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

The Company sold fixed-rate residential mortgage loans on the secondary market, which resulted in net gains on the sale of loans of $97,000, $78,000, and $48,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

As of December 31, 2002 and 2001, nonaccrual loans were $8,300,000 and $7,022,000, respectively. Interest foregone was approximately $546,000, $505,000 and $528,000 for 2002, 2001 and 2000, respectively.

8. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	DECEMBER 31,		
	2002	2001	2000
Beginning balance	$13,514	$10,801	$ 9,390
Provision for loan losses	3,080	3,681	2,930
Recoveries	738	581	626
Loans charged off	(2,090)	(1,549)	(2,145)
Net charge offs	(1,352)	(968)	(1,519)
Ending balance	$15,242	$13,514	$10,801

Information regarding impaired loans is as follows:

	DECEMBER 31,		
	2002	2001	2000
Average investment in impaired loans	$7,698	$6,030	$5,871
Interest income recognized on impaired loans, all on cash basis	341	330	241
Balance of impaired loans	8,300	7,022	4,644
Portion of impaired loan balance for which an allowance for credit losses is allocated	8,300	7,022	4,644
Portion of allowance for loan losses allocated to the impaired loan balance	1,824	1,862	860

9. SECURITIZATION OF MORTGAGE LOANS

As part of a balance sheet management program, the Company securitized with Freddie Mac $16.7 million and $57.0 million of residential mortgage loans during 2002 and 2001, respectively. These transactions resulted in the Company's loan balances decreasing, as those assets shifted to investment securities. The Company will receive annual servicing fees as compensation for servicing the outstanding balances. The Company has no retained interests in the securitized residential mortgage loans. In addition, $208,960 and $677,300 of mortgage servicing rights associated with the transactions were recognized in income during 2002 and 2001, respectively. The Company did not securitize any loans during 2000.

10. MORTGAGE SERVICING

Residential real estate mortgages are originated by the Company both for portfolio and for sale into the secondary market. The sale of loans is to institutional investors such as Freddie Mac. Under loan sale and servicing agreements with the investor, the Company generally continues to service the residential real estate mortgages. The Company pays the investor an agreed-upon rate on the loan, which 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. 140, the Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans. Capitalized servicing rights totaled $643,000, $829,000 and $107,000 during 2002, 2001 and 2000, respectively. Amortization expense totaled $523,000, $217,000 and $32,000 for 2002, 2001 and 2000, respectively.

Mortgage loans serviced for others are not included in the accompanying Consolidated Statements of Condition of the Company. The unpaid principal balance of mortgage loans serviced for others was $154,084,000, $147,232,000 and $111,002,000 at December 31, 2002, 2001 and 2000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were $347,000 and $341,000 at December 31, 2002 and 2001, respectively.

11. PREMISES AND EQUIPMENT

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

	2002	2001
Land and buildings	$15,352	$15,857
Furniture, fixtures and equipment	15,951	15,151
Leasehold improvements	1,260	1,222
	32,563	32,230
Less: Accumulated depreciation and amortization	15,853	14,793
	$16,710	$17,437

Depreciation expense was $1,684,000, $1,719,000 and $1,529,000 for 2002, 2001 and 2000, respectively.

12. OTHER REAL ESTATE OWNED

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

	2002	2001	2000
Beginning balance	$195	$380	$1,405
Additions	492	371	302
Properties sold	104	554	1,180
Writedowns	93	2	147
Ending balance	$490	$195	$ 380

13. DEPOSITS

The aggregate amount of certificates of deposit, each with a minimum denomination of $100,000, was approximately $80,311,000 and $63,451,000 at December 31, 2002 and 2001, respectively. Certificates of deposit included brokered deposits in the amount of $56,754,000 and $46,196,000 at December 31, 2002 and 2001, respectively.

At December 31, 2002, the scheduled maturities of certificates of deposit were as follows:

2003	$173,951
2004	97,870
2005	55,068
2006	7,491
2007	17,713
Thereafter	17,913
	$370,006