

BAR HARBOR BANKSHARES

Form 10-Q

November 06, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13349

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization)  01-0393663 (I.R.S. Employer Identification No.)

PO Box 400

82 Main Street, Bar Harbor, ME

(Address of principal executive offices)

04609-0400

(Zip Code)

Registrant's telephone number, including area code: (207) 288-3314

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer", "smaller reporting company", or "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

Emerging growth company

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

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

Yes  No

The Registrant had 15,509,803 shares of common stock, par value \$2.00 per share, outstanding as of November 2, 2018.

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES  
FORM 10-Q

## INDEX

Page

PART I. FINANCIAL INFORMATIONItem 1. Consolidated Financial Statements (unaudited)

Consolidated Balance Sheets as of September 30, 2018 and  
December 31, 2017 4

Consolidated Statements of Income for the Three and Nine Months  
Ended September 30, 2018 and 2017 5

Consolidated Statements of Comprehensive Income for the Three  
and Nine Months Ended September 30, 2018 and 2017 6

Consolidated Statements of Changes in Shareholders' Equity for  
the Nine Months Ended September 30, 2018 and 2017 7

Consolidated Statements of Cash Flows for the Nine Months  
Ended September 30, 2018 and 2017 8

Notes to Unaudited Consolidated Interim Financial Statements

Note 1 Basis of Presentation 9  
Note 2 Securities Available for Sale 14  
Note 3 Loans 18  
Note 4 Allowance for Loan Losses 34  
Note 5 Borrowed Funds 41  
Note 6 Deposits 43  
Note 7 Capital Ratios and Shareholders' Equity 44  
Note 8 Earnings per Share 49  
Note 9 Derivative Financial Instruments and Hedging Activities 50  
Note 10 Fair Value Measurements 53  
Note 11 Non-Interest Income 59  
Note 12 Subsequent Events 62

Item 2. Management's Discussion and Analysis of Financial Condition and  
Results of Operations 63

Forward-Looking Statements 64  
Selected Financial Data 65  
Consolidated Loan and Deposit Analysis 67  
Average Balances and Average Yields/Rates 68  
Non-GAAP Financial Measures 70  
Reconciliation of Non-GAAP Financial Measures 71  
Financial Summary 73



Table of Contents

<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>80</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>82</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>82</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>82</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>83</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>83</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>83</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>83</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>84</u>
<u>Signatures</u>		<u>85</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 53,154	\$ 34,262
Interest-bearing deposit with the Federal Reserve Bank	19,420	56,423
Total cash and cash equivalents	72,574	90,685
Securities available for sale, at fair value	712,658	717,242
Federal Home Loan Bank stock	34,154	38,105
Total securities	746,812	755,347
Commercial real estate	840,018	826,746
Commercial and industrial	385,814	379,423
Residential real estate	1,140,519	1,155,682
Consumer	117,239	123,762
Total loans	2,483,590	2,485,613
Less: Allowance for loan losses	(13,487	) (12,325 )
Net loans	2,470,103	2,473,288
Premises and equipment, net	47,621	47,708
Other real estate owned	68	122
Goodwill	100,085	100,085
Other intangible assets	7,690	8,383
Cash surrender value of bank-owned life insurance	73,316	57,997
Deferred tax assets, net	11,527	7,180
Other assets	31,196	24,389
Total assets	\$ 3,560,992	\$ 3,565,184
<b>Liabilities</b>		
Demand and other non-interest bearing deposits	\$ 372,358	\$ 349,055
NOW deposits	471,326	466,610
Savings deposits	354,908	364,799
Money market deposits	254,142	305,275
Time deposits	937,615	866,346
Total deposits	2,390,349	2,352,085
Senior borrowings	739,224	786,688
Subordinated borrowings	42,988	43,033
Total borrowings	782,212	829,721
Other liabilities	30,746	28,737
Total liabilities	3,203,307	3,210,543
(continued)		
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 16,428,388 and 16,428,388 shares at September 30, 2018 and December 31, 2017, respectively	32,857	32,857
Additional paid-in capital	187,284	186,702

Edgar Filing: BAR HARBOR BANKSHARES - Form 10-Q

Retained earnings	162,008	144,977	
Accumulated other comprehensive loss	(19,688	) (4,554	)
Less: 919,710 and 985,532 shares of treasury stock at September 30, 2018 and December 31, 2017, respectively	(4,776	) (5,341	)
Total shareholders' equity	357,685	354,641	
Total liabilities and shareholders' equity	\$ 3,560,992	\$ 3,565,184	

