supervisi and Regulation—Regulatory Capital Requirements."

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

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to anticipate and implement and can materially impact how we record and report our financial condition and results of operations. For example, the FASB's current financial instruments project could, among other things, significantly change the way loan loss provisions are determined from an incurred loss model to an expected loss model.

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

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

Unanticipated costs relating to the acquisition of SBM could reduce our future earnings per share.

The success of the acquisition of SBM will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the business of SBM with our business. It is possible that we will not be able to achieve expected synergies related to the acquisition or could incur unexpected future operating expenses such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse developments, which could have a material adverse effect on the results of operations and financial condition of the combined company. If unexpected costs are incurred, the acquisition may not be as accretive as expected or could even have a dilutive effect on our earnings per share.

The integration of the operations of SBM could negatively impact our business and results of operations.

The acquisition of SBM involves the integration of two companies that previously operated independently. The ongoing process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of the two companies' operations could have a material adverse effect on the business and results of operations of the combined company.

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

We have been, and continue to be, impacted by general business and economic conditions in the United States and, to a lesser extent, abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, unemployment and investor confidence, all of which are beyond our control. While in recent years there has been gradual improvement in the U.S. economy, deterioration in any of these conditions could result in increases in loan delinquencies and non-performing assets, decreases in loan collateral values, the value of our investment portfolio and demand for our products and services. Furthermore, while the U.S. economy is improving, the recovery has been slow and there continues to be some uncertainty regarding the sustainability.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2015, the Company owns or leases a total of 68 facilities, excluding any properties designated other real estate owned. All facilities are fully utilized and considered suitable and adequate for the purposes intended. The Company owns 41 of its facilities, none of which are subject to a mortgage, and the remaining branches and two parking lots are leased by the Company. The Company has a 64 branch network located throughout Maine, and three loan offices located in Maine, New Hampshire and Massachusetts.

The following table presents our materially important properties as of December 31, 2015:

Facility Name	Location	General Character of the Physical Property	Primary Business Segment	Property Status	Property Square Feet[1]	
Main Office	Camden, Maine	3 story building	Principal executive office	Owned	15,500	
Canal Plaza	Portland, Maine	2 floors	Branch and executive office	Leased	10,000	
Hanley Center	Rockport, Maine	2 story building	Service center	Owned	32,360	
Libby Hill	Gardiner, Maine	1 floor	Service center	Leased	11,000	
Gardiner	Gardiner, Maine	3 story building	Branch and service center	Owned	10,000	
Kennebunk	Kennebunk, Maine	1 floor	Branch and service center	Owned	9,982	
Acadia Trust	Portland, Maine	1 floor	Main office	Leased	4,212	
Auburn	Auburn, Maine	3 story building	Branch	Owned	13,000	
Bangor	Bangor, Maine	1 floor	Branch	Leased	17,432	
Ellsworth	Ellsworth, Maine	3 story building	Branch	Owned	44,000	(2)
Rockland	Rockland, Maine	3 story building	Branch	Owned	21,600	
Waterville	Waterville, Maine	3 story building	Branch	Owned	17,099	

(1) Total square footage for leased locations represents the amount of space the Company occupies.
(2) Includes space leased to third parties.

For additional information regarding the Company's premises and equipment and lease obligations see Note 8 of the consolidated financial statements included in Item 8 hereof.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company’s common stock is currently traded on the NASDAQ Global Market (“NASDAQ”) under the ticker symbol “CAC.” The Company has paid quarterly dividends since its foundation in 1984. The high and low closing sales prices (as quoted by NASDAQ for 2015 and 2014) and cash dividends declared per share of the Company’s common stock, by calendar quarter for the past two years, were as follows:

	2015			2014		
	Market Price		Dividends	Market Price		Dividends
	High	Low	Declared per Share	High	Low	Declared per Share
First Quarter	$39.84	$36.63	$0.30	$42.00	$34.67	$0.27
Second Quarter	$41.35	$37.54	$0.30	$41.87	$35.25	$0.27
Third Quarter	$40.87	$37.89	$0.30	$39.55	$35.00	$0.27
Fourth Quarter	$45.34	$39.09	$0.30	$41.12	$34.86	$0.30

As of March 3, 2016, there were 10,305,547 shares of the Company’s common stock outstanding held of record and entitled to vote by approximately 1,200 shareholders, as obtained through our transfer agent. Such number of record holders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees, which is estimated to be 3,700 shareholders.

