CAMDEN NATIONAL CORP
Form 424B3
October 26, 2007
Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-146238

UNION BANKSHARES COMPANY

66 Main Street

Ellsworth, Maine 04605

October 23, 2007

Dear Shareholder:

On behalf of the board of directors and management of Union Bankshares Company, you are cordially invited to attend a special meeting of shareholders, which will be held at the White Birches Restaurant, located at Route 1, Hancock, Maine, on Thursday, November 29, 2007 at 10:00 a.m., local time. At the special meeting, you will be asked to consider and vote upon a proposal to approve a merger agreement pursuant to which Union Bankshares will merge with and into Camden National Corporation.

If the merger agreement is approved and the merger is subsequently completed, each outstanding share of Union Bankshares common stock that you hold will be converted into the right to elect to receive either $68.00 in cash or 1.9106 shares of Camden common stock, plus cash in lieu of any fractional share. You may elect to have a portion of your Union Bankshares common stock converted into cash, with the remainder converted into Camden common stock. All elections are subject to adjustment to ensure that 40% of the outstanding shares of Union Bankshares common stock will be converted into the right to receive cash, and 60% of the outstanding shares of Union Bankshares common stock will be converted into the right to receive Camden common stock. Camden common stock is traded on the American Stock Exchange under the trading symbol CAC, and on October 19, 2007, the closing price of Camden common stock was $34.03 per share.

The merger cannot be completed unless the shareholders of Union Bankshares approve the merger agreement. The Union Bankshares board of directors unanimously adopted the merger agreement and determined that the merger is advisable and in the best interests of Union Bankshares and its shareholders, and unanimously recommends that shareholders vote **FOR** approval of the merger agreement.

The accompanying document serves as the proxy statement for the special meeting of shareholders of Union Bankshares and the prospectus for the shares of Camden common stock to be issued in the merger. The accompanying document describes the special meeting, the merger, the documents related to the merger, and other related matters. We urge you to read this entire document carefully. **In particular, you should carefully consider the discussion in the section titled Risk Factors beginning on page 22. You can also obtain information about Union Bankshares and Camden from documents that have been filed with the Securities and Exchange Commission.**

Your vote is very important. Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you sign, date and mail your proxy card without indicating how you want to vote, your proxy will be counted as a vote **FOR** approval of the merger agreement. If you do not return the proxy card, it will have the same effect as a vote against approval of the merger agreement.

Very truly yours,

Peter A. Blyberg

President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the shares of Camden common stock to be issued in the merger or determined if this document is accurate or adequate. Any representation to the contrary is a criminal offense. The shares of Camden common stock to be issued in the merger are not savings accounts, deposits or

other obligations of any bank or savings association and are not insured by any federal or state governmental agency.

This document is dated October 23, 2007 and is first being mailed to shareholders on or about October 26, 2007.

Table of Contents

REFERENCE TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about Camden from other documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain copies of those documents incorporated by reference by requesting them in writing or by telephone from Camden at the following address and telephone number:

Camden National Corporation

Two Elm Street

Camden, Maine 04843

(207) 236-8821

Attn: Suzanne Brightbill

If you would like to request documents, please do so by November 21, 2007 in order to receive them before the special meeting of Union Bankshares shareholders.

See also the section in this document titled Where You Can Find More Information beginning on page 127.

Table of Contents

UNION BANKSHARES COMPANY

66 Main Street

Ellsworth, Maine 04605

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD NOVEMBER 29, 2007

A special meeting of shareholders of Union Bankshares Company will be held at the White Birches Restaurant, located at Route 1, Hancock, Maine, on Thursday, November 29, 2007 at 10:00 a.m., local time, for the following purposes:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger by and between Camden National Corporation and Union Bankshares, dated as of August 13, 2007, as amended, pursuant to which Union Bankshares will merge with and into Camden, with Camden being the surviving corporation;

2. To consider and vote upon a proposal to approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement; and

3. To consider and act upon such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

As of the date of this document, management of Union Bankshares is not aware of any other business to be considered at the special meeting.

The proposed merger of Union Bankshares with and into Camden is more fully described in the attached document, which you should read carefully and in its entirety before voting. A copy of the merger agreement is included as *Annex A* to the attached document.

Union Bankshares has established October 19, 2007 as the record date for determining the shareholders entitled to notice of and to vote at the special meeting. Only record holders of Union Bankshares common stock as of the close of business on that date will be entitled to vote at the special meeting or any adjournment or postponement of that meeting. The affirmative vote of holders of at least sixty percent (60%) of the shares of Union Bankshares common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement.

Our board of directors unanimously recommends that you vote FOR approval of the merger agreement.

Please complete, sign and return the enclosed proxy card promptly in the enclosed postage-paid envelope. Your vote is important, regardless of the number of shares that you own. Voting by proxy will not prevent you from voting in person at the special meeting, but will assure that your vote is counted if you are unable to attend.

CERTAIN SHAREHOLDERS DISSENTING TO THE AGREEMENT AND PLAN OF MERGER ARE ENTITLED, UPON COMPLIANCE WITH CHAPTER 13 OF THE MAINE BUSINESS CORPORATION ACT, ATTACHED AS *ANNEX D* TO THIS DOCUMENT, TO BE PAID THE FAIR VALUE OF THEIR SHARES. SEE THE MERGER DISSENTERS APPRAISAL RIGHTS IN THE ACCOMPANYING DOCUMENT.

By Order of the Board of Directors,

Sally J. Hutchins
Clerk

Ellsworth, Maine

October 23, 2007

Please do not send your stock certificates with your proxy card. You will receive separate instructions regarding the surrender of your stock certificates.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETIN G

Q: Why am I receiving this document?

A: Camden and Union Bankshares have agreed to the acquisition of Union Bankshares by Camden under the terms of a merger agreement that is described in this document. A copy of the merger agreement is attached to this document as *Annex A*. In order to complete the merger, Union Bankshares shareholders must vote to approve the merger agreement. Union Bankshares will hold a special meeting of its shareholders to obtain this approval. This document contains important information about the merger, the merger agreement, the special meeting of Union Bankshares shareholders, and other related matters, and you should read it carefully. The enclosed voting materials for the special meeting allow you to vote your shares of Union Bankshares common stock without attending the special meeting.

Q: What will happen in the merger?

A: In the proposed merger, Union Bankshares will merge with and into Camden, with Camden being the surviving corporation. Promptly thereafter, Union Bankshares subsidiary, Union Trust Company will merge with and into Camden National Bank with Camden National Bank being the surviving institution.

Q: What will I receive in the merger?

A: You may elect to receive either $68.00 in cash or 1.9106 shares of Camden common stock in exchange for each share of Union Bankshares common stock that you own immediately prior to the effective time of the merger. **However, the form of merger consideration you actually receive may differ from the form of consideration that you elect to receive.** This is because the consideration to be received by each Union Bankshares shareholder is subject to allocation procedures, which are intended to ensure that 40% of the shares of Union Bankshares common stock outstanding immediately prior to the effective time of the merger will be converted into the right to receive cash, and 60% of these shares of Union Bankshares common stock will be converted into the right to receive Camden common stock.

Q: Will I receive a fractional share of Camden common stock as part of the merger consideration?

A: No. Camden will not issue any fractional shares of its common stock in the merger. Instead, Camden will pay you the cash value of a fractional share measured by the average of the last sale prices of Camden common stock on the American Stock Exchange for the five trading days preceding the closing date of the merger.

Q: How do I make an election as to the form of merger consideration I wish to receive?

A: No more than 40 and no less than 20 business days prior to the anticipated election deadline (which will be a date mutually agreed upon by Union Bankshares and Camden), we will mail to you separately an election form and letter of transmittal for the surrender of your Union Bankshares stock certificates in exchange for the merger consideration. Along with those documents, you will receive detailed instructions describing the procedures you must follow to make your election. We will also publicly announce the election deadline, which will be before the closing date for the merger.

We are not making any recommendation to you as to whether you should elect to receive cash, shares of Camden common stock or a combination of each in the merger. You should evaluate your own specific circumstances and investment preferences in making your election.

Q: Can I elect to receive my merger consideration in the form of cash with respect to a portion of my Union Bankshares shares and Camden common stock with respect to the rest of my Union Bankshares shares?

A: Yes. The election form and letter of transmittal will permit you, subject to the allocation procedures described in this document, to receive at your election:

- all of your merger consideration in the form of shares of Camden common stock;

all of your merger consideration in the form of cash; or

a portion of your merger consideration in cash and the remaining portion in shares of Camden common stock.

Please see the examples set forth in the section of this document titled The Merger Agreement Allocation Procedures beginning on page 51.

Q: Do I have to return the election form and letter of transmittal?

A: No, but if you do not make an election, you will be allocated cash and/or shares of Camden common stock depending upon the elections made by other Union Bankshares shareholders.

Q: Will I be able to trade the shares of Camden common stock that I receive in the merger?

A: You may freely trade the shares of Camden common stock issued in the merger, unless you are an affiliate of Union Bankshares. The shares will be quoted on the American Stock Exchange under the symbol CAC. Persons who are considered affiliates (generally directors, officers and 10% or greater shareholders) of Union Bankshares must comply with Rule 145 under the Securities Act of 1933 if they wish to sell or otherwise transfer any of the shares of Camden common stock that they receive in the merger. We will notify you if we believe you are an affiliate of Union Bankshares.

Q: What will happen to shares of Camden common stock in the merger?

A: Nothing. Each share of Camden common stock outstanding will remain outstanding as a share of Camden common stock.

Q: What are the material federal income tax consequences of the merger to me?

A: In general, if you exchange all of your shares of Union Bankshares common stock for shares of Camden common stock, you will not recognize either gain or loss for federal income tax purposes. If you exchange some or all of your shares of Union Bankshares common stock for cash, you generally will recognize gain, but not loss, for federal income tax purposes in an amount equal to the lesser of (1) the amount of cash you receive in the merger, or (2) the amount, if any, by which the sum of the fair market value, as of the effective time of the merger, of any shares of Camden common stock that you receive, and the amount of cash you receive in the merger, exceeds your adjusted tax basis in your shares of Union Bankshares common stock.

This tax treatment may not apply to all Union Bankshares shareholders. We strongly urge you to consult your own tax advisor for a full understanding of the tax consequences of the merger to you.

Q: What are the conditions to completion of the merger?

A: The obligations of Camden and Union Bankshares to complete the merger are subject to the satisfaction or waiver of certain closing conditions contained in the merger agreement, including the receipt of required regulatory approvals, tax opinions and approval of the merger agreement by Union Bankshares shareholders.

Q: When do you expect the merger to be completed?

A: We will complete the merger when all of the conditions to completion contained in the merger agreement are satisfied or waived, including obtaining the approval of the merger agreement by Union Bankshares shareholders at the special meeting. Fulfilling some of these conditions, such as receiving required regulatory approvals, is not entirely within our control. We currently expect to complete the merger during January 2008; however, because the merger is subject to these conditions, we cannot reliably predict the actual timing.

Q: What shareholder approvals are required to complete the merger?

A: For Union Bankshares, the affirmative vote of holders of at least 60% of the shares of Union Bankshares common stock outstanding and entitled to vote at the special meeting is required to approve the merger agreement. For Camden, no approval of shareholders is needed and no vote will be taken.

Q: Are there any shareholders already committed to voting in favor of the merger agreement?

A: Yes. Union Bankshares shareholders who collectively held approximately 4.0% of the outstanding shares of Union Bankshares common stock on the record date have entered into voting agreements requiring them to vote all of their shares in favor of approval of the merger agreement.

Q: When and where is the special meeting?

A: The special meeting of shareholders of Union Bankshares will be held at the White Birches Restaurant, located at Route 1, Hancock, Maine, on Thursday, November 29, 2007 at 10:00 a.m., local time.

Q: What will happen at the special meeting?

A: At the special meeting, Union Bankshares shareholders will consider and vote upon a proposal to approve the merger agreement. If, at the time of the special meeting, there are not sufficient votes to approve the merger agreement, we may ask you to consider and vote upon a proposal to adjourn the special meeting, so that we can solicit additional proxies.

Q: Does the Union Bankshares board of directors recommend voting in favor of the merger agreement?

A: Yes. After careful consideration, the Union Bankshares board of directors unanimously recommends that Union Bankshares shareholders vote **FOR** approval of the merger agreement.

Q: Are there any risks that I should consider in deciding whether to vote for approval of the merger agreement?

A: Yes. You should read and carefully consider the risk factors set forth in the section in this document titled Risk Factors beginning on page 22.

Q: What do I need to do now?

A: You should carefully read and consider the information contained or incorporated by reference into this document, including its annexes. It contains important information about the merger, the merger agreement, Camden and Union Bankshares. After you have read and considered this information, you should complete and sign your proxy card and return it in the enclosed postage-paid return envelope as soon as possible so that your shares of Union Bankshares common stock will be represented and voted at the special meeting.

Q: If my shares are held in street name by my broker, bank or other nominee, will my broker, bank or other nominee automatically vote my shares for me?

A: No. Your broker, bank or other nominee will not vote your shares unless you provide instructions to your broker, bank or other nominee on how to vote. You should fill out the voter instruction form sent to you by your broker, bank or other nominee with this document.

Q: What if I fail to return my proxy card or to instruct my broker, bank or other nominee?

A: If you fail to return your proxy card or to instruct your broker, bank or other nominee to vote your shares, your shares will not be voted and this will have the same effect as a vote against approval of the merger agreement.

Table of Contents

Q: Can I attend the special meeting and vote my shares in person?

A: Yes. Although the Union Bankshares board of directors requests that you return the proxy card accompanying this document, all Union Bankshares shareholders are invited to attend the special meeting. Voting by proxy will not prevent you from voting in person at the special meeting, but will ensure that your vote is counted if you are unable to attend. Shareholders of record on October 19, 2007 can vote in person at the special meeting. If your shares are held by a broker, bank or other nominee, then you are not the shareholder of record and you must bring to the special meeting appropriate documentation from your broker, bank or other nominee to enable you to vote at the special meeting.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. If you have not voted through your broker, bank or other nominee, there are three ways you can change your vote at any time after you have sent in your proxy card and before your proxy is voted at the special meeting.

You may deliver a written notice bearing a date later than the date of your proxy card to the clerk of Union Bankshares, stating that you revoke your proxy.

You may complete and deliver to the clerk of Union Bankshares a new proxy card relating to the same shares and bearing a later date.

You may attend the special meeting and vote in person, although attendance at the special meeting will not, by itself, revoke a proxy. You should send any notice of revocation or your completed new proxy card, as the case may be, to Union Bankshares at the following address:

Union Bankshares Company

66 Main Street

Ellsworth, Maine 04605

Attn: Clerk

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your vote.

Q: Am I entitled to dissenters appraisal rights in connection with the merger?

A: Yes. Under applicable Maine law, you have the right to dissent from the merger and receive payment in cash for the appraised fair value of your shares of Union Bankshares common stock. To exercise these rights you must:

deliver to Union Bankshares before the special meeting written notice of your intent to exercise these rights with respect to your shares if the merger is completed;

not vote your shares in favor of approval of the merger agreement; and

follow the applicable statutory procedures for perfecting dissenters appraisal rights under Maine law. A copy of the relevant statutory provisions is attached to this document as *Annex D*.

Q: Should I send in my stock certificates now?

A: No. You will receive separate written instructions for making your election of all cash, all Camden common stock or a combination of cash and Camden common stock for your shares of Union Bankshares common stock, and for surrendering your shares of Union Bankshares common stock in exchange for the merger consideration. In the meantime, you should retain your stock certificate(s) because they are still valid. **Please do not send in your stock certificate(s) with your proxy card.**

Q: Where can I find more information about the companies?

A: You can find more information about Camden and Union Bankshares from the various sources described under the section of this document titled Where You Can Find More Information beginning on page 127.

Q: Whom should I call with questions?

A: You may contact our information agent, Georgeson Inc., as follows:

Georgeson Inc.

17 State Street

New York, NY 10004

1-866-651-3212

You may also contact Camden at the telephone number listed under Reference to Additional Information on the inside cover of this document, or you may contact Union Bankshares at (207) 667-2504 and ask to speak with the clerk.

SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To more fully understand the merger and for a more complete description of the legal terms of the merger, you should read this entire document, including the materials attached as annexes, as well as the other documents to which we have referred you. See Where You Can Find More Information beginning on page 127. The page references in parentheses included in this summary will direct you to a more detailed description of each topic presented.

Unless the context otherwise requires, throughout this document, Union Bankshares refers collectively to Union Bankshares Company and its subsidiary; Camden refers collectively to Camden National Corporation and its subsidiaries; Union Trust refers to Union Trust Company, the wholly-owned bank subsidiary of Union Bankshares; Camden Bank refers to Camden National Bank, the wholly-owned bank subsidiary of Camden; and we, us and our refer collectively to Union Bankshares and Camden. Also, we refer to the merger between Union Bankshares and Camden as the merger and the Agreement and Plan of Merger, dated as of August 13, 2007, as amended, between Camden and Union Bankshares as the merger agreement.

The Companies

Camden National Corporation (page 30)

Camden is a publicly held bank holding company registered under the Bank Holding Company Act of 1956, as amended. Camden was founded in January 1984 following a corporate reorganization in which the shareholders of Camden Bank exchanged their shares of stock for shares of stock in Camden. Camden, as a diversified financial services provider, pursues the objective of achieving long-term sustainable growth by balancing growth opportunities against profit, while mitigating risks inherent in the financial services industry. The primary business of Camden and its subsidiaries is to attract deposits from consumer, institutional, non-profit and commercial customers and to extend loans to consumer, institutional, non-profit and commercial customers. Camden makes available its commercial and consumer banking products and services through its subsidiary, Camden Bank, and its brokerage and insurance services through Acadia Financial Consultants, which operates as a division of Camden Bank. Camden also provides wealth management, trust and employee benefit products and services through its other subsidiary, Acadia Trust, N.A., a federally regulated, non-depository trust company headquartered in Portland, Maine. In addition to serving as a bank holding company, Camden provides managerial, financial management, risk management, operational, human resource, marketing and technology services to its subsidiaries. Camden s principal executive offices are located at Two Elm Street, Camden, Maine 04843, and its telephone number is (207) 236-8821.

Union Bankshares Company (page 30)

Union Bankshares is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, which has elected financial holding company status. Union Bankshares was incorporated in 1984 and is headquartered in Ellsworth, Maine.

Union Bankshares is the sole shareholder of Union Trust, a community-oriented Maine commercial bank with thirteen offices located along Maine s coast. Union Trust conducts its operations out of its main office in Ellsworth, Maine. It also operates through branch offices located in Ellsworth, Blue Hill, Stonington, Milbridge, Jonesport, Town Hill, Castine, Bar Harbor, Waldoboro, Rockland, Belfast and Camden, Maine. Its deposits are gathered from the general public in these towns and surrounding communities, and its lending activities are concentrated primarily in Hancock, Washington, Knox, Lincoln and Waldo counties of the State of Maine.

Union Bankshares serves the financial needs of individuals, businesses, municipalities and organizations with a full range of community banking services. The community banking business derives its revenues from

Table of Contents

interest and fees earned in connection with its lending activities, interest and dividends on investment securities, service charges and fees on deposit accounts, and fees and commissions from trust accounts and investment advisory services. Union Bankshares principal executive offices are located at 66 Main Street, Ellsworth, Maine 04605, and its telephone number is (207) 667-2504.

The Special Meeting of Union Bankshares Shareholders

Date, Time, Place and Purpose of the Special Meeting (page 32)

The special meeting of shareholders of Union Bankshares will be held at the White Birches Restaurant, located at Route 1, Hancock, Maine, on Thursday, November 29, 2007 at 10:00 a.m., local time. At the special meeting, Union Bankshares shareholders as of October 19, 2007, the record date, will be asked to vote upon a proposal to approve the merger agreement with Camden.

Recommendation of Union Bankshares Board of Directors (page 32)

After an evaluation of a variety of business, financial and market factors and after consultation with its advisors, at a meeting on August 13, 2007, the Union Bankshares Board of Directors determined that the merger is advisable and in the best interests of Union Bankshares and its shareholders, and unanimously adopted the merger agreement. The Union Bankshares board unanimously recommends that you vote **FOR** approval of the merger agreement.

Record Date; Outstanding Shares; Shares Entitled to Vote (page 32)

Only holders of record of Union Bankshares common stock at the close of business on the record date of October 19, 2007 are entitled to notice of and to vote at the special meeting. As of the record date, there were 1,066,772 shares of Union Bankshares common stock outstanding, held of record by approximately 719 shareholders.

Quorum; Vote Required (page 32)

A quorum of Union Bankshares shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of Union Bankshares common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Union Bankshares will include proxies marked as abstentions and broker non-votes in determining the number of shares present at the special meeting.

The affirmative vote of the holders of at least 60% of the outstanding shares of Union Bankshares common stock is required to approve the merger agreement.

Share Ownership of Management (page 32)

As of the record date, the directors and certain executive officers of Union Bankshares and their affiliates collectively owned 43,072 shares of Union Bankshares common stock, or approximately 4.0% of Union Bankshares outstanding shares. These directors and executive officers have executed voting agreements with Camden under which they have agreed to vote their shares in favor of the merger agreement, and have granted Camden an irrevocable proxy to so vote their shares.

Proxies, Voting and Revocation (page 33)

The Union Bankshares board of directors requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed pre-paid envelope. All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, if no instructions are given, to approve the merger agreement and the adjournment proposal.

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

- delivering a written notice bearing a date later than the date of your proxy card to the clerk of Union Bankshares, stating that you revoke your proxy;
- signing and delivering to the clerk of Union Bankshares a new proxy card relating to the same shares and bearing a later date; or
- attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy.

