BAR HARBOR BANKSHARES
Form 10-K
March 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

¨ **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		**01-0393663**
(*State or other jurisdiction of incorporation or organization*)		(*I.R.S. Employer Identification No.*)
P.O. Box 400, 82 Main Street	**04609-0400**	**(207) 288-3314**
Bar Harbor, Maine	*(Zip Code)*	*(Registrant s telephone number, including area code)*
(*Address of principal executive offices*)		

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

Title of class	*Name of exchange on which registered*
Common Stock, $2.00 par value per share	
NYSE MKT, LLC	

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: YES ¨ NO **þ**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act: YES ¨ NO **þ**

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 registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: YES **þ** NO ¨

Indicate by checkmark 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 (Section 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 **þ NO** ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the 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. ¨

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: Large accelerated filer ¨ Accelerated filer **þ** Non-accelerated filer (do not check if a smaller reporting company) ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES ¨ NO **þ**

The aggregate market value of the common stock held by non-affiliates of Bar Harbor Bankshares was $160,174,113 based on the closing sale price of the common stock on the NYSE MKT on June 30, 2014, the last trading day of the registrant s most recently completed second quarter.

Number of shares of Common Stock par value $2.00 outstanding as of March 10, 2015: **5,958,521**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 2015 are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

FORWARD-LOOKING STATEMENTS DISCLAIMER

Certain statements, as well as certain other discussions contained in this Annual Report on Form 10-K, or incorporated herein by reference, contain statements which may be considered to be forward-looking within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify these forward-looking statements by the use of words like "strategy," "expects," "plans," "believes," "will," "estimates," "intends," "projects," "goals," "targets," and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

Investors are cautioned that forward-looking statements are inherently uncertain. Forward-looking statements include, but are not limited to, those made in connection with estimates with respect to the future results of operations, financial condition, and the business of Bar Harbor Bankshares (the Company) which are subject to change based on the impact of various factors that could cause actual results to differ materially from those projected or suggested due to certain risks and uncertainties. Those factors include but are not limited to:

(i) The Company's success is dependent to a significant extent upon general economic conditions in Maine, and Maine's ability to attract new business, as well as factors that affect tourism, a major source of economic activity in the Company s immediate market areas;

(ii) The Company's earnings depend to a great extent on the level of net interest income (the difference between interest income earned on loans and investments and the interest expense paid on deposits and borrowings) generated by the Company s wholly-owned banking subsidiary, Bar Harbor Bank & Trust (the Bank), and thus the Company s results of operations may be adversely affected by increases or decreases in interest rates;

(iii) The banking business is highly competitive and the profitability of the Company depends on the Bank's ability to attract loans and deposits in Maine, where the Bank competes with a variety of traditional banking and non-traditional institutions, such as credit unions and finance companies;

(iv) A significant portion of the Bank's loan portfolio is comprised of commercial loans and loans secured by real estate, exposing the Company to the risks inherent in financings based upon analysis of credit risk, the value of underlying collateral, and other intangible factors which are considered in making commercial loans and, accordingly, the Company's profitability may be negatively impacted by judgment errors in risk analysis, by loan defaults, and the ability of certain borrowers to repay such loans during a downturn in general economic conditions;

(v) Adverse changes in repayment performance and fair value of underlying residential mortgage loan collateral, that differ from the Company s current estimates, could change the Company s expectations that it will recover the amortized cost of its private label mortgage backed securities portfolio and/or its conclusion that such securities were not other-than temporarily impaired as of the date of this report;

(vi) The Company s allowance for loan losses may be adversely impacted by a variety of factors, including, but not limited to, the performance of the Company s loan portfolio, the economy, changes in interest rates, and the view of regulatory authorities toward loan classifications;

2

(vii) Significant changes in the Company s internal controls, or internal control failures;

(viii) Acts or threats of terrorism and actions taken by the United States or other governments as a result of such threats, including military action and cyber security, could further adversely affect business and economic conditions in the United States generally and in the Company s markets, which could have an adverse effect on the Company s financial performance and that of borrowers and on the financial markets and the price of the Company s common stock;

(ix) Significant changes in the extensive laws, regulations, and policies governing bank holding companies and their subsidiaries could alter the Company's business environment or affect its operations;

(x) Changes in general, national, international, regional or local economic conditions and credit markets which are less favorable than those anticipated by Company management that could impact the Company's securities portfolio, quality of credits, or the overall demand for the Company's products or services; and

(xi) The Company s success in managing the risks involved in all of the foregoing matters.

You should carefully review all of these factors as well as the risk factors set forth in Item 1A, Risk Factors of this Annual Report on Form 10-K. Risk Factors contained in this Annual Report of Form 10-K. There may be other risk factors that could cause differences from those anticipated by management.

When we say we, us, our, or the Company, we mean the Company on a consolidated basis with the Bank and T Services.

The forward-looking statements contained herein represent the Company's judgment as of the date of this Annual Report on Form 10-K, and the Company cautions readers not to place undue reliance on such statements. The Company disclaims any obligation to publicly update or revise any forward-looking statement contained in the succeeding discussion, or elsewhere in this Annual Report on Form 10-K, except to the extent required by federal securities laws.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Organization

Bar Harbor Bankshares (the Company) (BHB) was incorporated under the laws of the state of Maine on January 19, 1984. At December 31, 2014, the Company had total consolidated assets of $1.46 billion and total shareholders equity of $146.3 million.

The Company has one, wholly-owned first tier operating subsidiary, Bar Harbor Bank & Trust (the Bank), a community bank, which offers a wide range of deposit, loan, and related banking products, as well as brokerage services provided through a third-party brokerage arrangement. In addition, the Company offers trust and investment management services through its second tier subsidiary, Bar Harbor Trust Services (Trust Services), a Maine chartered non-depository trust company. These products and services are offered to individuals, businesses, not-for-profit organizations and municipalities.

The Company is a bank holding company (BHC) registered under the Bank Holding Company Act of 1956, as amended (the BHC Act), and is subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System (the FRB). The Company is also 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 (the Superintendent) of the Maine Bureau of Financial Institutions (BFI).

Bar Harbor Bank & Trust

The Bank, originally founded in 1887, is a Maine financial institution, and its deposits are insured by the Federal Deposit Insurance Corporation (the FDIC) up to the maximum extent permitted by law. The Bank is subject to the supervision, regulation, and examination of the FDIC and the BFI. It is not a member of the Federal Reserve Bank.

The Bank has fifteen (15) branch offices located throughout downeast, midcoast and central Maine, including its principal office located at 82 Main Street, Bar Harbor. The Bank s branch offices are located in Hancock, Washington, Knox, Kennebec and Sagadahoc Counties, representing the Bank s principal market areas. The Hancock County offices, in addition to Bar Harbor, are located in Blue Hill, Deer Isle, Ellsworth, Northeast Harbor, Somesville, Southwest Harbor, and Winter Harbor. The Washington County offices are located in Milbridge, Machias, and Lubec. The Knox, Kennebec and Sagadahoc County offices are located in Rockland, Augusta, South China, and Topsham.

The Bank delivers its operations and technology support services from its operations center located in Ellsworth, Maine.

On August 10, 2012, the Bank, completed its acquisition of the operations of the Border Trust Company (Border Trust), a state chartered bank headquartered in Augusta, Maine, by acquiring certain assets and assuming certain liabilities, including all deposits for a net purchase price of $133 thousand. This transaction represented a strategic extension of the Bank's core business activities with three branch locations located in Kennebec and Sagadahoc counties.

The Bank is a retail bank serving individual and business customers, retail establishments and restaurants, seasonal lodging, biological research laboratories, and a large contingent of retirees. As a predominately coastal bank, it serves the tourism, hospitality, lobstering, fishing, boat building and marine services industries. It also serves Maine s wild blueberry industry through its Hancock and Washington County offices. The Bank operates in a competitive market that includes other community banks, savings institutions, credit unions, and branch offices of statewide and interstate bank holding companies located in the Bank s market area.

The Bank has a broad deposit base and loss of any one depositor or closely aligned group of depositors would not have a material adverse effect on its business. Historically, the banking business in the Bank s market area has been seasonal, with lower deposits in the winter and spring, and higher deposits in the summer and autumn. These seasonal swings have been fairly predictable and have historically not had a material adverse impact on the Bank or its liquidity position. Approximately 90.8% of the Bank s deposits are in interest bearing accounts. The Bank has paid, and anticipates that it will continue to pay, competitive interest rates on all of the deposit account products it offers and does not anticipate any material loss of these deposits.

The Bank emphasizes personal service to the community, with a concentration on retail banking. Customers are primarily individuals and small businesses to which the Bank offers a wide variety of products and services.

Retail Products and Services: The Bank offers a variety of consumer financial products and services designed to satisfy the deposit and borrowing needs of its retail customers. The Bank s retail deposit products and services include checking accounts, interest bearing NOW accounts, money market accounts, savings accounts, club accounts, short-term and long-term certificates of deposit, Health Savings Accounts, and Individual Retirement Accounts. Credit products and services include home mortgages, residential construction loans, home equity loans and lines of credit, credit cards, installment loans, and overdraft protection services. The Bank provides secured and unsecured installment loans for new or used automobiles, boats, recreational vehicles, mobile homes and other personal needs. The Bank also offers other customary products and services such as safe deposit box rentals, wire transfers, check collection services, foreign currency exchange, money orders, and U.S. Savings Bonds redemptions.

The Bank staffs a customer service center, providing customers with telephone and e-mail responses to their questions and needs. The Bank also offers free banking-by-mail services.

Retail Brokerage Services: The Bank retains Infinex Investments, Inc., (Infinex) as a full service third-party broker-dealer, conducting business under the assumed business name Bar Harbor Financial Services. Bar Harbor Financial Services is a branch office of Infinex, an independent registered broker-dealer offering securities and insurance products that is not affiliated with the Company or its subsidiaries. These products are not deposits, are not insured by the FDIC or any other government agency, are not guaranteed by the Bank or any affiliate, and may be subject to investment risk, including possible loss of value.

Bar Harbor Financial Services principally serves the brokerage needs of individuals, from first-time purchasers, to sophisticated investors. It also offers a line of life insurance, annuity, and retirement products, as well as financial planning services. Infinex was formed by a group of member banks, and is one of the largest providers of third party investment and insurance services to banks and their customers in New England. Through Infinex, the Bank is able to take advantage of the expertise, capabilities, and experience of a well-established third-party broker-dealer in a cost effective manner.

Electronic Banking Services: The Bank continues to offer free Internet banking services, including consumer remote deposit capture, e-statements, free check images, and electronic bill payment, through its dedicated website at www.bhbt.com. Additionally, the Bank offers telephone banking, an interactive voice response system through which customers can check account balances and activity, as well as initiate money transfers between their accounts. Customers can also monitor their accounts with free mobile banking access via text messaging, browser or Apps , and they can receive alerts, view accounts, transfer funds and pay bills. The Bank also offers Popmoney®, an innovative personal payment service that eliminates the need for checks and cash by allowing customers to send and receive money as easily as they send and receive e-mail and text messages.

Automated Teller Machines (ATMs) are located at each of the Bank s fifteen (15) branch locations. The Bank is also a member of Maine Cash Access, providing customers with surcharge-free access to approximately 209 ATMs throughout the state of Maine. Visa debit cards are also offered, providing customers with free access to their deposit account balances at point of sale locations throughout most of the world.

Commercial Products and Services: The Bank serves the small business market throughout downeast, midcoast and central Maine. It offers business loans to individuals, partnerships, corporations, and other business entities for capital construction, real estate and equipment financing, working capital, real estate development, and a broad range of other business purposes. Business loans are provided primarily to organizations and sole proprietors in the tourism, hospitality, healthcare, blueberry, boatbuilding, biological research, and fishing industries, as well as to other small and mid-size businesses associated with coastal communities.

The Bank offers a variety of commercial deposit accounts, most notably business checking and tiered money market accounts. These accounts are typically used as operating accounts or short-term savings vehicles. The Bank s cash management services provide business customers with short-term investment opportunities through a cash management sweep program, whereby excess operating funds over established thresholds are swept into overnight securities sold under agreements to repurchase. The Bank also offers *Business On-Line Direct* (*BOLD*) an Internet banking service for businesses. This service allows business clients to view their account histories, print statements, view check images, order stop payments, transfer funds between accounts, and transmit Automated Clearing House (ACH) files. The Bank also offers remote deposit capture, enabling its business customers to deposit checks remotely. Other commercial banking services include merchant credit card processing provided through a third party vendor, night depository, and coin and currency handling.

Bar Harbor Trust Services

Trust Services is a Maine chartered non-depository trust company and a wholly-owned subsidiary of the Bank. Trust Services provides a comprehensive array of trust and investment management services to individuals, businesses, not-for-profit organizations, and municipalities.

Trust Services serves as trustee of both living trusts and trusts under wills, including revocable and irrevocable, charitable remainder and testamentary trusts, and in this capacity holds, accounts for and manages financial assets, real estate and special assets. Trust Services offers custody, estate settlement, and fiduciary tax services. Additionally, Trust Services offers employee benefit trust services for which it acts as trustee, custodian, administrator and/or investment advisor, for employee benefit plans and for corporate, self-employed, municipal and not-for-profit employers located throughout the Company s market areas.

The staff includes credentialed investment and trust professionals with extensive experience. At December 31, 2014, Trust Services served 714 client accounts, with assets under management and assets held in custody amounting to $394.9 million and $33.3 million, respectively.

Competition

The Company competes principally in downeast, midcoast and central Maine, which can generally be characterized as rural areas. The Company considers its primary market areas to be Hancock, Knox, Washington, Kennebec and Sagadahoc counties, each in the state of Maine. According to the 2013 Census Bureau Report estimate, the population of these five counties was 54,845, 39,550, 32,190, 121,164 and 35,013, respectively, representing a combined population of approximately 282,762. The economies in these counties are based primarily on tourism, healthcare, fishing and lobstering, agriculture, state government, and small local businesses, but are also supported by a large contingent of retirees. Major competitors in these market areas include local independent banks, local branches of large regional bank affiliates, thrift institutions, savings and loan institutions, mortgage companies, and credit unions. Other competitors in the Company s primary market area include financing affiliates of consumer durable goods manufacturers, insurance companies, brokerage firms, investment advisors, and other non-bank financial service providers.

Like most financial institutions in the United States, the Company competes with an ever-increasing array of financial service providers. As the national economy moves further towards a concentration of service companies, competitive pressures will mount.

The Company has generally been able to compete effectively with other financial institutions by emphasizing quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address the specific needs of customers; however, no assurance can be given that the Company will continue to be able to compete effectively with other financial institutions in the future.

No material part of the Company s business is dependent upon one, or a few customers, or upon a particular industry segment, the loss of which would have a material adverse impact on the operations of the Company.

Management and Employees

The Company has two principal executive officers: Curtis C. Simard, President and Chief Executive Officer, and Gerald Shencavitz, Executive Vice President, Chief Financial Officer and Treasurer.

For the quarter ended December 31, 2014, the Bank employed 205 full-time equivalent employees, Trust Services employed 15 full-time equivalent employees, and the Company employed 3 full-time employees, representing a full-time equivalent complement of 223 employees of the Company. None of the employees are represented by collective bargaining agreements.

The Company s management believes employee relations to be good.

Supervision and Regulation

General

Banking is a complex, highly regulated industry. Consequently, the performance of the Company and the Bank can be affected not only by management decisions and general and local economic conditions, but also by the statutes enacted by, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance

Corporation (the FDIC), the Maine Bureau of Financial Institutions ("BFI"), the Internal Revenue Service, the Consumer Financial Protection Bureau (the CFPB) and state taxing authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, the U.S. Congress and the State of Maine have created several largely autonomous regulatory agencies that oversee, and have enacted numerous laws that govern banks, bank holding companies and the banking industry. The system of supervision and regulation applicable to the Company and the Bank establishes a comprehensive framework for the entities respective operations and is intended primarily for the protection of the Bank s depositors and the public, rather than the stockholders and creditors. The following summarizes some of the materially relevant laws, rules and regulations governing banks and bank holding companies, including the Company and the Bank, but does not purport to be a complete summary of all applicable laws, rules and regulations governing banks and bank holding companies or the Company or the Bank. The descriptions are qualified in their entirety by reference to the specific statutes, regulations and policies discussed. Any change in applicable laws, regulations or regulatory policies may have a material effect on our businesses, operations and prospects. We are unable to predict the nature or extent of the effects that economic controls or new federal or state legislation may have on our business and earnings in the future.

Regulatory Agencies

Bar Harbor Bankshares is a legal entity separate and distinct from its first tier bank subsidiary, Bar Harbor Bank & Trust and its second tier subsidiary, Bar Harbor Trust Services. As a bank holding company, the Company is regulated under the Bank Holding Company Act (BHC) and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System, or the Federal Reserve Board. The Company is also under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company s common stock is listed on The NYSE MKT (NYSE) under the trading symbol BHB, and is subject to the rules of NYSE for listed companies.

As a Maine chartered financial institution, Bar Harbor Bank & Trust (the "Bank") is subject to supervision, periodic examination, and regulation by the BFI and FDIC, The prior approval of the Bureau and the FDIC is required, among other things, for the Bank to establish or relocate an additional branch office, assume deposits, or engage in any merger, consolidation, purchase or sale of all or substantially all of the assets of any bank. Under the Dodd-Frank Act, the Federal Reserve may directly examine the subsidiaries of the Company, including the Bank.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which implemented and continues to implement significant changes to the regulation of the financial services industry.

The effects of the Dodd-Frank Act have been far-reaching, and many aspects of the Dodd-Frank Act remain subject to rulemaking by various regulatory agencies and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that require revisions to the capital requirements of the Company and the Bank could require the Company and the Bank to seek additional sources of capital in the future.

Bank Holding Company Regulations Applicable to the Company

The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Permitted activities. Generally, bank holding companies are prohibited under the BHC Act from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than (i) banking or managing or controlling banks or (ii) an activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking. The Federal Reserve Board has the authority to require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any of its banking subsidiaries.

A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in additional activities that are financial in nature or incidental or complementary to financial activity. We currently have no plans to make a financial holding company election.

Sound banking practices. Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices. For example, under certain circumstances the Federal Reserve Board s Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate a regulation. As another example, a holding company is prohibited from impairing its subsidiary bank s soundness by causing the bank to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believes it not prudent to do so. The Federal Reserve Board has the power to assess civil money penalties for knowing or reckless violations, if the activities leading to a violation caused a substantial loss to a depository institution. Potential penalties are as high as $1,000,000 for each day the activity continues.

Source of strength. In accordance with Federal Reserve Board policy, the holding company is expected to act as a source of financial and managerial strength to the Bank. Under this policy, the holding company is expected to commit resources to support its bank subsidiary, including at times when the holding company may not be in a financial position to provide it. As discussed below, the holding company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHC Act provides that, 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 priority of payment.

Regulatory agencies have promulgated regulations to increase the capital requirements for bank holding companies to a level that matches those of banking institutions.

Anti-tying restrictions. Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Acquisitions. The BHC Act, the Bank Merger Act, the laws of the State of Maine applicable to financial institutions and other federal and state statutes regulate acquisitions of banks and their holding companies. The BHC Act generally limits acquisitions by bank holding companies to banks and companies engaged in activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring more than 5% of the voting stock of any bank or other bank holding company, (ii) acquiring all or substantially all of the assets of any bank or bank holding company, or (iii) merging or consolidating with any other bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities generally consider, among other things, the competitive effect and public benefits of the transactions, the financial and managerial resources and future prospects of the combined organization (including the capital position of the combined organization), the applicant s performance record under the Community Reinvestment Act (see the section captioned Community Reinvestment Act included elsewhere in this item), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Dividends. Dividends from the Bank are the Company's principal source of cash revenues. Our earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which we conduct business. These include limitations on the ability of the Bank to pay dividends to the holding company and our ability to pay dividends to our stockholders. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization s objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement.

The FDIC 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. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the Bureau for any dividend that would reduce a bank's capital below prescribed limits.

Annual Reporting; Examinations. The Company is required to file an annual report with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require. The Federal Reserve Board may examine a bank holding company and any of its subsidiaries, and charge the company for the cost of such an examination.

