MAINE DEPARTMENT OF
Professional
& Financial
Regulation

ANNUAL REPORT FROM THE SUPERINTENDENT OF THE BUREAU OF FINANCIAL INSTITUTIONS TO THE LEGISLATURE

PREPARED BY THE STAFF OF THE
MAINE BUREAU OF FINANCIAL INSTITUTIONS

January 15, 2003

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Governor

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INTRODUCTION

When memories of the year 2002 are rekindled, one is most likely to remember: a stumbling national economy; extraordinarily low interest rates which led to an above average number of home sales, an overwhelming onslaught of home refinancings and broken hearts for the interest rate sensitive pocketbooks of retirees; a seriously ill but seemingly recovering stock market; states with significant budget deficit numbers to resolve and with very little economic wriggle room to accomplish it; flagrant abuse of some basic rules of corporate governance by boards of directors and senior management in a number of organizations; a declining consumer confidence in the economy overshadowed only by a willingness of consumers to spend their money and increase their debt load; and, an ongoing weakness in business sector spending for infrastructure investments and technology purchases. Many of these national ills also befell the State of Maine and its citizens.

Maine, however, saw its economy only shrink mildly, maintained an unemployment rate far more kindly to its citizens than the national average, and enjoyed a continuing increase in property values worthy of mention in this Report. This benevolent description of the Maine economy for 2002 could also be applied to the health of our state- and federally-chartered banks, thrifts and credit unions.

Overall, state- and federally-chartered banks, thrifts and credit unions in Maine turned in a very solid performance in fiscal year 2001 and for the first six months of 2002, especially in light of the ongoing economic uncertainties. Nearly all of the institutions were profitable and almost all exceeded federal requirements for the highest capital rating. There was no financial institution that was both unprofitable and less-than-adequately capitalized. Earnings, though, continued to be burdened by low net interest income, a result of low interest rates and weakening loan demand. Net interest income improved for several institutions in 2002 and, despite continued growth in non-interest income, net interest income still accounted for over 80% of net revenues. To the surprise of many and in the face of the weak economy, loan quality indicators remained very sound, with delinquencies at their lowest level in several years. Net loan losses were well within tolerance levels.

For the second year in a row, deposit growth fueled asset growth. This deposit growth enabled institutions to strengthen their liquidity, but this surge in deposits is largely attributable to uncertainty in the stock market and, therefore, must be considered volatile. Accordingly, all institutions need to be prepared to manage an expected deposit outflow should stock market sentiment improve and investment activity increase. Potential deposit outflow is only one risk in an increasing array of risks with which financial institutions must contend. Credit risk remains the primary risk to institutions, but, as institutions expand in assets, market area, and products and services, other risks--these risks include, but are not limited to, funding, interest rates, technology, operations, strategy, reputation and legal--become increasingly important. These risks must be managed not only on an individual basis but also on an integrated basis, which is the current challenge for most institutions. Fortunately, Maine's financial institutions have adequate capital, earnings power and sound credit quality so that appropriate risk management processes can be developed and implemented during these sluggish economic times without undermining their ability to serve the needs of their customers.

One of the year 2002 ills mentioned in the opening paragraph of the Introduction was the apparently widespread abuse of the basic precepts of corporate governance by the leadership of many corporate organizations. Section IV of this report describes current state and federal corporate governance requirements. With passage of the Sarbanes-Oxley Act of 2002, a flurry of federal rule-making activity has ensued and organizations nationwide now face increased liability for noncompliance with these more stringent requirements. Undoubtedly, the boards of directors of Maine's financial institutions have an enormous responsibility to become educated with respect to these new directives, establish programs and policies to effect compliance, and monitor the activities of senior management and internal and/or external auditors. The Bureau, in its role as the Maine's primary regulator of state-chartered financial institutions, will remain vigilant in its oversight of these issues and supportive of educational platforms that can assist the regulated industry in becoming better informed of their duties and responsibilities regarding the entire corporate governance process.

It was recently announced that Arkansas had become the first state to mandate training for financial institution directors at state-chartered institutions. The Arkansas Banking Commissioner informed state bank directors that they must attend one educational session within the next two years. This was his response to comments from a number of directors who stated that they had no idea there was anything wrong with their institutions. The Bureau has heard comments of this kind in Maine. Comments like these indicate a drastic failure of the corporate governance process. It is simply not acceptable for directors not to know the overall condition (safety and soundness) of their institutions. If any one individual or the organization's structure or the company's culture is preventing the board from obtaining the necessary information to meet its duties and responsibilities, then the board must do whatever is necessary to remove the hindrance(s). Will mandated training and published rules and guidelines provide the necessary foundation and tools for directors to more readily participate in appropriate company business deliberations and encourage greater director organizational oversight? Reservations abound. What else can be initiated to support boards of directors in their critical role in the corporate governance process? Organization analysts are not predicting at this time, but stay tuned.

In conclusion, this past year has been challenging for Maine's banks, thrifts, and credit unions. They have weathered these turbulent economic times quite well. Strong deposit growth spurred by investor uncertainly with the equities markets has provided some stability with funding sources. The Bureau's overall assessment of the industry at the time of this Report has concluded that state-chartered banks, thrifts, and credit unions are in basically sound condition with strong capital, acceptable profitability and sound loan quality. However, ongoing uncertainties within the financial marketplace will provide continuing challenges to Maine financial institutions and their respective boards of directors.

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ECONOMIC CONDITIONS

U.S. Economy

From January 2001 though September 2001, the Gross Domestic Product (GDP) rebounded after 3 consecutive quarters of negative growth. However, there is growing concern that the recovery may be short-lived, despite stimulative monetary and fiscal policy, resulting in a double-dip recession. This pessimism appears to be driven by many factors, including corporate accounting scandals, the level of consumer and corporate debt, declining consumer confidence, terrorism, and threat of war in the Middle East. Some economists are concerned about what they view as a growing possibility of deflation, much like Japan has experienced for the past several years.

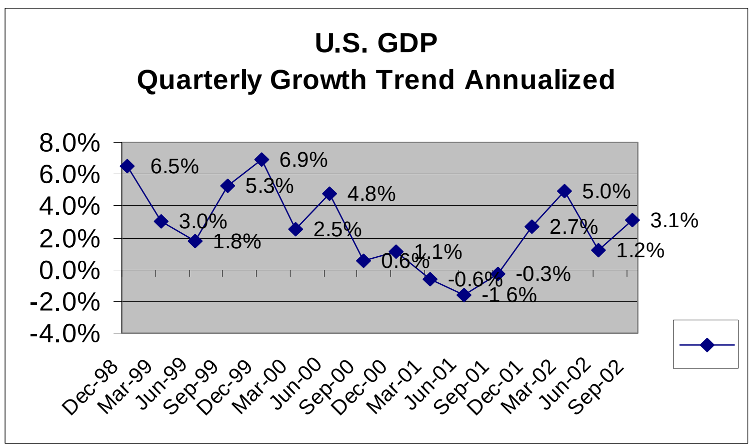


Chart #1

After declining 0.3% in the third quarter of 2001, GDP has increased in every subsequent quarter, with increases ranging from a low of 1.2% in the second quarter of 2002 to a high of 5.0% in the first quarter of 2002. (See Chart #1) The increase in GDP is estimated to be 3.1% for the 3rd quarter of 2002. Continued strength in the consumer sector caused the 2001 recession to be milder than expected and is responsible for the subsequent recovery. Personal consumption expenditures have continued to grow, albeit at a reduced rate over the late 1990's. The annualized growth rate of consumption in 2002 is 3.0%, compared to 2.8% in 2001 and 3.5% in 2000. Gross private domestic investment continues to inhibit more robust economic growth. During 2001, private investment declined approximately 15%. Private investment has rebounded in 2002, (8.3% annualized to September 30, 2002), but this is because of extraordinary strength in the residential housing sector as opposed to significant improvement in business investment. The brief recession was a corporate driven event and continued weakness in the business sector is dampening the recovery.

The U.S. unemployment rate has increased from 4.9% in September 2001 to 5.7% in October 2002, which is down slightly from the 5.9% unemployment rate recorded in June 2002. There were less announcements of mass layoffs in 2002 than in 2001. In the first ten months of 2001, there were announced layoffs of approximately 1.6 million employees as compared to 1.2 million employees for the same period in 2002. Layoffs, however, remain high in comparison to the late 1990's and jumped to 176,000 employees in October 2002, the highest monthly level since January 2002. Although the unemployment rate is not particularly high in comparison to similar economic periods, the fact that the unemployment rate has not improved is indicative of continued business sector weakness.

Since consumer spending has been driving the modest rate of economic growth, the primary risk to the economy, engendering the possibility of a double-dip recession, is that consumer spending will abate. Consumer confidence, as measured by the Conference Board[1], has fallen for 5 straight months and the index now stands at 79.4, the lowest level since 1993. "A weak labor market, the threat of military action in Iraq, and a prolonged decline in the financial markets have clearly dampened both consumers' confidence and their expectations for the near future," stated Lynn Franco, Director of the Conference Board's Consumer Research Center.[2] Unless consumer sentiment improves, the holiday shopping season could be disappointing to retailers.

[1] The Conference Board is a not-for-profit organization that conducts research, makes forecasts, assesses trends, and publishes information and analysis on the health of the U.S. economy.
[2] Taken from the Press Release issued by The Conference Board on October 29, 2002.

After a post brief 9/11 recovery, the U.S. equity markets have been in retreat. All major indices have declined substantially from October 2001 to October 2002 as Chart #2 illustrates. The Dow Jones Industrials declined 9.1% to 8,247 during this period, while the NASDQ Composite declined to 1,330, or 21.3%, over and above the 49.8% decline recorded the previous year. These results include a significant recovery since October 9, 2002, when the Dow Jones Industrials stood at 7,286, a level not seen since 1997. Weakness in the equities market has fueled increases in core deposits in banks and credit unions that have not been experienced in many years.

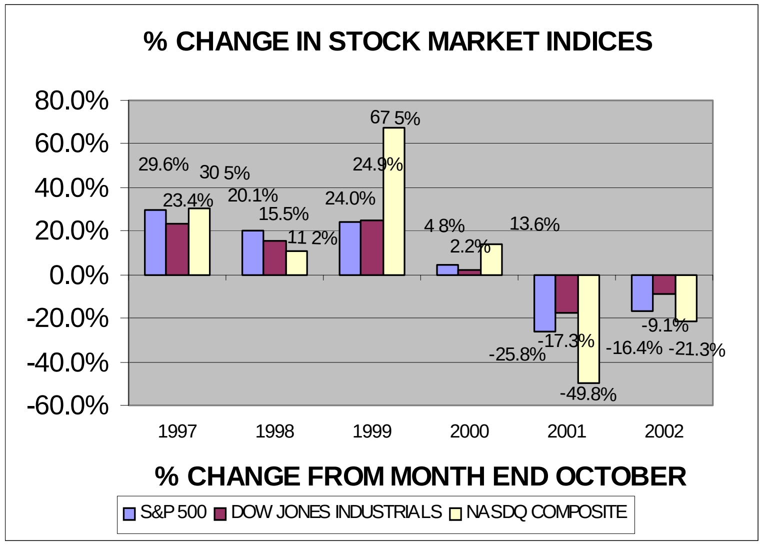


Chart #2

Some economists believe the level of consumer debt, which has grown substantially over the years, is likely to constrain future growth in consumer spending at least in the short term. If this occurs, the recovery may not be sustainable. Household debt[3] has grown 8%-9% per year since 1997, despite the economy weakening in 2001, and

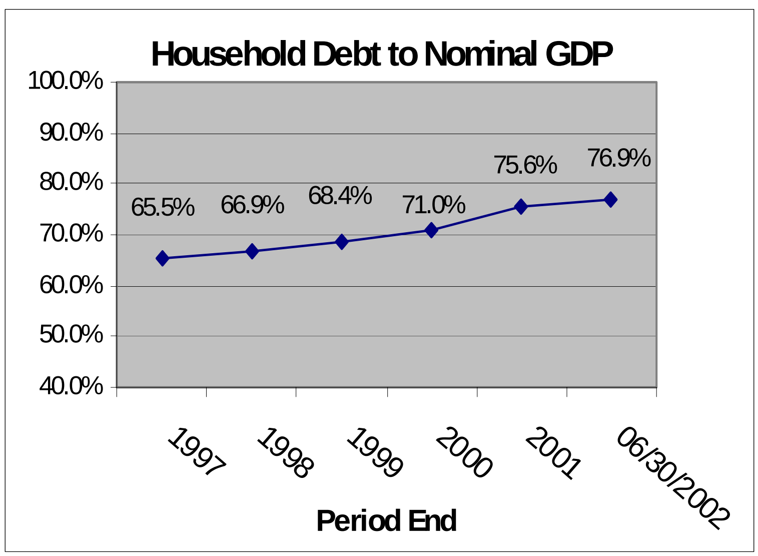
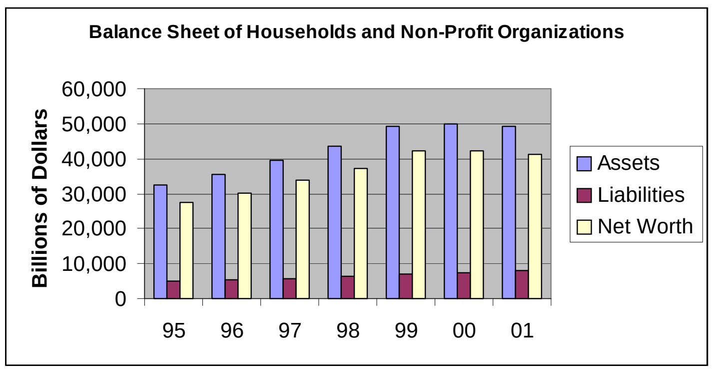


Chart #3

[3] Household debt is taken from Table A38 of the Federal Reserve Bulletin.

stands at approximately 77% of nominal GDP as of 6/30/2002. This ratio was approximately 50% in the early 1980's and has since been growing nearly unabated and very consistently ever since. Net loan losses on consumer loans have been increasing at the nation's banks. Consumer loan losses at FDIC-insured commercial banks were 3.49% (annualized) for the first 6 months of 2002 as compared to 2.72% in 2001. This increase is primarily driven by losses on credit card loans, which were 7.05% (annualized) for the first 6 months of 2002. The Federal Reserve Board also publishes the Household Debt-Service Burden (debt service ratio), which is an estimate of the ratio of debt payments to disposable personal income. The debt service ratio has increased from 11.79% in the 4th quarter of 1993 to 14.04% in the 2nd quarter of 2002. The debt service ratio has been close to 14% or above for the past 4 quarters, which is on the high end of the range for the past 20 years. This level, however, is not unprecedented as the ratio was over 14% in 1986 and 1987.