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your vote.

Dissenters Appraisal Rights (page 45)

Union Bankshares is organized as a corporation under Maine law. Under Maine corporate law, Union Bankshares shareholders who object to the merger have dissenters appraisal rights. For more information regarding dissenters appraisal rights, please see the section in this document titled The Merger Dissenters Appraisal Rights beginning on page 45.

The Merger

Structure of the Merger (page 51)

Camden and Union Bankshares entered into an Agreement and Plan of Merger on August 13, 2007, as amended. The merger agreement provides for the merger of Union Bankshares with and into Camden, with Camden being the surviving corporation. Promptly thereafter, Union Bankshares subsidiary, Union Trust will merge with and into Camden Bank with Camden Bank being the surviving institution.

The proposed merger will occur following approval of the proposal described in this document by the shareholders of Union Bankshares and satisfaction or waiver of all other conditions to the merger. The merger agreement is attached to this document as *Annex A*. We encourage you to read the merger agreement because it is the legal document that governs the merger.

Merger Consideration (page 51)

If the merger is completed, each share of Union Bankshares common stock will be converted into the right to receive either:

- $68.00 in cash (which is referred to as the cash consideration); or
- 1.9106 shares of Camden common stock (which is referred to as the stock consideration), plus cash in lieu of any fractional share.

You will have the opportunity to elect the form of consideration that you receive in the merger in exchange for your shares of Union Bankshares common stock. You may elect to receive a portion of your merger consideration in cash and the remaining portion in shares of Camden common stock. However, your right to receive the form of consideration that you elect for your shares will be subject to allocation procedures set forth

8

in the merger agreement. These allocation procedures are intended to ensure that 40% of the outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger will be converted into the right to receive cash, and 60% of these shares of Union Bankshares common stock will be converted into the right to receive Camden common stock.

As illustrated in the table below, the value of 1.9106 shares of Camden common stock at the closing of the merger may be less than or greater than $68.00. In particular, if the value of a share of Camden common stock at the closing of the merger is less than $35.59, then the $68.00 in cash would be greater than the value of 1.9106 shares of Camden common stock.

Hypothetical Trading Price of Camden Common Stock	Corresponding Value of 1.9106 shares of Camden Common Stock
$40.00	$76.42
$39.00	$74.51
$38.00	$72.60
$37.00	$70.69
$36.00	$68.78
$35.59	$68.00
$35.00	$66.87
$34.00	$64.96
$33.00	$63.05
$32.00	$61.14
$31.00	$59.23
$30.00	$57.32

You are urged to check the trading price of Camden common stock prior to completing your election form. The trading price of Camden common stock will fluctuate between the date of this document, the date of your election and the closing of the merger. As a result, as the table above illustrates, fluctuations in the trading price of Camden common stock will alter the value of the new shares that you may acquire in exchange for your existing shares.

Camden will not issue fractional shares. Instead, Union Bankshares shareholders who receive Camden common stock will receive the value of any fractional share in cash based on the average of the last sale prices of a share of Camden common stock, as reported on the American Stock Exchange, for the five trading days preceding the closing date of the merger, rounded to the nearest whole cent. No interest will be paid with respect to any portion of the cash consideration payable in connection with the merger.

Election Procedures (page 52)

The shares of Union Bankshares common stock that you hold will be exchanged for cash, Camden common stock or a combination of cash and Camden common stock as chosen by you, subject to the allocation procedures described in the merger agreement. Prior to the closing date of the merger, you will be sent an election form and detailed instructions to permit you to choose your preferred consideration. You have the following choices:

- you may elect to receive $68.00 per share in cash in exchange for all shares of Union Bankshares common stock that you hold;

- you may elect to receive 1.9106 shares of Camden common stock in exchange for all shares of Union Bankshares common stock that you hold, plus cash in lieu of any fractional share;

- you may elect to receive the cash consideration with respect to a portion of the shares of Union Bankshares common stock that you hold, and the stock consideration with respect to your remaining shares; or

- you may make no election with respect to the consideration to be received by you in exchange for your shares of Union Bankshares common stock.

You will have a limited period of time in which to complete the election form and return it as instructed. The election form will be mailed to you no more than 40 and no less than 20 business days prior to the anticipated election deadline (which will be a date mutually agreed upon by Union Bankshares and Camden). You will need to surrender your Union Bankshares stock certificates to receive the appropriate consideration, but you should not send us any certificates now. You will receive detailed instructions on how to exchange your stock certificates along with your election form. If you do not submit an election form, you will receive instructions on where to surrender your Union Bankshares stock certificates after the merger is completed.

If your shares or a portion of your shares of Union Bankshares common stock are held in street name by a broker, bank or other nominee, an election form will be mailed to the broker, bank or other nominee with respect to those shares.

If you hold a portion of your shares in an individual retirement account and the remaining portion of your shares directly in your name, you will receive two election forms: one for your shares held in the individual retirement account and one for the shares held directly in your name.

Allocation Procedures (page 53)

The merger agreement provides for overall limitations on the amount of cash and shares of Camden common stock available in the merger as follows:

- 40% of the total number of outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger will be converted into the right to receive the cash consideration; and

- 60% of these shares of Union Bankshares common stock will be converted into the right to receive the stock consideration.

As a result, whether you receive the amount of cash and/or stock that you request in your election form will depend in part on the elections of other Union Bankshares shareholders. You may not receive exactly the form of consideration that you elect in the merger, and you may instead receive a pro rata amount of cash and Camden common stock.

If you have a preference for receiving either cash or Camden common stock for your shares of Union Bankshares common stock, you should return the election form indicating your preference. Union Bankshares shareholders who make an election will be accorded priority over those shareholders who make no election in instances where the cash consideration or stock consideration must be re-allocated in order to achieve the required ratio of Union Bankshares shares being converted into the right to receive cash and Camden common stock. If you do not make an election, you will be allocated cash and/or Camden common stock depending on the elections made by other Union Bankshares shareholders. Please see the examples set forth in the section of this document titled The Merger Agreement Allocation Procedures beginning on page 53. **However, even if you do make an election, the form of merger consideration you actually receive may differ from the form of merger consideration you elect to receive.**

Opinion of Union Bankshares Financial Advisor (page 40)

In deciding to adopt the merger agreement and recommend its approval to Union Bankshares shareholders, the Union Bankshares board of directors consulted with senior management, its financial advisor and its legal counsel, and considered, among other things, an opinion from its financial advisor, Stifel, Nicolaus & Company, Incorporated (Stifel). On August 13, 2007, Stifel delivered an opinion to the Union Bankshares board of directors that, as of that date and based upon and subject to the considerations described in the opinion, the merger consideration was fair, from a financial point of view, to the Union Bankshares shareholders. The full text of the written opinion is attached to this document as *Annex C*. We encourage you to read the opinion carefully and in its entirety. The opinion of Stifel is directed to the Union Bankshares board of directors and does not constitute a recommendation to any shareholder on how to vote on approval of the merger agreement.

Interests of Certain Persons in the Merger (page 49)

Union Bankshares directors and executive officers have financial interests in the merger that are in addition to their interests as shareholders. The Union Bankshares board of directors considered these interests in deciding to approve the merger agreement.

Union Bankshares currently has amended salary continuation agreements with six of its executive officers including two of its named executive officers, John P. Lynch and Rebecca J. Sargent. The amended salary continuation agreements provide for a lump sum payment upon the closing of the merger to these executive officers. If the merger closes in January 2008, the salary continuation payments are estimated to be as follows: Mr. Lynch $324,503; Ms. Sargent $302,117; and the other four officers are estimated to be paid $942,959 in aggregate.

Following the merger of Union Bankshares and Camden, Camden will select a board member of Union Bankshares to join the Board of Camden. Following the merger of Union Trust into Camden Bank, two members will be selected by Camden Bank to join the board of Camden Bank. One of the members will be Peter Blyberg, President and Chief Executive Officer of Union Bankshares, who will be appointed Vice Chairman of the board of directors of Camden Bank. The other additional member of the Union Trust board to serve on the Camden Bank board of directors has not been selected as of the date of this document. Camden will also establish an advisory board of Camden Bank, which will operate pursuant to a written charter. The remaining board members of Union Trust will be invited to serve as members of the advisory board. Each member of the advisory board will receive a fee of $250 per meeting attended and will serve until at least the second anniversary of the effective date of the merger and the election and qualification of their successors.

Camden has agreed to indemnify the directors and officers of Union Bankshares against certain liabilities for a period of six years following the merger. Camden has also agreed to the purchase by Union Bankshares of extended directors and officers liability insurance for a period of six years following the merger.

On the record date, directors and executive officers of Union Bankshares and their affiliates beneficially owned 43,072 shares or 4.0% of Union Bankshares common stock.

Limitations on Considering Other Acquisition Proposals (page 62)

The merger agreement restricts Union Bankshares ability to solicit or engage in discussions or negotiations with a third party regarding a proposal to acquire a significant interest in Union Bankshares. However, if Union Bankshares receives a bona fide unsolicited written acquisition proposal from a third party that is, or is reasonably likely to be, more favorable to Union Bankshares shareholders than the terms of the merger agreement, Union Bankshares may furnish nonpublic information to that third party and engage in negotiations regarding an acquisition proposal with that third party, subject to specified conditions in the merger agreement. In addition, the Union Bankshares board of directors may not modify, qualify, withhold or withdraw its approval or recommendation of the merger agreement, approve or recommend another acquisition proposal to its shareholders, or cause Union Bankshares to enter into a letter of intent or definitive agreement with respect to an acquisition transaction or that requires Union Bankshares to abandon, terminate or fail to consummate the merger, unless the Union Bankshares board of directors determines in good faith, after consultation with counsel and its financial advisor, that an acquisition proposal is a superior proposal and that it is required to take such

Table of Contents

action to comply with its fiduciary duties to shareholders under applicable law, and Union Bankshares provides Camden with notice of such determination and cooperates and negotiates in good faith with Camden to adjust or modify the terms and conditions of the merger agreement.

Conditions to the Merger (page 59)

Camden and Union Bankshares will not complete the merger unless a number of conditions are satisfied or waived, including:

- the shareholders of Union Bankshares must approve the merger agreement;
- Camden and Union Bankshares must receive all required regulatory approvals, any waiting periods required by law must have passed, and none of the regulatory approvals must impose any burdensome condition upon Camden;
- there must be no order, decree or injunction in effect, nor any law, statute or regulation enacted or adopted, preventing completion of the merger;
- the American Stock Exchange must authorize the listing of the shares of Camden common stock to be issued to Union Bankshares shareholders in the merger;
- Camden must receive all material third-party consents to the merger;
- Camden and Union Bankshares must each receive a legal opinion regarding treatment of the merger as a reorganization for federal income tax purposes;
- the representations and warranties of each of Camden and Union Bankshares in the merger agreement must be accurate, subject to exceptions that would not have a material adverse effect;
- Camden and Union Bankshares must each have performed in all material respects all obligations required to be performed by it;
- no event or development must have occurred with respect to Union Bankshares or Camden that has had, or would reasonably be expected to have, a material adverse effect; and
- not more than 10% of the issued and outstanding shares of Union Bankshares common stock shall have exercised dissenters appraisal rights.

Termination of the Merger Agreement (page 61)

Camden and Union Bankshares can mutually agree to terminate the merger agreement before the merger has been completed, and either company can terminate the merger agreement if:

- the other party materially breaches any of its representations, warranties or covenants contained in the merger agreement (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement) and the breach cannot be or has not been cured within 30 days of written notice of the breach;

- the merger is not completed by June 30, 2008, unless the failure to complete the merger is due to the failure by the terminating party to perform its obligations under the merger agreement;

- a regulatory approval that is required in order to complete the merger is denied; or

- the shareholders of Union Bankshares do not approve the merger agreement.

In addition, Camden may terminate the merger agreement if:

- the Union Bankshares board of directors:

  - modifies, qualifies, withholds or withdraws its recommendation to Union Bankshares shareholders to vote in favor of the merger agreement, or makes any statement, filing or release that is inconsistent with the recommendation;

Table of Contents

breaches its obligations to call, give notice of and commence the special meeting; or

approves or recommends an alternative acquisition proposal; or

Union Bankshares breaches in any material respect the provisions in the merger agreement prohibiting the solicitation of other acquisition proposals.

Union Bankshares has the right to terminate the merger agreement in connection with entering into a definitive agreement to effect a superior proposal, subject to specified conditions in the merger agreement.

Termination Fee (page 61)

Under the terms of the merger agreement, Union Bankshares must pay Camden a termination fee of $2.9 million if:

Camden terminates the merger agreement as a result of the Union Bankshares board of directors modifying or withdrawing its recommendation to the Union Bankshares shareholders to vote in favor of the merger agreement, or approving or recommending another acquisition proposal;

Camden terminates the merger agreement as a result of a material breach by Union Bankshares of the provisions in the merger agreement prohibiting the solicitation of other offers;

Camden or Union Bankshares terminates the merger agreement as a result of:

(1) the failure of the Union Bankshares shareholders to approve the merger agreement; (2) the merger not having been consummated by June 30, 2008 due to the failure of the Union Bankshares shareholders to approve the merger agreement; or (3) a material breach by Union Bankshares of any of its representations, warranties, covenants or agreements contained in the merger agreement; and both:

an acquisition proposal with respect to Union Bankshares has been publicly announced, disclosed or otherwise communicated to the Union Bankshares board of directors prior to that time; and

within 12 months of termination of the merger agreement, Union Bankshares enters into a definitive agreement with respect to, or has consummated, another acquisition proposal; or

Union Bankshares terminates the merger agreement in connection with Union Bankshares entering into a definitive agreement with respect to a superior proposal.

Effective Time of the Merger (page 51)

We expect that the merger will be completed following the approval of the merger agreement by the shareholders of Union Bankshares at the special meeting, if all other conditions have been satisfied or waived. The parties cannot be certain whether or when any of the conditions to the merger will be satisfied, or waived where permissible. We currently expect to complete the merger during January 2008; however, because the merger is subject to these conditions, we cannot reliably predict the actual timing.

Material Federal Income Tax Consequences (page 79)

Each of Camden and Union Bankshares expects to receive an opinion of counsel at closing to the effect that, based on certain facts, representations and assumptions, the merger will be treated as a reorganization for federal income tax purposes. Accordingly, you generally will not recognize any gain or loss on the conversion of shares of Union Bankshares common stock solely into shares of Camden common stock. However, you generally will be taxed if you receive cash in exchange for your shares of Union Bankshares common stock or instead of

Table of Contents

any fractional share of Camden common stock that you would otherwise be entitled to receive. Camden s and Union Bankshares obligation to complete the merger is conditioned on its receipt of these opinions, dated as of the effective date of the merger, regarding the federal income tax treatment of the merger to them and shareholders of Union Bankshares.

Tax matters are complicated, and the tax consequences of the merger to you will depend upon the facts of your particular situation and on whether you elect to receive stock, cash or a mix of stock and cash. In addition, you may be subject to state, local or foreign tax laws that are not discussed in this document. **Accordingly, we strongly urge you to consult your own tax advisor for a full understanding of the tax consequences to you of the merger.**

Required Regulatory Approvals (page 82)

To complete the merger, Camden and Union Bankshares need the prior approval or waiver of the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System and must submit a notice to the Maine Bureau of Financial Institutions. The United States Department of Justice has the authority to challenge the approval on antitrust grounds. Camden and Union Bankshares will file all necessary applications and notices with the applicable regulatory authorities. Camden and Union Bankshares cannot reliably predict, however, whether or when the required regulatory approvals will be obtained or whether any such approvals will impose any burdensome condition upon Camden.

Accounting Treatment (page 45)

The merger will be accounted for under the purchase method. The total purchase price will be allocated to the assets acquired and liabilities assumed, based on their fair values. To the extent that the purchase price exceeds the fair value of the net tangible assets acquired at the effective time of the merger, Camden will allocate the excess purchase price to intangible assets, including goodwill.

Camden Shares to be Listed on the American Stock Exchange (page 65)

Camden will list the shares of Camden common stock to be issued in connection with the merger to holders of shares of Union Bankshares common stock on the American Stock Exchange. After the completion of the merger, there will be no further trading in shares of Union Bankshares common stock, and Union Bankshares will delist its common stock from the OTC Bulletin Board and deregister it for purposes of the Securities Exchange Act of 1934.

Comparisons of Rights of Shareholders (page 120)

The rights of Union Bankshares shareholders currently are governed by Union Bankshares articles of incorporation and bylaws, and by Maine law. After the merger is completed, Union Bankshares shareholders who receive Camden common stock in the merger will become shareholders of Camden, and, therefore, their rights as shareholders of Camden will be governed by Camden s articles of incorporation and bylaws, and will continue to be governed by Maine law. This means that, as a result of the merger, Union Bankshares shareholders will have different rights when they become holders of Camden common stock than they currently have as holders of Union Bankshares common stock.

Table of Contents

Selected Historical Consolidated Financial Data

Camden

The following table provides summary historical consolidated financial data as of the end of and for each of the fiscal years in the five-year period ended December 31, 2006, and as of the end of and for each of the six months ended June 30, 2007 and 2006. The historical consolidated financial data as of the end of and for each of the fiscal years in the five-year period ended December 31, 2006 have been derived from Camden s audited financial statements and related notes incorporated by reference into this document. The historical consolidated financial data as of the end of and for each of the six months ended June 30, 2007 and 2006 have been derived from Camden s unaudited financial statements and related notes incorporated by reference into this document. The following information is only a summary and you should read it in conjunction with Camden s Annual Report on Form 10-K for the year ended December 31, 2006, which includes Camden s audited consolidated financial statements and related notes, and is incorporated by reference into this document. For a discussion of certain factors that may materially affect the comparability of the consolidated historical financial data or cause the data reflected below not to be indicative of Camden s future financial condition or results of operations, see the section in this document titled Risk Factors beginning on page 22.

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(In thousands, except share and per share amounts)						
Statements of Income							
Interest Income	$ 54,170	$ 52,095	$ 107,238	$ 89,721	$ 73,377	$ 72,146	$ 74,572
Interest Expense	29,396	24,376	53,048	34,697	24,365	24,487	27,715
Net Interest Income	24,774	27,719	54,190	55,024	49,012	47,659	46,857
Provision for Loan Losses	100	1,104	2,208	1,265	(685)	(150)	3,080
Net Interest Income after Provision	24,674	26,615	51,982	53,759	49,697	47,809	43,777
Non-interest Income	6,251	5,707	11,629	10,050	11,399	10,829	14,459
Non-interest Expense	17,064	17,476	34,224	32,461	31,882	30,424	32,311
Income before Provision for Income Tax	13,861	14,846	29,387	31,348	29,214	28,214	25,925
Income Tax Expense	4,136	4,650	9,111	9,968	9,721	9,286	8,425
Cumulative effect of change in accounting, net							(449)
Net Income	$ 9,725	$ 10,196	$ 20,276	$ 21,380	$ 19,493	$ 18,928	$ 17,051
Balance Sheet Data							
Assets	$ 1,716,103	$ 1,755,674	$ 1,769,886	$ 1,653,257	$ 1,489,865	$ 1,370,363	$ 1,218,419
Loans	1,190,102	1,244,614	1,218,129	1,182,175	1,069,294	966,855	808,882
Allowance for Loan and Lease Losses	13,927	15,256	14,933	14,167	13,641	14,135	15,242
Investments	458,881	405,610	444,093	367,629	323,998	303,749	314,775
Deposits	1,132,978	1,236,988	1,185,801	1,163,905	1,014,601	900,996	850,134
Borrowings	505,304	408,766	437,364	347,039	336,820	338,408	238,861
Shareholders Equity	$ 107,509	$ 96,211	$ 107,052	$ 129,538	$ 126,405	$ 119,706	$ 118,828
Common Shares Outstanding at Year End	6,512,980	6,608,505	6,616,780	7,529,073	7,634,975	7,758,653	8,027,374
Average Balance Sheet Data							
Assets	$ 1,751,531	$ 1,718,774	$ 1,733,923	$ 1,592,978	$ 1,394,898	$ 1,281,240	$ 1,152,199
Loans	1,203,896	1,216,006	1,225,933	1,129,004	1,009,649	897,811	757,733
Investments	461,011	418,935	422,250	382,458	304,456	302,103	316,944
Deposits	1,170,148	1,204,366	1,207,835	1,082,374	965,951	860,064	806,167
Borrowings	457,735	381,251	402,190	372,793	296,415	291,646	224,659

Shareholders Equity	$ 109,153	$ 119,625	$ 110,204	$ 125,818	$ 122,062	$ 119,448	$ 110,877

Table of Contents

	For the Six Months Ended June 30, 2007	2006	For the Years Ended December 31, 2006	2005	2004	2003	2002
	(In thousands, except share and per share amounts)						
Per Share Data							
Basic Earnings Per Share	$ 1.47	$ 1.41	$ 2.93	$ 2.81	$ 2.54	$ 2.39	$ 2.12
Diluted Earnings Per Share	1.47	1.41	2.93	2.80	2.53	2.38	2.11
Dividends Per Share	0.48	0.44	0.88	1.30	0.80	0.72	0.68
Book Value Per Share	16.51	14.56	16.18	17.21	16.56	15.43	14.80
Tangible Book Value Per Share (1)	$ 15.78	$ 13.71	$ 15.40	$ 16.40	$ 15.65	$ 14.48	$ 13.77
Weighted Average Common Shares Outstanding	6,601,741	7,229,407	6,919,579	7,599,051	7,685,006	7,915,743	8,049,629
Selected Financial Data							
Return on Average Assets	1.12%	1.20%	1.17%	1.34%	1.40%	1.48%	1.48%
Return on Average Equity	17.97%	17.19%	18.40%	16.99%	15.97%	15.85%	15.38%
Stock Dividend Payout Ratio	32.65%	31.21%	30.03%	46.26%	31.50%	30.13%	32.08%
Net Interest Rate Spread	2.98%	3.39%	2.96%	3.35%	3.48%	3.71%	4.03%
Net Interest Margin	3.06%	3.48%	3.36%	3.68%	3.76%	4.00%	4.39%
Efficiency Ratio (2)	55.00%	52.28%	52.00%	49.88%	52.78%	52.02%	52.70%
Allowance for Loan and Lease Losses to Total Loans	1.17%	1.23%	1.23%	1.20%	1.28%	1.46%	1.88%
Non-performing Assets to Total Assets	0.38%	0.53%	0.78%	0.57%	0.43%	0.51%	0.72%
Net Charge-offs to Average Loans	0.09%	0.00%	0.12%	0.07%	(0.02%)	0.11%	0.18%
Average Equity to Average Assets	6.23%	6.96%	6.36%	7.90%	8.75%	9.32%	9.62%
Risk-based Capital Ratios:							
Tier 1	11.8%	9.9%	11.3%	10.7%	11.3%	11.4%	12.6%
Total	13.0%	11.5%	12.7%	11.9%	12.5%	12.6%	13.8%
Leverage Capital Ratio	7.8%	7.1%	7.6%	7.6%	8.1%	8.1%	8.7%

(1) Computed by dividing total shareholders equity less goodwill and core deposit intangible by the number of common shares outstanding:

Equity	$ 107,509	$ 96,211	$ 107,052	$ 129,538	$ 126,405	$ 119,706	$ 118,828
Less Intangibles:							
Goodwill	3,991	3,991	3,991	3,991	3,991	3,518	3,518
Deposit Premium	748	1,603	1,176	2,040	2,924	3,825	4,767
Tangible Equity (A)	$ 102,770	$ 90,617	$ 101,885	$ 123,507	$ 119,490	$ 112,363	$ 110,543
Shares outstanding (B)	6,512,980	6,608,505	6,616,780	7,529,073	7,634,975	7,758,653	8,027,374
Tangible Book Value Per Share (A)/(B)	$ 15.78	$ 13.71	$ 15.40	$ 16.40	$ 15.65	$ 14.48	$ 13.77

(2) Computed by dividing non-interest expense by the sum of net interest income and non-interest income.