Imposition of Liability for Undercapitalized Subsidiaries. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires bank regulators to take prompt corrective action to resolve problems associated with insured depository institutions. In the event an institution becomes undercapitalized, it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary s compliance with the capital restoration plan until it becomes adequately capitalized. For purposes of this statute, the holding company has control of the Bank. Under FDICIA, the aggregate liability of all companies controlling a particular institution is limited to the lesser of five percent of the depository institution s total assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with applicable capital standards. FDICIA grants greater powers to bank regulators in situations where an institution becomes significantly or critically

undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed distributions, or might be required to consent to a merger or to divest the troubled institution or other affiliates.

Transactions with Affiliates. The holding company and the Bank are considered affiliates of each other under the Federal Reserve Act, and transactions between such affiliates are subject to certain restrictions, including compliance with Sections 23A and 23B of the Federal Reserve Act and their implementing regulations. Generally, Sections 23A and 23B: (1) limit the extent to which a financial institution or its subsidiaries may engage in covered transactions (a) with an affiliate (as defined in such sections) to an amount equal to 10% of such institution s capital and surplus, and (b) with all affiliates, in the aggregate to an amount equal to 20% of such capital and surplus; and (2) require all transactions with an affiliate, whether or not covered transactions, to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as the terms provided or that would be provided to a non-affiliate. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

State Law Restrictions. As a Maine corporation, the holding company is subject to certain limitations and restrictions under applicable Maine corporate law. For example, state law restrictions in Maine include limitations and restrictions relating to indemnification of directors, distributions and dividends to stockholders, transactions involving directors, officers or interested stockholders, maintenance of books, records, and minutes, and observance of certain corporate formalities.

Capital Adequacy and Prompt Corrective Action.

Regulatory Capital Requirements in Effect as of December 31, 2014. Bank holding companies and banks are subject to various regulatory capital requirements administered by federal and state banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Federal Reserve Board has risk-based capital ratio and leverage ratio guidelines for banking organizations, which are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines in effect as of December 31, 2014, banking organizations were required to maintain minimum ratios for Tier 1 capital and total capital to total risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization s assets and some of its specified off-balance sheet commitments and obligations were assigned to various risk categories. A depository institution or holding company s capital, in turn, was classified into one of three tiers, depending on type:

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Core Capital (Tier 1). Tier 1 capital included common equity, retained earnings, qualifying trust preferred securities, qualifying noncumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, less goodwill, most intangible assets and certain other assets.

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Supplementary Capital (Tier 2). Tier 2 capital included, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan losses, subject to limitations.

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Market Risk Capital (Tier 3). Tier 3 capital included qualifying unsecured subordinated debt.

The Company, like other bank holding companies, was required to maintain Tier 1 capital and total capital (the sum of Tier 1, Tier 2 and Tier 3 capital) equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance-sheet items, such as standby letters of credit). The Bank, like other depository institutions, was required to maintain similar capital levels under capital adequacy guidelines.

Bank holding companies and banks subject to the market risk capital guidelines were required to incorporate market and interest rate risk components into their risk-based capital standards. Under the market risk capital guidelines, capital was allocated to support the amount of market risk related to a financial institution s ongoing trading activities.

Bank holding companies and banks were also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3.0% for bank holding companies and banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-adjusted measure for market risk. All other bank holding companies and banks were required to maintain a minimum leverage ratio of 4.0%, unless a different minimum was specified by an appropriate regulatory authority. For a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action, its leverage ratio had to be at least 5.0%.

Basel III Capital Rules Effective January 1, 2015. The federal bank regulatory authorities risk-based capital guidelines were previously based upon the 1988 capital accord of the Basel Committee on Banking Supervision, or Basel I. The Basel Committee on Banking Supervision is a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country s supervisors in determining the supervisory policies they apply. In 2004, the Basel Committee on Banking Supervision published a new capital accord to replace Basel I, with an update in November 2005 (Basel II). Basel II provided two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances (which for many asset classes is itself broken into a foundation approach and an advanced or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that based risk weightings on external credit assessments to a much greater extent than permitted in previous risk-based capital guidelines. Basel II also set capital requirements for operational risk and refined the existing capital requirements for market risk exposures.

In July 2007, the U.S. banking and thrift agencies reached an agreement on the implementation of the capital adequacy regulations and standards based on Basel II. In November 2007, the agencies approved final rules to implement the new risk-based capital requirements in the United States for large, internationally active banking organizations, or core banks - defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more. The final rule was effective as of April 1, 2008. We are not a core bank and do not apply the Basel II approach to computing risk-weighted assets.

In response to the economic and financial industry crisis that began in 2008, the Basel Committee on Banking Supervision and their oversight body - the Group of Central Bank Governors and Heads of Supervision (GHOS) began in late 2009 to work on global initiatives to strengthen the financial regulatory system. In July 2010, the GHOS agreed on key design elements and in September 2010 agreed to transition and implementation measures. The product of this effort is known as Basel III, and is designed to strengthen the regulation, supervision and risk management of the banking sector. In particular, Basel III strengthens existing capital requirements and introduces a global liquidity standard. In June 2012, the FRB, FDIC and the OCC jointly issued three notices of proposed rulemaking (NPRs) to, among other things implement the Basel III minimum capital requirements. On November 9, 2012, the FRB, FDIC, and the OCC indefinitely delayed the start date for the Basel III capital requirements and stated that they did not expect the final rules to implement the Basel III capital requirements to be in effect on January 1, 2013, the initial deadline. In July 2013, the FRB, the FDIC and OCC issued two final interim rules to implement the Basel III capital reforms and the rules began phasing-in in 2015, depending on the size of the financial institution. For more on Basel III and its potential effect on us, see item 1A Risk Factors . We have computed our regulatory capital ratios under Basel III and continue to evaluate the impact of Basel III on both the Company and the Bank. On a pro-forma basis, our consolidated total risk-based capital and Tier I risk-based capital ratios would decrease by approximately 59 and 55 basis points, respectively, under the 2015 transition provisions of Basel III. As of December 31, 2014 each of our pro-forma regulatory capital ratios at both the Company and the Bank exceeded the minimums prescribed under Basel III (including consideration of a fully phased in capital conservation buffer, as discussed below) by approximately 300 basis points or more.

The Federal Deposit Insurance Act, as amended (FDIA), requires, among other things, that federal banking agencies take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. The FDIA sets forth the following five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio, the leverage ratio and a new ratio requirement under Basel III, the common equity Tier I capital ratio.

Under the regulations adopted by the federal regulatory authorities, a bank will be: (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a common equity Tier 1 capital ratio of 6.5% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater (6.0% prior to January 1, 2015), and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a common equity Tier 1 capital ratio of 4.5% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater (4.0% prior to January 1, 2015), and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a common equity Tier 1 capital ratio of less than 4.5%, a Tier 1 risk-based capital ratio of less than 6.0% (4.0% prior to January 1, 2015) or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a common equity Tier 1 capital ratio of less than 3.0%, a Tier 1 risk-based capital ratio of less than 4.0% (3.0% prior to January 1, 2015) or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

The final rules also established a capital conservation buffer of 2.5% above new regulatory minimum capital ratios, and when fully effective in 2019, will result in the following minimum ratios: (i) a common equity Tier I capital ratio of 7.0%; (ii) a Tier 1 risk-based capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increases each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchase, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan to the FDIC. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

Both the Company and the Bank have always maintained the capital ratios and leverage ratio above the levels to be considered quantitatively well-capitalized. For information regarding the capital ratios and leverage ratio of the Company and the Bank as of December 31, 2014 and December 31, 2013, see the discussion under the section captioned Capital Resources included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 13, in the Notes to Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data , elsewhere in this report.

Significant Banking Regulations Applicable to the Bank

Deposit Insurance. The deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund, (the DIF), of the FDIC and are subject to deposit insurance assessments to maintain the DIF. 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. Risk Category I is the lowest risk category while Risk Category IV is the highest risk category.

In 2010, the Dodd-Frank Act revised certain statues governing the FDIC s management of the DIF. Among other things, the Dodd-Frank Act (i) raised the minimum fund reserve ratio from 1.15% to 1.35%, (ii) requires the fund reserve ratio to reach 1.35% by September 30, 2020, (iii) eliminated the requirement that the FDIC provides dividends from the DIF when the reserve ratio is between 1.35% and 1.5%, (iv) removed the 1.5% cap on the reserve ratio, (v) granted the FDIC the sole discretion in determining whether to suspend or limit the declaration or payment of dividends and (vi) changed the assessment base for banks from insured deposits to the average total assets of the bank minus the average tangible equity of the bank during the assessment period. In December 2010, the FDIC set the minimum reserve ratio at 2.00%. In addition, the FDIC adopted a new Restoration Plan, pursuant to which, among other things, the FDIC (a) eliminated the uniform 3 basis point increase in initial assessment rates that were scheduled to take effect on January 1, 2011, (b) pursued further rulemaking in 2011 regarding the method used to offset the effect on banks with less than $10 billion in assets of the requirement that the reserve ratio reach 1.35% and (c) at least semiannually, will update its projections for the DIF and increase or decrease assessment rates, if needed. On February 7, 2011, the FDIC adopted final rules to implement the dividend provisions of the Dodd-Frank Act, changed the assessment base and set new assessment rates. In addition, as part of its final rules, the FDIC made certain assessment rate adjustments by: (1) altering the unsecured debt adjustment by adding an adjustment for long-term debt issued by another insured depository institution and (2) eliminating the secured liability adjustment, and changing the brokered deposit adjustment to conform to the change in the assessment base. The new assessment rates became effective April 1, 2011. The new initial base assessment rates range from 5 to 9 basis points for Risk Category I banks to 35 basis points for Risk Category IV banks. Risk Category II and III banks have an initial base assessment rate of 14 and 23 basis points, respectively.

The FDIC may further increase or decrease the assessment rate schedule in order to manage the DIF to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank s and consequently the Company s earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations or orders.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation (FICO), a mixed-ownership government corporation established to recapitalize a predecessor to the DIF. The current annualized assessment rate is six basis points and the rate is adjusted quarterly. These assessments will continue until the FICO bonds mature in 2019.

The enactment of the Emergency Economic Stabilization Act of 2008 then-temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor and in July of 2010, the Dodd-Frank Act made the increased coverage amount permanent.

The Volcker Rule. Through the Volker Rule, the Dodd-Frank Act prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investments companies (defined as hedge funds and private equity funds). We do not currently believe that the Volker Rule will have a material effect on the operations of the Company or the Bank, as we do not engage in the businesses prohibited by the Volcker Rule.

Depositor Preference. The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Consumer Financial Protection. The Company is subject to a number of federal and state consumer protection laws that govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Service Members Civil Relief Act and these laws respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys fees.

Further, the CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit unfair, deceptive or abusive acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer s ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer s: (i) lack of financial savvy, (ii) inability to protect himself in the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to act in the consumer s interests.

Brokered Deposit Restrictions. Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits.

Community Reinvestment Act. The Community Reinvestment Act of 1977 (the CRA), requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution s records of meeting the credit needs of its community. During its last examination, a rating of satisfactory was received by the Bank.

Insider Credit Transactions. Banks are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to certain executive officers, directors, principal stockholders and any related interests of such persons. Extensions of credit to such persons must: (i) be made on substantially the same terms, including interest rates and collateral, and follow credit underwriting procedures that are not less stringent than those prevailing at the time for comparable transactions with persons not covered by such restrictions and (ii) not involve more than the normal risk of repayment or present other unfavorable features. Banks are also subject to certain lending limits and restrictions on overdrafts to such persons. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

FDICIA. Under FDICIA, each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution which fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Examinations. The Bank is examined from time to time by its primary federal banking regulator, the FDIC and Maine BFI.

Financial Privacy. In accordance with the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the GLB Act), federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Anti-Money Laundering Initiatives and the USA Patriot Act. A major focus of governmental policy on financial institutions over the last decade has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA Patriot Act), substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of their customers. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, can have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the OFAC rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (OFAC). The OFAC-administered sanctions targeting countries 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 transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (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). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. The Company is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences.

Other Laws and Regulations. The Company is not only subject to federal laws applicable to it, it is also subject to the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Guidance on Sound Incentive Compensation Policies

In 2010, the federal bank regulators jointly issued final guidance on sound incentive compensation policies (SICP) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The SICP guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should: (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization s supervisory ratings, which can affect its ability to make acquisitions or perform other actions. The SICP guidance provides that enforcement actions may be taken against a banking organization if its incentive compensation arrangements or related risk-management control or governance processes pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, in 2010 the FDIC announced that it would seek public comment on whether banks with compensation plans that encourage risky behavior should be charged higher deposit assessment rates than they would be charged were they not to encourage risky behavior. In February 2011, the federal financial regulators issued joint proposed regulations to implement the Dodd-Frank Act requirement that the federal financial regulators prohibit, at any financial institution with consolidated assets of at least $1 billion, incentive pay that they determine encourages inappropriate risk. Officials have recently indicated that they are preparing a new rule on incentive compensation.

Changing Regulatory Structure and Future Legislation and Regulation

Congress may enact further legislation that affects the regulation of the financial services industry, and the Maine legislature may enact further legislation affecting the regulation of financial institutions chartered by the State of Maine. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof, although enactment of the proposed legislation could impact the regulatory structure under which the Company operates and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to the Company s business strategy, and limit the Company s ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on our business.

Monetary Policy and Economic Environment

The earnings of the Company are significantly affected by the monetary and fiscal policies of governmental authorities, including the FRB. Among the instruments of monetary policy used by the FRB to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments, and deposits, and the interest rates charged on loans and paid for deposits. The FRB frequently used these instruments of monetary policy, especially its open-market operations and the discount rate, in influence the level of interest rates and to affect the strength of the economy, the level of inflation, or the price of the dollar in foreign exchange markets. The monetary policies of the FRB have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company s business and earnings.

Financial Information about Industry Segments

The information required under this item is included in the Company s financial statements, which appear in Part II, Item 8, Note 1 of this Annual Report on Form 10-K, and is incorporated herein by cross reference thereto.

Availability of Information Company Website

The Company maintains an Internet website at www.bhbt.com. At this website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement on Schedule 14A and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at www.sec.gov that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC. 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.

ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this Report. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This Report is qualified in its entirety by these risk factors.

If any of the following risks actually occurs, our financial condition, results of operations, or cash flow could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

Negative developments in the financial services industry since 2008 resulted in uncertainty in the financial markets in general and a related general economic recession. In addition, as a consequence of the recent U.S. recession, businesses across a wide range of industries faced serious difficulties due to the decrease in consumer spending, reduced consumer confidence brought on by deflated home prices, among other things, and reduced liquidity in the credit markets. Unemployment also increased significantly during this period. Many of these circumstances continued into 2014 and continue to be an issue today.

As a result of these financial and economic crises, many lending institutions, including the Bank, experienced, in recent years, declines in the performance of their loans, including construction, commercial real estate loans, and other commercial and consumer loans. Moreover, competition among depository institutions for core deposits and quality loans increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages declined. Bank and bank holding company stock prices were negatively affected, and the ability of banks and bank holding companies to raise capital or borrow in the debt markets has been more difficult compared to previous periods. As a result, bank regulatory agencies have been and are expected to continue to be very aggressive in responding to concerns and trends identified in examinations, including the issuance of formal or informal enforcement actions or orders. The impact of new legislation in response to these developments may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, further negative market developments, including another recession, may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Risks Related to Our Regulatory Environment.

We are subject to extensive regulation and supervision under federal and state laws and regulations. Some of the significant federal and state banking regulations that affect us are described in this report at Part I, Item 1, Supervision and Regulation. These regulations, along with the existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time.

Changes in regulations resulting from the Dodd-Frank Act or any new regulations may affect our businesses. The market and economic conditions over the past several years have led to legislation and numerous and continuing proposals for changes in the regulation of the banking and financial services industry, including significant additional legislation and regulation in the U.S. and abroad. The Dodd-Frank Act enacted sweeping changes in the supervision and regulation of the financial industry designed to provide for greater oversight of financial industry participants, reduce risk in banking practices and in securities and derivatives trading, enhance public company corporate governance practices and executive compensation disclosures, and provide for greater protections to individual consumers and investors.

Certain elements of the Dodd-Frank Act became effective immediately, while the details of some provisions remain subject to implementing regulations that are yet to be adopted by various applicable regulatory agencies. The ultimate impact that the Dodd-Frank Act will have on us, the financial services industry and the economy cannot be known until all such implementing regulations called for under the Dodd-Frank Act have been finalized and implemented.

The Dodd-Frank Act may impact the manner in which we market our products and services, manage our business and operations and interact with regulators, all of which, while not currently anticipated to, could materially impact our results of operations, financial condition and liquidity. Certain provisions of the Dodd-Frank Act that have or may impact our business include, but are not limited to: regulatory oversight of incentive compensation, the imposition of capital requirements on holding companies and, to a lesser extent, greater oversight over derivatives trading and restrictions on proprietary trading. There is also increased regulatory scrutiny (and related compliance costs). These include but are not limited to the Bank's oversight by the CFPB.

Additionally, we are monitoring regulatory developments related to the Volcker Rule and their impact on community banks. In January 2014, the FRB, the OCC, the FDIC, the SEC and the Commodity Futures Trading Commission approved an interim final rule that exempts trust-preferred securities (TruPS) that back collateralized debt obligations (CDOs) held by qualifying community banks from the application of some portions of the Volcker Rule. The final Volcker Rule, approved by regulators in December 2013, generally prohibited banking entities from engaging in the short-term proprietary trading of securities and derivatives for their own account and barred them from having certain relationships with hedge funds or private equity funds. Included within the range of funds covered by the regulations were TruPS CDOs. Application of the Volcker Rule to TruPS CDOs would have forced many banks, including many community banks, to treat the TruPS CDO holdings as impaired and write down the value or sell the holdings entirely. The American Bankers Association filed a lawsuit in 2013 to block the provision from going into effect. In addition, some lawmakers also called on the regulators to revise the rule to minimize the effect on community banks. On January 14, 2014, the regulators announced the first revision to the Volcker Rule in the form of an interim final rule. The revision will allow some smaller banks to retain their interests in TruPS CDOs, though there are conditions to the exemption. The interim final rule exemption only applies when all of the following requirements are met:

?

The TruPS CDOs have been issued by banks with less than $15 billion in assets;

?

The TruPS CDOs have been established before May 19, 2010; and

?

The bank must have acquired the TruPS CDOs prior to December 10, 2013.

The Company did not own any TruPS CDOs as of and during the twelve months ended December 31, 2014.

To the extent the Dodd-Frank Act and the related extensive rules and regulations impacts the operations, financial condition, liquidity and capital requirements of unaffiliated financial institutions with whom we transact business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us.

We are subject to credit risk.

There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans.

We are also subject to various laws and regulations that affect our lending activities. Failure to comply with applicable laws and regulations could subject us to regulatory enforcement action that could result in the assessment of significant civil money penalties against us.

The Bank s loans are principally concentrated in certain areas of Maine and adverse economic conditions in those markets could adversely affect our operations.

Our success is dependent to a significant extent upon general economic conditions in the United States and, in particular, the local economies of downeast, midcoast and central Maine, the primary markets served by us. We are particularly exposed to real estate and general economic factors in the downeast, midcoast and central areas of Maine, as most of our loan portfolio is concentrated among borrowers in these markets. Furthermore, because a substantial portion of our loan portfolio is secured by real estate in these areas, the value of the associated collateral is also subject to regional real estate market conditions.

A number of our hospitality and other customers rely upon a high number of visits from tourists and vacationers to Acadia National Park as significant part of their businesses. Prolonged interruptions or shutdowns in the operation of tourist destination sites within our market areas could have a material adverse effect on our business and results of operations.

Interest rate volatility could significantly reduce our profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-bearing assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the average duration of our loans and securities that are collateralized by mortgages. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. If interest rates decline, our higher-rate loans and investments may be subject to prepayment risk, which could negatively impact our net interest margin. Conversely, if interest rates increase, our loans and investment may be subject to extension risk, which could negatively impact our net interest margin as well.

Declines in value may adversely impact our investment securities portfolio.

We may be required to record other-than-temporary impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Numerous factors, including, municipal bond defaults, lack of liquidity for re-sales of certain investment securities, or adverse actions by regulators, could have a negative effect on our securities portfolio in future periods.

We may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions, and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, or on reasonable terms, it may have a material adverse effect on our financial condition and results of operations.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is unknown.