Although the Company has historically paid quarterly dividends on its common stock, the Company’s ability to pay such dividends depends on a number of factors, including restrictions under federal laws and regulations on the Company’s ability to pay dividends, and as a result, there can be no assurance that dividends will be paid in the future. For further information on dividend restrictions, refer to Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources."

The following graph illustrates the annual percentage change in the cumulative total shareholder return of the Company’s common stock for the period December 31, 2010 through December 31, 2015. For purposes of comparison, the graph illustrates comparable shareholder returns of the SNL $1B – $5B Bank Index and the Russell 2000 Stock Index. The graph assumes a $100 investment on December 31, 2010 in each case and measures the amount by which the market value, assuming reinvestment of dividends, has changed as of December 31, 2015.

Stock Performance Graph

On September 24, 2013, the board of directors authorized a common stock repurchase program (the "2013 Repurchase Plan"). The 2013 Repurchase Plan allows for the repurchase of up to 250,000 shares of the Company's outstanding common stock. This program is expected to continue until the authorized number of shares is repurchased, or the Company's board of directors terminates the program. There is no specified expiration date of the 2013 Repurchase Plan. As of December 31, 2015, the Company had repurchased 249,500 shares at an average price of $39.82, or 99.8% of the program's total allotment and 2% of total outstanding shares. The Company did not repurchase any shares of Company common stock for the year ended December 31, 2015.

Issuer's Purchases of Equity Securities

Period	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs
10/1/2015 to 10/31/2015	—	$—	—	500
11/1/2015 to 11/30/2015	—	—	—	500
12/1/2015 to 12/31/2015	—	—	—	500
Total	—	$—	—	500

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

Item 6. Selected Financial Data

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

	At or For The Years Ended December 31,				
(In Thousands, Except per Share Data)	2015	2014	2013	2012	2011
Financial Condition Data					
Investments	$855,995	$803,633	$828,201	$802,084	$611,998
Loans and loans held for sale	2,501,164	1,772,610	1,580,402	1,563,866	1,520,089
Allowance for loan losses	21,166	21,116	21,590	23,044	23,011
Total assets	3,709,871	2,789,853	2,603,829	2,564,757	2,302,720
Deposits	2,726,379	1,932,097	1,813,824	1,929,469	1,591,366
Borrowings	572,889	577,002	530,092	360,163	456,233
Shareholders' equity	363,190	245,109	231,096	233,815	218,876
Operating Data					
Net interest income	$86,452	$76,257	$75,441	$73,745	$75,219
Provision for credit losses	1,936	2,220	2,028	3,816	4,735
Non-interest income	27,482	24,370	27,835	23,412	23,053
Non-interest expense	81,139	62,397	66,333	59,031	55,579
Income before income taxes	30,859	36,010	34,915	34,310	37,958
Income taxes	9,907	11,440	12,132	10,882	11,781
Net income	$20,952	$24,570	$22,783	$23,428	$26,177
Core operating earnings[(1)]	$28,186	$24,277	$23,564	$24,324	$26,385
Ratios					
Return on average assets	0.70 %	0.92 %	0.88 %	0.98 %	1.13 %
Core return on average assets[(1)]	0.94 %	0.90 %	0.92 %	1.02 %	1.14 %
Return on average equity	7.54 %	10.37 %	9.74 %	10.31 %	12.16 %
Core return on average equity[(1)]	10.15 %	10.25 %	10.07 %	10.71 %	12.25 %
Core return on average tangible equity[(1)]	13.20 %	13.30 %	13.42 %	13.68 %	15.76 %
Tangible common equity ratio[(1)]	7.18 %	7.18 %	7.12 %	7.19 %	7.69 %
Efficiency ratio[(1)]	61.13 %	61.58 %	62.78 %	57.45 %	54.63 %
Net interest margin (fully-taxable equivalent)	3.19 %	3.11 %	3.20 %	3.36 %	3.57 %
Tier I leverage capital ratio[(2)]	8.74 %	9.26 %	9.43 %	8.94 %	9.59 %
Total risk-based capital ratio[(2)]	12.98 %	15.16 %	16.45 %	15.56 %	15.95 %
Allowance for loan losses to total loans	0.85 %	1.19 %	1.37 %	1.48 %	1.52 %
Net charge-offs to average loans	0.10 %	0.16 %	0.22 %	0.24 %	0.26 %
Non-performing loans to total loans	0.93 %	1.19 %	1.80 %	1.78 %	1.82 %
Non-performing assets to total assets	0.66 %	0.82 %	1.18 %	1.13 %	1.27 %
Dividend payout ratio	50.60 %	33.73 %	36.30 %	32.73 %	44.05 %
Per common share data					
Basic earnings per share	$2.60	$3.29	$2.98	$3.06	$3.41
Diluted earnings per share	2.60	3.28	2.97	3.05	3.40
Core diluted earnings per share[(1)]	3.49	3.24	3.07	3.17	3.43
Dividends declared per share	1.20	1.11	1.08	1.00	1.50
Book value per share	35.54	33.01	30.49	30.67	28.56
Tangible book value per share[(1)]	25.33	26.52	23.98	23.68	22.66