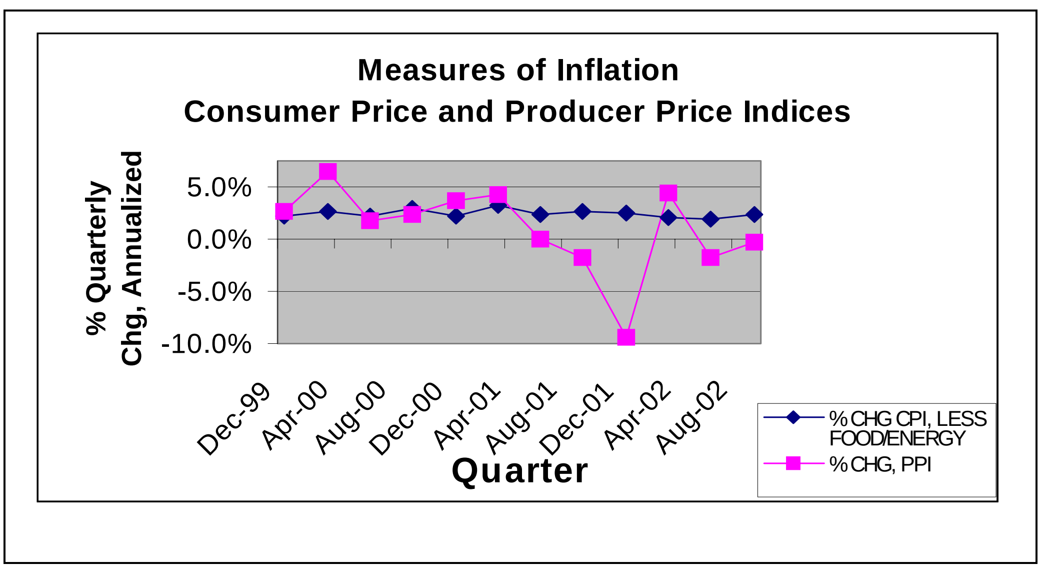
Ultimately, consumers base their decisions regarding debt on net wealth. If debt increases, but assets increase even more, then consumers, in the aggregate, are wealthier and can spend more.[4] Although household net worth declined somewhat in 2000 and 2001, the household balance sheet remained strong, even if one excludes relatively illiquid assets, such as pension assets and investments in closely held companies. The increase in consumer debt has been evolutionary, resulting from innovation in financial products, increases in home ownership, and other similar factors. The household balance sheet remains strong, and the level of consumer debt may not pose the risk to the economy that some contend.



[4] *The Household Balance Sheet – Too Much Debt?*, Francois Velde, Senior Economist, Chicago Fed Letter, September 2002

Another economic concern that has recently received much attention in the business and financial press is deflation. Deflation, which is the opposite of inflation, occurs when the prices of goods and services in the economy fall. It is clear from recent Congressional testimony that Federal Reserve Chairman Greenspan does not believe that there is evidence that the United States is entering a deflationary period, as Japan has experienced over the past 4 years. However, it is equally clear that the Federal Reserve is aware of, and concerned about, the possibility. Since at least 1997, the Federal Reserve's professional staff has been studying deflation and the problem of how a central bank stimulates the economy once interest rates are already at zero.[5] In fact, some believe the Federal Reserve's 50 basis point cut in the target federal funds rate to 1.25% on November 6, 2002 was as much about preventing deflation as encouraging economic growth.

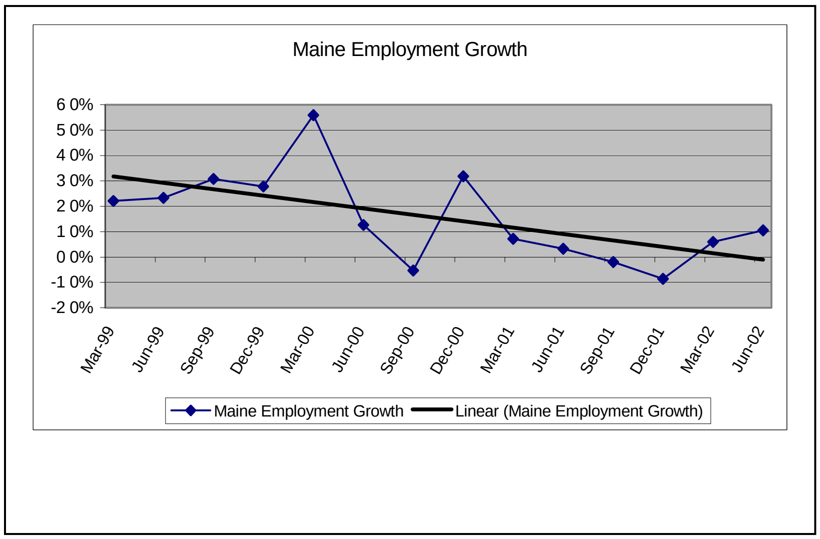
Deflation, if it occurred, would be more economically devastating in the U.S. than in Japan because of this country's much higher level of consumer and corporate debt. As prices fall, corporate profits and personal income would decrease, while debt service requirements would remain relatively fixed. This would further deepen a deflationary spiral as the value of assets backing these loans, such as real estate, would fall as debtors or creditors attempt to liquidate these assets to pay debt. The core inflation rate, as measured by the Consumer Price Index, excluding food and energy, has remained fairly stable since 1999. The rate of inflation has ranged from a low of 1.9% (June 2002) to a high of 3.3% (March 2001) during this



[5] Inside the Fed, Deflation Draws a Closer Look, Greg IP, Wall Street Journal, November 6, 2002

period. The Producer Price Index (Finished Goods) has been more volatile. The index has fallen 4 out of the 5 quarters commencing in September 2001, with values ranging from 4.4% in March 2002 to -9.4% in December 2001. The dramatic drop in December 2001 appears to be because of inventory reduction. Although a sustained period of decline in producer prices, particularly coupled with a decline in consumer prices, would be of concern, the data do not suggest that deflation is occurring or is imminent. In the absence of other evidence, the reduction in producer prices should be viewed as a normal correction at this stage of the business cycle.

Maine Economy



The Maine economy has mirrored trends in the national economy. The economy has weakened, but mildly. As measured by employment growth, the economy grew robustly in the late 1990's, but declined slightly in 2001. Employment growth began to abate in March 2001 and was slightly negative in the 3rd and 4th quarters of 2001. Employment growth has resumed in 2002, with modest increases of .6% in first quarter and 1.1% in the second quarter. Maine's unemployment rate had increased from the low of 3.3% recorded in January 2001 to 4.2% in July 2002. Maine's July 2002 unemployment rate compares favorably to the national unemployment rate of 5.9% of the same month. However, the Index of Help Wanted Advertising in the Portland newspapers (published by the State Planning Office) continues to fall. The index value was 124.7 as of May 2002 as compared to the high of 211.6 recorded in January 2001.

Retail sales growth has slowed. After growing in excess of 8% in 1998 and 1999, retail sales grew only 2% in 2001. Retail sales of $6.5 billion for the first 6 months of 2002, however, compare favorably to the $6.1 billion recorded for the first 6 months of 2001, a 6.3% increase from period to period. Auto sales, which account for approximately 25% of the increase, may not be sustainable.

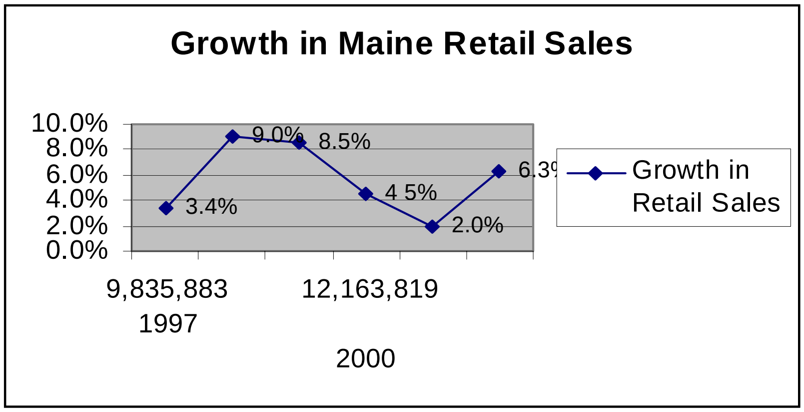


Chart #7

As with the national economy, the real estate sector in Maine has been strong despite general economic weakness. The value of single-family homes has grown robustly during this period, possibly driving the continued increase in personal consumption. Cash-out re-financings permit consumers to liquefy the equity in their homes, a method of raising cash that has not been generally available in the past. In 2000 and 2001, Maine house prices increased over 11% in both 2000 and 2001 as compared to the national statistics of 8.3% and 7.5% for 2000 and 2001, respectively. (See Charts #8 and #9) Results for the first quarter of 2002 would indicate a slowdown in that rate of growth, but, if growth for the remaining 3 quarters of the year are comparable to the first quarter, growth in home prices will remain relatively strong.

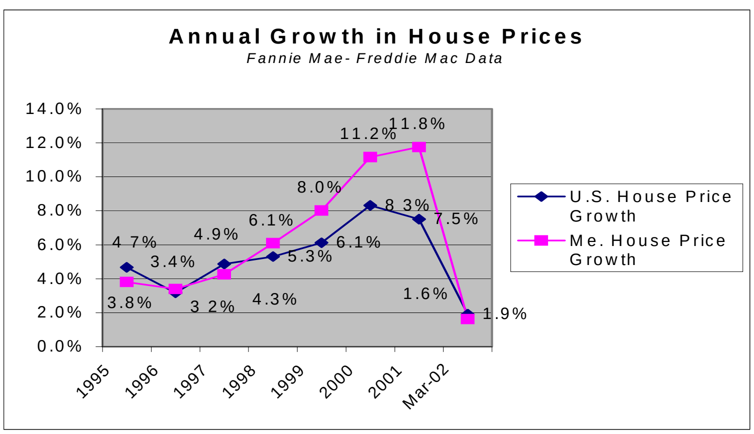


Chart #8

Growth in home prices has been so strong that many contend that the U.S. has a real estate bubble that will burst and have a significant negative impact on the economy, much like the technology stock bubble. The Bureau does not opine on whether an estate bubble exists. However, the market for residential real estate is dependent upon population growth, household formation, income, interest rates, the rate of increase of housing stock, and other factors, some of which can vary greatly among geographic regions. For these reasons, a widespread collapse of residential real estate prices seems unlikely, but certain markets could suffer some price deflation. As for Maine, the increase in home prices has greatly exceeded personal income growth since 1998. This may indicate that, despite record low mortgage interest rates, some correction, not necessarily a “bubble burst”, may occur over the short term. Housing permit data, however, indicates some continued optimism about residential real estate. After nominal growth of 1.2% and .4% in 2000 and 2001, respectively, housing permits have increased by 20.3% for the first 9 months of 2002 over the first 9 months of 2001. Also, rental housing vacancy rates remain very low. The state-wide vacancy rate was 4.9% in 2001 with vacancy rates in southern Maine being much lower than the state-wide average. This low residential rental vacancy rate would indicate that a correction in real estate values may not occur until the supply of housing increases.

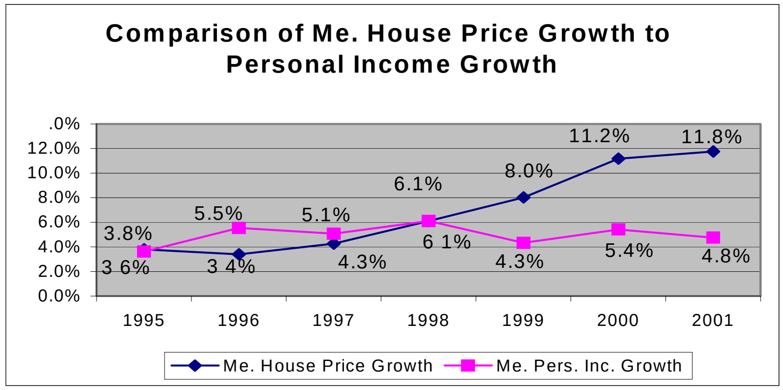


Chart #9

Maine state government revenues also reflect economic weakness. After robust growth in the late 1990’s, revenues declined 0.2% for fiscal year ending 6/30/2001 and 2.5% in fiscal year ending 6/30/2002. It is anticipated that continued sluggishness in revenue growth, coupled with potential increases in state expenditures, will make the balancing of future state budgets a challenge. A significant factor in the decline in revenues has been the reduction in the level of capital gains taxes due to the decline in the value of equity securities since early 2001. During 2002, personal deposits at Maine banks and credit unions grew at a rate not experienced since the 1980's. Personal, or core, deposits increased approximately 12% for banks and 10% for credit unions for the twelve (12) months ended 6/30/2002. Given the outflow from mutual funds, it is assumed that most of these funds have been pulled from the equity markets to preserve capital. If the trend continues in the later half of the year, it seems reasonable to presume that capital loss deductions on individual and corporate tax returns will be substantial and will continue to negatively impact state revenues.

Summary

Although there is some evidence of recent softening in an already soft economic recovery, there is nothing in the data reviewed by the Bureau in preparing this Report that would indicate the U.S. economy or the Maine economy is poised on a precipice, as some recent articles in the business and financial press would indicate. Growth is sluggish, but there is growth as opposed to contraction. If anything, the strength of current economic conditions in the aftermath of the technology stock crash and the events of September 11, 2001 demonstrate the resiliency of U.S. society and its economy. Consumer debt is admittedly high in comparison to historical measures, but interest rates are quite low and the advent of longer-term loans (6-year auto loans did not exist in 1980) does increase the debt capacity of households. Continued weakness in corporate profits, coupled with ongoing accounting and corporate governance scandals, will probably preclude significant and sustained gains in the value of equity securities in the short term, but a return to more conservative equity valuation methods will be beneficial in the long term. The Bureau believes that the current economic climate seems sluggish when compared to the length and strength of the expansion in the 1990's. If one excludes the possibility of continued terrorist attacks and/or a large scale Middle East war, the United States is still experiencing comparatively good economic times. The economic weakness of the past 18 months has been mild in comparison to the severity of the 1973 – 1974 recession or even the 1990 – 1991 recession. Chairman Greenspan said it best during his recent testimony to Congress: "…we are in a soft patch…."

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SECTION II

INDUSTRY CONDITIONS

Performance of Maine's Smaller Banks

There are 13 commercial banks, 15 savings banks and nine thrifts that are headquartered in Maine which have consolidated assets of less than $2 billion. These 37 state and federally chartered institutions range in asset size from $18 million to $1.4 billion. This analysis primarily focuses on the performance of this category of institutions, hereafter referred to as Maine Smaller Banks. There are three other organizations that operate facilities in Maine: Banknorth, N.A., Fleet National Bank, and KeyBank, National Association (or N.A.). Fleet National Bank is headquartered in Providence, Rhode Island and KeyBank, N.A. is headquartered in Cleveland, Ohio. Both organizations operate multiple branches in Maine. Banknorth, N.A., although headquartered in Maine, operates a majority of its offices in other New England states. These three financial conglomerates are multi-billion dollar organizations for which nominal Maine-specific data is compiled. Therefore, for purposes of this analysis, Banknorth, Fleet and Key are referred to as "Interstate Banks."

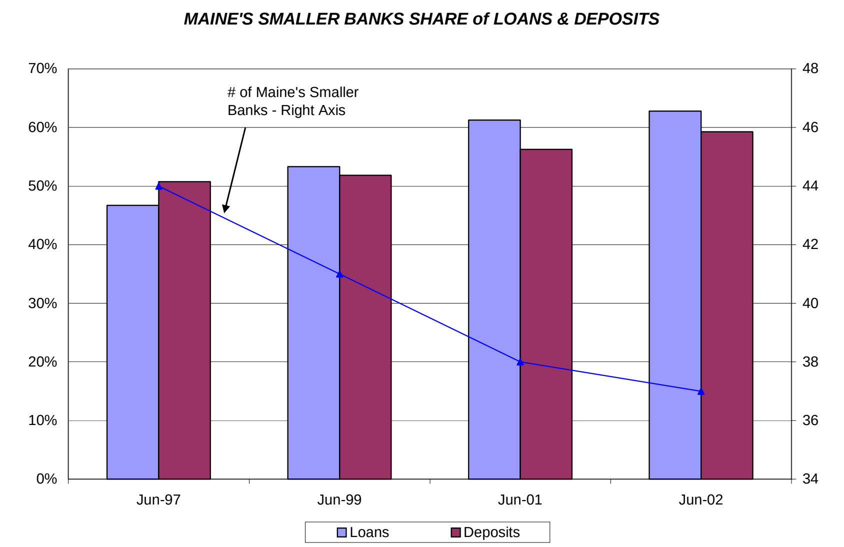

Chart #10

Maine's Smaller Banks, though steadily declining in numbers, are supporting an increasing level of the loans and deposits held by the State's financial institutions[6], as shown in Chart #10. While the number of Maine's Smaller Banks has decreased 18%

[6] For purposes of this section, "financial institutions" include Maine's Smaller Banks and Interstate Banks; it does not include credit unions.

between June 1997 and June 2002, dropping from 44 to 37, the aggregate assets of those banks have increased by 51%, climbing from $8.2 billion to $12.3 billion. Nationally, the number of FDIC-insured institutions under $3 billion in assets has decreased 16% over the same time period. The average Maine Smaller Bank nearly doubled in asset size, increasing from $175 million at June 1997 to $324 million at June 2002. The national increase in average asset size during this same period was much more modest, from $162 million to $200 million. Voluntary mergers accounted for the decrease in the number of Maine's Smaller Banks. All but one institution was acquired by another Smaller Bank (and that one Smaller Bank was acquired by an Interstate Bank). No Maine Smaller Bank acquired more than one institution.

