CAMDEN NATIONAL CORP
Form 10-K
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

Commission File No. 0-28190

CAMDEN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

MAINE	**01-0413282**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

2 ELM STREET, CAMDEN, ME	**04843**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	**Name of exchange on which registered**
Common Stock, without par value	**The NASDAQ Stock Market LLC**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last day of the registrants most recently completed second fiscal quarter: $228,038,251. Shares of the Registrant s common stock held by each executive officer, director and person who beneficially own 5% or more of the Registrant s outstanding common stock have been excluded, in that such persons may be deemed to be

affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of each of the registrant s classes of common stock, as of March 7, 2008 is: Common Stock: 7,741,450.

Listed hereunder are documents incorporated by reference and the relevant Part of the Form 10-K into which the document is incorporated by reference:

(1) Certain information required in response to Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K are incorporated by reference from Camden National Corporation s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders pursuant to Regulation 14A of the General Rules and Regulations of the Commission.

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CAMDEN NATIONAL CORPORATION

2007 FORM 10-K ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

The discussions set forth below and in the documents we incorporate by reference herein contain certain statements that may be considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. The Company may make written or oral forward-looking statements in other documents we file with the Securities Exchange Commission, in our annual reports to shareholders, in press releases and other written materials and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words believe, expect, anticipate, intend, estimate, assume, will, should expressions which predict or indicate future events or trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include, but are not limited to, the following:

general, national or regional economic conditions could be less favorable than anticipated, including fears of recession and continued sub-prime issues, impacting the performance of the Company s investment portfolio, quality of credits or the overall demand for services;

changes in loan default and charge-off rates could affect the allowance for loan and lease losses;

adverse weather conditions and increases in energy costs could negatively impact State and local tourism, thus potentially affecting the ability of loan customers to meet their repayment obligations;

declines in the equity markets which could result in impairment of goodwill;

reductions in deposit levels could necessitate increased and/or higher cost borrowing to fund loans and investments;

declines in mortgage loan refinancing, equity loan and line of credit activity which could reduce net interest and non-interest income;

changes in the domestic interest rate environment and inflation, as substantially all of the assets and virtually all of the liabilities are monetary in nature;

continuation of increases in short-term market interest rates without a corresponding increase in longer-term market interest rates, adversely affecting net interest income;

misalignment of the Company s interest-bearing assets and liabilities;

increases in loan repayment rates affecting net interest income and the value of mortgage servicing rights;

changes in accounting rules, Federal and State laws, regulations and policies governing financial holding companies and their subsidiaries;

changes in industry-specific and information system technology creating operational issues or requiring significant capital investment;

changes in the size and nature of the Company s competition, including industry consolidation and financial services provided by non-bank entities affecting customer base and profitability;

risks related to the merger of Union Bankshares Company with and into the Company, including but not limited to the risk of system integration issues, staffing issues, adverse customer service issues, and failing to meet the financial objectives of the merger;

changes in the global geo-political environment, such as acts of terrorism and military action; and

changes in the assumptions used in making such forward-looking statements.

You should carefully review all of these factors, and be aware that there may be other factors that could cause differences, including the risk factors listed in Item 1A. Risk Factors, beginning on page 12. Readers should carefully review the risk factors described therein and should not place undue reliance on our forward-looking statements.

These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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PART I

Item 1. Business

***Overview*.** Camden National Corporation (hereafter referred to as we, our, us, or the Company) is a publicly held, bank holding company, with $1.7 billion in assets, incorporated under the laws of the State of Maine and headquartered in Camden, Maine. The Company, as a diversified financial services provider, pursues the objective of achieving long-term sustainable growth by balancing growth opportunities against profit, while mitigating risks inherent in the financial services industry. The primary business of the Company and its subsidiaries is to attract deposits from, and to extend loans to, consumer, institutional, non-profit and commercial customers. The Company makes its commercial and consumer banking products and services available directly and indirectly through its subsidiary, Camden National Bank (CNB), and its brokerage and insurance services through Acadia Financial Consultants (AFC), which operates as a division of CNB. The Company also provides wealth management, trust and employee benefit products and services through its other subsidiary, Acadia Trust, N.A. (AT), a federally regulated, non-depository trust company headquartered in Portland, Maine. In addition to serving as a holding company, the Company provides managerial, operational, human resource, marketing, financial management, risk management and technology services to its subsidiaries. The Consolidated Financial Statements of the Company accompanying this Form 10-K include the accounts of the Company, CNB, and AT. All inter-company accounts and transactions have been eliminated in consolidation.

On January 3, 2008, the Company completed the acquisition of Union Bankshares Company and its banking subsidiary Union Trust Company. As this report is dated as of December 31, 2007, the operating results of Union Bankshares have not been included with those of the Company.

Descriptions of the Company and the Company s Subsidiaries.

The Company. The Company was founded in January 1984 following a corporate reorganization in which the shareholders of CNB exchanged shares of CNB stock for shares in the Company. As a result of this share exchange, the Company became CNB s sole parent. In December 1995, the Company merged with UnitedCorp, a bank holding company headquartered in Bangor, Maine, and acquired 100% of the outstanding stock of United Bank and 51% of the outstanding stock of the Trust Company of Maine, Inc. (TCOM). On December 20, 1999, the Company acquired KSB Bancorp, Inc., a publicly-held, bank holding company organized under the laws of the State of Delaware and having its principal office in the State of Maine, with one principal subsidiary, Kingfield Savings Bank (KSB), a Maine-chartered stock savings bank with its principal office in Kingfield, Maine. Effective February 4, 2000, United Bank and KSB were merged to form UnitedKingfield Bank (UKB). On July 19, 2001, the Company acquired AT and Gouws Capital Management, Inc., which was merged into AT on December 31, 2001. On October 24, 2001, the Company acquired the remaining minority interest in TCOM. On January 1, 2003, TCOM merged with AT, with AT remaining as the surviving entity. Effective September 30, 2006, UKB was merged into CNB.

As of December 31, 2007, the Company s securities consisted of one class of common stock, no par value, of which there was 6,513,573 shares outstanding held of record by approximately 987 shareholders. Such number of record holders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees, which is estimated to be 2,500 shareholders.

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

Camden National Bank. CNB, a direct, wholly-owned subsidiary of the Company, is a national banking association chartered under the laws of the United States and having its principal office in Camden, Maine. Originally founded in 1875, CNB became a direct, wholly-owned subsidiary of the Company as a result of the January 1984 corporate reorganization. CNB offers its products and services in the communities of Bangor, Belfast, Bingham, Bucksport,

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Camden, Corinth, Damariscotta, Dover-Foxcroft, Farmington, Greenville, Hampden, Hermon, Kennebunk, Kingfield, Lewiston, Madison, Milo, Phillips, Portland, Rangeley, Rockland, Stratton, Thomaston, Union, Vinalhaven and Waldoboro, Maine, and focuses primarily on attracting deposits from the general public through its branches, and then using such deposits to originate residential mortgage loans, commercial business loans, commercial real estate loans and a variety of consumer loans. AFC is a full-service brokerage and insurance division of CNB. Customers may also access CNB s products and services using other channels, including CNB s internet website located at www.camdennational.com. CNB is a member bank of the Federal Reserve System and is subject to supervision, regulation and examination by the Office of the Comptroller of the Currency (the OCC). The Federal Deposit Insurance Corporation (the FDIC) insures the deposits of CNB up to the maximum amount permitted by law.

Union Trust Company. As a result of the acquisition of Union Bankshares Company and its banking subsidiary Union Trust Company, CNB will operate the nine branches located throughout Hancock and Washington counties, Maine, as Union Trust, a Division of Camden National Bank.

Acadia Trust, N.A. AT, a direct, wholly-owned subsidiary of the Company, is a national banking association chartered under the laws of the United States with a limited purpose trust charter, and has its principal office in Portland, Maine, and an internet website located at www.acadiatrust.com. AT provides a broad range of trust, trust-related, investment and wealth management services, in addition to retirement and pension plan management services, to both individual and institutional clients. The financial services provided by AT complement the services provided by CNB by offering customers investment management services. AT is a member bank of the Federal Reserve System and is subject to supervision, regulation and examination by the OCC as well as to supervision, examination and reporting requirements under the BHC Act and the regulations of the FRB.

Competition. Through CNB and its division AFC, the Company competes in midcoast, southern, central, and western Maine, and considers its primary market areas to be in Knox, Waldo, Penobscot and Androscoggin counties, with a growing presence in Cumberland, Hancock, Lincoln and York counties, all in the State of Maine. The combined population of the two primary counties of Knox and Waldo is approximately 79,900 people, and their economies are based primarily on tourism, and supported by a substantial population of retirees. CNB s central and western Maine markets are characterized as rural areas, with the exception of Bangor and Lewiston, which have populations of approximately 31,550 and 36,000 respectively. Major competitors in the Company s market areas include local branches of large regional bank affiliates and brokerage houses, as well as local independent banks, financial advisors, thrift institutions and credit unions. Other competitors for deposits and loans within CNB s primary market areas include insurance companies, money market funds, consumer finance companies and financing affiliates of consumer durable goods manufacturers.

The Company and its banking subsidiary generally have been able to effectively compete with other financial institutions by emphasizing customer service, which it has branded the Camden National Experience, including local decision-making, establishing long-term customer relationships, building customer loyalty and providing products and services designed to meet the needs of customers. No assurance can be given, however, that in the future, the Company and its banking subsidiary will continue to be able to effectively compete with other financial institutions.

The Company, through its non-bank subsidiary, AT, competes for trust, trust-related, investment management, retirement and pension plan management services with local banks and non-banks, which may now, or in the future, offer a similar range of services, as well as with a number of brokerage firms and investment advisors with offices in the Company s market area. In addition, most of these services are widely available to the Company s customers by telephone and over the Internet through firms located outside the Company s market area.

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The Company s Philosophy. The Company is committed to the philosophy of serving the financial needs of customers in local communities, as described in its core purpose: *Through each interaction, we will enrich the lives of people, help businesses succeed and vitalize communities*. The Company, through CNB, has branches that are located in communities within the Company s geographic market areas. The Company believes that its comprehensive retail, small business and commercial loan products enable CNB to effectively compete. No single person or group of persons provides a material portion of the Company s deposits, the loss of any one or more of which would have a materially adverse effect on the business of the Company, and no material portion of the Company s loans are concentrated within a single industry or group of related industries.

The Company s Growth. The Company has achieved a five-year compounded annual asset growth rate of 7.1%, resulting in $1.7 billion in total assets as of the end of 2007. The primary factors contributing to the growth were increases in security investment and retail lending activities at CNB. The Company s performance-based compensation program has also supported this growth by creating an environment where employees have a personal interest in the performance of the Company, and are rewarded for balancing profit with growth and quality with productivity.

The financial services industry continues to experience consolidations through mergers that could create opportunities for the Company to promote its value proposition to customers. The Company constantly evaluates the possibility of expansion into new markets through both de novo expansion and acquisitions, as exemplified by the acquisition of Union Bankshares Company, and its banking subsidiary Union Trust Company, which was consummated on January 3, 2008. The merger created a combined organization with 37 branch locations, $2.3 billion of assets and $1.5 billion of deposits. In addition, the Company is focused on maximizing the potential for growth in existing markets, especially in markets where the Company has less of a presence.

The Company s Employees. The Company employs approximately 315 people on a full-time equivalent basis. The Company s management measures the corporate culture every 18 months, and is pleased with the most recent rating, which came in as a high positive. In 2006, the Company was named one of the top five Best Places to Work in Maine in the large-size category (200 or more employees) by ModernThink, a workplace excellence firm. There are no known disputes between management and employees.

The Company s Employee Incentives. All Company employees are eligible for participation in the Company s performance-based incentive compensation program and Retirement Savings 401(k) Plan, while certain officers of the Company may also participate in various components of the Company s 2003 Stock Option Plan, Supplemental Executive Retirement Plan, Post-retirement Medical Plan, Defined Contribution Retirement Plan, Executive Incentive Compensation Program and Deferred Compensation Plan.

Supervision and Regulation. The business in which the Company and its subsidiaries are engaged is subject to extensive supervision, regulation and examination by various federal regulatory agencies, including the FRB and the OCC. Supervision, regulation and examination by these agencies is intended primarily to protect depositors or is aimed at carrying out broad public policy goals, and not necessarily for the protection of shareholders. We have more fully described below some of the more significant statutory and regulatory provisions applicable to banks and BHCs to which the Company and its subsidiaries are subject, together with certain statutory and regulatory matters concerning the Company and its subsidiaries. The description of these statutory and regulatory provisions does not purport to be complete and is qualified in its entirety by reference to the particular statutory or regulatory provision. Any change in applicable law or regulation may have a material effect on the Company s business and operations, as well as those of its subsidiaries.

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BHCs Activities and Other Limitations. As a registered BHC and a Maine financial institution holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHC Act) and to the laws of the State of Maine and the jurisdiction of the Maine Bureau of Financial Institutions. In addition, the Company is subject to examination and supervision by the FRB, and is required to file reports with, and provide additional information requested by, the FRB. The enforcement powers available to federal banking regulators include, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Under certain circumstances, federal and state law requires public disclosure and reports of certain criminal offenses and also final enforcement actions by the federal banking agencies.

Under the BHCA, the Company may not generally engage in activities or acquire more than 5% of any class of voting securities of any company which is not a bank or BHC, and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks, except that it may engage in and may own shares of companies engaged in certain activities the FRB determined to be so closely related to banking or managing and controlling banks as to be a proper incident thereto. However, a BHC that has elected to be treated as a financial holding company (FHC) may engage in activities that are financial in nature or incidental or complementary to such financial activities, as determined by the FRB alone, or together with the Secretary of the Department of the Treasury. The Company has not elected FHC status. Under certain circumstances, the Company may be required to give notice to or seek approval of the FRB before engaging in activities other than banking. In addition, Maine law imposes certain approval and notice requirements with respect to acquisitions of banks and other entities by a Maine financial institution holding company.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (Riegle-Neal) permits adequately or well capitalized and adequately or well managed BHCs, as determined by the FRB, to acquire banks in any state subject to certain concentration limits and other conditions. Riegle-Neal also generally authorizes the interstate merger of banks. In addition, among other things, Riegle-Neal permits banks to establish new branches on an interstate basis provided that the law of the host state specifically authorizes such action. However, as a bank holding company, we are required to obtain prior FRB approval before acquiring more than 5% of a class of voting securities, or substantially all of the assets, of a bank holding company, bank or savings association.

The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a BHC, such as the Company, unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a BHC with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, would, under the circumstances set forth in the presumption, constitute acquisition of control of the BHC. In addition, a company is required to obtain the approval of the FRB under the BHC Act before acquiring 25% (5% in the case of an acquirer that is a BHC) or more of any class of outstanding voting securities of a BHC, or otherwise obtaining control or a controlling influence over that BHC.

Activities and Investments of National Banking Associations. National banking associations must comply with the National Bank Act and the regulations promulgated thereunder by the OCC, which limit the activities of national banking associations to those that are deemed to be part of, or incidental to, the business of banking. Activities that are part of, or incidental to, the business of banking include taking deposits, borrowing and lending money and discounting or negotiating paper. Subsidiaries of national banking associations generally may only engage in activities permissible for the parent national bank.

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Bank Holding Company Support of Subsidiary Banks. Under FRB policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiaries and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of Federal Deposit Insurance Act, as amended (the FDIA), the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default.

Transactions with Affiliates. Under Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, there are various legal restrictions on the extent to which a BHC and its nonbank subsidiaries may borrow, obtain credit from or otherwise engage in covered transactions with its FDIC-insured depository institution subsidiaries. Such borrowings and other covered transactions by an insured depository institution subsidiary (and its subsidiaries) with its nondepository institution affiliates are limited to the following amounts:

- in the case of one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution; and
- in the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution.

Covered transactions are defined by statute for these purposes to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, or the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Covered transactions are also subject to certain collateral security requirements. Further, a BHC and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Declaration of Dividends. According to its Policy Statement on Cash Dividends Not Fully Covered by Earnings (the FRB Dividend Policy), the FRB considers adequate capital to be critical to the health of individual banking organizations and to the safety and stability of the banking system. Of course, one of the major components of the capital adequacy of a bank or a BHC is the strength of its earnings, and the extent to which its earnings are retained and added to capital or paid to shareholders in the form of cash dividends. Accordingly, the FRB Dividend Policy suggests that banks and BHCs generally should not maintain their existing rate of cash dividends on common stock unless the organization s net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition. The FRB Dividend Policy reiterates the FRB s belief that a BHC should not maintain a level of cash dividends to its shareholders that places undue pressure on the capital of bank subsidiaries, or that can be funded only through additional borrowings or other arrangements that may undermine the BHC s ability to serve as a source of strength.

Under Maine law, a corporation s board of directors may declare, and the corporation may pay, dividends on its outstanding shares, in cash or other property, generally only out of the corporation s unreserved and unrestricted earned surplus, or out of the unreserved and unrestricted net earnings of the current fiscal year and the next preceding fiscal year taken as a single period, except under certain circumstances, including when the corporation is insolvent, or when the payment of the dividend would render the corporation insolvent or when the declaration would be contrary to the corporation s charter.

Dividend payments by national banks, such as CNB, also are subject to certain restrictions. For instance, national banks generally may not declare a dividend in excess of the bank s undivided profits and, absent OCC approval, if the total amount of dividends declared by the national bank in any calendar year exceeds the total of the national bank s retained net income of that year to date combined with its retained net income for the preceding two years. National

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banks also are prohibited from declaring or paying any dividend if, after making the dividend, the national bank would be considered undercapitalized (defined by reference to other OCC regulations). Federal bank regulatory agencies have authority to prohibit banking institutions from paying dividends if those agencies determine that, based on the financial condition of the bank, such payment would constitute an unsafe or unsound practice.

Capital Requirements.

FRB Guidelines. The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a BHC and in analyzing applications to it under the BHC Act. The FRB s capital adequacy guidelines apply on a consolidated basis to BHCs with consolidated assets of $150 million or more; thus, these guidelines apply to the Company on a consolidated basis.

The FRB s capital adequacy guidelines generally require BHCs to maintain total capital equal to 8% of total risk-adjusted assets and off-balance sheet items, with at least one-half of that amount consisting of Tier 1 or core capital and the remaining amount consisting of Tier 2 or supplementary capital. Tier 1 capital for BHCs generally consists of the sum of common shareholders equity and restricted core capital elements (subject in the case of the latter to limitations on the kind and amount of such elements which may be included as Tier 1 capital), less goodwill and other non-qualifying intangible assets. Tier 2 capital generally consists of hybrid capital instruments; perpetual preferred stock, which is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan and lease losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

In addition to the risk-based capital requirements, the FRB requires BHCs to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to total assets of 3.0%. Total assets for this purpose do not include goodwill and any other intangible assets and investments that the FRB determines should be deducted from Tier 1 capital. The FRB has determined that the 3.0% leverage ratio requirement is the minimum for strong BHCs without any supervisory, financial or operational weaknesses or deficiencies or those that are not experiencing or anticipating significant growth. All other BHCs are required to maintain a minimum leverage ratio of at least 4.0%. BHCs with supervisory, financial, operational or managerial weaknesses, as well as BHCs that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The Company s risk-based capital ratio and leverage ratio currently are, and its management expects these ratios to remain, in excess of regulatory requirements.

OCC and FDIC Guidelines. The OCC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of national banks. These requirements are substantially similar to those adopted by the FRB. Moreover, the federal banking agencies have promulgated substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the prompt correction action regulations, a bank generally shall be deemed to be:

well capitalized if it has a total risk-based capital ratio of 10.0% or greater, has a Tier 1 risk-based capital ratio of 6.0% or greater, has a leverage ratio of 5.0% or greater and is not subject to any written agreement, order, capital directive or prompt corrective action directive;

adequately capitalized if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, has a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of well capitalized;

undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a leverage ratio that is less than 4.0% (3.0% under certain circumstances);

significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage ratio that is less than 3.0%; and

critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

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Regulators also must take into consideration (1) concentrations of credit risk; (2) interest rate risk (when the interest rate sensitivity of an institution s assets does not match the sensitivity of its liabilities or its off-balance-sheet position); and (3) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation will be made as a part of the institution s regular safety and soundness examination. In addition, the Company, and any bank with significant trading activity, must incorporate a measure for market risk into their regulatory capital calculations.

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. An institution, which is required to submit a capital restoration plan, must concurrently submit a performance guaranty by each company that controls the institution. A critically undercapitalized institution generally is to be placed in conservatorship or receivership within 90 days unless the federal banking agency determines to take such other action (with the concurrence of the FDIC) that would better protect the deposit insurance fund.

Immediately upon becoming undercapitalized, the institution becomes subject to the provisions of Section 38 of the FDIA, including for example, (i) restricting payment of capital distributions and management fees, (ii) requiring that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital, (iii) requiring submission of a capital restoration plan, (iv) restricting the growth of the institution s assets and (v) requiring prior approval of certain expansion proposals.

At December 31, 2007, the Company s subsidiary bank was deemed to be a well-capitalized institution for the above purposes. The federal bank regulatory agencies may raise capital requirements applicable to banking organizations beyond current levels. The Company is unable to predict whether higher capital requirements will be imposed and, if so, at what levels and on what schedules. Therefore, the Company cannot predict what effect such higher requirements may have on it. As is discussed above, the Company s subsidiary bank would be required to remain a well-capitalized institution at all times if the Company elected to be treated as an FHC.

Information concerning the Company and its subsidiaries with respect to capital requirements is incorporated by reference from Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, the section entitled Capital Resources, and Item 8. Financial Statements and Supplementary Data, the section entitled Note 22 Regulatory Matters.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective U.S. federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness related generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

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The various federal bank regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well capitalized institution must have a Tier 1 capital ratio of at least 6%, a total capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4%, a total capital ratio of at least 8% and a leverage ratio of at least 4%, or 3% in some cases. Under these guidelines, the Company is considered well capitalized.

In 2005, the federal banking agencies issued an advance notice of proposed rulemaking (ANPR) concerning potential changes in the risk-based capital rules (Basel 1-A) that are designed to apply to, and potentially reduce the risk capital requirements of, bank holding companies, such as the Company, that are not among the 20 or so largest U.S. bank holding companies. In December 2006, the FDIC issued a revised Interagency Notice of Proposed Rulemaking concerning Basel 1-A (the NPR), which would allow banks and bank holding companies that are not among the 20 or so largest U.S. bank holding companies (Core Banks) to either adopt Basel 1-A or remain subject to the existing risk-based capital rules. In July 2007 an interagency press release stated that the federal banking agencies have agreed to issue a proposed rule that would provide non-core banks with the option to adopt an approach consistent with the standardized approach of Basel II. This proposal would replace Basel 1-A. In November 2007 the federal banking agencies implemented Basel II for the Core Banks, permitting only the advance approach. The final rule implementing Basel II reiterated that non-core banks would have the option to take the standardized approach and that it is the agencies intention to have the standardized proposal finalized before the Core Banks begin the first transitional floor period under Basel II. Accordingly, the Company is not yet in a position to determine the effect of such rules on its risk capital requirements.

Other Regulatory Requirements

Community Reinvestment Act. The Community Reinvestment Act (CRA) requires lenders to identify the communities served by the institution s offices and other deposit taking facilities and to make loans and investments and provide services that meet the credit needs of these communities. Regulatory agencies examine each of the banks and rate such institutions compliance with CRA as Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. Failure of an institution to receive at least a Satisfactory rating could inhibit such institution or its holding company from undertaking certain activities, including engaging in activities newly permitted as a financial holding company under the GLBA and acquisitions of other financial institutions. The FRB must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low-and moderate-income neighborhoods. CNB has achieved a rating of Outstanding on their respective most recent examination.

Customer Information Security. The OCC and other bank regulatory agencies have adopted final guidelines for establishing standards for safeguarding nonpublic personal information about customers. These guidelines implement provisions of the Gramm-Leach-Bliley Act of 1999 (GLBA), which establishes a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHC Act framework. Specifically, the Information Security Guidelines established by the GLBA require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The federal banking regulators have issued guidance for banks on response programs for unauthorized access to customer information. This guidance, among other things, requires notice to be sent to customers whose sensitive information has been compromised if unauthorized use of this information is reasonably possible. A majority of states have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of data security breaches.

