

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis reviews the consolidated financial condition of Camden National Corporation (the "Company") at December 31, 2001 and 2000, the consolidated results of operations for the past 3 years and, where appropriate, factors that may affect future financial performance. This discussion should be read in conjunction with the Consolidated Financial Statements, Notes to Consolidated Financial Statements and Selected Consolidated Financial Data.

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information contained in this discussion, or in any other written or oral statements made by the Company, is or may be considered to be forward-looking. Forward-looking statements relate to future operations, strategies, financial results or other developments, and typically contain words or phrases such as "may," "believe," "expects," "should" or similar expressions. Forward-looking statements are based upon estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change.

Inherent in the Company's business are certain risks and uncertainties. Therefore, the Company cautions the reader that its actual results could differ materially from those expected to occur depending on factors such as economic conditions in local markets as well as general economic conditions, including changes in interest rates and the performance of financial markets, changes in domestic and foreign laws, regulations and taxes, competition, industry consolidation, credit risks and other factors. Other factors that could cause or contribute to such differences include, but are not limited to, variances in the actual versus projected growth in assets, return on assets, loan losses, expenses, rates charged on loans and earned on investment securities, rates paid on deposits, competitive effects, fee and other non-interest income earned, as well as other factors. The Company disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise.

GENERAL

Overview

Camden National Corporation (the "Company"), as a multi-bank holding company, provides financial services to its customers through four principal subsidiaries. Camden National Bank and UnitedKingfield Bank provide traditional commercial and consumer banking services through 28 branch locations in central, southern, mid-coast and western Maine and also by online access. Acadia Trust, N.A. and Trust Company of Maine, Inc. provide trust and investment management services to the Company's clients, who are primarily located in the State of Maine, and to the clients of the Company's two banking affiliates. Additionally, the Company invests in securities issued by the United States government and its agencies, as well as mortgage backed securities and high grade corporate securities to supplement and diversify its revenue base.

The Company has implemented a strategy to provide a diversified set of financial products to its customers located within its geographic boundaries and to opportunistically expand those boundaries. As part of this strategy, and to diversify its sources of revenues, the Company acquired

Acadia Trust, N.A. ("Acadia") and Gouws Capital Management Inc. ("Gouws Capital") on July 19, 2001. These companies, which were merged on December 31, 2001, provide trust and investment services, as well as investment management expertise. Also, in furtherance of its strategy to diversify its revenue, the Company acquired the remaining minority interests in Trust Company of Maine, Inc. on October 24, 2001. The Company had previously acquired its majority interest in Trust Company of Maine, Inc. through its acquisition of UnitedCorp, a one-bank holding company with two principal subsidiaries, United Bank and Trust Company of Maine, Inc., on December 31, 1995. The Acadia Trust, N.A., Gouws Capital Management Inc. and Trust Company of Maine Inc. acquisitions were accounted for under the purchase method of accounting as prescribed by SFAS No. 141, "Business Combinations."

As part of its geographic diversification strategy, on October 8, 2001, the Company's Camden National Bank subsidiary converted its Portland, Maine loan production office to a full service banking branch. This allowed the Company to expand its deposit gathering activities to the Portland, Maine market.

REVIEW OF FINANCIAL STATEMENTS

The discussion and analysis which follows focuses on the factors affecting the Company's consolidated results of operations during 2001, 2000 and 1999 and financial condition at December 31, 2001 and 2000. The Consolidated Financial Statements and Notes to Consolidated Financial Statements beginning on page 24 of this report should be read in conjunction with this review.

RESULTS OF OPERATIONS

Summary Financial Overview

The Company reported net income of \$15.4 million, or \$1.89 per diluted share, for 2001 compared to \$13.9 million and \$1.69 per diluted share in 2000. Return on average assets was 1.47% in 2001 compared to 1.40% in 2000 and return on average shareholders' equity was 15.55% in 2001 compared to 16.43% in 2000. This performance primarily reflected loan growth from its Portland, Maine location, expansion of fee based revenues from its banking subsidiaries, revenues from its acquired investment management subsidiaries, and control of its operating expenses.

Total revenues for 2001 were \$57.3 million compared to \$48.4 million in 2000, an increase of 18.3%, primarily reflecting improved non-interest income and revenues from increased lending activities. Revenues of Acadia Trust, N.A. contributed \$676,000, while revenues from the sale of loans, securities and the securitization of a portion of the Company's residential mortgage portfolio contributed \$1.3 million. Excluding these factors, revenues increased \$6.9 million or 14.2% from the prior year.

Non-interest expenses for the Company during 2001 were \$31.0 million compared to \$25.4 million in 2000, an increase of 22.1%. Expenses from the companies acquired during the year and associated acquisition costs incurred by the Company totaled \$1.7 million during 2001 while the Company's UnitedKingfield Bank subsidiary recorded costs of \$1.0 million in connection with the settlement of a

lawsuit. Additionally, during 2000, the Company terminated its defined-benefit noncontributory pension plan which resulted in a one-time expense reduction of \$645,000. Excluding these factors, non-interest expenses increased \$2.3 million, or 8.7%.

The Company's consolidated provision for loan losses was \$3.7 million during 2001 compared to \$2.9 million in 2000 which resulted in the Company increasing its ratio of allowance for loan losses ("ALL") to total loans from 1.54% in 2000 to 1.87% in 2001. The reserve was increased in response to management's view of probable economic deterioration in its central, eastern and western Maine geographic markets which could negatively affect some of the Company's lending relationships in those geographic areas. Reflective of this view, non-performing assets, defined as non-accrual loans, accruing loans 90 days or more past due, and other real estate owned, increased from \$6.9 million in 2000 to \$8.3 million in 2001, resulting in the ratio of non-performing assets to total loans increasing from 0.93% in 2000 to 1.11% in 2001.

The Company recorded a 7.8% growth in total assets during 2001 to \$1.1 billion at December 31, 2001. Loan growth of \$22.7 million during 2001 was primarily a result of the Company's continued expansion in the Portland, Maine market as well as moderate growth throughout its geographic franchise.

Net Interest Income

Net interest income, which reflects revenues from interest earning assets less associated funding expenses, was \$44.7 million in 2001 compared to \$40.0 million in 2000, an increase of 11.8%. The following tables on pages 12 and 13, present changes in interest income and interest expense by major asset and liability category for 2001, 2000 and 1999, and illustrate the impact of average volume growth and rate changes. The income from tax-exempt assets has been adjusted to a tax-equivalent basis, thereby allowing a uniform comparison to be made between asset yields.

Analysis of Change in Net Interest Margin on Earning Assets

(Dollars in thousands)	DECEMBER 31, 2001			DECEMBER 31, 2000			DECEMBER 31, 1999		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Assets									
Interest-earning assets:									
Securities—taxable	\$ 234,835	\$15,666	6.67%	\$224,698	\$16,079	7.16%	\$216,666	\$15,084	6.96%
Securities—nontaxable (1)	9,161	589	6.43%	8,993	595	6.62%	9,152	606	6.62%
Federal funds sold	3,399	83	2.44%	2,215	109	4.92%	1,784	69	3.87%
Loans (1) (2)	<u>732,460</u>	<u>63,065</u>	<u>8.61%</u>	<u>675,316</u>	<u>61,899</u>	<u>9.17%</u>	<u>605,271</u>	<u>54,157</u>	<u>8.95%</u>
Total interest-earning assets	<u>979,855</u>	<u>79,403</u>	<u>8.10%</u>	<u>911,222</u>	<u>78,682</u>	<u>8.64%</u>	<u>832,873</u>	<u>69,916</u>	<u>8.39%</u>
Cash and due from banks	24,742			27,544			24,122		
Other assets	57,874			58,817			43,750		
Less allowance for loan losses	<u>12,200</u>			<u>10,541</u>			<u>8,895</u>		
Total assets	<u>\$1,050,271</u>			<u>\$987,042</u>			<u>\$891,850</u>		
Liabilities & Shareholders' Equity									
Interest-bearing liabilities:									
NOW accounts	\$ 92,111	\$ 733	0.80%	\$ 86,783	\$ 889	1.02%	\$ 85,861	\$ 1,129	1.31%
Savings accounts	84,201	1,646	1.95%	85,427	2,168	2.54%	109,078	3,050	2.80%
Money market accounts	128,106	4,333	3.38%	98,559	4,467	4.53%	64,562	2,347	3.64%
Certificates of deposit	321,503	16,047	4.98%	329,664	18,595	5.64%	312,019	16,317	5.23%
Broker certificates of deposit	34,659	2,136	6.16%	12,876	947	7.35%	6,010	344	5.72%
Borrowings	<u>199,615</u>	<u>9,846</u>	<u>4.95%</u>	<u>198,597</u>	<u>11,650</u>	<u>5.87%</u>	<u>146,627</u>	<u>7,182</u>	<u>4.90%</u>
Total interest-bearing liabilities	<u>860,195</u>	<u>34,741</u>	<u>4.04%</u>	<u>811,906</u>	<u>38,716</u>	<u>4.77%</u>	<u>724,157</u>	<u>30,369</u>	<u>4.19%</u>
Demand deposits	82,572			84,357			79,764		
Other liabilities	8,327			6,409			10,229		
Shareholders' equity	<u>99,177</u>			<u>84,370</u>			<u>77,700</u>		
Total liabilities and shareholders' equity	<u>\$1,050,271</u>			<u>\$987,042</u>			<u>\$891,850</u>		
Net interest income (fully-taxable equivalent)		44,662			39,966			39,547	
Less: fully-taxable equivalent adjustment		<u>(481)</u>			<u>(561)</u>			<u>(592)</u>	
		<u>\$44,181</u>			<u>\$39,405</u>			<u>\$38,955</u>	
Net interest rate spread (fully-taxable equivalent)			<u>4.06%</u>			<u>3.87%</u>			<u>4.20%</u>
Net interest margin (fully-taxable equivalent)			<u>4.56%</u>			<u>4.39%</u>			<u>4.75%</u>

(1) Reported on tax-equivalent basis calculated using a rate of 35%.

(2) Non-accrual loans are included in total average loans.

Analysis of Volume and Rate Changes on Net Interest Income

(Dollars in thousands)	DECEMBER 31, 2001 VS 2000 INCREASE (DECREASE) DUE TO			DECEMBER 31, 2000 VS 1999 INCREASE (DECREASE) DUE TO		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Securities—taxable	\$ 725	\$(1,138)	\$ (413)	\$ 559	\$ 436	\$ 995
Securities—nontaxable	11	(17)	(6)	(11)	—	(11)
Federal funds sold	58	(84)	(26)	17	23	40
Loans	<u>5,238</u>	<u>(4,073)</u>	<u>1,165</u>	<u>6,264</u>	<u>1,478</u>	<u>7,742</u>
Total interest income	<u>6,032</u>	<u>(5,312)</u>	<u>720</u>	<u>6,829</u>	<u>1,937</u>	<u>8,766</u>
Interest-bearing liabilities:						
NOW accounts	55	(211)	(156)	12	(252)	(240)
Savings accounts	(31)	(491)	(522)	(662)	(220)	(882)
Money market accounts	1,339	(1,473)	(134)	1,237	883	2,120
Certificates of deposit	(460)	(2,124)	(2,584)	923	1,355	2,278
Broker certificates of deposit	1,602	(413)	1,189	393	210	603
Borrowings	<u>60</u>	<u>(1,828)</u>	<u>(1,768)</u>	<u>2,547</u>	<u>1,921</u>	<u>4,468</u>
Total interest expense	<u>2,565</u>	<u>(6,540)</u>	<u>(3,975)</u>	<u>4,450</u>	<u>3,897</u>	<u>8,347</u>
Net interest income (fully-taxable equivalent)	<u>\$3,467</u>	<u>\$ 1,228</u>	<u>\$ 4,695</u>	<u>\$2,379</u>	<u>\$(1,960)</u>	<u>\$ 419</u>

The Company reported increased net interest income of \$44.7 million during 2001 compared to \$40.0 million in 2000 due to changes in the yields, volumes and compositions of its interest-earning assets and interest-bearing liabilities. During 2001, the Company benefited from the declining interest rate environment which affected income received on interest-earning assets and expenses on interest-bearing liabilities. Interest income on variable rate earning assets declined as a result of the declining interest rate environment and contributed to the decline of \$5.3 million in interest income attributed to the “rate” component in the *Analysis of Volume and Rate Changes on Net Interest Income* table above. This decrease was offset by an increase in interest earning assets from 2000 to 2001, which contributed to the increase of \$6.0 million related to the “volume” component in the table above. The Company also benefited from the declining interest rate environment as its interest expenses on variable rate borrowings and deposit accounts were reduced during 2001. This contributed to a reduction in interest expenses due to “rate” of \$6.5 million which was partially offset by increased “volume” of funding required to support the growth in earning assets of \$2.6 million.

