

CAMDEN NATIONAL CORP

Form 10-Q

November 03, 2017

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, 2017

OR

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

Commission File No. 0-28190

CAMDEN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

MAINE

01-0413282

(State or other jurisdiction of  
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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company) 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 accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

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

Outstanding at October 27, 2017: Common stock (no par value) 15,516,049 shares.

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CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017  
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## PART I. FINANCIAL INFORMATION

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

(In thousands, except number of shares)	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$89,435	\$87,707
Investments:		
Available-for-sale securities, at fair value	797,251	779,867
Held-to-maturity securities, at amortized cost	94,207	94,609
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	24,560	23,203
Total investments	916,018	897,679
Loans held for sale, at fair value	12,997	14,836
Loans	2,748,290	2,594,564
Less: allowance for loan losses	(24,413 )	(23,116 )
Net loans	2,723,877	2,571,448
Goodwill	94,697	94,697
Other intangible assets	5,347	6,764
Bank-owned life insurance	86,869	78,119
Premises and equipment, net	42,422	42,873
Deferred tax assets	36,344	39,263
Other assets	31,937	30,844
Total assets	\$4,039,943	\$3,864,230
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Demand	\$476,386	\$406,934
Interest checking	758,568	701,494
Savings and money market	976,246	979,263
Certificates of deposit	498,965	468,203
Brokered deposits	246,248	272,635
Total deposits	2,956,413	2,828,529
Short-term borrowings	538,997	530,129
Long-term borrowings	10,738	10,791
Subordinated debentures	58,872	58,755
Accrued interest and other liabilities	60,557	44,479
Total liabilities	3,625,577	3,472,683
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, no par value: authorized 40,000,000 shares, issued and outstanding 15,515,577 and 15,476,379 on September 30, 2017 and December 31, 2016, respectively	156,561	156,041
Retained earnings	270,316	249,415
Accumulated other comprehensive loss:		
Net unrealized losses on available-for-sale securities, net of tax	(5,165 )	(6,085 )
Net unrealized losses on cash flow hedging derivative instruments, net of tax	(5,344 )	(5,694 )
Net unrecognized losses on postretirement plans, net of tax	(2,002 )	(2,130 )

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Total accumulated other comprehensive loss	(12,511	)	(13,909	)
Total shareholders' equity	414,366		391,547	
Total liabilities and shareholders' equity	\$4,039,943		\$3,864,230	

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

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## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(In thousands, except number of shares and per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest Income				
Interest and fees on loans	\$29,350	\$ 27,395	\$84,835	\$ 82,117
Interest on U.S. government and sponsored enterprise obligations	4,177	4,049	12,788	12,055
Interest on state and political subdivision obligations	686	702	2,079	2,127
Interest on federal funds sold and other investments	497	448	1,362	1,051
Total interest income	34,710	32,594	101,064	97,350
Interest Expense				
Interest on deposits	3,027	2,204	8,568	6,355
Interest on borrowings	1,665	1,161	4,302	3,610
Interest on subordinated debentures	858	857	2,553	2,557
Total interest expense	5,550	4,222	15,423	12,522
Net interest income	29,160	28,372	85,641	84,828
Provision for credit losses	817	1,279	2,797	5,003
Net interest income after provision for credit losses	28,343	27,093	82,844	79,825
Non-Interest Income				
Debit card income	2,061	1,894	5,887	5,650
Service charges on deposit accounts	1,852	1,799	5,632	5,356
Mortgage banking income, net	2,076	2,407	5,566	4,921
Income from fiduciary services	1,229	1,225	3,831	3,736
Bank-owned life insurance	603	585	1,750	1,899
Brokerage and insurance commissions	600	594	1,601	1,569
Other service charges and fees	589	591	1,558	1,494
Net gain on sale of securities	827	—	827	4
Other income	462	1,906	2,107	4,841
Total non-interest income	10,299	11,001	28,759	29,470
Non-Interest Expense				
Salaries and employee benefits	12,359	12,044	36,882	35,634
Furniture, equipment and data processing	2,429	2,349	7,204	7,157
Net occupancy costs	1,599	1,685	5,234	5,352
Consulting and professional fees	714	742	2,412	2,609
Debit card expense	662	669	2,034	2,107
Regulatory assessments	574	667	1,607	2,162
Amortization of intangible assets	473	475	1,417	1,427
Other real estate owned and collection costs, net	258	877	558	2,029
Merger and acquisition costs	—	45	—	866
Other expenses	2,757	2,596	8,063	8,045
Total non-interest expense	21,825	22,149	65,411	67,388
Income before income tax expense	16,817	15,945	46,192	41,907
Income tax expense	5,478	5,042	14,543	12,742
Net Income	\$11,339	\$ 10,903	\$31,649	\$ 29,165
Per Share Data				
Basic earnings per share	\$0.72	\$ 0.70	\$2.03	\$ 1.88