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Privacy. The OCC and other regulatory agencies have adopted final privacy rules pursuant to provisions of the GLBA. These privacy rules, which govern the treatment of nonpublic personal information about consumers by financial institutions, require a financial institution to provide notice to customers (and other consumers in some circumstances) about its privacy policies and practices, describe the conditions under which a financial institution may disclose nonpublic personal information to nonaffiliated third parties and provide a method for consumers to prevent a financial institution from disclosing that information to most nonaffiliated third parties by opting-out of that disclosure, subject to certain exceptions.

USA PATRIOT Act. The USA PATRIOT Act of 2001 (the PATRIOT Act), designed to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The PATRIOT Act requires financial institutions to implement additional policies and procedures with respect to money laundering, suspicious activities, currency transaction reporting, customer identity notification and customer risk analysis. The PATRIOT Act also permits information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and requires the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHC Act or the Bank Merger Act. In 2006, final regulations under the PATRIOT Act were issued requiring financial institutions, including CNB, to take additional steps to monitor their correspondent banking and private banking relationships as well as their relationships with shell banks. Management believes that it is currently in compliance with all requirements prescribed by the PATRIOT Act.

Deposit Insurance. The bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the FDI Reform Act). Pursuant to the FDI Reform Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the DIF) that covers both banks and savings associations. The FDIC also revised, effective January 1, 2007, the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF. For most banks and savings associations, including CNB, FDIC rates will depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency s evaluation of the financial institution s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings, and CAMELS component ratings. For institutions, such as CNB, which are in the lowest risk category, assessment rates will vary initially from five to seven basis points per $100 of insured deposits. The Federal Deposit Insurance Act (FDIA) as amended by the FDI Reform Act requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR) for a particular year within a range of 1.15% to 1.50%. For 2007 and 2008, the FDIC set the DRR at 1.25%. Under the FDI Reform Act and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. The FDIC also issued a one-time assessment credit pool to be shared among institutions that were in existence on December 31, 1996, or the successors of such institutions, and paid a deposit insurance assessment prior to that date. For 2007, CNB s share of the assessment credit pool was enough to cover its 2007 annual calculated contribution to the DIF, thus there was no impact to the Statement of Income for 2007. For 2008, CNB estimates its premium contribution will be 5.0 basis points per $100 of insured deposits. With only a small amount of the one-time assessment credit remaining, the 2008 contribution to the DIF will adversely impact the statement of income. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above 2008 levels.

Also as part of the FDI Reform Act, the FDIC has (i) increased the $100,000 per account insurance level will be indexed to reflect inflation; (ii) increased deposit insurance coverage for certain retirement accounts to $250,000; and (iii) placed a cap on the level of the DIF and dividends will be paid to banks once the level of the DIF exceeds the specified threshold.

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Identity Theft Red Flags. The federal banking agencies jointly issued final rules and guidelines in November 2007, implementing section 114 of the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) and final rules implementing section 315 of the FACT Act. The rules implementing section 114 require each financial institution or creditor to develop and implement a written Identity Theft Prevention Program (the Program) to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. In addition, the federal banking agencies issued guidelines to assist financial institutions and creditors in the formulation and maintenance of a Program that satisfies the requirements of the rules. The rules implementing section 114 also require credit and debit card issuers to assess the validity of notifications of changes of address under certain circumstances. Additionally, the federal banking agencies are issuing joint rules under section 315 that provide guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a consumer reporting agency sends the user a notice of address discrepancy. The joint final rules and guidelines are effective January 1, 2008. The mandatory compliance date for this rule is November 1, 2008.

Fair Credit Reporting Affiliate Marketing Regulations. In November 2007, the federal banking agencies published final rules to implement the affiliate marketing provisions in section 214 of the Fair and Accurate Credit Transactions Act of 2003, which amends the Fair Credit Reporting Act. The final rules generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations. These rules are effective January 1, 2008. The mandatory compliance date for these rules is October 1, 2008.

Available Information

The Company s Investor Relations information can be obtained through its subsidiary banks internet address, *www.camdennational.com*. The Company makes available on or through its Investor Relations page without charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company s reports filed with, or furnished to, the SEC are also available at the SEC s website at *www.sec.gov*. In addition, the Company makes available, free of charge, its press releases and Code of Ethics through the Company s Investor Relations page. Information on our website is not incorporated by reference into this document and should not be considered part of this Report.

Item 1A. Risk Factors

Interest rate volatility may reduce our profitability.

Our profitability depends to a large extent upon our net interest income, which is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowed funds. Net interest income can be affected significantly by changes in market interest rates. In particular, changes in relative interest rates may reduce our net interest income as the difference between interest income and interest expense decreases. As a result, we have adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments and funding sources. However, there can be no assurance that a change in interest rates will not negatively impact our results from operations or financial position. Since market interest rates may change by differing magnitudes and at different times, significant changes in interest rates over an extended period of time could reduce overall net interest income. An increase in interest rates could also have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations, which could not only result in increased loan defaults, foreclosures and write-offs, but also necessitate further increases to our allowance for loan and lease losses.

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Economic volatility may negatively impact our growth.

The current economic forecasts, including the increased possibility of a recession, combined with the subprime lending crisis and significant reductions in the federal funds rate, may negatively impact the demand for loans and the availability of deposits, thus impacting our ability to meet the loan and deposit growth needs of our business.

Our allowance for loan and lease losses may not be adequate to cover actual loan and lease losses.

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for probable loan and lease losses based on a number of factors. Monthly, the Corporate Risk Management group reviews the assumptions, calculation methodology and balance of the allowance for loan and lease losses (ALLL) with the board of directors for the bank subsidiary. On a quarterly basis, the Company s Board of Directors, as well as the board of directors for the subsidiary bank, completes a similar review of the ALLL. If the assumptions are incorrect, the ALLL may not be sufficient to cover the losses we could experience, which would have an adverse effect on operating results, and may also cause us to increase the ALLL in the future. If additional amounts were provided to the ALLL, our net income would decrease.

Our loans are concentrated in certain areas of Maine and adverse conditions in those markets could adversely affect our operations.

We are exposed to real estate and economic factors in the central, southern, western and midcoast areas of Maine, as virtually the entire loan portfolio is concentrated among borrowers in these markets. Further, because a substantial portion of the loan portfolio is secured by real estate in this area, the value of the associated collateral is also subject to regional real estate market conditions. Adverse economic, political or business developments or natural hazards may affect these areas and the ability of property owners in these areas to make payments of principal and interest on the underlying mortgages. If these regions experience adverse economic, political or business conditions, we would likely experience higher rates of loss and delinquency on these mortgage loans than if the loans were more geographically diverse.

If we do not maintain net income growth, the market price of our common stock could be adversely affected.

Our return on shareholders equity and other measures of profitability, which affect the market price of our common stock, depend in part on our continued growth and expansion. Our growth strategy has two principal components internal growth and external growth. Our ability to generate internal growth is affected by the competitive factors described below as well as by the primarily rural characteristics and related demographic features of the markets we serve. Our ability to continue to identify and invest in suitable acquisition candidates on acceptable terms is crucial to our external growth. In pursuing acquisition opportunities, we may be in competition with other companies having similar growth strategies. As a result, we may not be able to identify or acquire promising acquisition candidates on acceptable terms. Competition for these acquisitions could result in increased acquisition prices and a diminished pool of acquisition opportunities. An inability to find suitable acquisition candidates at reasonable prices could slow our growth rate and have a negative effect on the market price of our common stock.

We experience strong competition within our markets, which may impact our profitability.

Competition in the banking and financial services industry is strong. In our market areas, we compete for loans, deposits and other financial products and services with local independent banks, thrift institutions, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms operating locally as well as nationally. Many of these competitors have substantially greater resources and lending limits than those of our subsidiaries and may offer services that our subsidiaries do not or cannot provide. Our long-term success depends on the ability of our subsidiaries to compete successfully with other financial institutions in their service areas. Because we maintain a smaller staff and have fewer financial and other resources than larger institutions with which we compete, we may be limited in our ability to attract customers. If we are unable to attract and retain customers, we may be unable to sustain growth in the loan portfolio and our results of operations and financial condition may otherwise be negatively impacted.

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Our cost of funds for banking operations may increase as a result of general economic conditions, interest rates and competitive pressures.

Our banking subsidiary has traditionally obtained funds principally through deposits and borrowings. As a general matter, deposits are a less costly source of funds than borrowings because interest rates paid for deposits are typically less than interest rates charged for borrowings. If, as a result of general economic conditions, market interest rates, competitive pressures or otherwise, the value of deposits at our banking subsidiary decreases relative to our overall banking operations, we may have to rely more heavily on borrowings as a source of funds in the future.

Our banking business is highly regulated.

Bank holding companies and national banking associations operate in a highly regulated environment and are subject to supervision, regulation and examination by various federal regulatory agencies, as well as other governmental agencies in the states in which they operate. Federal and state laws and regulations govern numerous matters including changes in the ownership or control of banks and BHCs, maintenance of adequate capital and the financial condition of a financial institution, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. The OCC possesses cease and desist powers to prevent or remedy unsafe or unsound practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to BHCs. These and other restrictions limit the manner in which we may conduct business and obtain financing.

Our business is affected not only by general economic conditions, but also by the economic, fiscal and monetary policies of the United States and its agencies and regulatory authorities, particularly the FRB. The economic and fiscal policies of various governmental entities and the monetary policies of the FRB may affect the interest rates our bank subsidiary must offer to attract deposits and the interest rates they must charge on loans, as well as the manner in which they offer deposits and make loans. These economic, fiscal and monetary policies have had, and are expected to continue to have, significant effects on the operating results of depository institutions generally, including our bank subsidiary.

We could be held responsible for environmental liabilities of properties we acquire through foreclosure.

If we are forced to foreclose on a defaulted mortgage loan to recover our investment, we may be subject to environmental liabilities related to the underlying real property. Hazardous substances or wastes, contaminants, pollutants or sources thereof may be discovered on properties during our ownership or after a sale to a third party. The amount of environmental liability could exceed the value of the real property. There can be no assurance that we would not be fully liable for the entire cost of any removal and clean-up on an acquired property, that the cost of removal and clean-up would not exceed the value of the property, or that we could recoup any of the costs from any third party.

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

Although we do not have an aggressive acquisition strategy, we have acquired and will continue to consider the acquisition of other financial services companies. Related to our recent acquisition of Union Bankshares Company, and to the extent that we acquire other companies in the future, our business may be negatively impacted by certain risks inherent with such acquisitions. These risks include the following:

- the risk that the acquired business will not perform in accordance with management s expectations;
- the risk that difficulties will arise in connection with the integration of the operations of the acquired business with the operations of our businesses;
- the risk that management will divert its attention from other aspects of our business;
- the risk that we may lose key employees of the combined business; and
- the risks associated with entering into geographic and product markets in which we have limited or no direct prior experience.

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Due to the nature of our business, we may be subject to litigation from time to time, some of which may not be covered by insurance.

As a holding company and through our bank subsidiary, we operate in a highly regulated industry, and as a result, are subject to various regulations related to disclosures to our customers, our lending practices, and other fiduciary responsibilities, including those to our shareholders. From time to time, we have been, and may become, subject to legal actions relating to our operations that have had, or could, involve claims for substantial monetary damages. Although we maintain insurance, the scope of this coverage may not provide us with full, or even partial, coverage in any particular case. As a result, a judgment against us in any such litigation could have a material adverse effect on our financial condition and results of operation. Refer to Item 3. Legal Proceedings.

Changes in tax legislation could have a material impact on our results of operations.

Changes in tax legislation could have a material impact on our results of operations. The State of Maine may replace its current franchise tax on financial institutions with a corporate-based tax.

Item 1B. Unresolved Staff Comments

There are no material unresolved written comments relating to our periodic or current reports under the Securities Exchange Act of 1934 that were received from the SEC staff 180 days or more before the end of our fiscal year.

Item 2. Properties

The Company operates in 28 facilities, all of which are fully utilized and considered suitable and adequate for the purposes intended. The Company s service center is located at 245 Commercial Street, Rockport, Maine, and is owned by the Company. The building has 32,360 square feet of space on two levels. The headquarters of the Company and the headquarters and main office of CNB are located at 2 Elm Street, Camden, Maine. The building, which CNB owns, has 15,500 square feet of space on three levels. CNB also owns twenty of its branch facilities, none of which is subject to a mortgage. During 2007, CNB moved its Rockland branch to the renovated Spear Block building adjacent to the former branch. The Spear Block building, which is owned by CNB, has the CNB branch facility on the first floor and suites for rent or sale on the upper floors. CNB also leases eight branches, a parcel of land, a parking lot and parking spaces associated with those branches under long-term leases, which expire in 2008, 2009, 2010, 2011, 2014 and 2077. The Bangor, Maine building has 25,600 square feet of space on two levels. CNB occupies 16,975 square feet of space on both floors, the Company utilizes 2,042 square feet for off-site computer processing, and AT leases 1,110 square feet on the first floor and 535 square feet of space on the second floor. The remainder of the Bangor, Maine building and the former Rockland branch are leased to third-party tenants.

In 2005, AT renewed its facility lease at 511 Congress Street, Portland, Maine, under a long-term lease, which expires in May 2012. AT leases and occupies 11,715 square feet on the 9th floor. AT entered into a two-year lease agreement in February 2005 with CNB, an affiliated organization, located at 145 Exchange Street, Bangor, Maine, consisting of 1,645 square feet of office space.

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Item 3. Legal Proceedings

From time to time, we may be subject to litigation and claims arising in the normal course of business. In addition to the routine litigation incidental to its business, CNB was a defendant in a lawsuit brought by a former commercial customer, Steamship Navigation Company. The former customer claimed CNB broke a verbal promise for a $300,000 loan to fund operating expenses of its ski resort. As a result of this litigation, 20 of the original 21 counts were dismissed, leaving only the single breach of oral contract count, on which the jury returned a verdict against CNB and awarded damages of $1.5 million. Management of CNB and the Company reviewed this matter with counsel and the Company s outside auditors. Management believed that the allegations were unfounded and that it was probable that the judgment would be reversed upon appeal. As such, the Company filed a motion asking the judge to reverse the jury verdict and accompanying award of damages. On January 11, 2005, the motion was denied. On February 1, 2005, CNB filed an appeal of the verdict with the Law Court. On October 20, 2005, oral arguments were held to determine if the jury verdict should be upheld. On February 7, 2006, the Maine Supreme Judicial Court upheld a judgment for the plaintiff in the principal amount of $1.5 million. CNB also obtained and recorded judgments in the principal amount of $865,000 against Steamship Navigation Company, which partially set off the awarded damages. Based upon the assessment of settlement negotiations, CNB recorded a charge to earnings of $645,000 in 2006, which was the expected net amount of the offsetting judgments. On August 31, 2006, the Court denied Steamship Navigation Company s motion to revise or set aside CNB s judgment. The plaintiff s attorney filed an appeal arguing that the Court committed errors in this case, and on April 11, 2007, the Law Court heard oral arguments for the appeal. On May 8, 2007, the Law Court denied Steamship Navigation s appeal ruling that the trial court did not abuse its discretion or err in the case. CNB filed motions to authorize payment into the Court to satisfy its obligations to Steamship Navigation and to waive post judgment interest. On August 17, 2007, the Law Court decided that post judgment interest should be paid and calculated the amount of post judgment interest due. On August 22, 2007, CNB recorded an additional charge of approximately $94,000 related to post judgment interest and, combined with the original $645,000, paid the full amount owed of $739,000.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Prior to January 2, 2008, the Company stock was traded on the American Stock Exchange (AMEX) under the ticker symbol CAC. As of January 2, 2008, the Company stock listing was transferred to the NASDAQ Global Market (NASDAQ) under the ticker symbol CAC. The Company has paid quarterly dividends since its inception in 1985. The high and low sales prices (as quoted by AMEX) and cash dividends paid per share of the Company s common stock, by calendar quarter for the past two years were as follows:

	2007			2006		
	Market Price		Dividends Paid	Market Price		Dividends Paid
	High	Low	Per Share	High	Low	Per Share
First Quarter	**$ 46.34**	**$ 42.25**	**$ 0.24**	$ 38.95	$ 32.25	$ 0.22
Second Quarter	**$ 44.50**	**$ 37.02**	**$ 0.24**	$ 40.25	$ 36.50	$ 0.22
Third Quarter	**$ 40.47**	**$ 34.05**	**$ 0.24**	$ 44.74	$ 39.60	$ 0.22
Fourth Quarter	**$ 35.38**	**$ 28.03**	**$ 0.24**	$ 47.97	$ 38.90	$ 0.22

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As of December 31, 2007, there were 6,513,573 shares of the Company s common stock outstanding. As of March 7, 2008, there were 7,741,450 shares of the Company s common stock outstanding held of record by approximately 1,456 shareholders, as obtained through our transfer agent. Such number of record holders does not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms and other nominees, which is estimated to be 3,500 shareholders based on the number of requested copies from such institutions. The significant increase in shares outstanding between December 31, 2007 and March 7, 2008 is a result of the acquisition of Union Bankshares Company, at the close of which the Company issued 1.2 million shares to former Union Bankshares Company shareholders as stock consideration for the purchase.

Although the Company has historically paid quarterly dividends on its common stock (as disclosed in the table above), the Company s ability to pay such dividends depends on a number of factors, including restrictions under federal laws and regulations on the Company s ability to pay dividends, and as a result, there can be no assurance that dividends will be paid in the future. For further information, refer to Item 6. Selected Financial Data for dividend related ratios and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, specifically the Capital Resources section, for dividend restrictions.

Securities authorized for issuance under equity compensation plans are as follows:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (excluding securities in column a) (c)
Equity compensation plans approved by shareholders	**112,897**	**$ 36.75**	**665,931**
Equity compensation plans not approved by shareholders			
Total	**112,897**	**$ 36.75**	**665,931**

Refer to Notes 1 and 16 within the Notes to Consolidated Financial Statements within Item 8. Financial Statements and Supplementary Data for further information related to the Company s equity compensation plans.

In June 2007, the Board of Directors of the Company voted to authorize the Company to purchase up to 750,000 shares of its authorized and issued common stock. The authority, which expires on July 1, 2008, may be exercised from time to time and in such amounts as market conditions warrant. Any repurchases are intended to make appropriate adjustments to the Company s capital structure, including meeting share requirements related to employee benefit plans and for general corporate purposes. During the fourth quarter of 2007, the Company made the following purchases under this plan:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/07 12/31/07		**$**		**750,000**

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Item 6. Selected Financial Data

(In thousands, except per share data)	DECEMBER 31, 2007	2006	2005	2004	2003
FINANCIAL CONDITION DATA					
Assets	**$ 1,716,788**	$ 1,769,886	$ 1,653,257	$ 1,489,865	$ 1,370,363
Loans	**1,145,639**	1,218,129	1,182,175	1,069,294	966,855
Allowance for Loan and Lease Losses	**13,653**	14,933	14,167	13,641	14,135
Investments	**463,834**	444,093	367,629	323,998	303,749
Deposits	**1,118,051**	1,185,801	1,163,905	1,014,601	900,996
Borrowings	**460,133**	437,364	347,039	336,820	338,408
Shareholders Equity	**120,203**	107,052	129,538	126,405	119,706

	YEAR ENDED DECEMBER 31, 2007	2006	2005	2004	2003
OPERATIONS DATA					
Interest Income	**$ 107,736**	$ 107,238	$ 89,721	$ 73,377	$ 72,146
Interest Expense	**57,866**	53,048	34,697	24,365	24,487
Net Interest Income	**49,870**	54,190	55,024	49,012	47,659
Provision for (Recovery of) Loan and Lease Losses	**100**	2,208	1,265	(685)	(150)
Net Interest Income after Provision for (Recovery of) Loan and Lease Losses	**49,770**	51,982	53,759	49,697	47,809
Non-Interest Income	**12,652**	11,629	10,050	11,399	10,829
Non-Interest Expense	**33,686**	34,224	32,461	31,882	30,424
Income Before Provision for Income Tax	**28,736**	29,387	31,348	29,214	28,214
Income Tax Expense	**8,453**	9,111	9,968	9,721	9,286
Net Income	**$ 20,283**	$ 20,276	$ 21,380	$ 19,493	$ 18,928

	AT OR FOR THE YEAR ENDED DECEMBER 31, 2007	2006	2005	2004	2003
OTHER DATA					
Basic Earnings Per Share	**$ 3.09**	$ 2.93	$ 2.81	$ 2.54	$ 2.39
Diluted Earnings Per Share	**3.09**	2.93	2.80	2.53	2.38
Dividends Paid Per Share	**0.96**	0.88	1.30	0.80	0.72
Book Value Per Share	**18.45**	16.18	17.21	16.56	15.43
Tangible Book Value Per Share (1)	**17.79**	15.40	16.40	15.65	14.48
Return on Average Assets	**1.16%**	1.17%	1.34%	1.40%	1.48%
Return on Average Equity	**18.34%**	18.40%	16.99%	15.97%	15.85%
ALLL to Total Loans	**1.19%**	1.23%	1.20%	1.28%	1.46%
Non-Performing Loans to Total Loans	**0.93%**	1.12%	0.79%	0.60%	0.70%
Stock Dividend Payout Ratio	**38.83%**	30.03%	46.26%	31.50%	30.13%
Average Equity to Average Assets	**6.33%**	6.36%	7.90%	8.75%	9.32%
Efficiency Ratio (2)	**53.88%**	52.00%	49.88%	52.78%	52.02%

(1) Tangible Book Value Per Share is computed by dividing shareholders equity less goodwill and core deposit intangible by the number of common shares outstanding.

(2) Efficiency Ratio is computed by dividing non-interest expense by the sum of net interest income and non-interest income.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s discussion and analysis, which follows, focuses on the factors affecting our consolidated results of operations for the years ended December 31, 2007, 2006 and 2005 and financial condition at December 31, 2007 and 2006, 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.

Executive Overview

Net income for 2007 of $20.3 million was nearly equivalent to the net income of $20.3 million reported in 2006. Net income per diluted share was $3.09, a 5.5% increase over the $2.93 reported for 2006, which reflects the favorable impact of the common stock repurchases completed in 2006 and early 2007. The following were significant factors related to the results of fiscal year 2007 compared to fiscal year 2006:

Net interest income decreased 8.0%, or $4.3 million, which was primarily a function of the flat yield curve, which drove up deposit and borrowing costs more significantly than income on earning assets, and the addition of a full year of interest cost on the trust preferred securities issued during 2006. As a result, the net interest margin on a fully-taxable equivalent basis was 3.09% in 2007 compared to 3.36% in 2006.

The provision for loan and lease losses of $100,000 decreased $2.1 million in 2007 from 2006 as a result of a $72.5 million decline in loan balances, a decrease in non-performing loans as a percentage of total loans, and a slight decrease in net charge-offs in 2007 compared to 2006.

Non-interest income increased 8.8%, or $1.0 million, primarily due to an increase in income from fiduciary services at Acadia Trust, N.A., brokerage and insurance commission income at Acadia Financial Consultants and growth in debit card activity.

Non-interest expenses decreased 1.6%, or $538,000, primarily due to a decline in professional fees, a 2006 charge of $645,000 related to the Steamship Navigation et al litigation involving CNB, and $308,000 in expenses incurred in 2006 as part of the merger of our two banks, all partially offset by normal salary and benefit cost increases and investments in technology in 2007.

Total assets at December 31, 2007 decreased $53.1 million, or 3.0%, as loans were down $72.5 million, or 6.0%, from 2006, while investments were up $19.7 million, or 4.5%, for the same periods. Total liabilities at December 31, 2007 of $1.6 billion decreased $66.2 million, or 4.0%, as deposit balances were down $67.8 million, or 5.7%, and the due to broker was down $24.4 million as it settled in January 2007, both partially offset by an increase in borrowings of $22.8 million, or 5.2%, from the same date a year earlier. Shareholders equity increased 12.3% due to current year earnings and a positive change in other comprehensive income, partially offset by share buybacks and dividends declared.

Results of Operations

Comparison of 2007 to 2006

We reported net income of $20.3 million, or $3.09 per diluted share, for 2007 compared to $20.3 million and $2.93 per diluted share in 2006. Return on average assets was 1.16% in 2007, compared to 1.17% in 2006 and return on average shareholders equity was 18.34% in 2007, compared to 18.40% in 2006.