Investments in U.S. government securities, U.S. government agency securities and highly rated corporate bonds are used by the Company to diversify its revenues as well as provide interest rate risk and credit risk diversification. The Company

periodically uses interest rate swaps, floors and caps, which are common derivative financial instruments, to hedge interest rate risk associated with its loan and investment portfolios as well as its deposit and borrowing strategies. Footnote 20, “Financial Instruments” of the Notes to Consolidated Financial Statements, on page 42, and the “Market Risk” section, on page 19, should be reviewed for further discussion of the Company’s derivative and market risk strategies.

During 2001, the Company’s taxable investment portfolio interest income declined \$413,000 primarily due to the declining interest rate environment, while the Company’s non-taxable investment portfolio interest income declined \$6,000, both partially offset by increased volumes in the portfolios. During 2001 and 2000, the Company was a party to several interest rate swap agreements that were part of the Company’s strategy to protect a portion of its interest income revenue stream against a changing interest rate environment. These instruments contributed \$422,000 to interest income in 2001 and \$108,000 in 2000. Interest rate swap agreements involve risks associated with counterparties to the agreements and their abilities to meet the contractual terms of the agreements as well as risks associated with a changing interest rate environment. Notional principal amounts are used to reflect the volume of these transactions, but credit risks associated with these agreements are limited to the

forecasted payment stream expected from counterparties. The Company's counterparties to these agreements had an investment grade rating by Moody's and Standard and Poor's rating agencies. These instruments involve only the exchange of fixed- and variable-rate interest payments based upon a notional principal amount and maturity date. At December 31, 2001, the Company's notional value of derivative financial instruments was \$90.0 million, compared to \$135.0 million on December 31, 2000. Footnote 20 on page 42 should be reviewed for further discussion of derivative instruments.

Non-interest Income

Non-interest income was \$13.1 million and \$8.9 million for the years ended December 31, 2001 and 2000, respectively. During 2001, the increase of \$4.2 million, or 46.9%, in total non-interest income compared to 2000 reflects the effects of various balance sheet management activities which included the securitization of \$57.0 million of the Company's residential mortgages (i.e. the sale of residential mortgages purchased back by the Company as mortgage-backed securities) and sales of various investments which resulted in \$1.2 million of non-interest income. Additionally, due to the declining interest rate environment, the Company recognized \$932,000 of non-interest income from the sale of interest rate derivatives. Service charges on deposit accounts increased by \$662,000, or 23.0%, over 2000 as a result of a product redesign initiative focused on customer relationships and the introduction of a fee based overdraft privilege service for its customers. Other service charges and fees increased by \$626,000, or 35.5%, over the same period primarily due to mortgage servicing fees associated with the sale of residential real estate loans. Merchant program fees increased \$284,000, or 15.8%, over 2000 due to a combination of restructured pricing and increased volumes, while trust fees increased \$1.2 million, or 95.4%, during the same period. The major contributing factor for this increase in trust fees was the acquisition of Acadia and Gouws Capital on July 19, 2001.

Non-interest Expenses

Non-interest expenses increased to \$31.0 million for the year ended December 31, 2001 from \$25.4 million in 2000, or 22.1%. Salaries and employee benefits increased by \$2.7 million, or 23.5%, during this same period reflecting, in part, increased salaries and employee benefits associated with the Acadia and Gouws Capital acquisitions of \$854,900. Also included in 2000 results was a one-time expense reduction of \$645,000 associated with the Company terminating its defined-benefit noncontributory pension plan. Occupancy expenses increased \$409,000, or 24.5%, due to the renovation and expansion of several of the

Company's branch facilities and expansion of its operations center. Expenses associated with the processing of merchant transactions increased \$217,000, or 12.2%, during 2001 compared to 2000 reflecting increased volumes. Other expenses increased by \$2.3 million, or 32.2%, in 2001 compared to 2000 due to expenses related to the Company's new subsidiaries, courier costs, debit card processing costs, and closing and solicitation costs associated with a home equity loan promotion.

Comparison of 2000 to 1999

The Company reported net income of \$13.9 million, or \$1.69, per diluted share in 2000 compared to \$10.2 million, or \$1.27, per diluted share in 1999. Return on average assets was 1.40% in 2000 compared to 1.15% in 1999, while return on average shareholders' equity was 16.43% in 2000 compared to 13.16% in 1999. During 1999, the Company acquired Kingfield Savings Bank which was accounted for under the pooling-of-interests method and accordingly, the Consolidated Financial Statements of the Company have been restated to reflect the acquisition as though it occurred at the beginning of each period presented. On February 4, 2000, Kingfield Savings Bank, and the Company's United Bank subsidiary were merged to create UnitedKingfield Bank.

Net interest income on a fully-taxable equivalent basis was \$40.0 million in 2000 compared to \$39.5 million in 1999, reflecting increased yields on earning assets and growth in the Company's loan and investment portfolios. The increase of \$419,000 was primarily due to an increase in earning asset volumes and yields, partially offset by higher funding costs.

The Company reported \$2.9 million of provision for loan losses in 2000 compared to \$3.7 million in 1999. The allowance for loan losses increased from 1.48% of total loans at the end of 1999 to 1.54% at the end of 2000.

Non-interest income increased \$1.2 million from \$7.7 million in 1999 to \$8.9 million in 2000. The primary factors contributing to this increase were increased trust fees of \$505,000 and merchant program fees of \$308,000.

Non-interest expenses were \$25.4 million in 2000, compared to \$27.6 million in 1999. The primary factors contributing to the decrease in non-interest expenses during the period were the Company's termination of its defined-benefit noncontributory pension program which resulted in a one-time expense reduction of \$645,000 in 2000, and cost savings which were recognized as part of the merger of United Bank and Kingfield Savings Bank in 2000.

FINANCIAL CONDITION

Overview

Total assets at December 31, 2001 were \$1.1 billion, an increase of \$78.5 million, or 7.8%, from December 31, 2000. The change in assets consisted primarily of a \$46.8 million increase in investment securities, an increase in net loans of \$20.0 million, an increase of \$9.5 million in cash and due from banks, an increase in premises and equipment of \$1.4 million, and an increase in other assets of \$0.8 million. The asset growth was supported by an increase of \$42.4 million in total borrowings, a \$19.2 million increase in deposits, a \$2.7 million increase in other liabilities, and an increase of \$14.1 million in total shareholders' equity.

Investment Securities

Total investment securities increased \$46.8 million, or 21.6%, to \$263.8 million at December 31, 2001. The Company has investment securities in both the available-for-sale and held-to-maturity categories. The largest portion is in the available-for-sale category of the investment portfolio reflecting the Company's desire for flexibility in managing liquidity and funding needs pursuant to the policies developed by the Asset/Liability Committee ("ALCO"). The available-for-sale category increased during 2001 by \$103.5 million. Upon implementation of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," the Company transferred \$68.2 million of its investment securities classified as held to maturity to available for sale. In addition, the Company implemented a balance sheet restructuring program that included the conversion of over \$57.0 million of fixed-rate residential mortgages into mortgage-backed securities, which are classified as securities available for sale and the sale of several long-term corporate bonds previously classified as securities available for sale. The restructuring program was undertaken to take advantage of the declining interest rate environment and management's desire to provide flexibility and liquidity in the Company's balance sheet. Although these securities are available for sale, the Company has the ability to hold the debt securities in this portfolio until maturity. The ability to use these securities as collateral for Federal Home Loan Bank of Boston ("FHLBB") loans enhances the Company's ability to hold the securities to maturity consistent with liquidity objectives. At December 31, 2001, the Company had \$4.5 million of unrealized gains on securities available for sale, net of the deferred tax expense, compared to \$0.8 million of unrealized losses, net of deferred tax benefits at December 31, 2000. The increase in unrealized appreciation was attributed to a decrease in market rates. Unrealized gains and losses do not impact income or regulatory capital, but are recorded as adjustments to shareholders' equity net of related deferred

income taxes. Unrealized gains and losses, net of related deferred income taxes are a component of the Company's other comprehensive income contained in the Consolidated Statement of Changes in Shareholder's Equity.

Loans

Loans, including loans held for sale, totaled \$724.0 million at December 31, 2001, a 3.2% increase from total loans of \$701.3 million at December 31, 2000. This reflects the continuation of strong loan growth experienced in the commercial loan portfolio less the \$57.0 million of fixed-rate residential mortgage loans converted to securities available for sale by the Company during 2001.

Residential real estate mortgage loans decreased by \$18.8 million, or 8.4%, in 2001. During 2001 the Company securitized \$57.0 million of fixed-rate residential mortgage loans into mortgage-backed securities, which are classified as securities available for sale. Residential real estate mortgage loans increased by \$3.1 million, or 1.4%, in 2000. During 2000, the Company originated \$11.8 million of fixed-rate residential loans that were sold to investors in the secondary market. Residential real estate loans consist of loans secured by one-to-four family residences. The Company generally retains adjustable-rate mortgages in its portfolio and will, from time to time, retain fixed-rate mortgages. With a relatively low interest rate environment, it was the Company's asset/liability strategy during 2001 to sell the majority of its fixed-rate residential mortgages in its loan portfolio.

Commercial loans increased by \$59.7 million, or 16.4%, during 2001. In 2000, commercial loans increased by \$47.8 million, or 15.1%. Commercial loans consist of loans secured by various corporate assets, as well as loans to provide working capital in the form of lines of credit, which may be secured or unsecured. The commercial category also includes commercial real estate loans secured by income producing commercial real estate. In addition, the Company makes loans for the acquisition, development and construction of commercial real estate. The Company focuses on lending to small- and medium-sized business customers within its geographic market.

Consumer loans decreased by \$3.9 million, or 4.3%, in 2001 as a result of consumers taking advantage of a low interest rate environment and consolidating their consumer debt into residential mortgages. In 2000, consumer loans increased by \$6.4 million, or 7.6%. Consumer loans are originated by the Company for a wide variety of purposes to meet customers' needs. Consumer loans include credit card, overdraft protection, automobile, boat, recreation vehicles, mobile homes, home equity, and secured and unsecured personal loans.

It is the Company's policy to discontinue the accrual of interest on loans when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, interest income is reduced for all accrued but unpaid interest on such loans. Non-performing loans, defined as non-accrual loans plus accruing loans 90 days or more past due, totaled \$8.1 million, or 1.1%, of total loans at December 31, 2001 compared to \$6.5 million, or 0.9%, of total loans at December 31, 2000.

Allowance for Loan Losses / Provision for Loan Losses

In determining the allowance for loan losses ("ALL"), management relies primarily on its review of the loan portfolio both to ascertain whether there are specific loans to be reserved against, and to assess the collectibility of the loan portfolio in the aggregate. Non-performing loans are examined on an individual basis to determine the estimated probable loss on these loans. In addition, each quarter management conducts a formal analysis of the ALL, which considers the current loan mix and loan volumes, historical net loan loss experience for each loan category, and current economic conditions affecting each loan category. No assurance can be given, however, that adverse economic

conditions or other circumstances will not result in increased losses in the portfolio. The Company continues to monitor and modify its ALL as conditions dictate (see Note 6, "Allowance for Loan Losses," of the Notes to Consolidated Financial Statements, on page 34, for further information).

During 2001, the Company recognized \$3.7 million of expense to the allowance for loan losses compared to \$2.9 million and \$3.7 million in 2000 and 1999, respectively. Net charge-offs to average loans outstanding were 0.13% in 2001 compared to 0.24% in 2000. During 2001, economic conditions indicated potential weakening in the loan portfolio. Several large credits were downgraded resulting in the necessity to increase the provision to the ALL. Determining an appropriate level of ALL involves a high degree of judgment. Management believes that the ALL at December 31, 2001 of \$13.5 million, or 1.87%, of total loans outstanding was appropriate given the current economic conditions in the Company's service area and the overall condition of the loan portfolio. As a percentage of total loans outstanding, the ALL was 1.54% in 2000.

The table on the next page sets forth information concerning the activity in the Company's ALL during the periods indicated.

Five-Year Activity in the Allowance for Loan Losses

(Dollars in thousands)

YEARS ENDED DECEMBER 31,

	2001	2000	1999	1998	1997
Allowance at the beginning of period	\$ 10,801	\$ 9,390	\$ 8,092	\$ 6,982	\$ 5,365
Provision for loan losses	3,681	2,930	3,670	2,056	2,207
Charge-offs:					
Commercial loans	536	1,296	1,520	417	671
Residential real estate loans	552	432	715	415	160
Consumer loans	461	417	425	444	400
Total loan charge-offs	1,549	2,145	2,660	1,276	1,231
Recoveries:					
Commercial loans	324	421	64	158	473
Residential real estate loans	64	29	54	35	36
Consumer loans	193	176	170	137	132
Total loan recoveries	581	626	288	330	641
Net charge-offs	968	1,519	2,372	946	590
Allowance at the end of the period	<u>\$ 13,514</u>	<u>\$ 10,801</u>	<u>\$ 9,390</u>	<u>\$ 8,092</u>	<u>\$ 6,982</u>
Average loans outstanding	<u>\$732,460</u>	<u>\$675,316</u>	<u>\$605,271</u>	<u>\$521,559</u>	<u>\$445,599</u>
Ratio of net charge-offs to average loans outstanding	0.13%	0.22%	0.39%	0.18%	0.13%
Ratio of provision for loan losses to average loans outstanding	0.50%	0.43%	0.61%	0.39%	0.50%
Ratio of allowance for loan losses to total loans at end of period	1.87%	1.54%	1.48%	1.42%	1.44%
Ratio of allowance for loan losses to net charge-offs	1396.07%	711.06%	395.87%	855.39%	1183.39%
Ratio of allowance for loan losses to non-performing loans at end of period	167.46%	166.48%	148.32%	172.50%	162.03%

The allowance for loan losses is available to offset credit losses in connection with any loan, but is internally allocated to various loan categories as part of the Company's process for evaluating its adequacy. The following table sets forth information concerning the allocation of the Company's ALL by loan categories at the dates indicated.