Union Bankshares

The following table provides summary historical consolidated financial data as of the end of and for each of the fiscal years in the five-year period ended December 31, 2006, and as of the end of and for each of the six months ended June 30, 2007 and 2006. The historical consolidated financial data as of the end of and for each of the fiscal years in the five-year period ended December 31, 2006 have been derived from Union Bankshares audited financial statements and related notes previously filed with the Securities and Exchange Commission. The historical consolidated financial data as of the end of and for each of the six months ended June 30, 2007 and 2006 have been derived from Union Bankshares unaudited financial statements and related notes included

16

Table of Contents

elsewhere in this document. The selected consolidated financial and other data of Union Bankshares set forth below does not purport to be complete and should be read in conjunction with the consolidated financial statements and related notes in Part II, Item 8 of Union Bankshares Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2007, and in conjunction with the consolidated financial statements and related notes included in this document beginning on page F-1.

Certain ratios have been recalculated to conform to current year calculation methods. All share amounts have been restated to reflect Union Bankshares 2-for-1 stock split, in the form of a 100% stock dividend, paid on March 21, 2005.

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(In thousands, except share and per share amounts)						
SUMMARY OF OPERATIONS							
Net income	$ 1,771	$ 1,668	$ 3,801	$ 4,747	$ 4,829	$ 4,278	$ 4,315
Net interest income	7,095	7,266	14,679	15,817	15,932	14,131	14,001
Non-interest income	3,233	3,036	6,035	5,751	5,713	6,128	5,837
Non-interest expense	8,007	8,115	15,649	15,220	14,549	13,801	13,423
Provision for (recovery of) loan losses	30			(215)	222	420	360
PER COMMON SHARE DATA							
Earnings per share	$ 1.66	$ 1.53	$ 3.50	$ 4.28	$ 4.24	$ 3.73	$ 3.75
Dividends declared per share	0.86	0.80	1.600	1.600	1.275	1.175	1.100
Book value per share (1)	39.04	36.18	39.09	36.96	36.86	35.57	33.37
FINANCIAL RATIOS							
Return on average equity	8.43%	8.25%	9.40%	11.61%	11.63%	10.75%	11.82%
Return on average assets	0.64	0.61	0.69	0.91	1.03	1.06	1.15
Average equity to average assets	7.65	7.44	7.33	7.87	8.84	9.87	9.76
Net interest margin (2)	2.92	3.01	3.00	3.41	3.77	3.95	4.30
Allowance for loan losses to total loans	1.12	1.14	1.15	1.19	1.45	1.52	1.63
Non performing loans to total loans	0.65	0.77	0.86	0.69	0.47	0.61	0.81
Efficiency ratio (3)	74.51	76.24	73.03	68.30	65.89	66.56	65.90
Dividend payout ratio (declared)	51.70	52.16	45.46	37.36	30.18	31.46	29.34
AT PERIOD END							
Total assets	$ 565,087	$ 560,509	$ 550,975	$ 529,883	$ 488,355	$ 464,194	$ 381,029
Loans, gross (4)	377,793	372,740	370,167	355,858	309,951	286,333	226,226
Total investment securities	145,844	149,991	140,498	140,688	144,139	138,155	109,569
Total deposits	348,711	317,517	347,765	334,998	304,982	298,454	275,765
Total borrowed funds	168,162	198,053	154,779	147,695	134,414	117,729	59,284
Total shareholders equity	41,560	39,235	41,593	40,575	41,092	40,752	38,318

(1) Calculated by dividing total shareholders equity by the net shares outstanding at period end.
(2) Adjusted to tax-equivalent basis.
(3) Calculated by dividing Union Bankshares operating expenses by the total of net interest income on a tax-equivalent basis before the provision for loan losses, plus other income.
(4) Excludes loans held for sale.

17

Table of Contents

Summary Combined Company Unaudited Pro Forma Financial Data

The following summary unaudited pro forma combined financial information for the year ended December 31, 2006 and as of and for the six months ended June 30, 2007 has been derived from the unaudited pro forma condensed financial information and related notes included elsewhere in this document. This information is based on the respective audited and unaudited historical consolidated financial statements of Camden and Union Bankshares and after giving effect to the acquisition of Union Bankshares, using the purchase method of accounting for business combinations, as if the merger had been consummated as of the beginning of the period with respect to income statement data, and as of the balance sheet date with respect to the balance sheet data. This information is for illustrative purposes only. The companies may have performed differently had they always been combined. You should not rely on the selected unaudited pro forma financial data as being indicative of the historical results that would have been achieved had the companies always been combined or the future results that the combined company will experience after the merger. This information should be read in conjunction with the combined company unaudited pro forma condensed financial information and the historical financial statements and related notes of Camden and Union Bankshares included in or incorporated by reference into this document.

	For the Six Months Ended June 30, 2007	For the Year Ended December 31, 2006
(In thousands, except per share data)		
Income Statement Data:		
Net interest income	$ 30,927	$ 66,928
Provision for loan and lease losses	130	2,208
Non-interest income	9,298	17,292
Non-interest expense	25,527	50,784
Income taxes	4,121	9,247
Net income	10,447	21,981
Per Share Data:		
Basic earnings	$ 1.34	$ 2.70
Diluted earnings	1.34	2.70
Book value at end of period	19.67	19.35
Cash dividends	0.48	0.88
Average common shares outstanding	7,824,646	8,142,484
Total shares outstanding at period end	7,735,885	7,839,685

	June 30, 2007
(In thousands)	
Balance Sheet Data:	
Loans, net	$ 1,549,273
Total assets	2,335,298
Total Deposits	1,481,137
Total Borrowings	673,240
Total Shareholders equity	152,182

18

Table of Contents

Unaudited Comparative Per Share Information

The following table presents the unaudited basic and diluted earnings per share and book value per share data for each of Camden and Union Bankshares reflecting the merger of Camden and Union Bankshares (which we refer to as pro forma information) and on a historical basis. This information is only a summary and should be read in conjunction with the historical financial data of Camden and Union Bankshares and the separate historical financial statements of Camden and Union Bankshares and related notes included in or incorporated by reference into this document. You should not rely on the pro forma information as being indicative of the results that Camden will achieve in the merger.

At and For the Year Ended December 31, 2006

Camden National Corporation

Earnings Per Share:	
Historical diluted	$ 2.93
Pro Forma diluted	$ 2.70
Dividends:	
Historical	$ 0.88
Pro Forma	$ 0.88
Book Value:	
Historical	$ 16.18
Pro Forma	$ 19.35

Union Bankshares Company

Earnings Per Share:	
Historical diluted	$ 3.50
Pro Forma diluted (1)	$ 5.16
Dividends:	
Historical	$ 1.60
Pro Forma (1)	$ 1.68
Book Value:	
Historical	$ 39.09
Pro Forma (1)	$ 36.97

(1) Obtained by multiplying the pro forma amount for Camden by 1.9106, the exchange ratio.

Table of Contents

Comparative Stock Prices and Dividends

Camden common stock is listed on the American Stock Exchange under the trading symbol CAC. Union Bankshares common stock is listed on the OTC Bulletin Board under the symbol UNBH. The following table sets forth, for the periods indicated, the high and low sale prices per share of Camden common stock as reported on the American Stock Exchange and the high and low sales prices per share of Union Bankshares common stock as reported on the OTC Bulletin Board. The table also provides information as to dividends declared per share of Camden common stock and Union Bankshares common stock.

	Camden			Union Bankshares		
	High	Low	Dividend per Share	High	Low	Dividend per Share
Calendar Year 2005						
First Quarter	$ 40.51	$ 34.67	$ 0.70	$ 77.00	$ 54.63	$ 0.40
Second Quarter	$ 35.47	$ 29.99	$ 0.20	$ 79.00	$ 70.00	$ 0.40
Third Quarter	$ 39.90	$ 32.90	$ 0.20	$ 75.00	$ 71.00	$ 0.40
Fourth Quarter	$ 38.21	$ 32.81	$ 0.20	$ 71.00	$ 68.00	$ 0.40
Calendar Year 2006						
First Quarter	$ 38.95	$ 32.25	$ 0.22	$ 70.00	$ 61.50	$ 0.40
Second Quarter	$ 40.25	$ 36.50	$ 0.22	$ 68.00	$ 63.25	$ 0.40
Third Quarter	$ 44.74	$ 39.60	$ 0.22	$ 64.75	$ 58.00	$ 0.40
Fourth Quarter	$ 47.97	$ 38.90	$ 0.22	$ 61.00	$ 54.50	$ 0.40
Calendar Year 2007						
First Quarter	$ 46.34	$ 42.25	$ 0.24	$ 57.00	$ 48.75	$ 0.43
Second Quarter	$ 44.50	$ 36.03	$ 0.24	$ 59.00	$ 49.00	$ 0.43
August 13, 2007	$ 36.57	$ 36.18		$ 51.00	$ 51.00	
October 19, 2007	$ 34.15	$ 34.01		$ 64.55	$ 64.55	

The following table sets forth the high, low and closing sale prices per share of Camden common stock as reported on the American Stock Exchange and Union Bankshares common stock as reported on the OTC Bulletin Board, on August 13, 2007, the last trading day before the public announcement of the merger agreement, and on October 19, 2007. The equivalent per share value reflects the value of the Camden common stock you would receive for each share of your Union Bankshares common stock on such dates, by multiplying the closing price of Camden common stock by the stock consideration conversion ratio of 1.9106.

	Camden			Union Bankshares			Equivalent Per Share Value of Union Bankshares Common Stock
	High	Low	Closing	High	Low	Closing	
August 13, 2007	$ 36.57	$ 36.18	$ 36.53	$ 51.00	$ 51.00	$ 51.00	$ 69.79
October 19, 2007	$ 34.15	$ 34.01	$ 34.03	$ 64.55	$ 64.55	$ 64.55	$ 65.02

The above tables show only historical comparisons. Because the market prices of Camden common stock and Union Bankshares common stock will likely fluctuate prior to the closing of the merger, these comparisons may not provide meaningful information to Union Bankshares shareholders in determining whether to approve the merger agreement. You should obtain current market quotations. We cannot reliably predict the future prices for Camden common stock.

Table of Contents

Dividend Policies

Camden expects that after the completion of the merger, subject to approval and declaration by the Camden board of directors, it will continue to declare quarterly cash dividends on shares of its common stock consistent with past practices. The current annualized rate of distribution on the shares of Camden common stock is $0.96 per share.

Until the merger is completed, Union Bankshares expects to continue to declare quarterly cash dividends on Union Bankshares common stock as authorized by the board of directors of Union Bankshares, subject to the terms of the merger agreement. Holders of Union Bankshares common stock will stop receiving cash dividends with respect to shares of Union Bankshares common stock upon the completion of the merger, when the separate corporate existence of Union Bankshares will cease. The merger agreement prohibits Union Bankshares from declaring any stock dividends.

Number of Holders of Common Stock and Number of Shares Outstanding

As of October 19, 2007, there were 719 shareholders of record of Union Bankshares common stock who held an aggregate of 1,066,772 shares of Union Bankshares common stock.

As of October 19, 2007, there were 1,055 shareholders of record of Camden common stock who held an aggregate of 6,513,000 shares of Camden common stock.

Camden s registrar and transfer agent is American Stock Transfer and Trust Company. Copies of the governing corporate instruments of Camden and Union Bankshares are available, without charge, by following the instructions listed under the section in this document titled Where You Can Find More Information beginning on page 127.

Table of Contents

RISK FACTORS

In addition to the other information included in this document and incorporated by reference into this document, including Camden s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as updated by subsequently filed Forms 8-K and 10-Q, you should consider carefully the risk factors described below in deciding how to vote and in making a cash or stock election. An investment in shares of Camden common stock involves risk. You should keep these risk factors in mind when you read forward-looking statements in this document and in the documents incorporated by reference into this document. Please refer to the section in this document titled Special Note Regarding Forward-Looking Statements on page 29.

Risks Relating to the Merger

You may not receive the form of merger consideration that you elect.

If the merger is completed, each outstanding share of Union Bankshares common stock will be converted into the right to receive either $68.00 in cash or 1.9106 shares of Camden common stock, plus cash in lieu of any fractional share. You will have the opportunity to elect to receive all cash, all stock or a combination of cash and stock with respect to the shares of Union Bankshares common stock that you hold. Your right as a Union Bankshares shareholder to receive the consideration you elect for your shares is limited because of the allocation procedures set forth in the merger agreement, which are intended to ensure that 40% of the outstanding shares of Union Bankshares common stock will be converted into the right to receive cash, and 60% of the shares of Union Bankshares common stock will be converted into the right to receive Camden common stock. If the total cash elections by Union Bankshares shareholders are greater or less than the aggregate cash consideration to be paid in the merger, or the total stock elections by Union Bankshares shareholders are greater or less than the aggregate stock consideration to be paid in the merger, you may not receive exactly the form of consideration that you elect and you may receive a pro rata amount of cash and/or Camden common stock. A detailed discussion of the merger consideration provisions of the merger agreement is set forth under the sections titled The Merger Agreement Merger Consideration, Election Procedures and Allocation Procedures, beginning on page 51. We recommend th you carefully read this discussion and the merger agreement attached to this document as *Annex A*.

The value of the stock consideration will vary with changes in Camden s stock price.

Upon completion of the merger, 60% of the outstanding shares of Union Bankshares common stock will be converted into shares of Camden common stock. The ratio at which the shares will be converted is fixed at 1.9106 shares of Camden common stock for each share of Union Bankshares common stock, and there will be no adjustment for changes in the market price of either Union Bankshares common stock or Camden common stock. Any change in the price of Camden common stock will affect the aggregate value Union Bankshares shareholders will receive in the merger. Stock price changes may result from a variety of factors that are beyond the control of Camden and Union Bankshares, including changes in businesses, operations and prospects, regulatory considerations, and general market and economic conditions. Accordingly, at the time of the special meeting and at the time the elections are due, you will not know the exact value of the stock consideration to be received in the merger. You should obtain current market quotations for shares of Camden common stock and for shares of Union Bankshares common stock. In addition, there will be a time period between the completion of the merger and the time at which former Union Bankshares shareholders receiving stock consideration actually receive stock certificates evidencing their shares of Camden common stock. Until stock certificates are received, former Union Bankshares shareholders may not be able to sell their Camden shares in the open market and, therefore, will not be able to avoid losses resulting from any decrease, or secure gains resulting from any increase, in the trading price of Camden common stock during this period.

In order to make a cash or stock election, you will submit your shares of Union Bankshares common stock with your election form, and you will then not be able to sell those shares unless you revoke your election prior to the election deadline.

If you are a Union Bankshares shareholder and want to make a cash or stock election, you will have to deliver your stock certificates (or follow the procedures for a guaranteed delivery) and a properly completed and signed form of election to the exchange agent. Since the actual election deadline is not currently known, Camden will issue a press release announcing the date of the election deadline as promptly as practicable following the determination of the deadline. For further details on the determination of the election deadline, see The Merger Agreement Election Procedures beginning on page 52 of this document. The election deadline is expected to be approximately 5 business days in advance of the completion of the merger, but it may be further in advance of the actual closing date. In the time between delivery of your shares and the closing of the merger, the trading price of Union Bankshares common stock or Camden common stock may fluctuate, and you might otherwise want to sell your shares of Union Bankshares common stock to gain access to cash, make other investments or reduce the potential for a decrease in the value of your investment. However, you will not be able to sell any shares of Union Bankshares common stock that you have delivered as part of your election unless you revoke your election before the election deadline by providing written notice to the exchange agent. If you do not revoke your election, you will not be able to liquidate your investment in Union Bankshares common stock for any reason until you receive cash and/or Camden common stock in the merger.

The date you will receive your merger consideration depends on the completion date of the merger, which is uncertain. The completion date of the merger might be later than expected due to unforeseen events, such as delays in obtaining regulatory approvals.

The fairness opinion obtained by Union Bankshares from its financial advisor will not reflect changes in circumstances subsequent to the date of the merger agreement.

Union Bankshares has not obtained an updated opinion as of the date of this document from Stifel, Nicolaus & Company, Incorporated, its financial advisor. Changes in the operations and prospects of Camden or Union Bankshares, general market and economic conditions and other factors which may be beyond the control of Camden and Union Bankshares, and on which the fairness opinion was based, may alter the value of Camden or Union Bankshares or the price of shares of Camden common stock or Union Bankshares common stock by the time the merger is completed. The opinion does not speak to the time the merger will be completed or to any other date other than the date of such opinion. As a result, the August 13, 2007 opinion will not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion that Union Bankshares received from its financial advisor, please refer to The Merger Opinion of Union Bankshares Financial Advisor beginning on page 40 of this document. For a description of the other factors considered by the Union Bankshares board of directors in determining to adopt the merger agreement, please refer to The Merger Union Bankshares Reasons for the Merger beginning on page 38 of this document.

The shares of Camden common stock to be received by Union Bankshares shareholders as a result of the merger will have different rights from the shares of Union Bankshares common stock.

Upon completion of the merger, Union Bankshares shareholders who receive shares of Camden common stock in the merger will become Camden shareholders and their rights as shareholders will be governed by the articles of incorporation and bylaws of Camden and Maine corporate law. The rights associated with Union Bankshares common stock are different from the rights associated with Camden common stock. See Comparison of Rights of Shareholders of Union Bankshares and Camden beginning on page 120 of this document, for a discussion of the different rights associated with Camden common stock.

Table of Contents

The tax consequences of the merger for Union Bankshares shareholders will be dependent upon the merger consideration received.

The tax consequences of the merger to you will depend upon the merger consideration that you receive. You generally will not recognize any gain or loss on the conversion of shares of Union Bankshares common stock solely into shares of Camden common stock. However, you generally will be taxed if you receive cash in exchange for your shares of Union Bankshares common stock or instead of any fractional share of Camden common stock. For a discussion of the tax consequences of the merger to Union Bankshares shareholders generally, see the section in this document titled Material Federal Income Tax Consequences beginning on page 79. You should consult your own tax advisors as to the effect of the merger on your specific interests.

The need for regulatory approvals may delay the date of completion of the merger or may diminish the benefits of the merger.

Camden is required to obtain the approvals of several bank regulatory agencies prior to completing the merger. Satisfying any requirements of these regulatory agencies may delay the date of completion of the merger. In addition, you should be aware that it is possible that, among other things, restrictions on the combined operations of the two companies, including divestitures, may be sought by governmental agencies as a condition to obtaining the required regulatory approvals. Such divestitures prior to the completion of the merger may diminish the benefits of the merger to Camden, may not be feasible or could delay the receipt of such regulatory approvals. Camden has the right to terminate the merger agreement if a governmental agency, as part of its authorization or approval, imposes any term, condition or restriction upon Camden that Camden reasonably determines would prohibit or materially limit the ownership or operation by Camden of any material portion of Union Bankshares business or assets, or that would compel Camden to dispose or hold separate any material portion of Union Bankshares assets.

Camden may be unable to successfully integrate Union Bankshares operations and retain Union Bankshares key employees.

The merger involves the integration of two companies that previously operated independently. The difficulties of combining the companies operations include:

- integrating personnel with diverse business backgrounds;
- integrating departments, systems, operating procedures and information technologies;
- combining different corporate cultures;
- retaining existing customers and attracting new customers; and
- retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company s businesses and the loss of key personnel. The integration of the two companies will require the experience and expertise of certain of Union Bankshares key employees. We cannot assure you, however, that Camden will be successful in retaining these employees for the time period necessary to successfully integrate Union Bankshares operations with those of Camden. The diversion of management s attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies operations could have a material adverse effect on the business and results of operations of the combined company, and could have a negative impact on the market price of Camden common stock after the merger.