Net Interest Income

Net interest income accounted for 79.8% of total revenues, and is our largest source of revenue. Net interest income reflects revenues generated through income from earning assets plus loan fees, less interest paid on interest-bearing deposits and borrowings. Net interest income was $51.3 million on a fully-taxable equivalent basis in 2007, compared

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to $55.4 million in 2006, a decrease of $4.1 million. Our level of net interest income fluctuates over time for three primary reasons: 1.) Interest earned from earning assets and expenses from interest-bearing deposits and borrowings fluctuate due to changes in interest rates. This is referred to as the yield or rate component of net interest income. 2.) Net interest income changes due to the amount of earning assets we maintain, as well as the amount of non-interest bearing deposits, interest bearing deposits and borrowings. This is referred to as the volume component of net interest income. 3.) Net interest income fluctuates as a result of the change, over time, in the components of earning assets, non-interest bearing deposits, interest bearing deposits and borrowings. This is referred to as the mix component of net interest income. It is our goal to maximize net interest income by providing competitive products to customers that, within various risk parameters, maximize interest income while minimizing interest expense. We use several analytical models, including those illustrated by Tables 1 & 2 on pages 35 and 36 below, to assess and monitor those factors that affect net interest income, to assess our performance in meeting our goals and to determine future strategies.

Impact of Rates. Overall, during 2007 compared to 2006, our net interest income was adversely impacted $2.5 million due to rate changes, with increased earning asset yields contributing $1.0 million, while increased funding costs decreased net interest income $3.5 million. During the first three quarters of 2007, benchmark interest rates were at levels above those in 2006 and remained relatively stable until declines in the fourth quarter of a one half percentage point, followed by two quarter percentage point decreases, in the Federal Funds Discount Rate (Fed Funds Rate), which culminated at 4.25% at December 31, 2007. The slope of the curve was relatively flat, thus the spread between short-term and long-term rates was historically low. Interest income on securities was positively impacted $882,000 during 2007 as a result of new investments being added to the portfolio at higher yields than maturing investments. Our loan yields were also positively impacted $126,000 due to increases in market rates, in addition to the mid-year credit and subprime crisis, which has resulted in the gradual return of pricing credit risk into loan rates. For our interest-bearing liabilities, the higher rate environment and flat yield curve during 2007 had a negative impact as maturing deposit products and term borrowings re-priced upward upon maturity. As a result of the rate environment and the highly competitive environment in which we compete, we raised the rates paid on certain deposit products, primarily certificates of deposit and money market accounts, as competitors also raised rates paid on such products. Due to the increase in rates paid on deposit products, our interest expense increased $2.2 million in 2007 compared 2006. In addition, in 2007, we were negatively impacted $835,000 due to increases in short-term borrowing rates, which were primarily overnight funds from the Federal Home Loan Bank of Boston (FHLBB) and $468,000 due to increased rates paid on our brokered certificate of deposits.

Impact of Volume. Overall, during 2007 compared to 2006, our net interest income was negatively impacted $1.6 million due to volume changes, with average earning asset growth and mix reducing the margin $294,000, and the need for increased funding to support the average asset growth decreased net interest income $1.3 million. During 2007, average investment volume increases contributed $2.4 million to net interest income, while average loan balance declines reduced the margin $2.7 million. In order to fund the modest average balance sheet growth experienced during 2007, average retail deposits increased $54.7 million, or 5.5%, and borrowings increased $41.5 million, or 11.0%, partially offset by a $95.2 million, or 44.0%, decline in average brokered deposits. During 2007, the all in cost of brokered certificates of deposit was greater than the borrowing cost for wholesale repurchase agreements or FHLBB advances with similar maturities, thus resulting in the decline in brokered certificate of deposit balances.

Information on average balances, yields and rates for the past three years can be found in Table 1 on page 35. Table 2 (on page 36) shows the changes from 2006 to 2007 in tax equivalent net interest income by category due to changes in rate and volume. Information on interest rate sensitivity can be found in the Market Risk section below.

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Provision for Loan and Lease Losses

During 2007, we provided $100,000 of expense to the provision for loan and lease losses compared to $2.2 million for 2006. The decrease to the ALLL for 2007 was primarily due to the contraction of the loan portfolio, which decreased $72.5 million, or 6.0%, from December 31, 2006 to December 31, 2007. In 2007, the ratio of non-performing loans to total loans decreased to 0.93% from 1.12% in 2006. In addition, net charge-offs were $62,000 less in 2007 compared to 2006. The ALLL as a percentage of total loans was 1.19% at December 31, 2007, a decrease from 1.23% at December 31, 2006. For further discussion of the ALLL, refer to Critical Accounting Policies section below, Item 1A. Risk Factors and the Footnotes to the Consolidated Financial Statements.

Non-interest Income

Non-interest income increased to $12.7 million for the year ended December 31, 2007, from $11.6 million in 2006, which was growth of $1.0 million, or 8.8%. Due to increases in assets under administration at AT, income from fiduciary services increased $459,000, or 10.3%, in 2007 compared to 2006. Brokerage and insurance commission income increased $357,000, or 76.1%, primarily due to increased sales efforts and assets under management. Other service charges and fees increased $187,000, or 11.4%, as both debit card income and ATM non-customer fee income increased due to growth in transaction volumes. Earnings on bank-owned life insurance increased $32,000, or 4.0%, primarily due to increases in rates paid on cash values.

Non-interest Expenses

Non-interest expenses decreased to $33.7 million for the year ended December 31, 2007, from $34.2 million in 2006, a change of $538,000, or 1.6%. The decrease, primarily in Other expenses, was due to a $645,000 charge in 2006 related to the Steamship Navigation et al litigation involving CNB, $308,000 in expenses incurred in 2006 as part of the merger of our two banks, a $297,000 decline in director fees in 2007 as a portion of director fees are indexed to the stock price and the stock price has decreased since December 31, 2006, and a $288,000 decline in legal costs due to the completion of the litigation pending in 2006 and related legal cost insurance reimbursements received in 2007. These decreases were somewhat offset by increased employee compensation costs of $506,000, or 2.8%, due to normal salary and benefit cost increases, furniture, equipment and data processing costs of $143,000, or 6.5%, as a result of increased amortization and depreciation costs associated with technology purchases (software and hardware) necessary to support our growth and information security initiatives, and net occupancy costs of $239,000, or 9.6%, primarily due to increased utility costs, repairs and maintenance costs on various facilities, and depreciation costs on the renovated Spear Block Rockland branch which was placed into service during the first quarter of 2007.

Comparison of 2006 to 2005

We reported net income of $20.3 million, or $2.93 per diluted share, for 2006 compared to $21.4 million and $2.80 per diluted share in 2005. Return on average assets was 1.17% in 2006, compared to 1.34% in 2005 and return on average shareholders equity was 18.40% in 2006, compared to 16.99% in 2005. The decrease in return on average assets was primarily a result of an environment of increasing interest rates and a flattening yield curve. This environment resulted in longer duration earning assets (loans and investments) booked during 2006 to experience less of an increase in yields compared to the increase in funding costs, thus we did not produce the same level of net interest spread (yield on earning assets less cost on associated funding liabilities) compared to the prior year. The return on average assets was also negatively affected by the introduction of the recurring interest cost of the trust preferred security issuance. The increase in the return on average equity was primarily due to the repurchase of 941,246 shares of common stock during 2006, most of which were purchased as part of the second quarter Dutch Auction tender offer.

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Net Interest Income

Net interest income was $55.4 million on a fully-taxable equivalent basis in 2006, compared to $55.7 million in 2005, a decrease of $303,000.

Impact of Rates. During 2006, interest rates continued to increase with four quarter percentage point increases in the Federal Funds Discount Rate (Fed Funds Rate), which followed eight quarter percentage point increases in 2005 and culminated at 5.25% at December 31, 2006. During 2006, the earnings on our interest-bearing assets, which contractually re-price (subject to caps) based on various benchmarks, such as the Prime Rate and the London Inter-Bank Offer Rate (LIBOR) (these products are also referred to as variable or floating rate instruments), increased in response to the changes in the underlying benchmark rates resulting in an overall increase in yields. Interest income on securities was positively impacted during 2006 as a result of new investments being added to the portfolio at higher yields than maturing investments. For our interest-bearing liabilities, the higher rate environment during 2006 had a negative impact as maturing deposit products and term borrowings re-priced upward upon maturity. As a result of the rate increases and the highly competitive environment in which we compete, we raised the rates paid on certain deposit products, primarily certificates of deposit and money market accounts, as competitors also raised rates paid on such products. In addition, in 2006, we were negatively impacted $3.2 million due to increases in short-term borrowing rates, which were primarily overnight funds from the Federal Home Loan Bank of Boston (FHLBB), $1.4 million due to increases in brokered certificate of deposit rates and $1.6 million due to the interest paid on the trust preferred issuance. Overall, during 2006 compared to 2005, our net interest income was adversely impacted $4.4 million due to rate changes, with increased earning asset yields contributing $9.9 million, while increased funding costs decreased net interest income $14.3 million.

Impact of Volume. During 2006, loan volume increases contributed $6.3 million to net interest income as residential mortgages increased $50.9 million, or 14.8%, commercial loan balances increased $18.5 million, or 10.8%, and consumer loans (including home equities) increased $16.6 million, or 9.2%. The significant increase in new residential loans was the result of longer-term mortgage rates remaining low due to the relatively flat yield curve. In order to fund balance sheet growth experienced during 2006, deposits (excluding brokered certificates of deposits) increased 8.1%, or $74.7 million, the majority of which was experienced in higher costing money market and certificates of deposit. In addition, we use brokered certificates of deposit, which increased $47.9 million, or 28.4%, when we determine that the all in cost of the brokered certificates of deposit is comparable to the borrowing cost for FHLBB advances with similar maturities, or to simply diversify our funding mix. Overall, during 2006 compared to 2005, our net interest income was positively impacted $4.1 million due to volume changes, with earning asset growth contributing $8.3 million, while the need for increased funding to support the asset growth decreased net interest income $4.2 million.

Provision for Loan and Lease Losses

During 2006, we provided $2.2 million of expense to the provision for loan and lease losses compared to $1.3 million for 2005. The increase to the ALLL for 2006 was primarily due to the growth in the loan portfolio, which increased $35.9 million, or 3.0% from December 31, 2005 to December 31, 2006. In 2006, the ratio of non-performing loans to total loans increased to 1.12% from 0.79% in 2005. In addition, we had net charge-offs of $1.4 million during 2006 versus $739,000 during 2005. The ALLL as a percentage of total loans was 1.23% at December 31, 2006, an increase from 1.20% at December 31, 2005.

Non-interest Income

Non-interest income increased to $11.6 million for the year ended December 31, 2006, from $10.1 million in 2005, which was growth of $1.6 million, or 15.7%. Due to increases in assets under administration at AT, income from fiduciary services increased $429,000, or 10.7%, in 2006 compared to 2005. In 2005, we incurred a $332,000 loss on the sale of securities, while in 2006, we did not sell any securities. Other service charges and fees increased $305,000, or 22.8%, as debit card income increased due to growth in transaction volumes. Other income increased $335,000

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primarily due to fee income of $118,500 received for managing a portion of the Maine State Housing Authority loan portfolio, recoveries of $90,000 on previously written-off securities, and an increase of $54,700 in certificate of deposit early withdrawal penalties. Earnings on bank-owned life insurance increased $157,000, or 24.4%, primarily due to increases in rates paid on cash values.

Non-interest Expenses

Non-interest expenses increased to $34.2 million for the year ended December 31, 2006, from $32.5 million in 2005, a change of $1.7 million, or 5.4%. The increase, primarily in Other expenses, was due to a $645,000 charge related to the Steamship Navigation et al litigation involving CNB, $308,000 in expenses incurred as part of the merger of our two banks, and increased risk management related expenses including legal and collection costs. Furniture, equipment and data processing costs increased $175,000 as a result of increased amortization and depreciation costs associated with technology purchases (software and hardware) necessary to support our growth and information security initiatives. Net occupancy costs increased $238,000 primarily due to increased utility costs and repairs and maintenance costs on various facilities. These increases were somewhat offset by decreased employee compensation costs as we did not pay a general incentive bonus for 2006, and reduced our benefit costs due to a change in health care providers.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements and the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data have been prepared in accordance with accounting principles generally accepted in the United States of America, 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 our assets and virtually all of our liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the general level of inflation. Over short periods of time, interest rates and the yield curve may not necessarily move in the same direction or in the same magnitude as inflation.

Financial Condition

Overview

Total assets at December 31, 2007 were $1.7 billion, a decrease of $53.1 million, or 3.0%, from December 31, 2006. The change in assets consisted primarily of a $71.2 million decrease in net loans and a $4.6 million decrease in cash and due from banks, both of which were partially offset by a $19.7 million increase in investments and a $2.1 million increase in bank premises and equipment. Total liabilities decreased $66.2 million as total deposits (including brokered certificates of deposit) declined $67.8 million and a due to broker payable declined $24.4 million, both partially offset by a $22.8 million increase in borrowings. Total shareholders equity increased $13.2 million, which was a result of current year earnings and a positive change in other comprehensive income, partially offset by common stock repurchases and dividends declared to shareholders.

Cash and Due from Banks

Cash and due from banks decreased 13.7%, or $4.6 million, at December 31, 2007 compared to 2006, primarily due to a decline in clearing funds required to be held at the Federal Reserve Bank and declines in compensating balances maintained at correspondent banks.

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Investment Securities

Investments in securities of the U.S. government, U.S. government sponsored enterprises, states and political subdivisions, highly rated corporate bonds and equities are used to diversify our revenues, provide interest rate and credit risk diversification and to provide for liquidity and funding needs. Total investment securities increased $19.7 million, or 4.5%, to $463.8 million at December 31, 2007. We have investment securities in both the available-for-sale and held-to-maturity categories.

We conform to Statement of Financial Accounting Standards (SFAS) No. 115, which requires all investments to be categorized as trading securities, available for sale or held to maturity. All realized gains or losses from investments in any category are recorded as an effect to net income in the period incurred. Unrealized gains or losses from investments categorized as trading securities are immediately recorded in current year earnings. During 2007 and 2006, we did not hold any securities classified as trading securities. Unrealized gains or losses from investments categorized as held to maturity are only recorded when, and if, the gain or loss is recognized. During 2007 and 2006, we purchased additional securities of state and political subdivisions and classified them as held to maturity. Unrealized gains or losses on securities classified as available for sale are recorded as adjustments to shareholders equity, net of related deferred income taxes and are a component of other comprehensive income contained in the Consolidated Statement of Changes in Shareholders Equity. At December 31, 2007, the Company had $1.5 million of unrealized gains on securities available for sale, net of the deferred taxes, compared to $3.0 million unrealized loss, net of deferred taxes at December 31, 2006. The change from 2006 to 2007 is attributed to a decline in the interest rate environment that has positively impacted the fair value of securities.

Loans

CNB provides loans primarily to customers located within its geographic market area. Loans totaled $1.1 billion at December 31, 2007, a 6.0% decrease from total loans at December 31, 2006. In 2007, we experienced declines in all loan categories, except consumer loans, as described below.

In 2007, residential real estate mortgage loans decreased $2.1 million, or 0.5%, primarily as a result of volatility in the market caused by the credit crunch, subprime lending issues, and general declines in real estate values, which have negatively impacted consumer demand for mortgage originations and mortgage loan refinancing. In 2006, residential real estate mortgage loans increased by $37.4 million, or 10.0%, as a result of consumers taking advantage of the continued low long-term interest rate environment. During 2007 and 2006, we did not sell any fixed-rate residential mortgage loans on the secondary market. Residential real estate loans consist of loans secured by one-to-four family residences. We generally retain adjustable-rate mortgages in the portfolio and frequently will retain fixed-rate mortgages, as well, based on market risk assessments.

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, and includes commercial real estate loans secured by income and non-income producing commercial real estate. We focus on lending to financially sound business customers within our geographic marketplace, as well as offering loans for the acquisition, development and construction of commercial real estate. Commercial loans decreased $61.4 million, or 10.6%, during 2007, which primarily reflects our conservative posture in commercial real estate lending activity in 2007 due to an environment of increased competition, including from commercial lending conduits, highlighted by relaxed credit structures and low long-term fixed rate commitments, which we feel does not provide an adequate reward for the inherent risks. In 2006, commercial loans decreased $20.0 million, or 3.3%, compared to 2005.

Consumer loans are originated for a wide variety of purposes designed to meet the needs of customers. Consumer loans include overdraft protection, automobile, boat, recreation vehicle, and mobile home loans, home equity loans and lines, and secured and unsecured personal loans. In 2007, consumer loans increased by $4.3 million, or 2.1%, as consumers continued to utilize home equity loans for home improvement, to consolidate debt and for general consumer purposes. In 2006, consumer loans increased $9.8 million, or 5.2%, over 2005.

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Municipal loans primarily consist of short-term tax anticipation notes made to municipalities for fixed asset or construction related purposes. Municipal loans declined $13.2 million, or 53.2%, for 2007 compared to 2006 as a few large loans paid off during the third and fourth quarters of 2007. In 2006, municipal loans increased $8.8 million, or 54.2%, over 2005.

Non-performing loans, defined as non-accrual loans plus accruing loans 90 days or more past due, totaled $10.6 million, or 0.93%, of total loans at December 31, 2007, compared to $13.7 million, or 1.12%, of total loans at December 31, 2006.

Allowance for Loan and Lease Losses / Provision for Loan and Lease Losses

Provisions are made to the ALLL in order to maintain the ALLL at a level that we believe is reasonable and reflective of the overall risk of loss inherent in the loan portfolio. During 2007, we provided $100,000 to the ALLL compared to $2.2 million and $1.3 million in 2006 and 2005, respectively. The determination of an appropriate level of ALLL, and subsequent provision for loan and lease losses which affects earnings, is based on our analysis of various economic factors and review of the loan portfolio, which may change due to numerous factors including loan growth, payoffs of lower quality loans, recoveries on previously charged-off loans, improvement in the financial condition of the borrowers, risk rating downgrades/upgrades and charge-offs. We utilize a comprehensive approach toward determining the ALLL, which includes an expanded risk rating system that enables us to more adequately identify the risks being undertaken, as well as migration within the overall loan portfolio. We recorded net charge-offs of $1.4 million in 2007 and 2006, compared to $739,000 in 2005. In addition, non-performing assets decreased to $11.0 million, or 0.96%, of total loans at December 31, 2007, from $13.8 million, or 1.13%, of total loans at December 31, 2006. We have also experienced a decline in outstanding loan balances due to large pay-offs and the continued conservative posture in our commercial real estate lending activity. We believe that the ALLL at December 31, 2007 of $13.7 million, or 1.19%, of total loans outstanding was appropriate given the current economic conditions in our service area and the condition of the loan portfolio. As a percentage of total loans outstanding, the ALLL was 1.23% in 2006. For further discussion of the ALLL, refer to Critical Accounting Policies section below, Item 1A. Risk Factors and the Footnotes to the Consolidated Financial Statements.

Net Premises and Equipment

Net premises and equipment increased $2.1 million, to $19.7 million, at December 31, 2007, primarily due to costs related to the redevelopment of the Spear Block Rockland branch, and increased costs associated with technology related purchases.

Deposits

CNB receives transaction account, savings and time deposits primarily from customers located within its geographic market area, from the brokered deposit market, and the Certificate of Deposit Account Registry System. Total deposits decreased $67.8 million, which included declines in savings accounts of $10.7 million, retail certificates of deposit of $11.0 million, and brokered certificate of deposits of $85.0 million, while money market accounts increased $37.1 million and total transaction accounts (demand deposit and NOW accounts) increased $1.9 million. Brokered deposits ended 2007 down $85.0 million as maturities during the year were not renewed due to the use of lower costing funding alternatives. The increase in money market accounts is due to increases in a new money market sweep account product and an overall migration of deposits to money market accounts due to recent increase in rates paid in relation to other time deposit products.

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Borrowings

Borrowings from the FHLBB decreased $68.9 million as we shifted to the use of wholesale repurchase agreements, which offered better rates and interest rate risk protection in an upward rate change scenario. The shift to wholesale repurchase agreements resulted in an $81.7 million increase in other borrowed funds. In January 2007, we settled the $24.4 million due to broker liability related to the 2006 year-end trade date security purchase. We also borrowed $10.0 million on December 28, 2007 to have adequate funds for the cash portion of the Union Bankshares acquisition. The note payable was completely paid off in early January 2008.

Liquidity

Liquidity needs require the availability of cash to meet the withdrawal demands of depositors and credit commitments to borrowers. Liquidity is defined as our ability to maintain availability of funds to meet customer needs, as well as to support our asset base. The primary objective of liquidity management is to maintain a balance between sources and uses of funds to meet our cash flow needs in the most economical and expedient manner. Due to the potential for unexpected fluctuations in both deposits and loans, active management of liquidity is necessary. We maintain various sources of funding and levels of liquid assets in excess of regulatory guidelines in order to satisfy its varied liquidity demands. We monitor liquidity in accordance with internal guidelines and all applicable regulatory requirements. As of December 31, 2007 and 2006, our level of liquidity exceeded target levels. We believe that we currently have appropriate liquidity available to respond to liquidity demands. Sources of funds that we utilized 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 our primary source of funds. For 2007, average deposits of $1.2 billion decreased by $40.5 million, or 3.4%, compared to 2006. Comparing average deposits for 2007 to 2006, average money market and retail certificate of deposit account balances have increased $45.5 million and $13.8 million, respectively, while average brokered certificates of deposit and savings account balances have decreased $95.2 million and $6.4 million, respectively. Included in the money market deposit category are deposits from Acadia Trust, N.A., representing client funds. The balance in the Acadia Trust, N.A. client money market account, which was $81.9 million on December 31, 2007, could increase or decrease depending upon changes in the portfolios of the clients of Acadia Trust, N.A. The increase in money market accounts and certificates of deposit during 2007 was the result of an increase in rates paid in 2007 compared to 2006, thus attracting increased customer balances, and increases in a new money market sweep account product.

Borrowings are used to supplement deposits as a source of liquidity. In addition to borrowings from the FHLBB, we purchase federal funds, sell securities under agreements to repurchase and utilize treasury tax and loan accounts. Average borrowings and long-term debt for 2007 was $455.0 million, an increase of $52.8 million, from $402.2 million during 2006. The increase included the full year impact of the junior subordinated debentures and an increase of $38.0 million in average wholesale borrowings. We secure borrowings from the FHLBB, whose advances remained the largest non-deposit-related, interest-bearing funding source, with qualified residential real estate loans, certain investment securities and certain other assets available to be pledged. The carrying value of loans pledged as collateral at the FHLBB was $454.8 million and $378.3 million at December 31, 2007 and 2006, respectively. The carrying value of securities pledged as collateral at the FHLBB was $110.3 million and $164.4 million at December 31, 2007 and 2006, respectively. Through our bank subsidiary, we have an available line of credit with FHLBB of $13.0 million at December 31, 2007 and 2006. At December 31, 2007, we had $841,000 outstanding on the line of credit, which was paid off on January 2, 2008. We had no outstanding balance on the line of credit with the FHLBB at December 31, 2006. We also borrowed $10.0 million on December 28, 2007 as bridge financing for the cash portion of the Union Bankshares Company acquisition. The note payable was paid off in early January 2008, but remains available to us through December 28, 2008.

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In addition to the liquidity sources discussed above, we believe the investment portfolio and residential loan portfolio provide a significant amount of contingent liquidity that could be accessed in a reasonable time period through sales of those portfolios. We also believe that we have additional untapped access to the national brokered deposit market and commercial repurchase transaction market. These sources are considered as liquidity alternatives in our contingent liquidity plan. We believe that the level of liquidity is sufficient to meet current and future funding requirements. However, changes in economic conditions, including consumer saving habits and availability or access to the national brokered deposit and commercial repurchase markets, could significantly impact our liquidity position.

Capital Resources

Under FRB guidelines, bank holding companies, such as us, are required to maintain capital based on risk-adjusted assets. These capital requirements represent quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices.

Our capital classification is also subject to qualitative judgments by our regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require us 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). These guidelines apply to us 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 (as defined). Our risk-based ratios, and those of our bank subsidiary, exceed regulatory guidelines at December 31, 2007 and December 31, 2006. Our Tier 1 capital to risk weighted assets was 12.8% and 11.3% at December 31, 2007 and 2006, respectively (see Item 8., Note 22, Regulatory Matters, of the Notes to Consolidated Financial Statements). 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. Our leverage ratio was 8.2% and 7.6% at December 31, 2007 and 2006, respectively.