In 2013, the FRB, along with other federal agencies, issued final rules implementing Basel III capital standards and establishing the minimum capital requirements for banks and bank holding companies required under the Dodd-Frank Act.

These rules which became effective on January 1, 2015, and refines the definition of what constitutes capital for purposes of calculating these ratios. The new minimum capital requirements to be considered adequately capitalized are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6.0%, which was increased from 4.0%; (iii) a total capital ratio of 8.0%, which was unchanged from the previous rules; and (iv) a Tier 1 leverage ratio of 4.0%. The final rule also established a capital conservation buffer of 2.5% above the new regulatory minimum capital ratios to be considered adequately capitalized , and when fully effective in 2019, will result in the following minimum capital ratios: (a) a common equity Tier 1 capital ratio of 7.0%; (b) a Tier 1 to risk-based assets capital ratio of 8.5%; and (c) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. If an institution does not meet or exceed these minimum capital ratios it will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the adequately capitalized ratios plus the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as a prohibition on the payment of dividends or on the repurchase shares if we were unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to restructure our business models or increase our holdings of liquid assets. Implementation of changes in asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers could result in management modifying our business strategy.

We may not be able to meet our cash flow needs on a timely basis at a reasonable cost, and our cost of funds for banking operations may significantly increase as a result of general economic conditions, interest rates, and competitive pressures.

Liquidity is the ability to meet cash flow needs on a timely basis and at a reasonable cost. The liquidity of the Bank is used to make loans and to repay deposit and borrowing liabilities as they become due, or are demanded by customers and creditors. Many factors affect the Bank s ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and standing in the marketplace, and general economic conditions.

The Bank s primary source of funding is retail deposits, gathered throughout its network of fifteen banking offices. Wholesale funding sources principally consist of secured borrowing lines from the FHLB of Boston of which it is a member, secured borrowing lines from the FRB of Boston, and certificates of deposit obtained from the national market. The Bank s securities and loan portfolios provide a source of contingent liquidity that could be accessed in a reasonable time period through sales.

Significant changes in general economic conditions, market interest rates, competitive pressures or otherwise, could cause the Bank s deposits to decrease relative to overall banking operations, and it would have to rely more heavily on brokered funds and borrowings in the future, which are typically more expensive than deposits.

Changes in economic conditions, including consumer savings habits and availability or access to the brokered deposit market could potentially have a significant impact on our liquidity position, which in turn could materially impact its financial condition, results of operations and cash flows.

We are subject to a variety of operational risks, including reputational risk, legal risk, and compliance risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect our business and results of operations.

We are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

If personal, non-public, confidential, or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage, and financial loss.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions and our large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We also may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (i.e., computer viruses or electrical or telecommunications outages, natural disaster, disease pandemics, or other damage to property or physical assets), which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as we are) and to the risk that our (or our vendors) business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability to operate our business (i.e., by requiring us to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage, and regulatory intervention.

Disruptions to our information systems and security breaches could adversely affect our business and reputation.

In the ordinary course of business, we rely on electronic communications and information systems to conduct our businesses and to store sensitive data, including financial information regarding our customers. The integrity of information systems are under significant threat from cyber attacks by

third parties, including through coordinated attacks sponsored by foreign nations and criminal organizations to disrupt business operations and other compromises to data and systems for political or criminal purposes. We employ an in-depth, layered, defense approach that leverages people, processes and technology to manage and maintain cyber security controls. Notwithstanding the strength of our defensive measures, the threat from cyber attacks is severe, attacks are sophisticated and attackers respond rapidly to changes in defensive measures. Cyber security risks may also occur with our third-party service providers, and may interfere with their ability to fulfill their contractual obligations to us, with additional potential for financial loss or liability that could adversely affect our financial condition or results of operations. We offer our customers the ability to bank remotely and provide other technology based products and services, which services include the secure transmission of confidential information over the Internet and other remote channels. To the extent that our customers systems are not secure or are otherwise compromised, our network could be vulnerable to unauthorized access, malicious software, phishing schemes and other security breaches. To the extent that our activities or the activities of our clients or third-party service providers involve the storage and transmission of confidential information, security breaches and malicious software could expose us to claims, regulatory scrutiny, litigation and other possible liabilities. While to date we have not experienced a significant compromise, significant data loss or material financial losses related to cyber security attacks, our systems and those of our clients and third-party service providers are under constant threat and we may experience a significant event in the future. We may suffer material financial losses related to these risks in the future or we may be subject to liability for compromises to our client or third-party service provider systems. Any such losses or liabilities could adversely affect our financial condition or results of operations, and could expose us to reputation risk, the loss of client business, increased operational costs, as well as additional regulatory scrutiny, possible litigation, and related financial liability. These risks also include possible business interruption, including the inability to access critical information and systems.

We continually encounter technological change.

The financial services industry is continually undergoing rapid technological change 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 to reduce costs. Our future success depends, 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, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. 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 are subject to possible claims and litigation pertaining to fiduciary responsibilities.

From time to time, customers make claims and take legal action pertaining to our performance of our fiduciary responsibilities. Whether customer claims and legal action related to our performance of our fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the market perception of us and our products and services as well as impact customer demand for our products and services.

Strong competition within our markets may significantly impact our profitability.

We compete with an ever-increasing array of financial service providers. See the section entitled Competition of Item 1 of this Form 10-K for additional information about our competitors. Competition from nationwide banks, as well as local institutions, continues to mount in our markets.

Regional, national and international competitors have far greater assets and capitalization than we do and have greater access to capital markets and can offer a broader array of financial services than we can. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Further, many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

To compete, we focus on quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address the specific needs of customers. Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability.

Tax law changes may adversely affect our net income, effective tax rate, and our overall results of operations and financial condition.

Our financial performance is impacted by federal and state tax laws. Given the current economic and political environment, and ongoing state budgetary pressures, the enactment of new federal or state tax legislation may occur. The enactment of such legislation, or changes in the interpretation of existing law, including provisions impacting tax rates, apportionment, consolidation or combination, income, expenses, and credits, may have a material adverse effect on our financial condition and results of operations.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurance that the objectives of the system are met.

The preparation of our financial statements requires the use of estimates that could significantly vary from actual results.

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make significant estimates that affect the financial statements. The most critical estimate is the allowance for loan losses. Due to the inherent nature of estimates, we cannot provide absolute assurance that we will not significantly increase the allowance for loan losses and/or sustain credit losses that are significantly higher than provided for in the allowance.

Our access to funds from subsidiaries may be restricted.

Bar Harbor Bankshares is a separate and distinct legal entity from our Bank and nonbanking subsidiaries. Bar Harbor Bankshares depends on dividends, distributions and other payments from its banking and nonbanking subsidiaries to fund dividend payments on its common stock and to fund all payments on its other obligations. Our subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Bar Harbor Bankshares, which could impede access to funds it needs to make payments on its obligations or dividend payments.

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 the Company and its subsidiaries may not be able to hire or retain the key personnel that it depends upon for success. In addition, the Bank s rural geographic marketplace, combined with relatively expensive real estate purchase prices within the area of the Bank s principal office location in Bar Harbor, Maine, create additional risks for the Company and the Bank s ability to attract and retain key personnel. The unexpected loss of services of one or more of the our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which the we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

To the extent that we acquire other companies, our business may be negatively impacted by certain risks inherent with such acquisitions.

To the extent that we may acquire other financial services companies or assets in the future, our business may be negatively impacted by certain risks inherent with such acquisitions. These risks include, but are not limited to, the following:

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the risk that the acquired business or assets will not perform in accordance with the Company s expectations;

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the risk that difficulties will arise in connection with the integration of the operations of the acquired business with the operations of our businesses;

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the risk that we will divert our attention from other aspects of our existing business;

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the risk that we may lose key employees of the combined business; and

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the risks associated with entering into geographic and product markets in which we have limited or no direct prior experience.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The cost associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

Severe weather, natural disasters, acts of war or terrorism, and other external events could significantly impact our business and the business of our customers.

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. In particular, such events may have a particularly negative impact upon the business of our customers who are engaged in the hospitality and natural resource dependent industries in our market area, which could have a direct negative impact on our business and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company s headquarters are located at 82 Main Street, Bar Harbor, Maine, which also serves as the main office for the Bank.

As of December 31, 2014, the Bank operated fifteen (15) full-service banking offices throughout downeast, midcoast and central Maine, namely: Bar Harbor, Northeast Harbor, Southwest Harbor, Somesville, Deer Isle, Blue Hill, Ellsworth, Rockland, Topsham, South China, Augusta, Winter Harbor, Milbridge, Machias, and Lubec. The Bank owns twelve of these banking offices and leases three at prevailing market rates.

The Bank s Ellsworth office consists of a new branch office building constructed in 2012, as well as a substantial reconfiguration of its surrounding campus to better meet the Company s business needs at that location. The City of Ellsworth is considered the hub of downeast Maine and the Bank s Ellsworth office is its busiest location.

During 2013 and 2014, the Bank completed a substantial renovation and expansion of its Rockland and South China offices to better meet its business needs at those locations.

An Operations Center is located in Ellsworth, Maine, that houses the Company s operations and data processing centers. During 2012 the Company completed a major renovation of its Operations Center to better meet its business needs at that location. The Bank also leases space at One Cumberland Place in Bangor, Maine, which houses regional business lending and Trust Services staff.

In the opinion of management, the physical properties of the Company and the Bank are considered adequate to meet the needs of customers in the communities served. Additional information relating to the Company s properties is provided in Part II, Item 8, Note 16 of the Consolidated Financial Statements contained in this Annual Report on Form 10-K and incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to certain ordinary routine litigation incidental to the normal conduct of their respective businesses, which in the opinion of management based upon currently available information will have no material effect on the Company's consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON STOCK, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The common stock of the Company is traded on the NYSE MKT, LLC (NYSE MKT), under the trading symbol BHB.

On April 22, 2014, the Company s Board of Directors declared a three-for-two split of its common stock, payable as a large stock dividend, which was paid on May 19, 2014 (the payment date) to all stockholders of record at the close of business on May 5, 2014. All previously reported share and per share data included in public filings subsequent to the payment date have been adjusted to reflect the retroactive effect of this three-for-two stock split. Refer to Note 3 *Three-for-two Common Stock Split,* of the Consolidated Financial Statements, in this Annual Report on Form 10-K, for further discussion and analysis concerning the stock split.

The following table sets forth the high and low market prices per share of BHB Common Stock as reported by NYSE MKT by calendar quarter for each of the last two years:

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	**Low**	**High**	**Low**	**High**	**Low**	**High**	**Low**
2014	$26.89	$24.02	$28.02	$24.24	$30.00	$26.02	$32.86	$28.00
2013	$24.87	$22.59	$24.66	$22.71	$27.65	$22.74	$27.00	$23.41

As of March 10, 2015, there were 5,958,521 shares of Company common stock, par value $2.00 per share, outstanding and approximately 882 Registered Shareholders of record, as obtained through the Company s transfer agent.

Performance Graph

The following graph illustrates the estimated yearly change in value of the Company's cumulative total stockholder return on its common stock for each of the last five years. Total stockholder return is computed by taking the difference between the ending price of the common stock at the end of the previous year and the current year, plus any dividends paid divided by the ending price of the common stock at the end of the previous year. For purposes of comparison, the graph also matches Bar Harbor Bankshares' cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE MKT Composite index, the S&P 500 index, and the ABA Nasdaq Community Bank index. The graph tracks the performance of a $100 investment in our common stock and in each index (with the reinvestment of all dividends) from December 31, 2009 to December 31, 2014.

	12/09	**12/10**	**12/11**	**12/12**	**12/13**	**12/14**
Bar Harbor Bankshares	100.00	109.84	117.78	136.89	168.36	209.07
NYSE MKT Composite	100.00	129.56	133.75	140.87	150.79	153.24
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
ABA Nasdaq Community Bank Index	100.00	113.77	107.15	124.86	175.61	184.04

Dividends

Common stock dividends paid by the Company in 2014 and 2013 are summarized below:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2014	$0.217	$0.223	$0.230	$0.235	$0.905
2013	$0.203	$0.207	$0.210	$0.213	$0.833

During 2014, the Company declared and distributed regular cash dividends on its common stock in the aggregate amount of $5,362 compared with $4,915 in 2013. The Company s 2014 dividend payout ratio amounted to 36.7% compared with 37.3% in 2013. The total regular cash dividends paid in 2014 amounted to $0.905 per share of common stock, compared with $0.833 in 2013, representing an increase of $0.072 per share, or 8.6%.

In the first quarter of 2015, the Company s Board of Directors declared a regular cash dividend of $0.245 per share of common stock, representing an increase of $0.0283 or 13.1% compared with the first quarter of 2014.

The Company has a history of paying quarterly dividends on its common stock. However, the Company s ability to pay such dividends depends on a number of factors, including the Company s financial condition, earnings, its need for funds and restrictions on the Company s ability to pay dividends under federal laws and regulations. Therefore, there can be no assurance that dividends on the Company s common stock will be paid in the future.

For further information, refer to Item 6, Selected Consolidated Financial Data for dividend related ratios and Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, (specifically the Capital Resources section).

Sale of Unregistered Securities; Use of Proceeds from Registered Securities

No unregistered securities were sold by the Company during the years ended December 31, 2014 and 2013.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases of shares of the Company s common stock made by or on behalf of the Company or any affiliated purchaser for the quarter ended December 31, 2014.

Information relating to the Company s stock repurchase program is provided in Part II, Item 7, *Stock Repurchase Plan,* contained in this Annual Report on Form 10-K and incorporated herein by reference.

Stock Based Compensation Plans

Information regarding stock-based compensation awards both outstanding and available for future grants as of December 31, 2014, represents stock-based compensation plans approved by shareholders and is presented in the table below. There are no compensation plans under which equity securities of the Company may be issued that have not been approved by shareholders. Additional information is presented in Note 14, *Stock-Based Compensation Plans,* in the Notes to the Consolidated Financial Statements included in Part II, Item 8, *Financial Statements and Supplementary Data,* within this Annual Report on Form 10-K.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights, net of forfeits and exercised shares (a)**	**Weighted average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for issuance under equity compensation (excluding securities referenced in column (a)) (c)**
Equity compensation plans approved by security holders	240,308	$22.21	23,396
Equity compensation plans not approved by security holders	---	N/A	---
Total	240,308	$22.21	23,396

Transfer Agent Services

American Stock Transfer & Trust Company provides transfer agent services for the Company. Inquiries may be directed to: American Stock Transfer & Trust Company, 6201 15th Avenue, 3rd Floor, Brooklyn, NY, 11219, telephone: 1-800-937-5449, Internet address: www.amstock.com.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The supplementary financial data presented in the following table contains information highlighting certain significant trends in the Company s financial condition and results of operations over an extended period of time.

The following information should be analyzed in conjunction with Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations, and with the audited consolidated financial statements included in this Annual Report on Form 10-K. Unless otherwise noted, all dollars are expressed in thousands except share and per share data.

FIVE-YEAR SUMMARY OF FINANCIAL DATA

As of and For the Years Ended December 31,

	2014	**2013**	**2012**	**2011**	**2010**
Balance Sheet Data					
Total assets	$1,459,320	$1,373,893	$1,302,935	$1,167,466	$1,117,933
Total securities	470,525	450,170	418,040	381,880	357,882
Total loans	919,024	852,857	815,004	729,003	700,670
Allowance for loan losses	(8,969)	(8,475)	(8,097)	(8,221)	(8,500)
Total deposits	858,049	835,651	795,012	722,890	708,328
Total borrowings	447,020	409,445	371,567	320,283	300,014
Total shareholders' equity	146,287	121,379	128,046	118,250	103,608
Average assets	1,424,209	1,345,353	1,252,390	1,151,163	1,087,327
Average shareholders' equity	136,672	125,340	125,600	111,135	105,911
Results Of Operations					
Interest and dividend income	$ 53,718	$ 50,749	$ 50,838	$ 50,907	$ 51,141
Interest expense	9,905	11,663	13,867	16,518	19,432
Net interest income	43,813	39,086	36,971	34,389	31,709
Provision for loan losses	1,833	1,418	1,652	2,395	2,327
Net interest income after provision for loan losses	41,980	37,668	35,319	31,994	29,382

Non-interest income	7,758	7,566	7,709	6,792	7,458
Non-interest expense	29,211	26,860	25,618	23,281	22,046
Income before income taxes	20,527	18,374	17,410	15,505	14,794
Income taxes	5,914	5,191	4,944	4,462	4,132
Net income	$ 14,613	$ 13,183	$ 12,466	$ 11,043	$ 10,662
Preferred stock dividends and accretion of discount	---	---	---	---	653
Net income available to common shareholders	$ 14,613	$ 13,183	$ 12,466	$ 11,043	$ 10,009
Per Common Share Data:					
Basic earnings per share	$ 2.47	$ 2.24	$ 2.13	$ 1.91	$ 1.76
Diluted earnings per share	$ 2.45	$ 2.22	$ 2.12	$ 1.90	$ 1.74
Cash dividends per share	$ 0.905	$ 0.833	$ 0.780	$ 0.730	$ 0.697
Dividend payout ratio	36.69%	37.28%	36.62%	38.29%	39.43%
Selected Financial Ratios:					
Return on total average assets	1.03%	0.98%	1.00%	0.96%	0.98%
Return on total average equity	10.69%	10.52%	9.93%	9.94%	10.07%
Tax-equivalent net interest margin	3.33%	3.15%	3.23%	3.23%	3.18%

	2014	2013	2012	2011	2010
Capital Ratios:					
Tier 1 leverage capital ratio	9.30%	9.01%	8.87%	9.32%	9.01%
Tier 1 risk-based capital ratio	15.60%	14.97%	14.15%	14.29%	13.57%
Total risk-based capital ratio	17.24%	16.62%	15.78%	16.06%	15.41%
Asset Quality Ratios:					
Net charge-offs to average loans	0.15%	0.12%	0.23%	0.37%	0.24%
Allowance for loan losses to total loans	0.98%	0.99%	0.99%	1.13%	1.21%
Allowance for loan losses to non-performing loans	73.0%	95.9%	82.1%	63.7%	62.1%
Non-performing loans to total loans	1.34%	1.04%	1.21%	1.77%	1.95%

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis, which follows, focuses on the factors affecting the Company s consolidated results of operations for the years ended December 31, 2014, 2013, and 2012, and financial condition at December 31, 2014, and 2013, and where appropriate, factors that may affect future financial performance. The following discussion and analysis of financial condition and results of operations of the Company and its subsidiaries should be read in conjunction with the consolidated financial statements and notes thereto, and selected financial and statistical information appearing elsewhere in this Annual Report on Form 10-K.

Amounts in the prior period financial statements are reclassified whenever necessary to conform to current period presentation.

Unless otherwise noted, all dollars are expressed in thousands except share and per share data.

Use of Non-GAAP Financial Measures: Certain information discussed below is presented on a fully tax-equivalent basis. Specifically, included in 2014, 2013 and 2012 interest income was $3,926, $3,589 and $3,336, respectively, of tax-exempt interest income from certain investment securities and loans. An amount equal to the tax benefit derived from this tax exempt income has been added back to the interest income totals discussed in certain sections of this Management s Discussion and Analysis, representing tax-equivalent adjustments of $1,885, $1,762 and $1,628 in 2014, 2013 and 2012, respectively, which increased net interest income accordingly. The analysis of net interest income tables included in this Annual Report on Form 10-K provide a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles.

Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax-equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another institution, as each will have a different proportion of tax-exempt interest from their earning asset portfolios. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices.

EXECUTIVE OVERVIEW

General Information

Bar Harbor Bankshares is a Maine corporation and a registered bank holding company under the Bank Holding Company Act of 1956, as amended. At December 31, 2014, the Company had consolidated assets of $1.46 billion and was one of the larger independent community banking institutions in the state of Maine.

The Company s principal asset is all of the capital stock of Bar Harbor Bank & Trust (the Bank), a community bank incorporated in March 1887. With fifteen (15) branch office locations, the Company is a diversified financial services provider, offering a full range of banking services and products to individuals, businesses, governments, and not-for-profit organizations throughout downeast, midcoast and central Maine.

