use of these instruments by the bank subsidiaries. As of December 31, 2002, the Company had a notional principal of $30.0 million in interest rate swap agreements. The $30.0 million of interest rate swap agreements mature in 2005. Board and Management ALCO monitor derivative activities relative to its expectation and the Company's hedging policies. These instruments are more fully described in Note 6, "Derivative Financial Instruments," of the Notes to Consolidated Financial Statement, on page 51.

The Company acquired rate swap agreements to convert a portion of the loan portfolio from a variable rate based upon the Prime rate to a fixed rate. In a purchased interest rate swap agreement, cash interest payments are exchanged between the Company and counterparty. The estimated effects of these derivative financial instruments on the Company's earnings are included in the sensitivity analysis presented on page 33. The risks associated with entering into in this transaction are the risk of default from the counterparty from whom the Company has entered into agreement and poor correlation between the rate being swapped and the liability cost of the Company. The Company's risk from default of a counterparty is limited to the expected cash flow anticipated from the counterparty, not the notional value.

Recent Accounting Pronouncements

During 2002 several accounting pronouncements were promulgated by the Financial Accounting Standards Board ("FASB") which affected the operations of the Company. The following summarizes the specific pronouncements that affected the Company.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan.

SFAS No. 147, "Acquisitions of Certain Financial Institutions," amends SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," to exclude from its scope most acquisitions of financial institutions. Such transactions should be accounted for in accordance with SFAS No. 141, "Business Combinations." SFAS No. 147 is effective on October 1, 2002.

SFAS No. 148 contains enhanced disclosure requirements for stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. Adoption of the Statement in 2002 had no impact on the Company's consolidated financial condition and results of operations.

Statement of Position ("SOP") 01-6, "Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others," was issued in December 2001. The SOP is effective for financial statements issued for fiscal years beginning after December 15, 2001. The SOP reconciles and conforms the accounting and financial reporting provisions established by various Audit and Accounting Industry Guides.

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

Related Party Transactions

As a bank holding company, the Company's banking subsidiaries are allowed to, in their normal course of business, to make loans to certain officers and directors of the Company and its subsidiaries under terms that are consistent with the Company's lending policies and regulatory requirements. In addition to extending loans to certain officers and directors of the Company and its subsidiaries at terms consistent with the Company's lending policies, federal banking regulations also requires training, audit and examination of the Company's adherence to this policy by representatives of the Company's federal, national and state regulators (also known as "Reg. O" requirements). As described more fully in Note 20, "Related Parties," of the Notes to Consolidated Financial Statements, on page 59, the Company has not entered into significant non-lending related party transactions.

Common Stock Information

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

2002	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
High	$25.15	$26.00	$28.50	$23.50
Low	24.20	25.46	27.40	22.74
Close	24.20	26.00	27.85	23.50
Dividend paid	0.17	0.17	0.17	0.17

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

Information concerning restrictions on the ability of the Company's subsidiaries to transfer funds to the Company in the form of cash dividends is described in the Capital Resources section on page 32.

As of December 31, 2002, there were 8,027,374 shares of the Company's common stock outstanding, held of record by approximately 960 shareholders.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

Interest rate volatility may reduce our profitability.

The profitability of the Company depends to a large extent upon 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 the Company's net interest income as the difference between interest income and interest expense decreases. As a result, the Company has 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 decrease in interest rates will not negatively impact the Company's 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 the Company's 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 the Company's allowance for loan losses.

Our Allowance for Loan Losses may not be adequate to cover actual loan losses.

The Company makes various assumptions and judgments about the collectibility of the loan portfolio and provides an allowance for potential losses based on a number of factors. If the assumptions are wrong, the allowance for loan losses may not be sufficient to cover the losses the Company could experience, which would have an adverse effect on operating results, and may also cause the Company to increase the allowance in the future. Further, the Company's net income would decrease if additional amounts needed to be provided to the allowance for loan losses.

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

The Company is exposed to real estate and economic factors in the central, southern, western and midcoast areas of Maine, as virtually all of the 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, the Company 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 our historical growth rate, the market price of our common stock could be adversely affected.

The Company's return on shareholders' equity and other measures of profitability, which affect the market price of our common stock, depend in part on the Company's continued growth and expansion. The Company's growth strategy has two principal components—internal and external growth. The Company's 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 the Company serves. The Company's ability to continue to identify and invest in suitable acquisition candidates on acceptable terms is crucial to our external growth. In pursuing acquisition opportunities, the Company may be in competition with other companies having similar growth strategies. As a result, the Company 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 affect 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 the Company's market areas, the Company competes for loans and deposits 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