Allocation of the Allowance for Loan Losses—Five-Year Schedule

(Dollars in thousands)

AS OF DECEMBER 31,

	2001		2000		1999		1998		1997	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Balance at End of Period Applicable to:										
Commercial loans	\$11,079	60%	\$ 5,972	55%	\$5,286	52%	\$4,288	51%	\$4,672	49%
Residential real estate loans	1,068	28%	2,329	32%	2,772	35%	2,166	35%	875	37%
Consumer loans	1,084	12%	1,218	13%	475	13%	729	14%	657	14%
Unallocated	283	N/A	1,282	N/A	857	N/A	909	N/A	778	N/A
	<u>\$13,514</u>	<u>100%</u>	<u>\$10,801</u>	<u>100%</u>	<u>\$9,390</u>	<u>100%</u>	<u>\$8,092</u>	<u>100%</u>	<u>\$6,982</u>	<u>100%</u>

LIQUIDITY

Liquidity is defined as the ability to meet current and future financial obligations of a short-term nature. The primary objective of liquidity management is to maintain a balance between sources and uses of funds to meet the cash flow needs of the Company in the most economical and expedient manner. The liquidity needs of the Company require the availability of cash to meet the withdrawal demands of depositors and credit commitments to borrowers. Due to the potential for unexpected fluctuations in both deposits and loans, active management of the Company's liquidity is necessary. The Company maintains various sources of funding and levels of liquid assets in excess of regulatory guidelines in order to satisfy its varied liquidity demands. The Company monitors its liquidity in accordance with its internal guidelines and all applicable regulatory requirements. As of December 31, 2001 and 2000, the Company's level of liquidity exceeded its target levels. Management believes that the Company currently has appropriate liquidity available to respond to liquidity demands. Sources of funds utilized by the Company consist of deposits, borrowings from the FHLBB and other sources, cash flows from operations, prepayments and maturities of outstanding loans, investments and mortgage-backed securities, and the sales of mortgage loans.

Deposits continue to represent the Company's primary source of funds. In 2001, total deposits increased by \$19.2 million, or 2.6%, over 2000, ending the year at \$763.6 million. The Company experienced growth in all deposit categories in 2001 except certificates of deposit. Comparing year-end balances 2001 to 2000, transaction accounts (demand deposits and NOW) increased by \$20.9 million, money market accounts by \$13.0 million, and savings accounts by \$6.5 million. Certificates of deposit decreased by \$21.3 million, in part, as a result of depositors converting to more liquid deposit instruments during a period of low interest rates. In 2000, total deposits increased by \$76.6 million, or 11.5%, over 1999, ending the year at \$744.4 million.

Borrowings supplement deposits as a source of liquidity. In addition to borrowings from the FHLBB, the Company purchases federal funds, sells securities under agreements to repurchase and utilizes treasury tax and loan accounts. Total borrowings were \$210.8 million at December 31, 2001 compared to \$168.4 million at December 31, 2000, an increase of \$42.4 million, or 25.2%. The majority of the borrowings were from the FHLBB, whose advances remained the largest non-deposit-related, interest-bearing funding source for the Company in both 2001 and 2000. Qualified residential real estate loans, certain investment securities and certain other assets available to be pledged secure these borrowings.

CAPITAL RESOURCES

Under Federal Reserve Board ("FRB") guidelines, bank holding companies such as the Company are required to maintain capital based on risk-adjusted assets. These guidelines apply to the Company on a consolidated basis. Under the current guidelines, banking organizations must maintain a risk-based capital ratio of 8.0%, of which at least 4.0% must be in the form of core capital. The risk-based ratios of the Company and its subsidiaries exceeded regulatory guidelines at December 31, 2001 and December 31, 2000. The Company's Tier 1 capital to risk-weighted assets was 12.9% and 11.8% at December 31, 2001 and 2000, respectively (see Note 21, "Regulatory Matters," of the Notes to Consolidated Financial Statements, on page 44, for other capital ratios). In addition to risk-based capital requirements, the FRB requires bank holding companies to maintain a minimum leverage capital ratio of core capital to total assets of 4.0%. Total assets for this purpose do not include goodwill and any other intangible assets and investments that the FRB determines should be deducted. The Company's leverage ratio at December 31, 2001 and 2000 was 8.7% and 8.6%, respectively.

As part of the Company's goal to operate a safe, sound and profitable financial organization, the Company is committed to maintaining a strong capital base. Shareholders' equity totaled \$105.1 million and \$90.9 million, or 9.6% and 9.0%, of total assets at December 31, 2001 and 2000, respectively. The \$14.1 million, or 15.6%, increase in shareholders' equity in 2001 was primarily attributable to net income of \$15.4 million, less the costs associated with open market repurchases of approximately \$1.4 million of the Company's common stock in compliance with the Company's previously announced stock repurchase policy and \$5.2 million in cash dividends to the Company's shareholders, plus \$5.3 million in unrealized gains on securities available for sale, net of deferred tax expense.

The principal cash requirement of the Company is the payment of dividends on the Company's common stock as and when declared by the Board of Directors. Dividends paid per share during the year ended December 31, 2001 increased by 3.2% over the corresponding period in 2000. The Company is primarily dependent upon the payment of cash dividends by its subsidiaries to service its commitments. The Company, as the sole shareholder of its subsidiaries, is entitled to dividends when and as declared by each subsidiary's Board of Directors from legally available funds. Camden National Bank declared dividends in the aggregate amount of \$11.5 million and \$5.9 million in 2001 and 2000, respectively. UnitedKingfield Bank declared dividends in the aggregate amount of \$3.3 million and \$1.9 million in 2001

and 2000, respectively. As of December 31, 2001, and subject to the limitations and restrictions under applicable law, Camden National Bank and UnitedKingfield Bank had a total of \$7.9 million available for dividends to the Company, although there is no assurance that dividends will be paid at any time in any amount (see Note 15, "Shareholders' Equity," of the Notes to Consolidated Financial Statements, on page 38, for additional information).

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented elsewhere herein have been prepared in accordance with accounting principles generally accepted in the United States 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 may not necessarily move in the same direction or in the same magnitude as inflation.

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. The Company's primary market risk exposure is interest rate risk. The ongoing monitoring and management of this risk is an important component of the Company's asset/liability management process which is governed by policies established by the subsidiaries' Boards of Directors that are reviewed and approved annually. Each subsidiary's Board of Directors delegates responsibility for carrying out the asset/liability management policies to Company's management ALCO. In this capacity, ALCO develops guidelines and strategies impacting the Company's asset/liability management-related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels/trends.

Interest Rate Risk

Interest rate risk represents the sensitivity of earnings to changes in market interest rates. As interest rates change, the interest income and interest expenses associated with the Company's financial instruments also change, thereby impacting net interest income ("NII"), the primary component

of the Company's earnings. ALCO utilizes the results of a detailed and dynamic simulation model to quantify the estimated exposure of NII to sustained interest rate changes. While ALCO routinely monitors simulated NII sensitivity over a rolling 2-year horizon, it also utilizes additional tools to monitor potential longer-term interest rate risk.

The simulation model captures the impact of changing interest rates on the interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's balance sheet as well as for derivative financial instruments. None of the assets used in the simulation were held for trading purposes. This sensitivity analysis is compared to ALCO policy limits which specify a maximum tolerance level for NII exposure over a 1-year horizon, assuming no balance sheet growth, given both a 200 basis point (bp) upward and downward shift in interest rates. A parallel and pro rata shift in rates over a 12-month period is assumed. The following reflects the Company's NII sensitivity analysis as measured periodically over the past 2 years.

Rate Change	2001		
	Estimated Changes in NII		
	High	Low	Average
+200bp	(4.31%)	0.95%	(1.80%)
- 200bp	2.14%	(0.24%)	0.79%

Rate Change	2000		
	Estimated Changes in NII		
	High	Low	Average
+200bp	(6.01%)	(3.61%)	(4.89%)
- 200bp	4.63%	1.96%	3.49%

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, and reinvestment/replacement of asset and liability cashflows. The assumptions differed in each of the periods included in the sensitivity analysis above. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

The most significant factors affecting the changes in market risk exposure during 2001 compared to 2000 were the decrease in interest rates market-wide, changes in the yield curve for U.S. government securities, the increase in the aggregate principal amount in fixed-rate loans extended by the subsidiary banks, and the increase of fixed-rate FHLBB borrowings. With increases on the balance sheet in fixed-rate loans and borrowings, the Company reduced its opportunity to lower funding costs in a declining rate environment. Due to the current low level of market rates the Company decreased its exposure in a rising rate environment, while increasing its market risk in both a flat or declining interest rate environment. The increased risk in the flat or declining interest rate environment is well within the Company's policy limits.

When appropriate, the Company may utilize derivative financial instruments, such as interest rate floors, caps and swaps, to hedge its interest rate risk position. The Board of Directors' approved hedging policy statements govern the use of these instruments by the subsidiaries. As of December 31, 2001, the Company had a notional principal of \$90 million in interest rate cap agreements. In a purchased interest rate cap agreement, cash interest payments are received only if current interest rates rise above predetermined interest rates. These agreements were purchased to protect the Company's exposure to fixed rate instruments in a rising rate environment. The estimated effects of these derivative financial instruments on the Company's earnings are included in the sensitivity analysis presented above. ALCO monitors derivative activities relative to its expectation and the Company's hedging policy.

Recent Accounting Pronouncements

During 2001 several accounting pronouncements were promulgated by the Financial Accounting Standards Board ("FASB") which affected the operations of the Company. The following summarizes the specific pronouncements that affected the Company, while the FASB may have issued additional pronouncements which did not have a material impact on the Company.

On January 1, 2001, the Company implemented SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." These statements set accounting and reporting standards for derivative instruments and hedging activities. They require an entity to recognize all derivatives as either assets or liabilities in the statement of condition and measure those instruments at fair value. Upon implementation of SFAS No. 133, the Company transferred all of its investment

securities classified as held to maturity to available for sale. The impact of this reclassification was an increase to other comprehensive income of \$2.0 million, net of applicable taxes. Comprehensive income does not impact net income or regulatory capital, but is recorded as adjustments to shareholders' equity.

SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," is effective for transfers occurring after June 30, 2001. SFAS No. 140 replaces SFAS No. 125. The Company adhered to the requirements of SFAS No. 140 upon the effective date for various transfers of financial assets after June 30, 2001. This pronouncement also includes standards for the accounting of various off-balance sheet financial vehicles, commonly referred to as bankruptcy remote Special Purpose Vehicles ("SPV"). The Company has not sponsored SPVs or other similar off-balance sheet funding vehicles.

During 2001, the FASB issued Statement No. 141, "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 improves the transparency of the accounting and reporting for business combinations by requiring that all business combinations be accounted for under a single method—the purchase method. Use of the pooling-of-interests method is no longer permitted. SFAS No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001. In recording its acquisitions of Acadia, Gouws Capital and the minority interests of Trust Company of Maine, Inc., the Company implemented this pronouncement.

SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement, which will be January 1, 2002. The goodwill resulting from the Company's acquisitions of Acadia, Gouws Capital and Trust Company of Maine, Inc. was accounted for under SFAS No. 142. (See Note 2 to the Consolidated Financial Statements, on page 31, for more information.)

SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," were promulgated during the year. SFAS Nos. 143 and 144 provide guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and obligations associated with the retirement of tangible long-lived assets.

Management does not expect these statements to have a material effect on the Company's consolidated financial condition and results of operations.

Related Party Transactions

The Company, in the normal course of business, has made loans to certain officers and directors of the Company and its subsidiaries under such terms that are consistent with the Company's lending policies. In addition to extending loans to certain officers and directors of the Company and its subsidiaries at terms consistent with the Company's lending policies, federal banking regulations also require training, audit and examination of the Company's adherence to this policy by representatives of the Company's federal, national and state regulators. As described more fully in footnote 18 on page 41, the Company has not entered into significant non-lending related party transactions.