The Bank attracts deposits from the general public in the markets it serves and uses such deposits and other sources of funds to originate commercial business loans, commercial real estate loans, residential mortgage and home equity loans, and a variety of consumer loans. The Bank also invests in mortgage-backed securities issued by U.S. Government agencies and Government-sponsored enterprises, obligations of state and political subdivisions, as well as other debt securities. In addition to community banking, the Bank provides a comprehensive array of trust and investment management services through its second tier subsidiary, Bar Harbor Trust Services (Trust Services), a Maine chartered non-depository trust company. The Bank retains Infinex Investments, Inc., (Infinex) as a full service third-party broker-dealer, conducting business under the assumed business name Bar Harbor Financial Services. Bar Harbor Financial Services is a branch office of Infinex, an independent registered broker-dealer offering securities and insurance products that is not affiliated with the Bank or its subsidiaries.

Major Sources of Revenue

The principal source of the Company s revenue is net interest income, representing the difference or spread between interest income from its loan and securities portfolios, and the interest expense paid on deposits and borrowed funds. In addition to net interest income, non-interest income is a significant source of revenue for the Company and an important factor in its results of operations. The Company s non-interest income is derived from financial services including trust, investment management and third-party brokerage services, as well as service charges on deposit accounts, merchant credit card processing referral and transaction fees, realized gains or losses on the sale of securities, and a variety of other miscellaneous product and service fees.

Business Strategy

The Company, as a diversified financial services provider, pursues a strategy of achieving long-term sustainable profitability, growth, and shareholder value, without sacrificing its soundness. The Company works toward achieving this goal by focusing on increasing its loan and deposit market share in downeast, midcoast and central Maine, either organically or by way of strategic acquisitions. The Company believes one of its more unique strengths is an understanding of the financial needs of coastal communities and the businesses vital to Maine s coastal economy, namely: tourism, hospitality, retail establishments and restaurants, seasonal lodging and campgrounds, biological research laboratories, lobster and other fishing, boat building, and marine services.

Operating under a community banking philosophy, the Company s key strategic focus is vigorous financial stewardship, by deploying investor capital safely yet efficiently for the best possible returns. The Company strives to provide unmatched service to its customers, while maintaining strong asset quality and a focus toward improving operating efficiencies. In managing its earning asset portfolios, the Company seeks to utilize funding and capital resources within well-defined credit, investment, interest-rate and liquidity guidelines. In managing its balance sheet, the Company seeks to preserve the sensitivity of net interest income to changes in interest rates, and to enhance profitability through strategies that promise sufficient reward for understood and controlled risk. The Company is deliberate in its efforts to maintain adequate liquidity under prevailing and expected conditions, and strives to maintain a balanced and appropriate mix of loans, securities, core deposits, brokered deposits and borrowed funds.

Material Risks and Challenges

In its normal course of business, the Company faces many risks inherent with providing banking and financial services. Among the more significant risks managed by the Company are losses arising from loans not being repaid, commonly referred to as credit risk, and losses of income arising from movements in interest rates, commonly referred to as interest rate and market risk. The Company is also exposed to national and local economic conditions, downturns in the economy, or adverse changes in real estate markets, which could negatively impact its business, financial condition, results of operations or liquidity.

Management has numerous policies and control processes in place that provide for the monitoring and mitigation of risks based upon and driven by a variety of assumptions and actions which, if changed or altered, could impact the Company s business, financial condition, results of operations or liquidity. The foregoing matters are more fully discussed in Part I, Item 1A, Risk Factors, and throughout this Annual Report on Form 10-K.

Summary Financial Results

On April 22, 2014**,** the Company s Board of Directors declared a three-for-two split of its common stock, payable as a large stock dividend, which was paid on May 19, 2014 (the payment date) to all stockholders of record at the close of business on May 5, 2014. As of April 22, 2014, the Company had 3,944,290 shares of common stock outstanding. After the stock split effectuated as a large stock dividend, the number of shares of Company common stock outstanding increased to 5,916,435. All previously reported share and per share data included in public filings subsequent to the payment date has been restated to reflect the retroactive effect of this three-for-two stock split.

For the year ended December 31, 2014, the Company reported net income of $14,613, compared with $13,183 for the year ended December 31, 2013, representing an increase of $1,430, or 10.8%. The Company s 2014 diluted earnings per share amounted to $2.45, compared with $2.22 in 2013, representing an increase of $0.23, or 10.4%.

The Company s 2014 return on average shareholders equity amounted to 10.69%, up from 10.52% in 2013. The Company s 2014 return on average assets amounted to 1.03%, compared with 0.98% in 2013.

As more fully enumerated in the following management discussion and analysis, the Company s 2014 operating results were highlighted by a $4,850 or 11.9% increase in tax-equivalent net interest income, continued loan and core deposit growth, relatively stable credit quality and higher levels of fee income. The Company continued to focus on the management of its operating expenses, posting a 2014 efficiency ratio of 54.7% compared with 55.6% in 2013.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of the Company s financial condition and results of operations are based on the Consolidated Financial Statements, which are prepared in accordance with U.S. generally accepted accounting principles. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management evaluates its estimates, including those related to the allowance for loan losses, on an ongoing basis. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from management s estimates and assumptions under different assumptions or conditions.

The Company s significant accounting policies are more fully enumerated in Note 1 to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. The reader of the financial statements should review these policies to gain a greater understanding of how the Company s financial performance is reported. Management believes the following critical accounting policies represent the more significant estimates and assumptions used in the preparation of the Consolidated Financial Statements:

Allowance for Loan Losses: The allowance for loan losses (allowance) is a significant accounting estimate used in the preparation of the Company s consolidated financial statements. The allowance, which is established through a provision for loan loss expense, is based on management s evaluation of the level of allowance required in relation to the estimated inherent risk of probable loss in the loan portfolio. Management regularly evaluates the allowance for adequacy by taking into consideration factors such as previous loss experience, the size and composition of the portfolio, current general economic and real estate market conditions and the performance of individual loans in relation to contract terms and estimated fair values of collateral. The use of different estimates or assumptions could produce different provisions for loan losses. A smaller provision for loan losses results in higher net income, and when a greater amount of provision for loan losses is necessary, the result is lower net income. Refer to Part II, Item 7, *Allowance for Loan Losses and Provision,* and Part II, Item 8, Note 5, *Loans and allowance for loan losses,* of the Consolidated Financial Statements, in this Annual Report on Form 10-K, for further discussion and analysis concerning the allowance.

Other-Than-Temporary Impairments on Securities**:** One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairments. The evaluation of securities for other-than-temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses.

Securities that are in an unrealized loss position, are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the cause of the impairment; (b) the financial condition, credit rating and future prospects of the issuer; (c) whether the debtor is current on contractually-obligated interest and principal payments; (d) the volatility of the securities fair value; (e) performance indicators of the underlying assets in the security including default rates, delinquency rates, percentage of non-performing assets, loan to collateral value ratios, third party guarantees, current levels of subordination, vintage, and geographic concentration and; (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of the receipt of all principal and interest due.

For securitized financial assets with contractual cash flows, such as private-label mortgage-backed securities, the Company periodically updates its best estimate of cash flows over the life of the security. The Company s best estimate of cash flows is based upon assumptions consistent with an economic recession, similar to those the Company believes market participants would use. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been an adverse change in timing or amount of anticipated future cash flows since the last revised estimate to the extent that the Company does not expect to receive the entire amount of future contractual principal and interest, an other-than-temporary impairment charge is recognized in earnings representing the estimated credit loss if management does not intend to sell the security and believes it is more-likely-than-not the Company will not be required to sell the security prior to recovery of cost or amortized cost. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain assumptions and judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral.

Refer to Part II, Item 7, *Impaired Securities,* and Part II, Item 8, Notes 1 and 4 of the Consolidated Financial Statements in this Annual Report on Form 10-K, for further discussion and analysis concerning other-than-temporary impairments.

Income Taxes: The Company estimates its income taxes for each period for which a statement of income is presented. This involves estimating the Company s actual current tax liability, as well as assessing temporary differences resulting from differing timing of recognition of expenses, income and tax credits, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the Company s consolidated balance sheets. The Company must also assess the likelihood that any deferred tax assets will be recovered from historical taxes paid and future taxable income and, to the extent that the recovery is not likely, a valuation allowance must be established. Significant management judgment is required in determining income tax expense, and deferred tax assets and liabilities. As of December 31, 2014 and 2013, there were no valuation allowances for deferred tax assets, which are included in other assets on the consolidated balance sheet.

Goodwill and Identifiable Intangible Assets: In connection with acquisitions, the Company generally records as assets on its consolidated financial statements both goodwill and identifiable intangible assets, such as core deposit intangibles.

The Company evaluates whether the carrying value of its goodwill has become impaired, in which case the value is reduced through a charge to its earnings. Goodwill is evaluated for impairment at least annually, or upon a triggering event using certain fair value techniques. Goodwill impairment testing is performed at the segment (or reporting unit) level. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to the reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in accordance with the purchase method of accounting for business combinations. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. The Company completes its annual goodwill impairment test as of December 31 of each year. The impairment testing process is conducted by assigning assets and goodwill to each reporting unit. Currently, the Company s goodwill is evaluated at the entity level as there is only one reporting unit. The Company first assesses certain qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. If it is more likely than not that the fair value of the reporting unit is less than the carrying value, then the fair value of each reporting unit is compared to the recorded book value step one. If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired and step two is not considered necessary. If the carrying value of a reporting unit exceeds its fair value, the impairment test continues (step two) by comparing the carrying value of the reporting unit s goodwill to the implied fair value of goodwill. The implied fair value is computed by adjusting all assets and liabilities of the reporting unit to current fair value with the offset adjustment to goodwill. The adjusted goodwill balance is the implied fair value of the goodwill. An impairment charge is recognized if the carrying fair value of goodwill exceeds the implied fair value of goodwill. At December 31, 2014, there was no indication of impairment that led the Company to believe it needed to perform a two-step test.

Identifiable intangible assets, included in other assets on the consolidated balance sheet, consist of core deposit intangibles amortized over their estimated useful lives on a straight-line method, which approximates the economic benefits to the Company. These assets are reviewed for impairment at least annually, or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The determination of which intangible assets have finite lives is subjective, as is the determination of the amortization period for such intangible assets.

Any changes in the estimates used by the Company to determine the carrying value of its goodwill and identifiable intangible assets, or which otherwise adversely affect their value or estimated lives, would adversely affect the Company s consolidated results of operations.

Refer to Notes 1 and 7 of the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for further details of the Company s accounting policies and estimates covering goodwill.

FINANCIAL CONDITION

Asset/Liability Management

In managing its asset portfolios, the Bank utilizes funding and capital resources within well-defined credit, investment, interest rate, and liquidity risk guidelines. Loans and investment securities are the Bank s primary earning assets with additional capacity invested in money market instruments. Average earning assets represented 96.3% of total average assets during 2014, unchanged compared with 2013.

The Company, through its management of liabilities, attempts to provide stable and flexible sources of funding within established liquidity and interest rate risk guidelines. This is accomplished through retail deposit products offered within the markets served, as well as through the prudent use of borrowed and brokered funds.

The Company s objectives in managing its balance sheet are to preserve the sensitivity of net interest income to actual or potential changes in interest rates, and to enhance profitability through strategies that promise sufficient reward for understood and controlled risk. The Company is deliberate in its efforts to maintain adequate liquidity, under prevailing and forecasted economic conditions, and to maintain an efficient and appropriate mix of core deposits, brokered deposits, and borrowed funds.

Earning Assets

For the year ended December 31, 2014, the Company s total average earning assets amounted to $1,371,800, compared with $1,296,121 in 2013, representing an increase of $75,679, or 5.8%. The 2014 increase in average earning assets was attributed to a $42,379 or 5.1% increase in the Bank s average loan portfolio and, to a lesser extent, a $31,299 or 7.1% increase in average securities.

The tax-equivalent yield on total average earning assets amounted to 4.05% in 2014, unchanged compared with 2013. While the weighted average loan yield declined fifteen basis points in 2014 to 4.31%, this decline was offset by a twenty-eight basis point increase in securities yields to 3.69%, as higher long-term interest rates and slowing mortgage refinance activity over this past year caused the amortization of mortgage-backed security purchase premiums to slow.

For the year ended December 31, 2014, total tax-equivalent interest income amounted to $55,603 compared with $52,511 in 2013, representing an increase of $3,092, or 5.9%. Interest income from the securities portfolio increased $2,349 or 15.7% in 2014 compared with 2013, while tax-equivalent interest income from the loan portfolio increased $522, or 1.4%.

Total Assets

The Company s assets principally consist of loans and securities, which at December 31, 2014 represented 63.0% and 32.2% of total assets, compared with 62.1% and 32.8% at December 31, 2013, respectively.

At December 31, 2014, the Company s total assets stood at $1,459,320, compared with $1,373,893 at December 31, 2013, representing an increase of $85,427, or 6.2%. The increase in total assets was principally attributed to a $66,167 or 7.8% increase in total loans, followed by a $20,355 or 4.5% increase in securities.

Securities

The average securities portfolio represented 34.3% of the Company s total average earning assets in 2014 and generated 31.2% of its total tax-equivalent interest and dividend income, compared with 33.9% and 28.5% in 2013.

Bank management considers securities as a relatively attractive means to effectively leverage the Bank s strong capital position, as securities are typically assigned a significantly lower risk weighting for the purpose of calculating the Bank s and the Company s risk-based capital ratios. The overall objectives of the Bank s strategy for the securities portfolio include maintaining appropriate liquidity reserves, diversifying earning assets, managing interest rate risk, leveraging the Bank s strong capital position, and generating acceptable levels of net interest income. The securities portfolio is managed under the policy guidelines established by the Bank s Board of Directors.

The securities portfolio is comprised of mortgage-backed securities (MBS) issued by U.S. government agencies, U.S. Government-sponsored enterprises and, to a much lesser extent, other non-agency, private-label issuers. The securities portfolio also includes tax-exempt obligations of state and political subdivisions thereof.

Total Securities: At December 31, 2014, total securities amounted to $470,525 compared with $450,170 at December 31, 2013, representing an increase of $20,355, or 4.5%. Securities purchased during 2014 consisted of MBS securities issued and guaranteed by U.S. Government agencies and sponsored enterprises and, to a lesser extent, tax exempt obligations of state and political subdivisions.

Securities Available for Sale*:* Securities available for sale represented 100% of total securities at December 31, 2014 and 2013.

The designation of securities available for sale is made at the time of purchase, based upon management s intent to hold the securities for an indefinite time; however, these securities would be available for sale in response to changes in market interest rates, related changes in the securities prepayment risk, needs for liquidity, or changes in the availability of and yield on alternative investments. The securities available for sale portfolio is used for liquidity purposes while simultaneously producing earnings.

Securities classified as available for sale are reported at their fair value with unrealized gains or losses, net of taxes, excluded from earnings but shown separately as a component of shareholders equity. Gains and losses on the sale of securities available for sale are determined using the specific-identification method and are shown separately in the consolidated statements of income.

The following table summarizes the securities available for sale portfolio as of December 31, 2014 and 2013:

December 31, 2014		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$282,217	$ 7,530	$ 1,537	$288,210
US Government agency	82,249	1,626	529	83,346
Private label	3,723	815	14	4,524
Obligations of states and				
political subdivisions thereof	90,181	4,516	252	94,445
Total	$458,370	$14,487	$ 2,332	$470,525

December 31, 2013		**Gross**	**Gross**	
	Amortized	**Unrealized**	**Unrealized**	**Estimated**
Available for Sale:	**Cost**	**Gains**	**Losses**	**Fair Value**
Mortgage-backed securities:				
US Government-sponsored enterprises	$277,838	$ 4,386	$ 8,592	$273,632
US Government agency	83,153	833	2,457	81,529
Private label	5,423	825	78	6,170
Obligations of states and				
political subdivisions thereof	95,221	1,121	7,503	88,839
Total	$461,635	$ 7,165	$18,630	$450,170

Mortgage-backed Securities Issued by U.S. Government-sponsored Enterprises: This category of securities represents MBS issued and guaranteed by U.S. Government-sponsored enterprises, specifically, FNMA and FHLMC. These Government-sponsored enterprises were placed under the conservatorship of the U.S. Government on September 7, 2008. In August of 2011, Standard and Poor s, a major credit rating agency, downgraded all debt issued and guaranteed by the United States from AAA to AA+ . Accordingly, all of these securities were credit rated AA+ a December 31, 2014.

At December 31, 2014, the amortized cost of MBS issued by U.S. Government-sponsored enterprises totaled $282,217, compared with $277,838 at December 31, 2013, representing an increase of $4,379, or 1.6%. At December 31, 2014, the amortized cost of MBS issued by U.S. Government enterprises comprised 61.6% of the securities portfolio, compared with 60.2% at December 31, 2013.

At December 31, 2014, the Bank s weighted average yield on MBS issued by U.S. Government-sponsored enterprises amounted to 3.24% compared with 3.34% at December 31, 2013.

Mortgage-backed Securities Issued by U.S. Government Agencies: This category of securities represents MBS backed by the full faith and credit of the U.S. Government, such as the Government National Mortgage Association (GNMA). All of these securities were credit rated AA+ at December 31, 2014 and 2013.

At December 31, 2014, the total amortized cost of the Bank s MBS issued by U.S. Government agencies totaled $82,249, compared with $83,153 at December 31, 2013, representing a decline of $904, or 1.1%. At December 31, 2014, the amortized cost of mortgage-backed securities issued by U.S. Government agencies comprised 17.9% of the Bank s securities portfolio, compared with 18.0% at December 31, 2013.

At December 31, 2014, the weighted average yield on mortgage-backed securities issued by U.S. Government agencies amounted to 2.85%, compared with 2.97% at December 31, 2013.

Mortgage-backed Securities Issued by Private-label Issuers: This category of securities represents MBS issued by banks, investment banks, and thrift institutions. Typically, these securities are largely based on mortgages which exceed the conforming loan sizes required by agency securities. While private-label MBS are not guaranteed by any U.S. Government agency, they are credit rated by the major rating agencies (Moody s, Standard & Poor s and FITCH).

Most of the Bank s MBS issued by private-label issuers carry various amounts of credit enhancement, and none are classified as sub-prime MBS pools. All of these securities were purchased prior to 2008 based on the underlying loan characteristics such as loan to value ratios, borrower credit scores, property type and location, and the level of credit enhancement.

At December 31, 2014, the total amortized cost of the Bank s private-label MBS amounted to $3,723, compared with $5,423 at December 31, 2013, representing a decline of $1,700, or 31.3%. This decline was attributed to principal pay downs on the underlying securities collateral throughout 2014. At December 31, 2014, the amortized cost of mortgage-backed securities issued by private-label issuers comprised 0.8% of the Bank s securities portfolio, compared with 1.2% at December 31, 2013.

At December 31, 2014, the weighted average yield on the Bank s private-label MBS portfolio amounted to 10.79%, compared with 12.31% at December 31, 2013. The unusually high yields were largely attributed to interest received on certain other-than-temporarily impaired securities where the book value was significantly lower than the contractual par value.

At December 31, 2014, $2,794 of the total amortized cost of the Bank s private-label MBS portfolio was rated below investment grade by at least one of the major credit rating agencies, compared with $3,820 at December 31, 2013. All of these below investment grade securities had been rated AAA by the credit rating agencies at the date of purchase and continued to be rated AAA through December 31, 2007. Beginning in 2008 and continuing through 2014, unprecedented market stresses began affecting all MBS (Government agency and private-label) as the economy, in general, and the housing market, in particular, seriously deteriorated. As a result, the Bank revised its assessments as to the full recoverability of its private-label MBS, which necessitated OTTI write-downs under existing accounting standards each year from 2008 through 2013. Refer to Part II, item 8, Notes to Consolidated Financial Statements, Notes 1 and 4 in this Annual Report on Form 10-K for further information on OTTI.

Obligations of States and Political Subdivisions Thereof: Obligations of states and political subdivisions thereof (municipal bonds) are issued by city, county and state governments, as well as by enterprises with a public purpose, such as certain electric utilities, universities and hospitals. One of the primary attractions of municipal bonds is that Bank Qualified issues are federally tax exempt. The Bank s municipal securities primarily consist of general obligation bonds and, to a lesser extent, revenue bonds. General obligation bonds carry less risk, as they are supported by the full faith, credit and taxing authority of the issuing government and in the cases of school districts, are supported with state aid. Revenue bonds are generally backed by municipal revenue streams generated through user fees or lease payments associated with specific municipal projects that have been financed. The Bank s municipal bond portfolio is generally concentrated in school districts across the U.S.A., which have historically been considered among the safer municipal bond investments.