On April 25, 2006, Camden Capital Trust A (the Trust), an affiliate, was formed for the purpose of issuing capital securities to unaffiliated parties, and investing the proceeds from the sale in junior subordinated debentures issued by us. We own all of the $1.1 million outstanding common securities of the Trust and effectively are the guarantor of the obligations of the Trust. The Trust issued $35.0 million of 6.71% (fixed through June 2011, thereafter at a variable rate of interest, reset quarterly, equal to the 3-month LIBOR plus 140 basis points) trust preferred securities to the public, and all of the proceeds from the issuance by the Trust of the capital securities and the common securities are invested in our $36.1 million of junior subordinated debentures, which represent the sole assets of the Trust. The proceeds from the offering were used to repurchase our common stock under the tender offer completed on May 4, 2006. The trust preferred securities, which pay interest quarterly at the same rate as the junior subordinated debentures held by the Trust, are mandatorily redeemable on June 30, 2036, or may be redeemed by the Trust at par any time on or after June 30, 2011.

Although the junior subordinated debentures are recorded as a liability on our Statement of Condition, we are permitted, in accordance with regulatory guidelines, to include, subject to certain limits, the trust preferred securities in our calculation of risk-based capital. At December 31, 2007, $35.0 million of the trust preferred securities was included in Tier 1 capital. At December 31, 2006, $32.9 million of the trust preferred securities was included in Tier 1 capital, while the full $35.0 million was included in total risk-based capital.

As part of our goal to operate a safe, sound and profitable financial organization, we are committed to maintaining a strong capital base. Shareholders equity totaled $120.2 million and $107.1 million, or 7.0% and 6.1%, of total assets at December 31, 2007 and 2006, respectively. The $13.2 million, or 12.3%, increase in shareholders equity in 2007 was primarily attributable to current year net income of $20.3 million, $4.7 million change in other comprehensive income, net of taxes, related to securities available for sale, derivative instruments, and underfunded post-retirement plans, all partially offset by the $4.5 million in open market common stock repurchases and $7.9 million in cash dividends declared to shareholders.

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Our principal cash requirement is the payment of dividends on our common stock, as and when declared by the Board of Directors. Dividends declared per share of $1.20 during the year ended December 31, 2007 increased by 36.4% over the corresponding period in 2006 as we declared our first quarter 2008 dividend on November 27, 2007 with a record date of December 31, 2007. The setting of the record date prior to the consummation of the merger was to align with the final dividend payment of Union Bankshares Company, thus precluding former Union Bankshares shareholders from receiving two dividends. The dividends paid per share of $0.96 during the year ended December 31, 2007 increased by 9.1% over the corresponding period in 2006. We are primarily dependent upon the payment of cash dividends by our subsidiaries to service our commitments. We, as the sole shareholder of our subsidiaries, are entitled to dividends, when and as declared by each subsidiary s Board of Directors from legally available funds. CNB declared dividends in the aggregate amount of $34.0 million and $11.0 million in 2007 and 2006, respectively. Acadia Trust, N.A. declared dividends in the aggregate amount of $2.0 million in 2007 and declared no dividends in 2006. The increase in dividends declared by the subsidiaries in 2007 was necessary to fund the Company s acquisition of Union Bankshares Company. As of December 31, 2007, and subject to the limitations and restrictions under applicable law, CNB had a total of $5.6 million available for dividends to us, although there is no assurance that dividends will be paid at any time in any amount (refer to Note 16 within the Notes to Consolidated Financial Statements of Item 8. Financial Statements and Supplementary Data, for additional information).

On March 24, 2006, we announced the commencement of a modified Dutch Auction tender offer, approved by our Board of Directors, to repurchase up to 752,000 shares of its common stock. On May 4, 2006, in accordance with the terms of the tender offer, we repurchased, at a purchase price of $39.00 per share, 880,827 shares of our common stock, which represented approximately 11.7% of the outstanding common shares as of May 3, 2006.

In June 2007, the Board of Directors voted to authorize us to purchase up to 750,000 shares of outstanding common stock for a period of one year, expiring July 1, 2008. The authority may be exercised from time to time and in such amounts as market conditions warrant. Any purchases are intended to make appropriate adjustments to our capital structure, including meeting share requirements related to employee benefit plans and for general corporate purposes. As of December 31, 2007, we have not repurchased any shares of common stock under the current plan. In June 2006, the Board of Directors voted to authorize us to purchase up to 750,000 shares of our outstanding common stock for a period of one year, expiring July 1, 2007, for reasons similar to the current plan. Up to the June 30, 2007 expiration date of the 2006 plan, we repurchased 114,010 shares of common stock at an average price of $39.13, of which 113,950 were purchased during 2007 at an average price of $39.12.

On April 29, 2003, our shareholders approved the 2003 Stock Option and Incentive Plan (the Plan). The maximum number of shares of stock reserved and available for issuance under this Plan is 800,000 shares. Awards may be granted in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, deferred stock, unrestricted stock, performance share and dividend equivalent rights, or any combination of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant in the case of incentive stock options, or 85% of the fair market value on the date of grant in the case of non-qualified stock options. No stock options shall be exercisable more than ten years after the date the stock option is granted. Prior to April 29, 2003, we had three stock option plans. Under all three plans, the options were immediately vested when granted, and expire ten years from the date the option was granted. The exercise price of all options equaled the market price of our stock on the date of grant. For further information on equity compensation plans and related accounting treatment, refer to Note 1. Summary of Significant Accounting Policies and Note 16. Shareholders Equity within the Notes to Consolidated Financial Statements of Item 8.

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Contractual Obligations and Commitments

In the normal course of business, we are a party to credit related financial instruments with off-balance sheet risk, which are not reflected in the 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. We follow the same credit policies in making commitments to extend credit and conditional obligations as we do for on-balance sheet instruments, including requiring similar collateral or other security to support financial instruments with credit risk. Our 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. At December 31, 2007, we had the following levels of commitments to extend credit.

	Total Amount Committed	Commitment Expires in:			
(Dollars in thousand)		<1 year	1-3 years	4-5 years	>5 years
Letters of Credit	$ 1,251	$ 1,235	$ 16	$	$
Other Commitments to Extend Credit	228,224	82,834	5,285	2,753	137,352
Total	$ 229,475	$ 84,069	$ 5,301	$ 2,753	$ 137,352

We are a party to several off-balance sheet contractual obligations through lease agreements on a number of branch facilities. We have an obligation and commitment to make future payments under these contracts. Borrowings from the FHLBB consist of short- and long-term fixed and variable 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 pledged investment securities and other qualified assets. Other borrowed funds include treasury, tax and loan deposits and securities sold under repurchase agreements. Junior subordinated debentures are described in Item 8. Note 13. We have an obligation and commitment to repay all borrowings and debentures. These commitments, borrowings, junior subordinated debentures and the related payments are made during the normal course of business. At December 31, 2007, we had the following levels of contractual obligations.

	Total Amount of Obligations	Payments Due Per Period			
(Dollars in thousand)		<1 year	1-3 years	4-5 years	>5 years
Operating Leases	$ 2,694	$ 595	$ 795	$ 535	$ 769
Capital Leases					
Construction contracts					
Borrowings from the FHLBB	271,558	149,950	76,590	13,536	31,482
Commercial Repurchase Agreements	80,000			80,000	
Other Borrowed Funds	62,492	62,492			
Junior Subordinated Debentures	36,083				36,083
Note Payable	10,000	10,000			
Other Long-Term Obligations					
Total	$ 462,827	$ 223,037	$ 77,385	$ 94,071	$ 68,334

We may use derivative instruments as partial hedges against large fluctuations in interest rates. We may also use interest rate swap and floor instruments to partially 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. We may also use cap instruments to partially 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. These financial instruments are factored into our overall interest rate risk position. We regularly review the credit quality of the counterparty from which the instruments have been purchased. During 2006 and 2007, we had a notional principal amount of $50.0 million in floor agreements, which, due to changes in market interest rates at the end of the fourth quarter of 2007, the Company committed to a plan to sell the agreements and closed the sale of the contracts as of December 31, 2007.

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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. Our primary market risk exposure is interest rate risk. The ongoing monitoring and management of this risk is an important component of our asset/liability management process, which is governed by policies established by the CNB Board of Directors, and are reviewed and approved annually. The Board of Directors Asset/Liability Committee (Board ALCO) delegates responsibility for carrying out the asset/liability management policies to the Management Asset/Liability Committee (Management ALCO). In this capacity, Management ALCO develops guidelines and strategies impacting our asset/liability management-related activities based upon estimated market risk sensitivity, policy limits and overall market interest rate levels/trends. The Management ALCO and Board ALCO jointly meet on a quarterly basis to review strategies, policies, economic conditions and various activities as part of the management of these risks.

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 expense streams associated with our financial instruments also change, thereby impacting net interest income (NII), the primary component of our earnings. Board and Management ALCO utilize the results of a detailed and dynamic simulation model to quantify the estimated exposure of NII to sustained interest rate changes. While Board and Management ALCO routinely monitor simulated NII sensitivity over a rolling 2-year horizon, they also utilize 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 our Statement of Condition, as well as for derivative financial instruments, if any. 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 a 200 basis point (bp) upward and 200 bp downward shift in interest rates for 2007 and 2006. A parallel and pro rata shift in rates over a 12-month period is assumed. The following discloses our NII sensitivity analysis, as measured over the past two years, reflecting the quarterly high, low and average percentage of exposure over a 1-year horizon for each year.

	2007 Estimated Changes in NII		
Rate Change	**High**	**Low**	**Average**
+200 bp	**(5.50)%**	**(2.00)%**	**(3.83)%**
-200 bp	**4.40%**	**(1.10)%**	**2.35%**

	2006 Estimated Changes in NII		
Rate Change	**High**	**Low**	**Average**
+200 bp	(5.40)%	(3.10)%	(4.35)%
-200 bp	2.80%	(0.80)%	0.63%

The preceding sensitivity analysis does not represent a 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 cash flows. While assumptions are developed based upon current economic and local market conditions, we cannot make any assurances as to the predictive nature of these assumptions, including how customer preferences or competitor influences might change.

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The most significant factors affecting the changes in market risk exposure during 2007 compared to 2006 were the flat yield curve up until the end of the third quarter, the reduction of earning assets, the increase in fixed rate loans, and the level of shorter-term FHLBB borrowings. If rates remain at or near current levels and the balance sheet mix remains similar, net interest income is expected to gradually increase as balance sheet spread continues to widen as assets reprice at higher rate levels, offsetting increased funding costs. In a sustained rising interest rate environment, net interest income is expected to trend downward in the first year, as assumed asset yield increases are unable to offset rising funding costs. As funding costs stabilize in the second year, the asset base continues to reprice and replace at higher rates, resulting in a widening of spreads and improving levels of net interest income. Currently, a rising rate environment creates the most potential exposure to net interest income. In a falling interest rate environment, net interest income is expected to trend higher as funding cost reductions outpace declining asset yields. This benefit peaks in the second year and then reverses as assets continue to reprice at lower rate levels while funding costs become more stable, having for the most part adjusted to the lower rates. Should the yield curve steepen as rates fall, pressure on net interest income will be significantly reduced or eliminated entirely. The risk in the various rate scenarios is well within our policy limits.

Periodically, if deemed appropriate, we use interest rate swaps, floors and caps, which are common derivative financial instruments, to hedge interest rate risk position. The Board of Directors has approved hedging policy statements governing the use of these instruments. During 2007, we had a notional principal amount of $50.0 million in floor agreements, which we sold as of December 31, 2007. Board and Management ALCO monitor derivative activities relative to its expectation and our hedging policies. These instruments are more fully described in Note 5, Derivative Financial Instruments, of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The implementation of FIN 48 did not have a material impact on our financial statements. Although not currently in review, tax years 2004 through 2006 are open for audit by the IRS and Maine Revenue Services. If the Company, as a result of an audit, was assessed interest and penalties, the amounts would be recorded through other non-interest expense.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and early application is encouraged. Although this Statement does not require any new fair value measurements, it is expected to expand our fair value disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument-by-instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity s first fiscal year after November 15, 2007. The Company does not intend to take the fair value option for any financial assets or financial liabilities under SFAS No. 159.

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Related Party Transactions

CNB is permitted, in its normal course of business, to make loans to certain officers and directors of the Company and its subsidiaries under terms that are consistent with CNB s lending policies and regulatory requirements. In addition to extending loans to certain officers and directors of the Company and its subsidiaries on terms consistent with CNB s lending policies, federal banking regulations also requires training, audit and examination of the adherence to this policy by representatives of the federal and national regulators (also known as Reg. O requirements). As described more fully in Note 19, Related Parties, of the Notes to Consolidated Financial Statements, we have not entered into significant non-lending related party transactions.

Critical Accounting Policies

Management s discussion and analysis of our financial condition are based on the consolidated financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those noted below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis in making judgments about the carrying values of assets that are not readily apparent from other sources. Under different assumptions or conditions, actual results could differ from the amount derived from our existing estimates.

Allowance for Loan and Lease Losses. In preparing the Consolidated Financial Statements, the ALLL requires the most significant amount of management estimates and assumptions. The ALLL, which is established through a charge to the provision for loan and lease losses, is based on our evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. We regularly evaluate the ALLL for adequacy by taking into consideration, among other factors, local industry trends, management s ongoing review of individual loans, trends in levels of watched or criticized assets, an evaluation of results of examinations by regulatory authorities and other third parties, analyses of historical trends in charge-offs and delinquencies, the character and size of the loan portfolio, business and economic conditions and our estimation of probable losses. We use a risk rating system to determine the credit quality of our loans. In assessing the risk rating of a particular loan, among the factors considered include the obligor s debt capacity and financial flexibility, the level of the obligor s earnings, the amount and sources of repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical information, as well as subjective assessment and interpretation. Emphasizing one factor over another, or considering additional factors that may be relevant in determining the risk rating of a particular loan but which are not currently an explicit part of our methodology, could impact the risk rating assigned by us to that loan. We also apply judgment to derive loss factors associated with each credit facility. These loss factors are determined by facility structure, collateral and type of obligor. The use of different estimates or assumptions could produce different provisions for loan and lease losses, which would affect our earnings. A smaller provision for loan and lease losses results in higher net income, and when a greater amount of provision for loan and lease losses is necessary, the result is lower net income. Monthly, the Corporate Risk Management group reviews the ALLL with the CNB Board of Directors. On a quarterly basis, a more in-depth review of the ALLL, including the methodology for calculating and allocating the ALLL, is reviewed with our Board of Directors, as well as the Camden National Bank Board of Directors. For further ALLL information, refer to Item 1A. Risk Factors and the Notes to Consolidated Financial Statements.

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Other Real Estate Owned. Periodically, we acquire property in connection with foreclosures or in satisfaction of debt previously contracted. The valuation of this property is accounted for individually at the lower of the book value of the loan satisfied or its net realizable value on the date of acquisition. At the time of acquisition, if the net realizable value of the property is less than the book value of the loan, a change or reduction in the ALLL is recorded. If the value of the property becomes permanently impaired, as determined by an appraisal or an evaluation in accordance with our appraisal policy, we will record the decline by showing a charge against current earnings. Upon acquisition of a property, a current appraisal or a broker s opinion must substantiate market value for the property.

Allowance for Credit Losses. The allowance for credit losses covers our portfolio of lending related commitments. We assess the need for an allowance for lending-related commitments based upon, among other factors, the amount of open commitments, the financial condition of the borrower, and historical losses on credit commitments. In addition, all draw downs on credit commitments undergo underwriting processes in accordance with our Loan Policy, thus must meet the same underwriting standards.

Other-Than-Temporary Impairment. We record an investment impairment charge at the point we believe an investment has experienced a decline in value that is other than temporary. In determining whether an other-than-temporary impairment has occurred, we review information about the underlying investment that is publicly available, analysts reports, applicable industry data and other pertinent information, and assess our ability to hold the securities for the foreseeable future. The investment is written down to its current market value at the time the impairment is deemed to have occurred. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment s current carrying value, possibly requiring an additional impairment charge in the future.

Mortgage Servicing Rights. Servicing assets are recognized as separate assets when servicing rights are acquired through sale of residential mortgage assets. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial residential mortgage assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized costs. Fair value is determined based upon discounted cash flows using market-based assumptions. In periods of falling market interest rates, accelerated loan prepayment speeds can adversely impact the fair value of these mortgage-servicing rights relative to their book value. In the event that the fair value of these assets was to increase in the future, we can recognize the increased fair value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. When the book value exceeds the fair value, an impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds and other factors, could impact our financial condition and results of operations either positively or adversely. We have engaged a recognized third party to periodically evaluate the valuation of the mortgage servicing rights asset.

Valuation of Acquired Assets and Liabilities. We are required to record assets acquired and liabilities assumed at their fair value, which is an estimate determined by the use of internal or other valuation techniques. These valuation estimates result in goodwill and other intangible assets. Such assets are subject to ongoing periodic impairment tests and are evaluated using various fair value techniques.

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Impairment of Goodwill and Other Intangibles. SFAS No. 142, *Goodwill and Other Intangibles*, addresses the method of identifying and measuring goodwill and other intangible assets acquired in a business combination, eliminates further amortization of goodwill, and requires periodic impairment evaluations of goodwill. Impairment evaluations are required to be performed annually and may be required more frequently if certain conditions indicating potential impairment exist. If we were to determine that our goodwill was impaired, the recognition of an impairment charge could have an adverse impact on our results of operations in the period that the impairment occurred or on our financial position. Goodwill is evaluated for impairment using several standard valuation techniques including discounted cash flow analyses, as well as an estimation of the impact of business conditions. The use of different estimates or assumptions could produce different estimates of carrying value. We prepare the valuation analyses, which are then reviewed by the Board of Directors. Different estimates or assumptions are also utilized to determine the appropriate carrying value of other assets including, but not limited to, property, plant and equipment, core deposit intangible, and the overall collectibility of loans and receivables.

Interest Income Recognition. Interest on loans is included in income as earned based upon interest rates applied to unpaid principal. Interest is not accrued on loans 90 days or more past due unless they are adequately secured and in the process of collection or on other loans when we believe collection is doubtful. All loans considered impaired are non-accruing. Interest on non-accruing loans is recognized as income when the ultimate collectibility of interest is no longer considered doubtful. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current-period interest income; therefore, an increase in loans on non-accrual status reduces interest income. If a loan is removed from non-accrual status, all previously unrecognized interest is collected and recorded as interest income.

Accounting for Post-retirement Plans. We use a December 31 measurement date to determine the expenses for our post-retirement plans and related financial disclosure information. Post-retirement plan expense is sensitive to changes in eligible employees (and their related demographics) and to changes in the discount rate and other expected rates, such as medical cost trends rates. As with the computations on plan expense, cash contribution requirements are also sensitive to such changes.

Tax Estimates. We account for income taxes by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Statement of Condition. We must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined not likely to be recoverable. Judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Although we have determined a valuation allowance is not required for all deferred tax assets, there is no guarantee that these assets will be recognizable.

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Financial Tables

Table 1 Three-Year Average Balance Sheet

The following table sets forth, for the periods indicated, information regarding amount of interest income on interest-earning assets and the average yields, the amount of interest expense on interest-bearing liabilities and average costs, net interest income, net interest spread and net interest margin.

Analysis of Change in Net Interest Margin on Earning Assets

(Dollars in thousands)	DECEMBER 31, 2007			DECEMBER 31, 2006			DECEMBER 31, 2005		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets									
Interest-earning assets:									
Securities taxable	**$ 422,197**	**$ 21,086**	**4.99%**	$ 384,132	$ 18,378	4.78%	$ 363,173	$ 15,721	4.33%
Securities nontaxable (1)	**42,050**	**2,537**	**6.03%**	37,281	2,249	6.03%	18,894	1,143	6.05%
Federal funds sold	**8,098**	**373**	**4.61%**	837	39	4.66%	391	12	3.07%
Loans (1) (2) (3)	**1,187,627**	**85,133**	**7.17%**	1,225,933	87,749	7.16%	1,129,004	73,349	6.50%
Total interest-earning assets	**1,659,972**	**109,129**	**6.57%**	1,648,183	108,415	6.58%	1,511,462	90,225	5.97%
Cash and due from banks	**29,357**			31,081			30,062		
Other assets	**73,000**			69,473			65,314		
Less: ALLL	**(14,393)**			(14,814)			(13,860)		
Total assets	**$ 1,747,936**			$ 1,733,923			$ 1,592,978		
Liabilities & Shareholders Equity									
Interest-bearing liabilities:									
NOW accounts	**$ 106,920**	**429**	**0.40%**	$ 110,387	321	0.29%	$ 118,380	$ 233	0.20%
Savings accounts	**89,705**	**336**	**0.37%**	96,132	326	0.34%	106,732	362	0.34%
Money market accounts	**311,171**	**13,450**	**4.32%**	265,691	11,021	4.15%	229,023	5,809	2.54%
Certificates of deposit	**389,565**	**17,121**	**4.39%**	375,800	15,051	4.01%	321,574	9,739	3.03%
Broker certificates of deposit	**121,221**	**5,116**	**4.22%**	216,394	8,298	3.83%	168,469	5,408	3.21%
Junior subordinated debentures	**36,083**	**2,381**	**6.60%**	24,813	1,637	6.60%			%
Borrowings	**418,894**	**19,033**	**4.54%**	377,377	16,394	4.34%	372,793	13,004	3.49%
Total interest-bearing liabilities	**1,473,559**	**57,866**	**3.93%**	1,466,594	53,048	3.62%	1,316,971	34,555	2.62%
Demand deposits	**148,751**			143,431			138,196		
Other liabilities	**15,032**			13,694			11,993		
Shareholders equity	**110,594**			110,204			125,818		
Total liabilities and shareholders equity	**$ 1,747,936**			$ 1,733,923			$ 1,592,978		
Net interest income (fully-taxable equivalent)		**51,263**			55,367			55,670	
Less: fully-taxable equivalent adjustment		**(1,393)**			(1,177)			(646)	

	$ 49,870	$ 54,190	$ 55,024
Net interest rate spread (fully-taxable equivalent)	**2.64%**	2.96%	3.35%
Net interest margin (fully-taxable equivalent)	**3.09%**	3.36%	3.68%

(1) Reported on tax-equivalent basis calculated using a rate of 35%.
(2) Non-accrual loans are included in total average loans.
(3) Includes net interest income on interest rate swap agreements.

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Table 2 Changes in Net Interest Income

The following table presents certain information on a fully-taxable equivalent basis regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to rate and volume.

(Dollars in thousands)	DECEMBER 31, 2007 VS 2006 INCREASE (DECREASE) DUE TO			DECEMBER 31, 2006 VS 2005 INCREASE (DECREASE) DUE TO		
	Volume	Rate	Total	Volume	Rate	Total
Interest-earning assets:						
Securities taxable	**$ 1,821**	**$ 886**	**$ 2,707**	$ 907	$ 1,750	$ 2,657
Securities nontaxable	**288**		**288**	1,112	(6)	1,106
Federal funds sold	**338**	**(4)**	**334**	14	13	27
Loans	**(2,741)**	**126**	**(2,615)**	6,297	8,103	14,400
Total interest income	**(294)**	**1,008**	**714**	8,330	9,860	18,190
Interest-bearing liabilities:						
NOW accounts	**(10)**	**118**	**108**	(16)	104	88
Savings accounts	**(22)**	**32**	**10**	(36)		(36)
Money market accounts	**1,887**	**542**	**2,429**	930	4,282	5,212
Certificates of deposit	**551**	**1,519**	**2,070**	1,642	3,670	5,312
Broker certificates of deposit	**(3,650)**	**468**	**(3,182)**	1,538	1,352	2,890
Borrowings	**1,804**	**835**	**2,639**	160	3,230	3,390
Junior subordinated debentures	**744**		**744**		1,637	1,637
Total interest expense	**1,304**	**3,514**	**4,818**	4,218	14,275	18,493
Net interest income (fully-taxable equivalent)	**$ (1,598)**	**$ (2,506)**	**$ (4,104)**	$ 4,112	$ (4,415)	$ (303)

Table 3 Securities Available for Sale and Held to Maturity

The following table sets forth the carrying amount of the Company s investment securities as of the dates indicated:

(Dollars in thousands)	2007	2006	2005
Securities available for sale:			
Obligations of US government sponsored enterprises	**$ 11,993**	$ 66,239	$ 55,832
Mortgage-backed securities	**317,332**	318,171	265,297
State and political subdivisions	**7,250**	7,406	7,489
Other debt securities	**64,763**	15,060	18,793
Equity securities	**21,770**	3,050	3,091
	423,108	409,926	350,502
Securities held to maturity:			
U.S. Treasury		439	196
State and political subdivisions	**40,726**	33,728	16,931
	40,726	34,167	17,127
	$ 463,834	$ 444,093	$ 367,629

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Table 4 Maturities of Securities

The following table sets forth the contractual maturities and fully-taxable equivalent weighted average yields of the Company s investment securities at December 31, 2007.