(1) Please see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures and Reconciliation to GAAP" for discussion and reconciliations of

non-GAAP measures.

(2) Effective January 1, 2015, the Company reported regulatory capital ratios in accordance with the Basel III regulatory capital rule and framework.

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

The discussion below focuses on the factors affecting our consolidated results of operations for the years ended December 31, 2015, 2014 and 2013 and financial condition at December 31, 2015 and 2014 and, where appropriate, factors that may affect our future financial performance, unless stated otherwise. The dollar amounts within the tables are presented in thousands, except per share data. This discussion should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and selected consolidated financial data.

Acronyms and Abbreviations

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

Acadia Trust:	Acadia Trust, N.A., a wholly-owned subsidiary of Camden National Corporation	FHLBB:	Federal Home Loan Bank of Boston
AFS:	Available-for-sale	FRB:	Federal Reserve Bank
ALCO:	Asset/Liability Committee	Freddie Mac:	Federal Home Loan Mortgage Corporation
ALL:	Allowance for loan losses	GAAP:	Generally accepted accounting principles in the United States
AOCI:	Accumulated other comprehensive income (loss)	HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank
ASC:	Accounting Standards Codification	HTM:	Held-to-maturity
ASU:	Accounting Standards Update	IRS:	Internal Revenue Service
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	LIBOR:	London Interbank Offered Rate
BOLI:	Bank-owned life insurance	LTIP:	Long-Term Performance Share Plan
Board ALCO:	Board of Directors' Asset/Liability Committee	Management ALCO:	Management Asset/Liability Committee
Branch Acquisition:	The acquisition of 14 branches from Bank of America, N.A. in 2012, after divesting of one branch as required by the Department of Justice	MBS:	Mortgage-backed security
Branch Divestiture:	The divestiture of five Franklin County branches in 2013	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
BSA:	Bank Secrecy Act	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
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden	MSHA:	Maine State Housing Authority

	National Corporation		
CDARS:	Certificate of Deposit Account Registry System	MSRs:	Mortgage servicing rights
CDs:	Certificate of deposits	MSPP:	Management Stock Purchase Plan
Company:	Camden National Corporation	OTTI:	Other-than-temporary impairment
CSV:	Cash surrender value	NIM:	Net interest margin on a fully-taxable basis
CMO:	Collateralized mortgage obligation	N.M.:	Not meaningful
DCRP:	Defined Contribution Retirement Plan	Non-Agency:	Non-agency private issue collateralized mortgage obligation
EPS:	Earnings per share	NRV:	Net realizable value
FASB:	Financial Accounting Standards Board	OCC:	Office of the Comptroller of the Currency
FDIC:	Federal Deposit Insurance Corporation	OCI:	Other comprehensive income (loss)
FHLB:	Federal Home Loan Bank	OFAC:	Office of Foreign Assets Control

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OREO:	Other real estate owned	U.S.:	United States of America
SBM:	SBM Financial, Inc., the parent company of The Bank of Maine	2003 Plan:	2003 Stock Option and Incentive Plan
SERP:	Supplemental executive retirement plans	2012 Plan:	2012 Equity and Incentive Plan
TDR:	Troubled-debt restructured loan	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors
UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation		