Unanticipated costs relating to the merger could reduce Camden s future earnings per share.

Camden believes that it has reasonably estimated the likely costs of integrating the operations of Camden and Union Bankshares, and the incremental costs of operating as a combined company. However, it is possible that unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, as well as other types of unanticipated adverse

24

Table of Contents

developments, could have a material adverse effect on the results of operations and financial condition of the combined company. If unexpected costs are incurred, the merger could have a significant dilutive effect on the combined company s earnings per share. In other words, if the merger is completed, the earnings per share of Camden common stock could be less than they would have been if the merger had not been completed.

If the merger is not completed, Union Bankshares will have incurred substantial expenses without its shareholders realizing the expected benefits.

Union Bankshares has incurred substantial expenses in connection with the transactions described in this document. If the merger is not completed, Union Bankshares expects that it will have incurred approximately $400,000 in merger-related expenses. If the merger were not completed, these expenses would likely have a material adverse impact on the financial condition of Union Bankshares because it would not have realized the expected benefits of the merger. There can be no assurance that the merger will be completed as it is subject to the satisfaction or waiver of specified conditions, some of which are beyond Camden s and Union Bankshares control.

The termination fee and the restrictions on solicitation contained in the merger agreement may discourage other companies from trying to acquire Union Bankshares.

Until the completion of the merger, Union Bankshares is prohibited from soliciting, initiating, encouraging, or with some exceptions, considering any inquiries or proposals that may lead to a proposal or offer for a merger or other business combination transaction with any person other than Camden. In addition, Union Bankshares has agreed to pay a termination fee of $2.9 million to Camden in specified circumstances. These provisions could discourage other companies from trying to acquire Union Bankshares even though those other companies might be willing to offer greater value to Union Bankshares shareholders than Camden has offered in the merger. The payment of the termination fee also could have a material adverse effect on Union Bankshares financial condition.

Risks Relating to Camden s Business

Interest rate volatility may reduce Camden s profitability.

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

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

Camden makes various assumptions and judgments about the collectibility of the loan portfolio and provides an allowance for probable loan and lease losses based on a number of factors. Monthly, Camden reviews the assumptions, calculation methodology and balance of the allowance for loan and lease losses (ALLL) with the board of directors of Camden Bank. On a quarterly basis, Camden s board of directors, as well as the board of directors of Camden Bank, completes a similar review of the ALLL. If the assumptions are incorrect, the ALLL may not be sufficient to cover the losses Camden could experience, which would have an adverse effect on operating results, and may also cause Camden to increase the ALLL in the future. If additional amounts were provided to the ALLL, Camden s net income would decrease.

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

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

If Camden does not maintain net income growth, the market price of Camden s common stock could be adversely affected.

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

Camden experiences strong competition within its markets, which may impact profitability.

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

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

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

Camden s banking business is highly regulated.

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

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

Camden could be held responsible for environmental liabilities of properties acquired through foreclosure.

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

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

Through Camden Bank, Camden operates in a highly regulated industry, and as a result, is subject to various regulations related to disclosures to Camden s customers, Camden s lending practices, and other fiduciary responsibilities. From time to time, Camden has been, and may become, subject to legal actions relating to its operations that have, or could, involve claims for substantial monetary damages. Although Camden maintains insurance, the scope of this coverage may not provide it with full, or even partial, coverage in any particular case. As a result, a judgment against Camden in any such litigation could have a material adverse effect on Camden s financial condition and results of operation.

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

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

Camden s failure to qualify under regulatory capital adequacy guidelines could adversely affect its financial condition.

Under regulatory capital adequacy guidelines and other regulatory requirements, Camden and Camden Bank must meet guidelines that include quantitative measures of assets, liabilities, and certain off-balance sheet items,

Table of Contents

subject to qualitative judgments by regulators about components, risk weightings and other factors. If Camden and Camden Bank fail to meet these minimum capital guidelines and other regulatory requirements, their financial condition would be materially and adversely affected and the ability of Camden Bank to pay dividends may be restricted. The failure to maintain the status of well-capitalized under their regulatory framework could also affect the confidence of Camden s customers, thus compromising Camden s competitive position, and could compromise Camden s eligibility for a streamlined Board of Governors of the Federal Reserve System review process for acquisition proposals.

To the extent that Camden acquires other companies in the future, its business may be negatively impacted by risks related to those acquisitions.

Camden has in the past acquired, and will in the future consider the acquisition of, other banking and related businesses. If Camden acquires other companies in the future, its business may be negatively impacted by risks related to those acquisitions. These risks include the following:

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

As a result of these risks, any given acquisition, if and when consummated, may adversely affect Camden s results of operations or financial condition. In addition, because the consideration for an acquisition may involve cash, debt or the issuance of shares of Camden common stock and may involve the payment of a premium over book and market values, existing holders of Camden common stock could experience dilution in connection with the acquisition.

In addition, Camden will record goodwill in connection with the acquisition of Union Bankshares and is likely to record goodwill and other intangible assets in connection with any acquisitions of other companies. Under Financial Accounting Standards Board Statement No. 142, goodwill and identifiable intangible assets with indefinite lives are no longer amortized, but are reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in performance of the acquired company, adverse market conditions, adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business, and a variety of other circumstances. If goodwill is determined to be impaired, Camden would be required to record a loss equal to the amount of the impairment. Such a loss could have a material adverse effect on Camden s consolidated financial results for the period in which such charge is taken.

Any failure of Camden s communications and information systems could result in a loss of customer business and have a material adverse effect on its results of operations and financial condition.

Camden relies heavily on communications and information systems to conduct its business. Any failure or interruptions or breach in security of these systems could result in failures or disruptions in its customer relationship management, general ledger, deposits, servicing or loan origination systems. The occurrence of any of these failures, interruptions or breaches could result in a loss of customer business and have a material adverse effect on Camden s results of operations and financial condition.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document, including the information incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. All statements, other than statements of historical facts, are forward-looking statements, including, without limitation:

- statements about the benefits of the merger, including future financial and operating results, market position or prospects, enhanced revenues, and accretion to reported earnings that may be realized from the transaction;
- statements about the timing of the merger and receipt of shareholder and regulatory approvals and expenses associated with the merger;
- statements with respect to the strength of Camden s and/or Union Bankshares business and their plans, objectives, expectations and intentions;
- statements about the integration of Union Bankshares business and operations into Camden;
- statements regarding Camden s strategy, effectiveness of investment programs, evaluations of future interest rate trends and liquidity, expectations as to growth in assets, deposits and results of operations, future operations, market position, financial position, and prospects, plans and objectives of management; and
- other statements identified by words such as may, could, should, would, will, continue, believe, expect, anticipate, plan, target and similar expressions.

Camden and Union Bankshares intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of complying with these safe harbor provisions. You should read any forward-looking statements carefully because they discuss Camden s and/or Union Bankshares future expectations, contain projections of Camden s and/or Union Bankshares future results of operations or financial condition, or state other forward-looking information. Camden and Union Bankshares believe that it is important to communicate their future expectations to their investors. However, there may be events in the future that Camden and/or Union Bankshares are not able to accurately predict or control and that may cause their actual results to differ materially from the expectations described in any forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainties, and actual results may differ materially from those discussed in this document, including the documents incorporated by reference into this document. Forward-looking statements are not guarantees of performance. These differences may be the result of various factors, including those factors described in the Risk Factors section in this document and other risk factors identified from time to time in Camden s and Union Bankshares periodic filings with the Securities and Exchange Commission. The factors referred to above include many, but not all, of the factors that could impact the relevant company s ability to achieve the results described in any forward-looking statements. You should not place undue reliance on Camden s and/or Union Bankshares forward-looking statements, which speak only as of the date of this document or the date of any document incorporated by reference into this document. Before you vote, you should be aware that the occurrence of the events described above and elsewhere in this document, including the documents incorporated by reference, could harm Camden s and/or Union Bankshares business, prospects, operating results and financial condition. Except as may be required by the applicable law, Camden and Union Bankshares do not undertake or intend to update any forward-looking statements after the date of this document.

THE COMPANIES

Camden National Corporation

Camden is a publicly held bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System. Camden is incorporated under the laws of the State of Maine and headquartered in Camden, Maine. Camden, as a diversified financial services provider, pursues the objective of achieving long-term sustainable growth by balancing growth opportunities against profit, while mitigating risks inherent in the financial services industry. The primary business of Camden and its subsidiaries is to attract deposits from consumer, institutional, non-profit and commercial customers and to extend loans to consumer, institutional, non-profit and commercial customers. Camden makes available its commercial and consumer banking products and services through its subsidiary, Camden Bank, and its brokerage and insurance services through Acadia Financial Consultants, which operates as a division of Camden Bank. Camden also provides wealth management, trust and employee benefit products and services through its other subsidiary, Acadia Trust, N.A., a federally regulated, non-depository trust company headquartered in Portland, Maine. In addition to serving as a holding company, Camden provides managerial, financial management, risk management, operational, human resource, marketing and technology services to its subsidiaries.

Camden was founded in January 1984 following a corporate reorganization in which the shareholders of Camden Bank exchanged their shares of stock for shares of stock in Camden. In December 1995, Camden merged with UnitedCorp, a bank holding company headquartered in Bangor, Maine, and acquired 100% of the outstanding stock of United Bank and 51% of the outstanding stock of the Trust Company of Maine, Inc. On December 20, 1999, Camden acquired KSB Bancorp, Inc., a publicly-held bank holding company organized under the laws of the State of Delaware and having its principal office in the State of Maine, with one principal subsidiary, Kingfield Savings Bank (KSB), a Maine-chartered stock savings bank with its principal office in Kingfield, Maine. Effective February 4, 2000, United Bank and KSB were merged to form UnitedKingfield Bank. On July 19, 2001, Camden acquired Acadia Trust, N.A. and Gouws Capital Management, Inc., which was merged into Acadia Trust, N.A. on December 31, 2001. On October 24, 2001, Camden acquired the remaining minority interest in Trust Company of Maine, Inc., which, on January 1, 2003, merged with Acadia Trust, N.A., with Acadia Trust, N.A. remaining as the surviving entity. Effective September 30, 2006, UnitedKingfield Bank was merged into Camden Bank, thus creating a banking subsidiary consisting of 27 branches statewide.

At June 30, 2007, Camden had total consolidated assets of approximately $1.8 billion, loans of approximately $1.2 billion, deposits of approximately $1.1 billion, and shareholders equity of approximately $107.5 million. Camden s principal executive offices are located at Two Elm Street, Camden, Maine 04843, and its telephone number is (207) 236-8821. You can find additional information about Camden in Camden s filings with the Securities and Exchange Commission referenced in the section in this document titled Where You Can Find More Information beginning on page 127.

Union Bankshares Company

Union Bankshares is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, which has elected financial holding company status. Union Bankshares was incorporated in 1984 and is headquartered in Ellsworth, Maine. Union Bankshares is the sole shareholder of Union Trust, a Maine chartered commercial bank established in 1887. On August 31, 2000, Union Bankshares completed its acquisition of Mid-Coast Bancorp, Inc., and its principal subsidiary, The Waldoboro Bank, FSB. On September 29, 2000, The Waldoboro Bank, FSB was merged with and into Union Trust.

Union Trust is a community-oriented commercial bank with thirteen offices located along Maine s coast. Union Trust conducts its operations out of its main office in Ellsworth, Maine. It also operates through branch offices located in Ellsworth, Blue Hill, Stonington, Milbridge, Jonesport, Town Hill, Castine, Bar Harbor, Waldoboro, Rockland, Belfast and Camden, Maine. Its deposits are gathered from the general public in these towns and surrounding communities, and its lending activities are concentrated primarily in Hancock, Washington, Knox, Lincoln and Waldo counties of the State of Maine. Union Bankshares serves the financial needs of individuals, businesses, municipalities and organizations with a full range of community banking services. The community banking business derives its revenues from interest and fees earned in connection with its lending activities, interest and dividends on investment securities, service charges and fees on deposit accounts, and fees and commissions from trust accounts and investment advisory services.

At June 30, 2007, Union Bankshares had total assets of $565.1 million, total deposits of $348.7 million and shareholders equity of $41.6 million. Union Bankshares principal executive offices are located at 66 Main Street, Ellsworth, Maine 04605, and its telephone number is (207) 667-2504. You can find additional information about Union Bankshares in Union Bankshares filings with the Securities and Exchange Commission as explained in the section in this document titled Where You Can Find More Information beginning on page 127.

THE SPECIAL MEETING OF UNION BANKSHARES SHAREHOLDERS

Date, Time and Place of the Special Meeting

The special meeting of shareholders of Union Bankshares will be held at the White Birches Restaurant, located at Route 1, Hancock, Maine, on Thursday, November 29, 2007 at 10:00 a.m., local time.

Purpose of the Special Meeting

At the special meeting, Union Bankshares shareholders as of the record date will be asked to consider and vote on the following proposals:

1. To approve the merger agreement, pursuant to which Union Bankshares will merge with and into Camden, with Camden being the surviving corporation;

2. To approve one or more adjournments of the special meeting, if necessary, to permit further solicitation of proxies, if there are not sufficient votes at the time of the special meeting, or at any adjournment or postponement of that meeting, to approve the merger agreement; and

3. To act upon such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.

Recommendation of the Union Bankshares Board of Directors

THE UNION BANKSHARES BOARD OF DIRECTORS HAS UNANIMOUSLY ADOPTED THE MERGER AGREEMENT AND RECOMMENDS THAT YOU VOTE **FOR** APPROVAL OF THE MERGER AGREEMENT AND THE ADJOURNMENT PROPOSAL.

Record Date; Outstanding Shares; Shares Entitled to Vote

Only holders of record of Union Bankshares common stock at the close of business on the record date of October 19, 2007, are entitled to notice of and to vote at the special meeting. As of the record date, there were 1,066,772 shares of Union Bankshares common stock outstanding, held of record by approximately 719 shareholders. A list of Union Bankshares shareholders as of the record date will be available for review by any Union Bankshares shareholder, the shareholder s agent or attorney at Union Bankshares principal executive offices during regular business hours beginning two business days after notice of the special meeting is given and continuing through the special meeting. Each holder of Union Bankshares common stock is entitled to one vote for each share of Union Bankshares common stock he, she or it owned as of the record date.

Quorum; Vote Required

A quorum of Union Bankshares shareholders is necessary to hold a valid meeting. If the holders of at least a majority of the total number of the outstanding shares of Union Bankshares common stock entitled to vote are represented in person or by proxy at the special meeting, a quorum will exist. Union Bankshares will include proxies marked as abstentions and broker non-votes in determining the number of shares present at the special meeting.

The affirmative vote of the holders of at least sixty percent (60%) of the outstanding shares of Union Bankshares common stock is required to approve the merger agreement. If you do not vote, either in person or by proxy, it will have the same effect as voting against approval of the merger agreement.

Share Ownership of Management

As of the record date, the directors and executive officers of Union Bankshares and their affiliates collectively owned 43,072 shares of Union Bankshares common stock, or approximately 4.0% of Union Bankshares outstanding shares. These directors and executive officers have executed voting agreements with Camden, under which they have agreed to vote their shares in favor of the merger agreement and have granted

Camden an irrevocable proxy to so vote their shares.

Voting of Proxies

The Union Bankshares board of directors requests that you return the proxy card accompanying this document for use at the special meeting. Please complete, date and sign the proxy card and promptly return it in the enclosed pre-paid envelope. All properly signed proxies received prior to the special meeting and not revoked before the vote at the special meeting will be voted at the special meeting according to the instructions indicated on the proxies or, **if no instructions are given, the shares will be voted FOR approval of the merger agreement, FOR an adjournment of the special meeting to solicit additional proxies, if necessary, and in the proxies discretion with respect to such other matters as may properly come before the special meeting or any adjournment or postponement of that meeting.**

Union Bankshares does not expect that any matters other than those set forth in the notice for the special meeting will be brought before the meeting. If other matters are properly presented and are within the purpose of the special meeting, however, the persons named as proxies will vote on such matters in such manner as shall be determined by a majority of the Union Bankshares board of directors.

If you have questions or need assistance in completing or submitting your proxy card, please contact Union Bankshares clerk at the following address and telephone number:

Union Bankshares Company

66 Main Street

Ellsworth, Maine 04605

(207) 667-2504

You may also contact our proxy solicitation agent, Georgeson Inc., as follows:

Georgeson Inc.

17 State Street

New York, NY 10004

(866) 651-3212

How to Revoke Your Proxy

You may revoke your proxy at any time by taking any of the following actions before your proxy is voted at the special meeting:

- delivering a written notice bearing a date later than the date of your proxy card to the clerk of Union Bankshares, stating that you revoke your proxy;

- signing and delivering to the clerk of Union Bankshares a new proxy card relating to the same shares and bearing a later date; or

- attending the special meeting and voting in person, although attendance at the special meeting will not, by itself, revoke a proxy. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring additional documentation from the broker, bank or other nominee in order to vote your shares.

You should send any notice of revocation or your completed new proxy card, as the case may be, to Union Bankshares clerk, at the following address:

Union Bankshares Company

66 Main Street

Ellsworth, Maine 04605

(207) 667-2504

33

If you have instructed a bank, broker or other nominee to vote your shares, you must follow the directions you receive from your bank, broker or other nominee to change your vote.

Voting in Person

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must bring additional documentation from the broker, bank or other nominee in order to vote your shares.

Abstentions and Broker Non-Votes

Only shares affirmatively voted for approval of the merger agreement and shares represented by properly executed proxies that do not contain voting instructions will be counted as votes **FOR** the merger agreement.

Brokers who hold shares of Union Bankshares common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer s shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your shares of Union Bankshares common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this document.

Accordingly, you are urged to mark and return the enclosed proxy card to indicate your vote, or fill out the voter instruction form, if applicable.

Abstentions and broker non-votes will be included in determining the presence of a quorum at the special meeting, but will have the same effect as voting against approval of the merger agreement.

Proxy Solicitation

The enclosed proxy is solicited by and on behalf of the Union Bankshares board of directors. Union Bankshares will pay the expenses of soliciting proxies to be voted at the special meeting, except that Union Bankshares and Camden have each agreed to share equally the costs of preparing, printing, filing and mailing this document, other than attorneys and accountants fees which will be paid by the party incurring the expense. Following the original mailing of the proxies and other soliciting materials, Union Bankshares and its agents also may solicit proxies by mail, telephone, facsimile or in person. No additional compensation will be paid to directors, officers or other employees of Union Bankshares for making these solicitations. Union Bankshares intends to reimburse persons who hold Union Bankshares common stock of record but not beneficially, such as brokers, custodians, nominees and fiduciaries, for their reasonable expenses in forwarding copies of proxies and other soliciting materials to, and requesting authority for the exercise of proxies from, the persons for whom they hold the shares. Union Bankshares has also made arrangements with Georgeson, Inc. to assist in soliciting proxies and has agreed to pay them a fee of $10,000 plus reasonable expenses for these services.

Dissenters Appraisal Rights

Union Bankshares is organized as a corporation under Maine law. Under Maine corporate law, Union Bankshares shareholders who object to the merger have dissenters appraisal rights. For more information regarding dissenters appraisal rights, please see the section in this document titled The Merger Dissenters Appraisal Rights beginning on page 45.

Stock Certificates

You should not send in any certificates representing Union Bankshares common stock at this time. Prior to the anticipated closing date of the merger, you will receive separate instructions for the exchange of your stock certificates representing Union Bankshares common stock. For more information regarding these instructions, please see the section in this document titled The Merger Agreement Election Procedures beginning on page 52.

Proposal to Approve Adjournment of the Special Meeting

Union Bankshares is also submitting a proposal for consideration at the special meeting to authorize the named proxies to approve one or more adjournments of the special meeting if there are not sufficient votes to approve the merger agreement at the time of the special meeting. Even though a quorum may be present at the special meeting, it is possible that Union Bankshares may not have received sufficient votes to approve the merger agreement by the time of the special meeting. In that event, Union Bankshares would need to adjourn the special meeting in order to solicit additional proxies. The adjournment proposal relates only to an adjournment of the special meeting for purposes of soliciting additional proxies to obtain the requisite shareholder approval to approve the merger agreement. Any other adjournment of the special meeting (e.g., an adjournment required because of the absence of a quorum) would be voted upon pursuant to the discretionary authority granted by the proxy card.

The proposal to approve one or more adjournments of the special meeting requires the affirmative vote of the holders of a majority of the shares of Union Bankshares common stock present or represented at the special meeting and entitled to vote on the proposal.

If the special meeting is adjourned for 30 days or less, Union Bankshares is not required to give notice of the time and place of the adjourned meeting, unless the board of directors fixes a new record date for the special meeting.

The adjournment proposal relates only to an adjournment of the special meeting occurring for purposes of soliciting additional proxies for approval of the merger agreement proposal in the event that there are insufficient votes to approve that proposal. The Union Bankshares board of directors retains full authority to the extent set forth in its bylaws and Maine law to adjourn the special meeting for any other purpose, or to postpone the special meeting before it is convened, without the consent of any Union Bankshares shareholders.

Table of Contents

THE MERGER

General

Under the terms and conditions set forth in the merger agreement, Union Bankshares will be merged with and into Camden, with Camden being the surviving corporation. At the effective time of the merger, each share of Union Bankshares common stock outstanding immediately prior to the effective time will, by virtue of the merger and without any action on the part of the shareholder, be converted into the right to receive either:

$68.00 in cash (which is referred to as the cash consideration); or

1.9106 shares of Camden common stock (which is referred to as the stock consideration), plus cash in lieu of any fractional share.