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Diluted earnings per share	\$0.72	\$ 0.70	\$2.02	\$ 1.88
Weighted average number of common shares outstanding	15,515,180	15,425,452	15,505,698	15,410,310
Diluted weighted average number of common shares outstanding	15,589,008	15,507,561	15,580,072	15,483,320

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

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(In thousands)	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Net Income	\$11,339	\$10,903	\$31,649	\$29,165
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on available-for-sale securities:				
Net change in unrealized gains (losses) on available-for-sale securities, net of tax of \$142, \$405, (\$784) and (\$5,599), respectively	(262 )	(752 )	1,458	10,399
Net reclassification adjustment for net gains included in net income, net of tax of \$289, \$0, \$289 and \$1, respectively <sup>(1)</sup>	(538 )	—	(538 )	(3 )
Net change in unrealized gains (losses) on available-for-sale securities, net of tax	(800 )	(752 )	920	10,396
Net change in unrealized gains (losses) on cash flow hedging derivatives:				
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax of \$43, (\$107), \$243 and \$1,859, respectively	(80 )	199	(452 )	(3,453 )
Net reclassification adjustment for effective portion of cash flow hedges, net of tax of (\$128), (\$187), (\$432) and (\$532), respectively <sup>(2)</sup>	238	347	802	989
Net change in unrealized gains (losses) on cash flow hedging derivatives, net of tax	158	546	350	(2,464 )
Reclassification of amortization of net unrecognized actuarial loss and prior service cost, net of tax of (\$23), (\$20), (\$69) and (\$62), respectively <sup>(3)</sup>	42	39	128	115
Other comprehensive income (loss)	(600 )	(167 )	1,398	8,047
Comprehensive Income	\$10,739	\$10,736	\$33,047	\$37,212

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

(2) Reclassified into the consolidated statements of income within interest expense.

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

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(In thousands, except number of shares and per share data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares Outstanding <sup>(1)</sup>	Amount			
Balance at December 31, 2015	15,330,717	\$ 153,083	\$ 222,329	\$(12,222)	\$ 363,190
Cumulative effect adjustment <sup>(2)</sup>	—	72	(72)	—	—
Cash in-lieu, stock split <sup>(3)</sup>	(173)	(5)	—	—	(5)
Net income	—	—	29,165	—	29,165
Other comprehensive income, net of tax	—	—	—	8,047	8,047
Stock-based compensation expense	—	1,521	—	—	1,521
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings	104,312	593	—	—	593
Cash dividends declared (\$0.60 per share) <sup>(1)</sup>	—	—	(9,330)	—	(9,330)
Balance at September 30, 2016	15,434,856	\$ 155,264	\$ 242,092	\$(4,175)	\$ 393,181
Balance at December 31, 2016	15,476,379	\$ 156,041	\$ 249,415	\$(13,909)	\$ 391,547
Net income	—	—	31,649	—	31,649
Other comprehensive income, net of tax	—	—	—	1,398	1,398
Stock-based compensation expense	—	1,135	—	—	1,135
Exercise of stock options and issuance of vested share awards, net of repurchase for tax withholdings	39,198	(615)	—	—	(615)
Cash dividends declared (\$0.69 per share)	—	—	(10,748)	—	(10,748)
Balance at September 30, 2017	15,515,577	\$ 156,561	\$ 270,316	\$(12,511)	\$ 414,366

(1) Share and per share amounts as of December 31, 2015 have been adjusted to reflect the three-for-two stock split effective September 30, 2016.

(2) In the second quarter of 2016, the Company adopted ASU 2016-09, effective January 1, 2016. The Company made a policy election to not estimate the forfeiture rate in the accounting for share-based compensation on its unvested share-based awards. The change in policy was accounted for on a modified-retrospective basis and represents the cumulative effect adjustment to shareholders' equity.

(3) In the third quarter of 2016, the Company paid shareholders cash in-lieu of fractional shares of common stock in connection with the three-for-two stock split effective September 30, 2016.