Executive Overview

In 2015, we achieved two significant milestones in the Company's long history with the acquisition of SBM, the parent company of The Bank of Maine, and reported record core operating earnings(1) (which excludes the effect of certain one-time non-recurring transactions) of $28.2 million. We announced on March 30, 2015 the merger of the Company and SBM, including their respective subsidiaries, and on October 16, 2015, the transaction was completed and all systems were converted and integrated shortly thereafter. As a combined organization, the Company has 64 banking centers and 85 ATMs across Maine and three lending offices in Maine, New Hampshire and Massachusetts. Total SBM assets, loans and deposits acquired as of the acquisition date (October 16, 2015) totaled $840.1 million, $615.2 million and $687.0 million, respectively. The merger of these two organizations expanded our footprint across New England, while providing an immediate larger presence in Southern Maine. As a combined organization, we will be able to achieve synergies through the operational efficiencies gained from systems integration, fewer employees, and other consolidations.

In connection with the SBM acquisition, we incurred one-time acquisition costs of $10.4 million in 2015 and issued 2.7 million shares of Company common stock. While the SBM acquisition resulted in lower net income and diluted EPS (as calculated under GAAP) for 2015, our focus continues to be on creating long-term shareholder value and success for the Company. We continue to remain committed on achieving our tangible book value dilution earn-back over a five-year period as originally planned and communicated.

As part of the SBM acquisition, we acquired HPFC, which provides lending services to dentists, veterinarians, and optometrists across the U.S. After an extensive analysis we determined that at this time the capital and operational resources required to allow HPFC to reach its full potential did not align with our need to focus on ensuring we meet the profitability targets of the Merger. Operations at HPFC were closed on February 19, 2016. We will continue to earn revenues from HPFC's loan portfolio as it naturally runs off over the next five to ten years.

The following provides financial highlights as of and for the year ended December 31, 2015 compared to prior periods:

Operating Results. The Company reported consolidated net income and diluted EPS for the year ended December 31, 2015 of $21.0 million and $2.60 per share, respectively, representing a $3.6 million, or 15%, decrease in net income and a $0.68 per share, or 21%, decrease in diluted EPS compared to the same period for 2014. The decrease in net income and diluted EPS reflects the investment made in connection with acquisition of SBM, whereby the Company incurred $10.4 million of one-time acquisition-related costs in 2015 and issued 2.7 million shares of Company common stock in the fourth quarter of 2015.

Excluding the one-time acquisition costs and certain other non-core items incurred in 2015, we reported core operating earnings of $28.2 million, representing a $3.9 million, or 16%, increase over 2014, and core diluted EPS[1] of $3.49 per share, representing a $0.25 per share, or 8%, increase over 2014.

(1) This is a non-GAAP measure. Refer to "—Non-GAAP Financial Measures and Reconciliation to GAAP" within Item 7 of this report.

We utilize other key financial ratios to measure our financial performance internally and to others within our industry, including:

	At or For The Years Ended December 31,		Increase / (Decrease)
	2015	2014	
Core return on average assets	0.94 %	0.90 %	0.04 %
Core return on average tangible equity	13.20 %	13.30 %	(0.10)%
Efficiency ratio	61.13 %	61.58 %	(0.45)%
Tangible book value per share	$25.33	$26.52	$(1.19)

Financial Condition. Total assets at December 31, 2015 of $3.7 billion increased $920.0 million, or 33%, since December 31, 2014 due to (i) the SBM acquisition, which included acquired total assets of $840.1 million, and (ii) organic asset growth of $79.9 million, or 3%. Total assets growth was driven by strong organic loan growth of $102.4 million, or 6%, for the year led by 11% growth in the commercial loan portfolio, with total loans of $1.3 billion at December 31, 2015. Additionally, we acquired $615.2 million of loans in conjunction with SBM acquisition.

Total deposits (excluding brokered deposits) at December 31, 2015 reached $2.5 billion compared to $1.7 billion last year. The significant increase not only reflects the deposits acquired from SBM of $687.0 million but, also, strong organic deposit growth (excluding brokered deposits) in 2015 of $125.9 million, or 7%. Total borrowings (including brokered deposits) at December 31, 2015 decreased $22.8 million compared to December 31, 2014, which includes $15.0 million of subordinated notes issued in the fourth quarter of 2015.