	Available for sale		Held to maturity	
(Dollars in thousands)	Book Value	Yield to Maturity	Amortized Cost	Yield to Maturity
U.S. Treasury and sponsored enterprises:				
Due in 1 year or less	$ 11,993	3.850%	$	0.000%
Due in 1 to 5 years		0.000%		0.000%
Due in 5 to 10 years		0.000%		0.000%
Due after 10 years		0.000%		0.000%
	11,993	3.850%		0.000%
Mortgage-backed securities:				
Due in 1 year or less	54	5.470%		0.000%
Due in 1 to 5 years	7,093	3.630%		0.000%
Due in 5 to 10 years	31,139	4.970%		0.000%
Due after 10 years	279,046	5.380%		0.000%
	317,332	5.300%		0.000%
State and political subdivisions:				
Due in 1 year or less	2,773	4.220%		0.000%
Due in 1 to 5 years	3,867	4.140%	1,363	3.510%
Due in 5 to 10 years	610	4.520%	12,389	3.710%
Due after 10 years		0.000%	26,974	3.980%
	7,250	4.200%	40,726	3.880%
Other debt securities:				
Due in 1 year or less		0.000%		0.000%
Due in 1 to 5 years		0.000%		0.000%
Due in 5 to 10 years	15,297	4.920%		0.000%
Due after 10 years	49,466	5.290%		0.000%
	64,763	5.210%		0.000%
Other equity securities:				
Due in 1 year or less	19,950	6.070%		0.000%
Due in 1 to 5 years		0.000%		0.000%
Due in 5 to 10 years		0.000%		0.000%
Due after 10 years	1,820	7.260%		0.000%
	21,770	6.170%		0.000%
Total securities	$ 423,108	5.270%	$ 40,726	3.880%

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Table 5 Composition of Loan Portfolio

The following table sets forth the composition of the Company s loan portfolio at the dates indicated.

(Dollars in thousands)

As of December 31,	2007	2006	2005	2004	2003
Commercial	**$ 519,213**	$ 580,615	$ 600,647	$ 569,248	$ 535,741
Residential real estate	**410,687**	412,812	375,399	322,168	288,011
Consumer	**203,710**	199,486	189,534	169,336	128,151
Municipal	**11,645**	24,889	16,138	8,134	14,470
Other	**384**	327	457	408	482
	$ 1,145,639	$ 1,218,129	$ 1,182,175	$ 1,069,294	$ 966,855

Table 6 Scheduled Contractual Amortization of Certain Loans at December 31, 2007

Loan demand also affects the Company s liquidity position. However, of the loans maturing over one year, approximately 53.7% are variable rate loans. The following table presents the maturities of loans at December 31, 2007:

(Dollars in thousands)

	<1 Year	1 Through 5 Years	More Than 5 Years	Total
Maturity Distribution:				
Fixed Rate:				
Commercial	**$ 15,013**	**$ 37,463**	**$ 47,572**	**$ 100,048**
Residential real estate	**3,683**	**6,435**	**247,173**	**257,291**
Consumer	**2,131**	**5,404**	**87,850**	**95,385**
Variable Rate:				
Commercial	**64,246**	**33,138**	**321,781**	**419,165**
Residential real estate	**17**	**277**	**153,102**	**153,396**
Consumer	**2,030**	**36**	**106,643**	**108,709**
Municipal	**3,610**	**2,478**	**5,557**	**11,645**
	$ 90,730	**$ 85,231**	**$ 969,678**	**$ 1,145,639**

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Table 7 Five-Year Table of Activity in the Allowance for Loan and Lease Losses

The following table sets forth information concerning the activity in the Company s allowance for loan and lease losses during the periods indicated.

(Dollars in thousands)	YEARS ENDED DECEMBER 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Allowance at the beginning of period	**$ 14,933**	$ 14,167	$ 13,641	$ 14,135	$ 15,242
Provision for (recovery of) loan and lease losses	**100**	2,208	1,265	(685)	(150)
Charge-offs:					
Commercial loans	**1,827**	1,599	915	243	1,183
Residential real estate loans	**50**		55	55	710
Consumer loans	**315**	234	254	201	200
Total loan charge-offs	**2,192**	1,833	1,224	499	2,093
Recoveries:					
Commercial loans	**640**	202	311	505	633
Residential real estate loans		13	25	35	296
Consumer loans	**172**	176	149	150	207
Total loan recoveries	**812**	391	485	690	1,136
Net charge-offs (recoveries)	**1,380**	1,442	739	(191)	957
Allowance at the end of the period	**$ 13,653**	$ 14,933	$ 14,167	$ 13,641	$ 14,135
Average loans outstanding	**$ 1,187,627**	$ 1,225,933	$ 1,129,004	$ 1,009,649	$ 897,811
Net charge-offs to average loans outstanding	0.12%	0.12%	0.07%	(0.02)%	0.11%
Provision for loan and lease losses to average loans outstanding	0.01%	0.18%	0.11%	(0.07)%	(0.02)%
Allowance for loan and lease losses to total loans	1.19%	1.23%	1.20%	1.28%	1.46%
Allowance for loan and lease losses to net charge-offs	989.35%	1035.58%	1917.05%	(7141.88)%	1477.01%
Allowance for loan and lease losses to non-performing loans	128.43%	109.17%	150.95%	213.64%	207.62%

Table 8 Allocation of the Allowance for Loan and Lease Losses Five-Year Schedule

The ALLL 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 ALLL by loan categories at the dates indicated.

(Dollars in thousands)	AS OF DECEMBER 31,									
	2007		**2006**		**2005**		**2004**		**2003**	
Balance at end of year applicable to:	**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**
Commercial loans	**$ 9,249**	**46%**	$ 10,691	50%	$ 10,148	52%	$ 9,407	54%	$ 10,761	57%
Residential real estate loans	**1,461**	**36%**	1,370	34%	1,172	32%	1,122	30%	1,705	30%
Consumer loans	**1,169**	**18%**	1,097	16%	1,011	16%	1,182	16%	1,299	13%
Unallocated	**1,774**	**N/A**	1,775	N/A	1,836	N/A	1,930	N/A	370	N/A

	$ 13,653	**100%**	$ 14,933	100%	$ 14,167	100%	$ 13,641	100%	$ 14,135	100%

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Table 9 Five Year Schedule of Non-performing Assets

The following table sets forth the amount of the Company s non-performing assets as of the dates indicated:

(Dollars in thousands)	DECEMBER 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Non accrual loans	**$ 10,625**	$ 13,124	$ 8,938	$ 5,940	$ 5,798
Accruing loans past due 90 days	**6**	555	447	445	1,010
Total non-performing loans	**10,631**	13,679	9,385	6,385	6,808
Other real estate owned	**400**	125			158
Total non-performing assets	**$ 11,031**	$ 13,804	$ 9,385	$ 6,385	$ 6,966
Non-performing loans to total loans	**0.93%**	1.12%	0.79%	0.60%	0.70%
Allowance for loan and lease losses to non-performing loans	**128.43%**	109.17%	150.95%	213.64%	207.62%
Non-performing assets to total assets	**0.64%**	0.78%	0.57%	0.43%	0.51%
Allowance for loan and lease losses to non-performing assets	**123.77%**	108.18%	150.95%	213.64%	202.91%

Management considers the adequacy of the collateral and the other resources of the borrower, among other items, in determining the steps to be taken to collect non-accrual and charged-off loans. Alternatives considered include foreclosing, collecting on guarantees, restructuring the loan, or collection lawsuits.

Table 10 Maturity of Certificates of Deposit of $100,000 or more at December 31, 2007

The maturity dates of certificates of deposit, including brokered certificates of deposit, in denominations of $100,000 or more are set forth in the following table. These deposits are generally considered to be more rate sensitive than other deposits and, therefore, more likely to be withdrawn to obtain higher yields elsewhere if available.

(Dollars in thousands)	**December 31, 2007**
Time remaining until maturity:	
Less than 3 months	**$ 44,865**
3 months through 6 months	**45,785**
6 months through 12 months	**68,163**
Over 12 months	**36,711**
	$ 195,524

Table 11 Borrowed Funds

The borrowings utilized by the Company have primarily been advances from the FHLBB. In addition, the Company uses Federal Funds, treasury, tax and loan deposits and repurchase agreements secured by United States government or agency securities. During 2006, the Company issued junior subordinated debentures and, during 2007, the Company incurred a short-term note payable, both of which are included in the amounts below. Approximately 35.3% of all borrowings mature or reprice within the next three months. The following table sets forth certain information regarding borrowed funds for the years ended December 31, 2007, 2006, and 2005.

(Dollars in thousands)	**2007**	**2006**	**2005**
Average balance outstanding	**$ 454,977**	$ 402,189	$ 372,793
Maximum amount outstanding at any month-end during the year	**505,304**	437,643	412,495
Balance outstanding at end of year	**460,133**	437,364	347,039

Weighted average interest rate during the year	**4.60%**	3.99%	3.11%
Weighted average interest rate at end of year	**4.62%**	4.52%	3.86%

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Table 12 Interest Rate Sensitivity or Gap

Interest rate sensitivity or gap management involves the maintenance of an appropriate balance between interest sensitive assets and interest sensitive liabilities. This reduces interest rate risk exposure while also providing liquidity to satisfy the cash flow requirements of operations and customers fluctuating demands for funds, either in terms of loan requests or deposit withdrawals. Major fluctuations in net interest income and net earnings could occur due to imbalances between the amounts of interest-earning assets and interest-bearing liabilities, as well as different repricing characteristics. Gap management seeks to protect earnings by maintaining an appropriate balance between interest-earning assets and interest-bearing liabilities in order to minimize fluctuations in the net interest margin and net earnings in periods of volatile interest rates.

The following table sets forth the amount of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2007, which is anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown:

(Dollars in thousands)	Less than 1 Year	Through 5 Years	More Than 5 Years	Total
Interest-earning assets:				
Fixed rate loans	**$ 24,438**	**$ 51,779**	**$ 388,152**	**$ 464,369**
Variable rate loans	**681,270**			**681,270**
Investment securities				
Available for sale	**34,770**	**10,960**	**377,378**	**423,108**
Held to maturity		**1,363**	**39,363**	**40,726**
Total interest-earning assets	**740,478**	**64,102**	**804,893**	**1,609,473**
Interest-bearing liabilities:				
Savings accounts	**19,764**		**66,167**	**85,931**
NOW accounts			**132,331**	**132,331**
Money market accounts	**298,677**			**298,677**
Certificate accounts	**363,896**	**87,702**	**7,656**	**459,254**
Borrowings	**222,441**	**163,590**	**74,102**	**460,133**
Total interest-bearing liabilities	**904,778**	**251,292**	**280,256**	**1,436,326**
Interest sensitivity gap per period	**$ (164,300)**	**$ (187,190)**	**$ 524,637**	
Cumulative interest sensitivity gap	**$ (164,300)**	**$ (351,490)**	**$ 173,147**	
Cumulative interest sensitivity gap as a percentage of total assets	**(9.57)%**	**(20.47)%**	**10.09%**	
Cumulative interest-earning assets as a percentage of interest-sensitive liabilities	**82%**	**70%**	**112%**	

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information contained in the section captions Management s Discussion and Analysis of Financial Condition and Results of Operation Market Risk in Item 7 is incorporated herein by reference.

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Item 8. Financial Statements and Supplementary Data

Consolidated Statements of Condition

(In thousands, except number of shares and per share data)	DECEMBER 31, 2007	2006
Assets		
Cash and due from banks	**$ 28,790**	$ 33,358
Securities available for sale, at market	**423,108**	409,926
Securities held to maturity (market value $41,013 and $34,389 at December 31, 2007 and 2006, respectively)	**40,726**	34,167
Loans, less allowance for loan and lease losses of $13,653 and $14,933 at December 31, 2007 and 2006, respectively	**1,131,986**	1,203,196
Bank premises and equipment, net	**19,650**	17,595
Other real estate owned	**400**	125
Interest receivable	**7,098**	7,488
Core deposit intangible	**320**	1,176
Goodwill	**3,991**	3,991
Other assets	**60,719**	58,864
Total assets	**$ 1,716,788**	$ 1,769,886
Liabilities		
Deposits:		
Demand	**$ 141,858**	$ 146,458
NOW	**132,331**	125,809
Money market	**298,677**	261,585
Savings	**85,931**	96,661
Certificates of deposit	**459,254**	555,288
Total deposits	**1,118,051**	1,185,801
Borrowings from Federal Home Loan Bank	**271,558**	340,499
Other borrowed funds	**142,492**	60,782
Junior subordinated debentures	**36,083**	36,083
Due to broker		24,354
Note payable	**10,000**	
Accrued interest and other liabilities	**18,401**	15,315
Total liabilities	**1,596,585**	1,662,834
Commitments and Contingencies (Notes 5, 9, 14, 16, 20, 21 and 22) Shareholders Equity		
Common stock, no par value; authorized 20,000,000 shares, Issued and outstanding 6,513,573 and 6,616,780 shares on December 31, 2007 and 2006, respectively	**2,522**	2,450
Surplus	**2,629**	2,584
Retained earnings	**114,289**	105,959
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on securities available for sale, net of tax	**1,516**	(2,985)
Net unrealized losses on derivative instruments, at fair value, net of tax		(198)
Net unrealized losses on post-retirement plans, net of tax	**(753)**	(758)
Total accumulated other comprehensive income (loss)	**763**	(3,941)
Total shareholders equity	**120,203**	107,052
Total liabilities and shareholders equity	**$ 1,716,788**	$ 1,769,886

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

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Consolidated Statements of Income

(In thousands, except number of shares and per share data)	YEARS ENDED DECEMBER 31, 2007	2006	2005
Interest Income			
Interest and fees on loans	**$ 84,603**	$ 87,335	$ 73,057
Interest on U.S. government and sponsored enterprise obligations	**19,053**	17,229	14,824
Interest on state and political subdivision obligations	**1,674**	1,484	755
Interest on interest rate swap agreements			173
Interest on federal funds sold and other investments	**2,406**	1,190	912
Total interest income	**107,736**	107,238	89,721
Interest Expense			
Interest on deposits	**36,452**	35,017	21,584
Interest on other borrowings	**19,033**	16,394	12,971
Interest on junior subordinated debentures	**2,381**	1,637	
Interest on interest rate swap agreements			142
Total interest expense	**57,866**	53,048	34,697
Net interest income	**49,870**	54,190	55,024
Provision for Loan and Lease Losses	**100**	2,208	1,265
Net interest income after provision for loan and lease losses	**49,770**	51,982	53,759
Non-interest Income			
Service charges on deposit accounts	**3,447**	3,436	3,433
Other service charges and fees	**1,833**	1,646	1,341
Income from fiduciary services	**4,914**	4,455	4,026
Brokerage and insurance commissions	**826**	469	470
Mortgage servicing income, net	**127**	132	113
Bank-owned life insurance	**832**	800	643
Loss on sale of securities			(332)
Other income	**673**	691	356
Total non-interest income	**12,652**	11,629	10,050
Non-interest Expenses			
Salaries and employee benefits	**18,486**	17,980	18,595
Net occupancy	**2,739**	2,500	2,262
Furniture, equipment and data processing	**2,345**	2,202	2,027
Amortization of core deposit intangible	**856**	864	884
Other expenses	**9,260**	10,678	8,693
Total non-interest expenses	**33,686**	34,224	32,461
Income before income taxes	**28,736**	29,387	31,348
Income Taxes	**8,453**	9,111	9,968
Net Income	**$ 20,283**	$ 20,276	$ 21,380
Per Share Data			

Basic earnings per share	**$ 3.09**	$ 2.93	$ 2.81
Diluted earnings per share	**3.09**	2.93	2.80
Weighted average number of shares outstanding	**6,557,102**	6,919,579	7,599,051

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

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Consolidated Statements of Changes in Shareholders Equity

(In thousands, except number of shares and per share data)	Common Stock	Surplus	Retained Earnings	Net Unrealized Gains (Losses) on Securities Available for Sale	Net Unrealized Losses on Derivative Instruments	Net Unrealized Losses on Post-retirement Plans	Total Shareholders Equity
Balance at December 31, 2004	$ 2,450	$ 4,440	$ 118,764	$ 751	$	$	$ 126,405
Net income for 2005			21,380				21,380
Change in unrealized losses on derivative instruments, net of taxes of $61					(113)		(113)
Change in unrealized gains on securities available for sale, net of taxes of $2,334				(4,335)			(4,335)
Total comprehensive income			21,380	(4,335)	(113)		16,932
Equity compensation expense		91					91
Exercise of stock options and issuance of restricted stock (total 10,301 shares)		(283)	236				(47)
Purchase of common stock (116,202 shares)		(150)	(3,777)				(3,927)
Cash dividends declared ($1.30 / share)			(9,916)				(9,916)
Balance at December 31, 2005	$ 2,450	$ 4,098	$ 126,687	$ (3,584)	$ (113)	$	$ 129,538
Net income for 2006			20,276				20,276
Change in unrealized losses on derivative instruments, net of taxes of $46					(85)		(85)
Change in unrealized losses on securities available for sale, net of taxes of ($323)				599			599
Total comprehensive income			20,276	599	(85)		20,790
Adjustment to initially apply SFAS No. 158 post-retirement plans, net of taxes of $408						(758)	(758)
Equity compensation expense		172					172
Exercise of stock options and issuance of restricted stock (total 28,953 shares)		(273)	812				539
Purchase of common stock (941,246 shares)		(1,413)	(35,570)				(36,983)
Cash dividends declared ($0.88 / share)			(6,246)				(6,246)
Balance at December 31, 2006	$ 2,450	$ 2,584	$ 105,959	$ (2,985)	$ (198)	$ (758)	$ 107,052
Net income for 2007			**20,283**				**20,283**
Adjustment to record derivative as economic hedge					**198**		**198**
Change in unrealized losses on securities available for sale, net of taxes of ($2,424)				**4,501**			**4,501**
Change in net unrealized losses on post-retirement plans, net of taxes of ($3)						**5**	**5**
Total comprehensive income			**20,283**	**4,501**	**198**	**5**	**24,987**
Equity compensation expense		**275**					**275**
Exercise of stock options and issuance of restricted stock (total 10,743 shares)	**72**	**(59)**	**235**				**248**

Purchase of common stock (113,950 shares)		**(171)**	**(4,305)**				**(4,476)**
Cash dividends declared ($1.20 / share)			**(7,883)**				**(7,883)**
Balance at December 31, 2007	**$ 2,522**	**$ 2,629**	**$ 114,289**	**$ 1,516**	**$**	**$ (753)**	**$ 120,203**

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

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Consolidated Statements of Cash Flows

(In thousands)	YEARS ENDED DECEMBER 31, 2007	2006	2005
Operating Activities			
Net income	**$ 20,283**	$ 20,276	$ 21,380
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan and lease losses	**100**	2,208	1,265
Depreciation and amortization	**1,390**	1,633	2,273
Equity compensation costs	**275**	172	91
Decrease (increase) in interest receivable	**390**	(799)	(773)
Amortization of core deposit intangible	**856**	864	884
Increase in other assets	**(2,349)**	(4,779)	(2,558)
Increase in other liabilities	**1,520**	2,540	736
Loss on sale of securities			332
Net cash provided by operating activities	**22,465**	22,115	23,630
Investing Activities			
Proceeds from sales and maturities of securities held to maturity	**439**	392	592
Proceeds from sales and maturities of securities available for sale	**162,901**	58,934	89,966
Purchase of securities held to maturity	**(7,018)**	(17,442)	(15,610)
Purchase of securities available for sale	**(168,852)**	(117,598)	(126,190)
Change in Federal Home Loan Bank stock	**(1,877)**	2,322	(3,479)
Net decrease (increase) in loans	**71,110**	(37,396)	(113,620)
Net increase in other real estate owned	**(275)**	(125)	
Purchase of premises and equipment	**(3,581)**	(3,160)	(1,063)
Net sale (purchase) of federal funds		1,110	(1,110)
Net cash provided (used) by investing activities	**52,847**	(112,963)	(170,514)
Financing Activities			
Net (decrease) increase in deposits	**(67,750)**	21,896	149,304
Proceeds from Federal Home Loan Bank long-term borrowings	**104,858**	155,139	79,455
Repayments on Federal Home Loan Bank long-term borrowings	**(85,069)**	(118,671)	(124,755)
Net change in short-term Federal Home Loan Bank borrowings	**(88,730)**	16,530	55,110
Net increase in other borrowed funds	**81,710**	1,244	408
Proceeds from issuance of junior subordinated debentures		36,083	
(Decrease) increase in due to broker	**(24,354)**	24,354	
Proceeds from note payable	**10,000**		
Purchase of common stock	**(4,476)**	(36,983)	(3,927)
Exercise of stock options and stock issuance under option plan	**248**	539	(47)
Cash dividends	**(6,317)**	(6,246)	(9,916)
Net cash (used) provided by financing activities	**(79,880)**	93,885	145,632
Net (decrease) increase in cash and cash equivalents	**(4,568)**	3,037	(1,252)
Cash and cash equivalents at beginning of year	**33,358**	30,321	31,573
Cash and cash equivalents at end of year	**$ 28,790**	$ 33,358	$ 30,321
Supplemental disclosures of cash flow information			
Cash paid during the year for:			
Interest	**$ 58,212**	$ 52,032	$ 33,983

Income tax	**7,752**	9,804	10,434
Non-Cash transactions:			
Transfer from loans to other real estate owned	**410**	474	

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

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Notes to Consolidated Financial Statements

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

NATURE OF OPERATIONS.

Camden National Corporation (or the Company), as a bank holding company, provides financial services to its customers through two major subsidiaries. Camden National Bank provides traditional commercial and consumer financial services through 27 branch locations in central, southern, midcoast, and western Maine and by online access. Acadia Trust, N.A. provides 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 banking subsidiary.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies conform to accounting principles generally accepted in the United States of America 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 subsidiary, Camden National Bank (CNB), and its wholly owned non-bank subsidiary, Acadia Trust, N.A. All intercompany accounts and transactions have been eliminated in consolidation. Assets held by the non-bank subsidiary in a fiduciary capacity are not assets of the Company and, therefore, are not included in the Consolidated Statements of Condition. With the required regulatory approval, the Company merged, effective September 30, 2006, its two banking subsidiaries, CNB and UnitedKingfield Bank, under the CNB charter.

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. On an ongoing basis, management evaluates its estimates, which are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances. The use of different estimates or assumptions could produce different results. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan and lease losses (ALLL), the review of goodwill and intangible assets for impairment, the estimated lives of premises and equipment, the valuation of mortgage servicing rights, the assessment of other-than-temporary impairments in the investment portfolio, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of the deferred tax asset and the accumulated benefit obligations for post-retirement plans.

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 and cash equivalents consist of cash and due from banks.

Investment Securities. At trade date, the Company classifies and records its marketable investment securities into securities available for sale or securities to be held to maturity. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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Notes to Consolidated Financial Statements (continued)

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

Securities Available for Sale. Debt and other securities that are to be held for indefinite periods of time are stated at fair value. Changes in net unrealized gains or losses are recorded as an adjustment to shareholders equity until realized. Fair 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.

Nonmarketable investment securities consist of Federal Home Loan Bank of Boston (FHLBB) Stock and FRB Stock. These securities are recorded at cost in other assets and periodically evaluated for impairment.

Residential Mortgages Held for Sale. Residential mortgages held for sale are primarily one-to-four family real estate loans that are valued at the lower of cost or market on an individual basis, as determined by quoted market prices from Freddie Mac. Gains and losses from sales of residential mortgages held for sale are recognized on the trade date and recorded in other income. These activities, together with underwriting residential mortgage loans, comprise the Company s mortgage banking business.