You will have the opportunity to elect the form of consideration to be received for all shares of Union Bankshares common stock that you hold, subject to allocation procedures set forth in the merger agreement. You may elect to receive a portion of your merger consideration in cash and the remaining portion in shares of Camden common stock. The allocation procedures included in the merger agreement are intended to ensure that 40% of the outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger will be converted into the right to receive cash, and 60% of these shares of Union Bankshares common stock will be converted into the right to receive shares of Camden common stock. Shares of Union Bankshares common stock held by Camden or Union Bankshares, other than in a fiduciary capacity, will not be converted into the right to receive the merger consideration upon consummation of the merger.

Background of the Merger

The board of directors of Union Bankshares and its senior management have regularly reviewed Union Bankshares strategic alternatives and assessed various opportunities for increasing long-term shareholder value, including opportunities for enhancing earnings internally, opportunistic *de novo* branching, and acquiring and/or affiliating with other financial institutions. These reviews included a periodic assessment by financial advisors of Union Bankshares financial performance and return to shareholders, stock trading patterns and trends in the financial marketplace, including merger and acquisition activity, both local and nationwide. In addition, these reviews often included a discussion of the fiduciary duties of Union Bankshares board of directors with Thacher Proffitt & Wood LLP, Union Bankshares special legal counsel (Thacher Proffitt).

In January 2007, Stifel, Nicolaus & Company, Incorporated (formerly Ryan Beck & Co., Inc.), an investment banking firm, at the direction of management, prepared materials addressing certain strategic opportunities for the Union Bankshares board of directors. On January 17, 2007, at a regular meeting of the board of directors of Union Bankshares, the board reviewed and discussed these materials. On or about January 22, 2007, Robert W. Daigle, President and Chief Executive Officer of Camden called Peter A. Blyberg, Union Bankshares President and Chief Executive Officer, to informally discuss a potential merger between Camden and Union. Mr. Daigle indicated that Camden would consider paying a per share price of $65.00, subject to customary due diligence and certain other contingencies. No formal steps followed this preliminary conversation.

On March 14, 2007, at a regular meeting of Union Bankshares board of directors, Stifel met with the board to review a range of strategic options, including acquiring another bank, participating in a simultaneous conversion/acquisition transaction, remaining independent and selling to another financial institution. Following the presentation, Mr. Blyberg reported his telephone call with Mr. Daigle. The board discussed the Stifel presentation and determined to continue to review all strategic options.

On April 11, 2007, at a regular meeting, the Union Bankshares board continued its discussion of Union Bankshares strategic options.

Table of Contents

At a regular meeting of the board on May 16, 2007, Union Bankshares board reviewed additional material prepared by Stifel regarding select strategic opportunities. At that meeting, the board authorized Mr. Blyberg to approach Camden to determine their interest in a potential transaction.

On June 15, 2007, Mr. Blyberg met with Mr. Daigle, and had a substantive conversation regarding a potential merger transaction. On June 19, 2007, Camden submitted a non-binding expression of interest, which outlined a proposal to purchase Union Bankshares for 60% stock and 40% cash in an amount equivalent to a price of $68.00 per share, subject to customary due diligence and certain assumptions that Camden made relating to one-time transaction costs and ongoing cost savings.

On June 20, 2007, at a regular meeting of Union Bankshares board of directors, the board of directors authorized management to negotiate a confidentiality agreement with Camden.

On June 28, 2007, Union Bankshares executed a confidentiality agreement with Camden.

On July 5, 2007, senior management of Camden met in Brunswick, Maine with senior management of Union Bankshares. The parties discussed the possible merger of Camden and Union Bankshares, including potential one-time transaction expenses and possible cost savings, structure, social issues and other general matters.

At a special meeting of Union Bankshares board of directors on July 11, 2007, the board discussed the proposed transaction concerning Camden. Thacher Proffitt and Stifel participated in the special meeting by telephone conference. Thacher Proffitt discussed the board of directors fiduciary duties and responsibilities in considering a potential transaction. Stifel reviewed with the board of directors the components of the preliminary discussions of the proposed merger, including value per share, total value, the mix of consideration and the proposed structure, and noted that all discussions remained preliminary as very limited due diligence had been performed by both Camden and Union Bankshares.

Senior management of Union Bankshares and Camden continued their discussions regarding the proposed transaction between July 11 and July 19, 2007.

On July 19, 2007, Camden submitted a revised non-binding expression of interest outlining a proposal to purchase Union Bankshares for 60% stock and 40% cash in an amount equivalent to a price of $73.00 per share. The revised non-binding expression of interest also noted that the offer price was dependent on the results of Camden s due diligence and would be reflective, among other matters, of a detailed assessment of Camden s one-time transaction expenses as well as estimated cost savings.

Camden and their advisors conducted due diligence of Union Bankshares at an off-site location during the week of July 20-26, 2007.

At a regular meeting of the board of directors of Union Bankshares on July 25, 2007, which Thacher Proffitt and Stifel attended by telephone conference, the board discussed the terms of Camden s non-binding expression of interest, the status of Camden s due diligence, and the potential one-time transaction expenses and estimated cost savings that were expected to result from the proposed transaction.

Union Bankshares and their advisors conducted due diligence at the offices of Camden on July 28, 2007. On July 30, 2007, Goodwin Procter LLP, Camden s counsel, circulated an initial draft of the merger agreement.

On July 30, 2007, Camden s President and Chief Executive Officer, Mr. Daigle, notified Mr. Blyberg that, based on Camden s due diligence of Union and Camden s estimates of one-time transaction expenses and ongoing cost savings, Camden was prepared to pay a price of $68.00 per share in the form of 60% stock and 40% cash to the shareholders of Union Bankshares.

Table of Contents

On August 2, 2007, at a special meeting of the Union Bankshares board of directors, which Thacher Proffitt and Stifel attended by telephone, the board discussed the results of due diligence and the terms of the merger agreement, including the revised per share price and the reasons therefor. Thacher Proffitt reviewed for Union Bankshares board of directors the material terms of the draft merger agreement, as well as the fiduciary duties of the board of directors with respect to Union Bankshares shareholders. Following extensive discussion, the board authorized Union Bankshares management to proceed with negotiations with Camden concerning the proposed merger.

On August 7, 2007, Union Bankshares board of directors formally engaged Stifel to serve as financial advisor and, among other things, to provide Union Bankshares with a fairness opinion in connection with a potential transaction with Camden.

Through August 13, 2007, the parties and their respective advisors negotiated the terms of the merger agreement and the ancillary agreements.

On August 13, 2007, at a special meeting, Union Bankshares board of directors discussed the final terms of the proposed transaction with Camden. At this meeting, Stifel and Thacher Proffitt updated Union Bankshares board on the material terms that had been resolved and discussed the interests of certain persons in the proposed transaction. Prior to the meeting, each member of the Union Bankshares board of directors had been provided with a copy of the merger agreement and related ancillary agreements. Stifel presented a financial analysis of the proposed merger. Thacher Proffitt reviewed for Union Bankshares board of directors the results of its due diligence on Camden, the material terms of the merger agreement, as negotiated, as well as the voting agreement to be entered into by each of the directors and certain executive officers of Union Bankshares, and the fiduciary duties of Union Bankshares board of directors with respect to Union Bankshares shareholders. Stifel delivered its oral opinion (subsequently confirmed in writing) that as of the date of its opinion and based upon and subject to the considerations described in its opinion, the merger consideration offered by Camden was fair from a financial point of view to Union Bankshares shareholders. Following the presentations, the board engaged in a discussion and asked various questions of management, Stifel and Thacher Proffitt regarding the proposed merger, and after such discussions and deliberations, unanimously determined that the merger was in the best interest of Union Bankshares and its shareholders and approved the merger agreement and the transactions contemplated thereby.

On August 13, 2007, Camden s board of directors held a special meeting in Camden, Maine, at which members of Camden s senior management reviewed with Camden s board of directors information regarding Union Bankshares, as well as the terms of the merger. Following review and discussion among the members of Camden s board of directors, including questions to Camden s management, Camden s board of directors unanimously approved the merger agreement and related matters.

On the evening of August 13, 2007, the parties executed the merger agreement. On the morning of August 14, 2007, the parties issued a joint press release publicly announcing the transaction.

On September 21, 2007, an amendment to the merger agreement was signed by Union Bankshares and Camden.

Union Bankshares Reasons for the Merger

In reaching its decision to approve the merger agreement and the related transactions, the Union Bankshares board of directors consulted with senior management, its financial advisor, Stifel, and its legal counsel, Thacher Proffitt, and considered a number of factors, including, among others, the following, which are not presented in order of priority:

- the historical performance of Union Bankshares;

- the current and prospective economic, regulatory and competitive environment in which Union Bankshares operates;

- the merger consideration offered and the belief of the Union Bankshares board of directors that the merger consideration is a fair amount, in light of economic trends affecting community banks, and that the mixture of stock and cash is favorable and will result in long-term value for Union Bankshares shareholders;
- the pro forma ownership that Union Bankshares shareholders will have in the surviving entity;
- the fact that Union Bankshares shareholders would have the opportunity to elect to receive shares of Camden common stock or cash (subject to the requirement that 40% of the outstanding Union Bankshares common stock will be exchanged for cash and 60% will be exchanged for shares of Camden common stock);
- the fact that the transaction is expected to be tax-free to Union Bankshares shareholders to the extent that they receive Camden common stock in exchange for their shares of Union Bankshares common stock;
- the ability of Camden to pay the merger consideration;
- the business and future prospects of Camden and the Union Bankshares board of directors view of the quality of Camden common stock as an investment of Union Bankshares shareholders;
- the compatibility of the respective business cultures and lines of businesses of Union Bankshares and Camden;
- the anticipated effect of the acquisition on Union Bankshares employees (including the fact that Union Bankshares employees who do not continue as employees of Camden will be entitled to receive severance benefits);
- the effect on Union Bankshares customers and the communities served by Union Bankshares;
- the terms and conditions of the merger agreement, including, but not limited to, the representations and warranties of the parties, the covenants, the consideration, the benefits to Union Bankshares employees, employee and executive termination benefits, and the circumstances under which the Union Bankshares board of directors may consider a superior proposal;
- the likelihood of obtaining the necessary regulatory and shareholder approvals;
- the likelihood of finding another acquirer with the willingness and ability to offer greater consideration; and
- the opinion of Stifel that the terms of the transaction are fair to Union Bankshares shareholders from a financial point of view.

Based on the factors described above, the Union Bankshares board of directors determined that the merger is advisable and in the best interests of Union Bankshares shareholders and unanimously approved the merger agreement. In reaching its determination to approve and recommend the merger agreement, the Union Bankshares board of directors did not assign any specific or relative weights to any of the factors listed above. The Union Bankshares board of directors weighed these factors against the potential risks of the merger. These risks are discussed in the section of this document titled Risk Factors Risks Relating to the Merger beginning on page 22.

Camden s Reasons for the Merger

In reaching its decision to approve the merger agreement and related transactions, the Camden board of directors consulted with senior management and Camden s advisors, and considered a number of factors, including, among others, the following, which are not presented in order of priority:

information concerning the business, operations, financial condition, earnings and prospects of each of Camden and Union Bankshares as separate entities and on a combined basis;

39

Table of Contents

- its understanding of the current environment in the financial services industry, including continued consolidation, and current financial market conditions;
- the compatibility of the businesses, operations and cultures of the two companies, particularly with respect to meeting local banking needs;
- the increase in Camden s market presence in Maine, especially in the Washington and Hancock county markets, that would result from the merger;
- the pro forma financial effects of the proposed transaction, including the balanced loan portfolio and diversified sources of funding of the combined company on a pro forma basis;
- the anticipated operational cost savings through shared overhead and services with Camden s other subsidiaries;
- the terms and conditions of the merger agreement, including the financial terms, and the structure of the merger;
- the expected treatment of the merger as a reorganization for federal income tax purposes;
- the ability to complete the merger, including the conditions to the merger requiring receipt of necessary regulatory approvals in accordance with the terms of the merger agreement;
- the challenges of combining the businesses of two corporations; and
- the potential risk of diverting management focus and resources from other strategic opportunities and from operational matters while working to implement the merger.

The foregoing discussion of the information and factors considered by the Camden board of directors is not intended to be exhaustive, but is believed to include all material factors considered by the Camden board. In view of the wide variety of factors considered by the Camden board, the Camden board did not find it practicable to assign any specific or relative weights to the factors considered. In addition, the Camden board did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of the Camden board may have given different weight to different factors. However, after taking into account all of the factors set forth above, the Camden board unanimously approved the merger agreement.

There can be no assurance that the potential synergies or opportunities considered by the Camden board will be achieved through completion of the merger. See the section of this document titled Risk Factors Risks Relating to the Merger beginning on page 22.

Opinion of Union Bankshares Financial Advisor

Stifel, Nicolaus & Company, Incorporated acted as Union Bankshares financial advisor in connection with the merger. Stifel is a nationally recognized investment banking and securities firm with membership on all the principal United States securities exchanges and substantial expertise in transactions similar to the merger. As part of its investment banking activities, Stifel is regularly engaged in the independent valuation of businesses and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

On August 13, 2007, Stifel rendered its oral opinion, which was subsequently reaffirmed and confirmed in writing on August 13, 2007, to the board of directors of Union Bankshares that, as of August 13, 2007, the per share consideration to be received by the holders of Union Bankshares common stock (other than shares as to which dissenters appraisal rights have been properly demanded and shares held directly or indirectly by Camden or Union Bankshares or any of their respective subsidiaries (other than shares held in a trust or managed account or otherwise in a fiduciary capacity or in respect of a previously contracted debt)) from Camden in the merger pursuant to the merger agreement was fair to such holders, from a financial point of view.

Table of Contents

The full text of Stifel s written opinion dated August 13, 2007, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as *Annex C* to this document and is incorporated herein by reference. Holders of Union Bankshares common stock are urged to, and should, read this opinion carefully and in its entirety in connection with this document. The summary of the opinion of Stifel set forth in this document is qualified in its entirety by reference to the full text of such opinion. The opinion of Stifel will not reflect any developments that may occur or may have occurred after the date of its opinion and prior to the completion of the merger. Stifel has no obligation to update, revise or reaffirm its opinion, except in accordance with the terms and conditions of Stifel s engagement letter agreement with Union Bankshares, and Union Bankshares does not currently expect that it will request an updated opinion from Stifel.

No limitations were imposed by Union Bankshares on the scope of Stifel s investigation or the procedures to be followed by Stifel in rendering its opinion. In arriving at its opinion, Stifel did not ascribe a specific range of values to Union Bankshares. Its opinion is based on the financial and comparative analyses described below. Stifel s opinion was directed solely to Union Bankshares board of directors for its use in connection with its consideration of the financial terms of the merger. Stifel s opinion addressed only the fairness of the per share consideration to the holders of Union Bankshares common stock from a financial point of view and did not address any other aspect of the merger. Stifel s opinion was not intended to be and does not constitute a recommendation to Union Bankshares board of directors or any shareholder of Union Bankshares as to how the board or any such shareholder should vote with respect to the merger, or whether or not any Union Bankshares shareholder should elect to receive cash or shares of Camden s common stock (or any combination thereof) as per share consideration in connection with the merger. In addition, Stifel was not requested to opine as to, and its opinion does not compare, the relative merits of the merger with any other alternative transaction or business strategy which may have been available to Union Bankshares and does not address the underlying business decision of the board of directors or Union Bankshares to proceed with or effect the merger. Stifel s opinion also does not address or opine on: (a) the tax or accounting consequences of the merger to Union Bankshares or the holders of common shares; (b) the fairness of any consideration received by holders of any securities of Union Bankshares other than the common shares.

In connection with its opinion, Stifel, among other things:

- reviewed and analyzed a draft copy of the Merger Agreement provided to Stifel on August 13, 2007;

- reviewed and analyzed the audited consolidated financial statements of Union Bankshares included in its Annual Reports on Form 10-K for the two years ended December 31, 2006, and its Quarterly Reports on Form 10-Q for the quarters ended June 30 and March 31, 2007;

- reviewed and analyzed the audited consolidated financial statements of Camden included in its Annual Reports on Form 10-K for the five years ended December 31, 2006, and its Quarterly Reports on Form 10-Q for the quarters ended June 30 and March 31, 2007;

- reviewed the reported prices and trading activity of the publicly traded common equity securities of Camden and the historical prices and trading volume of the common stock of Union Bankshares;

- reviewed and analyzed certain other publicly available information concerning Union Bankshares and Camden;

- held discussions with the senior management of both Union Bankshares and Camden, including estimates of certain cost savings, operating synergies, and merger charges;

- reviewed certain non-public information concerning Union Bankshares, including internal financial analyses and forecasts prepared by its management and held discussions with Union Bankshares senior management regarding the financial forecasts and recent developments;

participated in certain discussions and negotiations between representatives of Union Bankshares and Camden;

Table of Contents

- reviewed and analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions that Stifel considered relevant to its analysis;

- reviewed and analyzed certain publicly available financial and stock market data relating to selected public companies that Stifel deemed relevant to its analysis;

- conducted such other financial studies, analyses and investigations and considered such other information as Stifel deemed necessary or appropriate for purposes of its opinion; and

- considered its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuations and its knowledge of the banking industry generally.

In rendering its opinion, Stifel relied upon and assumed, without independent verification, the accuracy and completeness of all of the financial and other information that was provided to Stifel, by or on behalf of Union Bankshares and Camden, or that was otherwise reviewed by Stifel and did not assume any responsibility for independently verifying any of such information. With respect to the financial forecasts supplied to Stifel by Union Bankshares and Camden (including, without limitation, potential cost savings and operating synergies realized by a potential acquirer), Stifel assumed that they were reasonably prepared to reflect the best currently available estimates and judgments of the respective managements of Union Bankshares and Camden as to the future operating and financial performance of Union Bankshares and Camden, that cost saving and operating synergies would be realized in the amounts and time periods estimated by Camden and that they provided a reasonable basis upon which Stifel could form its opinion. Such forecasts and projections were not prepared with the expectation of public disclosure. All such projected financial information is based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projected financial information. Stifel has relied on this projected information without independent verification or analyses and does not in any respect assume any responsibility for the accuracy or completeness thereof.

Stifel also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either Union Bankshares or Camden since the date of the last financial statements made available to it. Stifel has also assumed, without independent verification and with Union Bankshares consent, that the aggregate allowances for loan losses set forth in the financial statements of Union Bankshares and Camden are in the aggregate adequate to cover all such losses. Stifel was not requested to make, and did not make, review or obtain any independent evaluation, appraisal or physical inspection of Union Bankshares or Camden s assets or liabilities, the collateral securing any of such assets or liabilities, or the collectibility of any such assets nor did it review loan or credit files of Union Bankshares or Camden. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, Stifel assumes no responsibility for their accuracy. Stifel relied on advice of Union Bankshares counsel as to certain legal matters with respect to Union Bankshares, the merger agreement and the merger and other transactions and other matters contained or contemplated therein. Stifel has assumed, with Union Bankshares consent, that there are no factors that would delay or subject to any adverse conditions any necessary regulatory or governmental approval and that all conditions to the merger will be satisfied and not waived. In addition, Stifel assumed that the definitive merger agreement would not differ materially from the draft it reviewed. Stifel has also assumed that the merger will be consummated substantially on the terms and conditions described in the merger agreement, without any waiver of material terms or conditions by Union Bankshares, and that obtaining any necessary regulatory approvals or satisfying any other conditions for consummation of the merger will not have an adverse effect on Union Bankshares or Camden.

Stifel s opinion is necessarily based on economic, market, financial and other conditions as they existed on, and on the information made available to it as of, the date of its opinion. It is understood that subsequent developments may affect the conclusions reached in Stifel s opinion and that Stifel does not have any obligation to update, revise or reaffirm its opinion except in accordance with the terms and conditions of Stifel s engagement letter agreement with Union Bankshares.

In connection with rendering its opinion, Stifel performed a variety of financial analyses that are summarized below. This summary does not purport to be a complete description of such analyses. Stifel believes that its analyses and the summary set forth herein must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could create an incomplete view of the analyses and processes underlying its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Stifel considered the results of all of its analyses as a whole and did not attribute any particular weight to any analyses or factors considered by it. The range of valuations resulting from any particular analysis described below should not be taken to be Stifel s view of the actual value of Union Bankshares. In its analyses, Stifel made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of Union Bankshares or Camden. Any estimates contained in Stifel s analyses are not necessarily indicative of actual future values or results, which may be significantly more or less favorable than suggested by such estimates. Estimates of values of companies do not purport to be appraisals or necessarily reflect the actual prices at which companies or their securities actually may be sold. No company or transaction utilized in Stifel s analyses was identical to Union Bankshares or Camden or the merger. Accordingly, an analysis of the results described below is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other facts that could affect the public trading value of the companies to which they are being compared. None of the analyses performed by Stifel was assigned a greater significance by Stifel than any other, nor does the order of analyses described represent relative importance or weight given to those analyses by Stifel. The analyses described below do not purport to be indicative of actual future results, or to reflect the prices at which Union Bankshares common stock or Camden common stock may trade in the public markets, which may vary depending upon various factors, including changes in interest rates, dividend rates, market conditions, economic conditions and other factors that influence the price of securities.

