CAMDEN NATIONAL CORP
Form 10-Q
November 04, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____to _____

Commission File No. 0-28190

CAMDEN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

MAINE (State or other jurisdiction of incorporation or organization)	01-0413282 (I.R.S. Employer Identification No.)
2 ELM STREET, CAMDEN, ME (Address of principal executive offices)	04843 (Zip Code)

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

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

Yes x No ¨

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

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:
Outstanding at November 1, 2011: Common stock (no par value) 7,691,508 shares.

CAMDEN NATIONAL CORPORATION

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011
TABLE OF CONTENTS OF INFORMATION REQUIRED IN REPORT

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors
Camden National Corporation

We have reviewed the accompanying interim consolidated financial information of Camden National Corporation and Subsidiaries as of September 30, 2011, and for the three-month and nine-month periods ended September 30, 2011 and 2010. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Berry Dunn McNeil & Parker, LLC
Berry Dunn McNeil & Parker, LLC

Bangor, Maine
November 4, 2011

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION

(In Thousands, Except Number of Shares)	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$ 89,266	$ 31,009
Securities		
Securities available-for-sale, at fair value	591,955	553,579
Securities held-to-maturity, at amortized cost (fair value $38,037 at December 31, 2010)	—	36,102
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	21,962	21,962
Total securities	613,917	611,643
Trading account assets	2,162	2,304
Loans held for sale	762	5,528
Loans	1,512,312	1,524,752
Less allowance for loan losses	(23,011)	(22,293)
Net loans	1,489,301	1,502,459
Goodwill and other intangible assets	45,389	45,821
Bank-owned life insurance	44,019	43,155
Premises and equipment, net	23,970	25,044
Deferred tax asset	11,341	12,281
Interest receivable	6,519	6,875
Prepaid FDIC assessment	5,088	6,155
Other real estate owned	1,759	2,387
Other assets	13,223	11,346
Total assets	$ 2,346,716	$ 2,306,007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Demand	$ 278,900	$ 229,547
Interest checking, savings and money market	823,349	721,905
Retail certificates of deposit	417,456	464,662
Brokered deposits	121,552	99,697
Total deposits	1,641,257	1,515,811
Federal Home Loan Bank advances	126,953	214,236
Other borrowed funds	279,033	302,069
Junior subordinated debentures	43,691	43,614
Accrued interest and other liabilities	33,843	24,282
Total liabilities	2,124,777	2,100,012
Shareholders' Equity		
Common stock, no par value; authorized 20,000,000 shares, issued and outstanding 7,678,143 and 7,658,496 shares on September 30, 2011 and December 31, 2010, respectively	51,375	50,936
Retained earnings	165,300	150,730
Accumulated other comprehensive income (loss)		
Net unrealized gains on securities available-for-sale, net of tax	13,485	6,229

Net unrealized losses on derivative instruments, at fair value, net of tax	(7,072)	(709)
Net unrecognized losses on postretirement plans, net of tax	(1,149)	(1,191)
Total accumulated other comprehensive income	5,264	4,329
Total shareholders' equity	221,939	205,995
Total liabilities and shareholders' equity	$ 2,346,716	$ 2,306,007