Loan Servicing. Servicing assets are recognized as separate assets when servicing rights are acquired through the sale of residential mortgage loans. Capitalized servicing rights are reported in other assets and are 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 carrying amount of capitalized mortgage servicing rights for a stratum exceeds their fair value.

Loans. Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balance, adjusted for any charge-offs, the ALLL and any deferred fees or costs. Fees received and direct costs incurred for the origination of loans are deferred and recognized as an adjustment of loan yield. Interest on loans is included in income as earned based upon interest rates applied to unpaid principal. The accrual of interest is discontinued on 1.) loans 90 days or more past due, unless they are adequately secured and in the process of collection, and 2.) if, 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. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans past due 30 days or more are considered delinquent. In general, consumer loans will be charged off if the loan is delinquent for 90 consecutive days. Commercial and real estate loans may be charged off in part or in full if they appear uncollectible.

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 ALLL to such loans. If these allocations cause the ALLL to require an increase, such increase is reported as provision for loan and lease 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 and lease losses.

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Notes to Consolidated Financial Statements (continued)

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

Allowance for Loan and Lease Losses. The ALLL is maintained at a level believed appropriate to absorb expected future charge-offs of loans deemed uncollectible. Management determines the appropriate level of the ALLL based upon reviews of individual credits, recent loss experience, current economic conditions, known and inherent risk characteristics of the various loan categories, current loan mix and loan volumes, loan growth, trends in the level of criticized or classified assets, results of examinations by regulatory authorities, adverse situations that may affect the borrower s ability to repay, estimated value of underlying collateral and other pertinent factors. The ALLL is increased by provisions charged to operating expense and by recoveries on loans previously charged off. A smaller provision for loan and lease losses results in higher net income and a greater amount of provision for loan and lease losses results in lower net income. Credits deemed uncollectible are charged against the ALLL. In connection with the determination of the ALLL and the carrying value of real estate owned, management obtains independent appraisals for significant properties.

Other Real Estate Owned. Other real estate owned represents real estate acquired through foreclosure or upon receipt of a deed in lieu of foreclosure. The valuation of this property is accounted for individually at the lower of the book value of the loan satisfied or its net realizable value on the date of acquisition. At the time of acquisition, if the net realizable value of the property is less than the book value of the loan, the difference is treated as a loan loss. If the value of the property becomes permanently impaired, as determined by an appraisal or an evaluation in accordance with the Company s appraisal policy, the Company will record the decline by recording a charge against current earnings. Upon acquisition of a property, a current appraisal or a broker s opinion must substantiate market value for the property.

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 fixed assets. If the Company commits to a plan to abandon a fixed asset before the end of its previously estimated useful life, depreciation and amortization estimates shall be revised to reflect the use of the fixed asset over its shortened useful life.

Intangible Assets. The value of core deposits premium, with respect to $104.0 million in deposits acquired by the Company in connection with the 1998 acquisition of eight branch locations, is being amortized over 10 years using the straight-line method. Amortization of software is recognized using the straight-line method over the estimated useful lives of the various software items, which primarily is three years. On an ongoing basis, management reviews the valuation and amortization of intangible assets to determine possible impairment.

Bank-Owned Life Insurance. Bank-owned life insurance represents the cash surrender value of life insurance policies on the lives of certain active and retired employees where the Company is the beneficiary. The cash surrender value of the policies is recorded as an asset and increases in the cash value of the policies, as well as any insurance proceeds received, are recorded in non-interest income, and are not subject to income taxes.

Goodwill. Goodwill is tested at least annually for impairment using several standard valuation techniques including discounted cash flow analyses, as well as an estimation of the impact of business conditions.

Other Borrowed Funds. Other borrowed funds consist of commercial and retail repurchase agreements, federal funds purchased, and treasury, tax and loan deposits. Retail repurchase agreements and federal funds purchased generally mature within 30 days and are reflected at the amount of cash received in connection with the transaction. Commercial repurchase agreements are callable quarterly, generally 6 to 24 months after issuance, and mature within five years. 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.

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Notes to Consolidated Financial Statements (continued)

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

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.

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, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Post-retirement and Supplemental Retirement Plans. The cost of providing post-retirement benefits is accrued during the active service period of the employee. The Company uses a December 31 measurement date to determine the expenses for the post-retirement plans and related financial disclosure information. Post-retirement plan expense is sensitive to changes in eligible employees (and their related demographics) and to changes in the discount rate and other expected rates, such as medical cost trends rates. As with the computations on plan expense, cash contribution requirements are also sensitive to such changes.

Derivative Financial Instruments Designated as Hedges. The Company recognizes all derivatives in the Consolidated Statement of Condition at fair value. On the date the Company enters into the derivative contract, the Company designates the derivative as a hedge of either a forecasted transaction or 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 instrument (trading 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 effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is 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 effective. Those derivatives that are classified as trading instruments 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 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.

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Notes to Consolidated Financial Statements (continued)

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

Cash and due from banks: The carrying amounts of cash and due from banks approximate their 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 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 FHLBB, securities sold 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.

Junior subordinated debentures: Fair value is estimated using current rates for debentures of similar maturity.

Due to broker: The carrying amount approximates fair value.

Note payable: The carrying amount approximates fair value.

Derivative financial instruments: Fair values for derivative instruments 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.

Stock-Based Compensation. On April 29, 2003, the shareholders of the Company approved the 2003 Stock Option and Incentive Plan, which is the plan currently available for future grants. The plan allows the Company to grant options to employees for up to 800,000 additional shares of the Company common stock. Prior to the approval, the Company had three stock option plans, which the Company accounted for under the recognition and measurement provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. On August 27, 2002, the Company announced that it adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, prospectively to all employee awards granted, modified or settled. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004) *Share-Based Payment*, using a modified prospective application.

Reclassifications. Certain items from the prior years were reclassified to conform to the current year presentation.

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Notes to Consolidated Financial Statements (continued)

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

Recent Accounting Pronouncements. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument-by-instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity s first fiscal year after November 15, 2007. The Company does not intend to take the fair value option for any financial assets or financial liabilities under SFAS No. 159.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and early application is encouraged. Although this Statement does not require any new fair value measurements, it is expected to expand fair value disclosures.

2. GOODWILL

At December 31, 2007 and 2006, the value of the Company s goodwill, including the related impairment loss recorded in 2002, was as follows:

	Banking	Financial Services	Total
Goodwill, at cost	**$ 2,273**	**$ 2,408**	**$ 4,681**
Transitional impairment loss		**(690)**	**(690)**
Goodwill, net	**$ 2,273**	**$ 1,718**	**$ 3,991**

At June 30, 2007 and 2006, in accordance with SFAS No. 142, the Company completed its annual review of the goodwill utilizing several standard valuation techniques, including discounted cash flow analyses, as well as an estimation of the impact of business conditions and investor activities on the long-term value of the goodwill, and determined that there has been no additional impairment.

3. CORE DEPOSIT INTANGIBLE

The Company has a core deposit intangible asset related to the acquisition of bank branches between 1995 and 1998. The core deposit intangible is amortized on a straight-line basis over 10 years, and reviewed for possible impairment when it is determined that events or changed circumstances may affect the underlying basis of the asset. The carrying amount is as follows:

	December 31, 2007	December 31, 2006
Core deposit intangible, cost	**$ 9,424**	$ 9,424
Accumulated amortization	**9,104**	8,248
Core deposit intangible, net	**$ 320**	$ 1,176

Amortization expense related to the core deposit intangible amounted to $856,000 for the year ended December 31, 2007, $864,000 for the year ended December 31, 2006 and $884,000 for the year ended December 31, 2005. The expected amortization expense for 2008, the year the intangible is fully amortized, is estimated to be $320,000.

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Notes to Consolidated Financial Statements (continued)

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

4. INVESTMENT SECURITIES

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

	DECEMBER 31, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Obligations of U.S. government sponsored enterprises	**$ 11,998**	**$**	**$ (5)**	**$ 11,993**
Obligations of states and political subdivisions	**7,190**	**60**		**7,250**
Mortgage-backed securities	**314,923**	**3,248**	**(839)**	**317,332**
Other debt securities	**64,715**	**282**	**(234)**	**64,763**
Total debt securities	**398,826**	**3,590**	**(1,078)**	**401,338**
Equity securities	**21,950**		**(180)**	**21,770**
Total securities available for sale	**$ 420,776**	**$ 3,590**	**$ (1,258)**	**$ 423,108**
Held to maturity				
Obligations of states and political subdivisions	**$ 40,726**	**$ 318**	**$ (31)**	**$ 41,013**
Total securities held to maturity	**$ 40,726**	**$ 318**	**$ (31)**	**$ 41,013**

	DECEMBER 31, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
Obligations of U.S. government sponsored enterprises	$ 66,987	$	$ (748)	$ 66,239
Obligations of states and political subdivisions	7,344	62		7,406
Mortgage-backed securities	321,782	762	(4,373)	318,171
Other debt securities	15,407		(347)	15,060
Total debt securities	411,520	824	(5,468)	406,876
Equity securities	2,999	51		3,050
Total securities available for sale	$ 414,519	$ 875	$ (5,468)	$ 409,926
Held to maturity				
U.S. Treasury securities	$ 439	$	$	$ 439
Obligations of states and political subdivisions	33,728	259	(37)	33,950
Total securities held to maturity	$ 34,167	$ 259	$ (37)	$ 34,389

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Notes to Consolidated Financial Statements (continued)

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

Management evaluates investments for other-than-temporary impairment based on the type of investment and the period of time the investment has been in an unrealized loss position. At December 31, 2007, the Company had a greater than 12 months unrealized loss of $1.0 million, which represents 0.9% of the $113.4 million fair value of the specific securities and 0.2% of the total investment portfolio. The greater than 12 months unrealized loss position was comprised of 81.9% mortgage-backed securities issued by either the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac), 17.1% collateralized mortgage obligations, and 1.0% for municipal bonds and U.S. government sponsored enterprises combined. At December 31, 2006, the Company had a greater than 12 months unrealized loss of $5.2 million, which represents 2.1% of the $248.0 million fair value of the specific securities and 1.2% of the total investment portfolio. The greater than 12 months unrealized loss position was comprised of 79.1% mortgage-backed securities issued by either Fannie Mae or Freddie Mac, 13.6% U.S. government sponsored enterprises, 6.3% collateralized mortgage obligations, and 1.0% municipal bonds. Management believes that the unrealized loss positions are primarily due to the changes in the interest rate environment, there is little risk of loss or default from the counterparties, and the Company has the ability and intent to hold the securities for the foreseeable future, therefore, the securities are not considered other-than-temporarily impaired.

Investments with unrealized losses at December 31, 2007 and December 31, 2006, and the length of time they have been in a continuous loss position, are as follows:

	2007					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. government sponsored enterprises	**$**	**$**	**$ 11,993**	**$ (5)**	**$ 11,993**	**$ (5)**
Obligations of states and political subdivisions	**6,421**	**(25)**	**1,585**	**(6)**	**8,006**	**(31)**
Mortgage-backed securities	**111**	**(1)**	**87,202**	**(838)**	**87,313**	**(839)**
Other debt securities	**13,180**	**(59)**	**12,575**	**(175)**	**25,755**	**(234)**
Equity securities	**1,820**	**(180)**			**1,820**	**(180)**
Total	**$ 21,532**	**$ (265)**	**$ 113,355**	**$ (1,024)**	**$ 134,887**	**$ (1,289)**

	2006					
	Less than 12 months		**12 months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Obligations of U.S. government sponsored enterprises	$ 9,950	$ (36)	$ 56,289	$ (712)	$ 66,239	$ (748)
Obligations of states and political subdivisions	972	(2)	9,514	(35)	10,486	(37)
Mortgage-backed securities	69,166	(243)	167,108	(4,130)	236,274	(4,373)
Other debt securities			15,060	(347)	15,060	(347)
Total	$ 80,088	$ (281)	$ 247,971	$ (5,224)	$ 328,059	$ (5,505)

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Notes to Consolidated Financial Statements (continued)

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

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2007 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale		
Due in one year or less	**$ 34,759**	**$ 34,770**
Due after one year through five years	**11,011**	**10,960**
Due after five years through ten years	**46,692**	**47,046**
Due after ten years	**328,314**	**330,332**
	$ 420,776	**$ 423,108**
Held to maturity		
Due after one year through five years	**$ 1,363**	**$ 1,363**
Due after five years through ten years	**12,389**	**12,472**
Due after ten years	**26,974**	**27,178**
	$ 40,726	**$ 41,013**

During 2007 and 2006, there were no sales in the available for sale portfolio. Proceeds from the sale of investments (specific identification method) classified as available for sale during 2005 were $22.7 million, which resulted in gross realized losses of $332,000. There were no sales in the held to maturity portfolio during 2007, 2006 or 2005.

At December 31, 2007 and 2006, securities with an amortized cost of $390.3 million and $343.6 million and a fair value of $392.7 million and $338.5 million, respectively, were pledged to secure FHLBB advances, public deposits, securities sold under agreements to repurchase and other purposes required or permitted by law.

On December 28, 2006, the Company purchased a mortgage-backed security in the amount of $24.4 million with a settlement date of January 11, 2007. In accordance with trade date accounting, the Company recorded the security on its Consolidated Statement of Condition within the Securities available for sale asset, with the corresponding liability recorded as Due to broker.

5. DERIVATIVE FINANCIAL INSTRUMENTS

On July 14, 2005, the Company purchased interest rate protection agreements (floors) with notional amounts of $50.0 million, a strike rate of 6.0% and a termination date of July 14, 2010. These floors were acquired to limit the Company s exposure to falling rates on Prime Rate loans. The cash flows on prime-based interest receipts for the first $50.0 million of the Company s floating Prime rate based loans for which interest payments are received each quarter are being hedged with two 5-Year Term Floor Agreements with $30.0 million and $20.0 million notional value, respectively, and both with a Prime rate 6% strike price. The floor contract will reduce the variability of cash flows from the floating Prime rate based loan portfolio should the rate index of the loans fall below a predetermined level, in this case the 6% strike price. The floor contract was purchased to best match the characteristics of the underlying loans hedged and is tied to the H.15 Prime, while the loans being hedged are tied to WSJ Prime. Under these agreements, the Company paid up front premiums of $410,000, which the Company has been amortizing based on the expense amortization schedule established at the inception of the hedge, with the corresponding adjustment to the income statement.

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At inception, the hedging relationship was expected to be 100% effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge as required by paragraph 28(b) of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities. The Company believes that the initial documentation clearly indicates the Company s intent and adequately identifies the forecasted transactions. However, the Company did not explicitly state within the original documentation the first-payments received methodology for describing with sufficient specificity the forecasted transaction in accordance with Implementation Issue No. G25, Cash Flow Hedges: Using the First-Payments-Received Technique in Hedging the Variable Interest Payments on a Group of Non-Benchmark-Rate-Based Loans. Accordingly, during the third quarter of 2007, the Company discontinued cash flow hedge accounting and recorded the derivative transactions as economic hedges with a reclassification of the derivative s losses from accumulated other comprehensive income to earnings. The Company evaluated the potential financial statement impact had the derivative instruments been recorded as economic hedges since inception and adjusted to fair value through earnings. Management determined that the financial statement impact was not material, both quantitatively and qualitatively, to the Company s financial statements taken as a whole in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108. Quantitatively, in accordance with SEC Staff Accounting Bulletin No. 108, management assessed the materiality of the financial statement impact using both the rollover and iron curtain approaches. Under either approach, the financial statement impact for each interim and annual reporting period was immaterial. Qualitatively, management s intent was to record and report 100% effective cash flow hedges in accordance with SFAS 133 and related guidance. Management concluded, after considering the total mix of information, that the magnitude of this item would not change or influence the judgment of a reasonable person relying upon the financial reports. Due to changes in market interest rates at the end of the fourth quarter, the fair value of the floor agreements increased and the Company committed to a plan to sell the agreements and closed the sale of the contracts for $441,250. For the year ended December 31, 2007, the Company recorded income of approximately $39,000 related to the fair value adjustments and the subsequent sale of the floor agreements.

As part of originating mortgage loans, the Company may enter into rate lock agreements with customers, which are considered interest rate lock commitments under SFAS No. 133. At December 31, 2007 and 2006, based upon the pipeline of mortgage loans with rate lock commitments and the change in fair value of those commitments due to changes in market interest rates, the Company determined the balance sheet impact was not material.

The Company had interest rate swap agreements with notional amounts of $30.0 million, which matured on February 1, 2005. Under these agreements the Company exchanged a variable rate asset for a fixed rate asset, thus protecting certain asset yields from falling interest rates. These agreements contributed $31,000 to net interest income for the year ended December 31, 2005.

6. LOANS

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

	2007	2006
Commercial loans	**$ 519,213**	$ 580,615
Residential real estate loans	**410,907**	413,426
Consumer loans	**203,710**	199,486
Municipal loans	**11,645**	24,889
Other loans	**384**	327
Total loans	1,145,859	1,218,743
Deferred loan fees net of costs	**(220)**	(614)
Allowance for loan and lease losses	**(13,653)**	(14,933)
	$ 1,131,986	$ 1,203,196

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Notes to Consolidated Financial Statements (continued)

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

The Company s lending activities are primarily conducted in Maine. The Company makes single family and multi-family residential loans, commercial real estate loans, business loans, municipal loans and a variety of consumer loans. In addition, the Company makes loans for the construction of residential homes, multi-family properties and commercial real estate properties. The ability and willingness of borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the geographic area and the general economy.

The Company did not sell mortgage loans in 2007 and 2006. For the year ended December 31, 2005, the Company sold fixed-rate residential mortgage loans on the secondary market, which resulted in a net loss on the sale of loans of $24,200.

As of December 31, 2007 and 2006, non-accrual loans were $10.6 million and $13.1 million, respectively. Interest foregone was approximately $535,000, $676,000 and $471,000 for 2007, 2006, and 2005, respectively.

7. ALLOWANCE FOR LOAN AND LEASE LOSSES

Changes in the allowance for loan and lease losses were as follows:

	DECEMBER 31,		
	2007	**2006**	**2005**
Beginning balance	**$ 14,933**	$ 14,167	$ 13,641
Provision for loan and lease losses	**100**	2,208	1,265
Recoveries	**812**	391	485
Loans charged off	**(2,192)**	(1,833)	(1,224)
Net charge-offs	**(1,380)**	(1,442)	(739)
Ending balance	**$ 13,653**	$ 14,933	$ 14,167

Information regarding impaired loans is as follows:

	DECEMBER 31,		
	2007	**2006**	**2005**
Average investment in impaired loans	**$ 7,610**	$ 9,707	$ 7,528
Interest income recognized on impaired loans, cash basis	**456**	582	280
Balance of impaired loans	**10,625**	13,124	8,938
Portion of impaired loan balance for which an allowance for credit losses is allocated	**10,625**	13,124	8,938
Portion of allowance for loan and lease losses allocated to the impaired loan balance	**1,694**	1,111	1,601

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Notes to Consolidated Financial Statements (continued)

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

8. MORTGAGE SERVICING

Residential real estate mortgages are originated by the Company both for portfolio and for sale into the secondary market. The Company may sell its loans 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 is less than the interest rate the Company receives from the borrower. The Company retains the difference as a fee for servicing the residential real estate mortgages. As required by SFAS No. 156, *Accounting for Servicing of Financial Assets - an amendment of SFAS no. 140,* the Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans, amortizes the asset over the estimated life of the serviced loan, and periodically assesses the asset for impairment. The balance of capitalized mortgage servicing rights, net of a valuation allowance, included in other assets at December 31, 2007 and 2006 was $142,000, and $324,000, respectively, which equaled the net book value of these rights. For the same periods, the fair market value of the mortgage servicing rights approximated $775,000 and $1.0 million, respectively. In evaluating the reasonableness of the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes a variety of assumptions, the most significant of which are loan prepayment assumptions and the discount rate used to discount future cash flows. Prepayment assumptions, which are impacted by loan rates and terms, are calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association and modeled against the serviced loan portfolio by the third party valuation specialist. The discount rate is the quarterly average 10-year US Treasury rate plus 5.0%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of the mortgage servicing rights, as well as write-offs of capitalized rights due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

The following summarizes mortgage servicing rights capitalized and amortized, along with the activity in the related valuation allowance:

	2007	2006	2005
Balance of loans serviced for others	**$ 102,388**	$ 113,039	$ 117,963
Mortgage Servicing Rights:			
Balance at beginning of year	**$ 324**	$ 529	$ 777
Mortgage servicing rights capitalized			10
Amortization charged against mortgage servicing fee income	**(183)**	(206)	(266)
Valuation adjustment	**1**	1	8
Balance at end of year	**$ 142**	$ 324	$ 529
Valuation Allowance:			
Balance at beginning of year	**$ (2)**	$ (3)	$ (11)
Increase in impairment reserve		(1)	(14)
Reduction of impairment reserve	**1**	2	22
Balance at end of year	**$ (1)**	$ (2)	$ (3)

Mortgage loans serviced for others are not included in the accompanying Consolidated Statements of Condition of the Company. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were $293,000 and $311,000 at December 31, 2007 and 2006, respectively.

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Notes to Consolidated Financial Statements (continued)

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

9. PREMISES AND EQUIPMENT

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

	2007	2006
Land and buildings	**$ 20,347**	$ 16,434
Furniture, fixtures and equipment	**14,022**	13,597
Leasehold improvements	**1,333**	1,298
Construction in process	**227**	2,019
	35,929	33,348
Accumulated depreciation and amortization	**(16,279)**	(15,753)
	$ 19,650	$ 17,595

Depreciation and amortization expense was $1.6 million, $1.4 million and $1.5 million for 2007, 2006 and 2005, respectively. Lease expense was approximately $544,000, $540,000 and $505,000 for 2007, 2006 and 2005, respectively. At December 31, 2007, under current lease contracts, the Company had the following schedule of future minimum lease payments:

2008	**$ 595**
2009	**421**
2010	**374**
2011	**280**
2012	**255**
Thereafter	**769**
	$ 2,694

10. OTHER REAL ESTATE OWNED

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

	2007	2006	2005
Beginning balance	**$ 125**	$	$
Additions	**410**	474	
Properties sold	**(135)**	(349)	
Ending balance	**$ 400**	$ 125	$

11. DEPOSITS

The aggregate amount of retail certificates of deposit, each with a minimum denomination of $100,000, was approximately $121.4 million and $117.6 million at December 31, 2007 and 2006, respectively. Total certificates of deposit included brokered deposits, also with a minimum denomination of $100,000, in the amount of $74.1 million and $159.1 million at December 31, 2007 and 2006, respectively. At December 31, 2007, the scheduled maturities of certificates of deposit were as follows:

2008	**$ 363,896**
2009	**73,589**
2010	**8,824**
2011	**3,654**
2012	**1,635**
Thereafter	**7,656**
	$ 459,254

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Notes to Consolidated Financial Statements (continued)

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

12. BORROWINGS

A summary of the borrowings from the FHLBB is as follows:

DECEMBER 31, 2007		
Principal Amounts	**Interest Rates**	**Maturity Date**
$ 149,950	**2.17% 5.40%**	**2008**
56,590	**3.69% 5.35%**	**2009**
20,000	**4.95% 4.96%**	**2010**
7,000	**4.76% 5.02%**	**2011**
6,536	**3.92% 4.35%**	**2013**
10,000	**3.35%**	**2014**
1,482	**4.75%**	**2015**
20,000	**3.99% 4.06%**	**2017**
$ 271,558		

DECEMBER 31, 2006		
Principal Amounts	**Interest Rates**	**Maturity Date**
$ 129,266	3.31% 5.25%	2007
111,580	2.17% 5.40%	2008
54,334	3.69% 5.35%	2009
10,000	4.95%	2010
7,000	4.76% 5.02%	2011
6,785	3.92% 4.35%	2013
1,534	4.75%	2015
20,000	3.99%	2016
$ 340,499		

Short- and long-term borrowings from the FHLBB consist of fixed and variable 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 pledged investment securities and other qualified assets. The carrying value of loans pledged as collateral was $454.8 million and $378.3 million at December 31, 2007 and 2006, respectively. The carrying value of securities pledged as collateral at the FHLBB was $110.3 million and $164.4 million at December 31, 2007 and 2006, respectively. The FHLBB at its discretion can call $52.0 million of the Company s long-term borrowings. The Company, through its bank subsidiary, has an available line of credit with FHLBB of $13.0 million at December 31, 2007 and 2006. The Company had $841,000 outstanding balance on its line of credit with the FHLBB at December 31, 2007 and no outstanding balance at December 31, 2006.