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

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Interest and dividend income				
Loans	\$26,212	\$24,661	\$77,272	\$70,081
Securities and other	5,972	5,402	17,407	15,832
Total interest and dividend income	32,184	30,063	94,679	85,913
Interest expense				
Deposits	5,478	3,177	13,868	7,926
Borrowings	4,237	3,408	12,192	9,327
Total interest expense	9,715	6,585	26,060	17,253
Net interest income	22,469	23,478	68,619	68,660
Provision for loan losses	643	660	2,208	2,191
Net interest income after provision for loan losses	21,826	22,818	66,411	66,469
Non-interest income				
Trust and investment management fee income	2,952	3,040	9,036	9,228
Insurance brokerage service income	—	329	—	1,020
Customer service fees	2,490	2,638	7,061	6,402
Gain on sales of securities, net	—	19	—	19
Bank-owned life insurance income	505	380	1,328	1,165
Other income	1,179	554	3,060	1,631
Total non-interest income	7,126	6,960	20,485	19,465
Non-interest expense				
Salaries and employee benefits	10,331	9,617	31,695	30,065
Occupancy and equipment	3,366	2,700	9,364	8,195
Loss on premises and equipment, net	—	(1)	—	94
Outside services	456	907	1,597	2,220
Professional services	223	428	1,016	1,357
Communication	217	382	701	1,040
Amortization of intangible assets	207	212	621	603
Acquisition, conversion and other expenses	70	346	619	5,917
Other expenses	3,036	2,995	9,830	8,972
Total non-interest expense	17,906	17,586	55,443	58,463
Income before income taxes	11,046	12,192	31,453	27,471
Income tax expense	2,076	3,575	6,136	8,085
Net income	\$8,970	\$8,617	\$25,317	\$19,386
Earnings per share:				
Basic	\$0.58	\$0.56	\$1.64	\$1.27
Diluted	\$0.58	\$0.56	\$1.63	\$1.27
Weighted average common shares outstanding:				
Basic	15,503	15,420	15,478	15,098
Diluted	15,580	15,511	15,564	15,204

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

5

---



Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months		Nine Months	
	Ended		Ended September	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income	\$8,970	\$8,617	\$25,317	\$19,386
Other comprehensive (loss) income, before tax:				
Changes in unrealized loss on securities available for sale	(5,850 )	512	(19,639 )	5,119
Changes in unrealized loss on derivative hedges	299	(84 )	1,179	(805 )
Changes in unrealized loss on pension	—	5	41	45
Income taxes related to other comprehensive (loss) income :				
Changes in unrealized loss on securities available for sale	1,291	(192 )	4,565	(1,839 )
Changes in unrealized loss on derivative hedges	(81 )	31	(290 )	373
Changes in unrealized loss on pension	—	(2 )	(10 )	(2 )
Total other comprehensive (loss) income	(4,341 )	270	(14,154 )	2,891
Total comprehensive income	\$4,629	\$8,887	\$11,163	\$22,277

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

Table of Contents
**BAR HARBOR BANKSHARES AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2016	\$ 13,577	\$ 23,027	\$ 130,489	\$ (4,326 )	\$ (6,027 )	\$ 156,740
<b>Comprehensive income:</b>						
Net income	—	—	19,386	—	—	19,386
Other comprehensive income	—	—	—	2,891	—	2,891
Total comprehensive income	—	—	19,386	2,891	—	22,277
Cash dividends declared (\$0.56 per share)	—	—	(8,624 )	—	—	(8,624 )
Acquisition of Lake Sunapee Bank Group	8,328	173,591	—	—	—	181,919
Treasury stock purchased (9,603 shares)	—	—	—	—	(282 )	(282 )
Net issuance (80,448 shares) to employee stock plans, including related tax effects	—	(265 )	—	—	874	609
Three-for-two stock split	10,953	(10,968 )	—	—	—	(15 )
Recognition of stock based compensation	—	835	—	—	—	835
Balance at September 30, 2017	\$ 32,858	\$ 186,220	\$ 141,251	\$ (1,435 )	\$ (5,435 )	\$ 353,459
Balance at December 31, 2017	\$ 32,857	\$ 186,702	\$ 144,977	\$ (4,554 )	\$ (5,341 )	\$ 354,641
<b>Comprehensive income:</b>						
Net income	—	—	25,317	—	—	25,317
Other comprehensive loss	—	—	—	(14,154 )	—	(14,154 )
Total comprehensive income	—	—	25,317	(14,154 )	—	11,163
Cash dividends declared (\$0.59 per share)	—	—	(9,082 )	—	—	(9,082 )
Treasury stock purchased (10,899 shares)	—	—	—	—	(324 )	(324 )
Net issuance (74,651 shares) to employee stock plans, including related tax effects	—	(254 )	—	—	889	635
Modified retrospective basis adoption of Revenue Recognition Accounting Codification Standard 606	—	—	(184 )	—	—	(184 )
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income for adoption of ASU 2018-02	—	—	980	(980 )	—	—
Recognition of stock based compensation	—	836	—	—	—	836
Balance at September 30, 2018	\$ 32,857	\$ 187,284	\$ 162,008	\$ (19,688 )	\$ (4,776 )	\$ 357,685