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Number of Shares and per Share Data)	2011	2010	2011	2010
Interest Income				
Interest and fees on loans	$19,515	$20,685	$59,241	$61,725
Interest on U.S. government and sponsored enterprise obligations	4,439	5,037	14,241	15,366
Interest on state and political subdivision obligations	387	528	1,284	1,601
Interest on federal funds sold and other investments	45	28	125	84
Total interest income	24,386	26,278	74,891	78,776
Interest Expense				
Interest on deposits	2,842	3,734	8,820	11,812
Interest on borrowings	2,265	2,953	7,913	9,357
Interest on junior subordinated debentures	632	712	1,983	2,108
Total interest expense	5,739	7,399	18,122	23,277
Net interest income	18,647	18,879	56,769	55,499
Provision for credit losses	1,182	1,291	3,271	5,237
Net interest income after provision for credit losses	17,465	17,588	53,498	50,262
Non-Interest Income				
Income from fiduciary services	1,517	1,618	4,503	4,697
Service charges on deposit accounts	1,296	1,151	3,879	3,716
Other service charges and fees	878	945	2,691	2,507
Bank-owned life insurance	910	401	1,784	1,119
Brokerage and insurance commissions	307	419	1,050	1,065
Mortgage banking income	368	160	500	332
Net gain (loss) on sale of securities	177	(188)	197	(188)
Other income	433	2,331	1,433	2,765
Total non-interest income before other-than-temporary impairment of securities	5,886	6,837	16,037	16,013
Other-than-temporary impairment of securities	(61)	(38)	(88)	(217)
Total non-interest income	5,825	6,799	15,949	15,796
Non-Interest Expenses				
Salaries and employee benefits	7,437	6,949	21,402	19,472
Furniture, equipment and data processing	1,149	1,150	3,518	3,396
Net occupancy	944	899	2,960	2,830
Consulting and professional fees	601	591	2,143	1,929
Regulatory assessments	410	832	1,515	2,149
Other real estate owned and collection costs	517	636	1,423	2,768
Amortization of intangible assets	144	144	433	432
Other expenses	2,105	2,258	6,470	6,262
Total non-interest expenses	13,307	13,459	39,864	39,238
Income before income taxes	9,983	10,928	29,583	26,820
Income Taxes	3,054	3,487	9,245	8,480
Net Income	$6,929	$7,441	$20,338	$18,340

Per Share Data				
Basic earnings per share	$0.90	$0.97	$2.65	$2.40
Diluted earnings per share	$0.90	$0.97	$2.65	$2.39
Weighted average number of common shares outstanding	7,677,972	7,657,098	7,671,911	7,655,097
Diluted weighted average number of common shares outstanding	7,683,570	7,663,051	7,680,401	7,660,919

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(In Thousands, Except Number of Shares and per Share Data)	Common Stock Shares Outstanding	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2009	7,644,837	$50,062	$133,634	$ 6,865	$ 190,561
Net income	—	—	18,340	—	18,340
Other comprehensive income (loss), net of tax:					
Change in fair value of securities available-for-sale	—	—	—	3,734	3,734
Change in fair value of cash flow hedges	—	—	—	(3,375)	(3,375)
Change in net unrecognized losses on postretirement plans	—	—	—	24	24
Total comprehensive income	—	—	18,340	383	18,723
Stock-based compensation expense	—	623	—	—	623
Exercise of stock options and issuance of restricted stock	10,940	78	—	—	78
Common stock repurchased	(1,385)	—	(44)	—	(44)
Cash dividends declared ($0.75 per share)	—	—	(5,751)	—	(5,751)
Balance at September 30, 2010	7,654,392	$50,763	$146,179	$ 7,248	$ 204,190
Balance at December 31, 2010	7,658,496	$50,936	$150,730	$ 4,329	$ 205,995
Net income	—	—	20,338	—	20,338
Other comprehensive income (loss), net of tax:					
Change in fair value of securities available-for-sale	—	—	—	7,256	7,256
Change in fair value of cash flow hedges	—	—	—	(6,363)	(6,363)
Change in net unrecognized losses on postretirement plans	—	—	—	42	42
Total comprehensive income	—	—	20,338	935	21,273
Stock-based compensation expense	—	593	—	—	593
Exercise of stock options and issuance of restricted stock	27,782	118	—	—	118
Common stock repurchased	(8,135)	(272)	—	—	(272)
Cash dividends declared ($0.75 per share)	—	—	(5,768)	—	(5,768)
Balance at September 30, 2011	7,678,143	$51,375	$165,300	$ 5,264	$ 221,939