The driving force behind the consolidation among Maine's Smaller Banks, which is a national phenomenon, is an increasingly competitive environment, including such factors as rising cost structure, increased competition from large regional banking organizations and non-banks, the high cost of technology and concentration of credit risk in a relatively small geographic area. Economies of scale have shown positive results and are a leading driver in acquisitions within the banking industry from both the perspective of the acquiror and the acquiree. This places increased pressure on small institutions.

All Maine's Smaller Banks have been profitable for each of the last five fiscal years. Although earnings have been relatively solid, return on assets (ROA) steadily declined from June 1997 to June 2001, due primarily to a compression in the net interest margin (NIM). NIM fell from 4.51% as of June 1995 to 3.78% as of June 2001 before rebounding to 4.15% as of June 2002, leading to a resurgence in net income. A combination of strong deposit growth and a steep yield curve eased the pressure on the NIM, but rising rates generally lead to a contraction in the NIM. The lower NIM has been accompanied by a general downward trend in security gains, which have ranged from .22% to a low of .03% (as of June 2002) and averaged .13% from June 1995 to June 2001. Partially offsetting these two negative trends has been a steady increase in noninterest income, up from .56% as of June 1995 to the current .81%. Despite the sharp increase in noninterest income, Maine's Smaller Banks remain heavily dependent upon net interest income, which still accounts for more than 80% of net revenues. See

Chart #11. During the period ending June 2002, there has been only minimal fluctuation in the other two major income statement accounts – noninterest expense and the allowance for loan loss provision. Return on assets (ROA) and NIM for Maine's Smaller Banks are moderately below average, but noninterest income is moderately above average when compared to banks nationally.

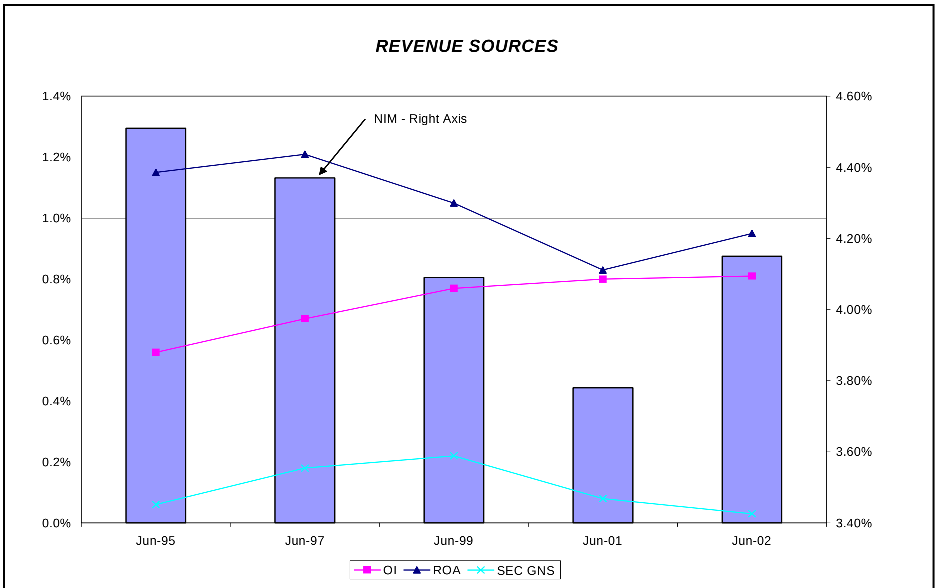

Chart #11

The drop in earnings has contributed to the decline in capital ratios, but the major factor has been robust asset growth, which has averaged nearly 10% annually since June 1995. Nevertheless, as seen in Chart #12, capital ratios remain well above minimum federal requirements and are in line with averages nationwide.

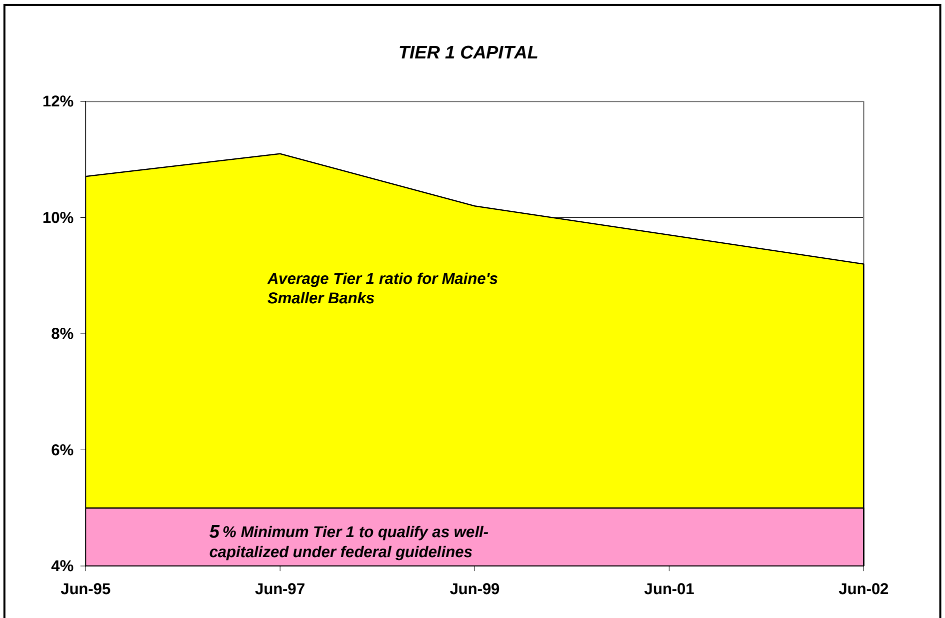

Chart #12

During the last half of the 1990s loan growth outpaced asset growth and loans increased from 68% of assets to 73% of assets between June 1995 and June 2000. However, during the past two years, loan growth slowed, consistent with the economy, and slightly lagged behind asset growth. As a result, loans dropped to 71% of assets by June 2002. Nationally, the average loan-to-asset ratio has been steady at 63% the last three years. While all major loan categories have experienced dollar growth, the growth has been centered in commercial real estate, which has steadily climbed from 18% to 23% of total loans. Residential mortgage loans, despite a 60% increase in outstanding dollars, have declined from 53% to 44% of loans. This decrease is largely attributable to two factors: (1) increased origination of loans by mortgage and finance companies and banking organizations operating outside of their local community, and (2) the increased use of the secondary mortgage market. In the secondary market, mortgage loans are securitized, pooled and sold through a conduit, primarily the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). It has been estimated that one-half of all home mortgage loans nationwide have been originated by mortgage and finance companies and banking organizations operating outside of their local community. It has also been estimated that one-half of all outstanding residential mortgage debt is held in the secondary mortgage market. While comparable data is not available for Maine's Smaller Banks, the growth in mortgage backed securities and in loans serviced, a growth of 240% and 250%, respectively, between June 1995 and June 2002 for the Banks, tends to support those nationwide estimates. Chart #13 shows the change in loan mix from June 1995 through June 2002.

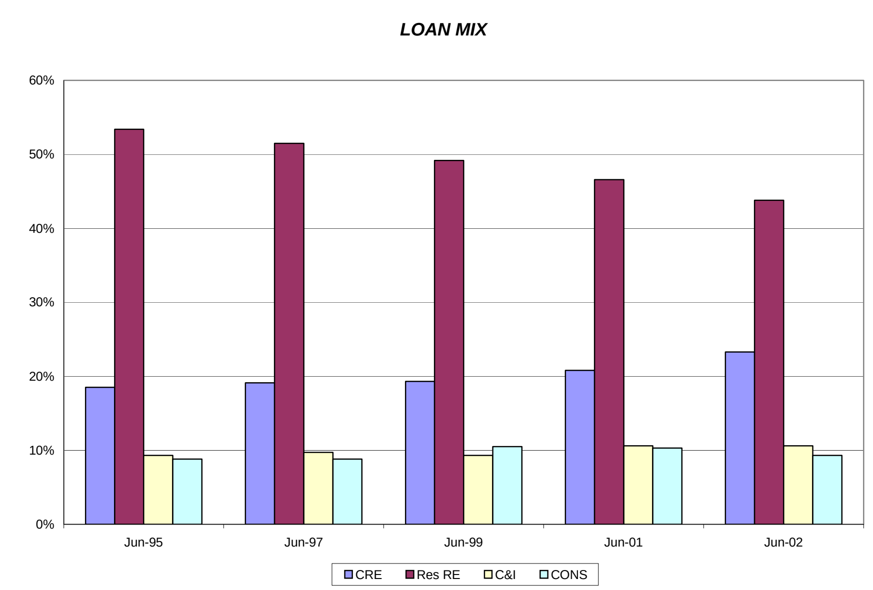

Chart **#13**

Notwithstanding the economic slowdown and the well-publicized increase in problem business credits, including a record number of bankruptcy filings by publicly traded companies in 2001, Maine's Smaller Banks reported a significant drop in delinquent loans and only a nominal rise in net loan losses (NLL), as seen in Chart #14. The level of NLL for Maine's Smaller Banks is equal to the national average and the level of noncurrent loans (NCL, or loans 90 days past due or not accruing interest) and loans past due less than 90 days is substantially below the national average. Maine Smaller Banks' level of allowance for loan and lease losses (ALL) is nominally below the national average, but the coverage by the ALL of NCL is significantly stronger. Personal loans continue to reflect the highest net loss ratio, followed by non-real estate secured commercial loans.

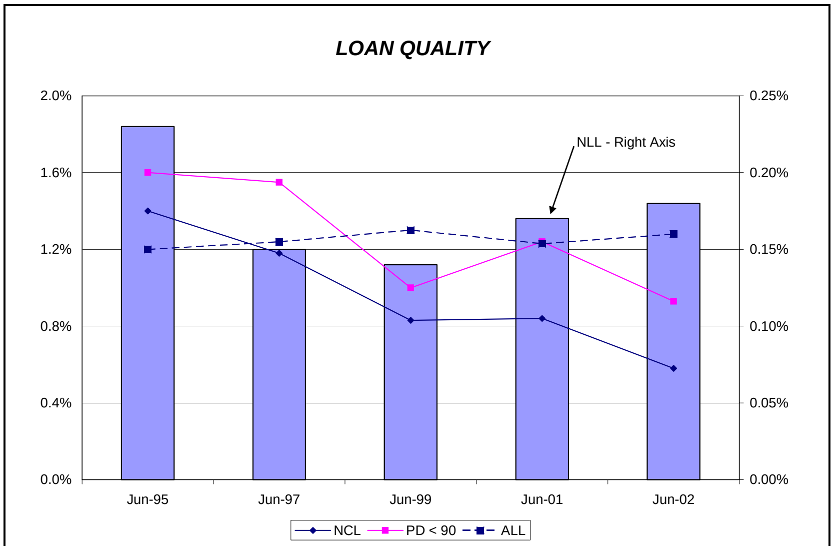

Chart #14

Core deposit growth jumped in the twelve-month period ending June 2002 to 12%, its highest level in more than a decade and more than double the 5.6% annual compound growth rate experienced between June 1991 and June 2001. This sharp growth, spurred by uncertainty in the stock market, has, at least temporarily, leveled off the

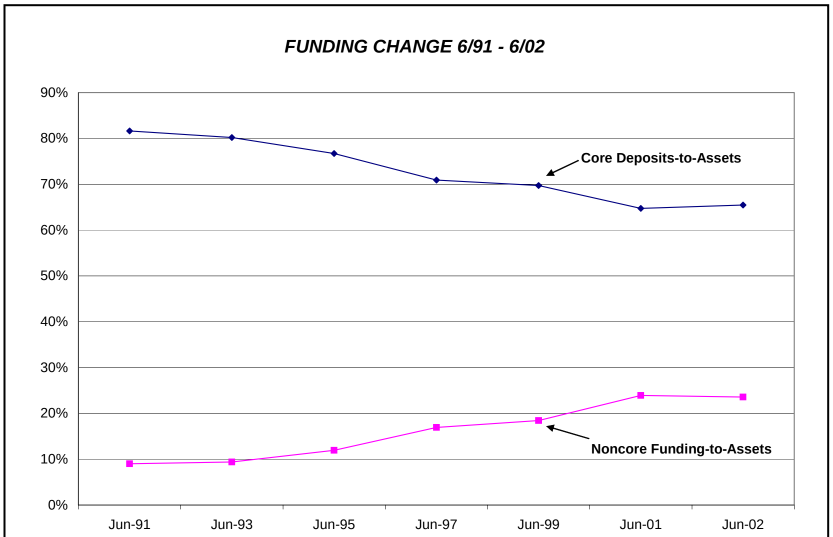

Chart #15

trend of increasing reliance on noncore funding, as seen in Chart #15. The average core deposit-to-asset ratio for all FDIC-insured institutions at June 2002 was 71% and the average noncore funding-to-asset ratio was 16%, compared to 66% and 24%, respectively, for Maine's Smaller Banks. Despite the strong increase in core deposits, which outpaced loan growth in dollars for the first time since June 1992, total borrowings also increased, albeit only moderately, as Maine Smaller Banks strengthened their liquidity. Borrowings were repositioned as these institutions took advantage of low interest rates to lengthen maturities. Investment portfolios, which had trended downward from June 1994 to June 2001 from a high of 25% to a low of 18% of assets, represented 19% of assets as of June 2002.

In the aggregate, the industry weathered the twelve month period ending June 2002 better than predicted in last year's Annual Report to the Legislature, particularly with respect to credit quality. To date, the deterioration in credit quality has been concentrated in loans to larger corporations that generally do not borrow from Maine's Smaller Banks. They have also benefited from the comparatively mild impact that the national economic downturn has had to date on Maine, due in part to the relatively nominal gains Maine experienced during the boom years. However, a prolonged slowdown will likely give rise to increased credit risk and lower earnings.

The numerous interest rate cuts by the Federal Reserve since January 2001 have been a mixed blessing. The cuts have eased loan repayment pressures on borrowers and have led to a record volume of mortgage refinancings, resulting in a significant increase in noninterest income. However, the interest rate cuts have also led to substantial loan and securities prepayments, which must then be reinvested in lower yielding assets, driving down interest income. Additionally, given that interest rate cuts are used to stimulate the economy, periods of low rates are generally accompanied by weakened demand from high quality borrowers, which is the current situation (excluding residential mortgage financing). Due primarily to the falling and volatile equity markets, investors have turned to the safety of federally-insured deposit accounts, which has created the recent boom in low cost deposits This has enabled many institutions to recoup, at least temporarily, some of the lost net interest margin. However, with deposits rates very close to, if not at, their effective floor, financial institutions have little room available to lower them further. Furthermore, a significant portion of the deposit boom is considered unstable. A return to more certainty in the equity market could lure a substantial portion of this deposit influx back to the stock market. Even the deposits that Maine's Smaller Banks manage to retain will cost more as depositors seek higher yields. All institutions should have a strategy in place to manage the inevitable outflow of deposits and its consequence on their funding and interest rate risk.