In accordance with customary investment banking practice, Stifel employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses that Stifel used in providing its opinion. Some of the summaries of financial analyses are presented in tabular format. In order to understand the financial analyses used by Stifel more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Stifel s financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Stifel. The summary data set forth below do not represent and should not be viewed by anyone as constituting conclusions reached by Stifel with respect to any of the analyses performed by it in connection with its opinion. Rather, Stifel made its determination as to the fairness to the shareholders of Union Bankshares of the per share merger consideration, from a financial point of view, on the basis of its experience and professional judgment after considering the results of all of the analyses performed. Accordingly, the data included in the summary tables and the corresponding imputed ranges of value for Union Bankshares should be considered as a whole and in the context of the full narrative description of all of the financial analyses set forth in the following pages, including the assumptions underlying these analyses. Considering the data included in the summary table without considering the full narrative description of all of the financial analyses, including the assumptions underlying these analyses, could create a misleading or incomplete view of the financial analyses performed by Stifel.

In connection with rendering its opinion and based upon the terms of the draft merger agreement reviewed by it, Stifel assumed the aggregate consideration to be $72.5 million and, at the time of the opinion, the per share consideration to be $68.00.

Pro Forma Effect of the Merger. Stifel reviewed certain estimated future operating and financial information developed by Union Bankshares, publicly available financial estimates of Camden and certain estimated future operating and financial information for the pro forma combined entity resulting from the merger for the twelve month periods ended December 31, 2008 and December 31, 2009. Based on this analysis, Stifel compared certain of Union Bankshares estimated future per share results with such estimated figures for the pro forma combined entity. Based on this analysis on a pro forma basis, the merger is forecast to be accretive to Camden s earnings per share for each of the twelve month periods ended December 31, 2008 and December 31, 2009. Stifel also reviewed certain financial information in order to determine the estimated effect of the merger on the book value, tangible book value and dividends of the combined entity. Based on this analysis on a pro forma basis, the merger is forecasted to be dilutive to Union Bankshares book value per share and tangible book value per share. Based on historical dividend rates, Stifel believed that Union Bankshares shareholders who receive Camden shares would likely receive an increase in their dividends.

Analysis of Bank Merger Transactions. Stifel analyzed certain information relating to recent transactions in the banking industry, consisting of (1) 111 U.S. bank acquisitions announced since December 31, 2006, with announced transaction values and excluding merger of equals transactions, referred to below as Group A, (2) Nine selected U.S. bank acquisitions announced since December 31, 2006, involving sellers headquartered in the New England region where the seller had total assets of less than $1 billion, a return on average assets of less than 1.0% and excluding merger of equals transactions, referred to below as Group B. Stifel calculated the following ratios with respect to the merger and the selected transactions:

Ratios	Camden /Union Bankshares	Median Statistics for Selected Transactions Group A	Group B
Price Per Share/ Book Value Per Share	175%	242%	195%
Price Per Share/Tangible Book Value Per Share	206%	257%	202%
Adjusted Deal Price/6.50% Equity	184%	280%	228%
Price Per Share/Last 12 Months Earnings Per Share	18.6x	22.1x	25.9x
Premium over Tangible Book Value/Core Deposits	11.64%	20.30%	11.93%
Premium over Tangible Book Value/Deposits	10.69%	15.36%	10.61%

This analysis resulted in a range of imputed values for Union Bankshares common stock of between $80.77 and $100.91 per share based on the median multiples for Group A, between $66.91 and $94.68 per share based on the median multiples for Group B.

Present Value Analysis. Applying present value analysis to the theoretical future earnings and dividends of Union Bankshares, Stifel compared the per share consideration to the calculated present value of one share of Union Bankshares common stock on a stand-alone basis. The analysis was based upon Union Bankshares management s projected earnings growth, a range of assumed price/earnings ratios, and an 11.5%, 12.5% and 13.5% discount rate. Stifel selected the range of terminal price/earnings ratios on the basis of past and current trading multiples for other publicly-traded comparable banks. The stand-alone present value of Union Bankshares common stock calculated on this basis ranged from $43.55 to $52.89 per share.

Discounted Dividend Analysis. Using a discounted cash flow analysis, Stifel estimated the net present value of the future streams of after-tax cash flow that Union Bankshares could produce for dividends to a potential acquiror, referred to below as dividendable net income. In this analysis, Stifel assumed that Union Bankshares would perform in accordance with management s estimates and calculated assumed after-tax distributions to a potential acquiror such that Union Bankshares tangible common equity ratio would be maintained at 6.5% of assets. Stifel calculated the sum of the assumed perpetual dividendable net income streams per share beginning in the year 2008 discounted to present values at assumed discount rates ranging from 11.5% to 13.5%, reflecting the general range for the bank industry based on Stifel s historical experience, and based upon estimated cost savings of 16.17% of Union Bankshares trailing twelve month non-interest expense in 2008 and 26.45% in 2009. This discounted cash flow analysis indicated an implied equity value reference range of $57.44 to $71.69 per share of Union Bankshares common stock. This analysis did not purport to be indicative of actual future results and did not purport to reflect the prices at which shares of Union Bankshares common stock may trade in the public markets. A discounted dividend analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including estimated cost savings and operating synergies, earnings growth rates, dividend payout rates and discount rates.

As described above, Stifel s opinion was among the many factors taken into consideration by the Union Bankshares board of directors in making its determination to approve the merger.

Stifel has acted as financial advisor to Union Bankshares in connection with the merger and will receive a contingent advisory fee of 1% (one percent) of the transaction value payable to Union shareholders for its services, a significant portion of which is contingent upon the completion of the merger. Stifel has also acted as financial advisor to the Union Bankshares board of directors and has received a fee of $150,000 upon the delivery of its opinion that was not contingent upon consummation of the merger and is creditable against any advisory fee. Union Bankshares has also agreed to reimburse Stifel for certain out-of-pocket expenses and has agreed to indemnify Stifel, its affiliates and their respective partners, directors, officers, agents, consultants, employees and controlling persons against certain liabilities, including liabilities under the federal securities laws. In the ordinary course of business, Stifel may actively trade equity securities of Union Bankshares and Camden for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. In the past, Stifel has provided investment banking to Union Bankshares from time to time for which Stifel received customary fees for its services. Stifel may seek to provide investment banking and other brokerage services to Camden in the future.

Accounting Treatment

The merger will be accounted for under the purchase method of accounting under accounting principles generally accepted in the United States. Under this method, Union Bankshares assets and liabilities as of the date of the merger will be recorded at their respective fair values and added to those of Camden. Any excess of the purchase price for Union Bankshares over the fair value of the identifiable net assets acquired (including core deposit intangibles) will be recorded as goodwill. In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, issued in July 2001, the goodwill resulting from the merger will not be amortized to expense, but instead will be reviewed for impairment at least annually and to the extent goodwill is impaired, its carrying value will be written down to its implied fair value and a charge will be made to earnings. Core deposit and other intangibles with definite useful lives recorded by Camden in connection with the merger will be amortized to expense in accordance with these rules. The financial statements of Camden issued after the merger will reflect the results attributable to the acquired operations of Union Bankshares beginning on the date of completion of the merger. The unaudited per share pro forma financial information contained in this document has been prepared using the purchase method of accounting. See Summary Unaudited Comparative Per Share Information beginning on page 19.

Post-Closing Capitalization

Following the merger, Camden will have approximately 7.7 million shares of common stock outstanding. Shareholders of Camden before the merger will own approximately 81% of the total shares outstanding after the merger and Union Bankshares current shareholders will own approximately 19%.

All of the numbers and percentages calculated above are based on the outstanding shares as of the record date. Union Bankshares has no outstanding stock options or warrants or any convertible security that would result in the issuance of additional common stock.

Dissenters Appraisal Rights

Under Maine law, shareholders of Union Bankshares have the right to dissent from the merger and to receive payment in cash for the fair value of their shares of Union Bankshares common stock instead of the merger consideration. Fair value means the value of the shares immediately before the consummation of the merger, using customary and current valuation concepts and techniques generally employed for similar businesses in the context of the merger. Union Bankshares shareholders electing to dissent must comply with the provisions of Chapter 13 of the Maine Business Corporation Act in order to perfect their appraisal rights, a copy of which is attached as *Annex D* to this document.

Table of Contents

Ensuring perfection of appraisal rights can be complicated. The procedural rules are specific and must be followed precisely. A Union Bankshares shareholder who does not comply with these procedural rules may not be entitled to payment of the fair value of his or her shares under Chapter 13 of the Maine Business Corporation Act.

The following is intended as a brief summary of the material provisions of the Maine statutory procedures that a Union Bankshares shareholder must follow in order to dissent from the merger and obtain payment of the fair value of his or her shares of Union Bankshares common stock instead of the merger consideration. This summary is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Chapter 13 of the Maine Business Corporation Act, the full text of which appears as *Annex D* of this document.

Under Section 1321 of the Maine Business Corporation Act, the notice of Union Bankshares special meeting, at which the approval of the proposed merger will be submitted to Union Bankshares shareholders, must state that shareholders are or may be entitled to assert appraisal rights under Chapter 13 of the Maine Business Corporation Act and include a copy of Chapter 13 of the Maine Business Corporation Act with the notice. Union Bankshares intends this document to constitute this notice.

Union Bankshares shareholders who wish to exercise their appraisal rights must satisfy the provisions of Subchapter 2 of Chapter 13 of the Maine Business Corporation Act. Subchapter 2 requires the following:

Dissenting Union Bankshares shareholders must deliver to Union Bankshares written notice of intent to demand payment. Union Bankshares shareholders who intend to demand payment of the fair value of their Union Bankshares common stock must deliver, before the vote on the merger agreement is taken at the Union Bankshares special meeting of shareholders, a written notice of intent to demand payment for their shares if the proposed merger is consummated. This written notice of intent must be separate from the proxy card. A vote against the merger agreement alone will not constitute a written notice of intent to demand payment.

Union Bankshares shareholders who elect to exercise appraisal rights should mail or deliver a written notice of intent to demand payment to: Union Bankshares Company, 66 Main Street, Ellsworth, Maine 04605, Attention: Clerk.

Dissenting Union Bankshares shareholders must NOT vote for approval of the merger agreement. Union Bankshares shareholders who intend to demand payment of the fair value of their Union Bankshares common stock must not vote for approval of the merger agreement. If a Union Bankshares shareholder votes, by proxy or in person, in favor of the merger agreement, this will terminate his or her right to demand payment for his or her shares under Chapter 13 of the Maine Business Corporation Act. A Union Bankshares shareholder will also terminate his or her right to demand payment if he or she returns a signed proxy card and:

- fails to vote against adoption of the merger agreement; or
- fails to note that he or she is abstaining from voting.

If the proposed merger is approved by Union Bankshares shareholders and becomes effective, Camden, as the surviving entity, will be required to deliver a written appraisal notice to all shareholders who delivered a written notice of intent to demand payment for their shares of Union Bankshares common stock and who did not vote for the approval of the merger agreement. The appraisal notice must include a shareholder certification form that specifies the date of the first announcement to shareholders of the principal terms of the merger, and requires the shareholder to certify whether beneficial ownership of those shares for which appraisal rights have been asserted was acquired before that date, and that the shareholder did not vote in favor of the merger.

The appraisal notice must be sent by Camden no later than ten days after the date that the merger becomes effective and must state where a demand for payment must be sent; where and when certificates for certificated shares must be deposited; the date by which Camden must receive the form of shareholder certification form set forth above (which date may not be less than 40 or more than 60 days after the appraisal notice is sent);

Table of Contents

Camden s estimate of the fair value of the shares; that if requested in writing, Camden will provide to the shareholder so requesting within ten days after the deadline for returning the shareholder certification form, the number of shareholders who have returned the shareholder certification form and the total number of shares owned by those shareholders; and the date by which notices of withdrawal must be received by Camden (which date must be within 20 days after the deadline for returning the shareholder certification form). The appraisal notice must be accompanied by a copy of Chapter 13 of the Maine Business Corporation Act.

Camden is required to pay to all dissenting shareholders who return the shareholder certification form within the required timeframe and who, if their shares are in certificated form, deposit the shares in accordance with the appraisal notice, cash in the amount that Camden estimates to be the fair value of the Union Bankshares stock, plus interest. The payment must be accompanied by Union Bankshares financial statements, a statement of Camden s estimate of the fair value of the shares and how such estimate was calculated, and a statement that dissenting shareholders have the right to demand further payment if they are dissatisfied with the amount of the payment.

Camden may elect to withhold payment from holders of Union Bankshares common stock who acquired those shares after August 14, 2007 and who perfected dissenters rights in accordance with Chapter 13 of the Maine Business Corporation Act. If Camden elects to withhold payment, Camden will be required to estimate the fair value of the dissenting shareholders shares of Union Bankshares common stock, plus accrued interest and to send an offer to pay this amount in full satisfaction of the shareholder s demand, accompanied by a statement of the estimate and calculation of the fair value of the shares, an explanation of how the interest was calculated, and a statement of the dissenting shareholder s right to demand payment if dissatisfied with the amount of the offer. Dissenting Union Bankshares shareholders who agree to accept the offer of payment in full satisfaction of their demand will be sent that amount in payment by Camden.

If a dissenting Union Bankshares shareholder believes that the amount paid or offered to be paid by Camden is less than the fair value of the shares or that the interest due is incorrectly calculated, the dissenting shareholder may, within 30 days of receipt of the payment or offer of payment, notify Camden in writing of their own estimate of the fair value of the their shares and amount of interest due and demand payment of their estimate of the fair value of their shares and interest due, less any payment received. If such a demand for payment is not settled within 60 days of Camden s receipt thereof, Camden is required to petition the court to determine the fair value of the shares and accrued interest, or if such petition is not made, to pay the amount demanded to each dissenter whose demand remains unsettled.

Shareholders considering demanding payment of the fair value of their shares should note that the fair value of their shares determined under Chapter 13 of the Maine Business Corporation Act could be more, the same or less than the consideration they would receive pursuant to the merger agreement if they did not demand payment of the fair value of their shares. If Camden petitions the court to determine the fair value of the shares and accrued interest, the court will assess costs of the proceeding, including reasonable compensation and expenses of appraisers appointed by the court, against Camden, except that the court may assess costs against all or some of the dissenters, in amounts the court finds equitable, to the extent the court finds the dissenters acted arbitrarily, vexatiously, or not in good faith in demanding payment. The court may also assess the fees and expenses of counsel and experts in amounts the court finds equitable against Camden if the court finds that Camden did not substantially comply with the requirements of Chapter 13 of the Maine Business Corporation Act, or against either Camden or the dissenters if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously or not in good faith. In addition, if the court finds that the services of counsel for any dissenter were of substantial benefit to other dissenters similarly situated and that the fees for those services should not be assessed against Camden, the court may award reasonable fees to such counsel to be paid out of the amounts awarded to the dissenters who benefited.

If Union Bankshares shareholders fail to comply strictly with the procedures described above they will lose their dissenters appraisal rights. Consequently, if Union Bankshares shareholders wish to exercise their dissenters appraisal rights, they are strongly urged to consult a legal advisor before attempting to do so.

In general, any dissenting shareholders who perfect their rights to be paid the fair value of their Union Bankshares common stock in cash will recognize taxable gain or loss for federal income tax purposes upon receipt of this cash. See Material Federal Income Tax Consequences beginning on page 79.

Restrictions on Resale of Camden Common Stock by Affiliates

The shares of Camden common stock to be received by Union Bankshares shareholders in the merger have been registered under the Securities Act of 1933 on the registration statement of which this document is a part and, except as described in this paragraph, may be freely traded without restriction. The shares of Camden common stock to be issued in the merger and received by persons who are considered to be affiliates, as that term is used in Rule 145 under the Securities Act, of Union Bankshares, before the merger, may be resold by them only in transactions permitted by the resale provisions of Rule 145 under the Securities Act, or pursuant to an exemption from the registration requirements of the Securities Act. Affiliates of Union Bankshares for this purpose include individuals or entities that control, are controlled by, or are under common control with Union Bankshares and are expected to include the directors and executive officers of Union Bankshares and certain entities affiliated with these directors and executive officers. These affiliates or their brokers risk being characterized as underwriters when they sell shares of Camden common stock received in the merger. The U.S. securities laws require registration of shares sold by underwriters. An affiliate and its broker can avoid being characterized as an underwriter and, therefore, avoid the Securities Act registration requirements by selling shares in compliance with Rule 145. This document does not cover resales of Camden common stock received by any person upon the effectiveness of the merger, and no person is authorized to make any use of this document in connection with any such resale.

Those persons that may be deemed to be affiliates of Union Bankshares have entered into Affiliate Letters with Camden in which they covenant, represent and warranty that if they resell the Camden stock that they receive in the merger, they will do so in accordance with the Securities Act.

The ability of affiliates to resell shares of Camden common stock received in the merger under Rule 145 as summarized herein generally will be subject to Camden s having satisfied its reporting requirements under the Securities Exchange Act for specified periods prior to the time of sale. Affiliates also would be permitted to resell Camden common stock received in the merger pursuant to an effective registration statement under the Securities Act or another available exemption from the Securities Act registration requirements.

Delisting and Deregistration of Union Bankshares Common Stock Following the Merger

If the merger is completed, Union Bankshares common stock will be delisted from the OTC Bulletin Board and will be deregistered under the Securities Exchange Act of 1934.

Listing of Camden Common Stock to be Issued in the Merger

The listing on the American Stock Exchange of the shares of Camden common stock to be issued in the merger is a condition to the closing of the merger.

Table of Contents

INTERESTS OF CERTAIN PERSONS IN THE MERGER

Certain members of Union Bankshares management have interests in the merger in addition to their interests solely as Union Bankshares shareholders, as described below.

Amended Salary Continuation Agreements

Union Bankshares currently has amended salary continuation agreements with six of its executive officers including two of its named executive officers, John P. Lynch and Rebecca J. Sargent. The amended salary continuation agreements provide for a lump sum payment upon the closing of the merger equal to the lesser of (i) three times the total compensation paid to the executive in the last full fiscal year prior to termination of employment less one dollar, or (ii) the maximum amount permitted under the Internal Revenue Code of 1986, as amended (the Code) without the payment being deemed an excess parachute payment within the meaning of Section 280G of the Code. If the merger closes in January 2008, the salary continuation payments are estimated to be as follows: Mr. Lynch $324,503; Ms. Sargent $302,117; and the other four officers are estimated to be paid $942,959 in aggregate.

Waiver of Salary Continuation Agreement

On August 12, 1993, Union Bankshares entered into a salary continuation agreement with Peter A. Blyberg, President and Chief Executive Officer of Union Bankshares. As a result of the merger, Mr. Blyberg executed a waiver of his salary continuation agreement, subject to the closing of the merger, waiving any benefits and/or payments to which he is entitled under his salary continuation agreement at the time of the merger or in the future.

Camden Board Membership

Following the merger, one member of the Union Bankshares board will join the board of directors of Camden, with Camden selecting a member of the Union Bankshares board of directors to fill the seat. The member of the Union Bankshares board of directors to serve on the Camden board of directors has not been selected as of the date of this document.

Camden Bank Board Membership and Advisory Board

Following the merger, two members of the Union Trust board will join the board of directors of Camden Bank, one of whom will be Mr. Blyberg, who will be appointed Vice Chairman of the board of directors of Camden Bank. The additional member of the Union Trust board of directors to serve on the Camden Bank board of directors has not been selected as of the date of this document. Camden will also establish an advisory board of Camden Bank, which will operate pursuant to a written charter. The remaining board members of Union Trust will be invited to serve as members of the advisory board. Each member of the advisory board will receive a fee of $250 per meeting attended and will serve until at least the second anniversary of the effective date of the merger and the election and qualification of their successors.

Indemnification and Insurance

Camden agrees that all rights to indemnification and all limitations of liability existing in favor of any director or officer of Union Bankshares or its subsidiaries (the indemnified parties) as provided in Union Bankshares articles of incorporation or bylaws or in the similar governing documents of Union Bankshares subsidiaries as in effect as of the date of the merger agreement (including, without limitation, the right to the advancement of expenses) with respect to matters occurring on or prior to the effective time of the merger shall survive the merger and shall continue in full force and effect, without any amendment thereto, for a period of six years from the effective time of the merger; provided, however, that all rights to indemnification in respect of any claim asserted or made within such period shall continue until the final disposition of such claim.

Prior to the effective time of the merger, Union Bankshares shall purchase an extended reporting period endorsement under Union Bankshares existing directors and officers liability insurance coverage for Union Bankshares directors and officers in a form acceptable to Union Bankshares which shall provide such directors and officers with coverage for six years following the effective time of the merger of not less than the existing coverage under, and have other terms not materially less favorable to, the insured persons than the directors and officers liability insurance coverage presently maintained by Union Bankshares, so long as the aggregate cost is less than $75,000 (the premium limit). In the event that the premium limit is insufficient for such coverage, Union Bankshares may enter into an agreement to spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

In the event that Camden or any of its successors or assigns (i) consolidates with or merges into any other person and shall not be the continuing or surviving corporation or entity of such consolidation or merger, or (ii) transfers or conveys all or substantially all of its properties and assets to any person, then, and in each such case, to the extent necessary, proper provision shall be made so that the successors and assigns of Camden shall assume the above-mentioned obligations. The indemnification and insurance are intended to be for the benefit of, and to grant third party rights to, and shall be enforceable by, each indemnified party and his or her heirs and representatives.

THE MERGER AGREEMENT

The following is a brief summary of the material provisions of the merger agreement between Camden and Union Bankshares. The summary is not complete and is qualified in its entirety by reference to the merger agreement, which is attached to this document as Annex A and is incorporated into this document by reference. You should read the merger agreement carefully and in its entirety, as it is the legal document governing the merger.

Structure of the Merger

The merger agreement provides for the merger of Union Bankshares with and into Camden. The surviving corporation in the merger will be Camden. Promptly thereafter, Union Bankshares subsidiary, Union Trust, will merge with and into Camden Bank with Camden Bank being the surviving institution.