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

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$25,317	\$ 19,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,208	2,191
Net amortization of securities	3,066	4,006
Deferred tax benefit	—	(237 )
Change in unamortized net loan costs and premiums	46	(368 )
Premises and equipment depreciation and amortization expense	2,821	2,745
Stock-based compensation expense	836	835
Accretion of purchase accounting entries, net	(2,780 )	(2,482 )
Amortization of other intangibles	621	542
Income from cash surrender value of bank-owned life insurance policies	(1,328 )	(1,165 )
Gain on sales of securities, net	—	(19 )
Loss on premises and equipment, net	—	95
Net change in other assets and liabilities	(3,644 )	(2,387 )
Net cash provided by operating activities	27,163	23,142
Cash flows from investing activities:		
Proceeds from sales of securities available for sale	—	1,581
Proceeds from maturities, calls and prepayments of securities available for sale	72,278	92,817
Purchases of securities available for sale	(90,399 )	(138,785)
Net change in loans	53,049	(71,669 )
Purchase of loans	(50,197 )	(18,621 )
Purchase of Federal Home Loan Bank stock	(1,172 )	(327 )
Proceeds from sale of Federal Home Loan Bank stock	5,123	—
Purchase of premises and equipment, net	(2,675 )	(3,011 )
Purchase of bank-owned life insurance income	(14,000 )	—
Acquisitions, net of cash acquired	—	39,537
Proceeds from sale of other real estate	69	322
Net cash used in investing activities	(27,924 )	(98,156 )
Cash flows from financing activities:		
Net increase in deposits	38,885	74,725
Net change in short-term advances from the Federal Home Loan Bank	20,063	110,801
Net change in long-term advances from the Federal Home Loan Bank	(64,272 )	(62,531 )
Repayment of short-term other borrowings	(3,255 )	—
Net change in securities sold repurchase agreements	—	672
Exercise of stock options	635	451
Purchase of treasury stock	(324 )	(196 )
Common stock cash dividends paid	(9,082 )	(8,623 )
Net cash (used in) provided by financing activities	(17,350 )	115,299
Net change in cash and cash equivalents	(18,111 )	40,285
Cash and cash equivalents at beginning of year	90,685	8,439

Edgar Filing: BAR HARBOR BANKSHARES - Form 10-Q

Cash and cash equivalents at end of period	\$72,574	\$48,724
Supplemental cash flow information:		
Interest paid	\$25,537	\$16,955
Income taxes paid, net	9,927	6,764
Acquisition of non-cash assets and liabilities:		
Assets acquired	—	1,454,076
Liabilities assumed	—	1,406,672
Other non-cash changes:		
Real estate owned acquired in settlement of loans	30	32