While credit risk has historically been, and still is, a financial institution's highest risk, some less familiar risks, such as interest rate, liquidity, operational and reputational, have received increasing publicity and have assumed a new prominence. Maine's Smaller Banks, although expanding their products and activities, continue to have relatively simple operations (i.e., limited complex off balance-sheet transactions). Nevertheless, and despite improvements in risk management systems, financial institutions need to continue to expand and integrate these processes in order to promptly identify, measure, monitor and control risks. Maine's Smaller Banks remain in sound condition with strong capital, adequate profitability and sound loan quality, and they are advantageously situated to support economic growth. However, they also face difficult challenges as the financial marketplace continues to evolve.

Performance of Maine Credit Unions

As of June 30, 2002, there were 78 credit unions headquartered in Maine, of which 15 were chartered by the Bureau of Financial Institutions and 63 were chartered by the National Credit Union Administration. The overall condition of the credit union industry in Maine remains strong, based on key financial ratios as of December 31, 2001 (fiscal year end) and the subsequent six-month interim period ending June 30, 2002. Performance during both of these periods was solid, although there was some deterioration in capital and earnings ratios. Nevertheless, capital and earnings remain adequate. Asset quality continues to strengthen, with both delinquency and net loan loss ratios at their lowest point in several years.

After climbing for several years, the net worth-to-asset ratio (NWR) fell for both the fiscal year 2001 and the June 2002 interim period. As can be seen in Chart #16, the gains in the NWR were fueled by a combination of strong earnings and moderate asset growth. However, over the last 18 months, earnings weakened and asset growth accelerated, resulting in the lower NWR. Credit unions nationwide have experienced the same NWR trend, albeit with a greater decline, leaving the NWR for Maine credit unions only nominally lower than the national average. As of June 2002, only one of Maine's 78 credit unions is less than "adequately capitalized" pursuant to the National Credit Union Administration's (NCUA) Prompt Corrective Action Regulation[7] (i.e., a NWR less than 6.0%). This credit union's NWR has fluctuated between 5.4% and 6.2% for the past five-and-a-half years, during which period of time it has been consistently profitable. There are three other credit unions that are "adequately capitalized" (i.e., a NWR between 6.0% and 7.0%) and the remaining 74 credit unions, or 95% of all credit unions, are "well capitalized" (i.e., a NWR in excess of 7.0%). The number of less than adequately capitalized and adequately capitalized credit unions has decreased since June 2001.

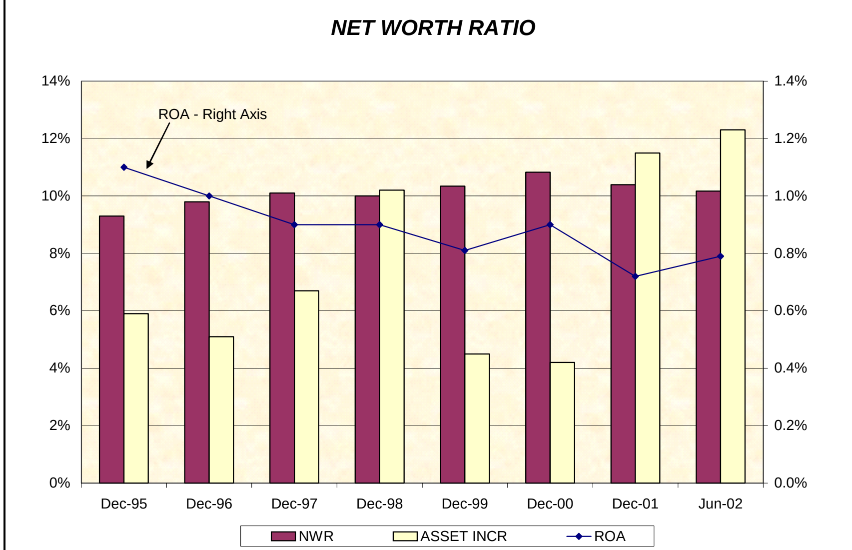

Chart #16

In fiscal year 2001, dollar net income for Maine credit unions fell 14%, surrendering all of the prior year's gain as increased operating expenses more than offset a nominal increase in net interest income and a substantial increase (20%) in noninterest income. However, the decline in ROA, the traditional means of measuring earnings performance for financial institutions, was due to a lower net interest income. (See Charts #16 and #17) Net interest income fell 24 basis points in 2001 to its lowest level since before 1995. Net interest income continued to decline during the first half of 2002, but was more than offset by lower operating expenses, resulting in a modest improvement in ROA for the period.

[7] 12 Code of Federal Regulations, Part 702.

Chart #17 shows the growth in noninterest income as a percentage of net revenue (net interest income plus noninterest income), climbing from 12% in 1996 to 17% as of June 2002. As seen in Chart #18, operating expenses have trended upward, rising from 75% of net revenue in 1995 to 81% in 2001, before falling to 79% as of June 2002.

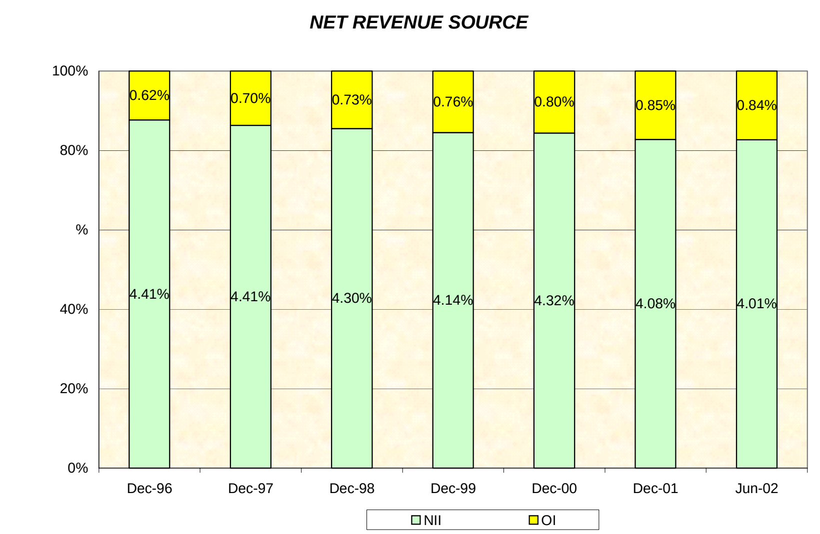

Chart #17

Despite the prolonged sluggishness of the economy, loan quality indicators improved in calendar year 2001 and through June 2002. Delinquent or past due loans (PD at .8%) and net loan losses (NLL at .3%) are both at their lowest level in at least seven years. The Net Loan Loss ratio continues to compare very favorably to the national average.

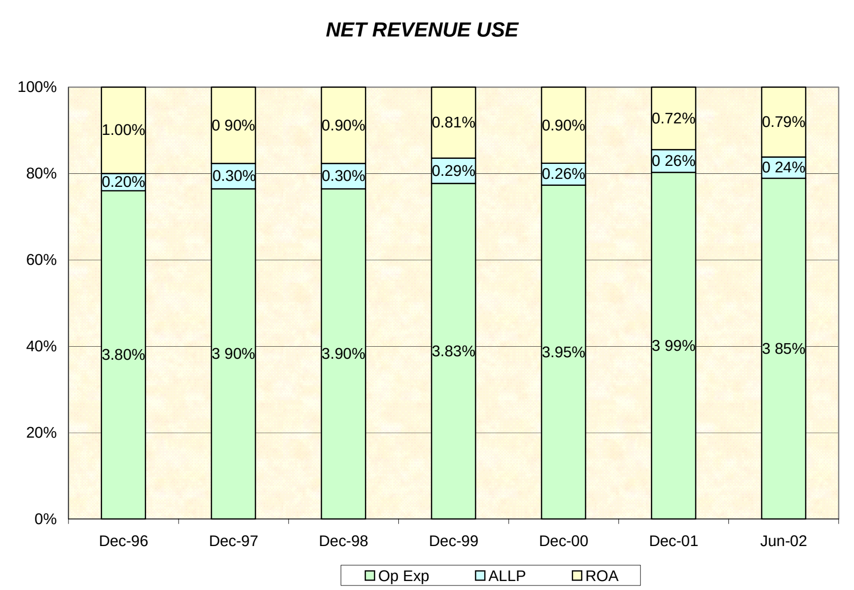

Chart #18

(See Chart #19) These positive trends in loan quality, however, are somewhat tempered by the lengthy downward trend in the allowance for loan losses (ALL), which has dropped from .85% of total loans as of December 1995 to .64% as of June 2002, well below the national average of .87%. The decreased ALL coverage is partially mitigated by the shift in loan mix from unsecured loans to residential mortgages, as seen in Chart #20.

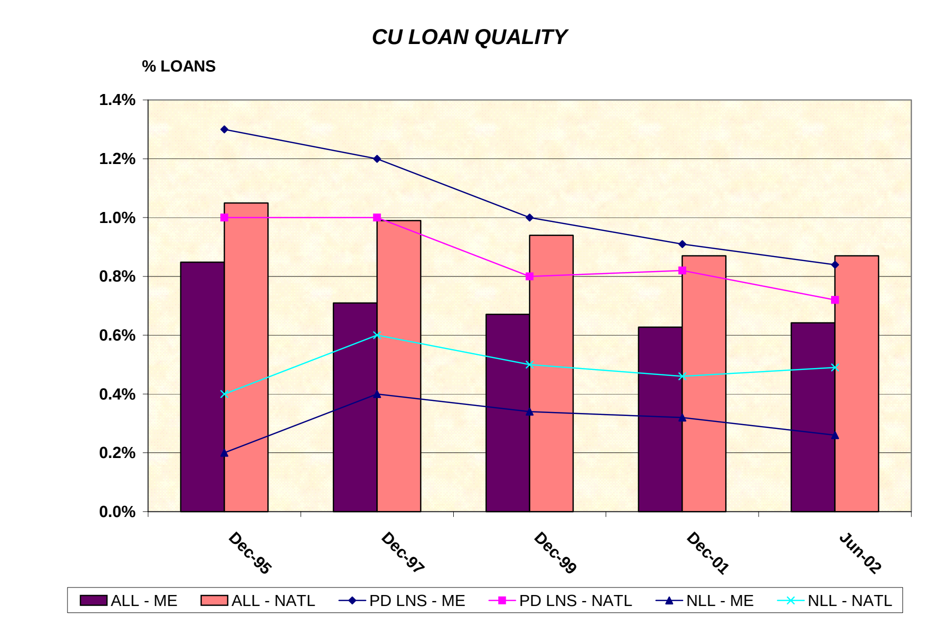

Chart #19

Over the past seven years, credit unions have represented two-thirds of the number of all financial institutions operating in Maine. Total credit union share of deposits (or shares) and loans has risen steadily, from 12.9% and 11.0%, respectively, as of December 1995 to 15.8% and 14.4% as of June 2002. This steady growth and consolidation within the industry, primarily among the smaller credit

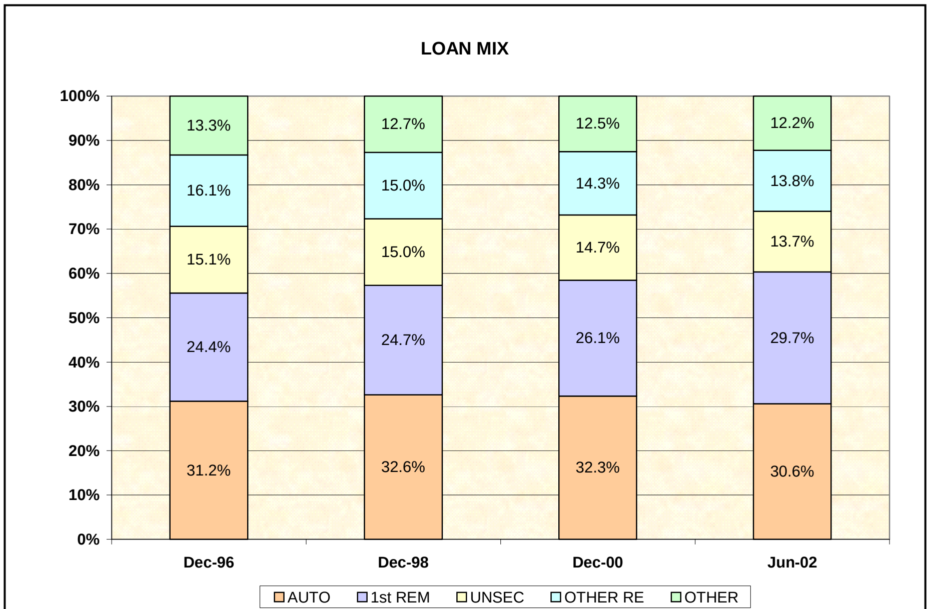

Chart #20

unions, have caused the average assets of a Maine credit union to nearly double, rising from $23 million as of June 1996 to $42 million as of June 2002. Total credit union membership during this period has increased from 545,000 to 601,000 as credit unions have expanded their fields of membership by converting to community-based charters, expanding their community base and adding select employee groups. Between December 1999 and December 2001, the number of community-based credit unions increased from 55% to 67% of all credit unions and their share of total credit union membership went from 54% to 72%.

While the growth in credit union assets is impressive, their share of Maine financial institution assets remains modest and the average asset size of a credit union pales compared to average size of Maine's 36 Banks of about $324 million. 73 of the 78 credit unions, or 94%, have total assets less than $100 million, and only 8 of the 36 Maine Banks, or 22%, have total assets less than $100 million.

<u>Commercial Lending Activities</u>

The Bureau continues to use two primary sources to monitor the commercial lending activities of financial institutions operating in Maine. First, the annual June Call Report filed by individual banks collects data on the number and outstanding dollar amount of small business loans by various size categories.[8] The second source is the Commercial Lending Report filed annually with the Bureau by each financial institution with more than $5 million in outstanding commercial loans. The Commercial Lending Report provides data, as of June 30, on outstanding loans by industry type and on the use of various government loan guarantee programs. In addition, the Bureau supplements the data obtained from these two reports with summary data prepared by the Federal Deposit Insurance Corporation (FDIC) on all FDIC-insured institutions headquartered in Maine.

Interstate branching, while benefiting both the industry and consumers, has limited the availability of state-specific data. Institutions report financial information on a consolidated basis, and not state-by-state. Consequently, for those institutions

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[8] For purposes of this Report, small business loans are defined as business purpose loans with an original amount of less than $1 million. This definition is consistent with the Call Report definition.

operating branches in more than one state, i.e., Banknorth, N.A., Fleet National Bank and KeyBank, N.A., the Call Report data reports loans, deposits, etc. for the entire bank, not just the Maine offices. As a result, neither the Call Report nor the Commercial Lending Report individually, nor the two combined, provide a complete picture of commercial lending in Maine. In addition, the Bureau does not collect information on commercial lending by non-banks and by banks that are not located in this State or loan sales, purchases and securitizations by all institutions. This further exacerbates the incompleteness of the information available for analysis. Additionally, micro-businesses rely very heavily on residential mortgage loans (first mortgages, second mortgages and home equity loans) and on credit card financing to support their business operations, and this debt is not included in business loans. Nevertheless, the reports do provide a proxy for trends in commercial lending by all financial institutions in Maine, and these trends are summarized below:

- Maine's Smaller Banks are providing an increasing share of commercial loans;[9]
- Commercial loans at Maine's Smaller Banks are growing at a faster rate than total loans;
- The loan mix, based on the Standard Industrial Classification System (SIC code), remains relatively stable;
- Approximately two-thirds of all commercial loans are secured by real estate;
- The preponderance of commercial loans, in terms of number of loans, made by Maine institutions are less than $100,000; and
- Both the number and dollar amount of guaranteed loans held by Maine's financial institutions are declining.