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Notes to Consolidated Financial Statements (continued)

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

The Company utilizes other borrowings in the form of treasury, tax and loan deposits and commercial and retail repurchase agreements secured by U.S. government sponsored enterprise securities. In addition, at December 31, 2007, the Company borrowed $10.0 million in a short-term note payable as bridge financing for cash portion of the acquisition of Union Bankshares Company (more fully described in Note 23). Although the note was repaid on January 4, 2008, the credit remains available until December 28, 2008. Balances outstanding at December 31 are shown in the table below:

	2007	2006
Treasury, tax and loan deposits	**$ 134**	$ 1,083
Securities sold under repurchase agreements	**142,358**	59,699
Note payable	**10,000**	
Total other borrowed funds	**$ 152,492**	$ 60,782
Weighted-average rate at the end of year	**3.65%**	2.21%

13. JUNIOR SUBORDINATED DEBENTURES

On April 25, 2006, Camden Capital Trust A (the Trust), an affiliate of the Company, was formed for the purpose of issuing capital securities to unaffiliated parties, and investing the proceeds from the sale in junior subordinated debentures issued by the Company. The Company owns all of the $1.1 million outstanding common securities of the Trust and effectively is the guarantor of the obligations of the Trust. The Trust issued $35.0 million of 6.71% (fixed through June 2011, thereafter at a variable rate of interest, reset quarterly, equal to the 3-month LIBOR plus 140 basis points) trust preferred securities to the public, and all of the proceeds from the issuance by the Trust of the capital securities and the common securities are invested in the Company s $36.1 million of junior subordinated debentures, which represent the sole assets of the Trust. The proceeds from the offering were used to repurchase Company common stock under the tender offer completed on May 4, 2006. The trust preferred securities, which pay interest quarterly at the same rate as the junior subordinated debentures held by the Trust, are mandatorily redeemable on June 30, 2036, or may be redeemed by the Trust at par any time on or after June 30, 2011. During 2007 and 2006, the Company recorded $2.4 million and $1.6 million of interest expense related to the junior subordinated debentures.

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Notes to Consolidated Financial Statements (continued)

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

14. EMPLOYEE BENEFIT PLANS

Post-retirement Plan

The Company s post-retirement plan provides medical and life insurance to certain eligible retired employees. The measurement date used to determine post-retirement benefits is December 31. Information regarding the post-retirement benefit plan is as follows:

	2007	2006	2005
Change in benefit obligation			
Benefit obligation at beginning of the year	**$ 1,091**	$ 1,177	$ 1,068
Service cost	**56**	46	76
Interest cost	**64**	58	68
Actuarial loss (gain)	**5**	(160)	
Benefits paid	**(40)**	(30)	(35)
Benefit obligation at end of year	**1,176**	1,091	1,177
Funded status	**(1,176)**	(1,091)	(1,177)
Unrecognized net actuarial loss			252
Unrecognized net prior service cost			(14)
Accrued benefit cost, included in other liabilities	**$ (1,176)**	$ (1,091)	$ (939)

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:

Net actuarial loss	**$ 86**	$ 90	$
Net deferred tax benefit	**(30)**	(32)	
Total accumulated other comprehensive loss	**$ 56**	$ 58	$
Weighted-average discount rate assumption used to determine benefit obligation	**6.3%**	6.0%	6.5%
Weighted-average discount rate assumption used to determine net benefit costs	**6.0%**	5.7%	6.5%

	2007	2006	2005
Components of net periodic benefit cost			
Service cost	**$ 56**	$ 46	$ 76
Interest cost	**64**	58	68
Amortization of prior service cost		(16)	(16)
Recognized net actuarial loss		4	12
Net periodic benefit cost	**$ 120**	$ 92	$ 140

For 2008, the Company does not expect to recognize any of the net actuarial loss recorded in accumulated other comprehensive loss as a component of net periodic benefit cost. The expected benefit payments for the next ten years are $42,000 for 2008, $47,000 for 2009, $57,000 for 2010, $62,000 for 2011, $65,000 for 2012, and a total of $340,000 for the years 2013 through 2017. The expected contribution for 2008 is $198,000.

For measurement purposes, a 7.0% annual rate of increase in the per capita cost to cover health care benefits was assumed for 2007 and thereafter. A 1.0% increase or decrease in the assumed health care cost trends rate would not have a material impact on the accumulated post-retirement benefit obligation due to a built-in cap on annual benefits.

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In December 2003, the Medicare Prescription Drugs, Improvement and Modernization Act (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The effects of the Act on the accumulated projected benefit obligation or net periodic post-retirement benefit cost are not reflected in the financial statements or accompanying notes because the Company is unable to conclude whether the benefits provided by the Plan are actuarially equivalent to Medicare Part D under the Act.

Supplemental Executive Retirement Plan

The Company also sponsors an unfunded, non-qualified Supplemental Executive Retirement Plan (SERP) for certain officers. The agreement provides that current active participants with five years of service (vested) will be paid a life annuity upon retirement at age 55 or older, while vested participants who leave the Company prior to age 55 will be paid a 15-year benefit starting at age 65. The agreement provides for a minimum 15-year guaranteed benefit for all vested participants. Information regarding the SERP is as follows:

	2007	2006	2005
Change in benefit obligation			
Benefit obligation at beginning of the year	**$ 4,509**	$ 3,922	$ 3,586
Service cost	**310**	311	278
Interest cost	**260**	236	232
Actuarial (gain) loss	**(613)**	251	1
Benefits paid	**(211)**	(211)	(175)
Benefit obligation at end of year	**4,255**	4,509	3,922
Funded status	**(4,255)**	(4,509)	(3,922)
Unrecognized net transition obligation			2
Unrecognized net actuarial loss			822
Unrecognized net prior service cost			192
Accrued benefit cost, included in other liabilities	**$ (4,255)**	$ (4,509)	$ (2,906)

Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive loss:

Net actuarial loss	**$ 918**	$ 903	$
Prior service cost	**155**	173	
Net deferred tax benefit	**(376)**	(376)	
Total accumulated other comprehensive loss	**$ 697**	$ 700	$
Weighted-average discount rate assumption used to determine benefit obligation	**6.3%**	5.9%	6.3%
Weighted-average discount rate assumption used to determine net benefit costs	**5.9%**	5.6%	6.3%

	2007	2006	2005
Components of net periodic benefit cost			
Service cost	**$ 310**	$ 311	$ 278
Interest cost	**260**	236	232
Amortization of transition obligation		2	28

Amortization of prior service cost	**18**	19	18
Recognized net actuarial loss	**52**	103	50
Net periodic benefit cost	**$ 640**	$ 671	$ 606

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Notes to Consolidated Financial Statements (continued)

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Amount in accumulated other comprehensive loss expected to be recognized as a component of net periodic benefit cost in 2008 is $18,500 of prior service cost. For 2008, the Company does not expect to recognize any of the net actuarial loss recorded in accumulated other comprehensive loss as a component of net periodic benefit cost. The expected benefit payments for the next ten years are $211,000 per year for years 2008 through 2011, $204,000 for 2012, and a total of $1,338,000 for the years 2013 through 2017. The expected contribution for 2008 is $463,000.

401(k) / Profit Sharing Plan

The Company has a 401(k) plan and the majority of all employees participate in the plan. Employees may contribute pre-tax contributions to the 401(k) plan up to the maximum amount allowed by federal tax laws. The Company makes matching contributions of up to 4% of their eligible compensation and may make additional contributions subject to the discretion of the Board of Directors. For the years ended December 31, 2007, 2006 and 2005, aggregate expenses under the plan amounted to $767,000, $915,800 and $837,800, respectively.

15. 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, brokerage and trust services. While the Company s senior management team monitors operations of each subsidiary, substantially all revenues and profits are derived by Camden National Bank from banking products and services. Revenues and profits derived, and assets owned, by Acadia Trust, N.A. are less than the 10% threshold established within SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Accordingly, the Company s subsidiaries are considered by management to be aggregated in one reportable operating segment.

16. SHAREHOLDERS EQUITY

Dividends

The primary source of funds available to the Company for payment of dividends to its shareholders is dividends paid to the Company by its subsidiaries. The Company s subsidiaries are subject to certain requirements imposed by 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 subsidiaries to the Company. The Company paid $6.3 million, $6.2 million and $9.9 million in dividends to shareholders for the years ended December 31, 2007, 2006 and 2005, respectively.

Common Stock Repurchase

In June 2007, the Board of Directors of the Company approved the 2007 Common Stock Repurchase Program, which permits the Company to purchase up to 750,000 shares of its authorized and issued common stock for a one-year period, expiring July 1, 2008. The authority may be exercised from time to time and in such amounts as market conditions warrant. Any repurchases are intended to make appropriate adjustments to the Company s capital structure, including meeting share requirements related to employee benefit plans and for general corporate purposes. Under the 2007 Plan, which was in effect for the second half of 2007, the Company did not repurchase any shares of common stock. In June 2006, the Board of Directors of the Company voted to authorize the Company to purchase up to 750,000 shares of its authorized and issued common stock for reasons similar to the 2007 Plan. Under the 2006 Plan, which was in effect through the second quarter of 2007, the Company repurchased 114,010 shares of common stock at an average price of $39.13, of which 113,950 at an average price of $39.12 were purchased during 2007.

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On March 24, 2006, the Company announced the commencement of a modified Dutch Auction tender offer, approved by its Board of Directors, to repurchase up to 752,000 shares of its common stock, which represented approximately 10% of its outstanding common shares, at a price not greater than $40.25 and not less than $36.50 per share. The Company had the right to purchase up to an additional 2% of the outstanding shares in accordance with applicable securities laws. The tender offer was scheduled to expire on April 21, 2006, and was extended through May 3, 2006. On May 4, 2006, in accordance with the terms of the tender offer, the Company repurchased 880,827 shares of its common stock, which represented approximately 11.7% of the Company s outstanding common shares as of May 3, 2006, at a purchase price of $39.00 per share.

Stock-Based Compensation

On April 29, 2003, the shareholders of the Company approved the 2003 Stock Option and Incentive Plan (the current plan). The maximum number of shares of stock reserved and available for issuance under this Plan is 800,000 shares. Awards may be granted in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, deferred stock, unrestricted stock, performance share and dividend equivalent rights, or any combination of the preceding, and the exercise price shall not be less than 100% of the fair market value on the date of grant in the case of incentive stock options, or 85% of the fair market value on the date of grant in the case of non-qualified stock options. No stock options are exercisable more than ten years after the date the stock option is granted. Prior to April 29, 2003, the Company had three stock option plans. Under all three plans, the options were immediately vested when granted, and expire ten years from the date the option was granted. The exercise price of all options equaled the market price of the Company s stock on the date of grant.

On January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS No. 123(R)), using a modified prospective application. The Company had previously adopted the expense provisions of SFAS No. 123, thus adoption of SFAS No. 123(R) does not have a material effect on the statements of condition or results of operations of the Company.

Restricted Stock Awards

In January 2005, under the current plan, the Company issued 4,687 shares of restricted stock, all of which vest over a three-year period. In March 2007, under the current plan, the Company granted 6,873 shares of restricted stock, all of which vest over a three-year period. As of December 31, 2007, 1,342 of the restricted stock awards have been forfeited. The Company recorded approximately $105,200 of compensation expense and $36,800 of related tax benefit for the year ended December 31, 2007, $41,200 of compensation expense and $14,400 of related tax benefit for the year ended December 31, 2006, and $46,000 of compensation expense and $16,100 of related tax benefit for the year ended December 31, 2005.

A summary of the status of the Company s nonvested restricted stock awards as of December 31, 2007 and 2006, and changes during the years ended on those dates, is presented below.

	December 31, 2007	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year	**2,201**	**$ 36.69**
Granted during the year	**6,873**	**44.15**
Vested during the year	**1,100**	**36.69**
Forfeited during the year	**198**	**36.69**
Nonvested at end of year	**7,776**	**$ 43.28**

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

	December 31, 2006	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year	4,027	$ 36.69
Vested during the year	1,342	36.69
Forfeited during the year	484	36.69
Nonvested at end of year	2,201	$ 36.69

	December 31, 2005	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year		$
Granted during the year	4,687	36.69
Forfeited during the year	660	36.69
Nonvested at end of year	4,027	$ 36.69

At the closing price on December 31, 2007 of $28.39, the total fair value of restricted stock awards vested during the year was $31,200. At the closing price on December 31, 2006 of $46.12, the total fair value of restricted stock awards vested during the year was $61,900.

Management Stock Purchase Plan

The Management Stock Purchase Plan (MSPP), which is a component of the current plan, provides equity incentive compensation to selected management employees of the Company. Participants in the Plan who are senior executives of the Company are required to receive restricted shares in lieu of a portion of their annual incentive bonus, if any, while certain other officers may elect to receive restricted shares in lieu of a portion of their annual incentive bonus. Restricted shares are granted at a discount of one-third of the fair market value of the stock on the date of grant. Restricted shares will vest two years after the date of grant if the participant remains employed by the Company for such period. During the first quarter of 2007, under the MSPP, the Company granted 934 shares of restricted stock at a discounted price of $29.67, of which 90 shares have been forfeited. During the first quarter of 2006, under the MSPP, the Company issued 4,792 shares of restricted stock at a discounted price of $23.30, of which 589 shares have been forfeited. During the first quarter of 2005, under the MSPP, the Company issued 3,455 shares of restricted stock at a discounted price of $24.91, of which 601 shares were forfeited and the remainder vested and were released to the participant during the first quarter of 2007. Related to the discount on the restricted stock, the Company recorded approximately $22,600 of compensation expense and $8,000 of related tax benefit during the year ended December 31, 2007, $35,200 of compensation expense and $12,300 of related tax benefit during the year ended December 31, 2006, and $17,300 of compensation expense and $6,000 of related tax benefit during the year ended December 31, 2005. A summary of the status of the Company s nonvested restricted stock under the MSPP as of December 31, 2007 and 2006, and changes during the years ended on those dates, is presented below.

	December 31, 2007	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year	**7,558**	**$ 11.95**
Granted during the year	**934**	**14.84**
Vested during the year	**2,854**	**12.45**
Forfeited during the year	**591**	**12.14**

Nonvested at end of year	**5,047**	**$**	**12.18**

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

	December 31, 2006	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year	3,094	$ 12.45
Granted during year	4,792	11.65
Forfeited during year	328	12.24
Nonvested at end of year	7,558	$ 11.95

	December 31, 2005	
	Number of Shares	Weighted-average Grant Date Fair Value
Nonvested at beginning of year		$
Granted during year	3,455	12.45
Forfeited during year	361	12.45
Nonvested at end of year	3,094	$ 12.45

Long-term Performance Share Plan

The Long-term Performance Share Plan, which is a component of the current plan, is intended to create incentives, for certain executive officers of the Company, to allow the Company to attract and retain in its employ persons who will contribute to its future success. It is further the intent of the Company that awards made under this plan will be used to achieve the twin goals of aligning executive incentive compensation with increases in shareholder value and using equity compensation as a tool to retain key employees. The long-term performance period is a period of three consecutive fiscal years beginning on January 1 of the first year and ending on December 31 of the third year. Awards are based upon the attainment of certain thresholds of tangible book value and return on average equity over the three-year period. The current calculation of awards, based on projections of tangible book value and return on average equity for the three-year performance periods January 1, 2005 December 31, 2007, January 1, 2006 December 31, 2008, and January 1, 2007 December 31, 2009 is not considered material and no related expense has been recognized.

Stock Option Awards

The Company issued, under the current plan, 38,750, 36,000 and 43,750 incentive stock options to employees during 2007, 2006 and 2005, respectively, all of which vest over a five-year period. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants: in 2007, dividend yield of 2.1%, expected volatility of 26.66%, risk-free interest rate of 4.77%, and expected lives of 5.0 years; in 2006, dividend yield of 3.7%, expected volatility of 25.59%, risk-free interest rate of 4.56%, and expected lives of 7.8 years; and in 2005, dividend yield of 3.6%, expected volatility of 25.37%, risk-free interest rate of 3.74%, and expected lives of 7.8 years. Expected volatilities are based on historical volatility of the Company s stock, and other factors. The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of the grant. The Company uses historical data, such as historical option exercise and employee termination rates, to calculate the expected option life.

Related to the incentive stock option grants, the Company recorded approximately $146,000 of compensation expense for the year ended December 31, 2007, $93,400 of compensation expense for the year ended December 31, 2006, and $27,400 of compensation expense during the year ended December 31, 2005.

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A summary of the status of the Company s stock option plans as of December 31, 2007, 2006 and 2005, and changes during the years ended on those dates is presented below.

	December 31, 2007			
	Number of Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at beginning of year	**94,976**	**$ 32.92**		
Granted during the year	**38,750**	**43.69**		
Exercised during the year	**9,729**	**24.12**		
Forfeited during the year	**11,100**	**39.26**		
Outstanding at end of year	**112,897**	**$ 36.75**	**7.6**	**$ 70**
Exercisable at end of year	**31,197**	**$ 31.23**	**6.1**	**$ 70**

	December 31, 2006			
	Number of Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at beginning of year	107,680	$ 26.72		
Granted during the year	36,000	35.04		
Exercised during the year	38,754	17.86		
Forfeited during the year	9,950	32.06		
Outstanding at end of year	94,976	$ 32.92	7.6	$ 1,253
Exercisable at end of year	25,026	$ 25.75	5.1	$ 510

	December 31, 2005			
	Number of Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at beginning of year	83,130	$ 18.73		
Granted during the year	43,750	36.42		
Exercised during the year	17,700	12.33		
Forfeited during the year	1,500	36.69		
Outstanding at end of year	107,680	$ 26.72	6.2	$ 817
Exercisable at end of year	51,430	$ 17.73	3.4	$ 780

The weighted-average grant date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 were $11.30, $7.96 and $7.78, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 were $166,700,

$786,500 and $429,600, respectively.

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Notes to Consolidated Financial Statements (continued)

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

A summary of the status of the Company s nonvested stock options as of December 31, 2007, 2006 and 2005, and changes during the years ended on those date, is presented below.

	December 31, 2007		December 31, 2006		December 31, 2005	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of year	**69,950**	**$ 7.90**	56,250	$ 7.31	18,000	$ 5.79
Granted during the year	**38,750**	**11.30**	36,000	7.96	43,750	7.78
Vested during the year	**16,100**	**7.86**	12,450	7.05	4,000	5.49
Forfeited during the year	**10,900**	**9.66**	9,850	5.85	1,500	7.86
Nonvested at end of year	**81,700**	**$ 9.26**	69,950	$ 7.90	56,250	$ 7.31

At the closing price on December 31, 2007 of $28.39, the total fair value of stock options vested during 2007 was $457,000.

The following table summarizes information related to options at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Remaining Contractual Life	Weighted-average Exercise Price	Number Exercisable	Weighted-average Exercise Price
$10.00 - $19.99	**4,147**	**1.1**	**$ 17.24**	**4,147**	**$ 17.24**
$20.00 - $29.99	**4,500**	**5.1**	**23.08**	**4,500**	**23.08**
$30.00 - $ 39.99	**73,750**	**7.6**	**35.48**	**22,550**	**35.43**
$40.00 - $ 49.99	**30,500**	**9.1**	**44.51**		
	112,897	**7.6**	**$ 36.75**	**31,197**	**$ 31.23**

As of December 31, 2007, there was $716,500 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the current plan, which is expected to be recognized over a weighted-average period of 2.0 years.

17. EARNINGS PER SHARE

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

	2007	2006	2005
Net income, as reported	**$ 20,283**	$ 20,276	$ 21,380
Weighted-average shares	**6,557,102**	6,919,579	7,599,051
Effect of dilutive employee stock options	**8,092**	10,657	25,541
Adjusted weighted-average shares and assumed conversion	**6,565,194**	6,930,236	7,624,592

Basic earnings per share	**$**	**3.09**	$	2.93	$	2.81
Diluted earnings per share	**$**	**3.09**	$	2.93	$	2.80

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Notes to Consolidated Financial Statements (continued)

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

At December 31, 2007, the Company had 105,094 shares of potential common stock that were anti-dilutive, including 104,250 outstanding stock options as the exercise price was greater than the market price of the common stock. At December 31, 2006 all potential common stock was dilutive. At December 31, 2005, the Company had 3,594 shares of potential common stock that were anti-dilutive, including 500 outstanding stock options. At December 31, 2007, the Company had 81,700 non-vested stock option grants, none of which were in-the-money options. At December 31, 2006, the Company had 69,950 non-vested stock option grants, all of which were in-the-money options. At December 31, 2005, the Company had 56,250 non-vested stock option grants, 12,000 of which were in-the-money options.

18. INCOME TAXES

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

	2007	2006	2005
Current:			
Federal	**$ 8,119**	$ 9,382	$ 10,264
State	**340**	344	346
	8,459	9,726	10,610
Deferred:			
Federal	**(6)**	(615)	(642)
	$ 8,453	$ 9,111	$ 9,968

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

	2007	2006	2005
Computed tax expense	**$ 10,058**	$ 10,285	$ 10,972
Increase (reduction) in income taxes resulting from:			
Tax exempt income	**(792)**	(715)	(411)
State taxes, net of federal benefit	**221**	224	225
Income from life insurance	**(291)**	(280)	(225)
Low income housing credits	**(419)**	(419)	(379)
Historic rehabilitation credits	**(277)**		
Other	**(47)**	16	(214)
	$ 8,453	$ 9,111	$ 9,968

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Notes to Consolidated Financial Statements (continued)

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

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

	2007		2006	
	Asset	Liability	Asset	Liability
Allowance for possible losses on loans and leases	**$ 4,783**	**$**	$ 5,225	$
Allowance for investment losses	**52**		52	
Capitalized costs	**6**		7	
Pension and other benefits	**1,735**		1,543	
Depreciation		**631**		507
Deferred loan origination fees		**870**		930
Deferred compensation and benefits	**854**		827	
Net unrealized gains/losses on investments available for sale		**816**	1,607	
Unrealized losses on derivatives			107	
Net unrealized losses on post-retirement plans	**405**		408	
Interest receivable	**588**		508	
Deposit premium	**984**		899	
Mortgage servicing rights		**50**		114
Prepaid expenses		**306**		242
Other	**176**		47	
	$ 9,583	**$ 2,673**	$ 11,230	$ 1,793

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.

On January 1, 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The provisions of FIN 48 have been applied to all tax positions of the Company as of January 1, 2007. Only tax positions that met the more-likely-than-not recognition threshold on January 1, 2007 were recognized or continue to be recognized upon adoption. The adoption of FIN 48 did not have a material impact on the Company s financial position, results of operations or cash flows. The adoption of FIN 48 had no impact on the balance of retained earnings as of January 1, 2007.

Although not currently under review, income tax returns for the years ended December 31, 2006, 2005 and 2004 are open to audit by federal and Maine authorities. If the Company, as a result of an audit, was assessed interest and penalties, the amounts would be recorded through other non-interest expense.

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Notes to Consolidated Financial Statements (continued)

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

19. RELATED PARTIES

The Company, in the normal course of business, has made loans to its subsidiaries, and certain officers, directors, and their associated companies, under terms that are consistent with the Company s lending policies and regulatory requirements. 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 that in aggregate exceed $60,000 were as follows:

	2007	2006
Balance, January 1,	**$ 10,320**	$ 10,894
Loans made/advanced and additions	**2,375**	423
Repayments and reductions	**806**	997
Balance, December 31,	**$ 11,889**	$ 10,320

In addition to the loans noted above, the Company had deposits at December 31, 2007 and 2006 from the same individuals of $17.7 million and $10.6 million, respectively.