Common Stock Information

The Company has paid quarterly dividends since its inception in 1985. The market price (as quoted by AMEX) and cash dividends paid, per share of the Company's common stock, by calendar quarter for the past 2 years were as follows:

2001				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	\$18.80	\$18.99	\$17.10	\$17.15
Low	16.15	15.40	12.70	12.82
Close	18.70	16.58	16.00	13.55
Dividend paid	0.16	0.16	0.16	0.16

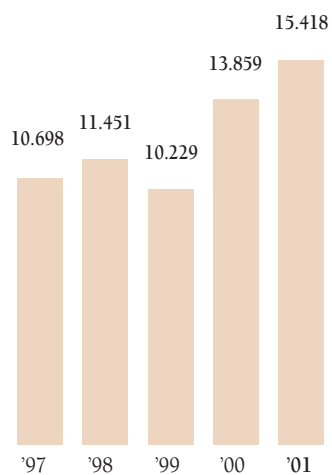
2000				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	\$15.50	\$15.75	\$15.88	\$16.88
Low	12.63	12.50	12.00	10.13
Close	14.25	15.75	13.50	11.88
Dividend paid	0.16	0.16	0.16	0.15

Information concerning restrictions on the ability of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends is described in the Capital Resources section on page 18.

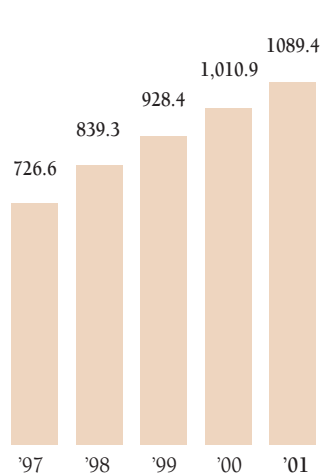
As of December 31, 2001, there were 8,057,781 shares of the Company's common stock outstanding, held of record by approximately 1,004 shareholders.

Summary of Financial Performance

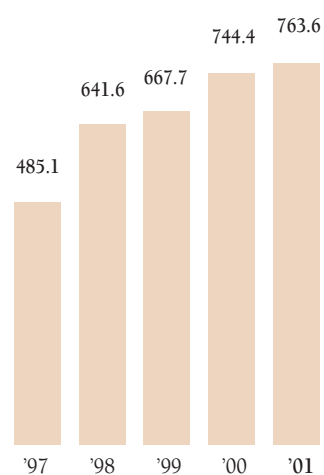
NET INCOME (IN MILLIONS)



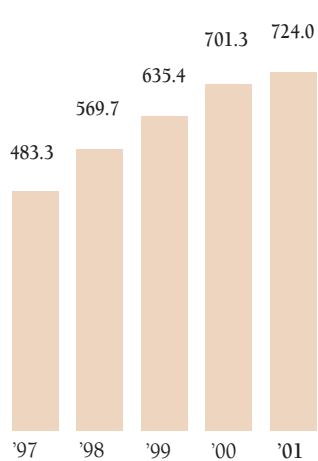
ASSETS (IN MILLIONS)



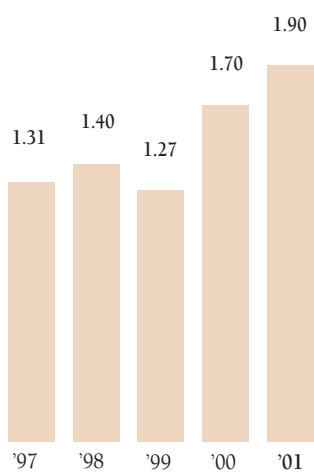
DEPOSITS (IN MILLIONS)



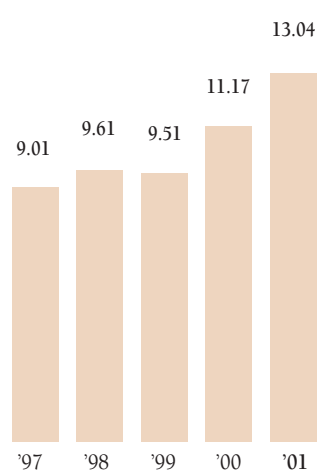
LOANS (IN MILLIONS)



EARNINGS PER SHARE (IN DOLLARS)



BOOK VALUE PER SHARE (IN DOLLARS)



Selected Five-Year Financial Data

(In thousands, except number of shares and per share data)

DECEMBER 31,

FINANCIAL CONDITION DATA	2001	2000	1999	1998	1997
Assets	\$1,089,355	\$1,010,883	\$928,350	\$839,280	\$726,644
Loans	724,042	701,340	635,434	569,705	483,348
Allowance for Loan Losses	13,514	10,801	9,390	8,092	6,982
Investments	263,810	217,010	216,132	202,967	188,638
Deposits	763,568	744,360	667,720	641,553	485,132
Borrowings	210,843	168,440	173,924	113,682	160,697
Shareholders' Equity	105,068	90,923	77,623	77,789	74,112

YEAR ENDED DECEMBER 31,

OPERATIONS DATA	2001	2000	1999	1998	1997
Interest Income	\$ 79,870	\$ 79,555	\$ 69,496	\$ 61,591	\$ 58,363
Interest Expense	<u>35,689</u>	<u>40,042</u>	<u>30,504</u>	<u>27,007</u>	<u>27,270</u>
Net Interest Income	44,181	39,513	38,992	34,584	31,093
Provision for Loan Losses	<u>3,681</u>	<u>2,930</u>	<u>3,670</u>	<u>2,056</u>	<u>2,207</u>
Net Interest Income after Provision for Loan Losses	40,500	36,583	35,322	32,528	28,886
Non-interest Income	13,094	8,915	7,694	6,573	4,936
Non-interest Expense	<u>31,014</u>	<u>25,396</u>	<u>27,604</u>	<u>22,220</u>	<u>17,916</u>
Income before Provision for Income Tax	22,580	20,102	15,412	16,881	15,906
Income Tax Expense	<u>7,162</u>	<u>6,243</u>	<u>5,183</u>	<u>5,430</u>	<u>5,209</u>
Net Income	<u>\$ 15,418</u>	<u>\$ 13,859</u>	<u>\$ 10,229</u>	<u>\$ 11,451</u>	<u>\$ 10,697</u>

AT OR FOR THE YEAR ENDED DECEMBER 31,

OTHER DATA	2001	2000	1999	1998	1997
Basic Earnings Per Share	\$ 1.90	\$ 1.70	\$ 1.27	\$ 1.40	\$ 1.31
Diluted Earnings Per Share	1.89	1.69	1.27	1.38	1.27
Dividends Per Share	0.64	0.63	0.52	0.47	0.38
Book Value Per Share	13.04	11.17	9.51	9.61	9.01
Return on Average Assets	1.47%	1.40%	1.15%	1.52%	1.52%
Return on Average Equity	15.55%	16.43%	13.16%	15.09%	15.11%
Allowance for Loan Losses to Total Loans	1.87%	1.54%	1.48%	1.42%	1.44%
Non-Performing Loans to Total Loans	1.14%	0.98%	1.00%	0.82%	0.89%
Stock Dividend Payout Ratio	33.90%	37.17%	40.90%	33.74%	29.31%

Consolidated Statements of Condition

(In thousands, except number of shares and per share data)

DECEMBER 31,

	2001	2000
Assets		
Cash and due from banks	\$ 38,861	\$ 29,337
Securities available for sale, at market value	262,866	159,315
Securities held to maturity (market value \$944 and \$60,698 at December 31, 2001 and 2000, respectively)	944	57,695
Residential mortgages held for sale	-	12,838
Loans, less allowance for loan losses of \$13,514 and \$10,801 at December 31, 2001 and 2000, respectively	710,528	677,701
Premises and equipment	17,437	16,023
Other real estate owned	195	380
Interest receivable	5,054	6,959
Core deposit intangible	5,708	6,660
Other assets	47,762	43,975
Total assets	<u>\$1,089,355</u>	<u>\$1,010,883</u>
Liabilities		
Deposits:		
Demand	\$ 96,162	\$ 83,631
NOW	95,664	87,270
Money market	134,333	121,292
Savings	88,226	81,730
Certificates of deposit	349,183	370,437
Total deposits	763,568	744,360
Borrowings from Federal Home Loan Bank	168,832	132,348
Other borrowed funds	42,011	36,092
Accrued interest and other liabilities	9,876	6,984
Minority interest in subsidiary	-	176
Total liabilities	<u>984,287</u>	<u>919,960</u>
Commitments (Notes 4, 13, 15, 19, 20 and 21)		
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares, issued 8,609,898 shares in 2001 and 2000	2,450	2,450
Surplus	5,795	5,909
Retained earnings	102,630	92,292
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on securities available for sale, net of tax	4,514	(812)
	<u>115,389</u>	<u>99,839</u>
Less remaining obligation under:		
Bank recognition and retention plan	9	14
Less cost of 552,117 and 464,557 shares of treasury stock on December 31, 2001 and 2000, respectively	10,312	8,902
Total shareholders' equity	<u>105,068</u>	<u>90,923</u>
Total liabilities and shareholders' equity	<u>\$1,089,355</u>	<u>\$1,010,883</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Income

<i>(In thousands, except number of shares and per share data)</i>	Year Ended December 31,		
	2001	2000	1999
Interest Income			
Interest and fees on loans	\$62,362	\$61,540	\$53,771
Interest on U.S. government and agency obligations	14,659	14,753	14,041
Interest on state and political subdivision obligations	388	393	400
Interest on interest rate swap agreements	1,370	1,434	172
Interest on federal funds sold and other investments	<u>1,091</u>	<u>1,435</u>	<u>1,112</u>
Total interest income	<u>79,870</u>	<u>79,555</u>	<u>69,496</u>
Interest Expense			
Interest on deposits	24,895	27,066	23,187
Interest on other borrowings	9,846	11,650	7,182
Interest on interest rate swap agreements	<u>948</u>	<u>1,326</u>	<u>135</u>
Total interest expense	<u>35,689</u>	<u>40,042</u>	<u>30,504</u>
Net interest income	44,181	39,513	38,992
Provision for Loan Losses	<u>3,681</u>	2,930	<u>3,670</u>
Net interest income after provision for loan losses	<u>40,500</u>	<u>36,583</u>	<u>35,322</u>
Other Income			
Service charges on deposit accounts	3,542	2,880	2,773
Other service charges and fees	2,390	1,764	1,488
Merchant assessments	2,086	1,802	1,494
Trust fees	2,503	1,281	776
Gain on sale of derivatives	932	-	-
Gain on sale of securities	336	-	151
Other income	<u>1,305</u>	<u>1,188</u>	<u>1,012</u>
Total other income	<u>13,094</u>	<u>8,915</u>	<u>7,694</u>
	<u>53,594</u>	<u>45,498</u>	<u>43,016</u>
Operating Expenses			
Salaries and employee benefits	14,279	11,558	12,578
Net occupancy	2,075	1,666	1,579
Furniture, equipment and data processing	2,125	2,097	2,167
Merchant program	1,995	1,778	1,488
Amortization of core deposit intangible	952	986	1,011
Acquisition related	353	232	2,046
Other	<u>9,235</u>	<u>7,079</u>	<u>6,735</u>
Total operating expenses	<u>31,014</u>	<u>25,396</u>	<u>27,604</u>
Income before income taxes	22,580	20,102	15,412
Income Taxes	<u>7,162</u>	<u>6,243</u>	<u>5,183</u>
Net Income	<u>\$15,418</u>	<u>\$13,859</u>	<u>\$10,229</u>
Per Share Data			
Basic earnings per share	\$1.90	\$1.70	\$1.27
Diluted earnings per share	1.89	1.69	1.27
Weighted average number of shares outstanding	8,123,928	8,164,188	8,033,757