Based on the Commercial Lending Reports, share of commercial loans held by Maine's Smaller Banks has steadily increased, rising from 39% in June 1997 to 59% in June 2002. This trend is attributable to the strong commercial loan growth experienced by Maine's Smaller Banks and the recent decrease in outstanding Maine commercial loans by Interstate Banks that operate branches in Maine.[10] Between June 1997 and June 2002, Maine's Smaller Banks expanded their outstanding commercial loans at an

[9] Maine's Smaller Banks are defined as institutions headquartered in Maine and whose branches are located solely in Maine. The Interstate Banks are those banks either headquartered outside of Maine or operate a majority of offices outside of Maine.
[10] A significant portion of the decrease is due to a change in reporting commercial loans by one Interstate Bank. Prior to 2002, commercial loans to businesses located in another New England state were included as Maine loans by that bank (because Maine loan officers were responsible for the credits), thereby overstating Maine commercial loans.

average annual compound growth rate of 14% compared to 9% for non-commercial loans and 10% for total loans during the same time period. As a result, commercial loans rose from 29% of total loans to 34%. As of June 2002, commercial loans averaged 33% of total loans for all FDIC-insured institutions nationwide, and the national growth trend in commercial loans compared to total loans was similar to that experienced by the Maine's Smaller Banks.

The Commercial Lending Reports also indicate that the loan mix, which is based on the borrower's primary business, has remained relatively stable with the changes generally consistent with developments in the Maine economy. As Maine's economy has become more service-oriented and less dependent on manufacturing, loans to the service sector have grown the most. See Chart #21. There is minimal variance in the SIC distribution mix between Maine's Smaller Banks and the Interstate Banks.

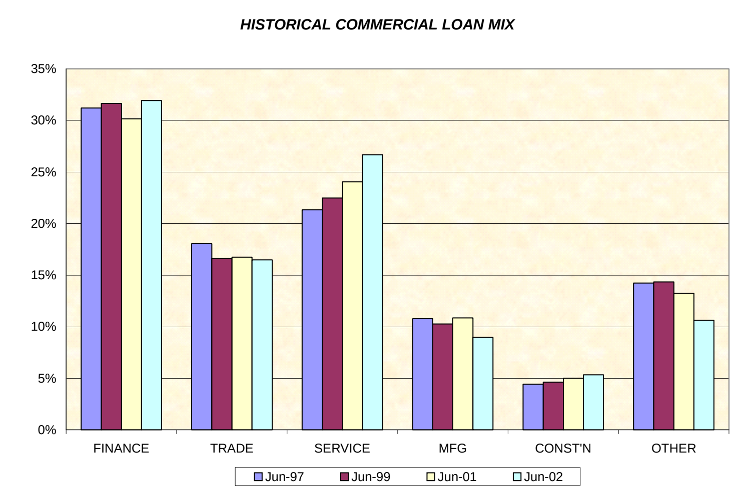

Chart #21

The Call Report segregates commercial loans secured by real estate from other commercial loans.[11] For Maine's Smaller Banks, commercial real estate loans have ranged from 66% of total commercial loans to 69% over the last six years. For all FDIC-insured institutions nationwide, commercial real estate loans average just over 50% of all commercial loans, suggesting that Maine's Smaller Banks rely more heavily on real estate as collateral for business loans than do banks throughout the remainder of the country.

The following table compares the distribution of commercial loans and small business loans, based on data collected from the Call Report. During this period, the

[11] For Call Report purposes, a loan is reported as secured by real estate if the loan would not have been made under the same terms without the lien on real property. The stated purpose of the loan is irrelevant.

average commercial loan increased from $70,000 to $99,000 and the average small business loan increased from $60,000 to $74,000.

Percentage of Commercial Loans

	June 1997		June 2002	
	Number	Dollar	Number	Dollar
Total Small Business Loans	99%	84%	98%	73%
Commercial Loans > $1MM	1%	16%	2%	27%
Small Business Loans < $100M	82%	34%	74%	21%

The number and dollar amount of government guaranteed loans held by institutions filing the Commercial Lending Report peaked in June 1999 and has declined over the past three years. The dollar decline has been centered in U.S. Small Business Administration loans (SBA), which have dropped from 82% of guaranteed loans as of June 1999 to 67% as of June 2002. Finance Authority of Maine-(FAME) guaranteed loans increased from 10% to 19% of total guaranteed loans, despite a nominal dollar decrease from June 2001 to June 2002. Both the SBA and FAME experienced a moderate drop in the number of loans, with SBA loans accounting for 82% of the number of loans and FAME's was 14%. During this period, the average SBA loan fell from $152,000 to $108,000 whereas the average FAME loan increased from $76,000 to $178,000.

Interstate Banking/Deposit Production Offices

Interstate banking and branching has been permitted in Maine since 1996. Enacting legislation in 1996 also prohibited the operation of deposit production offices to address the potential for siphoning Maine deposits to support a financial institution's activities in other states and to ensure that funds remained available for local lending. [12] A deposit production office is an office that generates deposits but does not reasonably meet the credit needs of the community the office serves. Bureau of Financial

[12] For purposes of this section, the term "financial institution" includes banks and credit unions, state or federally chartered. The term "deposit" also means shares in a credit union.

Institution's Regulation #36 establishes guidelines with which to determine compliance with this law. An institution must pass one of two tests:

1. The institution must have a ratio of Maine loans to Maine deposits of at least 50%; or
2. The institution must receive an "Outstanding" rating under the federal Community Reinvestment Act (CRA) from its primary federal regulator.

Each financial institution authorized to do business in Maine is annually required to complete a Branch Loan and Deposit/Share Survey. This Survey provides information on loans and deposits that is used to calculate the Maine loan to Maine deposit ratio. CRA is a federal law which applies to all banks. This law is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Credit unions are not subject to CRA requirements.

Based on the surveys and other available data, there were only two institutions that did not satisfy either of the two tests specified in Regulation #36 for the current reporting year. Both institutions, however, had a Maine loan-to-Maine deposit in excess of 45% as of June 2002. The Bureau is in the process of obtaining additional information from these institutions and has not, at this time, made a determination as to whether either institution is operating a deposit production office.

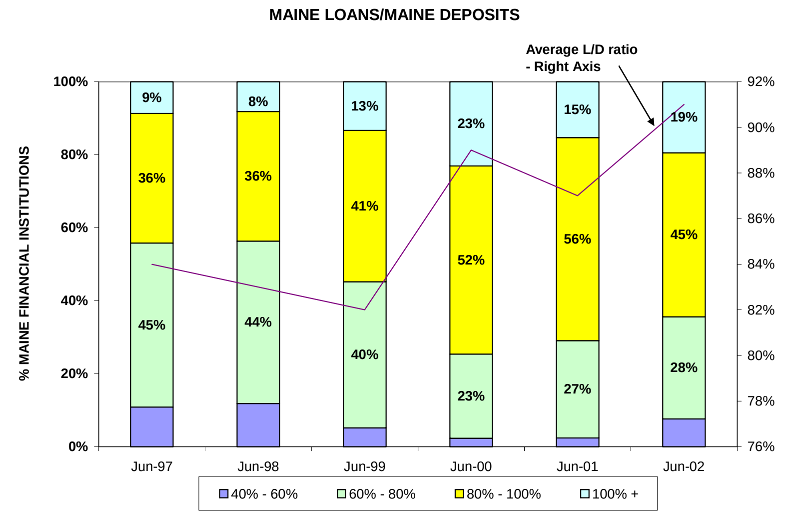

Chart #22

Chart #22 shows that the number of institutions at both the high and low end of loan-to-deposit ratio has increased. A combination of factors contributes to this shift. These factors include: stock market volatility that has led to a boom in deposit growth; record low interest rates that have resulted in strong residential mortgage growth; and the weak economy that has dampened loan demand and caused many institutions to tighten their underwriting standards. While nearly all institutions experienced strong deposit growth, loan growth was much more varied. Overall, the average Maine loan to Maine deposit ratio rose to 91%, well above the national loan-to-deposit average of approximately 76% for all FDIC-insured institutions and 71% for all NCUA-insured credit unions.

All Maine financial institutions continue to receive "Outstanding" or "Satisfactory" CRA ratings, as shown in Chart #23, with nearly 50% of Maine deposits held in institutions with the highest CRA ratings. Nationally, the trend is overwhelmingly towards a "Satisfactory" CRA rating. Through the first eleven months of 2002, the federal regulators released the rating results of nearly 1,300 CRA examinations: 7% were rated "Outstanding," 92% were rated "Satisfactory," and 1% were less than "Satisfactory." These results included six Maine institutions, two of which were rated "Outstanding" and four were rated "Satisfactory."

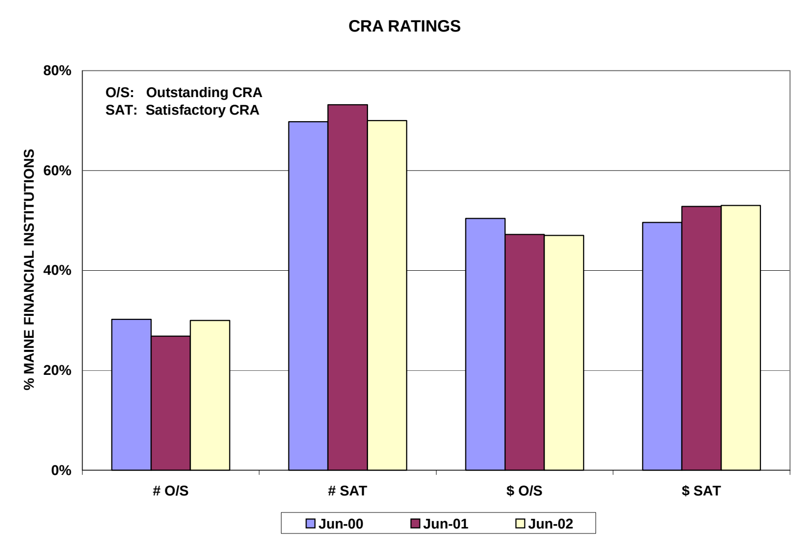

Chart #23

SECTION III

BUREAU OVERSIGHT ACTIVITIES

Application Activity

One of the tools provided to the Bureau for use in regulating the financial institutions in Maine is its authority to approve or deny applications relating to corporate activities and the corporate structure of Maine-chartered financial institutions and financial institution holding companies. Organizational changes that require Bureau approval or notification include new charters, conversions from federal to state charter, mergers and acquisitions, expansion of activities closely-related to banking, and branch establishments, relocations and closings. In recent years, the Maine Banking Code has been amended to generally limit the type of transactions that require a formal application and approval by the Bureau to matters that raise significant policy, legal or supervisory issues. The notification process is increasingly utilized for routine branching activities (i.e., establishment or relocation) and expansion of low-risk activities that have been previously approved. This streamlined process has reduced regulatory burden without compromising the Bureau's supervisory authority.

The following table shows the number of applications or notifications received by the Bureau during the periods November 1, 2000 - October 31, 2001 and November 1, 2001 - October 31, 2002.

Application and Notification Summary

	11/00 – 10/01	11/01 – 10/02
Charters – depository institutions	0	1
Charters – nondepository institutions	2	2
Mergers, Acquisitions	6	1
New Activities	2	3
Branch Establishment	15	6
Branch Relocation	6	7
Branch Closing	3	1
Other	2	0

In 2002, the Bureau received its first application for a de novo full-service bank since 1992. The February 2002 acquisition of Ocean National Bank, Kennebunk, by the Vermont-based Chittenden Corporation prompted interest in forming a new local, independent bank. Economic and demographic data and a thorough, though basic, operating plan demonstrated the merits of the proposal and favorable prospects for the success of this new venture. In September 2002, the Bureau approved the application to establish Rivergreen Bank, located in Kennebunk, and the bank anticipates opening in the first quarter of 2003.

The number of applications and notifications has slowed over the past twelve months, which can be largely attributed to the ongoing uncertainty in the economy. However, the one area that has continued to generate strong interest is the nondepository trust company charter. A nondepository trust company is a special purpose institution whose powers are generally limited to trust or fiduciary business. It is prohibited from accepting deposits or making loans as a regular business.

Nondepository Trust Companies

Since January 1998, the Bureau has approved eight applications to establish independent nondepository trust companies. Five of the approved nondepository trust companies, including the last three, have had a very narrowly focused business plan, concentrating on either the retirement market and/or mutual fund processing. Four of these applicants were existing businesses that, due to the expanded powers of a Maine nondepository trust company, could become full-service operations within their respective niche. These narrowly focused nondepository trust companies typically do not exercise any discretionary authority over serviced accounts and rely on automated web-based proprietary software systems.

Between 1990 and 2001, the U.S. retirement market has grown from $4 trillion to $11 trillion, or at an average annual compound growth rate of 10%.[13] During the same period, mutual fund assets increased from $1 trillion to $7 trillion, or at an average

[13] The statistical data cited in this paragraph is from the Investment Company Institute (ICI), the national association of the American investment company industry.

annual compound growth rate of 19%. Over $2 trillion of the mutual fund assets are held in the retirement market. The mutual fund assets in the retirement market, which have increased from 5% of retirement assets in 1990 to the current 21%, are nearly equally split between Individual Retirement Accounts (IRAs) and Defined Contribution Pension Plans (DC Plans). IRAs and DC Plans are the fastest growing segments of the retirement market and, combined, account for 45% of retirement market assets, up from 35% in 1990.

This dramatic growth in the retirement market, particularly in the IRA and DC Plan segments, coupled with some dissatisfaction with existing service providers, has spurred interest in nondepository trust company charter. These new players are utilizing advanced technology to migrate from hitherto cumbersome operations processes to more efficiently performed back office operations for a limited market segment.

The Maine nondepository trust company charter appears to be favorably viewed by interested parties due primarily to the authorizing statute's flexibility in such key areas as corporate structure, location of business, initial capitalization, director residency requirements and limited scope of operations. Given market conditions and the Bureau's recent experience, the Bureau envisions that interest in the nondepository trust company charter will remain active. While these narrowly focused nondepository trust companies are not generally exposed to the risks typically associated with fiduciary services, they are not without risks. The Bureau very closely scrutinizes each operating plan to identify the potential risks and to develop an appropriate supervisory strategy for each of the nondepository trust companies.

Summary

The number of formal applications filed with the Bureau has dropped substantially over the past decade due largely to changes in statutorily-mandated filing requirements and the ongoing consolidation among Maine's financial institutions. However, at the same time, the activities in which financial institutions may engage have also expanded. Maine's financial institutions have been more reserved in their utilization of these broadened powers. At this time, however, firms or individuals have taken advantage of the business opportunities that have evolved with changes to the Maine Banking Code to form Maine-chartered special purpose banks. Going forward, the bulk of the Bureau's application work is expected to be in the special purpose bank chartering arena, supplemented by periodic requests related to expansion of activities by existing institutions and merger and acquisition transactions.

Consumer Outreach

The Bureau of Financial Institutions is a resource for Maine consumers who have questions or concerns regarding their relationships with state-chartered financial institutions (both banks and credit unions). In addition to the Consumer Outreach Specialist, the Bureau draws upon the expertise of the Principal Bank Examiners, the Deputy Superintendent and others for the more complex complaints. If a consumer has a complaint involving a federally chartered financial institution, the Bureau refers that consumer to the appropriate federal regulator for resolution.