We continue to maintain a strong capital position at December 31, 2015 highlighted by a shareholders' equity to total assets ratio of 9.79% and a tangible common equity ratio[1] of 7.18%. Our risk-based capital ratios at December 31, 2015 exceeded all regulatory levels required for an institution to be considered “well capitalized.” At December 31, 2015, our total risk-based capital ratio, Tier I risk-based capital ratio, common equity Tier I risk-based capital ratio, and Tier I leverage capital ratio was 12.98%, 11.58%, 10.42%, and 8.74%, respectively.

For 2015, we declared dividends of $1.20 per share to our shareholders totaling $10.6 million, which was an increase over dividends declared in 2014 of 8% per share and $2.4 million, respectively.

Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. In preparing the Company's consolidated financial statements, management is required to make significant estimates and assumptions that affect assets, liabilities, revenues, and expenses reported. Actual results could materially differ from our current estimates, as a result of changing conditions and future events. Several estimates are particularly critical and are susceptible to significant near-term change, including (i) the allowance for loan losses; (ii) accounting for acquisitions and the subsequent review of goodwill and core deposit intangible assets generated in an acquisition for impairment; (iii) OTTI of investments; (iv) accounting for postretirement plans; and (v) income taxes.

Allowance for Loan Losses. Management is committed to maintaining an ALL that is appropriate to absorb likely loss exposure in the loan portfolio. Evaluating the appropriateness of the ALL is a key management function and one that requires the most significant amount of management estimates and assumptions. The ALL, which is established through a charge to the provision for credit losses, consists of two components: (i) a reduction to total gross loans in the asset section of the consolidated statements of condition, and (ii) the reserve for unfunded commitments included in other liabilities on the consolidated statements of condition. We regularly evaluate the ALL for adequacy by taking into consideration, among other factors, historical trends in charge-offs and delinquencies, overall risk characteristics and size of the portfolios, ongoing review of significant individual loans, trends in levels of watched or criticized assets, business and economic conditions, local industry trends, regulatory guidance, and other relevant factors.

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

Loans for which a specific loss allocation may be required are identified and assessed at least quarterly by reviewing individual loans with a principal balance of $250,000 or more that are risk rated as substandard or doubtful and are on non-accrual status in accordance with Bank policy. We believe loans that meet the above criteria most often demonstrate the qualities and characteristics of an impaired loan and are individually significant enough to the Company to warrant individual assessment. An allowance is established for each of these loans to reduce the net carrying value when the discounted cash flows (or collateral value or observable market) of the impaired loan is lower than the recorded investment of the loan.

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

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

Three times a year, management conducts a thorough review of adversely risk rated commercial and commercial real estate exposures exceeding certain thresholds to re-evaluate the risk rating and identify impaired loans. This extensive review takes into account the obligor's repayment history and financial condition, collateral value, guarantor support, local economic and industry trends, and other factors relevant to the particular loan relationship.

Because the methodology is based upon historical experience and trends as well as management’s judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk, declines in local property values, and the results of regulatory examinations. While management’s evaluation of the ALL as of December 31, 2015 determined it to be appropriate, under adversely different conditions or assumptions, we may need to increase the ALL. Monthly, management reviews the ALL to assess recent asset quality trends and impact on the Company's financial condition. Quarterly, the ALL is brought before the Bank's board of directors for discussion, review, and approval.

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

Purchase Price Allocation and Impairment of Goodwill and Identifiable Intangible Assets. We record all acquired assets and liabilities at fair value, which is an estimate determined by the use of internal valuation techniques. We also may engage external valuation services to assist with the valuation of material assets and liabilities acquired, including, but not limited to, loans, core deposit intangibles, real estate and time deposits. As part of purchase accounting, we typically acquire goodwill and other intangible assets as part of the purchase price. These assets are subject to ongoing periodic impairment tests under differing accounting models. On October 16, 2015, we completed the acquisition of SBM, the parent company of The Bank of Maine. We did not acquire any other company or assets in 2014.