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(In Thousands)	Nine Months Ended September 30, 2011	2010
Operating Activities		
Net income	$ 20,338	$ 18,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,271	5,237
Depreciation and amortization	2,618	2,560
Stock-based compensation expense	593	623
Decrease (increase) in interest receivable	356	(101)
Amortization of intangible assets	433	432
Net decrease (increase) in trading assets	142	(448)
Net (gain) loss on sale of securities	(197)	188
Other-than-temporary impairment of securities	88	217
Increase in other real estate owned valuation allowance	188	21
Originations of mortgage loans held for sale	(11,848)	(4,690)
Proceeds from the sale of mortgage loans	16,817	2,234
Gain on sale of mortgage loans	(203)	(83)
Decrease in prepaid FDIC assessment	1,067	1,511
Increase in other assets	(5,660)	(4,391)
Increase (decrease) in other liabilities	3,238	(825)
Net cash provided by operating activities	31,241	20,825
Investing Activities		
Proceeds from maturities of securities held-to-maturity	251	1,130
Proceeds from sales and maturities of securities available-for-sale	133,416	121,929
Purchase of securities available-for-sale	(125,358)	(178,245)
Net decrease (increase) in loans	7,231	(13,858)
Recoveries on previously charged-off loans	865	653
Proceeds from the sale of other real estate owned	1,638	4,169
Proceeds from bank-owned life insurance	370	—
Purchase of premises and equipment	(722)	(1,736)
Net cash provided (used) by investing activities	17,691	(65,958)
Financing Activities		
Net increase in deposits	125,449	86,432
Proceeds from Federal Home Loan Bank long-term advances	190,000	20,177
Repayments on Federal Home Loan Bank long-term advances	(277,265)	(65,489)
Net change in short-term Federal Home Loan Bank borrowings	(37,275)	(24,335)
Net increase in other borrowed funds	14,335	37,670
Common stock repurchase	(272)	(44)
Proceeds from exercise of stock options	118	78
Cash dividends paid on common stock	(5,765)	(5,746)
Net cash provided by financing activities	9,325	48,743
Net increase in cash and cash equivalents	58,257	3,610
Cash and cash equivalents at beginning of year	31,009	29,772
Cash and cash equivalents at end of period	$ 89,266	$ 33,382
Supplemental information		

Interest paid	$ 18,433	$ 23,777
Income taxes paid	8,340	9,860
Transfer from loans to other real estate owned	1,198	1,341

See Report of Independent Registered Public Accounting Firm.
The accompanying notes are an integral part of these consolidated financial statements.

CAMDEN NATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Tables Expressed in Thousands, Except Number of Shares and per Share Data)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for complete presentation of financial statements. In the opinion of management, the consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly the consolidated statements of condition of Camden National Corporation (the “Company”) as of September 30, 2011 and December 31, 2010, the consolidated statements of income for the three and nine months ended September 30, 2011 and 2010, the consolidated statements of changes in shareholders' equity for the nine months ended September 30, 2011 and 2010, and the consolidated statements of cash flows for the nine months ended September 30, 2011 and 2010. All significant intercompany transactions and balances are eliminated in consolidation. Certain items from the prior year were reclassified to conform to the current year presentation. The income reported for the three month and nine month periods ended September 30, 2011, is not necessarily indicative of the results that may be expected for the full year. The information in this report should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s December 31, 2010 Annual Report on Form 10-K.

NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share (“EPS”) excludes dilution and is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if certain securities or other contracts to issue common stock (such as stock options) were exercised or converted into additional common shares that would then share in the earnings of the Company. Diluted EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding for the year, plus an incremental number of common-equivalent shares computed using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share under the two-class method, as unvested share-based payment awards include the nonforfeitable right to receive dividends and therefore are considered participating securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income, as reported	$6,929	$7,441	$20,338	$18,340
Weighted-average common shares outstanding – basic	7,677,972	7,657,098	7,671,911	7,655,097
Dilutive effect of stock-based compensation	5,598	5,953	8,490	5,822
Weighted-average common and potential common shares – diluted	7,683,570	7,663,051	7,680,401	7,660,919
Basic earnings per share – common stock	$0.90	$0.97	$2.65	$2.40
Basic earnings per share – unvested share-based payment awards	0.87	0.97	2.51	2.40
Diluted earnings per share – common stock	0.90	0.97	2.65	2.39
Diluted earnings per share – unvested share-based payment awards	0.90	0.97	2.65	2.39

For the three month and nine month periods ended September 30, 2011, options to purchase 108,200 and 102,400 shares, respectively, of common stock were not considered in the computation of potential common shares for purposes of diluted EPS, because the exercise prices of the options were greater than the average market price of the common stock for the respective periods. For both the three month and nine month periods ended September 30, 2010, options to purchase 92,050 and 87,750 shares of common stock, respectively, were not considered in the computation of potential common shares for purposes of diluted EPS, because the exercise prices of the options were greater than the average market price of the common stock for the respective periods.