During the fiscal year ending June 30, 2002, the Bureau responded to 1,115 consumer complaints and inquiries, or approximately 100 contacts per month. Of those contacts, 247 were complaints which required Bureau staff to mediate appropriate resolutions. The remaining were consumer questions for which Bureau staff could respond without contact with a financial institution or, if the inquiry involved a federal law governing a federally chartered institution, it was referred to the appropriate federal regulator. The following chart reports the consumer contacts by type of account:

Type of Account	Number of Contacts	% of Total
Credit Cards	409	36.7%
Checking Accounts	163	14.6%
Installment Loans	123	11.0%
Mortgage Loans	198	17.8%
Other[14]	222	19.9%
Total	1,115	100.0%

Credit card debt continues to be a major issue for consumers nationwide and, as can be seen from the chart on page 30, those types of calls represent the highest

[14] Included in "Other" but not limited to are: credit report issues, fees to cash checks, forgery, funds availability, identity theft and telemarketing.

concentration of Bureau interaction with Maine consumers. The Bureau receives complaints and inquiries from individuals who are typically over their credit limit or not aware of the fees charged by the credit card providers. Generally, the fees and rate changes associated with theses accounts are disclosed in the fine print and most consumers either do not read those disclosures or do not understand them. In many instances, Bureau mediation has resulted in the waiver of certain fees or the institution of some work-out program to enable consumers to repay the debt. Most complaints and inquiries relating to credit card issues involve out-of-state banks. With the implementation of the Maine Law which adopted the privacy provisions of the Gramm-Leach-Bliley Act, the Bureau has tracked complaints involving consumers' financial privacy rights. There were no complaints relating to privacy during the fiscal year ending June 30, 2002.

Over the past fiscal year the Bureau has effected restitution or cost savings for consumers in excess of $82,000. The Bureau has been successful in helping consumers recover funds from loan disclosure errors, interest calculation errors and excessive prepayment penalties. Consumers have received refunds for late and over-the-limit credit card fees. Other fees recovered include charges for overdraft fees, forged checks, and unauthorized electronic transactions.

The Bureau of Financial Institutions is committed to providing quality mediation and informational services to Maine citizens. Bureau staff work cooperatively with other agencies in the Department of Professional and Financial Regulation to deliver information to the public at seminars and trade shows throughout the state. Over the past year Bureau staff participated in conferences for retired Maine teachers and AARP seminars and meetings at senior citizens centers. In addition, the Bureau has published numerous consumer booklets that are available free of charge to Maine residents and can also be accessed electronically from the Bureau's web site. Further information on the Bureau's Consumer Outreach Program, including a mechanism for filing a complaint or inquiry via e-mail, may be acquired by visiting the Bureau's web site at http://www.MaineBankingReg.org.

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SECTION IV

CORPORATE GOVERNANCE

Many will remember the national crisis in the late 1980s that afflicted commercial banks, savings banks and savings and loan associations. The roots of that crisis were embodied in widespread mismanagement, extensive abuse by those with fiduciary responsibility, and boards of directors who seemingly forgot that one of the responsibilities of their position was to provide the necessary checks and balances on the unwarranted aspirations of senior managers. To be sure, the thrift industry (savings banks and savings and loan associations) had been given increased lending flexibility through the availability of new products. As interest rates soared, managers initiated very liberal lending policies and aggressively marketed new fee income-producing products. Speculation in raw land and unproven strategies for acquisition, development and construction lending all conspired to undermine the basic precepts of sound lending to business.

During this crisis, the casualties included thousands of insolvent banks and thrifts. In Maine, five (5) financial institutions were required to close their doors. The Federal Savings & Loan Insurance Fund, established to stem the tide of a somewhat similar financial crisis, could not adequately handle the volume of insolvencies it faced. In addition, several state and private bank insurance funds went bankrupt. Imprudent and often lawbreaking behavior on the part of the senior executives at these failed banks and thrifts fostered enormous losses within the industry.

In the minds of many, though, much of what happened to foment the depth and the degree of that crisis was an almost complete breakdown of corporate governance in these financial institutions. This thinking soon became the legislative basis for increasing the oversight of, and limits on, boards of directors. The Financial Institutions Reform, Recovery and Enforcement Act was passed in 1989 to address needed reforms. Underlying the basic philosophy of the Act was the belief in the need to rebuild, through law, the tattered foundation of corporate governance within this industry. Additionally, the Act attempted to reunite the raison d’etre of ethical corporate behavior with the general business practices of bank directors and senior bank executives. Clear legal standards of acceptable professional behavior were developed. New approaches to the examination process were implemented to assess whether the ethical and fiduciary responsibilities of board directors and senior management were being met.

The financial services industry is one of the most highly regulated sectors of the corporate world, and warrants that attention. Most financial institutions are federally insured, which means that they are supported by a federal safety net. In addition, these institutions play a very important role in their respective communities as well as the economy at large. The lessons learned in the Depression Era of the 1930's with respect to the importance of public confidence in the distribution system of financial services gave birth to a complex federal regulatory scheme that has spawned the growth of an increasingly pervasive set of rules and regulations. Corporate governance is one of the areas that is subject to general state corporate law as well as state and federal financial institution regulation and oversight. The following is a brief discussion of corporate governance legal and regulatory restrictions under which Maine financial institutions operate.

Maine Statutes and Regulations

Maine financial institutions are subject to general corporate law. During the Second Session of the 120th Legislature, Maine adopted the revised Model Business Corporation Act, or Title 13-C, which will replace Title 13-A effective July 1, 2003. Under the provisions of Title 13-C, the board of directors of a Maine financial institution (bank or credit union), is held to minimum corporate governance principles such as:

- ***Basic or general standards of conduct:*** *Each director shall act in good faith and in a manner the director reasonably believes to be in the best interest of the corporation. Each member of a board, when becoming informed in connection with his or her decision-making function or devoting attention to the oversight function, shall discharge his or her duties with the care that a person in a like position would reasonably believe appropriate under similar circumstances. (§831)*

- ***Director's liability for unlawful distributions:*** *A director who votes for, or assents to, a distribution to shareholders in excess of what may be authorized (pursuant to law and/or articles of incorporation) may be held personally liable to the corporation for the amount of distribution in excess of what is permitted. (§833)*

- ***Director's conflicting-interest transactions:*** *A director must disclose the existence and nature of his or her conflicting interest and all facts known to the director with respect to the subject matter of a transaction. The director's conflicting interest is broadly defined to include the interest of a director or related party in a transaction effected or proposed to be effected by the corporation, a subsidiary of the corporation, or any other entity in which the corporation has a controlling interest. (§871)*

- ***Standards of liability:*** *A director may be held liable for his or her actions if the challenged conduct consisted of, or was the result of, action not in good faith or a decision that the director(s) did not reasonably believe to be in the best interest of the corporation, or as to which the director was not informed sufficiently. A sustained failure of the director to devote attention to ongoing oversight of the business of the affairs of the corporation or the lack of objectivity due to the director's familial, financial or business relationship may also serve as grounds to hold a director liable for his or her actions. (§832)*

Under Title 9-B, the Maine Banking Code, the board of directors is charged with the overall responsibility to manage the financial institution in a safe and sound manner and in compliance with state and federal laws. Specifically, the board is responsible for the establishment and maintenance of policies for investment and lending programs, internal or external audits, and overall compliance with consumer protection laws. Under Title 9-B, the board, individually or collectively, may be held accountable for:

- *Failure to take action or remedy conditions disclosed in any report of an accountant or auditor or recommendations by the superintendent relative to the auditing report. (§453)*

- *Loans granted that are in violation of insider lending laws or the financial institution's legal lending limit. . (§465-A)*

- *Concealing or attempting to conceal any transaction of the financial institution from any person to whom it should be properly disclosed. . (§466)*

- *Making any false or misleading statement or entry or omit any statement or entry that should be made in any book, account, report or statement of the institution. (§466)*

- *Obstructing or endeavoring to obstruct a lawful examination or investigation of the institution by the Bureau of Financial Institutions. (§466)*

- *Authorizing, executing, ratifying or concealing an act or omission of the institution that has been declared as a criminal offense against the statutes* *pertaining to the supervision of financial institutions knowing that such act is unlawful. (§466)*

The foregoing description of Maine law represents only a portion of the statutory and regulatory initiatives that have placed certain requirements and their resulting penalties on the board of directors at financial institutions. In addition, there are diverse federal laws and rules that impact the management and operations of a financial institution.

Federal Statutes and Regulations

Corporate governance issues have been addressed in practically every major piece of financial services legislation that has been enacted in the federal Congress over the past 20 years. These federal laws and rules include provisions to stop insider abuse, increase the scrutiny of outside auditors, and curtail management and board activities which pose a risk to the deposit insurance funds and the industry as a whole. Actions initiated by federal regulators and case law have also greatly expanded the authority of federal regulators to combat financial fraud and pursue individual board members who have violated their fiduciary obligations.

In September 1999, the Basel Committee on Banking Supervision issued Basel Committee Publications No. 56, a paper providing guidance on corporate governance in banks. The purpose of the paper was to: a) strengthen one philosophical component of risk management, b) enhance multi-level disclosures from banks and, most importantly, c) identify some basic practices as critical elements of corporate governance. The soundness of these basic practices can be applied to all business organizations, and they are as follows:

1. Establish strategic objectives and a set of corporate values that are communicated throughout the organization.

2. Set and enforce clear lines of responsibility and accountability throughout the organization.

3. Ensure that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from senior management or outside concerns.

4. Ensure that there is appropriate oversight of all critical processes by senior management.

5. Effectively utilize the work conducted by internal and external auditors.

6. Ensure that compensation approaches are consistent with the bank's ethical values, objectives, strategy and internal controls environment.

7. Conduct corporate governance in a transparent manner.

In 2002, the crisis in corporate governance did not focus exclusively on one industry. The names of a few of these corporately irresponsible companies are Enron, World Com, Global Crossing, and Tyco. The downfall of these companies was brought about by a collection of corporately irresponsible acts including: insider abuse, individual greed and corporate mismanagement, deceit and fraud. Not markedly different from the late 1980s. Legislative action at the federal level has once again been required and, this time, that action took the form of the Sarbanes-Oxley Act of 2002[15] (Sarbanes-Oxley). That law, which has widespread application in the corporate world, applies to any public company, regardless of where the company is based. Financial institutions that are not public companies are generally not covered by the provisions of the Act. However such institutions may be subject to similar requirements under other laws or rules issued by federal financial institution regulators.

Sarbanes-Oxley requires that each public company have an Audit Committee composed entirely of independent directors. If the board does not establish a separate audit committee, then the full board may serve in that function as long as each director is independent. In order to be "independent" for these purposes, a director may not, for example, accept any consulting, advisory, or other compensatory fees other than those fees received in his or her capacity as a director. Sarbanes-Oxley also imposes many specific responsibilities on the Audit Committee. For example, the Audit Committee:

1. is directly responsible for the appointment and compensation of the company's outside auditor;

[15] Public Law 107-204.

2. must oversee the auditor's work;

3. must establish procedures for receiving and addressing any complaints about the company's accounting, internal accounting controls, etc;

4. must have authority to retain and compensate independent counsel and other advisors necessary to carry out the duties of the Audit Committee.

Financial institutions are subject to similar requirements under other laws or rules administered by the Federal Reserve System and the Federal Deposit Insurance Corporation. For example, bank holding companies that have total assets in excess of $500 million must have an annual audit of their consolidated financial statements conducted by an independent public accountant. Under federal law, insured depository institutions with total assets of $500 million or more must have an annual audit conducted by an independent public accountant, and must have an audit committee composed entirely of directors that are independent of management.[16]

With the passage of Sarbanes-Oxley, the Federal Financial Institutions Examination Council (FFIEC) intends to issue rules and guidelines which revise existing safety and soundness standards as they relate to corporate governance. The FFIEC is a widely-recognized interagency body empowered to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The forthcoming guidelines will be most pointedly directed at financial institution boards of directors. They will: provide boards with all the required authority to hire independent counsel and other advisors; recommend a basic code of corporate governance ethics and conflict of interest policies; outline director requirements regarding skills, knowledge and experience; offer a listing of a board's most important duties and responsibilities; and define the specific meaning of board director independence. These rules are expected to be published for public comment in the first quarter of 2003.

In the wake of Sarbanes-Oxley, the Securities and Exchange Commission (SEC), The New York Stock Exchange (NYSE), and the Board of Governors of the

[16] 12 U.S.C. 1831m; 12 CFR part 363

Federal Reserve System (FRS) have also developed implementing rules that give further guidance to the affected industries. These rules have been published over the past three months, and both the speed in which these rules have been issued as well as the immense liability that inures to an organization or its directors for violation of these new standards, has created an enormous undertaking for regulated entities to effect compliance. For example, rules issued by the SEC and the NYSE specifically address the composition of the board of directors. Under rules issued by the SEC, companies would be required to disclose the number and names of persons that the board of directors has determined to be "financial experts" serving on a company's Audit Committee, whether they are independent of management and, if not, why not. While Sarbanes-Oxley does not explicitly state who at the company should determine whether any of the audit committee members is a financial expert, proposed rules place that responsibility on the board of directors as the appropriate management body to make that assessment. Proposed SEC rules also require that a company disclose whether or not it has adopted a code of ethics for its senior financial officers. Imbedded in this proposal is the request for comment as to whether final rules should require disclosure of a code of ethics that applies to the board of directors.

Under separate rules issued by the NYSE, a listed company would be required to have a majority of independent directors on the board. To qualify as "independent", a director must have no material relationship with the listed company either directly or as a partner, shareholder or officer of an organization that has a relationship with the company. All companies are required to achieve majority-independence within 24 months of the date that the SEC adopts the standard. Excluded from this requirement is any company of which more than 50% of the voting power is held by an individual, a group or another company.

The foregoing is but a brief outline of the myriad of corporate governance measures that have emerged from the recently enacted Sarbanes-Oxley Act of 2002. Several large corporate organizations have already begun to reengineer their management structures to meet both the spirit and the letter of the law. In October, 2002, National City Corporation, one of the nation's largest financial holding companies, headquartered in Cleveland, Ohio, announced a number of changes to enhance its corporate governance. Those actions included:

- Adoption of new guidelines which cover executive sessions of the board of directors, director qualifications, director responsibility, independence, continuing education, and director performance evaluation;

- Adoption of a new code of ethics for directors, officers and employees;

- Adoption of a new code of ethics for senior financial officers; and

- Creation of a corporate risk management function to manage all aspects of risk in a comprehensive and coordinated manner.

News stories indicate that other large banks, such as PNC Financial Services Group, Inc., FleetBoston Financial Corp., Citigroup Inc. and J.P.Morgan Chase & Co. have made similar moves over the last several months.

Despite the passage of the Sarbanes-Oxley Act and the introduction of relevant implementing rules and regulations, many academicians and organizational activists continue to request a general reengineering of corporate governance as it relates to the roles and responsibilities of boards of directors. They contend that there is a pressing need to reassert the authorities of boards of directors and insist that company supervision by an external government agency is not a substitute for sound corporate governance practices. Some are seeking ways in which the corporate governance duties and responsibilities of boards of directors in banks and credit unions might be further enhanced.

Without any future changes, current director duties and responsibilities are quite challenging and critical to the continuing health of financial organizations. Effective corporate governance is a basic element of a strong risk management process. Improving corporate governance is an important way to promote institutional safety and soundness. The effectiveness of an institution's internal governance arrangements has a substantial impact on its ability to identify, monitor and manage its risks. Poor risk management is substantially the failure of internal governance. Directors must play a leadership role in approving the objectives, strategies and business plans of the institution, monitoring the performance of senior management, and ensuring that internal controls and risk management systems are, and remain, effective. One ongoing high priority for directors must be the continuous oversight of risk, exercising best practices in deciding what sort of oversight is the most appropriate and developing and maintaining a proven approach for assessing the quality of that oversight.

Directors can not be expected to understand the intricacies of every financial transaction or to oversee each deposit, loan or investment transaction. Directors are, however, required to ascertain whether a particular business strategy or objective will seriously reduce the institution's capital position, harm its ability to meet ongoing financial obligations or substantially increase risk. A board of directors is responsible for assuring that the organization has an effective audit process and internal controls adequate for the nature and scope of the business. As importantly, a board must ensure that the affairs of the institution are conducted with integrity and in accordance with high ethical standards. Directors are part of the system of checks and balances that guarantees management does not abuse its power and that decisions on strategic direction are made in the institution's best interests. Finally, directors must constantly reassess how they, individually and collectively, apply their own values to issues of business ethics.