Closing of the Merger

The closing of the merger will occur on a date that is no later than five business days after the satisfaction or waiver of all of the closing conditions described in the merger agreement, unless this date is extended by the mutual agreement of Camden and Union Bankshares. The merger will become effective upon the filing of articles of merger with the Secretary of State of the State of Maine or at the time and date specified on such articles of merger.

We currently expect that the merger will become effective during January 2008; however, because the merger is subject to a number of conditions, we cannot reliably predict the actual timing. In addition, completion of the merger could be delayed if there is a delay in obtaining the required regulatory approvals.

Merger Consideration; Allocation Procedures

In the merger, each outstanding share of Union Bankshares common stock will be converted into the right to receive, at the election of the holder, either:

- $68.00 in cash (which is referred to as the cash consideration); or

- 1.9106 shares of Camden common stock (which is referred to as the stock consideration), plus cash in lieu of any fractional share,

subject to the allocation and proration procedures described below. Also subject to these procedures, you may elect to receive a portion of your merger consideration in cash and the remaining portion in shares of Camden common stock.

No fractional shares of Camden common stock will be issued in connection with the merger. Instead, each Union Bankshares shareholder will receive an amount of cash, in lieu of any fractional share, based on the average per share closing price of Camden common stock on the American Stock Exchange over the five trading days immediately preceding the closing date of the merger, rounded to the nearest whole cent.

No interest will be paid with respect to any portion of the cash consideration payable in connection with the merger.

The merger agreement provides for overall limitations on the amount of cash and shares of Camden common stock available in the merger as follows:

- 40% of the total number of outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger will be converted into the right to receive the cash consideration; and

Table of Contents

60% of the total number of outstanding shares of Union Bankshares common stock immediately prior to the effective time of the merger will be converted into the right to receive the stock consideration.

As a result, whether you receive the amount of cash and/or stock requested in your election form will depend in part on the elections of other Union Bankshares shareholders. You may not receive exactly the form of consideration you elected in the merger, and you may instead receive a pro rata amount of cash or Camden common stock.

If you have a preference for receiving either cash or Camden common stock for your shares of Union Bankshares common stock, you should return your election form indicating your preference. Union Bankshares shareholders who make an election will be accorded priority over those shareholders who make no election in instances where the cash consideration or stock consideration must be re-allocated in order to achieve the required ratio of Union Bankshares shares being converted into the right to receive cash consideration and stock consideration. If you do not make an election, you will be allocated cash consideration and/or stock consideration depending on the elections made by other Union Bankshares shareholders. However, even if you do make an election, the form of merger consideration you actually receive may differ from the form of merger consideration you elected based upon the elections made by other Union Bankshares shareholders.

Election Procedures

No more than 40 and no less than 20 business days prior to the anticipated election deadline, each holder of record of Union Bankshares common stock will be sent an election form and other appropriate and customary transmittal materials which will permit each Union Bankshares shareholder:

- to elect to receive $68.00 per share in cash in exchange for all shares of Union Bankshares common stock held by the shareholder;

- to elect to receive 1.9106 shares of Camden common stock per share, plus cash in lieu of any fractional share, in exchange for all shares of Union Bankshares common stock held by the shareholder;

- to elect to receive the cash consideration with respect to a portion of the shares of Union Bankshares common stock held by the shareholder and the stock consideration with respect to the remaining shares of Union Bankshares common stock held by the shareholder; or

- to make no election with respect to the consideration to be received in exchange for the shareholder s shares of Union Bankshares common stock, which are referred to as non-election shares.

If your shares or a portion of your shares of Union Bankshares common stock are held in street name by a broker, bank or other nominee, an election form will be mailed to the broker, bank or other nominee with respect to those shares.

If you hold a portion of your shares in an individual retirement account and the remaining portion of your shares directly in your name, you will receive two election forms: one for your shares held in the individual retirement account and one for the shares held directly in your name.

An election form must be either accompanied by the Union Bankshares stock certificates as to which the election form is being made, or must be accompanied by an appropriate guarantee of delivery of those stock certificates.

In order to be effective, a properly completed election form, together with stock certificates (or a properly completed notice of guaranteed delivery) must be submitted to the exchange agent on or before 5:00 p.m., New York City time, on the fifth business day prior to the closing date, unless Camden and Union Bankshares have mutually agreed to another date and time as the election deadline. Camden will issue a press release announcing the date of the election deadline as promptly as practicable after the election deadline is determined.

If a Union Bankshares shareholder either:

- does not submit a properly completed election form in a timely fashion; or
- revokes his, her or its election form prior to the deadline for the submission of the election form and does not resubmit a properly completed election form by the election form deadline,

the shares of Union Bankshares common stock held by the shareholder will be designated non-election shares. The exchange agent will have reasonable discretion in determining whether any election revocation or change was properly or timely made and to disregard any immaterial defects in the election form.

If you have a preference for receiving either cash or Camden common stock for your shares of Union Bankshares common stock, you should return the election form indicating your preference. Union Bankshares shareholders who make an election will be accorded priority over those shareholders who make no election in instances where the cash consideration or stock consideration must be re-allocated in order to achieve the required ratio of Union Bankshares shares being converted into the right to receive cash and Camden common stock. If you do not make an election, you will be allocated cash and/or Camden common stock depending on the elections made by other Union Bankshares shareholders. **However, even if you do make an election, the form of merger consideration that you actually receive may differ from the form of merger consideration that you elect to receive due to the allocation procedures described below.**

The market price of Camden common stock will fluctuate between the date of this document, the date of your election and the effective time of the merger. Because the ratio of shares of Camden common stock to be exchanged for shares of Union Bankshares common stock is fixed, such fluctuations will alter the value of the shares of Camden common stock that you may receive in the merger. In addition, because the tax consequences of receiving cash will differ from the tax consequences of receiving Camden common stock, you should carefully read the section in this document titled Material Federal Income Tax Consequences beginning on page 79.

Generally, an election may be revoked or changed, but only by written notice received by the exchange agent prior to the election deadline accompanied by a properly completed and signed revised form of election. If an election is revoked, or the merger agreement is terminated, and any certificates have been transmitted to the exchange agent, the exchange agent will promptly return those certificates to the shareholder who submitted those certificates via first-class mail or, in the case of shares of Union Bankshares common stock tendered by book-entry transfer in the exchange agent s account at the Depository Trust Company, or DTC, by crediting such shares to an account maintained by such shareholder within DTC promptly following the termination of the merger or revocation of the election. Union Bankshares shareholders will not be entitled to revoke or change their election following the election deadline. As a result, if you have made an election, you will be unable to revoke your elections or sell your shares of Union Bankshares common stock during the interval between the election deadline and the date of completion of the merger. All election forms will be automatically revoked, and all Union Bankshares stock certificates returned, if the exchange agent is notified in writing by Camden and Union Bankshares that the merger agreement has been terminated.

The exchange agent will be entitled to deduct and withhold from the cash consideration or cash in lieu of fractional shares, cash dividends or distributions payable to any Union Bankshares shareholder the amounts it is required to deduct and withhold under any federal, state, local or foreign tax law. If the exchange agent withholds any amounts, these amounts will be treated for all purposes of the merger as having been paid to the shareholders from whom they were withheld.

Allocation Procedures

A shareholder s ability to elect to receive cash or shares of Camden common stock in exchange for shares of Union Bankshares common stock in the merger is subject to allocation procedures set forth in the merger agreement. These allocation procedures are designed to ensure that 40% of the total number of shares of Union

Table of Contents

Bankshares common stock outstanding immediately prior to the effective time of the merger will be converted into cash, and 60% of these shares will be converted into shares of Camden common stock. As a result, whether you receive the amount of cash and/or stock you request in your election form will depend in part on the elections of other Union Bankshares shareholders. You may not receive exactly the form of consideration that you elect in the merger, and you may instead receive a pro rata amount of cash and Camden common stock.

Through the use of examples, we illustrate below the possible adjustments to elections in connection with these allocation procedures. The first of our three examples assumes you make an effective stock election with respect to all of your Union Bankshares shares. The second example assumes you make no election with respect to your Union Bankshares shares. Finally, the third example assumes that you make an effective cash election with respect to all of your Union Bankshares shares. You should note, however, that you are not required to elect to receive only cash or only Camden common stock. You may instead elect to receive cash with respect to a portion of your Union Bankshares shares and shares of Camden common stock with respect to the rest of your Union Bankshares shares.

Allocation if Too Many Shares of Camden Common Stock are Elected. If Union Bankshares shareholders elect to receive more Camden common stock than Camden has agreed to issue in the merger, then all Union Bankshares shareholders who elected to receive cash or who have made no election would receive the cash consideration with respect to their Union Bankshares shares, and all Union Bankshares shareholders who elected to receive Camden common stock would receive a pro rata portion of the available shares of Camden common stock calculated in the manner described below.

EXAMPLE #1: Assume that (1) 1,070,000 shares of Union Bankshares common stock are outstanding immediately prior to the merger, (2) holders of 750,000 shares of Union Bankshares common stock have made effective stock elections, (3) holders of 245,000 shares of Union Bankshares common stock have made effective cash elections and (4) holders of 75,000 shares of Union Bankshares common stock have made no election with respect to their shares. You hold 1,000 Union Bankshares shares and have made an effective election to receive the stock consideration for those shares. In this example, pro-ration would be required with respect to the Union Bankshares shareholders who elected the stock consideration because holders of more than 60% of the outstanding Union Bankshares shares have elected to receive Camden common stock in the merger.

EXPLANATION #1:

Step 1. Derive the stock conversion number: the stock conversion number is the number of shares of Union Bankshares common stock that are to be converted into the right to receive the stock consideration in accordance with the terms of the merger agreement. The stock conversion number is equal to 60% of the number of shares of Union Bankshares common stock outstanding immediately prior to the effective time of the merger. The stock conversion number for the example above is calculated as follows:

1,070,000 shares × 0.6 = 642,000 shares

Step 2. Derive the stock fraction: the stock fraction equals the stock conversion number divided by the aggregate number of Union Bankshares shares for which an effective stock election was made, and represents the fraction to be used in pro-rating the stock consideration. The stock fraction for the example above is calculated as follows:

stock conversion number	=	642,000 shares	=	0.86
stock election shares		750,000 shares		

54

Table of Contents

Step 3. Derive the stock consideration: the pro-rated stock consideration is the product of the stock fraction multiplied by the number of Union Bankshares shares as to which you have made an effective stock election. This amount is then multiplied by the exchange ratio of 1.9106. The pro-rated stock consideration for the example above is calculated as follows:

0.86 × 1,000 = 860

860 × 1.9106 = 1,643.1 shares of Camden common stock

Because no fractional shares of Camden common stock will be issued in the merger, you would receive 1,643 shares of Camden common stock and cash for the additional 0.1 fractional share.

Step 4. Derive the cash consideration: the cash consideration that you will receive for your Union Bankshares shares is the product of $68.00, multiplied by the remaining number of Union Bankshares shares as to which you made an effective stock election. The cash consideration for the example above is calculated as follows:

$68.00 × (1,000 - 860) = $68.00 × 140 = $9,520

Thus, in this example, if you own 1,000 shares of Union Bankshares common stock and have made an effective stock election for all of those shares, you would receive (subject to rounding):

- 1,643 shares of Camden common stock;
- cash for the 0.1 fractional share of Camden common stock; and
- $9,520 in cash.

Allocation if Too Few Shares of Camden Common Stock are Elected. If Union Bankshares shareholders elect less Camden common stock than the merger agreement provides for Camden to issue in the merger, then all shares with respect to which Union Bankshares shareholders have elected to receive stock consideration would be converted into the right to receive Camden common stock, and the shares for which Union Bankshares shareholders have elected to receive cash or with respect to which no election was made would be treated in the manner illustrated below.

EXAMPLE #2: Assume that (1) 1,070,000 shares of Union Bankshares common stock are outstanding immediately prior to the merger, (2) holders of 600,000 shares of Union Bankshares common stock have made effective stock elections, (3) holders of 390,000 shares of Union Bankshares common stock have made effective cash elections and (4) holders of 80,000 shares of Union Bankshares common stock have made no election with respect to their shares. You hold 1,000 Union Bankshares shares and have made no election with respect to those shares. In this example, pro-ration would be required with respect to the shareholders who made no election with respect to their Union Bankshares shares because holders of less than 60% of the outstanding Union Bankshares shares have elected to receive Camden common stock in the merger, and the shortfall is less than the number of non-election shares.

EXPLANATION #2:

Step 1. Derive the stock conversion number: the stock conversion number is the number of shares of Union Bankshares common stock that are to be converted into the right to receive the stock consideration in accordance with the terms of the merger agreement. The stock conversion number is equal to 60% of the number of shares of Union Bankshares common stock outstanding immediately prior to the effective time of the merger. The stock conversion number for the example above is calculated as follows:

1,070,000 shares × 0.6 = 642,000 shares

Table of Contents

Step 2. Derive the shortfall number: the shortfall number is the amount by which the stock conversion number exceeds the aggregate number of Union Bankshares shares with respect to which the stock consideration was elected. The shortfall number for the example above is calculated as follows:

642,000 - 600,000 = 42,000 shares

Step 3. Determine whether the shortfall number is less than or equal to the number of non-election shares: In this example, the shortfall number (42,000 shares) is less than the number of non-election shares (80,000 shares). As a result, all Union Bankshares shares with respect to which an effective cash election was made would be converted into the right to receive the cash consideration, and the holders of non-election shares would receive a mix of stock consideration and cash consideration.

Step 4. Derive the stock fraction: the stock fraction equals the shortfall number divided by the aggregate number of Union Bankshares shares for which no election was made, and represents the fraction to be used in pro-rating the stock consideration. The stock fraction for the example above is calculated as follows:

shortfall number	=	42,000 shares	=	0.53
non-election shares		80,000 shares		

Step 5. Derive the stock consideration: the pro-rated stock consideration is the product of the stock fraction multiplied by the number of Union Bankshares shares as to which you have made no election. This amount is then multiplied by the exchange ratio of 1.9106. The pro-rated stock consideration for the example above is calculated as follows:

0.53 × 1,000 = 530

530 × 1.9106 = 1,012.6 shares of Camden common stock

Because no fractional shares of Camden common stock will be issued in the merger, you would receive 1,012 shares of Camden common stock and cash for the additional 0.6 fractional share.

Step 6. Derive the cash consideration: the cash consideration that you will receive for your Union Bankshares shares is the product of $68.00, multiplied by the remaining number of Union Bankshares shares as to which you made no election. The cash consideration for the example above is calculated as follows:

$68.00 × (1,000 - 530) = $68.00 × 470 = $31,960

Thus, in this example, if you own 1,000 shares of Union Bankshares common stock and made no election with respect to those shares, you would receive (subject to rounding):

- 1,012 shares of Camden common stock;
- cash for the 0.6 fractional share of Camden common stock; and
- $31,960 in cash.

EXAMPLE #3: Assume that (1) 1,070,000 shares of Union Bankshares common stock are outstanding immediately prior to the merger, (2) holders of 450,000 shares of Union Bankshares common stock have made effective stock elections, (3) holders of 545,000 shares of Union Bankshares common stock have made effective cash elections and (4) holders of 75,000 shares of Union Bankshares common stock have made no election with respect to their shares. You hold 1,000 Union Bankshares shares and have made an effective election to receive the cash consideration for those shares. In this example, pro-ration would be required with respect to the shareholders who made cash elections with respect to their Union Bankshares shares because holders of less than 60% of the outstanding Union Bankshares shares have elected to receive stock in the merger, and the shortfall is more than the number of non-election shares.

Table of Contents

EXPLANATION #3:

Step 1. Derive the stock conversion number: the stock conversion number is the number of shares of Union Bankshares common stock that are to be converted into the right to receive the stock consideration in accordance with the terms of the merger agreement. The stock conversion number is equal to 60% of the number of shares of Union Bankshares common stock outstanding immediately prior to the effective time of the merger. The stock conversion number for the example above is calculated as follows:

1,070,000 shares × 0.6 = 642,000 shares

Step 2. Derive the shortfall number: the shortfall number is the amount by which the stock conversion number exceeds the aggregate number of Union Bankshares shares with respect to which the stock consideration was elected. The shortfall number for the example above is calculated as follows:

642,000 - 450,000 = 192,000 shares

Step 3. Determine whether the shortfall number is less than or equal to the number of non-election shares: In this example, the shortfall number (192,000 shares) is greater than the number of non-election shares (75,000 shares). As a result, all Union Bankshares shares with respect to which no election was made would be converted into the right to receive the stock consideration, and the holders of shares with respect to which an effective cash election was made would receive a mix of stock consideration and cash consideration.

Step 4. Derive the stock fraction: the stock fraction equals the amount by which the shortfall number exceeds the total number of non-election shares, divided by the aggregate number of Union Bankshares shares for which an effective cash election was made, and represents the fraction to be used in pro-rating the stock consideration. The stock fraction for the example above is calculated as follows:

$$\frac{\text{shortfall number-non-election shares}}{\text{cash election shares}} = \frac{(192{,}000 - 75{,}000)}{545{,}000} = \frac{117{,}000}{545{,}000} = 0.21$$

Step 5. Derive the stock consideration: the pro-rated stock consideration is the product of the stock fraction multiplied by the number of Union Bankshares shares as to which you have made an effective cash election. This amount is then multiplied by the exchange ratio of 1.9106. The pro-rated stock consideration for the example above is calculated as follows:

0.21 × 1,000 = 210

210 × 1.9106 = 401.2 shares of Camden common stock

Because no fractional shares of Camden common stock will be issued in the merger, you would receive 401 shares of Camden common stock and cash for the additional 0.2 fractional share.

Step 6. Derive the cash consideration: the cash consideration that you will receive for your Union Bankshares shares is the product of $68.00, multiplied by the remaining number of Union Bankshares shares as to which you made an effective cash election. The cash consideration for the example above is calculated as follows:

$68.00 × (1,000 - 210) = $68.00 × 790 = $53,720

Thus, in this example, if you own 1,000 shares of Union Bankshares common stock and made an effective cash election for all of those shares, you would receive (subject to rounding):

- 401 shares of Camden common stock;
- cash for the 0.2 fractional share of Camden common stock; and

$53,720 in cash.

Table of Contents

Exchange of Union Bankshares Stock Certificates for Camden Stock Certificates

On or before the closing date of the merger, Camden will cause to be delivered to the exchange agent certificates representing the shares of Camden common stock to be issued in the merger. In addition, Camden will deliver to the exchange agent an aggregate amount of cash sufficient to pay the aggregate amount of cash consideration payable in the merger, including an estimated amount of cash to be paid in lieu of fractional shares of Camden common stock. Camden has selected Computershare Shareholder Services to act as the exchange agent in connection with the merger.

Union Bankshares shareholders who surrender their stock certificates and complete transmittal and election forms prior to the election deadline will automatically receive the merger consideration allocated to them promptly following completion of the allocation procedures.

No later than ten business days following the effective time of the merger, the exchange agent will mail to each Union Bankshares shareholder of record at the effective time of the merger who did not previously surrender Union Bankshares stock certificates with an election form, a letter of transmittal and instructions for use in surrendering the shareholder s Union Bankshares stock certificates. When such Union Bankshares shareholders deliver their Union Bankshares stock certificates to the exchange agent along with a properly completed and duly executed letter of transmittal and any other required documents, their Union Bankshares stock certificates will be cancelled and in exchange they will receive, as allocated to them:

- a Camden stock certificate representing the number of whole shares of Camden common stock that they are entitled to receive under the merger agreement;
- a check representing the amount of cash that they are entitled to receive under the merger agreement; and/or
- a check representing the amount of cash that they are entitled to receive in lieu of any fractional shares.

The surrendered stock certificates will then be cancelled. No interest will be paid or accrued on any cash constituting merger consideration.

Union Bankshares shareholders are not entitled to receive any dividends or other distributions on Camden common stock with a record date after the closing date of the merger until they have surrendered their Union Bankshares stock certificates in exchange for a Camden stock certificate. After the surrender of their Union Bankshares stock certificates, Union Bankshares shareholders of record will be entitled to receive any dividend or other distribution, without interest, which had become payable with respect to their Camden common stock.

Camden will only issue a stock certificate for Camden common stock, a check for the cash consideration, or a check for cash in lieu of a fractional share in a name other than the name in which a surrendered Union Bankshares stock certificate is registered if the exchange agent is presented with all documents required to show and effect the unrecorded transfer of ownership, together with evidence that any applicable stock transfer taxes have been paid.

Employee Stock Plan

Prior to the effective time of the merger, Union Bankshares Employee Stock Plan will terminate and all outstanding accumulated payroll deductions shall be returned, without interest, to the participating employees and any Union Bankshares common stock purchased for such participating employees shall be distributed to such employees.

Table of Contents

Dividend Reinvestment and Stock Purchase Plan

As required by the merger agreement, Union Bankshares froze its Amended and Restated Dividend Reinvestment and Stock Purchase Plan and ensured that no purchase or other rights under such plan enable the holder of such rights to acquire any interest in Camden or in Union Bankshares as a result of such purchase or the exercise of such rights at or after the date of the merger agreement. Union Bankshares will terminate the plan prior to the closing date of the merger.