NOTE 3 – SECURITIES

The following tables summarize the amortized costs and estimated fair values of securities available-for-sale and held-to-maturity, as of the dates indicated:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2011				
Available-for-sale				
Obligations of U.S. government sponsored enterprises	$59,908	$510	$(28)	$60,390
Obligations of states and political subdivisions	39,234	3,004	—	42,238
Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises	454,125	19,907	(90)	473,942
Private issue collateralized mortgage obligations	12,942	—	(1,799)	11,143
Total debt securities	566,209	23,421	(1,917)	587,713
Equity securities	5,000	—	(758)	4,242
Total securities available-for-sale	$571,209	$23,421	$(2,675)	$591,955
December 31, 2010				
Available-for-sale				
Obligations of U.S. government sponsored enterprises	$49,870	$237	$(750)	$49,357
Obligations of states and political subdivisions	13,777	443	—	14,220
Mortgage-backed securities issued or guaranteed by U.S. government sponsored enterprises	451,909	15,986	(3,053)	464,842
Private issue collateralized mortgage obligations	23,441	—	(2,719)	20,722
Total debt securities	538,997	16,666	(6,522)	549,141
Equity securities	5,000	—	(562)	4,438
Total securities available-for-sale	$543,997	$16,666	$(7,084)	$553,579
Held-to-maturity				
Obligations of states and political subdivisions	$36,102	$1,935	$—	$38,037
Total securities held-to-maturity	$36,102	$1,935	$—	$38,037

During the first quarter of 2011, $36.1 million of municipal bonds that had been previously classified as held-to-maturity at purchase were moved to the available-for-sale category and the associated unrealized gains and temporary unrealized losses on these securities are now being reported on an after-tax basis in shareholders' equity as accumulated other comprehensive income or loss. This change reflects management's decision during the first quarter of 2011 to more actively manage these investments in changing economic environments.

Unrealized gains on securities available-for-sale at September 30, 2011 and December 31, 2010 and included in accumulated other comprehensive income amounted to $13.5 million and $6.2 million, net of deferred taxes of $7.2 million and $3.4 million, respectively.

Impaired Securities

Management reviews the Company's investment portfolio on a periodic basis to determine the cause, magnitude and duration of declines in the fair value of each security. Thorough evaluations of the causes of the unrealized losses are performed to determine whether the impairment is temporary or other-than-temporary in nature. Considerations such as the ability of the securities to meet cash flow requirements, levels of credit enhancements, risk of curtailment, recoverability of invested amount over a reasonable period of time and the length of time the security is in a loss position, for example, are applied in determining other-than-temporary impairment ("OTTI"). Once a decline in value is

determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

The following table shows the unrealized gross losses and estimated fair values of investment securities at September 30, 2011 and December 31, 2010, by length of time that individual securities in each category have been in a continuous loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2011						
U.S. government sponsored enterprises	$19,968	$(28)	$—	$—	$19,968	$(28)
Mortgage-backed securities	20,289	(90)	74	—	20,363	(90)
Private issue collateralized mortgage obligations	—	—	11,142	(1,799)	11,142	(1,799)
Equity securities	—	—	4,243	(758)	4,243	(758)
Total	$40,257	$(118)	$15,459	$(2,557)	$55,716	$(2,675)
December 31, 2010						
U.S. government sponsored enterprises	$29,145	$(750)	$—	$—	$29,145	$(750)
Mortgage-backed securities	96,604	(3,053)	85	—	96,689	(3,053)
Private issue collateralized mortgage obligations	2,160	(79)	18,562	(2,640)	20,722	(2,719)
Equity securities	—	—	4,438	(562)	4,438	(562)
Total	$127,909	$(3,882)	$23,085	$(3,202)	$150,994	$(7,084)