Municipal bonds are frequently supported with insurance, which guarantees that in the event the issuer experiences financial problems, the insurer will step in and assume payment of both principal and interest. Historically, insurance support has strengthened an issuer s underlying credit rating to AAA or AA status. Starting in 2008, many of the insurance companies providing municipal bond insurance experienced financial difficulties and, accordingly, were downgraded by at least one of the major credit rating agencies. Consequently, since 2008 a portion of the Bank s municipal bond portfolio was downgraded by at least one of the major credit rating agencies. Notwithstanding the credit rating downgrades, at December 31, 2014 and 2013, the Bank s municipal bond portfolio did not contain any below investment grade securities as reported by major credit rating agencies. In addition, at December 31, 2014 and 2013 all municipal bond issuers were current on contractually obligated interest and principal payments.

At December 31, 2014, the amortized cost of the Bank s municipal bond portfolio, totaled $90,181, compared with $95,221 at December 31, 2013, representing a decline $5,040, or 5.3%. At December 31, 2014, the amortized cost of municipal bonds comprised 19.7% of the Bank s securities portfolio, compared with 20.6% at December 31, 2013. At December 31, 2014, the fully tax-equivalent yield on the Bank s municipal bond portfolio amounted to 5.47%, compared with 5.65% at December 31, 2013.

Securities Maturity Distribution and Weighted Average Yields: The following table summarizes the maturity distribution of the amortized cost of the Bank s securities portfolio and weighted average yields of such securities on a fully tax-equivalent basis as of December 31, 2014. The maturity distribution is based upon the final maturity date of the securities. Expected maturities may differ from contractual maturities because issuers may have the right to call or pre-pay certain securities. In the case of mortgage-backed securities, actual maturities may also differ from expected maturities due to the amortizing nature of the underlying mortgage collateral, and the fact that borrowers have the right to prepay.

SECURITIES

MATURITY SCHEDULE AND WEIGHTED AVERAGE YIELDS

DECEMBER 31, 2014

(at fair value)

	One Year or less		**Greater than one year to Five years**		**Greater than Five to ten years**		**Greater than ten years**		**TOTAL**	
	Estimated Fair Value	**Weighted Average Yield**	**Estimated Fair Value**	**Weighted Average Yield**	**Estimated Fair Value**	**Weighted Average Yield**	**Estimated Fair Value**	**Weighted Average Yield**	**Estimated Fair Value**	**Weighte Averag Yield**
Mortgage-backed securities:										
US Government-sponsored enterprises	$ ---	0.00%	$3,484	3.68%	$10,152	3.76%	$274,574	3.22%	$288,210	3.24
US Government	---	0.00%	423	2.47%	1,632	2.69%	81,291	2.86%	83,346	2.85

agency										
Private label	---	0.00%	385	5.87%	323	57.51%	3,816	10.49%	4,524	10.79%
Obligations of states and political subdivisions thereof	---	0.00%	1,015	6.16%	1,532	7.26%	91,898	5.44%	94,445	5.47%
Total	$ ---		$5,307		$13,639		$451,579		$470,525	

Securities Concentrations: At December 31, 2014 and 2013, the Bank did not hold any securities for a single issuer, other than U. S. Government agencies and sponsored enterprises, where the aggregate book value of the securities exceeded 2% of the Company s shareholders equity.

Impaired Securities: The securities portfolio contains certain securities where amortized cost exceeds fair value, which at December 31, 2014, amounted to an excess of $2,332, or 0.5% of the total amortized cost of the securities portfolio. At December 31, 2013 this amount represented an excess of $18,630, or 4.0% of the total amortized cost of the securities portfolio. As of December 31, 2014, unrealized losses on securities in a continuous unrealized loss position more than twelve months amounted to $434, compared with $6,185 at December 31, 2013. The decline in net unrealized losses was attributed to a significant decline in long-term interest rates and pricing spreads at December 31, 2014 compared with December 31, 2013, which favorably impacted the fair value of the Bank s fixed income portfolio.

As 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. If a decline in the fair value of an available for sale security is judged to be other-than temporary, a charge is recorded in pre-tax income equal to the estimated credit losses inherent in the security. Further information regarding impaired securities, other-than-temporarily impaired securities and evaluation of securities for impairment is incorporated by reference to Part II, Item 8, Notes 1 and 4 of the Consolidated Financial Statements in this Annual Report on Form 10-K.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank of Boston (the FHLB). The FHLB is a cooperatively owned wholesale bank for housing and finance in the six New England states. Its mission is to support the residential mortgage and community-development lending activities of its members, which include over 450 financial institutions across New England. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the

FHLB for most of its wholesale funding needs.

At December 31, 2014, the Bank s investment in FHLB stock totaled $21,354, compared with $18,370 at December 31, 2013, representing an increase of $2,984, or 16.2%. The foregoing increase was principally attributed to increased FHLB borrowing levels during 2014. Shares held in excess of the minimum required amount are generally redeemable at par value.

FHLB stock is a non-marketable equity security and therefore is reported at cost, which generally equals par value. The ratio of the FHLB s market value of equity to its par value of capital stock was 129% at December 31, 2014 compared with 119% at December 31, 2013.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, the capital adequacy of the FHLB and its overall financial condition. The FHLB recently reported that it remained in compliance with all regulatory capital ratios as of December 31, 2014 and was classified as adequately capitalized by its regulator, the Federal Housing Finance Agency, based on the FHLB s financial information at September 30, 2014. Based on the capital adequacy, liquidity position and sustained profitability of the FHLB, management believes there is no impairment related to the carrying amount of the Bank s FHLB stock as of December 31, 2014 The Bank will continue to monitor its investment in FHLB stock.

Loans

Total Loans: At December 31, 2014 total loans amounted to $919,024, compared with $852,857 at December 31, 2013, representing an increase of $66,167, or 7.8%.

The loan portfolio is primarily secured by real estate in the counties of Hancock, Washington, Knox, Kennebec and Sagadahoc Maine. The following table summarizes the major components of the Bank s loan portfolio, net of deferred loan fees and costs, as of December 31 over the past five years.

SUMMARY OF LOAN PORTFOLIO AT DECEMBER 31

	2014	2013	2012	2011	2010
Commercial real estate mortgages	$325,949	$336,542	$324,493	$285,484	$283,799
Commercial and industrial	73,893	73,972	59,373	62,450	57,323
Commercial construction					
and land development	25,421	18,129	22,120	30,060	32,114
Agricultural and other loans to farmers	30,471	26,929	24,922	26,580	24,359
Total commercial loans	455,734	455,572	430,908	404,574	397,595
Residential real estate mortgages	382,678	317,115	297,103	239,799	231,434
Home equity loans	51,795	49,565	53,303	51,462	54,289
Other consumer loans	12,140	14,523	19,001	22,906	4,417
Total consumer loans	446,613	381,203	369,407	314,167	290,140
Tax exempt loans	16,693	16,355	15,244	9,700	12,126
Net deferred loan costs and fees	(16)	(273)	(555)	562	809
Total loans	919,024	852,857	815,004	729,003	700,670
Allowance for loan losses	(8,969)	(8,475)	(8,097)	(8,221)	(8,500)
Total loans net of allowance					
for loan losses	$910,055	$844,382	$806,907	$720,782	$692,170

At December 31, 2014, commercial loans comprised 49.6% of the total loan portfolio, compared with 53.4% at December 31, 2013. Consumer loans, which principally consisted of residential real estate mortgage loans, comprised 48.6% of total loans at December 31, 2014 compared with 44.7% at December 31, 2013.

Factors contributing to the changes in the loan portfolio are enumerated in the following discussion and analysis.

Commercial Loans: The Bank offers a variety of commercial lending products including term loans and lines of credit. The Bank offers a broad range of commercial loans, primarily collateralized, to businesses for working capital (including inventory and receivables), business expansion (including acquisitions of real estate and improvements) and the purchase of equipment and machinery. The purpose of a particular loan generally determines its structure. Commercial loans are provided primarily to organizations and sole proprietors in the tourism, hospitality, healthcare, blueberry, boatbuilding, biological research, and fishing industries, as well as to other small and mid-size businesses associated with the coastal communities of Maine.

At December 31, 2014, total commercial loans amounted to $455,734, compared with $455,572 at December 31, 2013, representing an increase of $162. New commercial loan originations during 2014 were largely offset with certain sizable loan payoffs and line of credit pay downs, as well as scheduled principal amortization from the portfolio.

Commercial loan growth has generally been challenged by a still-recovering economy, continued economic uncertainty, diminished demand, and strong competition for quality loans.

Reflecting the Bank s business region, at December 31, 2014, approximately $107,286 or 32.9% of the commercial real estate mortgage portfolio was represented by loans to the lodging industry, compared with 32.6% at December 31, 2013. The Bank underwrites lodging industry loans as operating businesses, lending primarily to seasonal establishments with stabilized cash flows.

The proportion of commercial and industrial loans to total commercial loans is generally reflective of the Bank s market area demographics, which have historically limited the opportunity and growth potential in this particular category of loans. Similarly, the communities served by the Bank generally offer limited opportunities for agricultural and other loans to farmers. This category of loans principally includes loans related to Maine s wild blueberry industry.

Consumer Loans: At December 31, 2014, total consumer loans stood at $446,613 compared with $381,203 at December 31, 2013, representing an increase of $65,410, or 17.2%. At December 31, 2014, residential real estate mortgage loans represented 85.7% of total consumer loans, compared with 83.2% at year end 2013.

Residential real estate mortgage loans totaled $382,678 as of December 31, 2014, compared with $317,115 at December 31, 2013, representing an increase of $65,563, or 20.7%. Mortgage origination activity slowed during 2014, driven by higher interest rates, rising home prices and inclement weather early in the year. The increase in residential real estate mortgage loans compared with year-end 2013 was largely attributed to purchased loans. Loans originated and closed by the Bank during 2014 were largely offset by loan re-financings and scheduled principal amortization from the existing residential real estate loan portfolio.

Home equity loans totaled $51,795 at December 31, 2014, compared with $49,565 at December 31, 2013, representing an increase of $2,230, or 4.5%. The Bank did not aggressively campaign for home equity loans during 2014.

Loans to individuals for household, family and other personal expenditures (other consumer loans) totaled $12,140 at December 31, 2014, compared with $14,523 at December 31, 2013, representing a decline of $2,383, or 16.4%. Given strong competition from the financing affiliates of consumer durable goods manufacturers, among other considerations, the Bank does not campaign aggressively for consumer installment loans.

Tax Exempt Loans: Tax-exempt loans totaled $16,693 at December 31, 2014, compared with $16,355 at December 31, 2013, representing an increase of $338, or 2.1%. Tax-exempt loans include loans to local government municipalities, not-for-profit organizations, and other organizations that qualify for tax-exempt treatment.

Government municipality loans typically have short maturities (e.g., tax anticipation notes, etc.). Government municipality loans are normally originated through a bid process among local financial institutions and are typically priced aggressively, thus generating relatively narrow net interest margins.

Loan Concentrations: Because of the Bank s proximity to Acadia National Park, a large part of the economic activity in the area is generated from the hospitality business associated with tourism. At December 31, 2014, approximately $112,520 or 12.2% of the Bank s loan portfolio was represented by loans to the lodging industry, compared with $114,982 or 13.5% at December 31, 2013. Loan concentrations continued to principally reflect the Bank s business region.

Real Estate Loans Under Foreclosure: At December 31, 2014, real estate loans under foreclosure totaled $2,588 compared with $2,900 at December 31, 2013, representing a decrease of $312, or 10.8%.

At December 31, 2014, real estate loans under foreclosure were represented by twelve residential mortgage loans totaling $2,091, one commercial construction and land development loan totaling $67 and five commercial real estate loans totaling $430.

Other Real Estate Owned: Real estate acquired in satisfaction of a loan is reported in other assets. Properties acquired by foreclosure or deed in lieu of foreclosure are transferred to other real estate owned (OREO) and recorded at the lower of cost or fair market value less estimated costs to sell based on appraised value at the date actually or constructively received. Loan losses arising from the acquisition of such property are charged against the allowance for loan losses. Subsequent reductions in fair value below the carrying value are charged to other operating expenses.

At December 31, 2014, total OREO amounted to $523, compared with $1,625 as of December 31, 2013, representing a decline of $1,102 or 67.8%. Three residential and three commercial properties comprised the December 31, 2014 balance of OREO.

During the twelve months ended December 31, 2014, two properties were added to OREO. There were two properties written down for an aggregate total of $293 in write downs, and there were seven sales of OREO properties, of which five were sold at an aggregate loss of $104.

Mortgage Loan Servicing: The Bank, from time to time, will sell residential mortgage loans to other institutions and investors such as the FHLMC. In prior years, the Bank has generally sold fixed rate, long term residential mortgage loans, as a means of managing interest rate risk. The sale of loans also allows the Bank to make more funds available to customers in its servicing area, while the retention of servicing rights provides an additional source of income. At December 31, 2014, the unpaid balance of mortgage loans serviced for others totaled $13,360 compared with $15,116 at December 31, 2013, representing a decline of $1,756 or 11.6%.

Loan Portfolio Interest Rate Composition: The following table summarizes the commercial, tax-exempt and consumer components of the loan portfolio by fixed and variable interest rate composition, as of December 31, 2014 and 2013:

	2014	2013
Commercial:		
Fixed	$ 80,641	$ 73,391
Variable	375,101	382,045
Total	$455,742	$455,436
Tax exempt:		
Fixed	$ 8,129	$ 7,563
Variable	8,548	8,792
Total	$ 16,677	$ 16,355
Consumer:		
Fixed	$349,389	$290,259
Variable	97,216	90,807
Total	$446,605	$381,066
Total loans:		
Fixed	$438,159	$371,213
Variable	480,865	481,644
Total	$919,024	$852,857

At December 31, 2014, fixed and variable rate loans comprised 47.7% and 52.3% of the loan portfolio, respectively, compared with 43.5% and 56.5% at December 31, 2013.

Loan Maturities and Re-pricing Distribution: The following table summarizes fixed rate loans reported by remaining maturity, and floating rate loans by next re-pricing date, as of December 31, 2014 and 2013. Actual maturity dates may differ from contractual maturity dates due to prepayments, modifications and re-financings.

Maturities	2014	2013
One year or less	$276,259	$287,279
Over 1 - 5 years	172,117	167,838
Over 5 years	470,648	397,740
Total loans	$919,024	$852,857

Credit Risk: Credit risk is managed through loan officer authorities, loan policies, and oversight from the Bank's Chief Risk Officer, the Bank s Senior Loan Officers Committee, the Directors Loan Committee, and the Bank's Board of Directors. Management follows a policy of continually identifying, analyzing and grading credit risk inherent in the loan portfolio. An ongoing independent review, subsequent to management's review, of individual credits is performed by an independent loan review function, which reports to the Audit Committee of the Board of Directors.

Management recognizes that early and accurate recognition of risk is the best means to reduce credit losses and maximize earnings. The Bank employs a comprehensive risk management structure to identify and manage the risk of loss. For consumer loans, the Bank identifies loan delinquency beginning at 10-day delinquency and provides appropriate follow-up by written correspondence or personal contact. Non-residential mortgage loan losses are recognized no later than the point at which a loan is 120 days past due. Residential mortgage loan losses are recognized during the foreclosure process, or sooner, when that loss is quantifiable and reasonably assured. For commercial loans the Bank applies a risk grading system, which stratifies the portfolio and allows management to focus appropriate efforts on the highest risk components of the portfolio. The risk grades include ratings that correlate with regulatory definitions of Pass, Other Assets Especially Mentioned, Substandard, Doubtful, and Loss.

As a result of management s ongoing review of the loan portfolio, loans are placed on non-accrual status, either due to the delinquent status of principal and/or interest, or a judgment by management that, although payments of principal and/or interest are current, such action is prudent because collection in full of all outstanding principal and interest is in doubt. Loans are generally placed on non-accrual status when principal and or interest is 90 days overdue, or sooner if judged appropriate by management. Consumer loans are generally charged-off when principal and or interest payments are 120 days overdue, or sooner if judged appropriate by management.

Non-performing Loans: Non-performing loans include loans on non-accrual status and loans past due 90 days or more and still accruing interest. The following table sets forth the details of non-performing loans over the past five years.

TOTAL NON-PERFORMING LOANS

AT DECEMBER 31

	2014	2013	2012	2011	2010

Commercial real estate mortgages	$ 3,156	$2,046	$1,888	$ 2,676	$ 3,572
Commercial and industrial loans	624	793	818	1,078	778
Commercial construction					
and land development	1,328	1,913	2,359	3,753	5,899
Agricultural and other loans to farmers	84	56	664	595	254
Total commercial loans	5,192	4,808	5,729	8,102	10,503
Residential real estate mortgages	6,051	3,227	3,017	4,266	3,022
Home equity loans	1,029	745	814	266	146
Other consumer loans	16	60	72	273	---
Total consumer loans	7,096	4,032	3,903	4,805	3,168
Total non-accrual loans	12,288	8,840	9,632	12,907	13,671
Accruing loans contractually					
past due 90 days or more	---	---	235	---	6
Total non-performing loans	$12,288	$8,840	$9,867	$12,907	$13,677
Allowance for loan losses					
to non-performing loans	73.0%	95.9%	82.1%	63.7%	62.1%
Non-performing loans to total loans	1.34%	1.04%	1.21%	1.77%	1.95%
Allowance to total loans	0.98%	0.99%	0.99%	1.13%	1.21%

At December 31, 2014, total non-performing loans amounted to $12,288, compared with $8,840 at December 31, 2013, representing an increase of $3,448, or 39.0%. One residential real estate mortgage loan, which was placed in non-accrual status in the fourth quarter of 2014, represented 73.5% of this increase. Despite the increase in non-performing loans, the Bank does not believe it is reflective of credit deterioration in the loan portfolio as a whole.

Non-performing commercial real estate mortgages totaled $3,156 at December 31, 2014, representing an increase of $1,110, or 54.3%, compared with December 31, 2013. At December 31, 2014, non-performing commercial real estate mortgages were represented by fourteen business relationships, with outstanding balances ranging from $22 to $1,209.

Non-performing commercial and industrial loans totaled $624 at December 31, 2014, representing a decline of $169, or 21.3%, compared with December 31, 2013. At December 31, 2014, non-performing commercial and industrial loans were represented by thirteen business relationships, with outstanding balances ranging from $7 to $272.

Non-performing commercial construction and land development loans totaled $1,328 at December 31, 2014, representing a decline of $585, or 30.6%, compared with December 31, 2013. At December 31, 2014, non-performing commercial construction and land development loans were almost entirely represented by a $1,261 commercial real estate loan to a local, non-profit affordable housing authority in support of an affordable housing project. This loan is principally secured by the housing units from the project. The project is fully constructed and there is no construction risk associated with the loan. The primary source of repayment is the sale of the existing housing units. This loan is impaired and was put on non-accrual status in late 2010. To date, the Bank has charged off $2,014 of the original outstanding balance of this collateral dependent impaired loan, of which $192 was recorded in 2012 and $1,822 in 2011. These charge-offs were based on current appraisals and revised prospects for future cash flows. This loan is recorded at fair value in the Company s financial statements.

Non-performing residential real estate mortgages totaled $6,051 at December 31, 2014, representing an increase of $2,824, or 87.5%, compared with December 31, 2013. One residential real estate mortgage loan, which was placed in non-accrual status in the fourth quarter of 2014, represented 41.8% of this increase. At December 31, 2014, non-performing residential real estate loans were represented by thirty-four, conventional, 1-4 family mortgage loans, with outstanding balances ranging from $7 to $2,535.

Non-performing home equity loans totaled $1,029 at December 31, 2014, representing an increase of $284, or 38.1%, compared with December 31, 2013. At December 31, 2014, non-performing home equity loans were represented by four relationships with outstanding balances ranging from $3 to $450.

While the level and mix of non-performing loans continued to reflect favorably on the overall quality of the loan portfolio as of December 31, 2014, Bank management is cognizant of the still-recovering real estate market, elevated unemployment rates and soft economic conditions overall. Future levels of non-performing loans may be influenced by economic conditions, including the impact of those conditions on the Bank s customers, including debt service levels, collateral values, tourism activity, consumer confidence and other factors existing at the time. Management believes the economic activity and conditions in the local real estate markets will continue to be significant determinants of the quality of the loan portfolio in future periods and, thus, the Company s results of operations and financial condition.