20. LEGAL CONTINGENCIES

The Company is a party to litigation and claims arising in the normal course of business. In addition to the routine litigation incidental to its business, Camden National Bank was a defendant in a lawsuit brought by a former commercial customer, Steamship Navigation Company. The former customer claimed Camden National Bank broke a verbal promise for a $300,000 loan to fund operating expenses of its ski resort. As a result of this litigation, 20 of the original 21 counts were dismissed, leaving only the single breach of oral contract count, on which the jury returned a verdict against Camden National Bank and awarded damages of $1.5 million. Management of Camden National Bank and the Company reviewed this matter with counsel and the Company s outside auditors. Management believed that the allegations were unfounded and that it was probable that the judgment would be reversed upon appeal. As such, the Company filed a motion asking the judge to reverse the jury verdict and accompanying award of damages. On January 11, 2005, the motion was denied. On February 1, 2005, Camden National Bank filed an appeal of the verdict with the Law Court. On October 20, 2005, oral arguments were held to determine if the jury verdict should be upheld. On February 7, 2006, the Maine Supreme Judicial Court upheld a judgment for the plaintiff in the principal amount of $1.5 million. Camden National Bank also obtained and recorded judgments in the principal amount of $865,000 against Steamship Navigation Company, which partially set off the awarded damages. Based upon the assessment of settlement negotiations, Camden National Bank recorded a charge to earnings of $645,000 in 2006, which was the expected net amount of the offsetting judgments. On August 31, 2006, the Court denied Steamship Navigation Company s motion to revise or set aside Camden National Bank s judgment. The plaintiff s attorney filed an appeal arguing that the Court committed errors in this case, and on April 11, 2007, the Law Court heard oral arguments for the appeal. On May 8, 2007, the Law Court denied Steamship Navigation s appeal ruling that the trial court did not abuse its discretion or err in the case. Camden National Bank filed motions to authorize payment into the Court to satisfy its obligations to Steamship Navigation and to waive post judgment interest. On August 17, 2007, the Law Court decided that post judgment interest should be paid and calculated the amount of post judgment interest due. On August 22, 2007, Camden National Bank recorded an additional charge of approximately $94,000 related to post judgment interest and, combined with the original $645,000, paid the full amount owed of $739,000.

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Notes to Consolidated Financial Statements (continued)

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

21. 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. These 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 2007, 2006 or 2005.

The Company uses derivative instruments as partial 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 partially 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, 2006 and 2005, the Company had interest rate protection agreements (floors) with notional amounts of $50.0 million, a strike rate of 6.0% and a termination date of July 14, 2010, which were acquired to limit the Company s exposure to falling rates on Prime rate loans. As of December 31, 2007, the Company sold the floor agreement contracts.

At December 31, 2007 and 2006, the contractual or notional amounts of credit related and derivative financial instruments were as follows:

	2007	2006
Contractual		
Commitments to extend credit	**$ 228,224**	$ 250,585
Letters of credit	**1,251**	1,925
Notional		
Floors		50,000

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Notes to Consolidated Financial Statements (continued)

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

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

	DECEMBER 31, 2007		DECEMBER 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks and federal funds sold	**$ 28,790**	**$ 28,790**	$ 33,358	$ 33,358
Securities available for sale	**423,108**	**423,108**	409,926	409,926
Securities held to maturity	**40,726**	**41,013**	34,167	34,389
Loans receivable	**1,131,986**	**1,120,298**	1,203,196	1,197,262
Interest receivable	**7,098**	**7,098**	7,488	7,488
Life insurance policies	**22,509**	**22,509**	21,677	21,677
Interest rate floors			97	97
Financial liabilities:				
Deposits	**$ 1,118,051**	**$ 1,112,966**	$ 1,185,801	$ 1,181,811
Borrowings from Federal Home Loan Bank	**271,558**	**270,749**	340,499	336,019
Commercial repurchase agreements	**80,000**	**81,456**		
Other borrowed funds	**62,492**	**62,492**	60,782	60,782
Junior subordinated debentures	**36,083**	**34,339**	36,083	35,807
Due to broker			24,354	24,354
Note payable	**10,000**	**10,000**		
Interest payable	**4,158**	**4,158**	4,504	4,504

22. REGULATORY MATTERS

The Company and its bank subsidiary are subject to various regulatory capital requirements administered by the FRB and the Comptroller of the Currency. 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, 2007, the Company and its bank subsidiary meet all capital requirements to which they are subject. Prompt corrective action provisions are not applicable to bank holding companies. As of December 31, 2007, the bank subsidiary was categorized by its supervisory regulatory agencies as well capitalized. To be categorized as well capitalized, the 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 Bank s 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.

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Notes to Consolidated Financial Statements (continued)

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

The actual capital amounts and ratios for the Company and its bank subsidiary as of December 31, 2007 and 2006 are presented in the table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount ≥	Ratio ≥	Amount ≥	Ratio ≥
As of December 31, 2007						
Total Capital *(To Risk-Weighted Assets):*						
Consolidated	**$ 156,947**	**14.0%**	**$ 89,430**	**8.0%**	**N/A**	
Camden National Bank	**124,922**	**11.3%**	**88,681**	**8.0%**	**$ 110,852**	**10.0%**
Tier 1 Capital *(To Risk-Weighted Assets):*						
Consolidated	**$ 143,293**	**12.8%**	**$ 44,715**	**4.0%**	**N/A**	
Camden National Bank	**111,269**	**10.0%**	**44,341**	**4.0%**	**$ 65,511**	**6.0%**
Tier 1 Capital *(To Average Assets):*						
Consolidated	**$ 143,293**	**8.2%**	**$ 69,917**	**4.0%**	**N/A**	
Camden National Bank	**111,269**	**6.4%**	**69,303**	**4.0%**	**$ 86,628**	**5.0%**
As of December 31, 2006						
Total Capital *(To Risk-Weighted Assets):*						
Consolidated	$ 149,076	12.7%	$ 93,720	8.0%	N/A	
Camden National Bank	138,191	11.9%	93,063	8.0%	$ 116,329	10.0%
Tier 1 Capital *(To Risk-Weighted Assets):*						
Consolidated	$ 132,288	11.3%	$ 46,860	4.0%	N/A	
Camden National Bank	123,622	10.6%	46,532	4.0%	$ 69,798	6.0%
Tier 1 Capital *(To Average Assets):*						
Consolidated	$ 132,288	7.6%	$ 69,357	4.0%	N/A	
Camden National Bank	123,622	7.2%	68,945	4.0%	$ 86,181	5.0%

23. ACQUISITION OF UNION BANKSHARES COMPANY

The Company and Union Bankshares Company (Union Bankshares) entered into an Agreement and Plan of Merger on August 13, 2007, as amended. The merger agreement provided for the merger of Union Bankshares with and into the Company, with the Company being the surviving corporation. Promptly thereafter, Union Bankshares subsidiary, Union Trust, merged with and into Camden National Bank with Camden National Bank being the surviving institution. The merger received approval from the shareholders of Union Bankshares and the regulatory agencies, and was consummated on January 3, 2008. On that date, the Company acquired 100% of the outstanding common stock of Union Bankshares. The operating results of Union Bankshares have been included with those of the Company since that date. The acquisition brings together two venerable community banking institutions, each with a 100-plus year history, and provides a natural extension of the Company s geographic reach to Hancock County and the Downeast Maine area, while adding 16,000 households and businesses to which Camden National Bank can market its expanded products and services. In addition, as a result of the acquisition, the Company has become the largest independent community banking organization in Maine, with 37 branch locations, over $2.3 billion of assets, $1.5 billion of deposits, and administers total wealth management assets in excess of $1.3 billion.

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Notes to Consolidated Financial Statements (continued)

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

The aggregate purchase price was approximately $73.7 million, which included $29.0 million in cash, the issuance of 1.2 million shares of Company common stock valued at $43.5 million, and related transaction costs. The value of the common stock issued was determined based on the trailing average for the 10-day period before the terms of the acquisition were agreed to and announced, excluding the high and low stock prices for that period. Under the merger agreement, each share of Union Bankshares common stock was converted into the right to receive either $68.00 in cash or 1.9106 shares of Company common stock, plus cash in lieu of any fractional share. The merger agreement included allocation procedures intended to ensure that 40% of the outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger would be converted into the right to receive cash, and 60% of the shares of Union Bankshares common stock would be converted into the right to receive Company common stock.

The purchase price has been allocated to assets acquired and liabilities assumed based on estimates of fair value at the date of acquisition. The excess of purchase price over the fair value of net tangible and intangible assets acquired has been recorded as goodwill. The Company continues to work with third-party experts on the valuations of certain intangible assets, thus, the following allocation of the purchase price is subject to refinement.

At January 3, 2008

Cash and cash equivalents	**$ 17,042**
FRB and FHLB stock	**8,025**
Securities	**121,377**
Loans, net	**362,593**
Fixed assets	**8,977**
Prepaid expenses and other assets	**17,590**
Identified intangible assets	**5,773**
Goodwill	**38,278**
Deposits	**(331,545)**
Borrowings	**(157,587)**
Long-term debt	**(6,928)**
Accrued expense and other liabilities	**(9,856)**
Total acquisition cost	**$ 73,739**

The $5.8 million of acquired intangible assets, which is subject to amortization, includes $5.0 million of core deposit intangible, which has a weighted-average life of approximately 10 years, and $753,000 of Trust relationship intangible, which also has a weighted-average life of approximately 10 years.

Management is assessing the potential allocation of goodwill between the Banking and Financial Services reporting units. The amounts to be allocated, if any, remain undetermined. None of the goodwill is expected to be deductible for tax purposes.

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Notes to Consolidated Financial Statements (continued)

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

24. HOLDING COMPANY

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

Statements of Condition

DECEMBER 31,

	2007	2006
Assets		
Cash	**$ 36,136**	$ 2,753
Premises and equipment	**5,250**	5,045
Investment in subsidiaries:		
Bank subsidiary	**120,191**	128,508
Other subsidiaries	**6,807**	8,018
Amounts receivable from subsidiaries	**133**	1,140
Investment in Camden Capital Trust A	**1,083**	1,083
Other assets	**3,941**	3,058
Total assets	**$ 173,541**	$ 149,605
Liabilities and Shareholders Equity		
Amounts due to subsidiaries	**$ 197**	$ 1,480
Junior subordinated debentures	**36,083**	36,083
Note payable	**10,000**	
Accrued and other expenses	**7,058**	4,990
Shareholders equity	**120,203**	107,052
Total liabilities and shareholders equity	**$ 173,541**	$ 149,605

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Notes to Consolidated Financial Statements (continued)

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

Statements of Income

YEARS ENDED DECEMBER 31,

	2007	2006	2005
Operating Income			
Dividend income from subsidiaries	**$ 36,000**	$ 11,014	$ 12,895
Fees from subsidiaries	**11,368**	12,053	11,398
Other income	**60**	11	2
Total operating income	**47,428**	23,078	24,295
Operating Expenses			
Interest on borrowings	**2,388**	1,637	
Salaries and employee benefits	**7,110**	7,207	7,514
Net occupancy	**441**	422	398
Furniture, equipment and data processing	**1,687**	1,414	1,277
Other operating expenses	**2,156**	3,165	2,344
Acquisition related expenses	**201**		
Total operating expenses	**13,983**	13,845	11,533
Income before equity in undistributed earnings of subsidiaries	**33,445**	9,233	12,762
Equity in undistributed earnings of subsidiaries	**(14,005)**	10,455	8,576
Income before income taxes	**19,440**	19,688	21,338
Income tax benefit	**843**	588	42
Net Income	**$ 20,283**	$ 20,276	$ 21,380

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Notes to Consolidated Financial Statements (continued)

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

Statements of Cash Flows

YEARS ENDED DECEMBER 31,

	2007	2006	2005
Operating Activities			
Net income	**$ 20,283**	$ 20,276	$ 21,380
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	**14,005**	(10,455)	(8,576)
Depreciation and amortization	**825**	507	543
Equity compensation expense	**275**	172	91
(Increase) decrease in amount receivable from subsidiaries	**(155)**	97	(52)
Increase in other assets	**(912)**	(1,808)	(692)
Increase in payables	**502**	970	631
Net cash provided by operating activities	**34,823**	9,759	13,325
Investing Activities			
Purchase of premises and equipment	**(887)**	(1,003)	(218)
Investment in Camden Capital Trust A		(1,083)	
Net cash used by investing activities	**(887)**	(2,086)	(218)
Financing Activities			
Proceeds from stock issuance under option plan	**240**	539	61
Exercise and repurchase of stock options			(108)
Issuance of junior subordinated debentures		36,083	
Proceeds from note payable	**10,000**		
Purchase of common stock	**(4,476)**	(36,983)	(3,927)
Dividends paid	**(6,317)**	(6,246)	(9,916)
Net cash used by financing activities	**(553)**	(6,607)	(13,890)
Net increase (decrease) in cash	**33,383**	1,066	(783)
Cash at beginning of year	**2,753**	1,687	2,470
Cash at end of year	**$ 36,136**	$ 2,753	$ 1,687

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Notes to Consolidated Financial Statements (continued)

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

25. QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2007 and 2006:

	THREE MONTHS ENDED			
	Mar 31	**June 30**	**Sept 30**	**Dec 31**
2007				
Interest income	**$ 26,989**	**$ 27,181**	**$ 26,827**	**$ 26,739**
Interest expense	**14,547**	**14,849**	**14,651**	**13,819**
Net interest income	**12,442**	**12,332**	**12,176**	**12,920**
Provision for loan and lease losses	**100**			
Non-interest income	**3,044**	**3,207**	**3,165**	**3,236**
Non-interest expense	**8,565**	**8,499**	**8,402**	**8,220**
Income before income taxes	**6,821**	**7,040**	**6,939**	**7,936**
Applicable income taxes	**2,039**	**2,097**	**1,941**	**2,376**
Net income	**$ 4,782**	**$ 4,943**	**$ 4,998**	**$ 5,560**
Per common share:				
Basic	**$ 0.72**	**$ 0.75**	**$ 0.77**	**$ 0.85**
Diluted	**$ 0.72**	**$ 0.75**	**$ 0.77**	**$ 0.85**

	THREE MONTHS ENDED			
	Mar 31	**June 30**	**Sept 30**	**Dec 31**
2006				
Interest income	$ 25,396	$ 26,699	$ 27,421	$ 27,722
Interest expense	11,194	13,182	14,258	14,414
Net interest income	14,202	13,517	13,163	13,308
Provision for loan and lease losses	552	552	552	552
Non-interest income	2,779	2,928	3,003	2,919
Non-interest expense	9,212	8,264	8,180	8,568
Income before income taxes	7,217	7,629	7,434	7,107
Applicable income taxes	2,280	2,370	2,298	2,163
Net income	$ 4,937	$ 5,259	$ 5,136	$ 4,944
Per common share:				
Basic	$ 0.66	$ 0.75	$ 0.77	$ 0.75
Diluted	$ 0.66	$ 0.75	$ 0.77	$ 0.75

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors

Camden National Corporation

We have audited the accompanying consolidated statements of condition of Camden National Corporation and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders equity, and cash flows for each of the three years in the period ended December 31, 2007. We have also audited Camden National Corporation s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Camden National Corporation s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Camden National Corporation and Subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, Camden National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) .

As disclosed in Note 14 of the accompanying consolidated financial statements, the Company changed its method of accounting for its post-retirement plan and supplemental executive retirement plan in 2006.

/s/ Berry, Dunn, McNeil & Parker

Portland, Maine

March 17, 2008

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

During the past two fiscal years, the Company has not made changes in, and has not had disagreements with, its independent accountant on accounting and financial disclosures.

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company s management conducted an evaluation with the participation of the Company s Chief Executive Officer and Chief Financial Officer & Principal Financial and Accounting Officer, regarding the effectiveness of the Company s disclosure controls and procedures, as of the end of the last fiscal year. In designing and evaluating the Company s disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer & Principal Financial and Accounting Officer concluded that they believe the Company s disclosure controls and procedures are reasonably effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

There was no change in our internal control over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K. Management is also responsible for establishing and maintaining adequate internal control over financial reporting and for identifying the framework used to evaluate its effectiveness. Management has designed processes, internal controls and a business culture that foster financial integrity and accurate reporting. The Company s comprehensive system of internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with accounting principles generally accepted in the United States of America. The Company s accounting policies and internal control over financial reporting, established and maintained by management, are under the general oversight of the Company s Board of Directors, including the Board of Directors Audit Committee.

Management has made a comprehensive review, evaluation, and assessment of the Company s internal control over financial reporting as of December 31, 2007. The standard measures adopted by management in making its evaluation are the measures in *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO). Based upon its review and evaluation, management concluded that, as of December 31, 2007, the Company s internal control over financial reporting was effective and that there were no material weaknesses. However, Management recognizes a control system, no matter how well designed and operated, has inherent limitations and can provide only reasonable, not absolute, assurance that the control system s objectives will be met and may not prevent or detect all error and fraud. Therefore, even a system determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Berry, Dunn, McNeil & Parker, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its written attestation report on management s assessment of the Company s internal control over financial reporting which precedes this report.

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Item 9B. Other Information
None

PART III

Item 10. Directors, Executive Officers and Corporate Governance
The information required by this item is incorporated by reference from the material responsive to such item in the Company s Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on April 29, 2008.

Item 11. Executive Compensation
The information required by this item is incorporated by reference from the material responsive to such item in the Company s Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on April 29, 2008.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
The information required by this item is incorporated by reference from the material responsive to such item in the Company s Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on April 29, 2008.

Item 13. Certain Relationships, Related Transactions and Director Independence
The information required by this item is incorporated by reference from the material responsive to such item in the Company s Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on April 29, 2008.

Item 14. Principal Accounting Fees and Services
The information required by this item is incorporated by reference from the material responsive to such item in the Company s Proxy Statement for the 2008 Annual Meeting of Shareholders to be held on April 29, 2008.

PART IV

Item 15. Exhibits and Financial Statement Schedules
(a) 1. Index to Financial Statements:

The consolidated financial statements of the Company and report of the Company s independent registered public accounting firm incorporated herein are included in Item 8. of this Report, as follows:

	Page
Consolidated Statements of Condition	42
Consolidated Statements of Income	43
Consolidated Statements of Changes in Shareholders Equity	44
Consolidated Statements of Cash Flows	45
Notes to Consolidated Financial Statements	46

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2. Financial Statement Schedules:

Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

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3. Exhibits:

(2.1)	Agreement and Plan of Merger, dated as of July 27, 1999, by and among the Company, Camden Acquisition Subsidiary, Inc., KSB, and Kingfield Bank (incorporated herein by reference to Exhibit 2.1 to the Company s Form 10-Q filed with the Commission on August 6, 2004).
(2.2)	Agreement and Plan of Merger, dated as of August 13, 2007, by and among the Company and Union Bankshares Company (incorporated herein by reference to Exhibit 2.1 to the Company s Form 8-K filed with the Commission on August 14, 2007).
(2.3)	Amendment No. 1 to Agreement and Plan of Merger by and between Camden National Corporation and Union Bankshares Company, dated as of September 21, 2007 (incorporated herein by reference to Exhibit 2.2 to the Company s Form 8-K filed with the Commission on September 21, 2007).
(3.i.1)	Articles of Incorporation of Camden National Corporation, as amended (incorporated herein by reference to Exhibit 3.i to the Company s Form 10-Q filed with the Commission on August 10, 2001).
(3.i.2)	Articles of Amendment to the Articles of Incorporation of Camden National Corporation, as amended to date (incorporated herein by reference to Exhibit 3.3 to the Company s Form 10-Q filed with the Commission on May 9, 2003).
(3.i.3)	Articles of Amendment to the Articles of Incorporation of Camden National Corporation, as amended to date (incorporated herein by reference to Exhibit 3.3 to the Company s Form 10-Q filed with the Commission on May 4, 2007).
(3.ii)	The Bylaws of Camden National Corporation, as amended to date (incorporated herein by reference to Exhibit 99.1 to the Company s Form 8-K filed with the Commission on March 10, 2008).
(10.1)	CNB s 1993 Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company s Form 10-Q filed with the Commission on November 3, 2006).
(10.2)	Amendment No. 1 to the 1993 Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the Company s Form 10-Q filed with the Commission on November 3, 2006).
(10.3)	Employment Agreement, dated as of May 4, 2004, by and between the Company and its Chief Executive Officer (incorporated herein by reference to Exhibit 10.1 to the Company s Form 10-Q filed with the Commission on August 6, 2004).
(10.4)	Amendment to the Employment Agreement by and between the Company and its Chief Executive Officer (incorporated herein by reference to Exhibit 10.4 to the Company s Form 10-K filed with the Commission on March 9, 2007).
(10.5)	KSB s 1993 Incentive Stock Option Plan (incorporated herein by reference to Exhibit 10.4 to the Company s Form 10-K filed with the Commission on March 15, 2005).
(10.6)	Amendment No. 1 to the KSB s 1993 Stock Option Plan (incorporated herein by reference to Exhibit 10.4 to the Company s Form 10-K filed with the Commission on March 15, 2005).
(10.7)	KSB s 1998 Long-Term Incentive Stock Benefit Plan (incorporated herein by reference to Exhibit 10.6 to the Company s Form 10-K filed with the Commission on March 15, 2004).
(10.8)	The Company s Supplemental Executive Retirement Program (incorporated herein by reference to Exhibit 99.1 to the Company s Form 8-K filed with the Commission on February 4, 2008).
(10.9)*	Executive Deferred Compensation Plan.

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(10.10)*	Director Deferred Compensation Plan.
(10.11)	The Company s 2003 Stock Option and Incentive Plan (incorporated herein by reference to Exhibit 10.12 to the Company s Form 10-Q filed with the Commission on May 9, 2003).
(10.12)	The Company s Audit Committee Complaint Procedures (incorporated herein by reference to Exhibit 10.11 to the Company s Form 10-K filed with the Commission on March 10, 2006).
(10.13)	The Company s Financial Planning Fringe Benefit Plan (incorporated herein by reference to Exhibit 10.1 to the Company s Form 8-K filed with the Commission on January 25, 2005).
(10.14)	The Company s Management Stock Purchase Plan (incorporated herein by reference to Exhibit 10.14 to the Company s Form 10-K filed with the Commission on March 9, 2007).
(10.15)	The Company s form of Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.1 to the Company s Form 8-K filed with the Commission on January 10, 2005).
(10.16)	The Company s form of Restricted Stock Award Agreement (incorporated herein by reference to Exhibit 10.1 to the Company s Form 8-K filed with the Commission on January 25, 2005).
(10.17)	The Company s Long-Term Performance Share Plan (incorporated herein by reference to Exhibit 10.19 to the Company s Form 10-K filed with the Commission on March 15, 2005).
(10.18)*	The Company s 2007 Executive Incentive Compensation Program.
(10.19)	Resignation and General Release Agreement dated October 9, 2007, by and between Laurel J. Bouchard and Camden National Corporation (incorporated herein by reference to Exhibit 10.1 to the Company s Form 10-Q filed with the Commission on November 2, 2007).
(11.1)	Statement re computation of per share earnings (Data required by SFAS No. 128, *Earnings Per Share*, is provided in Note 17 to the Notes to Consolidated Financial Statements in this report).
(14)	The Company s Code of Ethics (incorporated herein by reference to Exhibit 14 to the Company s Form 10-K filed with the Commission on March 10, 2006).
(21)*	Subsidiaries of the Company.
(23)*	Consent of Berry, Dunn, McNeil & Parker relating to the Company s financial statements.
(31.1)*	Certification of President and Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)*	Certification of Principal Financial and Accounting Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)*	Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as required by Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed / furnished herewith

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAMDEN NATIONAL CORPORATION

/s/ Robert W. Daigle	March 17, 2008
Robert W. Daigle	Date
President and Chief Executive Officer	

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the persons on behalf of the Registrant and in the capacities, and on the dates indicated.

/s/ Robert W. Daigle	March 17, 2008	/s/ Sean G. Daly	March 17, 2008
Robert W. Daigle	Date	Sean G. Daly	Date
President, Director		*Chief Financial Officer and Principal*	
and Chief Executive Officer		*Financial and Accounting Officer*	
/s/ Rendle A. Jones	March 17, 2008	/s/ Ann W. Bresnahan	March 17, 2008
Rendle A. Jones	Date	Ann W. Bresnahan	Date
Chairman and Director		*Director*	
/s/ Robert J. Campbell	March 17, 2008	/s/ David C. Flanagan	March 17, 2008
Robert J. Campbell	Date	David C. Flanagan	Date
Director		*Director*	
/s/ Ward I. Graffam	March 17, 2008	/s/ John W. Holmes	March 17, 2008
Ward I. Graffam	Date	John W. Holmes	Date
Director		*Director*	
		/s/ Robin A. Sawyer	March 17, 2008
James H. Page	Date	Robin A. Sawyer	Date
Director		*Director*	
Karen W. Stanley	Date		
Director			