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

<i>(In thousands, except number of shares and per share data)</i>	Common Stock	Surplus	Retained Earnings	Net Unrealized Gains (Losses) on Securities Available for Sale	Employee Stock Ownership Plan	Bank Recognition and Retention Plan	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 1998	<u>\$2,449</u>	<u>\$ 5,984</u>	<u>\$ 77,581</u>	<u>\$ 82</u>	<u>\$ (68)</u>	<u>\$ (30)</u>	<u>\$ (8,209)</u>	<u>\$ 77,789</u>
Net income for 1999	-	-	10,229	-	-	-	-	10,229
Change in unrealized gains (losses) on securities available for sale, net of tax benefit of \$3 million	-	-	-	(5,864)	-	-	-	(5,864)
Total comprehensive income	-	-	10,229	(5,864)	-	-	-	4,365
Purchase of treasury stock (102,740 shares)	-	-	-	-	-	-	(2,337)	(2,337)
Sale of treasury stock (125,000 shares)	-	-	-	-	-	-	2,249	2,249
Exercise and repurchase of stock options (93,000 shares), net of tax benefit of \$525	-	(338)	-	-	-	-	(637)	(975)
Retirement of treasury stock (31,983 shares)	-	(270)	(66)	-	-	-	336	-
Payment of obligation under employee stock ownership plan	-	388	21	-	68	-	-	477
Bank recognition and retention plan	-	-	-	-	-	10	-	10
71,440 shares issued under stock option plans	1	226	-	-	-	-	-	227
Cash dividends declared (\$0.52 / share)	-	-	(4,182)	-	-	-	-	(4,182)
Balance at December 31, 1999	<u>\$2,450</u>	<u>\$5,990</u>	<u>\$ 83,583</u>	<u>\$ (5,782)</u>	<u>\$ -</u>	<u>\$ (20)</u>	<u>\$ (8,598)</u>	<u>\$ 77,623</u>
Net income for 2000	-	-	13,859	-	-	-	-	13,859
Change in unrealized gains on securities available for sale, net of deferred taxes of \$2.6 million	-	-	-	4,970	-	-	-	4,970
Total comprehensive income	-	-	13,859	4,970	-	-	-	18,829
Purchase of treasury stock (24,950 shares)	-	-	-	-	-	-	(394)	(394)
Exercise and repurchase of stock options (8,680 shares), net of tax benefit of \$6	-	(62)	-	-	-	-	40	(22)
Exercise of stock options (2,933 shares), net of tax benefit of \$11	-	(19)	-	-	-	-	50	31
Bank recognition and retention plan	-	-	-	-	-	6	-	6
Cash dividends declared (\$0.63 / share)	-	-	(5,150)	-	-	-	-	(5,150)
Balance at December 31, 2000	<u>\$2,450</u>	<u>\$5,909</u>	<u>\$ 92,292</u>	<u>\$ (812)</u>	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ (8,902)</u>	<u>\$ 90,923</u>
Net income for 2001	-	-	15,418	-	-	-	-	15,418
Cumulative effect to record unrealized appreciation on securities held to maturity transferred to securities available for sale (net of taxes of \$1,021)	-	-	-	1,982	-	-	-	1,982
Change in unrealized gains on securities available for sale, net of deferred taxes of \$1.7 million	-	-	-	3,344	-	-	-	3,344
Total comprehensive income	-	-	15,418	5,326	-	-	-	20,744
Purchase of treasury stock (87,560 shares)	-	-	-	-	-	-	(1,444)	(1,444)
Exercise and repurchase of stock options (19,926 shares), net of tax benefit of \$41	-	(114)	-	-	-	-	34	(80)
Bank recognition and retention plan	-	-	-	-	-	5	-	5
Acquisition of minority interest	-	-	146	-	-	-	-	146
Cash dividends declared (\$0.64 / share)	-	-	(5,226)	-	-	-	-	(5,226)
Balance at December 31, 2001	<u>\$2,450</u>	<u>\$5,795</u>	<u>\$102,630</u>	<u>\$ 4,514</u>	<u>\$ -</u>	<u>\$ (9)</u>	<u>\$ (10,312)</u>	<u>\$105,068</u>

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In thousands)

YEAR ENDED DECEMBER 31,

	2001	2000	1999
Operating Activities			
Net Income	\$ 15,418	\$ 13,859	\$ 10,229
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,681	2,930	3,670
Depreciation and amortization	2,545	1,371	1,089
Decrease in obligation under ESOP and BRRP	5	6	487
Decrease (increase) in interest receivable	1,905	(1,117)	(551)
(Increase) decrease in other assets	(1,659)	2,744	(3,755)
Increase (decrease) in other liabilities	2,474	(5,343)	6,004
Decrease (increase) in residential mortgage loans held for sale	12,838	(5,932)	1,322
(Decrease) increase in minority position	(176)	61	25
Gain on sale of securities	(336)	—	(151)
Net cash provided by operating activities	<u>36,695</u>	<u>8,579</u>	<u>18,369</u>
Investing Activities			
Proceeds from sales and maturities of securities held to maturity	—	10,587	29,909
Proceeds from sales and maturities of securities available for sale	39,805	8,509	20,402
Purchase of securities held to maturity	(944)	—	—
Purchase of securities available for sale	(77,217)	(12,456)	(72,072)
Purchase of Federal Home Loan Bank Stock	—	(174)	(331)
Net increase in loans	(36,508)	(61,493)	(69,424)
Net decrease (increase) in other real estate owned	185	1,025	(353)
Purchase of premises and equipment	(3,503)	(5,506)	(1,421)
Net decrease (increase) in federal funds sold	—	415	(415)
Purchase of bank-owned life insurance	—	(10,000)	—
Cash paid in connection with acquisitions	(4,563)	—	—
Cash received through acquisitions	567	—	—
Net cash used by investing activities	<u>(82,178)</u>	<u>(69,093)</u>	<u>(93,705)</u>
Financing Activities			
Net increase in deposits	19,208	76,640	26,167
Proceeds from Federal Home Loan Bank borrowings	3,698,976	5,299,675	2,611,375
Repayments on Federal Home Loan Bank borrowings	(3,662,492)	(5,296,193)	(2,565,421)
Net increase (decrease) in other borrowed funds	5,919	(8,966)	14,288
Purchase of treasury stock	(1,444)	(394)	(2,337)
Sale of treasury stock	—	—	2,249
Proceeds from stock issuance under option plan	—	31	227
Exercise and repurchase of stock options	(80)	(22)	(975)
Acquisition of minority interest	146	—	—
Cash dividends paid	(5,226)	(5,150)	(4,182)
Net cash provided by financing activities	<u>55,007</u>	<u>65,621</u>	<u>81,391</u>
Net increase in cash and cash equivalents	9,524	5,107	6,055
Cash and cash equivalents at beginning of year	29,337	24,230	18,175
Cash and cash equivalents at end of year	<u>\$ 38,861</u>	<u>\$ 29,337</u>	<u>\$ 24,230</u>
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	\$ 36,594	\$ 39,516	\$ 30,270
Income tax	7,878	6,320	6,057
Non-Cash transactions:			
Transfer from loans to other real estate owned	371	302	1,418
Securitization of mortgage loans	57,000	—	—
Transfer from securities held to maturity to available for sale	57,695	—	—
Transfer from loans held for sale to loan portfolio	—	—	24,637

See Note 2, "Acquisitions," of the Notes to Consolidated Financial Statements, on page 31, for acquisition disclosure. The accompanying Notes are an integral part of these Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2001, 2000 and 1999

(Amounts in tables expressed in thousands, except number of shares and per share data)

NATURE OF OPERATIONS.

Camden National Corporation (the "Company"), as a multi-bank holding company, provides financial services to its customers through four principal subsidiaries. Camden National Bank and UnitedKingfield Bank provide traditional commercial and consumer financial services through 28 branch locations in central, southern, mid-coast and western Maine and by online access. Acadia Trust, N.A. and Trust Company of Maine, Inc. provide trust and investment management services to their clients, who are primarily located in the State of Maine, and to the clients of the Company's two banking subsidiaries.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies conform to accounting principles generally accepted in the United States and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies.

Principles of Consolidation. The accompanying Consolidated Financial Statements include the accounts of the Company, its wholly owned bank subsidiaries, Camden National Bank and UnitedKingfield Bank, and its wholly owned non-bank subsidiaries, Acadia Trust, N.A. and Trust Company of Maine, Inc. All intercompany accounts and transactions have been eliminated in consolidation. Assets held by the non-bank subsidiaries in a fiduciary capacity are not assets of the Company and, therefore, are not included in the Consolidated Statement of Condition.

Use of Estimates in the Preparation of Financial Statements. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the carrying value of real estate owned, management obtains independent appraisals for significant properties.

Cash. The Company is required to comply with various laws and regulations of the Federal Reserve Bank ("FRB") which require the Company to maintain certain amounts of cash on deposit and restrict the Company from investing those amounts. The Company maintains those balances at the FRB of Boston. In the normal course of business, the Company has funds on deposit at other financial institutions in amounts in excess of the \$100,000 insured by the Federal Deposit Insurance Corporation ("FDIC"). For the statement of cash flows, cash equivalents consist of cash and due from banks.

Investment Securities. The Company has classified its investment securities into investments available for sale and investments to be held to maturity.

Securities Available for Sale. Debt and other securities that are to be held for indefinite periods of time are stated at market value. Changes in net unrealized gains or losses are recorded as an adjustment to shareholders' equity until realized. Market values of securities are determined by prices obtained from independent market sources. Realized gains and losses on securities sold are computed on the identified cost basis on the trade date.

Securities Held to Maturity. Bonds and notes for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Residential Mortgages Held for Sale. Residential mortgages held for sale are primarily one-to-four family real estate loans which are valued at the lower of cost or market on an individual basis, as determined by quoted market prices from the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Gains and losses from sales of residential mortgages held for sale are recognized upon settlement with investors and recorded in other income. These activities, together with underwriting residential mortgage loans, comprise the Company's mortgage banking business.

Loan Servicing. The cost of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the following predominant risk characteristics of the underlying loans: interest rate, fixed versus variable rate, and period of origination. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

Loans. Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, interest income is reduced for all accrued but unpaid interest.

Fees received and direct costs incurred for the origination of loans are deferred and recognized as an adjustment of loan yield.

The allowance for loan losses is maintained at a level adequate to absorb future charge-offs of loans deemed uncollectible. Management determines the adequacy of the allowance based upon reviews of individual credits, recent loss experience, current economic conditions, known and inherent risk characteristics of the various categories of loans, adverse situations that may affect the borrower's ability to repay, estimated value of underlying collateral, and other pertinent factors. The allowance is increased by provisions charged to operating expense and by recoveries on loans previously charged off. Credits deemed uncollectible are charged against the allowance.

Loans considered to be impaired are reduced to the present value of expected future cash flows or to the fair value of collateral, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause the allowance for loan losses to require an increase, such increase is reported as provision for loan losses.

The carrying values of impaired loans are periodically adjusted to reflect cash payments, revised estimates of future cash flows, and increases in the present value of expected cash flows due to the passage of time. Cash payments representing interest income are reported as such. Other cash payments are reported as reductions in carrying value, while increases or decreases due to changes in estimates of future payments and due to the passage of time are reported as provision for loan losses.

Other Real Estate Owned. Other real estate owned represents real estate acquired through foreclosure or upon receipt of a deed in lieu of foreclosure and is recorded at the lower of the recorded amount of the loan or market value of the underlying collateral, less estimated selling costs, determined by an independent appraisal, with any difference at the time of acquisition treated as a loan loss. Subsequent reductions in market value below the carrying cost are charged directly to other operating expenses.

Premises and Equipment. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the related assets.

Intangible Assets. The value of core deposits premium with respect to \$104.0 million in deposits acquired by the Company in connection with the acquisition, in 1998, of 8 branch locations is being amortized over periods ranging from 10 to 15 years using the straight-line method. Accumulated amortization of core deposit intangibles was \$3,921,000 and \$2,969,000 at December 31, 2001 and 2000, respectively. Amortization of software is recognized using the straight-line method over the estimated useful lives of the various software items, which primarily is 3 years. On an ongoing basis, management reviews the valuation and amortization of intangible assets to determine possible impairment.

Other Borrowed Funds. Other borrowed funds consist of commercial and consumer repurchase agreements and treasury tax and loan deposits. Securities sold under agreements to repurchase generally mature within 30 days and are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Treasury tax and loan deposits generally do not have fixed maturity dates.

Income Taxes. The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax implications attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Principal temporary differences occur with respect to pension and other postretirement benefits, depreciation and the provision for loan losses.

Earnings Per Share. Basic earnings per share data is computed based on the weighted average number of the Company's common shares outstanding during each year. Potential common stock is considered in the calculation of weighted-average shares outstanding for diluted earnings per share, and is determined using the treasury stock method.

Financial Instruments with Off-Balance Sheet Risk. In the ordinary course of business, the Company has entered into credit related financial instruments consisting of commitments to extend credit, commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Derivative Financial Instruments Designated as Hedges. In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which sets accounting and reporting standards for derivative instruments and hedging activities. The Statement, as amended by SFAS No. 138, requires the Company to recognize all derivatives in the Consolidated Statement of Condition at fair value. The Company adopted the Statement effective January 1, 2001 and transferred all of its investment securities classified as held to maturity to the available-for-sale classification. The impact of this reclassification was an increase to other comprehensive income of \$2.0 million, net of applicable taxes, which was reported as a cumulative effect adjustment to other comprehensive income.

Under the provisions of SFAS No. 133, the Company recognizes all derivatives in the Consolidated Statement of Condition at fair value. On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge") or a "held for trading" ("trading instrument") instrument. The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is highly effective and that qualifies as a cash flow hedge are recorded in other comprehensive income and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge, and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is highly effective. Those derivatives that are classified as trading activities are recorded at fair value with changes in fair value recorded in earnings. The Company discontinues hedge accounting when it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

Fair Value Disclosures. The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts of cash and due from banks approximates its fair value.

Securities held to maturity and securities available for sale: Fair values of securities held to maturity and securities available for sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying amounts of other securities approximate their fair value.

Residential mortgages held for sale: Fair values are based on quoted market prices from Freddie Mac.

Loans receivable: For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Interest receivable and payable: The carrying amounts of interest receivable and payable approximate their fair value.