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

For the years ended December 31, 2015 and 2014, we performed step one of the annual goodwill impairment test for each reporting unit and in doing so, we concluded that the estimated fair value of each reporting unit exceeded its respective carrying value. As such, we concluded that goodwill was not impaired as of November 30, 2015 and 2014. Furthermore, we are not aware of any indications and/or triggers subsequent to our goodwill impairment analysis performed as of November 30, 2015 that would lead us to believe there may be subsequent impairment of goodwill.

Core deposit intangible assets have a finite life and are amortized over their estimated useful lives. Core deposit intangible assets are subject to impairment tests if events or circumstances indicate a possible inability to realize the carrying amount. Core deposit intangible assets are measured for impairment utilizing a cost recovery model. We did not identify any events or circumstances that occurred for the years ended December 31, 2015 or 2014 that would indicate that our core deposit intangible assets may be impaired and should be evaluated for such.

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

Accounting for Postretirement Plans. We use a December 31st measurement date to determine the expenses for our postretirement plans and related financial disclosure information. Postretirement plan expense is sensitive to changes in the number of eligible employees (and their related demographics), changes in the discount rate, mortality rate, and other expected rates, such as medical cost trends rates and salary scale assumptions.

Income Taxes. We account for income taxes by deferring income taxes based on the estimated future tax effects of differences between the book and tax bases of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the consolidated statements of condition. We must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined not likely to be recoverable. Judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although we have determined a valuation allowance is not required for all deferred tax assets, there is no guarantee that these assets will be realized. Although not currently under review, income tax returns for the years ended December 31, 2012 through 2014 are open to audit by federal and various state authorities. If we, as a result of an audit, were assessed interest and penalties, the amounts would be recorded through other non-interest expense on the consolidated statements of income.

Non-GAAP Financial Measures and Reconciliation to GAAP

In addition to evaluating the Company's results of operations in accordance with GAAP, management supplements this evaluation with an analysis of certain non-GAAP financial measures, such as the efficiency ratio, tax equivalent net interest income, tangible book value per share, tangible common equity ratio, core operating earnings, core diluted EPS, core return on average assets, and core return on average equity and core return on average tangible equity. We utilize these non-GAAP financial measures for purposes of measuring our performance against our peer group and other financial institutions and analyzing our internal performance. We also believe these non-GAAP financial measures help investors better understand the Company's operating performance and trends and allow for better performance comparisons to other banks. In addition, these non-GAAP financial measures remove the impact of unusual items that may obscure trends in the Company's underlying performance. These disclosures should not be viewed as a substitute for GAAP operating results, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other financial institutions.

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 (a) one-time acquisition and divestiture costs, (b) goodwill impairment, and (c) prepayment penalties on borrowings (the numerator) to (ii) net interest income on a tax equivalent basis (assumed 35% tax rate) plus total non-interest income excluding (a) net gains or losses on sale of securities, net of OTTI, (b) gain on the Branch Divestiture, (c) and gain on sale of branch facility.

	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
Non-interest expense, as presented	$81,139	$62,397	$66,333	$59,031	$55,579
Less: acquisition and divestiture costs	10,415	—	374	2,324	—
Less: goodwill impairment	—	—	2,830	—	50
Less: prepayment penalties on borrowings	—	—	—	2,030	2,318
Adjusted non-interest expense	$70,724	$62,397	$63,129	$54,677	$53,211
Net interest income, as presented	$86,452	$76,257	$75,441	$73,745	$75,219
Add: effect of tax-exempt income	1,763	1,157	808	988	1,212
Non-interest income	27,482	24,370	27,835	23,412	23,053
Less: net gains on sale of securities, net of OTTI	4	451	785	2,498	2,076
Less: gain on Branch Divestiture	—	—	2,742	—	—
Less: gain on sale of branch facility	—	—	—	479	—
Adjusted net interest income plus non-interest income	$115,693	$101,333	$100,557	$95,168	$97,408
Non-GAAP efficiency ratio	61.13 %	61.58 %	62.78 %	57.45 %	54.63 %
GAAP efficiency ratio	71.22 %	62.01 %	64.23 %	60.76 %	56.49 %

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

	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
Net interest income, as presented	$86,452	$76,257	$75,441	$73,745	$75,219
Effect of tax-exempt income	1,763	1,157	808	988	1,212
Net interest income, tax equivalent	$88,215	$77,414	$76,249	$74,733	$76,431

Tangible Book Value per Share. Tangible book value per share is the ratio of (i) shareholders’ equity less goodwill, premium on deposits and other acquisition-related intangibles (the numerator) to (ii) total common shares outstanding at period end. The following table reconciles tangible book value per share to book value per share. We believe this is a meaningful measure as it provides information to assess capital adequacy and is a common measure within our industry.