At September 30, 2011, $55.7 million of the Company's investment securities had unrealized losses that are considered temporary. A portion of the unrealized loss was related to the private issue collateralized mortgage obligations ("CMOs"), which includes $10.1 million that have been downgraded to non-investment grade. The Company's share of these downgraded CMOs is in the senior tranches. Management believes the unrealized loss for the CMOs is the result of current market illiquidity and the underestimation of value in the market. Including the CMOs, there were 20 securities with a fair value of $15.5 million in the investment portfolio which had unrealized losses for twelve months or longer. Management currently has the intent and ability to retain these investment securities with unrealized losses until the decline in value has been recovered. Stress tests are performed regularly on the higher risk bonds in the investment portfolio using current statistical data to determine expected cash flows and forecast potential losses. The stress tests at September 30, 2011, indicated potential future credit losses in the most likely scenario on four private issue CMOs. Based on these results, the Company recorded a $61,000 OTTI write-down during the third quarter of 2011.

At September 30, 2011, the Company held Duff & Phelps Select Income Fund Auction Preferred Stock with an amortized cost of $5.0 million which failed at auction during 2008. The security is rated Triple-A by Moody's and Standard and Poor's. Management believes the failed auctions are a temporary liquidity event related to this asset class of securities. The Company is currently collecting all amounts due according to contractual terms and has the ability and intent to hold the securities until they clear auction, are called, or mature; therefore, the securities are not considered other-than-temporarily impaired.

Security Gains and Losses

The following information details the Company's sales of securities:

	Nine Months Ended September 30,	
	2011	2010
Available-for-sale		
Proceeds from sales of securities	$ 15,128	$ 4,210
Gross realized gains	270	—
Gross realized (losses)	(73)	(188)

During the first nine months of 2011, the Company sold sixteen municipal bonds that the Company was monitoring that either had below “A” ratings, split ratings, withdrawn ratings, or negative outlooks or were revenue bonds. Due to increased pressures on state and local government revenues around the country as municipalities struggle with a weakened economy, management decided to sell these securities. The Company also sold three private issue CMOs in response to favorable market pricing, which reduced its CMO holdings by $7.8 million. The Company had not recorded any OTTI on these securities.

Securities Pledged

At September 30, 2011 and 2010, securities with an amortized cost of $486.8 million and $378.2 million and estimated fair values of $508.6 million and $395.9 million, respectively, were pledged to secure Federal Home Loan Bank (“FHLB”) advances, public deposits, securities sold under agreements to repurchase and other purposes required or permitted by law.

Contractual Maturities

The amortized cost and estimated fair values of debt securities by contractual maturity at September 30, 2011 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale		
Due in one year or less	$758	$763
Due after one year through five years	66,151	67,376
Due after five years through ten years	99,902	105,028
Due after ten years	399,398	414,546
	$566,209	$587,713

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Company's loan portfolio, excluding residential loans held for sale, at September 30, 2011 and December 31, 2010 was as follows:

	September 30, 2011	December 31, 2010
Residential real estate loans	$ 580,672	$ 596,655
Commercial real estate loans	458,348	464,037
Commercial loans	191,060	180,592
Home equity loans	270,468	270,627
Consumer loans	12,188	13,188
Deferred loan fees net of costs	(424)	(347)
Total loans	$ 1,512,312	$ 1,524,752

The Company's lending activities are primarily conducted in Maine. The Company originates single family and multi-family residential loans, commercial real estate loans, business loans, municipal loans and a variety of consumer loans. In addition, the Company makes loans for the construction of residential homes, multi-family properties and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy. During the first nine months of 2011, the Company sold $16.6 million of fixed-rate residential mortgage loans on the secondary market that resulted in a net gain on the sale of loans of $203,000. For the year ended December 31, 2010, the Company sold $20.1 million of fixed-rate residential mortgage loans on the secondary market, which resulted in a net gain on the sale of loans of $106,000.