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APPENDIX

SUMMARY OF MAINE FINANCIAL INSTITUTIONS
June 30, 2002

		ASSETS		DEPOSITS/SHARES		LOANS	
	No.	Dollars (000's)	% of Total	Dollars (000's)	% of Total	Dollars (000's)	% of Total
Trust Companies	9	2,078,769	13.90	1,547,458	8.64	1,377,629	8.62
Limited Purpose Banks	7	26,686	0.18	0	0.00	404	0.00
National Banks*	7	1,442,222	9.64	7,440,908	41.60	6,508,230	29.94
State Savings Banks	15	6,734,208	45.03	5,010,519	27.97	4,859,363	30.40
Federal Savings Banks	2	1,014,826	6.79	739,898	4.13	859,251	5.38
State Savings and Loans	3	140,244	0.94	103,550	0.58	107,427	0.67
Federal Savings and Loans	4	257,846	1.72	206,822	1.16	211,442	1.32
State Credit Unions	15	823,799	5.51	711,205	3.97	568,652	3.56
Federal Credit Unions	63	2,437,559	16.29	2,127,767	11.88	1,735,908	10.86
TOTAL	125	14,956,159	100.00	17,888,127	100.00	16,228,306	100.00
Commercial Banks*	16	3,520,991	23.54	8,988,366	50.25	7,885,859	48.59
Limited Purpose Banks	7	26,686	0.18	0	0.00	404	0.00
Savings Banks	17	7,749,034	51.81	5,750,417	32.10	5,718,614	35.77
Savings and Loans	7	398,090	2.66	310,372	1.74	318,869	1.99
Credit Unions	78	3,261,358	21.80	2,838,972	15.85	2,304,560	14.43
TOTAL	125	14,956,159	100.00	17,888,127	100.00	16,228,306	100.00
State-Chartered	49	9,803,706	65.55	7,372,732	41.16	6,913,475	43.25
Federally Chartered*	76	5,152,453	34.45	10,515,395	58.78	9,314,831	57.40
TOTAL	125	14,956,159	100.00	17,888,127	100.00	16,228,306	100.00
In-State Ownership	121	14,729,235	98.48	14,105,972	78.86	13,404,729	82.60
Out-of-State Ownership*	4	226,924	1.52	3,782,155	21.12	2,823,577	17.40
TOTAL	125	14,956,159	100.00	17,888,127	100.00	16,228,306	100.00

**Note: Maine deposits and loans for the following banks operating in a multi-state environment are included in this exhibit; however, Maine assets are not available:*
Fleet National Bank
Key Bank, N.A.
Ocean National Bank
Peoples Heritage Bank, a division of Banknorth, N.A.

ASSET/DEPOSIT & SHARE/LOAN DISTRIBUTION BY FACILITY TYPE
(000'S omitted)

	06/30 1998	06/30 1999	06/30 2000	06/30 2001	06/30 2002
Commercial Banks					
Trust Companies					
Banks	12	11	10	9	9
Branches	142	118	113	73	74
Assets	3,603,763	3,698,774	3,472,002	1,876,969	2,078,769
Deposits	2,660,195	2,958,142	2,488,507	1,424,564	1,547,458
Loans	2,616,375	2,742,374	2,555,152	1,259,999	1,377,629
National Banks					
Banks	5	5	6	7	7
Branches	103	102	169	222	198
Assets	1,075,190	1,250,250	5,736,194	5,934,364	1,442,222
Deposits	2,915,928	2,920,566	6,035,433	7,494,223	7,440,908
Loans	2,449,376	2,374,326	5,069,224	6,203,371	6,508,230
Limited Purpose Banks					
Merchant Banks					
Banks	1	1	1	1	1
Branches	0	0	0	0	0
Assets	20,015	19,595	16,782	16,852	16,789
Deposits	0	0	0	0	0
Loans	836	909	120	118	404
Uninsured Banks					
Banks		1	0	0	0
Branches		0	0	0	0
Assets		3,566	0	0	0
Deposits		772	0	0	0
Loans		3,200	0	0	0
Nondepository Trust Companies					
Banks		3	4	5	6
Branches		0	0	0	0
Assets		8,432	13,624	10,201	9,897
Deposits		N/A	N/A	N/A	N/A
Loans		N/A	N/A	N/A	N/A
Savings Banks and Savings and Loan Associations					
Savings Banks					
Banks	17	17	16	16	15
Branches	189	198	139	145	149
Assets	8,617,818	9,547,397	5,824,585	6,299,301	6,734,208
Deposits	6,501,801	6,909,744	4,269,611	4,690,828	5,010,519
Loans	6,277,715	6,334,103	4,344,859	4,610,666	4,859,363
Federal Savings Banks					
Banks	4	4	4	2	2
Branches	29	31	31	28	29
Assets	849,901	911,238	1,042,663	957,437	1,014,826
Deposits	611,442	661,957	750,020	704,563	739,898
Loans	688,982	725,566	836,880	813,946	859,251

ASSET/DEPOSIT & SHARE/LOAN DISTRIBUTION BY FACILITY TYPE
(000'S omitted)

	06/30 1998	06/30 1999	06/30 2000	06/30 2001	06/30 2002
State Savings & Loan Associations					
Associations	3	3	3	3	3
Branches	0	0	0	0	0
Assets	112,256	117,683	122,368	132,484	140,244
Deposits	91,170	95,868	94,665	100,834	103,550
Loans	86,223	87,827	98,966	104,868	107,427
Federal Savings & Loan Associations					
Associations	4	4	4	4	4
Branches	4	4	4	4	4
Assets	206,475	217,030	227,889	248,855	257,846
Deposits	173,385	178,385	179,365	200,502	206,822
Loans	163,134	163,681	184,841	201,494	211,442
Credit Unions					
State Credit Unions	12	13	13	14	15
Branches	11	14	12	19	17
Assets	478,256	567,975	585,849	726,888	823,799
Shares	421,299	501,390	502,274	628,463	711,205
Loans	317,496	391,525	431,371	519,972	568,652
Federal Credit Unions	77	75	72	67	63
Branches	49	44	48	49	53
Assets	1,941,498	2,064,617	2,116,854	2,230,863	2,437,559
Shares	1,721,661	1,816,004	1,841,490	1,948,491	2,127,767
Loans	1,408,596	1,467,194	1,564,601	1,624,946	1,735,908
State Totals					
Financial Institutions	135	137	133	128	125
Branches	527	511	516	540	524
Assets	16,905,172	18,406,557	19,158,810	18,434,214	14,956,159
Shares & Deposits	15,096,881	16,042,828	16,161,365	17,192,468	17,888,127
Loans	14,008,733	14,290,705	15,086,014	15,339,380	16,228,306

Note: Maine deposits and loans for the following banks operating in a multi-state environment are included in this exhibit; however, Maine assets are not available.

Name of financial institution:	Main office location:
Fleet National Bank	Providence, Rhode Island
KeyBank, National Association	Cleveland, Ohio
Ocean National Bank	Portland, Maine
Peoples Heritage Bank, a division of Banknorth, N.A.	Portland, Maine

Source of data: Calls Reports and Branch Deposit and Loan Survey.

MAINE
STATE CHARTERED
TRUST COMPANIES

	Assets	June 30, 2002 Dollars (000's) Deposits	Loans
Dean Read, President **BAR HARBOR BANKING AND TRUST COMPANY** 82 Main Street Bar Harbor, Maine 04609	507,950	292,317	325,831
James P. Violette, Jr., President **BORDER TRUST COMPANY** 280 State Street Augusta, Maine 04330	78,955	71,923	44,543
Thomas J. Finn, Jr., President **DAMARISCOTTA BANK & TRUST** Main Street Damariscotta, Maine 04543	109,909	97,398	85,219
David I. Dorsey, President **FIRST CITIZENS BANK & TRUST** PO Box 231 Presque Isle, Maine 04769	132,339	118,184	97,769
Jon J. Prescott, President **KATAHDIN TRUST COMPANY** Main Street Patten, Maine 04765	270,639	208,159	169,652
Samuel Ladd, III, President **MAINE BANK & TRUST COMPANY** PO Box 619 Portland, Maine 04104	266,924	220,497	182,778
Edwin Clift, President **MERRILL MERCHANTS BANK** 201 Main Street, PO Box 925 Bangor, Maine 04402-0925	282,913	228,973	203,711
George Giovannis, President **PEPPERELL TRUST COMPANY** 163 Main Street Biddeford, Maine 04005	67,187	55,207	43,850

MAINE
STATE CHARTERED
TRUST COMPANIES

	June 30, 2002 (dollars 000's)		
	Assets	**Deposits**	**Loans**
Peter Blyberg, President **UNION TRUST COMPANY** 66 Main Street, PO Box 479 Ellsworth, Maine 04605	361,953	254,800	224,276
TOTAL: 9	**2,078,769**	**1,547,458**	**1,377,629**

MAINE
STATE CHARTERED
LIMITED PURPOSE BANKS

	June 30, 2002 (dollars 000's)		
	Assets	**Deposits**	**Loans**
Joseph Pratt, President **BAR HARBOR TRUST SERVICES** P.O. Box 1100 Ellsworth, Maine 04605	2,249	N/A	N/A
John Keffer, President **FORUM TRUST, LLC** Two Portland Square Portland, Maine 04101	1,826	N/A	N/A
John H. Walker, President **H. M. PAYSON AND COMPANY** P.O. Box 31 Portland, Maine 04112	3,091	N/A	N/A
Joseph M. Yohlin, President **MAINE MERCHANT BANK** Two Monument Square Portland, Maine 04101	16,789	0	404
William E. Floria, Sr., President **QUADS TRUST COMPANY*** 12 W. Church Street Frederick, Maryland 21701	N/A	N/A	N/A
Karen Lowell, CEO **RAM TRUST COMPANY** 45 Exchange Street Portland, Maine 04101	151	N/A	N/A
Christopher Tyborowski, President **RSGROUP TRUST COMPANY** 295 Forest Avenue, No. 610 P.O. Box 9715 Portland, Maine 04104-5015	2,361	N/A	N/A
Richard E. Curran, Jr., President **SPINNAKER TRUST** 5 Milk Street Portland, Maine 04112-7160	219	N/A	N/A
TOTAL: 7	**26,686**	**0**	**404**

***Established August, 2002**

MAINE
STATE CHARTERED
SAVINGS BANKS

		June 30, 2002 (dollars 000's)	
	Assets	**Deposits**	**Loans**
Steven A. Closson, President **ANDROSCOGGIN SAVINGS BANK** PO Box 1407 30 Lisbon Street Lewiston, Maine 04240	456,793	318,179	284,274
P. James Dowe, Jr., President **BANGOR SAVINGS BANK** 3 State Street, PO Box 930 Bangor, Maine 04401	1,376,159	1,044,200	1,137,034
Glen Hutchinson, President **BATH SAVINGS INSTITUTION** 105 Front Street, PO Box 548 Bath, Maine 04530	292,644	225,059	210,702
Wayne Sherman, President **BIDDEFORD SAVINGS BANK** 254 Main Street Biddeford, Maine 04005	213,045	159,288	119,716
Gary M. Downs, President **FRANKLIN SAVINGS BANK** 81 Main Street, PO Box 825 Farmington, Maine 04938	280,078	219,460	211,162
Charles M. Yandell, President **GORHAM SAVINGS BANK** 64 Main Street, PO Box 38 Gorham, Maine 04038	490,207	314,196	348,696
Mark L. Johnston, President **KENNEBEC SAVINGS BANK** 150 State Street, PO Box 50 Augusta, Maine 04330	424,826	307,912	332,888
Joel Stevens, President **KENNEBUNK SAVINGS BANK** 104 Main Street Kennebunk, Maine 04043	457,094	404,867	344,638

MAINE
STATE CHARTERED
SAVINGS BANKS

June 30, 2002
(dollars 000's)

	Assets	Deposits	Loans
Edward L. Hennessey, Jr., President **MACHIAS SAVINGS BANK** Center Street, PO Box 318 Machias, Maine 04947	360,862	261,734	301,339
Sherwood Moody, President **MECHANICS' SAVINGS BANK** 100 Minot Avenue Auburn, Maine 04210	179,636	152,245	144,451
Robert Harmon, President **NORWAY SAVINGS BANK** 132 Main Street Norway, Maine 04268	620,663	490,940	404,416
Kevin P. Savage, President **SACO AND BIDDEFORD SAVINGS INSTITUTION** 252 Main Street Saco, Maine 04072	478,256	345,275	294,844
Rodney Normand, President **SANFORD INSTITUTION FOR SAVINGS** 184 Main Street Sanford, Maine 04073	313,532	197,989	206,249
William Randall, President **SKOWHEGAN SAVINGS BANK** 7 Elm Street, PO Box 250 Skowhegan, Maine 04976	422,948	312,254	270,460
John C. Witherspoon, President **UNITEDKINGFIELD BANK** 145 Exchange Street Bangor, Maine 04401	367,465	256,921	248,494
TOTAL: 15	**6,734,208**	**5,010,519**	**4,859,363**

MAINE
STATE CHARTERED
SAVINGS AND LOAN ASSOCIATIONS
June 30, 2002
(dollars 000's)

	Assets	Deposits	Loans
Allen Sterling, President **AUBURN SAVINGS AND LOAN ASSOCIATION** 256 Court Street, PO Box 3157 Auburn, Maine 04210	56,106	34,957	38,312
William Weir, President **BAR HARBOR SAVINGS AND LOAN ASSOCIATION** Main Street Bar Harbor, Maine 04609	18,031	14,143	13,768
Harry Mank, Jr. President **ROCKLAND SAVINGS AND LOAN ASSOCIATION** PO Box 585 Rockland, Maine 04841	66,107	54,450	55,347
TOTAL: 3	**140,244**	**103,550**	**107,427**

MAINE
STATE CHARTERED
CREDIT UNIONS

	Assets	Shares	Loans
		June 30, 2002 (dollars 000's)	
Susan Cross, CEO **BANSCO CREDIT UNION** 868 Hammond Street Bangor, Maine 04401-4328	11,306	10,698	7,986
Paul J. Gurney, CEO **CHESTNUT CREDIT UNION** PO Box 604 Augusta, Maine 04332	6,930	6,468	5,880
Matthew P. Griffiths, CEO **COAST LINE CREDIT UNION** 38 Rigby Road West Portland, Maine 04104	21,752	18,245	18,031
Donna R. Steckino, CEO **COMMUNITY CREDIT UNION** 144 Pine Street Lewiston, Maine 04240	34,652	31,949	26,811
H. Tucker Cole, CEO **EVERGREEN CREDIT UNION** 35 Cumberland Street Westbrook, ME 04092	78,763	72,512	58,289
Richard B. Dupuis, CEO **FIVE COUNTY CREDIT UNION** 765 Washington Street, PO Box 598 Bath, Maine 04530	70,823	64,859	49,204
John O. Greenlaw, CEO **GOVERNMENT EMPLOYEES CREDIT UNION** 555 Forest Avenue Portland, Maine 04101	88,504	79,220	76,678
Mariann Goff, CEO **GREATER PORTLAND MUNICIPAL CREDIT UNION** 799 Broadway South Portland, Maine 04106	62,370	56,848	43,913

MAINE
STATE CHARTERED
CREDIT UNIONS

	June 30, 2002 (dollars 000's)		
	Assets	**Shares**	**Loans**
Richard P. LaChance, CEO **MAINE EDUCATION CREDIT UNION** 36 Community Drive, PO Box 1096 Augusta, Maine 04330	12,428	10,714	8,398
Normand R. Dubreuil, CEO **MAINE STATE EMPLOYEES CREDIT UNION** PO Box 5659 Augusta, Maine 04332-5659	171,403	145,293	85,300
Charles E. Hinkley, CEO **SABATTUS REGIONAL CREDIT UNION** 2 Middle Road Sabattus, Maine 04280	20,925	19,320	14,163
Carrie A. Shaw, CEO **SACO VALLEY CREDIT UNION** PO Box 740 Saco, Maine 04072	46,426	42,412	28,365
Luke Labbe, CEO **ST. JOSEPH'S CREDIT UNION** 35 Bradbury Street Biddeford, Maine 04005	82,612	73,264	63,240
Howard Dunn, CEO **UNIVERSITY CREDIT UNION** Rangeley Road University of Maine Orono, Maine 04473	107,566	72,868	77,806
Susan C. Mottice, CEO **UNUMPROVIDENT CORPORATION CREDIT UNION** 2211 Congress Street Portland, Maine 04102	7,339	6,535	4,588
TOTAL: 15	**823,799**	**711,205**	**568,652**

MAINE
FEDERAL CHARTERED
NATIONAL BANKS

	Assets	June 30, 2002 (dollars 000's) Deposits	Loans
Robert Daigle, President & CEO **CAMDEN NATIONAL BANK** 2 Elm Street, PO Box 310 Camden, Maine 04843	771,622	556,776	505,980
Tony C. McKim, President **THE FIRST NATIONAL BANK OF BAR HARBOR** 102 Main Street, PO Box A Bar Harbor, Maine 04609	193,967	151,559	149,761
Daniel R. Daigneault, President **THE FIRST NATIONAL BANK OF DAMARISCOTTA** Main Street, PO Box 940 Damariscotta, Maine 04543	476,633	309,104	326,783
Bradford Hunter, CEO **FLEET NATIONAL BANK** One City Center Portland, Maine 04104	N/A	1,161,311	1,224,816
Katherine Underwood, District President **KEYBANK, NATIONAL ASSOCIATION** One Canal Plaza Portland, Maine 04112	N/A	2,160,186	1,280,122
Russell G. Cole, President **OCEAN NATIONAL BANK** 100 Main Street, PO Box 58 Kennebunk, Maine 04043	N/A	240,161	135,861
Michael McNamara, President **PEOPLES HERITAGE BANK, N.A.** One Portland Square, PO Box 9540 Portland, Maine 04112	N/A	2,861,811	2,884,907
TOTAL: 7	**1,442,222**	**7,440,908**	**6,508,230**

Note: Maine deposits and loans for the following banks operating in a multi-state environment are included in this exhibit; however, Maine assets are not available: Fleet National Bank; KeyBank, N.A.; Ocean National Bank; Peoples Heritage Bank, a division of Banknorth, N.A.