Delinquencies and Potential Problem Loans: In addition to the non-performing loans discussed above, the Bank also has loans that are 30 to 89 days delinquent. These loans amounted to $3,120 and $4,201 at December 31, 2014, and 2013, or 0.34% and 0.49% of total loans, respectively, net of any loans classified as non-performing that are within these delinquency categories. These loans and delinquency trends in general are considered in the evaluation of the allowance for loan losses and the related determination of the provision for loan losses.

On an ongoing basis, the Bank reviews the commercial loan portfolio for evidence of potential problem loans. Potential problem loans are loans that are currently performing in accordance with contractual terms, but where known information about possible credit problems of the borrower causes doubt about the ability of the borrower to comply with the loan payment terms and may result in disclosure of such loans as non-performing at some time in the future.

At December 31, 2014, the Bank identified twenty-seven commercial relationships totaling $13,534 as potential problem loans, or 1.50% of total loans. At December 31, 2013, the Bank identified twenty-eight commercial relationships totaling $11,123 as potential problem loans, or 1.30% of total loans. Factors such as payment history, value of supporting collateral, and personal or government guarantees led the Bank to conclude that the current risk exposure on these potential problem loans did not warrant accounting for the loans as non-performing. Although in a performing status as of year-end, these loans exhibited certain risk factors, which have the potential to cause them to become non-performing at some point in the future.

Allowance for Loan Losses: At December 31, 2014, the allowance for loan losses (the allowance) stood at $8,969, compared with $8,475 at December 31, 2013, representing an increase of $494, or 5.8%. The increase in the allowance from December 31, 2013 was largely due to elevated levels of loan charge-off activity during 2014, as well as higher levels of potential problem loans as of year end.

The allowance is available to absorb probable losses on loans. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated quarterly based on review of loans, with particular emphasis on non-performing and other loans that management believes warrant special consideration.

The allowance is maintained at a level that, in management s judgment, is appropriate for the amount of risk inherent in the current loan portfolio, and adequate to provide for estimated, probable losses. Allowances are established for specific impaired loans, a pool of reserves based on historical net loan charge-offs by loan types, and supplemental reserves that adjust historical loss experience to reflect current economic conditions, industry specific risks, and other qualitative and environmental considerations impacting the inherent risk of loss in the current loan portfolio.

Specific allowances for impaired loans are determined based upon a discounted cash flows analysis, or as an expedient, a collateral shortfall analysis. The amount of collateral dependent impaired loans totaled $1,986 as of December 31, 2014, compared with $2,699 as of December 31, 2013, representing a decline of $713 or 26.4%. The related allowances for loan losses on these impaired loans amounted to $776 and $120 as of December 31, 2014 and 2013.

Management reviews impaired loans to ensure such loans are transferred to interest non-accrual status, and written down when necessary. The amount of interest income not recorded on impaired loans amounted to $58, $52, and $37 for the years ended December 31, 2014, 2013 and 2012, respectively.

General allowances for loan losses account for the risk and estimated loss inherent in certain pools of industry and geographic loan concentrations within the loan portfolio. There were no material changes in loan concentrations during 2014 compared with 2013.

Based upon the process employed and giving recognition to all attendant factors associated with the loan portfolio, management believes the allowance for loan losses at December 31, 2014, is appropriate for the risks inherent in the loan portfolio.

While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank s allowance, which also may necessitate future additions or reductions to the allowance, based on information available to them at the time of their examination.

The following table details changes in the allowance for loan losses and summarizes loan loss experience by loan type over the past five years.

ALLOWANCE FOR LOAN LOSSES

SUMMARY OF LOAN LOSS EXPERIENCE

	2014	2013	2012	2011	2010
Balance at beginning of period	$ 8,475	$ 8,097	$ 8,221	$ 8,500	$ 7,814
Charge offs:					
Commercial real estate mortgages	238	214	474	423	296
Commercial and industrial	475	405	102	123	652
Commercial construction and land development	---	---	344	1,943	167
Agricultural and other loans to farmers	14	81	160	---	396
Residential real estate mortgages	650	406	568	254	160
Other consumer loans	191	120	294	90	103
Home equity loans	52	29	92	94	100
Total charge-offs	1,620	1,255	2,034	2,927	1,874
Recoveries:					
Commercial real estate mortgages	$ 85	$ 105	$ 9	$ 8	$ 3
Commercial and industrial loans	16	23	25	82	10
Commercial construction and land development	---	---	---	77	---
Agricultural and other loans to farmers	130	37	82	45	5
Residential real estate mortgages	12	7	104	---	106
Other consumer loans	37	23	38	41	69
Home equity loans	1	20	---	---	40
Total recoveries	281	215	258	253	233
Net charge-offs	1,339	1,040	1,776	2,674	1,641
Provision charged to operations	1,833	1,418	1,652	2,395	2,327
Balance at end of period	$ 8,969	$ 8,475	$ 8,097	$ 8,221	$ 8,500
Average loans outstanding during period	$881,389	$839,010	$779,800	$717,895	$681,988
Annualized net charge-offs to average loans outstanding	0.15%	0.12%	0.23%	0.37%	0.24%

For the year ended December 31, 2014, total net loan charge-offs amounted to $1,339, representing an increase of $299, or 28.8%, compared with 2013. Total net charge-offs to average loans outstanding amounted to 0.15% in 2014, compared with 0.12% in 2013.

The following table presents the five-year summary of the allowance by loan type at each respective year-end.

ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

(at December 31)

	2014		2013		2012		2011		2010	
	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total	Amount	Percent of Loans in Each Category to Total

		loans		loans		loans		loans		loans
Commercial and Industrial, and agricultural	$1,206	11.35%	$1,601	11.83%	$1,329	10.35%	$1,653	12.22%	$1,460	11.66%
Commercial and Consumer real estate mortgages:										
Real estate-construction and land development	145	2.77%	314	2.13%	515	2.71%	594	4.12%	999	4.58%
Real estate-mortgage	7,453	82.74%	6,255	82.42%	5,905	82.74%	5,602	79.19%	5,858	81.40%
Installments and other loans to individuals	94	1.32%	137	1.70%	207	2.33%	286	3.14%	73	0.63%
Tax exempt	71	1.82%	168	1.92%	141	1.87%	86	1.33%	110	1.73%
TOTAL	$8,969	100.00%	$8,475	100.00%	$8,097	100.00%	$8,221	100.00%	$8,500	100.00%

Bank Owned Life Insurance

Bank-owned life insurance (BOLI) represents life insurance on the lives of certain retired employees who had provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received in excess of the cash value, are recorded in other non-interest income, and are not subject to income taxes. The cash surrender value of the BOLI is included on the Company s consolidated balance sheet.

At December 31, 2014, the cash surrender value of BOLI amounted to $8,141, compared with $7,879 at December 31, 2013, representing an increase of $262, or 3.3%.

Other Assets

The Company s other assets are principally comprised of accrued interest receivable, deferred income taxes and other real estate owned.

At December 31, 2014 total other assets amounted to $13,992, compared with $18,812 at December 31, 2013, representing a decline of $4,820, or 25.6%. The decline in other assets was principally attributed to a decline in deferred income taxes, which resulted from unrealized gains in the Bank s securities portfolio at December 31, 2014 compared with unrealized losses at December 31, 2013.

Funding Sources

The Bank utilizes various traditional sources of funding to support its earning asset portfolios. Funding sources principally consist of retail deposits and, to a lesser extent, borrowings from the Federal Home Loan Bank of Boston (FHLB) of which it is a member, and certificates of deposit obtained from the national market.

Deposits

Historically, the banking business in the Bank s market area has been seasonal, with lower deposits in the winter and spring and higher deposits in the summer and autumn. These seasonal swings have been fairly predictable and have not had a materially adverse impact on the Bank. Seasonal swings in deposits have been typically absorbed by the Bank s strong liquidity position, including borrowing capacity from the FHLB, brokered certificates of deposit obtained from the national market and cash flows from its securities portfolio.

Total Deposits: At December 31, 2014, total deposits amounted to $858,049 compared with $835,651 at December 31, 2013, representing an increase of $22,398, or 2.7%. Demand NOW and money market accounts posted a combined increase of $39,923, or 9.1%, while time deposits declined $17,525, or 4.4%. The decline in time deposits was attributed to lower levels of brokered deposits compared with December 31, 2013.

Demand Deposits: The Bank s demand deposits are principally business accounts, which account for approximately two-thirds of total demand deposits. At December 31, 2014, total demand deposits amounted to $78,802, compared with $72,259 at December 31, 2013, representing an increase of $6,543, or 9.1%. As discussed above, the Bank s deposits are seasonal in nature and the timing and extent of seasonal swings vary from year to year. This is particularly the case with demand deposits. For the year ended December 31, 2014, total average demand deposits amounted to $72,706 compared with $70,978 in 2013, representing an increase of $1,728, or 2.4%. The increase in average demand deposits was largely attributed to a relatively strong tourist season in the local communities served by the Bank combined with new customer relationships.

The Bank strives to attract demand deposits in connection with its commercial lending activities, on a total relationship basis. The Bank s business checking account offerings include *Easy Business Checking, Small Business Checking, Business Checking with Interest, Business Plus Checking,* and *Non-Profit Business Plus Checking*, each designed to help business owners manage the varying financial aspects of their business. The Bank also offers *Remote Deposit Capture,* enabling its business customers to deposit checks remotely. Business demand deposits are also generated by way of the Bank s *Merchant Credit Card Processing Program.*

NOW Accounts: The Bank offers interest bearing NOW accounts to individuals and not-for-profit organizations. At December 31, 2014, total NOW accounts amounted to $153,499, compared with $135,246 at December 31, 2013, representing an increase of $18,253, or 13.5%. For the year ended December 31, 2014, average NOW accounts amounted to $137,972, compared with $124,382 in 2013, representing an increase of $13,590, or 10.9%.

Savings and Money Market Deposits: At December 31, 2014, total savings and money market accounts amounted to $247,685, compared with $232,558 at December 31, 2013, representing an increase of $15,127, or 6.5%. For the year ended December 31, 2014, average savings and money market accounts amounted to $247,609, compared with $241,670 in 2013, representing an increase of $5,939 or 2.5%. This increase was principally attributed to both new and existing customer relationships.

Time Deposits: At December 31, 2014, total time deposits amounted to $378,063, compared with $395,588 at December 31, 2013, representing a decline of $17,525, or 4.4%. The decline in time deposits was attributed to lower levels of brokered deposits at December 31, 2014 compared with December 31, 2013. A portion of the Bank s time deposits include certificates of deposit obtained from the national market. This source of funds is generally utilized to help support the Bank s earning asset growth, while maintaining its strong on-balance-sheet liquidity position via secured borrowing lines of credit with the FHLB and the Federal Reserve Bank of Boston.

The following table summarizes the changes in the average balances of deposits during the periods indicated, including the weighted average interest rates paid for each category of deposits:

AVERAGE DEPOSIT BALANCES BY CATEGORY OF DEPOSIT

	2014		**2013**	
	Average Balance	**Average Rate**	**Average Balance**	**Average Rate**
Demand deposits	$ 72,706	---	$ 70,978	---
NOW accounts	137,972	0.20%	124,382	0.19%
Savings and money market deposits	247,609	0.23%	241,670	0.24%
Time deposits	415,643	1.21%	400,044	1.45%
Total deposits	$873,930		$837,074	

The following table summarizes the maturity distribution of time deposits of $100 or greater:

MATURITY SCHEDULE

TIME DEPOSITS $100 OR GREATER

DECEMBER 31, 2014

Three months or less	$21,048
Over three to six months	20,494
Over six to twelve months	18,567
Over twelve months	35,730
	$95,839

Time deposits in denominations of $100 or greater totaled $95,839 at December 31, 2014, compared with $152,321 at December 31, 2013, representing a decrease of $56,482, or 37.1%.

Borrowed Funds

The Bank utilizes borrowed funds in leveraging its strong capital position and supporting its earning asset portfolios. Borrowed funds are principally utilized to support the Bank s investment securities portfolio and, to a lesser extent, fund loan growth. Borrowed funds also provide a means to help manage balance sheet interest rate risk, given the Bank s ability to select desired amounts, terms and maturities on a daily basis.

Borrowed funds principally consist of advances from the FHLB and, to a lesser extent, securities sold under agreements to repurchase, Fed funds purchased and borrowings from the Federal Reserve Bank of Boston. Advances from the FHLB are secured by stock in the FHLB, investment securities, certain commercial real estate loans, and blanket liens on qualifying mortgage loans and home equity loans.

Refer to Part II, Item 7, *Contractual Obligations*, and Notes 10 and 11, *Short-term Borrowings* and *Long-term Debt,* of the consolidated financial statements in this annual report on form 10-K for further information on borrowed funds.

Total Borrowings: At December 31, 2014, total borrowings amounted to $447,020, compared with $409,445 at December 31, 2013, representing an increase of $37,575, or 9.2%. The increase in borrowings was principally utilized to help fund the Bank s earning asset growth.

Junior Subordinated Debentures: In the second quarter of 2008, the Bank issued $5,000 aggregate principal amount of subordinated debt securities. These securities qualify as Tier 2 capital for the Bank and the Company and were issued to help support future earning asset growth without jeopardizing the Bank s historically strong capital position. The subordinated debt securities are due in 2023, but are callable by the Bank after five years without penalty. The rate of interest on these securities is three month Libor plus 345 basis points. The subordinated debt securities are classified as borrowings on the Company s consolidated balance sheet.

Capital Resources

Consistent with its long-term goal of operating a sound and profitable organization, at December 31, 2014 the Company maintained its strong capital position and continued to be a well-capitalized financial institution according to applicable regulatory standards. Management believes this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

The Company s Articles of Incorporation authorize the Company to issue up to 10,000,000 shares of the Company s common stock, par value $2.00 per share and up to 1,000,000 shares of preferred stock, no par value. In October 2009, the Company filed a shelf registration statement on Form S-3 with the SEC to register an indeterminate number of shares of common stock and preferred stock, which together have an aggregate initial offering price not to exceed $35,000 (the Shelf Registration). The SEC declared the Company s Shelf Registration effective on November 3, 2009. In December of 2009 the Company announced that it had completed its offering of 800,000 shares of its common stock to the public at $27.50 per share. The principal use of the net proceeds from that offering were used to repurchase all the Company s Series A preferred shares previously sold to the U.S. Department of the Treasury under its Capital Purchase Program.

The Company s Shelf Registration expired on November 3, 2012. The Company has not decided whether to file a new shelf registration statement and does not have any current plans to raise additional capital; however, the Company does recognize that financial flexibility is important and that a shelf registration filed with the SEC can be a prudent capital management tool should the need or opportunity to raise capital on attractive terms arise and, therefore, the Company may consider the filing of a new shelf registration with the SEC on terms similar to the Shelf Registration or other terms during 2015 or in other future years.

Capital Ratios: As of December 31, 2014 and 2013, the Company and the Bank were considered *well-capitalized* under the regulatory framework for prompt corrective action. Under the capital adequacy guidelines, a *well-capitalized* institution must maintain a minimum total risk-based capital to total risk-weighted assets ratio of at least 10.0%, a minimum Tier I capital to total risk-weighted assets ratio of at least 6.0%, and a minimum Tier I Leverage ratio of at least 5.0%. At December 31, 2014, the Company s Total Risk-based, Tier I Risk-based, and Tier I Leverage ratios were 17.24%, 15.60% and 9.30%, respectively.

The following table sets forth the Company's regulatory capital at December 31, 2014 and 2013, under the rules applicable at that date.

	As of December 31, 2014		As of December 31, 2013	
	Amount	Ratio	Amount	Ratio
Total Capital to Risk Weighted Assets	$148,188	17.24%	$137,311	16.62%
Regulatory Requirement	68,766	8.00%	66,106	8.00%
Excess over "adequately capitalized"	$ 79,422	9.24%	$ 71,205	8.62%
Tier 1 Capital to Risk Weighted Assets	$134,099	15.60%	$123,730	14.97%
Regulatory Requirement	34,383	4.00%	33,053	4.00%
Excess over "adequately capitalized"	$ 99,716	11.60%	$ 90,677	10.97%
Tier 1 Capital to Average Assets	$134,099	9.30%	$123,730	9.01%
Regulatory Requirement	57,689	4.00%	54,954	4.00%
Excess over "adequately capitalized"	$ 76,410	5.30%	$ 68,776	5.01%

As more fully disclosed in Note 13 of the Consolidated Financial Statements in this Annual Report on Form 10-K, the Bank also maintained its standing as a well-capitalized institution as defined by applicable regulatory standards. At December 31, 2014, the Bank s Total Risk-based, Tier I Risk-based, and Tier I Leverage ratios were 17.24%, 15.60% and 9.30%, respectively.

Shareholders Equity: At December 31, 2014, total shareholders equity amounted to $146,287, compared with $121,379 at December 31, 2013, representing an increase of $24,908, or 20.5%. The increase in shareholder s equity was largely attributed to a $14,631 increase in accumulated other comprehensive income. This increase was principally the result of a reduction in unrealized losses in the Bank s securities portfolio, which changed from a tax effective unrealized loss of $7,567 at December 31, 2013 to a tax effected unrealized gain of $7,901 at December 31, 2014. The net unrealized losses at December 31, 2013 were attributed to a significant increase in interest rates and pricing spreads during 2013, which negatively impacted the fair value of the Bank s fixed income securities portfolio. The unrealized gains at December 31, 2014 were attributed to significantly lower interest rates at December 31, 2014 compared with December 31, 2013, which positively impacted the value of the securities portfolio.

At December 31, 2014, the Company s retained earnings stood at $113,149, compared with $103,907 at December 31, 2013, representing an increase of $9,242, or 8.9%.

Trends, Events or Uncertainties: There are no known trends, events or uncertainties, nor any recommendations by any regulatory authority, that are reasonably likely to have a material effect on the Company s capital resources, liquidity, or financial condition.

Stock Repurchase Plan: In August 2008, the Company s Board of Directors approved a program to repurchase up to 450,000 shares of the Company s common stock, or approximately 10.2% of the shares then currently outstanding. The stock repurchase program became effective as of August 21, 2008, and was authorized to continue for a period of up to twenty-four consecutive months. In August of 2010, the Company s Board of Directors authorized the continuance of this program through August 17, 2012. In August of 2012, the Company s Board of Directors authorized the continuance of this program through August 17, 2014. In July of 2014, the Company s Board of Directors authorized the continuance of this program through August 17, 2016. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time, or from time to time, without prior notice and may be made in the open market or through privately negotiated transactions.

As of December 31, 2014, the Company had repurchased 157,757 shares of stock under this plan, at a total cost of $2,945 and an average price of $18.67 per share. During 2014, the Company repurchased 327 shares under the plan. The Company records repurchased shares as treasury stock.

Cash Dividends: The Company has historically paid regular quarterly cash dividends on its common stock. Each quarter, the Board of Directors declares the payment of regular quarterly cash dividends, subject to adjustment from time to time, based on the Company s earnings outlook, the strength of its balance sheet, its need for funds, and other relevant factors. There can be no assurance that dividends on the Company s common stock will be paid in the future.

The Company s principal source of funds to pay cash dividends and support its commitments is derived from Bank operations. During 2014, the Company declared and distributed regular cash dividends on its common stock in the aggregate amount of $5,362 compared with $4,915 in 2013. The Company s 2014 dividend payout ratio amounted to 36.7%, compared with 37.3% in 2013. The total regular cash dividends paid in 2014 amounted to $0.905 per common share of common stock, compared with $0.833 in 2013, representing an increase of $0.072 per share, or 8.6%.

In the first quarter of 2015, the Company declared a regular cash dividend of $0.245 per share of common stock, representing an increase of $0.0283 or 13.1%, compared with the first quarter of 2014. Based on the December 31, 2014 price of the Company s common stock of $32.00 per share, the dividend yield amounted to 3.06%.

Contractual Obligations

The Company is a party to certain contractual obligations under which it is obligated to make future payments. These principally include borrowings from the FHLB, consisting of short and long-term fixed rate borrowings, and collateralized by all stock in the FHLB, a blanket lien on qualified collateral consisting primarily of loans with first and second mortgages secured by one-to-four family properties, and certain pledged investment securities. The Company has an obligation to repay all borrowings from the FHLB.