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

Table of Contents

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

NOTE 1. BASIS OF PRESENTATION

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

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

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

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

Tax Cuts and Jobs Act

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

Table of Contents

## Recent Accounting Pronouncements

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

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

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

Table of Contents

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2018 (continued)			
ASU 2017-09, Stock Compensation: Scope of Modification Accounting	This ASU amends Topic 718, Compensation- Stock Compensation, and clarifies when modification accounting should be applied to changes in terms or conditions of share-based payment awards. The amendments narrow the scope of modification accounting by clarifying that modification accounting should be applied to awards if the change affects the fair value, vesting conditions, or classification of the award. The amendments do not impact current disclosure requirements for modifications, regardless of whether modification accounting is required under the new guidance.	January 1, 2018	The Company adopted this ASU as of January 1, 2018, although it did not have a material impact on the Company's consolidated financial statements.
ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	The ASU amends Topic 220, Income Statement-Reporting Comprehensive Income, and is intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the recently enacted Tax Reform. The guidance allows entities to reclassify stranded tax effects in accumulated other comprehensive income to retained earnings.	January 1, 2019	The Company adopted this ASU as of March 31, 2018. The effect of the reclassification resulted in an increase to retained earnings and a decrease to accumulated other comprehensive income of \$980,000 with zero net effect on total stockholders' equity.
ASU 2018-05, Income Taxes (Topic 740) SEC Amendments		Early adoption is permitted.	
ASU 2018-06, Codification Improvements to Topic 942, Financial Services - Depository and Lending	Circular 202, issued on July 2, 1985, was rescinded by the Office of the Comptroller of the Currency. The circular limited the net deferred tax debits that could be carried on the Company's balance sheet for regulatory purposes to the amount that would be coverable by the net operating loss carrybacks. The language is no longer relevant and has been removed from the guidance.	May 2018	The Company adopted this ASU as of January 1, 2018, although it did not have a material impact on the Company's consolidated financial statements.
Standards Not Yet Adopted			
ASU 2016-02, Leases	This ASU creates ASU Topic 842, Leases, and supersedes Topic 840, Leases. The new guidance requires lessees to record a right-of-use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year. There are not significant changes to lessor accounting; however, there are certain improvements made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. This	January 1, 2019	The Company plans to elect the package of practical expedients under this ASU and will recognize right-of-use assets and lease liabilities for most of its operating lease commitments on our consolidated balance sheets. In addition, the consolidated statements of
ASU 2018-11, Practical Expedients to Topic 842, Leases			



guidance expands both quantitative and qualitative required disclosures. This ASU is required to be adopted on a modified retrospective basis and allows for practical expedients and elections in conjunction with implementation. The Company may elect some of the expedients upon the adoption date, which may be applied prospectively or retrospectively.

income will reflect interest expense on the lease liability and amortization of the right of use asset.

Table of Contents

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

employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity-Based Payments to Non-Employees.

not participate in these types of arrangements in the normal course of business, except for board director compensation.

Table of Contents

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted (continued)			
ASU 2018-13 Changes to Disclosure Requirements Fair Value Measurement, Topic 820	This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements.	January 1, 2020 Early adoption is permitted.	The Company is currently evaluating this guidance to determine any impact on the Company's consolidated financial statements.
ASU 2018-14 Compensation-Disclosure Requirements for Defined Pension Plans Topic 715-20	This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans.	January 1, 2021 Early adoption is permitted.	The Company is currently evaluating this guidance to determine any impact on the Company's consolidated financial statements.

Table of Contents

## NOTE 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Securities available for sale				
Debt securities:				
Obligations of US Government-sponsored enterprises	\$ 3,998	\$ —	\$ 1	\$3,997
Mortgage-backed securities:				
US Government-sponsored enterprises	441,725	357	16,791	425,291
US Government agency	116,638	136	3,192	113,582
Private label	428	112	5	535
Obligations of states and political subdivisions thereof	133,926	600	3,089	131,437
Corporate bonds	38,323	114	621	37,816
Total securities available for sale	\$ 735,038	\$ 1,319	\$ 23,699	\$ 712,658
December 31, 2017				
Securities available for sale				
Debt securities:				
Obligations of US Government-sponsored enterprises	\$ 6,967	\$ 5	\$ —	\$6,972
Mortgage-backed securities:				
US Government-sponsored enterprises	447,081	1,738	5,816	443,003
US Government agency	96,357	413	1,174	95,596
Private label	529	150	5	674
Obligations of states and political subdivisions thereof	138,522	2,407	729	140,200
Corporate bonds	30,527	323	53	30,797
Total securities available for sale	\$ 719,983	\$ 5,036	\$ 7,777	\$ 717,242

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

(in thousands)	Available for sale	
	Amortized Cost	Fair Value
Within 1 year	\$4,028	\$4,027
Over 1 year to 5 years	15,587	15,446
Over 5 years to 10 years	45,826	45,418
Over 10 years	110,806	108,359
Total bonds and obligations	176,247	173,250
Mortgage-backed securities	558,791	539,408
Total securities available for sale	\$735,038	\$712,658