MAINE,
FEDERALLY CHARTERED
SAVINGS BANKS

	Assets	June 30, 20 (dollars 000's) Deposits	Loans
Arthur Markos, President **GARDINER SAVINGS INSTITUTION, FSB** 190 Water Street Gardiner, Maine 04345	573,604	434,838	484,016
James D. Delameter, President **NORTHEAST BANK, FSB** Main Street Bethel, Maine 04217	441,222	305,060	375,235
TOTAL: 2	**1,014,826**	**739,898**	**859,251**

MAINE
FEDERALLY CHARTERED
SAVINGS & LOAN ASSOCIATIONS

June 30, 2002
(dollars 000's)

	Assets	Deposits	Loans
John S. Swanberg **AROOSTOOK COUNTY FEDERAL SAVINGS AND LOAN ASSOCIATION** 43 High Street, PO Box 808 Caribou, Maine 04736	64,770	56,347	56,651
Dennis H. Brown, President **CALAIS FEDERAL SAVINGS AND LOAN ASSOCIATION** 136 Main Street Calais, Maine 04619	38,678	30,290	33,069
Daniel R. Donovan, President **FIRST FEDERAL SAVINGS AND LOAN ASSOCIATION OF BATH** 125 Front Street Bath, Maine 04530	104,205	88,865	85,155
Allen L. Rancourt, President **KENNEBEC FEDERAL SAVINGS AND LOAN ASSOCIATION** 70 Main Street Waterville, Maine 04901	50,193	31,320	36,567
TOTAL: 4	**257,846**	**206,822**	**211,442**

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	Assets	Shares	Loans
		June 30, 2002 (dollars 000's)	
Judith A. Griffin, CEO **ALLIANCE OF MAINE** 44 Edison Drive Augusta, Maine 04332-1086	32,608	27,011	15,012
Steve J. Obrin, CEO **ATLANTIC REGIONAL FEDERAL CU** 55 Cushing Street Brunswick, Maine 04011	149,160	124,788	113,851
Stephen K. Clark, CEO **BANGOR FEDERAL CU** 339 Hogan Road Bangor, Maine 04401	57,315	51,721	42,515
Darla R. King, CEO **BANGOR HYDRO FEDERAL CU** 193 Broad Street Bangor, Maine 04401	11,083	9,789	7,846
Cynthia Burke, CEO **BLUE CROSS AND BLUE SHIELD OF MAINE FEDERAL CU** 2 Gannett Drive South Portland, Maine 04106	6,375	5,545	3,088
Daniel A. Daggett, CEO **BOWDOINHAM FEDERAL CU** PO Box 73 Bowdoinham, Maine 04008	12,305	11,039	9,846
Barry A. Jordan, CEO **BREWER FEDERAL CU** 77 N. Main St. Brewer, Maine 04412	26,251	24,428	22,369
Beth R. Oliver, CEO **CAPITAL AREA FEDERAL CU** 10 North Belfast Augusta, Maine 04430	12,939	11,636	9,496

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	June 30, 2002 (dollars 000's)		
	Assets	**Shares**	**Loans**
Scott D. Harriman, CEO **CUMBERLAND COUNTY TEACHERS FEDERAL CU** 101 Gray Road Falmouth, Maine 04105	42,253	35,814	26,491
Rhonda M. Taylor, CEO **DEXTER REGIONAL FEDERAL CU** PO Box 233 Dexter, Maine 04930	44,709	40,963	23,562
Ralph E. Ferland, CEO **EASTERN MAINE MEDICAL CENTER FEDERAL CU** 489 State Street Bangor, Maine 04401	26,439	24,076	16,002
Daniel A. Byron, CEO **EASTMILL FEDERAL CU** 60 Main Street East Millinocket, Maine 04430	45,704	38,701	17,495
Bernadette N. Michaud, CEO **FORT KENT FEDERAL CU** 9 East Main Street Fort Kent, Maine 04743	31,311	26,436	21,893
Cass R. Hirschfelt, CEO **FRANKLIN SOMERSET FEDERAL CU** 485 Wilton Road Farmington, Maine 04938	33,102	30,164	20,861
Philip J. Bergeron, CEO **GARDINER FEDERAL CU** 8 Brunswick Road Gardiner, Maine 04345	11,876	10,842	9,344
David A. Sayers, CEO **GORHAM REGIONAL FEDERAL CU** 375 Main Street Gorham, Maine 04038	28,218	25,757	17,342

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	June 30, 2002 (dollars 000's)		
	Assets	**Shares**	**Loans**
Nancy Bard, CEO **GREAT FALLS REGIONAL FCU** 34 Bates Street Lewiston, Maine 04240	23,880	20,684	13,431
Barbara A. Haynes, CEO **GREATER WATERVILLE FEDERAL CU** 50 Elm Street Waterville, Maine 04901	22,544	19,115	9,167
Jeffrey M. Vachon, CEO **HANNAFORD ASSOCIATES FEDERAL CU** PO Box 1440 Portland, Maine 04104	21,031	19,365	13,847
Deborah A. Pomeroy, CEO **HEALTHFIRST FEDERAL CU** 9 Quarry Road Waterville, Maine 04901	10,748	9,518	9,772
Kathleen, Smith, CEO **HOULTON FEDERAL CU** 13 Market Square Houlton, Maine 04730	12,831	11,397	7,067
Gary J. Bragdon, CEO **HOWLAND ENFIELD FEDERAL CU** Box 405 Howland, Maine 04448	8,367	7,789	5,749
Kenneth Williams, CEO **INFINITY FEDERAL CU** 202 Larrabee Rd. Westbrook, Maine 04092	111,621	88,778	86,885
Beverly W. Beaucage, CEO **KV FEDERAL CREDIT UNION** 316 Northern Avenue Augusta, Maine 04330	41,665	38,159	31,185

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	June 30, 2002 (dollars 000's)		
	Assets	**Shares**	**Loans**
Donald P. Casko, CEO **KATAHDIN FEDERAL CU** 1000 Central Street Millinocket, Maine 04462	75,403	63,370	50,988
Alvera S. Bosica, CEO **KNOX COUNTY FEDERAL CU** PO Box 159 Rockland, Maine 04841	17,025	14,843	11,051
Anne L. Boulette **KSW FEDERAL CU** 222 College Avenue Waterville, Maine 04901	29,354	26,955	24,260
Eddie A. Plourde, CEO **LA VALLEE FEDERAL CU** 90 Main Street Madawaska, Maine 04756	28,457	24,688	15,830
Donald S. Sansouci, CEO **LEWISTON MUNICIPAL FEDERAL CU** 291 Pine Street Lewiston, Maine 04243	10,600	9,032	8,281
David L. Brillant, CEO **LINCOLN MAINE FEDERAL CU** Outer West Broadway Lincoln, Maine 04457	18,299	16,735	12,752
George Roy, CEO **LISBON COMMUNITY FEDERAL CU** 325 Lisbon Road Lisbon, Maine 04250	49,597	43,945	30,202
Ronald J. Fournier, CEO **MAINE FAMILY FEDERAL CU** 555 Sabattus Street Lewiston, Maine 04240	66,583	59,185	53,781

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	Assets	Shares	Loans
		June 30, 2002 (dollars 000's)	
Jennifer A. Hartel, CEO **MAINE MEDIA FEDERAL CU** 390 Congress Street Portland, Maine 04104	5,396	4,399	3,412
John C. Reed, CEO **MAINE SAVINGS FEDERAL CU** PO Box 347 Hampden, Maine 04444	132,422	117,875	104,366
Kenneth B. Acker, CEO **MEDICAL SERVICES FEDERAL CU** 272 Park Avenue Portland, Maine 04104	38,485	34,663	28,328
Gail E. Richardson, CEO **MIDCOAST FEDERAL CU** 831 Middle Street Bath, Maine 04530	71,347	63,836	57,318
Catherina A. Pinard, CEO **MONMOUTH FEDERAL CU** PO Box 150 Monmouth, Maine 04259	6,438	5,949	5,193
David E. Rossignol, CEO **NORSTATE FEDERAL CU** 78 Fox Street Madawaska, Maine 04756	79,978	66,829	61,913
Ryan G. Poulin, CEO **NOTRE DAME WATERVILLE FEDERAL CU** 61 Grove Street Waterville, Maine 04901	41,586	37,938	30,185
Joseph J. Chapin, CEO **OCEAN COMMUNITIES FEDERAL CU** 1 Pool Street Biddeford, Maine 04005	84,101	77,950	69,449

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

June 30, 2002
(dollars 000's)

	Assets	Shares	Loans
Roland L. Poirier, CEO **OTIS FEDERAL CU** PO Box 27 Jay, Maine 04329	67,782	53,898	47,947
Matthew J. Kaubris, CEO **OXFORD FEDERAL CU** 225 River Road Mexico, Maine 04257	81,654	72,057	64,491
Steve Baillargeon, CEO **PENOBSCOT FEDERAL CU** PO Box 434 Old Town, Maine 04468	18,860	17,216	14,160
Hosea W. Carpenter, CEO **PORTLAND MAINE POLICE DEPARTMENT FEDERAL CU** 109 Middle Street Portland, Maine 04101	3,536	3,106	2,705
Robert C. Hill, CEO **PORTLAND ME TRANSIT FEDERAL CU** 67 Allen Avenue Portland, Maine 04103	357	310	290
Bert L. Beaulieu, CEO **PORTLAND REGIONAL FEDERAL CU** 1345 Washington Avenue Portland, Maine 04103	18,407	16,002	10,377
Lillian Turner, CEO **R.C.H. FEDERAL CU** 420 Franklin Street Rumford, Maine 04276	371	259	195
Philippe R. Moreau, CEO **RAINBOW FEDERAL CU** PO Box 741 Lewiston, Maine 04243-0741	89,521	77,179	68,073

**MAINE
FEDERALLY CHARTERED
CREDIT UNIONS**

	Assets	Shares	Loans
		June 30, 2002 (dollars 000's)	
James O'Mara, CEO **RIVERVIEW FEDERAL CU** 15 Depot Square Gardiner, Maine 04345	7,443	6,718	4,519
Kyle W. Casburn, CEO **SEABOARD FEDERAL CU** 531 Main Street Bucksport, Maine 04416	68,126	60,256	44,524
James R. Lemieux, CEO **SEBASTICOOK VALLEY FEDERAL CU** PO Box 10 Pittsfield, Maine 04967	29,632	24,060	23,219
Daniel A. Clark, CEO **SEMICONDUCTOR OF MAINE FEDERAL CU** 333 Western Avenue South Portland, Maine 04106	8,148	6,833	5,124
Debra Hegarty, CEO **SHAW'S EMPLOYEES FEDERAL CU** 205 Spencer Drive Wells, Maine 04090	7,792	6,315	4,451
MaryAnn Chamberlain, CEO **ST. AGATHA FEDERAL CU** PO Box 130 Saint Agatha, Maine 04772	13,229	12,086	6,398
David W. Tozier, CEO **ST. CROIX FEDERAL CU** PO Box 130 Baileyville, Maine 04694	38,571	31,292	33,089
Nancy Bard, CEO **ST. FRANCIS COMMUNITY FEDERAL CU** PO Box 38 Saint Francis, Maine 04774	1,287	1,125	1,069

MAINE
FEDERALLY CHARTERED
CREDIT UNIONS

	June 30, 2002 (dollars 000's)		
	Assets	**Shares**	**Loans**
Vicki L. Stuart, CEO **STE. CROIX REGIONAL FEDERAL CU** PO Box 1746 Lewiston, Maine 04240	66,184	58,237	38,088
Sidney J. Wilder, CEO **TACONNET FEDERAL CU** 60 Benton Avenue Winslow, Maine 04901	27,619	25,440	19,980
Jeffrey Davenport, CEO **THE COUNTY FEDERAL CU** 82 Bennett Drive Caribou, Maine 04736	78,671	70,481	58,972
Chris Daudelin, CEO **TOWN & COUNTRY FEDERAL CU** 557 Main Street South Portland, Maine 04106	86,810	79,501	54,582
Lewis D. Raymond, CEO **WINSLOW COMMUNITY FEDERAL CU** PO Box 8117 Winslow, Maine 04901	19,135	17,005	9,617
Jeffrey J. Seguin, CEO **WINTHROP AREA FEDERAL CU** PO Box 55 Winthrop, Maine 04364	33,719	30,406	27,558
James E. Nelson, CEO **YORK COUNTY TEACHERS FEDERAL** 870 Main Street Sanford, Maine 04073	91,299	76,278	75,055
TOTAL: 63	**2,437,559**	**2,127,767**	**1,735,908**

DEPARTMENT OF PROFESSIONAL & FINANCIAL REGULATION
MAINE BUREAU OF FINANCIAL INSTITUTIONS

Howard R. Gray, Jr., Superintendent
Howard.R.Gray.Jr@Maine.gov
624-8575

MISSION

The mission of the Bureau of Financial Institution is to assure the strength, stability and efficiency of all financial institutions, to ensure reasonable and orderly competition, thereby encouraging the development and expansion of financial services advantageous to the public welfare and to maintain close cooperation with other supervisory authorities.

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Financial Institutions Advisory Committee

In March, 1994, the Bureau established the Banking Advisory Committee. The role of that Committee, which meets semiannually, is to review the financial issues relating to the Bureau's operation. Over the past eight years, the Bureau has benefited from the discussions and guidance of this advisory group. The following is a list of the current members of the Financial Institutions Advisory Committee and its immediate past members. Special thanks to all for dedication and interest of these individuals serving in this advisory capacity to the Bureau.

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