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

	December 31,				
	2015	2014	2013	2012	2011
Tangible Book Value Per Share:					
Shareholders' equity, as presented	$363,190	$245,109	$231,096	$233,815	$218,876
Less: goodwill and other intangible assets	104,324	48,171	49,319	53,299	45,194
Tangible equity	$258,866	$196,938	$181,777	$180,516	$173,682
Shares outstanding at period end	10,220,478	7,426,222	7,579,913	7,622,750	7,664,975
Tangible book value per share	$25.33	$26.52	$23.98	$23.68	$22.66
Book value per share	$35.54	$33.01	$30.49	$30.67	$28.56
Tangible Common Equity Ratio:					
Total assets	$3,709,871	$2,789,853	$2,603,829	$2,564,757	$2,302,720
Less: goodwill and other intangibles	104,324	48,171	49,319	53,299	45,194
Tangible assets	$3,605,547	$2,741,682	$2,554,510	$2,511,458	$2,257,526
Tangible common equity ratio	7.18 %	7.18 %	7.12 %	7.19 %	7.69 %
Shareholders' equity to total assets	9.79 %	8.79 %	8.88 %	9.12 %	9.51 %

Core Operating Earnings, Core Diluted EPS, Core Return on Average Assets and Core Return on Average Equity and Average Tangible Equity: The following tables provide a reconciliation of GAAP net income, GAAP diluted EPS, GAAP return on average assets and average shareholders' equity 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, core diluted EPS, core return on average assets and average shareholders' equity to compare and assess core operation financial results period-over-period.

	For The Years Ended December 31,				
	2015	2014	2013	2012	2011
Core Operating Earnings:					
Net income, as presented	$20,952	$24,570	$22,783	$23,428	$26,177
Acquisition and divestiture costs, net of tax(1)	7,237	—	243	1,511	—
Net gains on sale of securities, net of OTTI(2)	(3)	(293)	(510)	(1,624)	(1,349)
Goodwill impairment(2)	—	—	2,830	—	50
Gain on Branch Divestiture(2)	—	—	(1,782)	—	—
Prepayment penalties on borrowings(2)	—	—	—	1,320	1,507
Gain on sale of branch facility(2)	—	—	—	(311)	—
Core operating earnings	$28,186	$24,277	$23,564	$24,324	$26,385
Core Diluted EPS:					
Diluted EPS, as presented	$2.60	$3.28	$2.97	$3.05	$3.40
Non-core transactions impact	0.89	(0.04)	0.10	0.12	0.03
Core diluted EPS	$3.49	$3.24	$3.07	$3.17	$3.43
Core Return on Average Assets:					
Return on average assets, as presented	0.70%	0.92%	0.88%	0.98%	1.13%
Non-core transactions impact	0.24%	(0.02)%	0.04%	0.04%	0.01%
Core return on average assets	0.94%	0.90%	0.92%	1.02%	1.14%
Core Return on Average Equity:					
Return on average equity, as presented	7.54%	10.37%	9.74%	10.31%	12.16%
Non-core transactions impact	2.61%	(0.12)%	0.33%	0.40%	0.09%
Core return on average equity	10.15%	10.25%	10.07%	10.71%	12.25%

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

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

	For The Years Ended December 31, 2015	2014	2013	2012	2011
Core Return on Average Tangible Equity:					
Net income, as presented	$20,952	$24,570	$22,783	$23,428	$26,177
Amortization of intangible assets, net of tax[1]	849	746	747	427	375
Acquisition and divestiture costs, net of tax[2]	7,237	—	243	1,511	—
Net gains on sale of securities, net of OTTI[1]	(3)	(293)	(510)	(1,624)	(1,349)
Goodwill impairment[1]	—	—	2,830	—	50
Gain on Branch Divestiture[1]	—	—	(1,782)	—	—
Prepayment penalties on borrowings[1]	—	—	—	1,320	1,507
Gain on sale of branch facility[1]	—	&#8212			