Life insurance policies: The carrying amounts of life insurance policies approximate their fair value.

Deposits: The fair value of demand and NOW deposits, savings accounts, and certain money market deposits is the amount payable on demand. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered in the Company's market for deposits of similar remaining maturities.

Borrowings: The carrying amounts of short-term borrowings from the Federal Home Loan Bank of Boston ("FHLBB"), securities under repurchase agreements and other short-term borrowings approximate fair value. The fair value of long-term borrowings is based on the discounted cash flows using current rates for advances of similar remaining maturities.

Derivative financial instruments: Fair values for interest rate swaps, floor and cap contracts are based on quoted market prices.

Credit related financial instruments: In the course of originating loans and extending credit and standby letters of credit, the Company charges fees in exchange for its lending commitment. While these commitment fees have value, the Company does not believe their value is material to its financial statements due to the short-term nature of the underlying commitments.

Effect of Recently Issued Financial Standards. During 2001, the FASB issued SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets," SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

SFAS No. 141 requires that the purchase method be used to account for business combinations initiated after June 30, 2001.

SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceases upon adoption of the Statement on January 1, 2002.

SFAS Nos. 143 and 144 provide guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and obligations associated with the retirement of tangible long-lived assets. Management does not expect these statements to have any material effect on the Company's consolidated financial condition and results of operations.

Reclassification. Certain items from the prior year were restated to conform with the current year presentation.

2. ACQUISITIONS

On July 19, 2001, the Company acquired 100% of the outstanding common stock of Acadia Trust, N.A. ("Acadia") and Gouws Capital Management, Inc. ("Gouws Capital"). Acadia, headquartered in Portland, Maine and founded in 1991, is a nationally chartered trust company offering traditional trust services and was custodian and trustee, at the date of acquisition, for approximately \$300 million in assets. Gouws Capital, founded in 1984 and also headquartered in Portland, Maine, offers investment advisory services to high net worth individuals and institutions. Gouws Capital had approximately \$342 million of assets under management at the date of acquisition, of which approximately \$300 million was held at Acadia. The purchase of Acadia and Gouws Capital was accounted for as a "purchase" under SFAS No. 141, "Business Combinations."

The Company has recognized goodwill equal to the sum of the cost of the acquisition and the difference between the fair value of the assets acquired less the liabilities assumed as follows:

Cost of acquisition	\$ 4,563
Fair value of assets acquired	(2,479)
Liabilities assumed	<u>1,076</u>
Goodwill related to acquisition	<u>\$ 3,160</u>

On October 24, 2001, the Company acquired the remaining 49% of Trust Company of Maine, Inc. ("TCOM"). The Company acquired the majority ownership (51%) of TCOM in December 1995 through the Company's merger with UnitedCorp, then the parent of TCOM. TCOM is a trust company chartered under the laws of the State of Maine and has its principal office in Bangor, Maine. TCOM provides a broad range of trust, trust-related and investment services, in addition to retirement and pension plan management services, to both individual and institutional clients. This transaction resulted in the recognition of \$1.1 million in goodwill.

Goodwill recorded as part of the acquisitions has not been amortized and will be measured for impairment as required by SFAS No. 142. In addition, under the purchase method of accounting, the results of operations of the acquired subsidiaries are included in the results of operations only from their respective dates of acquisition.

3. INVESTMENT SECURITIES

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

	DECEMBER 31, 2001			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Available for sale				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 58,204	\$ 2,894	\$ -	\$ 61,098
Obligations of states and political subdivisions	8,923	21	(164)	8,780
Mortgage-backed securities	136,094	3,391	(26)	139,459
Other debt securities	<u>41,295</u>	<u>826</u>	<u>(158)</u>	<u>41,963</u>
Total debt securities	<u>244,516</u>	<u>7,132</u>	<u>(348)</u>	<u>251,300</u>
Equity securities	<u>11,509</u>	<u>133</u>	<u>(76)</u>	<u>11,566</u>
Total securities available for sale	<u>\$256,025</u>	<u>\$ 7,265</u>	<u>\$ (424)</u>	<u>\$262,866</u>
Held to maturity				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 944	\$ -	\$ -	\$ 944
Total securities held to maturity	<u>\$ 944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 944</u>

	DECEMBER 31, 2000			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
Available for sale				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 57,919	\$ 1,088	\$ (299)	\$ 58,708
Obligations of states and political subdivisions	8,208	-	(280)	7,928
Mortgage-backed securities	30,174	179	(236)	30,117
Other debt securities	<u>45,780</u>	<u>-</u>	<u>(1,313)</u>	<u>44,467</u>
Total debt securities	<u>142,081</u>	<u>1,267</u>	<u>(2,128)</u>	<u>141,220</u>
Equity securities	<u>18,464</u>	<u>150</u>	<u>(519)</u>	<u>18,095</u>
Total securities available for sale	<u>\$160,545</u>	<u>\$ 1,417</u>	<u>\$(2,647)</u>	<u>\$159,315</u>
Held to maturity				
U.S. Treasury securities and obligations of				
U.S. government corporations and agencies	\$ 300	\$ -	\$ (25)	\$ 275
Obligations of states and political subdivisions	1,142	12	-	1,154
Other debt securities	595	14	(11)	598
Mortgage-backed securities	<u>55,658</u>	<u>3,038</u>	<u>(25)</u>	<u>58,671</u>
Total securities held to maturity	<u>\$ 57,695</u>	<u>\$ 3,064</u>	<u>\$ (61)</u>	<u>\$ 60,698</u>

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2001 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
<hr/>		
Available for sale		
Due in one year or less	\$ 8,545	\$ 8,812
Due after one year through five years	60,115	62,972
Due after five years through ten years	28,171	28,800
Due after ten years	<u>147,685</u>	<u>150,716</u>
	<u>\$244,516</u>	<u>\$251,300</u>
<hr/>		
	AMORTIZED	FAIR
	COST	VALUE
Held to maturity		
Due in one year or less	<u>\$ 944</u>	<u>\$ 944</u>
	<u>\$ 944</u>	<u>\$ 944</u>

For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated to the due-after-ten-years category.

Proceeds from the sale of investments classified as available for sale during 2001 were \$7,356,490, which resulted in gross realized gains of \$336,423. There were no sales in the held-to-maturity portfolio during 2001. There were no sales in either the available-for-sale or held-to-maturity portfolios during 2000. Proceeds from the sale of investments classified as held to maturity during 1999 were \$5,023,000, which resulted in a gross realized gain of \$26,000. The investments were sold within 3 months of the maturity date. In 1999, proceeds from the sale of investments classified as available for sale were \$10,637,000, which resulted in a gross realized gain of \$125,000.

At December 31, 2001 and 2000, securities with an amortized cost of \$78,113,000 and \$78,539,000 and a fair value of \$80,934,000 and \$79,504,000, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and other purposes required or permitted by law.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has interest rate protection agreements (caps) with notional amounts of \$90.0 million at December 31, 2001. These caps are used to limit the Company's exposure to a rising rate environment. Under these agreements the Company paid up front premiums of \$239,000 for the right to receive cash flow payments in excess of the predetermined cap rate; thus, effectively capping its interest rate cost for the duration of the agreement. In accordance with SFAS No. 133, management designates these caps as cash-flow hedges. For a qualifying cash flow hedge, an interest rate cap will be carried on the Consolidated Statement of Condition at fair value with the time and option volatility value changes reflected in the current Consolidated Statement of Income. Any intrinsic value will be recorded in other comprehensive income and recognized in future Consolidated Statements of Income as an offset to related future interest costs. As of December 31, 2001 the caps have no fair value and therefore there was no effect on the Consolidated Statement of Income or other comprehensive income.

As part of its interest rate risk management, the Company used interest rate swap agreements to hedge a portfolio of brokered certificates of deposit. These swaps were designated as a fair value hedge since they were used to convert the cost of the certificates of deposit from a fixed to a variable rate. These swaps were called during the third quarter and subsequently the Company exercised the call option on the brokered certificates of deposit offsetting the swaps. Since the hedge relationship was estimated to be 100 percent effective (gain or loss on the swap agreements will completely offset the gain or loss on the brokered certificates of deposit) there was no impact on the Consolidated Statement of Income or on the Consolidated Statement of Changes in Shareholders' Equity.

On April 11, 2001 the Company sold an interest rate floor agreement and an interest rate swap agreement. The purpose of the interest rate floor was to protect net interest income from falling interest rates by "flooring" certain asset yields for a contracted period of time, and thus provide a minimum earnings level from these assets. The purpose of the interest rate swap agreement was to exchange a

variable rate asset for a fixed rate asset, thus protecting certain asset yields from falling interest rates. With a substantial decline in the interest rate environment, it was determined that it would be economically advantageous to sell both the interest rate floor agreement and the interest rate swap agreement rather than wait for the potential cash flows over the life of these instruments. In addition, subsequent to the Company having purchased these instruments, other strategies were implemented to protect the balance sheet in a declining interest rate environment including the use of short-term funding and the extension of fixed rate assets. The impact of the sale of the interest rate floor and interest rate swap agreements was an increase to net income of \$614,800, net of applicable taxes.

5. LOANS

The composition of the Company's loan portfolio at December 31 was as follows:

	2001	2000
Commercial loans	\$423,893	\$364,169
Residential real estate loans	204,819	223,625
Consumer loans	86,375	90,231
Municipal loans	9,234	10,924
Other loans	497	462
Total loans	<u>724,818</u>	<u>689,411</u>
Less deferred loan fees net of costs	776	909
Less allowance for loan losses	<u>13,514</u>	<u>10,801</u>
	<u>\$710,528</u>	<u>\$677,701</u>

The Company's lending activities are conducted in mid-coast, southern, central and western Maine. The Company makes single family and multi-family residential loans, commercial real estate loans, business 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.

As of December 31, 2001 and 2000, nonaccrual loans were \$7,022,000 and \$4,644,000, respectively. Interest foregone was approximately \$505,000, \$528,000 and \$408,000 for 2001, 2000 and 1999, respectively.

6. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	DECEMBER 31,		
	2001	2000	1999
Beginning balance	\$10,801	\$ 9,390	\$ 8,092
Provision for loan losses	3,681	2,930	3,670
Recoveries	581	626	288
Loans charged off	<u>(1,549)</u>	<u>(2,145)</u>	<u>(2,660)</u>
Net charge offs	<u>(968)</u>	<u>(1,519)</u>	<u>(2,372)</u>
Ending balance	<u>\$13,514</u>	<u>\$10,801</u>	<u>\$ 9,390</u>

Information regarding impaired loans is as follows:

	DECEMBER 31,		
	2001	2000	1999
Average investment in impaired loans	\$ 6,030	\$ 5,871	\$ 5,455
Interest income recognized on impaired loans, all on cash basis	330	241	452
Balance of impaired loans	7,022	4,644	6,136
Portion of impaired loan balance for which an allowance for credit losses is allocated	7,022	4,644	6,136
Portion of allowance for loan losses allocated to the impaired loan balance	1,862	860	1,179

7. SECURITIZATION OF MORTGAGE LOANS

During September 2001, the Company implemented a balance sheet restructuring program that included the securitization, with Freddie Mac, of \$57.0 million of fixed rate residential mortgages. This transaction resulted in the Company's loan balances decreasing, as those assets shifted to investment securities. The Company will receive annual servicing fees as compensation for servicing the outstanding balances. The Company has no retained interests in the securitized residential mortgage loans. In addition, \$677,300 of mortgage servicing rights associated with this transaction were recognized in income during 2001. The Company did not securitize any loans during 2000 or 1999.

8. MORTGAGE SERVICING

Residential real estate mortgages are originated by the Company both for portfolio and for sale into the secondary market. The sale of loans is to institutional investors such as Freddie Mac. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed-upon rate on the loan, which, including a guarantee fee paid to Freddie Mac, is less than the interest rate the Company receives from the borrower. The difference is retained by the Company as a fee for servicing the residential real estate mortgages. As required by SFAS No. 140, the Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans. Capitalized servicing rights totaled \$829,000, \$107,000 and \$171,000 during 2001, 2000 and 1999, respectively. Amortization expense totaled \$217,000, \$32,000 and \$22,000 for 2001, 2000 and 1999, respectively.

Mortgage loans serviced for others are not included in the accompanying Consolidated Statements of Condition of the Company. The unpaid principal balance of mortgage loans serviced for others was \$147,232,000, \$111,002,000 and \$105,263,000 at December 31, 2001, 2000 and 1999, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were \$341,000 and \$267,000 at December 31, 2001 and 2000, respectively.

9. PREMISES AND EQUIPMENT

Details of premises and equipment, at cost, at December 31 were as follows:

	2001	2000
Land and buildings	\$15,857	\$12,265
Furniture, fixtures and equipment	15,151	12,813
Leasehold improvements	1,222	1,186
Construction in process	—	2,524
	<u>32,230</u>	<u>28,788</u>
Less: Accumulated depreciation and amortization	<u>14,793</u>	<u>12,765</u>
	<u>\$17,437</u>	<u>\$16,023</u>

Depreciation expense was \$1,911,000, \$1,529,000 and \$1,553,000 for 2001, 2000 and 1999, respectively.