Table of Contents

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

(In thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
September 30, 2018						
Securities available for sale						
Debt securities:						
Obligations of US Government-sponsored enterprises	\$ 1	\$ 3,997	\$ —	\$ —	\$ 1	\$ 3,997
Mortgage-backed securities:						
US Government-sponsored enterprises	5,882	213,267	10,909	193,006	16,791	406,273
US Government agency	545	47,373	2,647	59,364	3,192	106,737
Private label	1	114	4	50	5	164
Obligations of states and political subdivisions thereof	892	44,817	2,197	31,933	3,089	76,750
Corporate bonds	621	25,465	—	—	621	25,465
Total securities available for sale	\$ 7,942	\$ 335,033	\$ 15,757	\$ 284,353	\$ 23,699	\$ 619,386
December 31, 2017						
Securities available for sale						
Debt securities:						
Mortgage-backed securities:						
US Government-sponsored enterprises	\$ 1,895	\$ 189,486	\$ 3,921	\$ 117,156	\$ 5,816	\$ 306,642
US Government agency	559	45,221	615	30,155	1,174	75,376
Private label	—	8	5	130	5	138
Obligations of states and political subdivisions thereof	58	8,298	671	27,727	729	36,025
Corporate bonds	53	8,943	—	—	53	8,943
Total securities available for sale	\$ 2,565	\$ 251,956	\$ 5,212	\$ 175,168	\$ 7,777	\$ 427,124

#### Visa Class B Common Shares

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

In September 2018, the Company sold 4,700 shares with a pre-tax gain of \$685 thousand. At September 30, 2018, the Company owned 10,842 of Visa Class B shares with a current conversion ratio to Visa Class A shares of 1.6298. As of December 31, 2017 the Company held 15,542 Class B shares, which 11,623 were obtained through the original IPO and 3,919 were acquired through a business combination in 2017.



Table of Contents

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

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

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

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

#### Obligations of US Government-sponsored enterprises

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

#### US Government-sponsored enterprises

516 out of the total 769 securities in the Company’s portfolios of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 4.0% of the amortized cost of securities in unrealized loss positions. The FNMA and FHLMC guarantee the contractual cash flows of all of the Company’s US Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

#### US Government agency

132 out of the total 197 securities in the Company’s portfolios of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 2.9% of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association (“GNMA”) guarantees the contractual cash flows of all of the Company’s US Government agency securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter. All securities are performing.

#### Private label

Eight of the total 21 securities in the Company’s portfolio of AFS private label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 3.0% of the amortized cost of securities in unrealized loss positions. Based upon the expectation that the Company will receive all of the future contractual cash flows related to the amortized cost on these securities, the Company does not consider there to be any additional other-than-temporary impairment with respect to these securities.





Table of Contents

Obligations of states and political subdivisions thereof

149 of the total 258 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 3.9% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company feels the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for the risk. There were no material underlying credit downgrades during the quarter. All securities are performing.

Corporate bonds

Ten out of the total 17 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 2.4% of the amortized cost of bonds in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

Table of Contents

## NOTE 3. LOANS

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

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

Total loans include business activity loans and acquired loans. Acquired loans are those loans previously acquired from other institutions. The following is a summary of total loans:

(in thousands)	September 30, 2018			December 31, 2017		
	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Commercial real estate:						
Construction and land development	\$37,525	\$ 2,926	\$ 40,451	\$28,892	\$ 16,781	\$ 45,673
Other commercial real estate	547,641	251,926	799,567	505,119	275,954	781,073
Total commercial real estate	585,166	254,852	840,018	534,011	292,735	826,746
Commercial and industrial:						
Other Commercial	225,965	53,541	279,506	198,051	68,069	266,120
Agricultural	24,478	—	24,478	27,588	—	27,588
Tax exempt	42,578	39,252	81,830	42,365	43,350	85,715
Total commercial and industrial	293,021	92,793	385,814	268,004	111,419	379,423
Total commercial loans	878,187	347,645	1,225,832	802,015	404,154	1,206,169
Residential real estate:						
Residential mortgages	643,038	497,481	1,140,519	591,411	564,271	1,155,682
Total residential real estate	643,038	497,481	1,140,519	591,411	564,271	1,155,682
Consumer:						
Home equity	55,538	49,655	105,193	51,376	62,217	113,593
Other consumer	10,409	1,637	12,046	7,828	2,341	10,169
Total consumer	65,947	51,292	117,239	59,204	64,558	123,762