The Company is also obligated to make payments on operating leases for its retail branch offices in Somesville, Topsham and Augusta, Maine, as well as office space in Ellsworth and Bangor, Maine.

Borrowings are stated at their contractual maturity due dates and do not reflect call features, or principal amortization features, on certain borrowings. The following table summarizes the Company s contractual obligations at December 31, 2014.

CONTRACTUAL OBLIGATIONS

		Payments Due By Period			
Description	**Total Amount of Obligations**	**< 1 Year**	**1-3 Years**	**4-5 Years**	**> 5 Years**
Borrowings from Federal Home Loan Bank	$422,300	$ 293,800	$63,500	$62,000	$ 3,000
Securities sold under agreements to repurchase	19,720	19,720	---	---	---
Junior subordinated debentures	5,000	---	---	---	5,000
Operating Leases	1,327	405	421	282	219
Total	$448,347	$313,925	$63,921	$62,282	$8,219

All FHLB advances are fixed-rate instruments. Advances are payable at their call dates or final maturity dates. At December 31, 2014, the Bank had $19,000 in callable advances.

In the normal course of its banking and financial services business, and in connection with providing products and services to its customers, the Company has entered into a variety of traditional third party contracts for support services. Examples of such contractual agreements would include services providing ATMs, Visa Debit Card processing, trust services accounting support, check printing, and the leasing of T-1 telecommunication lines supporting the Company s wide area technology network.

The majority of the Company s core operating systems and software applications are maintained in-house with traditional third party maintenance agreements of one year.

Off-Balance Sheet Arrangements

The Company is, from time to time, a party to certain off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that may be material to investors.

At December 31, 2014 and 2013, the Company s off-balance sheet arrangements were limited to standby letters of credit.

Standby Letters of Credit: The Bank guarantees the obligations or performance of certain customers by issuing standby letters of credit to third parties. These letters of credit are sometimes issued in support of third-party debt. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and they are subject to the same origination, portfolio maintenance and management procedures in effect to monitor other credit products. The amount of collateral obtained, if deemed necessary by the Bank upon issuance of a standby letter of credit, is based upon management's credit evaluation of the customer.

At December 31, 2014, commitments under existing standby letters of credit totaled $325, compared with $378 at December 31, 2013. The fair value of the standby letters of credit was not significant as of the foregoing dates.

Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and certain financial derivative instruments; namely, interest rate cap agreements.

Commitments to Extend Credit: Commitments to extend credit represent agreements by the Bank to lend to a customer provided there is no violation of any condition established in the contract. These commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis using the same credit policies as it does for its balance sheet instruments, such as loans. The amount of collateral obtained, if deemed necessary by the Bank upon the issuance of commitment, is based on management's credit evaluation of the customer.

The following table summarizes the Bank s commitments to extend credit as of December 31:

COMMITMENTS TO EXTEND CREDIT

	December 31, 2014	December 31, 2013
Commitments to originate loans	$ 21,147	$ 10,269
Unused lines of credit	92,817	98,486
Un-advanced portions of construction loans	23,434	12,203
Total	$137,398	$120,958

Financial Derivative Instruments: As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets and liabilities so that change in interest rates does not have a significant adverse effect on net interest income. Derivative instruments that management periodically uses as part of its interest rate risk management strategy include interest rate swap agreements and interest rate floor agreements.

At December 31, 2014, the Bank had four outstanding, off balance sheet, derivative instruments. These derivative instruments were interest rate cap agreements, with notional principal amounts totaling $90,000. There were no outstanding derivative instruments at December 31, 2013. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent the counter-party defaults in its responsibility to pay interest under the terms of the agreements. The interest rate cap agreements were purchased by the Bank to limit its exposure to rising interest rates and were designated as cash flow hedges.

Further information covering the Bank s derivative instruments is incorporated by reference to Part II, Item 8, Notes 1 and 12 of the Consolidated Financial Statements in this Annual Report on Form 10-K.

Liquidity

Liquidity is measured by the Company s ability to meet short-term cash needs at a reasonable cost or minimal loss. The Company seeks to obtain favorable sources of liabilities and to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. Besides serving as a funding source for maturing obligations, liquidity provides flexibility in responding to customer initiated needs. Many factors affect the Company s ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and credit standing in the marketplace, and general economic conditions.

The Bank actively manages its liquidity position through target ratios established under its Asset Liability Management Policy. Continual monitoring of these ratios, both historical and through forecasts under multiple rate and stress scenarios, allows the Bank to employ strategies necessary to maintain adequate liquidity. A portion of the Bank s deposit base has been historically seasonal in nature, with balances typically declining in the winter months through late spring, during which period the Bank s liquidity position tightens.

The Bank uses a basic surplus model to measure its liquidity over 30 and 90-day time horizons. The relationship between liquid assets and short-term liabilities that are vulnerable to non-replacement are routinely monitored. The Bank s policy is to maintain a liquidity position of at least 4% of total assets. At December 31, 2014, liquidity, as measured by the basic surplus model, was 6.1% over the 30-day horizon and 5.0% over the 90-day horizon.

At December 31, 2014, the Bank had unused lines of credit and net unencumbered qualifying collateral availability to support its credit line with the FHLB approximating $139 million. The Bank also had capacity to borrow funds on a secured basis utilizing the Borrower in Custody (BIC) program and the Discount Window at the Federal Reserve Bank of Boston (the FRB). At December 31, 2014, the Bank s available secured line of credit at the FRB stood at $157,486 or 10.8% of the Bank s total assets. The Bank also has access to the national brokered deposit market, and has used this funding source to bolster its on balance sheet liquidity position.

The Bank maintains a liquidity contingency plan approved by the Bank s Board of Directors. This plan addresses the steps that would be taken in the event of a liquidity crisis, and identifies other sources of liquidity available to the Company. Company management believes that the level of liquidity is sufficient to meet current and future funding requirements. However, changes in economic conditions, including consumer savings habits and availability or access to the brokered deposit market could potentially have a significant impact on the Company s liquidity position.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the principal component of the Company s income stream and represents the difference or spread between interest generated from earning assets and the interest expense paid on deposits and borrowed funds.

Net interest income is entirely generated by the Bank. Fluctuations in market interest rates as well as volume and mix changes in earning assets and interest bearing liabilities can materially impact net interest income.

Total Net Interest Income: For the year ended December 31, 2014, net interest income on a tax- equivalent basis amounted to $45,698 compared with $40,848 in 2013, representing an increase of $4,850, or 11.9%. As more fully discussed below, the increase in 2014 tax-equivalent net interest income compared with 2013 was principally attributed to average earning asset growth of $75,679 or 5.8%, combined with an eighteen basis point improvement in the net interest margin.

For the year ended December 31, 2013, net interest income on a tax-equivalent basis amounted to $40,848 compared with $38,599 in 2012, representing an increase of $2,249, or 5.8%. As more fully discussed below, the increase in 2013 tax-equivalent net interest income compared with 2012 was attributed to average earning asset growth of $99,321 or 8.3%, as the net interest margin remained declined eight basis points.

Factors contributing to the changes in net interest income and the net interest margin are further enumerated in the following discussion and analysis.

Net Interest Income Analysis: The following tables summarize the Company s daily average balance sheets and the components of net interest income, including a reconciliation of tax-equivalent adjustments, for the years ended December 31, 2014, 2013 and 2012:

AVERAGE BALANCE SHEET AND

ANALYSIS OF NET INTEREST INCOME

For The Year Ended December 31, 2014

	Average Balance	Interest	Weighted Average Rate
Interest Earning Assets:			
Loans (1,3)	$ 881,389	$37,982	4.31%
Securities (2,3)	470,192	17,331	3.69%
Federal Home Loan Bank stock	20,219	290	1.43%
Total Earning Assets	1,371,800	55,603	4.05%
Non-Interest Earning Assets:			
Cash and due from banks	4,204		
Allowance for loan losses	(8,753)		
Other assets (2)	56,958		
Total Assets	$1,424,209		
Interest Bearing Liabilities:			
Deposits	$ 801,224	$ 5,894	0.74%
Borrowings	406,744	4,011	0.99%
Total Interest Bearing Liabilities	1,207,968	9,905	0.82%
Rate Spread			3.23%
Non-Interest Bearing Liabilities:			
Demand and other non-interest bearing deposits	72,706		
Other liabilities	6,863		
Total Liabilities	1,287,537		
Shareholders' equity	136,672		
Total Liabilities and Shareholders' Equity	$1,424,209		
Net interest income and net interest margin (3)		45,698	3.33%
Less: Tax Equivalent adjustment		(1,885)	
Net Interest Income		$43,813	3.19%

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available-for-sale securities are recorded in other assets.

(3) For purposes of these computations, reported on a tax-equivalent basis calculated using a tax rate of 34%.

AVERAGE BALANCE SHEET AND

ANALYSIS OF NET INTEREST INCOME

For the year ended December 31, 2013

	Average Balance	Interest	Weighted Average Rate
Interest Earning Assets:			
Loans (1,3)	$ 839,010	$37,460	4.46%
Securities (2,3)	438,893	14,982	3.41%
Federal Home Loan Bank stock	18,217	69	0.38%
Fed funds sold, money market funds, and time deposits with other banks	1	---	0.00%
Total Earning Assets	1,296,121	52,511	4.05%
Non-Interest Earning Assets:			

Cash and due from banks	3,607		
Allowance for loan losses	(8,334)		
Other assets (2)	53,959		
Total Assets	$1,345,353		
Interest Bearing Liabilities:			
Deposits	$ 766,096	$ 6,616	0.86%
Borrowings	376,305	5,047	1.34%
Total Interest Bearing Liabilities	1,142,401	11,663	1.02%
Rate Spread			3.03%
Non-Interest Bearing Liabilities:			
Demand and other non-interest bearing deposits	70,978		
Other liabilities	6,634		
Total Liabilities	1,220,013		
Shareholders' equity	125,340		
Total Liabilities and Shareholders' Equity	$1,345,353		
Net interest income and net interest margin (3)		40,848	3.15%
Less: Tax-equivalent adjustment (3)		(1,762)	
Net Interest Income		$39,086	3.02%

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available-for-sale securities are recorded in other assets.

(3) For purposes of these computations, reported on a tax-equivalent basis calculated using a tax rate of 34%.

AVERAGE BALANCE SHEET AND

ANALYSIS OF NET INTEREST INCOME

For the year ended December 31, 2012

	Average Balance	Interest	Weighted Average Rate
Interest Earning Assets:			
Loans (1,3)	$ 779,800	$36,802	4.72%
Securities (2,3)	399,601	15,578	3.90%
Federal Home Loan Bank stock	17,366	86	0.50%
Fed funds sold, money market funds, and time deposits with other banks	33	---	0.00%
Total Earning Assets	1,196,800	52,466	4.38%
Non-Interest Earning Assets:			
Cash and due from banks	3,221		
Allowance for loan losses	(8,404)		
Other assets (2)	60,773		
Total Assets	$1,252,390		
Interest Bearing Liabilities:			
Deposits	$ 697,641	$ 7,707	1.10%
Borrowings	354,757	6,160	1.74%
Total Interest Bearing Liabilities	1,052,398	13,867	1.32%
Rate Spread			3.06%
Non-Interest Bearing Liabilities:			
Demand and other non-interest bearing deposits	67,900		
Other liabilities	6,492		
Total Liabilities	1,126,790		
Shareholders' equity	125,600		
Total Liabilities and Shareholders' Equity	$1,252,390		
Net interest income and net interest margin (3)		38,599	3.23%
Less: Tax-equivalent adjustment (3)		(1,628)	
Net Interest Income		$36,971	3.09%

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available-for-sale securities are recorded in other assets.

(3) For purposes of these computations, reported on a tax-equivalent basis calculated using a tax rate of 34%.

Net Interest Margin*:* The net interest margin, expressed on a tax-equivalent basis, represents the difference between interest and dividends earned on interest-earning assets and interest paid to depositors and other creditors, expressed as a percentage of average earning assets.

The net interest margin is determined by dividing tax-equivalent net interest income by average interest-earning assets. The interest rate spread represents the difference between the average tax-equivalent yield earned on interest earning-assets and the average rate paid on interest bearing liabilities. The net interest margin is generally higher than the interest rate spread due to the additional income earned on those assets funded by non-interest bearing liabilities, primarily demand deposits and shareholders equity.

Recent data suggests the U.S. economy continues to slowly emerge from a deep recession, which was driven by sharp downturns in the nationwide housing and credit markets, followed by multi-decade high unemployment rates and diminished consumer confidence and spending. In 2008, the Board of Governors of the Federal Reserve System addressed the economic decline with changes in its monetary policy by reducing the Federal Funds rate from 4.25% to a range of 0% to 0.25%, where it stayed all the way through 2014. These actions have put considerable pressure on the Bank s net interest margin.

During 2012, long-term interest rates again declined to historic levels with the 10-year U.S. Treasury closing as low as 1.39%. While the 2012 interest rate environment pressured a further decline in earning asset yields, the Bank was able to offset this decline by lowering the cost of its interest bearing deposits and borrowings, resulting in a stable net interest margin compared with 2011.

In 2013, long-term interest rates increased, with the ten-year U.S. Treasury surpassing 3.00% during the second half of the year. While this increase helped strengthen the net interest margin in the third and fourth quarters of 2013, the Bank s full year 2013 net interest margin declined eight basis points compared with 2012, as the yield on earning assets declined more than the cost of interest bearing liabilities. In 2014, the higher long-term interest rate environment benefited the Bank s earning asset yields, which remained unchanged compared with 2013. Similarly, the extended period of short-term interest rates during 2014 benefited the cost of interest bearing liabilities, which declined twenty basis points.

The foregoing trends are discussed in more detail below.

The following table summarizes the net interest margin components, on a quarterly basis, over the past two years. Factors contributing to the changes in the net interest margin are enumerated in the following discussion and analysis.

NET INTEREST MARGIN ANALYSIS

WEIGHTED AVERAGE RATES	**2014**				**2013**			
Quarter:	**4**	**3**	**2**	**1**	**4**	**3**	**2**	**1**
Interest Earning Assets:								
Loans (1,3)	4.19%	4.44%	4.26%	4.35%	4.33%	4.39%	4.55%	4.59%
Securities (2,3)	3.74%	3.50%	3.77%	3.75%	3.61%	3.33%	3.25%	3.45%
Federal Home Loan Bank stock	1.50%	1.32%	1.43%	1.49%	0.37%	0.39%	0.27%	0.49%
Fed Funds sold, money market funds, and time deposits with other banks	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Earning Assets	4.00%	4.08%	4.05%	4.10%	4.03%	3.97%	4.06%	4.16%
Interest Bearing Liabilities:								
Deposits	0.75%	0.73%	0.73%	0.73%	0.82%	0.82%	0.86%	0.96%
Borrowings	0.96%	0.89%	0.99%	1.12%	1.15%	1.27%	1.50%	1.46%
Total Interest Bearing Liabilities	0.82%	0.79%	0.82%	0.85%	0.93%	0.97%	1.06%	1.14%
Rate Spread	3.18%	3.29%	3.23%	3.25%	3.10%	3.00%	3.00%	3.02%
Net Interest Margin (3)	3.28%	3.38%	3.32%	3.34%	3.21%	3.12%	3.12%	3.15%
Net Interest Margin without Tax Equivalent Adjustments	3.15%	3.25%	3.18%	3.20%	3.07%	2.98%	2.99%	3.02%

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available-for-sale securities are recorded in other assets.

(3) For purposes of these computations, reported on a tax-equivalent basis calculated using a tax rate of 34%.

For the year ended December 31, 2014, the tax equivalent net interest margin amounted to 3.33%, compared with 3.15% in 2013, representing an increase of eighteen basis points. The increase in the net interest margin was attributed to a twenty basis point decline in the weighted average cost of interest bearing liabilities, as the weighted average yield on earning assets remained unchanged at 4.05%. While the weighted average yield on loans declined fifteen basis points to 4.31%, this decline was offset by a twenty-eight basis point increase in the weighted average yield on securities to 3.69%.

The 2014 decline in the cost of interest bearing liabilities was largely attributed to higher cost, maturing time deposits and borrowings being replaced at significantly lower interest rates. The decline in the 2014 weighted average loan yield was attributed to the replacement of cash flows from the loan portfolio as well as new loan originations during a period of historically low interest rates. The 2014 increase in the weighted average securities yield was principally attributed to increases in long-term interest rates and slowing mortgage refinance activity over this past fiscal year, causing a slowing of prepayment speeds and purchase premium amortization and higher book yields compared with 2013. Company management believes future prepayment speeds and purchase premium amortization will largely be dependent on policy decisions by the Federal Reserve and the pace of the economic recovery.

For the year ended December 31, 2013, the tax equivalent net interest margin amounted to 3.15%, compared with 3.23% in 2012, representing a decline of eight basis points. The weighted average yield on average earning assets amounted to 4.05% in 2013, compared with 4.38% in 2012, representing a decline of 33 basis points. The weighted average cost of interest bearing liabilities amounted to 1.02% in 2013, compared with 1.32% in 2012, representing a decline of 30 basis points. To summarize, comparing 2013 with 2012, the decline in the Bank s weighted average yield on its earning asset portfolios exceeded the decline in its weighted average cost of interest bearing liabilities by three basis points. This resulted in an eight basis point decline in the Bank s 2013 net interest margin and a three basis point decline in the Bank s rate spread, principally reflecting the volume of lower yielding earning assets added to the balance sheet during the year.

The 2013 decline in earning asset yields was principally attributed to the replacement of accelerated cash flows from the securities and loan portfolios, as well as the origination of new loans and the purchase of securities, during a period of historically low interest rates. The 2013 decline in the cost of interest bearing liabilities was largely attributed to higher cost, maturing time deposits and borrowings being replaced at significantly lower interest rates. While the Bank was able to continue lowering the rates on many of its core deposit products during 2012 while remaining competitive in the markets served by the Bank, such opportunities subsided during 2013.

Interest and Dividend Income: For the year ended December 31, 2014, total interest and dividend income on a tax-equivalent basis amounted to $55,603, compared with $52,511 in 2013, representing an increase of $3,092, or 5.9%. The increase in interest and dividend income was attributed to average earning growth of $75,679 or 5.8%, as the weighted average earning asset yield remained unchanged at 4.05%.

For the year ended December 31, 2014, tax-equivalent interest income from the securities portfolio amounted to $17,331, compared with $14,982 in 2013, representing an increase of $2,349 or 15.7%. This increase was principally attributed to the previously discussed twenty-eight basis point increase in the weighted average securities yield to 3.69%, combined with a $31,299 or 7.1% increase in total average securities.

For the year ended December 31, 2014, tax-equivalent interest income from the loan portfolio amounted to $37,982, compared with $37,460 in 2013, representing an increase of $522, or 1.4%. This increase was attributed to average loan portfolio growth of $42,379 or 5.1%, as the previously discussed weighted average loan yield declined fifteen basis points to 4.31%.

As depicted on the rate/volume analysis table below, comparing 2014 with 2013, the impact of the increased volume of total average earning assets contributed $2,967, or 96.0%, to the increase in total tax-equivalent interest income.

For the year ended December 31, 2013, total interest and dividend income on a tax-equivalent basis amounted to $52,511, compared with $52,466 in 2012, representing an increase of $45, or 0.1%. The increase in interest and dividend income was attributed to average earning growth of $99,321 or 8.3%, which was almost entirely offset by a 33 basis point decline in the weighted average earning asset yield.

For the year ended December 31, 2013, tax-equivalent interest income from the securities portfolio amounted to $14,982, compared with $15,578 in 2012, representing a decline of $596 or 3.8%. This decline was principally attributed to a 49 basis point decline in the weighted average securities yield to 3.41%, partially offset by a $39,292 or 9.8% increase in total average securities. The decline in the weighted average securities yield was principally attributed to the ongoing replacement of MBS cash flows in a historically low interest rate environment combined with incremental securities purchases at prevailing low market yields. Accelerated cash flows were principally attributed to increased securitized loan refinancing activity driven by historically low interest rates, a variety of government stimulus programs, quantitative easing efforts by the Federal Reserve, as well as continuing credit defaults.