The allowance for loan losses ("ALL") is management's best estimate of the inherent risk of loss in the Company's loan portfolio as of the statement of condition date. Management makes various assumptions and judgments about the collectability of the loan portfolio and provides an allowance for potential losses based on a number of factors including historical losses. If those assumptions are incorrect, the ALL may not be sufficient to cover losses and may cause an increase in the allowance in the future. Among the factors that could affect the Company's ability to collect loans and require an increase to the allowance in the future are: general real estate and economic conditions; regional credit concentration; industry concentration, for example in the hospitality, tourism and recreation industries; and a requirement by federal and state regulators to increase the provision for loan losses or recognize additional charge-offs.

The Board of Directors monitors credit risk management through the Directors' Loan Committee and the Risk Management Group. The Directors' Loan Committee reviews large exposure credit requests, monitors asset quality on a regular basis and has approval authority for credit granting policies. The Risk Management Group oversees management's systems and procedures to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the ALL. The Company's practice is to identify problem credits early and take charge-offs as promptly as practicable. In addition, management continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. For purposes of determining the ALL, the Company disaggregates its portfolio loans into portfolio segments, which include residential real estate, commercial real estate, commercial, home equity, and consumer.

The following is a summary of activity in the ALL for the three and nine month periods ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	$22,989	$22,266	$22,293	$20,246
Loan charge-offs	(1,400)	(1,395)	(3,417)	(3,805)
Recoveries on loans previously charged off	235	173	865	653
Net charge-offs	(1,165)	(1,222)	(2,552)	(3,152)
Provision for loan losses	1,187	1,292	3,270	5,242
Balance at end of period	$23,011	$22,336	$23,011	$22,336

The following table presents activity in the ALL by portfolio segment for the three months ended September 30, 2011:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	Unallocated	Total
ALL:							
Beginning balance	$ 6,109	$ 6,324	$ 4,473	$ 2,478	$ 453	$ 3,152	$ 22,989
Loans charged off	(239)	(621)	(325)	(205)	(10)	—	(1,400)
Recoveries	1	124	83	25	2	—	235
Provision (reduction)	75	179	633	188	(12)	124	1,187
Ending balance	$ 5,946	$ 6,006	$ 4,864	$ 2,486	$ 433	$ 3,276	$ 23,011

The following table presents the activity in the ALL and select loan information by portfolio segment for the nine months ended September 30, 2011:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	Unallocated	Total
ALL:							
Beginning balance	$ 3,273	$ 8,198	$ 5,633	$ 2,051	$ 202	$ 2,936	$ 22,293
Loans charged off	(1,036)	(946)	(1,080)	(325)	(30)	—	(3,417)
Recoveries	114	307	239	195	10	—	865
Provision (reduction)	3,595	(1,553)	72	565	251	340	3,270
Ending balance	$ 5,946	$ 6,006	$ 4,864	$ 2,486	$ 433	$ 3,276	$ 23,011
Ending Balance: Individually evaluated for impairment	$ 2,669	$ 1,411	$ 831	$ 370	$ 91	$ —	$ 5,372
Ending Balance: Collectively evaluated for impairment	$ 3,277	$ 4,595	$ 4,033	$ 2,116	$ 342	$ 3,276	$ 17,639
Loans ending balance:							
Ending Balance: Individually evaluated for impairment	$ 12,305	$ 9,596	$ 4,343	$ 1,343	$ 159	$ —	$ 27,746
Ending Balance: Collectively evaluated for impairment	$ 567,943	$ 448,752	$ 186,717	$ 269,125	$ 12,029	$ —	$ 1,484,566

Loans ending balance	$ 580,248	$ 458,348	$ 191,060	$ 270,468	$ 12,188	$ —	$ 1,512,312

The following table presents activity in the ALL and select loan information by portfolio segment for the year ended December 31, 2010:

	Residential Real Estate	Commercial Real Estate	Commercial	Home Equity	Consumer	Unallocated	Total
ALL:							
Beginning balance	$ 2,693	$ 6,930	$ 5,015	$ 1,773	$ 184		