10. OTHER REAL ESTATE OWNED

The transactions in other real estate owned for the years ended December 31 were as follows:

	2001	2000	1999
Beginning balance	\$ 380	\$1,405	\$1,052
Additions	371	302	1,418
Properties sold	554	1,180	491
Writedowns	<u>2</u>	<u>147</u>	<u>574</u>
Ending balance	<u>\$ 195</u>	<u>\$ 380</u>	<u>\$1,405</u>

11. DEPOSITS

The aggregate amount of certificates of deposit with a minimum denomination of \$100,000 was approximately \$63,451,000 and \$74,329,000 at December 31, 2001 and 2000, respectively. Certificates of deposit included brokered deposits in the amount of \$46,196,000 and \$26,931,000 at December 31, 2001 and 2000, respectively.

At December 31, 2001, the scheduled maturities for all certificates of deposit were as follows:

2002	\$218,511
2003	53,161
2004	50,315
2005	16,700
2006	6,066
Thereafter	<u>4,430</u>
	<u>\$349,183</u>

12. BORROWINGS

A summary of the borrowings, including the outstanding balance of lines of credit, from the FHLBB is as follows:

DECEMBER 31, 2001

Principal Amounts	Interest Rates	Maturity Date
\$ 24,578	4.82% – 5.19%	2002
45,000	4.24% – 6.12%	2003
12,000	3.27% – 5.19%	2004
31,254	3.97% – 5.55%	2006
12,000	4.88% – 4.97%	2009
10,000	4.95%	2010
<u>34,000</u>	4.07% – 5.02%	2011
<u>\$168,832</u>		

DECEMBER 31, 2000

Principal Amounts	Interest Rates	Maturity Date
\$ 78,348	6.52% – 6.67%	2001
32,000	6.08% – 6.12%	2003
12,000	4.88% – 4.97%	2009
<u>10,000</u>	4.95%	2010
<u>\$132,348</u>		

Short- and long-term borrowings from the FHLBB consist of both fixed and adjustable rate borrowings and are collateralized by all stock in the FHLBB and a blanket lien on qualified collateral consisting primarily of loans with first mortgages secured by one-to-four family properties, certain unencumbered investment securities and other qualified assets. The carrying value of loans pledged as collateral was \$194,659,000 and \$228,511,000 at December 31, 2001 and 2000, respectively. The FHLBB at its discretion can call \$86,000,000 of the Company's long-term borrowings. The Company, through its bank subsidiaries, has an available line of credit with FHLBB of \$12,980,000 at December 31, 2001 and 2000. The Company had no outstanding balance on its line of credit with the FHLBB at December 31, 2001 or December 31, 2000.

The Company utilizes other borrowings in the form of treasury, tax and loan deposits and repurchase agreements secured by U.S. government or agency securities. Balances outstanding at December 31 are shown in the table below:

	2001	2000
Treasury, tax and loan deposits	\$ 1,058	\$ 1,031
Securities sold under repurchase agreements	<u>40,953</u>	<u>35,061</u>
Total other borrowed funds	<u>\$42,011</u>	<u>\$36,092</u>
Weighted-average rate at the end of period	3.68%	4.24%

13. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company's postretirement plans provide medical and life insurance to certain eligible retired employees. It is the Company's policy to fund the cost of postretirement health care and life insurance plans as premiums are paid; therefore, there are no plan assets.

On October 17, 2000, the Company terminated the defined-benefit noncontributory pension plan, which covered substantially all eligible employees over 21 years of age with 1 year of employment. Total plan assets of \$5,168,000 were distributed to eligible employees during the first half of 2001. During 2000, the Company recognized \$437,000 of net income due to the overaccrual of the benefit obligation at the date of plan termination.

Information regarding the postretirement benefit plan is as follows:

	2001	2000	1999
Change in benefit obligation			
Benefit obligation at beginning of the year	\$ 724	\$ 481	\$ 399
Service cost	43	38	25
Interest cost	50	32	28
Actuarial (gain) loss	(22)	200	50
Benefits paid	<u>(30)</u>	<u>(27)</u>	<u>(21)</u>
Benefit obligation at end of year	<u>765</u>	<u>724</u>	<u>481</u>
Funded status	(765)	(724)	(481)
Unrecognized net actuarial loss	237	273	77
Unrecognized net prior service cost	<u>(78)</u>	<u>(94)</u>	<u>(110)</u>
Accrued benefit cost	<u>\$ (606)</u>	<u>\$ (545)</u>	<u>\$ (514)</u>
Weighted-average discount rate assumption	7.0%	7.0%	7.0%

	2001	2000	1999
Components of net periodic benefit cost			
Service cost	\$ 43	\$ 38	\$ 25
Interest cost	50	32	28
Amortization of prior service cost	(16)	(16)	(16)
Recognized net actuarial loss	<u>14</u>	<u>3</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 91</u>	<u>\$ 57</u>	<u>\$ 37</u>

For measurement purposes, a 6.3% annual rate of increase in the per capita cost to cover health care benefits was assumed for 2002. The rate was assumed to decrease gradually to a 6.0% annual growth rate after 5 years, and remain at a 6.0% annual growth rate thereafter. A 1.0% increase or decrease in the assumed health care cost trends rate would not have a material impact on the accumulated postretirement benefit obligation due to a built-in cap on annual benefits.

The Company also sponsors an unfunded, non-qualified supplemental retirement plan for certain officers. The agreement provides participants will be paid a life annuity upon retirement or death. Prior to September 1, 1999 the plan provided supplemental retirement payments over 15 years upon retirement or death.

The expense of this supplemental plan was \$399,000, \$347,000 and \$309,000 in 2001, 2000 and 1999, respectively. The accrued liability of this plan at December 31, 2001 and 2000 was \$1,562,000 and \$1,318,000, respectively.

401(k) / Profit Sharing Plan

The Company has a 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions and may make additional contributions subject to the discretion of the Board of Directors. For the years ended December 31, 2001, 2000 and 1999, aggregate expenses under the plan amounted to \$527,000, \$214,000 and \$171,000, respectively.

Employee Stock Ownership Plan

During 1999, the Company, as successor to KSB Bancorp, Inc. ("KSB"), had an Employee Stock Ownership Plan ("ESOP"). As of the merger date (December 20, 1999), all liabilities related to this plan were paid. Total ESOP expense was \$368,765 in 1999.

Bank Recognition and Retention Plan

The Company, as successor to KSB, maintains a Bank Recognition and Retention Plan ("BRRP") as a method of providing certain officers and other employees of the Company with a proprietary interest in the Company. During 1994, the Company contributed funds to the BRRP to enable such Company officers and employees to acquire, in the aggregate, 56,045 shares of common stock of the Company. The Company recognizes expense related to the BRRP based on the vesting schedule. Participants are vested at a rate of 20% per year commencing 1 year from the date of the award. Total expense related to the BRRP was \$5,712 for 2001 and 2000, and \$9,726 for 1999.

14. SEGMENT REPORTING

The Company, through its bank and non-bank subsidiaries, provides a broad range of financial services to individuals and companies in the State of Maine. These services include lending, demand deposits, savings and time deposits, cash management and trust services. While the Company's senior management team monitors operations of each subsidiary, these subsidiaries primarily operate in the banking industry. Substantially all revenues and services are derived from banking products and services in Maine. Accordingly, the Company's subsidiaries are considered by management to be aggregated in 1 reportable operating segment.

15. SHAREHOLDERS' EQUITY

The primary source of funds available to the Company for payment of dividends to its shareholders are dividends paid to the Company by its subsidiaries. The Company's subsidiary banks are subject to certain requirements imposed by state and federal banking laws and regulations. These requirements, among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by the subsidiary banks to the Company.

The Company has 3 stock option plans accounted for under Accounting Principles Board Opinion 25 ("APB 25") and related interpretations, as permitted under SFAS No. 123, "Accounting for Stock-Based Compensation." The 1993 stock option plan, which is the plan currently available for future grants, allows the Company to grant options to employees for up to 19,732 additional shares of Company common stock. Under all 3 plans, the options are immediately vested when granted, and expire 10 years from the date the option was granted. The exercise price of all options equals the market price of the Company's stock on the date of grant. Therefore, in accordance with APB 25, no compensation cost has been recognized for the plans. Had compensation cost for the plans been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 123, the Company's net income and earnings per share for 2001 and 1999 would have been reduced to the pro forma amounts indicated below. The Company's net income and earnings per share for 2000 are equal to pro forma amounts since there were no options granted during the year ended December 31, 2000.

	NET INCOME	EARNINGS PER SHARE	
		BASIC	DILUTED
2001			
As reported	\$15,418	\$1.90	\$1.89
Pro forma	15,348	1.89	1.88
2000			
As reported	\$13,859	\$1.70	\$1.69
Pro forma	13,859	1.70	1.69
1999			
As reported	\$10,229	\$1.27	\$1.27
Pro forma	9,985	1.24	1.24

The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions used for all grants; in 2001 dividend yield of 2.6%, expected volatility of 1.35%, risk-free interest rate of 4.93%, and expected lives of 10 years; in 1999 dividend yield of 3.3%, expected volatility of 1.35%, risk-free interest rate of 4.75%, and expected lives of 10 years.

A summary of the status of the Company's stock option plans as of December 31, 2001, 2000 and 1999, and changes during the years ended on those dates is presented below.

	2001	
	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of year	183,729	\$14.29
Granted during the year	5,000	16.00
Exercised during the year	19,926	11.13
Forfeited during the year	<u>21,640</u>	<u>16.56</u>
Outstanding at end of year	<u>147,163</u>	<u>\$14.44</u>
Exercisable at end of year	<u>147,163</u>	<u>\$14.44</u>
Weighted-average fair value of options granted during the year		\$14.06
2000		
	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of year	199,842	\$14.13
Exercised during the year	11,613	11.55
Forfeited during the year	<u>4,500</u>	<u>14.47</u>
Outstanding at end of year	<u>183,729</u>	<u>\$14.29</u>
Exercisable at end of year	<u>183,729</u>	<u>\$14.29</u>

1999

	Number of Shares	Weighted-average Exercise Price
Outstanding at beginning of year	337,366	\$ 9.62
Granted during the year	18,180	16.28
Exercised during the year	164,440	4.91
Reload options granted during the year	<u>8,736</u>	<u>10.26</u>
Outstanding at end of year	<u>199,842</u>	<u>\$14.13</u>
Exercisable at end of year	<u>184,393</u>	<u>\$13.95</u>
Weighted-average fair value of options granted during the year		\$13.42

The following table summarizes information related to options outstanding at December 31, 2001:

Number Outstanding	Remaining Contractual Life	Weighted-average Exercise Price
10,246	1.0	\$12.80
67,500	4.0	12.33
59,917	6.0	16.67
4,500	7.0	18.38
<u>5,000</u>	<u>10.0</u>	<u>16.00</u>
<u>147,163</u>	<u>4.9</u>	<u>\$14.44</u>

16. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2001	2000	1999
Net income, as reported	\$ 15,418	\$ 13,859	\$ 10,229
Weighted-average shares	8,123,928	8,164,188	8,033,757
Effect of dilutive employee stock options	33,558	14,617	33,877
Adjusted weighted-average shares and assumed conversion	8,157,486	8,178,805	8,067,634
Basic earnings per share	\$ 1.90	\$ 1.70	\$ 1.27
Diluted earnings per share	\$ 1.89	\$ 1.69	\$ 1.27

Options to purchase 10,500 and 93,908 shares of common stock at an average exercise price of \$18.75 and \$16.54 per share were outstanding at December 31, 2001 and 2000, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common stock.

17. INCOME TAXES

The current and deferred components of income tax expense were as follows:

	2001	2000	1999
Current:			
Federal	\$5,759	\$4,836	\$5,095
State	<u>241</u>	<u>219</u>	<u>188</u>
	6,000	5,055	5,283
Deferred:			
Federal	<u>1,162</u>	<u>1,188</u>	<u>(100)</u>
	<u>\$7,162</u>	<u>\$6,243</u>	<u>\$5,183</u>

The actual expense differs from the expected tax expense computed by applying the applicable U.S. federal corporate income tax rate to earnings before income taxes, as follows:

	2001	2000	1999
Computed tax expense	\$7,903	\$7,036	\$5,394
Increase (reduction) in income taxes resulting from:			
Tax exempt income	(342)	(471)	(349)
State taxes, net of federal benefit	157	142	122
Income from life insurance	(305)	(264)	(92)
Acquisition costs	89	27	452
Low income housing credits	(303)	(303)	(221)
Other	(37)	76	(123)
	<u>\$7,162</u>	<u>\$6,243</u>	<u>\$5,183</u>

Items which give rise to deferred income tax assets and liabilities and the tax effect of each are as follows:

	2001		2000	
	Asset	Liability	Asset	Liability
Allowance for possible losses on loans	\$4,643	\$ -	\$3,697	\$ -
Allowance for investment losses	86	-	86	-
Capitalized costs	175	-	231	-
Pension and other benefits	760	-	652	-
Depreciation	153	-	-	183
Deferred loan origination fees	-	354	-	226
Deferred compensation and benefits	336	-	312	-
Unrealized (gains) losses on investments available for sale	-	2,325	418	-
Unrealized appreciation on loans held for sale	40	-	167	-
Valuation of other real estate owned	-	-	20	-
Interest receivable	229	-	185	-
Deposit premium	326	-	80	-
Mortgage servicing rights	-	296	-	82
Other	113	-	26	-
	<u>\$6,861</u>	<u>\$2,975</u>	<u>\$5,874</u>	<u>\$491</u>

The related income taxes have been calculated using a rate of 35%. No valuation allowance is deemed necessary for the deferred tax asset, which is included in other assets.