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended	
	September 30, 2017	2016
(In thousands)		
Operating Activities		
Net Income	\$31,649	\$29,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,797	5,003
Depreciation and amortization expense	2,789	3,498
Purchase accounting accretion, net	(2,204 )	(3,792 )
Investment securities amortization and accretion, net	2,350	2,234
Stock-based compensation expense	1,135	1,521
Amortization of intangible assets	1,417	1,427
Net gain on sale of investment securities	(827 )	(4 )
Net increase in other real estate owned valuation allowance and gain on disposition	(60 )	(147 )
Originations of mortgage loans held for sale	(148,661)	(180,182)
Proceeds from the sale of mortgage loans	155,086	170,765
Gain on sale of mortgage loans, net of origination costs	(4,323 )	(4,171 )
(Increase) decrease in other assets	(82 )	7,533
Increase in other liabilities	1,325	154
Net cash provided by operating activities	42,391	33,004
Investing Activities		
Proceeds from the sale and maturity of available-for-sale securities	124,548	105,863
Purchase of available-for-sale securities	(127,684)	(130,254)
Purchase of held-to-maturity securities	—	(10,448 )
Net increase in loans	(153,629)	(101,732)
Purchase of bank-owned life insurance, net of death benefit proceeds	(7,000 )	(16,122 )
Purchase of Federal Home Loan Bank and Federal Reserve Bank stock	(8,304 )	(7,341 )
Proceeds from sale of Federal Home Loan Bank stock	6,947	5,652
Proceeds from the sale of other real estate owned	641	672
Recoveries of previously charged-off loans	442	381
Purchase of premises and equipment	(2,378 )	(1,507 )
Proceeds from the sale of premises and equipment	137	90
Net cash used by investing activities	(166,280)	(154,746)
Financing Activities		
Net increase in deposits	128,131	163,563
Net proceeds from borrowings less than 90 days	33,841	36,846
Repayments on Federal Home Loan Bank long-term advances	(20,000 )	(25,000 )
Repayments of wholesale repurchase agreements	(5,000 )	(25,000 )
Exercise of stock options and issuance of restricted stock, net of repurchase for tax withholdings	(615 )	593
Cash dividends paid on common stock	(10,740 )	(9,290 )
Net cash provided by financing activities	125,617	141,712
Net increase in cash and cash equivalents	1,728	19,970
Cash and cash equivalents at beginning of period	87,707	79,488
Cash and cash equivalents at end of period	\$89,435	\$99,458
Supplemental information		
Interest paid	\$15,383	\$12,673

Unsettled purchases of investment securities	13,954	—
Income taxes paid	11,559	4,844
Transfer from loans to other real estate owned	—	32
Measurement-period adjustments	—	960

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in tables expressed in thousands, except per share data)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated statements of condition of Camden National Corporation as of September 30, 2017 and December 31, 2016, the consolidated statements of income for the three and nine months ended September 30, 2017 and 2016, the consolidated statements of comprehensive income for the three and nine months ended September 30, 2017 and 2016, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2017 and 2016, and the consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior period were reclassified to conform to the current period presentation. The income reported for the three and nine months ended September 30, 2017 is not necessarily indicative of the results that may be expected for the full year. The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the year ended December 31, 2016 Annual Report on Form 10-K.

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

AFS:	Available-for-sale	GAAP:	Generally accepted accounting principles in the United States
ALCO:	Asset/Liability Committee	HPFC:	Healthcare Professional Funding Corporation, a wholly-owned subsidiary of Camden National Bank
ALL:	Allowance for loan losses	HTM:	Held-to-maturity
AOCI:	Accumulated other comprehensive income (loss)	IRS:	Internal Revenue Service
ASC:	Accounting Standards Codification	LIBOR:	London Interbank Offered Rate
ASU:	Accounting Standards Update	LTIP:	Long-Term Performance Share Plan
Bank:	Camden National Bank, a wholly-owned subsidiary of Camden National Corporation	Management ALCO:	Management Asset/Liability Committee
Board ALCO:	Board of Directors' Asset/Liability Committee	MBS:	Mortgage-backed security
BOLI:	Bank-owned life insurance	MSRs:	Mortgage servicing rights
BSA:	Bank Secrecy Act	MSPP:	Management Stock Purchase Plan
CCTA:	Camden Capital Trust A, an unconsolidated entity formed by Camden National Corporation	OTTI:	Other-than-temporary impairment
CDARS:	Certificate of Deposit Account Registry System	NIM:	Net interest margin on a fully-taxable basis
CDs:	Certificate of deposits	N.M.:	Not meaningful
CMO:	Collateralized mortgage obligation	OCC:	Office of the Comptroller of the Currency
CNWM:	Camden National Wealth Management, a division of Camden National Bank	OCI:	Other comprehensive income (loss)
Company:	Camden National Corporation	OFAC:	Office of Foreign Assets Control
DCRP:	Defined Contribution Retirement Plan	OREO:	Other real estate owned
EPS:	Earnings per share	SERP:	Supplemental executive retirement plans
FASB:	Financial Accounting Standards Board	TDR:	Troubled-debt restructured loan
FDIC:	Federal Deposit Insurance Corporation	UBCT:	Union Bankshares Capital Trust I, an unconsolidated entity formed by Union Bankshares Company that was subsequently acquired by Camden National Corporation
FHLB:	Federal Home Loan Bank	U.S.:	United States of America
FHLBB:	Federal Home Loan Bank of Boston	USD:	United States Dollar
FRB:	Board of Governors of the Federal Reserve System	2003 Plan:	2003 Stock Option and Incentive Plan
FRBB:	Federal Reserve Bank of Boston	2012 Plan:	2012 Equity and Incentive Plan
Freddie Mac:	Federal Home Loan Mortgage Corporation	2013 Repurchase Program:	2013 Common Stock Repurchase Program, approved by the Company's Board of Directors



NOTE 2 – EPS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	\$11,339	\$ 10,903	\$31,649	\$29,165
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(46 )	(54 )	(134 )	(134 )
Net income available to common shareholders	\$11,293	\$ 10,849	\$31,515	\$29,031
Weighted-average common shares outstanding for basic EPS	15,515,189	15,425,452		