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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	*(I.R.S. Employer*
of incorporation or organization)	*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 ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	

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

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.

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 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.

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.

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.

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.

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.

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