Retained earnings include \$222,000 representing an allocation for income tax bad debt deductions prior to 1988, referred to as the base year reserve. No income taxes have been provided for the base year reserve, though it continues to be subject to provisions of present law that require recapture in the case of certain excess distributions to shareholders.

18. RELATED PARTIES

In the ordinary course of business, the Company has made loans to certain officers and directors and the companies with which they are associated. All such loans were made under terms that are consistent with the Company's normal lending policies. Changes in the composition of the board of directors or the group comprising executive officers result in additions to or deductions from loans outstanding to directors, executive officers, or principal shareholders.

Loans to related parties which in aggregate exceed \$60,000 were as follows:

	2001	2000
Balance, January 1,	\$14,298	\$16,178
Loans made/advanced and additions	5,328	4,545
Repayments and reductions	<u>5,089</u>	<u>6,425</u>
Balance, December 31	<u>\$14,537</u>	<u>\$14,298</u>

In addition to the loans noted on the previous page, the Company had deposits at December 31, 2001 and 2000 from the same individuals of \$4,936,000 and \$4,763,000, respectively.

19. LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's Consolidated Financial Statements.

20. FINANCIAL INSTRUMENTS

Credit Related Financial Instruments

In the normal course of business, the Company is a party to credit related financial instruments with off-balance sheet risk, which are not reflected in the accompanying Consolidated Statements of Condition. These financial instruments include lending commitments and letters of credit. Those instruments involve varying degrees of credit risk in excess of the amount recognized in the Consolidated Statements of Condition.

The Company follows the same credit policies in making commitments to extend credit and conditional obligations as it does for on-balance sheet instruments, including requiring similar collateral or other security to support financial instruments with credit risk. The Company's exposure to credit loss in the event of nonperformance by the customer is represented by the contractual amount of those instruments. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. The Company has not incurred any losses on its commitments in 2001, 2000 or 1999.

Derivative Financial Instruments

The Company uses derivative instruments as hedges against large fluctuations in interest rates. The Company uses interest rate swap and floor instruments to hedge against potentially lower yields on the variable prime rate loan category in a declining rate environment. If rates were to decline, resulting in reduced income on the adjustable rate loans, there would be an increased income flow from the interest rate swap and floor instruments. The Company also uses cap instruments to hedge against increases in short-term borrowing rates. If rates were to rise, resulting in an increased interest cost, there would be an increased income flow from the cap instruments.

At least quarterly, all financial instruments are reviewed as part of the asset/liability management process. The financial instruments are factored into the Company's overall interest rate risk position. The Company regularly reviews the credit quality of the counterparty from which the instruments have been purchased.

As of December 31, 2001, the Company had \$90 million (notional principal amount) in cap contracts (\$20 million and \$70 million) with strike rates of 7.50% and 7.00%, respectively, and both mature in 2002. During 2001, the Company had \$25 million (notional principal amount) in callable interest rate swaps that were called. The Company also sold \$10 million (notional principal amount) in interest rate swaps and \$10 million (notional principal amount) in floor contracts during 2001.

At December 31, 2001 and 2000, the contractual or notional amounts of credit related and derivative financial instruments were as follows:

	2001	2000
Contractual		
Commitments to extend credit	\$124,261	\$99,108
Letters of credit	1,506	1,865
Notional		
Swaps	—	35,000
Floors	—	10,000
Caps	90,000	90,000

The estimated fair values of the Company's financial instruments reported in the Consolidated Statements of Condition were as follows:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	\$ 38,861	\$ 38,861	\$ 29,337	\$ 29,337
Securities available for sale	262,866	262,866	159,315	159,315
Securities held to maturity	944	944	57,695	60,698
Residential mortgages held for sale	—	—	12,838	12,838
Loans receivable	710,528	703,750	677,701	674,814
Interest receivable	5,054	5,054	6,959	6,959
Life insurance policies	17,713	17,713	16,842	16,842
Financial liabilities:				
Deposits	\$763,568	\$763,298	\$744,360	\$745,291
Borrowings from Federal Home Loan Bank	168,832	163,834	132,348	131,680
Other borrowed funds	42,011	42,011	36,092	36,092
Interest payable	3,058	3,058	3,963	3,963

The estimated fair values of the Company's derivative financial instruments were as follows:

	DECEMBER 31, 2001			
	Notional Principal	Contract Date	Maturity Date	Fair Value Including Accruals
Interest Rate Caps	\$ 20,000	26-Jul-00	26-Jul-02	\$ —
	<u>70,000</u>	23-Oct-00	23-Oct-02	<u>—</u>
	<u>\$ 90,000</u>			<u>\$ —</u>
DECEMBER 31, 2000				
	Notional Principal	Contract Date	Maturity Date	Fair Value Including Accruals
Interest Rate Swaps	\$ 10,000	23-Dec-99	23-Dec-04	\$316
	20,000	11-Aug-00	11-Aug-10	39
	<u>5,000</u>	23-Aug-00	23-Feb-06	<u>13</u>
	<u>\$ 35,000</u>			<u>\$368</u>
Interest Rate Floors	<u>\$ 10,000</u>	10-May-00	12-May-05	<u>\$258</u>
Interest Rate Caps	\$ 20,000	26-Jul-00	26-Jul-02	\$ 12
	<u>70,000</u>	23-Oct-00	23-Oct-02	<u>31</u>
	<u>\$ 90,000</u>			<u>\$ 43</u>

21. REGULATORY MATTERS

The Company and its bank subsidiaries are subject to various regulatory capital requirements administered by the FRB, the Comptroller of the Currency and the FDIC. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's Consolidated Financial Statements.

These capital requirements represent quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital classification is also subject to qualitative judgments by its regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that, as of December 31, 2001, the Company and its bank subsidiaries meet all capital requirements to which they are subject.

As of December 31, 2001, both bank subsidiaries were categorized by their supervisory regulatory agencies as well capitalized. To be categorized as well capitalized, each bank subsidiary of the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the banks' respective capital categories.

The ability of the Company to pay cash dividends depends on the receipt of dividends from its subsidiaries. The Company, as the sole shareholder of its subsidiaries, is entitled to dividends from legally available funds when and as declared by each subsidiary's Board of Directors.

The Company's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount \geq	Ratio \geq	Amount \geq	Ratio \geq
As of December 31, 2001						
Total Capital (To Risk-Weighted Assets):						
Consolidated	\$100,533	14.2%	\$56,650	8.0%	N/A	
Camden National Bank	58,979	12.4%	37,996	8.0%	\$47,495	10.0%
UnitedKingfield Bank	26,722	11.6%	18,444	8.0%	23,055	10.0%
Tier 1 Capital (To Risk-Weighted Assets):						
Consolidated	\$91,624	12.9%	\$28,325	4.0%	N/A	
Camden National Bank	53,010	11.2%	18,998	4.0%	\$28,497	6.0%
UnitedKingfield Bank	23,814	10.3%	9,222	4.0%	13,833	6.0%
Tier 1 Capital (To Average Assets):						
Consolidated	\$91,624	8.7%	\$42,011	4.0%	N/A	
Camden National Bank	53,010	7.7%	27,733	4.0%	\$34,666	5.0%
UnitedKingfield Bank	23,814	6.8%	14,014	4.0%	17,517	5.0%

As of December 31, 2000

Total Capital (To Risk-Weighted Assets):

Consolidated	\$94,077	13.1%	\$57,618	8.0%	N/A	
Camden National Bank	59,373	12.3%	38,735	8.0%	\$48,419	10.0%
UnitedKingfield Bank	27,685	11.7%	18,883	8.0%	23,603	10.0%

Tier 1 Capital (To Risk-Weighted Assets):

Consolidated	\$85,074	11.8%	\$28,809	4.0%	N/A	
Camden National Bank	53,320	11.0%	19,368	4.0%	\$29,051	6.0%
UnitedKingfield Bank	24,734	10.5%	9,441	4.0%	14,162	6.0%

Tier 1 Capital (To Average Assets):

Consolidated	\$85,074	8.6%	\$39,482	4.0%	N/A	
Camden National Bank	53,320	8.3%	25,722	4.0%	\$32,152	5.0%
UnitedKingfield Bank	24,734	7.3%	13,548	4.0%	16,935	5.0%

22. HOLDING COMPANY

Following are the condensed Statements of Condition, Income and Cash Flows for the Company.

Statements of Condition December 31,

	2001	2000
Assets		
Cash	\$ 2,411	\$ 216
Premises and equipment	6,034	4,731
Investment in subsidiaries:		
Bank subsidiaries	90,266	83,903
Other subsidiaries	4,659	184
Amounts receivable from subsidiaries	292	-
Goodwill	-	41
Other assets	2,965	2,762
Total assets	<u>\$106,627</u>	<u>\$91,837</u>
Liabilities & Shareholders' Equity		
Amounts due to subsidiaries	\$ -	\$ 663
Accrued and other expenses	1,559	251
Shareholders' equity	<u>105,068</u>	<u>90,923</u>
Total liabilities and shareholders' equity	<u>\$106,627</u>	<u>\$91,837</u>

Statements of Income
For Years Ended December 31,

	2001	2000	1999
Operating Income			
Dividend income from subsidiaries	\$14,787	\$ 7,756	\$ 8,256
Fees from subsidiaries	7,999	6,300	3,579
Other income	<u>12</u>	<u>70</u>	<u>10</u>
Total operating income	<u>22,798</u>	<u>14,126</u>	<u>11,845</u>
Operating Expenses			
Salaries and employee benefits	4,537	3,698	2,158
Net occupancy	387	218	155
Furniture, equipment and data processing	893	886	709
Other operating expenses	2,275	1,558	1,353
Acquisition related expenses	<u>271</u>	<u>129</u>	<u>1,019</u>
Total operating expenses	<u>8,363</u>	<u>6,489</u>	<u>5,394</u>
Income before equity in undistributed earnings of subsidiaries	14,435	7,637	6,451
Equity in undistributed earnings of subsidiaries	<u>961</u>	<u>6,240</u>	<u>3,705</u>
Income before income taxes	15,396	13,877	10,156
Income tax benefit (expense)	<u>22</u>	<u>(18)</u>	<u>73</u>
Net Income	<u>\$15,418</u>	<u>\$13,859</u>	<u>\$10,229</u>

Statements of Cash Flows
For Years Ended December 31,

	2001	2000	1999
Operating Activities			
Net income	\$15,418	\$13,859	\$10,229
Adjustments to reconcile net income earnings to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(961)	(6,240)	(3,705)
Depreciation and amortization	404	299	300
Decrease in obligation under ESOP and BRRP	5	6	487
Amortization of goodwill	41	5	5
(Increase) decrease in amount receivable from subsidiaries	(292)	2,367	(427)
Increase in other assets	(203)	(131)	(2,292)
Increase (decrease) in payables	<u>645</u>	<u>(998)</u>	<u>(1,799)</u>
Net cash provided by operating activities	<u>15,057</u>	<u>9,167</u>	<u>2,798</u>
Investing Activities			
Purchase of premises and equipment	(1,707)	(3,497)	(347)
Investment in Acadia Trust, N.A.	<u>(4,551)</u>	<u>-</u>	<u>-</u>
Net cash used by investing activities	<u>(6,258)</u>	<u>(3,497)</u>	<u>(347)</u>
Financing Activities			
Proceeds from sale of treasury stock	-	-	2,249
Exercise and repurchase of stock options	(80)	(22)	(975)
Acquisition of minority interest	146	-	-
Purchase of treasury stock	(1,444)	(394)	(2,337)
Dividends paid	(5,226)	(5,150)	(4,182)
Proceeds from stock issuance under stock option plan	<u>-</u>	<u>31</u>	<u>227</u>
Net cash used by financing activities	<u>(6,604)</u>	<u>(5,535)</u>	<u>(5,018)</u>
Net increase (decrease) in cash	2,195	135	(2,567)
Cash at beginning of year	<u>216</u>	<u>81</u>	<u>2,648</u>
Cash at end of year	<u>\$ 2,411</u>	<u>\$ 216</u>	<u>\$ 81</u>