For the year ended December 31, 2013, tax-equivalent interest income from the loan portfolio amounted to $37,460, compared with $36,802 in 2012, representing an increase of $658, or 1.8%. This increase was principally attributed to average loan portfolio growth of $59,210 or 7.6%, as the weighted average loan yield declined 26 basis points to 4.46%. The decline in yield principally reflected the origination and competitive re-pricing of certain commercial loans, as well as an elevated level of residential mortgage loan refinancing activity during a period of historically low interest rates.

As depicted on the rate/volume analysis table below, comparing 2013 with 2012, the impact of the increased volume of total average earning assets contributed $4,332 to the increase in total tax-equivalent interest income, but this increase was almost entirely offset by a $4,287 decline attributed to the lower weighted average earning asset yield.

Interest Expense: For the year ended December 31, 2014, total interest expense amounted to $9,905, compared with $11,663 in 2013, representing a decline of $1,758, or 15.1%. This decline was principally attributed to a twenty basis point decline in the weighted average interest rate paid on interest bearing liabilities to 0.82%, offset in part by a $65,567 or 5.7% increase in average interest bearing liabilities.

The 2014 decline in the average cost of interest bearing liabilities was principally attributed to prevailing, historically low short-term and long-term market interest rates, with maturing time deposits and borrowings being added or replaced at a lower cost and other interest bearing deposits re-pricing into the lower interest rate environment. The weighted average cost of interest bearing deposits declined twelve basis points in 2014 to 0.74%, while the weighted average cost of borrowings declined thirty-five basis points to 0.99%, principally reflecting the maturity of higher cost, long-term borrowings that were replaced in a historically low interest rate environment.

As depicted on the rate/volume analysis table below, the impact of the lower weighted average rate paid on interest bearing liabilities contributed $2,470 to the 2014 decline in interest expense, offset in part by $712 attributed to the increased volume of interest bearing liabilities.

For the year ended December 31, 2013, total interest expense amounted to $11,663, compared with $13,867 in 2012, representing a decline of $2,204, or 15.9%. This decline was principally attributed to a 30 basis point decline in the weighted average interest rate paid on interest bearing liabilities to 1.02%, offset in part by a $90,003 or 8.6% increase in average interest bearing liabilities.

The 2013 decline in the average cost of interest bearing liabilities was principally attributed to prevailing, historically low short-term and long-term market interest rates, with maturing time deposits and borrowings being added or replaced at a lower cost and other interest bearing deposits re-pricing into the lower interest rate environment. The weighted average cost of interest bearing deposits declined 24 basis points in 2013 to 0.86%, while the weighted average cost of borrowings declined 40 basis points to 1.34%, principally reflecting the maturity of higher cost, long-term borrowings that were replaced in a historically low interest rate environment.

As depicted on the rate/volume analysis table below, the impact of the lower weighted average rate paid on interest bearing liabilities contributed $3,336 to the 2013 decline in interest expense, offset in part by $1,132 attributed to the increased volume of interest bearing liabilities.

Rate/Volume Analysis: The following tables set forth a summary analysis of the relative impact on net interest income of changes in the average volume of interest earning assets and interest bearing liabilities, and changes in average rates on such assets and liabilities. The income from tax-exempt assets has been adjusted to a fully tax-equivalent basis, thereby allowing uniform comparisons to be made. Because of the numerous simultaneous volume and rate changes during the periods analyzed, it is not possible to precisely allocate changes to volume or rate. For presentation purposes, changes which are not solely due to volume changes or rate changes have been allocated to these categories in proportion to the relationships of the absolute dollar amounts of the change in each.

ANALYSIS OF VOLUME AND RATE CHANGES ON NET INTEREST INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

INCREASES (DECREASES) DUE TO:

	Average Volume	**Average Rate**	**Total Change**
Loans (1,3)	$1,890	$(1,368)	$ 522
Securities (2,3)	1,069	1,280	2,349
Federal Home Loan Bank stock	8	213	221
Fed funds sold, money market funds, and time deposits with other banks	---	---	---
TOTAL EARNING ASSETS	$2,967	$ 125	$ 3,092
Interest bearing deposits	303	(1,025)	(722)
Borrowings	409	(1,445)	(1,036)
TOTAL INTEREST BEARING LIABILITIES	$ 712	$(2,470)	$(1,758)
NET CHANGE IN NET INTEREST INCOME	$2,255	$ 2,595	$ 4,850

ANALYSIS OF VOLUME AND RATE CHANGES ON NET INTEREST INCOME

FOR THE YEAR ENDED DECEMBER 31, 2013 VERSUS 2012

INCREASES (DECREASES) DUE TO:

	Average Volume	**Average Rate**	**Total Change**
Loans (1,3)	$2,789	$(2,131)	$ 658
Securities (2,3)	1,539	(2,135)	(596)
Federal Home Loan Bank stock	4	(21)	(17)
Fed funds sold, money market funds, and time deposits with other banks	---	---	---
TOTAL EARNING ASSETS	$4,332	$(4,287)	$ 45
Interest bearing deposits	758	(1,849)	(1,091)
Borrowings	374	(1,487)	(1,113)
TOTAL INTEREST BEARING LIABILITIES	$1,132	$(3,336)	$(2,204)
NET CHANGE IN NET INTEREST INCOME	$3,200	$ (951)	$ 2,249

(1) For purposes of these computations, non-accrual loans are included in average loans.

(2) For purposes of these computations, unrealized gains (losses) on available-for-sale securities are recorded in other assets.

(3) For purposes of these computations, reported on a tax-equivalent basis calculated using a tax rate of 34%.

Provision for Loan Losses

The provision for loan losses (the provision) reflects the amount necessary to maintain the allowance for loan losses (the allowance) at a level that, in management s judgment, is appropriate for the amount of inherent risk of probable loss in the Bank s current loan portfolio.

For the year ended December 31, 2014, the Bank recorded a provision for loan losses of $1,833, compared with $1,418 in 2013, representing an increase of $415, or 29.3%. The increase in the provision largely reflected elevated levels of loan loss experience and, to a lesser extent, increases in non-performing and other potential problem loans.

For the year ended December 31, 2013, the Bank recorded a provision for loan losses of $1,418, compared with $1,652 in 2012, representing a decline of $234, or 14.2%. The decline in the provision largely reflected stable credit quality metrics, improved loan loss experience and lower levels of non-performing loans.

Refer to Part II, Item 7, *Non-performing Loans, Potential Problem Loans and the Allowance for Loan Losses,* in this Annual Report on Form 10-K for further discussion and analysis related to the provision for loan losses.

Non-interest Income

In addition to net interest income, non-interest income is a significant source of revenue for the Company and an important factor in its results of operations. In 2014, non-interest income represented 15.0% of total net interest income and non-interest income, compared with 16.2% and 17.3% in 2013 and 2012, respectively.

For the year ended December 31, 2014, total non-interest income amounted to $7,758, compared with $7,566 in 2013, representing an increase of $192, or 2.5%.

For the year ended December 31, 2013, total non-interest income amounted to $7,566, compared with $7,709 in 2012, representing a decline of $143, or 1.9%.

Factors contributing to the 2014 and 2013 changes in non-interest income are enumerated in the following discussion and analysis:

Trust and Financial Services Income: Income from trust and financial services represented 51.3% of the Company s total non-interest income in 2014, compared with 48.0% and 42.5% in 2013 and 2012, respectively. Income from trust and financial services is principally derived from fee income based on a percentage of the fair market value of client assets under management and held in custody and, to a lesser extent, revenue from brokerage services conducted through Bar Harbor Financial Services, an independent third-party broker.

For the year ended December 31, 2014, income from trust and other financial services amounted to $3,976, compared with $3,634, and $3,278 in 2013 and 2012, representing increases of $342 and $356, or 9.4% and 10.9%, respectively. These increases were attributed to higher levels of revenue from retail brokerage activities, as well as increases in the fair value of assets under management.

At December 31, 2014, total assets under management stood at $394,949, compared with $387,633 and $355,461 at December 31, 2013 and 2012, representing increases of $7,316 and $32,172, or 1.9% and 9.1%, respectively.

Service Charges on Deposit Accounts: This income is principally derived from overdraft fees, monthly deposit account maintenance and activity fees, automated teller machine (ATM) fees and a variety of other deposit account related fees. Income from service charges on deposit accounts represented 14.8% of total 2014 non-interest income, compared with 16.5% and 15.5% in 2013 and 2012, respectively.

For the year ended December 31, 2014, income generated from service charges on deposit accounts amounted to $1,151, compared with $1,248 in 2013, representing a decline of $97, or 7.8%. The Bank has not been aggressive in selling its fee based overdraft products as a cautionary measure in light of continued regulatory pressure on the banking industry including the Consumer Financial Protection Bureau, which was established by the Wall Street Reform and Consumer Protection Act (the Dodd Frank Act).

For the year ended December 31, 2013, income generated from service charges on deposit accounts amounted to $1,248, compared with $1,196 in 2012, representing an increase of $52, or 4.3%. This increase was principally attributed to customer overdraft charge increases instituted in the third quarter of 2012, as the level of customer overdraft activity was essentially unchanged compared with 2012.

Credit and Debit Card Service Charges and Fees: This income is principally derived from the Bank s Visa debit card product, merchant credit card processing fees and fees associated with Visa credit cards. Income from credit and debit card service charges and fees represented 20.4% of total 2014 non-interest income, compared with 20.8% and 19.0% in 2013 and 2012, respectively.

For the year ended December 31, 2014, credit and debit card service charges and fees amounted to $1,584, compared with $1,572 in 2013, representing an increase of $12, or 0.8%. Included in prior periods credit and debit card income, were annual payments of $192 received from the Bank s merchant payment processing provider pursuant to a 2008 Referral and Sales Agreement, at which time the Bank sold its merchant credit card processing portfolio. This agreement expired in the fourth quarter of 2013.

For the year ended December 31, 2013, credit and debit card service charges and fees amounted to $1,572, compared with $1,462 in 2012, representing an increase of $110, or 7.5%. This increase was principally attributed to continued growth of the Bank s retail deposit base, higher levels of merchant credit card processing volumes, and continued success with a program that offers rewards for certain debit card transactions.

Net Securities Gains: For the year ended December 31, 2014, total net securities gains amounted to $403, compared with $676 in 2013, representing a decline of $273, or 40.4%. The net realized securities gains recorded during 2014 were comprised of realized gains of $809, offset by realized losses of $406. The realized losses on the sale of securities reflected the Bank s efforts to lower the duration of the securities portfolio and its overall interest rate risk profile.

For the year ended December 31, 2013, total net securities gains amounted to $676, compared with $1,938 in 2012, representing a decline of $1,262, or 65.1%. The net realized securities gains recorded during 2013 were comprised of realized gains of $684, offset by realized losses of $8.

Further information regarding securities gains and losses and OTTI losses is incorporated by reference to Part II, Item 8, Notes 1 and 4 of the Consolidated Financial Statements in this Annual Report on Form 10-K.

Net OTTI Losses Recognized in Earnings: For the year ended December 31, 2014 there were no OTTI losses recognized in earnings compared with $249 and $853 in 2013 and 2012, respectively. During 2013 and 2012 the Company determined that certain available-for-sale, private-label mortgage-backed securities were other-than-temporarily impaired, because the Company could no longer conclude that it was probable it would recover all of the principal and interest on these securities. The decline in 2013 credit losses principally reflected stabilizing loss severity and constant default rates of the underlying residential mortgage loan collateral, resulting from stabilizing real estate values, foreclosure and collateral liquidation timelines, and general economic conditions.

The OTTI losses recorded in 2013 and 2012 related to fourteen, available for sale, private-label MBS, all but two of which the Company had previously determined to be other-than-temporarily impaired. These OTTI losses represented management s best estimate of credit losses or additional credit losses on the residential mortgage loan collateral underlying these securities. The estimated 2013 and 2012 credit losses were previously recorded, net of taxes, in unrealized gains or losses on securities available for sale within accumulated other comprehensive income or loss, a component of total shareholders equity on the Company s consolidated balance sheet.

Further information regarding impaired securities, other-than-temporarily impaired securities and evaluation of securities for impairment is incorporated by reference to Part II, Item 8, Notes 1 and 4 of the Consolidated Financial Statements in this Annual Report on Form 10-K.

Other Operating Income: Other operating income principally includes income from bank-owned life insurance, representing increases in the cash surrender value of life insurance policies on the lives of certain retired employees who had provided positive consent allowing the Bank to be the beneficiary of such policies. Other operating income also includes a variety of miscellaneous service charges and fees. Other operating income represented 8.3% of total 2014 non-interest income, compared with 9.1% and 8.9% in 2013 and 2012, respectively.

For the year ended December 31, 2014, total other operating income amounted to $644, compared with $685 and $688 in 2013 and 2012, representing declines of $41 and $3, or 6.0% and 0.4%, respectively.

Non-interest Expense

For the year ended December 31, 2014, total non interest expense amounted to $29,211, compared with $26,860 and $25,618 in 2013 and 2012, representing increases of $2,351 and $1,242, or 8.8% and 4.8%, respectively.

Factors contributing to the changes in non-interest expense are enumerated in the following discussion and analysis.

Salaries and Employee Benefits: For the year ended December 31, 2014, total salaries and employee benefits expense amounted to $16,836, compared with $15,227 in 2013, representing an increase of $1,609, or 10.6%. The increase in salaries and employee benefits was attributed to a variety of factors including normal increases in base salaries, higher levels of employee incentive compensation, higher levels of employee health insurance as well as increases in staffing levels and strategic changes in staffing mix. The increases in salaries and employee benefits were also attributed to lower levels of deferred loan origination costs, which for 2014 were down $166, compared with 2013.

For the year ended December 31, 2013, total salaries and employee benefit expenses amounted to $15,227, compared with $14,027 in 2012, representing an increase of $1,200, or 8.6%. This increase was attributed to a variety of factors including normal increases in base salaries, higher levels of employee incentive compensation, higher levels of employee health insurance, as well as strategic changes in staffing levels and mix. The increase in salaries and benefits also reflected the Bank s acquisition of three branch offices in the third quarter of 2012.

Occupancy Expense: For the year ended December 31, 2014, total occupancy expense amounted to $2,143, compared with $1,968 in 2013, representing an increase of $175, or 8.9%. This increase was largely attributed to higher levels of building improvement expenses, as well as higher levels of utilities expense and grounds maintenance, including snow removal early in 2014.

For the year ended December 31, 2013, total occupancy expense amounted to $1,968, compared with $1,682 in 2012, representing an increase of $286, or 17.0%. This increase was largely attributed to the acquisition of three branch offices in the third quarter of 2012, two of which are leased properties. The increase in occupancy expense was also attributed to the Bank s substantial reconfiguration of its Ellsworth campus, including the replacement of its retail banking office, which was put in service in the third quarter of 2012.

Furniture and Equipment Expense: For the year ended December 31, 2014, total furniture and equipment expense amounted to $2,166, compared with $2,005 and $1,778 in 2013 and 2012, representing increases of $161 and $227, or 8.0% and 12.8%, respectively. The 2014 and 2013 increases in furniture and equipment expense were largely attributed to a variety of technology upgrades and new technology systems and applications. These increases were also attributed to the acquisition of three branch offices from Border Trust in the third quarter of 2012, as well as the replacement of the Bank s Ellsworth retail banking office.

Debit Card Expenses: These expenses relate to the Bank s Visa debit card processing activities. For the year ended December 31, 2014, total debit card expense amounted to $429, compared with $384 and $367 in 2013 and 2012, representing increases of $45 and $17, or 11.7% and 4.6%, respectively. These increases were principally attributed to higher transaction volumes and were more than offset with higher revenues from debit card activity.

FDIC Insurance Assessments: For the year ended December 31, 2014, FDIC assessments amounted to $699, compared with $696 in 2013, representing an increase of $3, or 0.4%.

For the year ended December 31, 2013, FDIC assessments amounted to $696, compared with $853 in 2012, representing a decline of $157, or 18.4%. This decline was largely attributed to a new assessment formula, whereby deposit insurance premiums are principally based on asset size and risk profiles rather than insurable deposits.

Other Operating Expense: For the year ended December 31, 2014, total other operating expenses amounted to $6,938, compared with $6,580 in 2013, representing an increase of $358, or 5.4%. . These increases were principally attributed to higher levels of loan collection and other real estate owned expenses.

For the year ended December 31, 2013, total other operating expenses amounted to $6,580, compared with $6,911 in 2012, representing a decline of $331, or 4.8%. The decline in 2013 other operating expenses was principally attributed to certain non-recurring branch acquisition expenses in connection with the 2012 Border Trust transaction, as well as lower levels of loan collection and other real estate owned expenses compared with 2012.

Income Taxes

For the year ended December 31, 2014, total income taxes amounted to $5,914, compared with $5,191 and $4,944, in 2013 and 2012, representing increases of $723 and $247, or 13.9% and 5.0%, respectively.

The Company s 2013 effective income tax rate amounted to 28.8%, compared with 28.3% and 28.4% in 2013 and 2012, respectively. The income tax provisions for these periods were less than the expense that would result from applying the federal statutory rate of 35% to income before income taxes, principally because of the impact of tax-exempt income from certain investment securities, loans and bank owned life insurance.

Fluctuations in the Company s effective tax rate are generally attributed to changes in the relationship between non-taxable income and non-deductible expense, and income before income taxes, during any given reporting period.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and the accompanying Notes to the Consolidated Financial Statements presented elsewhere in this report have been prepared in accordance with U.S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike many industrial companies, substantially all of the assets and virtually all of the liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company s performance than the general level of inflation. Over short periods of time, interest rates and the U.S. Treasury yield curve may not necessarily move in the same direction or in the same magnitude as inflation.

While the financial nature of the Company s consolidated balance sheets and statements of income is more clearly affected by changes in interest rates than by inflation, inflation does affect the Company because as prices increase the money supply tends to increase, the size of loans requested tends to increase, total Company assets increase, and interest rates are affected by inflationary expectations. In addition, operating expenses tend to increase without a corresponding increase in productivity. There is no precise method, however, to measure the effect of inflation on the Company s financial statements. Accordingly, any examination or analysis of the financial statements should take into consideration the possible effects of inflation.

Recent Accounting Developments

The following information presents a summary of Accounting Standards Updates (ASU s) that were recently adopted by the Company, as well as those that will be subject to implementation in future periods.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606): Revenue from Contracts with Customers (ASU 2014-09).* The scope of the guidance applies to revenue arising from contracts with customers, except for the following: lease contracts, insurance contracts, contractual rights and obligations within the scope of other guidance and nonmonetary exchanges between entities in the same line of business to facilitate sales to customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration that the entity receives or expects to receive. ASU 2014-09 is not expected to impact the timing or approach to revenue recognition for financial institutions. The likely impact for financial institutions will relate only to disclosures. The amendments are effective for public entities for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company does not expect the adoption of ASU 2014-09 to have a material impact on its financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This update affects creditors that hold government-guaranteed mortgage loans, including those guaranteed by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD), and the U.S. Department of Veterans Affairs (VA). The update requires that, upon foreclosure, a guaranteed mortgage loan be derecognized and a separate other receivable be recognized when specific criteria are met. ASU 2014-14 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this guidance did not have a significant impact on the Company's financial statements.

ASU 2014-11, *Transfer and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This update aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements by accounting for these transactions as secured borrowings. This update also requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return of the transferred financial assets throughout the term of the transaction. ASU 2014-11 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is not permitted. The adoption of this guidance did not have a significant impact on the Company's financial statements.

ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40),* In January 2014, the FASB issued ASU 2014-04, which clarifies when an in-substance repossession or foreclosure has occurred and the creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan either when legal title to the residential real estate property is obtained upon completion of a foreclosure or when the borrower has conveyed all interest in the residential real property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar arrangement. The ASU also requires disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of these provisions did not have a significant impact on the Company s financial statements.

ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which amends ASC 740, Income Taxes*. The amendments provide guidance on the financial statement presentation of an unrecognized tax benefit, as either a reduction of a deferred tax asset or as a liability, when a net operating loss carry-forward, similar tax loss, or a tax credit carryforward exists. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and may be applied on either a prospective or retrospective basis. The adoption of these provisions did not have a significant impact on the Company s consolidated financial statements.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk do not arise in the normal course of the Company s business activities.

The responsibility for interest rate risk management oversight resides with the Bank s Senior Executive Team (SET). The SET meets regularly to revie