Conditions to the Merger

The obligations of Union Bankshares and Camden to complete the merger are subject to the fulfillment or written waiver, where permissible, of the following conditions:

- the merger agreement and the transactions contemplated by the merger agreement being approved by the requisite vote of the shareholders of Union Bankshares;
- Camden and Union Bankshares having obtained all regulatory approvals required to consummate the transactions contemplated by the merger agreement and all related statutory waiting periods having expired, and none of the regulatory approvals having imposed any term, condition or restriction that Camden reasonably determines would prohibit or materially limit the ownership or operation by Union Bankshares or Camden of any material portion of the business or assets of Union Bankshares, or compel Camden to dispose of or hold separate any material portion of the business or assets of Union Bankshares (a so-called burdensome condition);
- the absence of any order, decree or injunction in effect, or any law, statute or regulation enacted or adopted, that enjoins, prohibits or makes illegal the consummation of the transactions contemplated by the merger agreement;
- the registration statement of which this document is a part being declared effective and the absence of any proceeding or threatened proceeding to suspend, or stop order suspending, that effectiveness; and
- the shares of Camden common stock issuable in the merger having been approved for listing on the American Stock Exchange, subject to official notice of issuance.

In addition, the obligation of Camden to complete the merger is subject to the fulfillment or written waiver, where permissible, of the following conditions:

- each of the representations and warranties of Union Bankshares contained in the merger agreement having been true and correct as of the date of the merger agreement and as of the closing date of the merger, unless the failure of those representations and warranties to be true and correct, individually or in the aggregate, has not had, and would not reasonably be expected to have, a material adverse effect on Union Bankshares;
- since the date of the merger agreement, there not having occurred any material adverse effect with respect to Union Bankshares;
- Union Bankshares having performed in all material respects all obligations required to be performed by it under the merger agreement on or prior to the closing date of the merger;

Camden having received a certificate from the chief executive officer or chief financial officer of Union Bankshares with respect to compliance with the foregoing conditions;

there having been obtained all necessary consents or approvals of third parties required for the consummation of the merger, unless the failure to obtain these consents or approvals would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on Union Bankshares;

- Camden having received an opinion from its tax counsel that the merger will be treated for federal income tax purposes as a reorganization under Section 368(a) of the Internal Revenue Code; and

- not more than 10% of the issued and outstanding shares of Union Bankshares common stock shall have exercised dissenters appraisal rights.

The obligations of Union Bankshares to complete the merger are subject to the fulfillment or written waiver, where permissible, of the following additional conditions:

- each of the representations and warranties of Camden contained in the merger agreement having been true and correct as of the date of the merger agreement and as of the closing date of the merger, unless the failure of those representations and warranties to be true and correct, individually or in the aggregate, has not had, or would not reasonably be expected to have, a material adverse effect on Camden;

- Camden having performed in all material respects all obligations required to be performed by it under the merger agreement on or prior to the closing date of the merger;

- Since the date of the merger agreement, there not having occurred any material adverse effect with respect to Camden;

- Union Bankshares having received a certificate from the chief executive officer or chief financial officer of Camden with respect to compliance with the foregoing conditions; and

- Union Bankshares having received an opinion from its tax counsel that the merger will be treated for federal income tax purposes as a reorganization under Section 368(a) of the Internal Revenue Code.

Material adverse effect when used in reference to Union Bankshares or Camden, means any fact, change, event, development, effect or circumstance that, individually or in the aggregate, are, or would reasonably be expected to be, materially adverse to the business, operations, assets, liabilities, condition (financial or otherwise), results of operations, cash flows or properties of Camden or Union Bankshares and its respective subsidiaries, as the case may be, taken as a whole, or would reasonably be expected to prevent Camden or Union Bankshares, as the case may be, from performing its obligations under the merger agreement or consummating the transactions contemplated by the merger agreement. However, material adverse effect does not include the impact of:

- any fact, change, event, development, effect or circumstance generally affecting the industry in which Camden operates or arising from changes in general business or economic conditions (and not specifically relating to or having the effect of specifically relating to or having a materially disproportionate effect (relative to most other industry participants) on Camden or Union Bankshares and its respective subsidiaries, as the case may be, taken as a whole);

- any fact, change, event, development, effect or circumstance resulting from any change in law, generally accepted accounting principles or regulatory accounting, which affects generally entities such as Camden or Union Bankshares, as the case may be, and its respective subsidiaries, taken as a whole (and not specifically relating to or having the effect of specifically relating to or having a materially disproportionate effect (relative to other industry participants) on Camden or Union Bankshares and its respective subsidiaries, as the case may be, taken as a whole);

- actions and omissions of Camden or Union Bankshares and its respective subsidiaries, as the case may be, taken with the prior written consent of the other party in furtherance of the transactions contemplated under the merger agreement or otherwise permitted to be taken by Camden or Union Bankshares under the merger agreement; and

any fact, change, event, development, effect or circumstance resulting from the announcement or pendency of the transactions contemplated by the merger agreement.

Table of Contents

Termination

The merger agreement may be terminated and the merger and the transactions contemplated by the merger agreement abandoned as follows:

- by mutual written consent of the parties;

- by Camden or Union Bankshares if the other party materially breaches any of its representations, warranties, covenants or agreements contained in the merger agreement (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement), and the breach cannot be or has not been cured within 30 days of written notice of the breach;

- by Camden or Union Bankshares if the merger has not occurred on or before June 30, 2008, unless the terminating party s failure to comply with the merger agreement was the cause of the failure of the merger to occur on or before this date;

- by Camden or Union Bankshares if any regulatory approval required for consummation of the merger and the other transactions contemplated by the merger agreement has been denied by final nonappealable action of any regulatory authority, or any governmental entity has issued a final nonappealable order, injunction or decree enjoining or otherwise prohibiting the transactions contemplated by the merger agreement, provided that the terminating party has used its reasonable best efforts to have the order, injunction or decree lifted;

- by Camden or Union Bankshares if the required approval of the merger agreement by the Union Bankshares shareholders is not obtained;

- by Camden if the Union Bankshares board of directors:

  - modifies, qualifies, withholds or withdraws its recommendation to the Union Bankshares shareholders to vote in favor of the merger agreement or makes any statement, filing or release that is inconsistent with the recommendation;

  - breaches its obligations to call, give notice of and commence the special meeting;

  - approves or recommends another acquisition proposal;

  - fails to publicly recommend against a publicly announced acquisition proposal within five business days of being requested to do so by Camden;

  - fails to publicly reconfirm its recommendation to its shareholders to vote in favor of the merger agreement within five business days of being requested to do so by Camden; or

  - resolves or otherwise determines to take, or announces an intention to take, any of the actions listed above;

- by Camden if Union Bankshares breaches in any material respect the provisions in the merger agreement prohibiting the solicitation of other offers; or

- by Union Bankshares in connection with entering into a definitive agreement to effect a superior proposal.

Termination Fee

Under the terms of the merger agreement, Union Bankshares must pay Camden a termination fee of $2.9 million if:

- Camden terminates the merger agreement as a result of the Union Bankshares board of directors:

  - modifying, qualifying, withholding or withdrawing its recommendation to the Union Bankshares shareholders to vote in favor of the merger agreement or making any statement, filing or release that is inconsistent with that recommendation;

- breaching its obligations to call, give notice of and commence the special meeting;
- approving or recommending another acquisition proposal;
- failing to publicly recommend against a publicly announced acquisition proposal within five business days of being requested to do so by Camden;
- failing to publicly reconfirm its recommendation to its shareholders to vote in favor of the merger agreement within five business days of being requested to do so by Camden; or
- resolving or otherwise determining to take, or announcing an intention to take, any of the actions listed above;

Camden terminates the merger agreement as a result of a material breach by Union Bankshares of the provisions in the merger agreement prohibiting the solicitation of other offers;

Camden or Union Bankshares terminates the merger agreement as a result of:

(1) the failure of the Union Bankshares shareholders to approve the merger agreement; or (2) the merger not having been consummated by June 30, 2008 due to the failure of the Union Bankshares shareholders to approve the merger agreement; and both

- an acquisition proposal with respect to Union Bankshares has been publicly announced, disclosed or otherwise communicated to the Union Bankshares board of directors prior to June 30, 2008 or prior to the special meeting; and
- within 12 months of termination of the merger agreement, Union Bankshares enters into a definitive agreement with respect to, or has consummated, another acquisition proposal; or

Camden terminates the merger agreement as a result of a material breach by Union Bankshares of any of its representations, warranties, covenants or agreements contained in the merger agreement, if both:

- an acquisition proposal with respect to Union Bankshares has been publicly announced, disclosed or otherwise communicated to the Union Bankshares board of directors prior to such breach or during the related cure period; and
- within 12 months of termination of the merger agreement, Union Bankshares enters into a definitive agreement with respect to, or has consummated, another acquisition proposal.

In addition, under the terms of the merger agreement, Union Bankshares must pay Camden a termination fee of $2.9 million payable immediately if Union Bankshares terminates the merger agreement in connection with Union Bankshares entering into a definitive agreement with respect to a superior proposal.

No Solicitation

Union Bankshares has agreed that neither it nor its subsidiaries nor any of its respective officers, directors, employees, investment bankers, financial advisors, attorneys, accountants, affiliates and other of its agents (which we refer to as Union Bankshares representatives) will, directly or indirectly:

- initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an acquisition proposal;

- participate in any discussions or negotiations regarding any acquisition proposal or furnish, or otherwise afford access, to any person (other than Camden) any information or data with respect to Union Bankshares or any of its subsidiaries or otherwise relating to an acquisition proposal;

- release any person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which Union Bankshares is a party; or

Table of Contents

enter into any agreement, agreement in principle or letter of intent with respect to any acquisition proposal or approve or resolve to approve any acquisition proposal or any agreement, agreement in principle or letter of intent relating to an acquisition proposal.

An acquisition proposal means any inquiry, offer or proposal (other than an inquiry, offer or proposal from Camden), whether or not in writing, contemplating, relating to, or that could reasonably be expected to lead to, an acquisition transaction. An acquisition transaction means:

any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving Union Bankshares or any of its subsidiaries;

any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of Union Bankshares or any of its subsidiaries representing, in the aggregate, 15% or more of the assets of Union Bankshares and its subsidiaries on a consolidated basis;

any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing 15% or more of the votes attached to the outstanding securities of Union Bankshares or any of its subsidiaries;

any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning 15% or more of any class of equity securities of Union Bankshares or any of its subsidiaries; or

any transaction which is similar in form, substance or purpose to any of the transactions listed above, or any combination of these types of transactions.

If Union Bankshares receives a bona fide unsolicited written acquisition proposal that did not result from a breach by Union Bankshares of any of the provisions in the merger agreement as discussed above, the Union Bankshares board of directors may participate in discussions or negotiations regarding the unsolicited acquisition proposal or furnish the third party with, or otherwise afford access to the third party of, any information or data with respect to Union Bankshares or any of its subsidiaries or otherwise relating to the acquisition proposal if:

the Union Bankshares board of directors first determines in good faith, after consultation with and having considered the advice of its outside legal counsel and a nationally recognized, independent financial advisor, that:

such acquisition proposal constitutes or is reasonably likely to lead to a superior proposal; and

it is required to take such actions to comply with its fiduciary duties to its shareholders under applicable law;

Union Bankshares has provided Camden with at least three business days prior notice of such determination; and

prior to furnishing or affording access to any information or data with respect to Union Bankshares or any of its subsidiaries or otherwise relating to an acquisition proposal, the third party enters into a confidentiality agreement with Union Bankshares containing terms no less favorable to Union Bankshares than those contained in its confidentiality agreement with Camden.

Table of Contents

A superior proposal means any bona fide written proposal (on its most recently amended or modified terms, if amended or modified) made by a third party to enter into an acquisition transaction on terms that the Union Bankshares board of directors determines in its good faith judgment, after consultation with and having considered the advice of outside legal counsel and a financial advisor of nationally recognized reputation:

- would, if consummated, result in the acquisition of all, but not less than all, of the issued and outstanding shares of Union Bankshares common stock or all, or substantially all, of the assets of Union Bankshares and its subsidiaries on a consolidated basis;

- would result in a transaction that:

  - involves consideration to the Union Bankshares shareholders that is more favorable, from a financial point of view, than the consideration to be paid to Union Bankshares shareholders pursuant to the merger agreement, considering, among other things, the nature of the consideration being offered and any material regulatory approvals or other risks associated with the timing of the proposed transaction beyond or in addition to those specifically contemplated by the merger agreement, and which proposal is not conditioned upon obtaining additional financing; and

  - is, in light of the other terms of such proposal, more favorable to Union Bankshares shareholders than the merger and the transactions contemplated by the merger agreement; and

  - is reasonably likely to be completed on the terms proposed,

in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

Union Bankshares has agreed to promptly, and in any event within 24 hours, notify Camden in writing if any proposals or offers are received by, any information is requested from, or any negotiations or discussions are sought to be initiated or continued with, Union Bankshares or any of its representatives, in each case in connection with any acquisition proposal. Any such notice will indicate the name of the person initiating such discussions or negotiations or making such proposal, offer or information request, the material terms and conditions of any proposals or offers and, in the case of written materials relating to such proposal, copies of these materials. Union Bankshares is also required to keep Camden informed, on a current basis, of the status and terms of any such proposal, offer, information request, negotiations or discussions (including any amendments or modifications to such proposal, offer or request).

Union Bankshares also is required to promptly, and in any event within 24 hours, following determination by its board of directors that an acquisition proposal constitutes, or is reasonably likely to lead to, a superior proposal, and prior to providing any such person with any non-public information regarding Union Bankshares or its subsidiaries, notify Camden of that determination. Union Bankshares has also agreed to promptly provide Camden with any non-public information about Union Bankshares or any of its subsidiaries provided to any other person that was not previously provided to Camden.

In addition, under the merger agreement, Union Bankshares agreed that its board of directors would not:

- modify, qualify, withhold or withdraw, or propose to modify, qualify, withhold or withdraw, in a manner adverse to Camden, its approval of the merger agreement and its recommendation to Union Bankshares shareholders to vote to approve the merger agreement or make any statement, filing or release, in connection with the special meeting or otherwise, inconsistent with its recommendation to Union Bankshares shareholders to vote to approve the merger agreement (including taking a neutral position or no position with respect to an acquisition proposal);

- approve or recommend, or propose to approve or recommend, any acquisition proposal; or enter into any letter of intent, agreement in principle, acquisition agreement or other agreement:

- related to any acquisition transaction (other than a confidentiality agreement entered into in accordance with the no solicitation provisions of the merger agreement); or requiring Union Bankshares to abandon, terminate or fail to consummate the merger or any other transaction contemplated by the merger agreement.

However, prior to the date of the special meeting, the Union Bankshares board may approve or recommend to the shareholders a superior proposal and modify, qualify, withhold or withdraw its recommendation with respect to the merger agreement, if the Union Bankshares board determines in good faith, after consultation with and having considered the advice of outside legal counsel and a financial advisor of nationally recognized reputation, that it is required to take these actions to comply with its fiduciary duties to the Union Bankshares shareholders under applicable law. In the event that the Union Bankshares board makes this determination, Union Bankshares must provide five business days prior written notice to Camden that its board has decided that a bona fide unsolicited written acquisition proposal that Union Bankshares received (that did not result from a breach of the no solicitation provisions of the merger agreement) constitutes a superior proposal. During the five business days after Camden s receipt of the notice of a superior proposal, Union Bankshares and its board must cooperate and negotiate in good faith with Camden to make any adjustments, modifications or amendments to the terms and conditions of the merger agreement as would enable Union Bankshares to proceed with its board s original recommendation with respect to the merger agreement without requiring Union Bankshares to approve or recommend to its shareholders a superior proposal and withdraw, qualify or modify its board s recommendation with respect to the merger agreement. At the end of the five business day period, and after taking into account any such adjusted, modified or amended terms as may have been proposed by Camden during that period, the Union Bankshares board must, again, determine in good faith, after consultation with and having considered the advice of outside legal counsel and a financial advisor of nationally recognized reputation, that:

it is required to approve or recommend to its shareholders a superior proposal and modify, qualify, withhold or withdraw its recommendation with respect to the merger agreement to comply with its fiduciary duties to its shareholders under applicable law; and

the acquisition proposal is a superior proposal.

Union Bankshares Shareholders Meeting

Union Bankshares has agreed to call, hold and convene a meeting of its shareholders as promptly as practicable (and in any event within 45 days following the time when the registration statement becomes effective, subject to extension with the consent of Camden) to consider and vote upon the approval of the merger agreement and any other matter required to be approved by the shareholders of Union Bankshares in order to complete the merger. Union Bankshares also has agreed to ensure that the shareholders meeting is called, noticed and held in compliance with Maine law, Union Bankshares articles of incorporation and bylaws, and all other applicable legal requirements.

American Stock Exchange Listing

Under the terms of the merger agreement, Camden has agreed to use its reasonable best efforts to obtain approval for listing on the American Stock Exchange the shares of Camden common stock to be issued to Union Bankshares shareholders in the merger.

Indemnification and Insurance

Indemnification. Under the merger agreement, Camden has agreed that all rights to indemnification and all limitations existing in favor of any director or officer of Union Bankshares and any subsidiary, as provided in the articles of incorporation and bylaws of Union Bankshares or similar governing documents of a subsidiary with respect to matters occurring on or prior to the effective time of the merger will continue from and after the effective time through the sixth anniversary of the closing date. However, all rights to indemnification with respect to any claim asserted or made within such period will continue until the final disposition of this claim, and these indemnification rights will continue despite a liquidation, consolidation or merger of Union Bankshares or any of its subsidiaries.

Table of Contents

Directors and Officers Insurance. In accordance with the merger agreement Union Bankshares shall purchase an extended reporting period endorsement under its existing directors and officers liability insurance coverage for Union Bankshares directors and officers in a form acceptable to Union Bankshares which shall provide such directors and officers with coverage for six years following the effective time of the merger of not less than the existing coverage under, and have other terms not materially less favorable to, the insured persons than the directors and officers liability insurance coverage presently maintained by Union Bankshares, so long as the aggregate cost is less than $75,000. In the event that the premium limit is insufficient for such coverage, Union Bankshares may purchase such lesser coverage as may be obtained with this amount.

Advise of Changes

Under the merger agreement, each of the parties has agreed to promptly advise the other of any fact, event or circumstance that:

- is reasonably likely to result in a material adverse effect on Union Bankshares or Camden; or
- would cause a material breach of any of its representations, warranties, covenants or agreements under the merger agreement.

Conduct of Business Pending the Merger

Under the merger agreement, Union Bankshares has agreed that, until the effective time of the merger or the termination of the merger agreement, Union Bankshares and its subsidiaries will not, except as expressly permitted by the merger agreement or with the prior written consent of Camden:

- conduct its business other than in the ordinary and usual course consistent with past practice;
- fail to use reasonable best efforts to preserve intact its business organizations and assets, and maintain its rights, franchises, and existing relations with customers, suppliers, employees and business associates;
- take any action that would adversely effect the ability of either Union Bankshares or Camden to receive any regulatory approval required to complete the transactions contemplated by the merger agreement or adversely effect its ability to perform any of its material obligations under the merger agreement;
- issue or sell any securities or equity equivalents;
- accelerate the vesting of any stock options or other equity rights;
- effect a split, combination or reclassification of its capital stock;
- declare or pay any dividend or other distribution on its capital stock other than regular quarterly cash dividends in an amount not to exceed the rate payable on Union Bankshares stock as of August 13, 2007, or dividends paid by wholly-owned subsidiaries to Union Bankshares or any wholly-owned subsidiary of Union Bankshares;
- directly or indirectly combine, redeem, reclassify, purchase or otherwise acquire any shares of its stock;

increase the compensation or benefits of any director, officer, employee or consultant, except for normal increases of compensation to employees (other than officers) in the ordinary course of business consistent with past practice with the aggregate amount of increases not to exceed 3% of the total compensation in aggregate, and except for the hiring of at-will employees at an annual rate of salary not to exceed $25,000 to fill vacancies that may arise from time to time in the ordinary course of business;

enter into, establish, adopt, amend or terminate any benefit plans or any agreement, arrangement, plan or policy between Union Bankshares and any of its directors, officers or employees;

sell, transfer, mortgage, encumber or otherwise dispose of or discontinue any of Union Bankshares assets, deposits, business or properties except in the ordinary course of business consistent with past practice and in a transaction, that, together with all other such transactions, is not material to Union Bankshares and its subsidiaries taken as a whole;

amend its articles of incorporation or bylaws;

acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business consistent with past practice) the assets, business, deposits or properties of any other entity;

make any capital expenditures other than in the ordinary course of business consistent with past practice and in amounts not to exceed $25,000 individually or $250,000 in the aggregate;

enter into or terminate any material agreement or amend or modify in any material respect any existing material agreement;

settle any litigation;

enter into any new material line of business, change its material lending, investment, underwriting, risk and asset liability management or other material banking and operating policies, except as required by applicable law, regulation or policies imposed by a regulatory authority, or file any application or make any contract with respect to branching or site location;

enter into any derivative transactions;

incur indebtedness for borrowed money, other than deposits, federal funds purchased, Federal Home Loan Bank advances, brokered certificates of deposit and securities sold under agreements to repurchase, in each case in the ordinary course of business consistent with past practice;

assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other person, other than in the ordinary course of business consistent with past practice;

make any loan, loan commitment, letter of credit or other extension of credit other than in the ordinary course of business consistent with past practice;

acquire (other than by way of foreclosures or acquisitions of control in a bona fide fiduciary capacity or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course consistent with past practice) any debt security or equity investment of a type or in an amount that is not permissible for a national bank or any other debt security other than in the ordinary course of business consistent with past practice;

invest in real estate or any real estate development project, other than by way of foreclosure or acquisitions in a bona fide fiduciary capacity or in satisfaction of a debt previously contracted in good faith, in each case, in the ordinary course of business consistent with past practice;

change its accounting principles or practices other than as may be required by changes in laws or regulations or by generally accepted accounting principles;

change its loan policies or procedures except as required by a governmental authority;

other than with the cooperation of and consultation with Camden, make or change any tax election, file any amended tax return, enter into any closing agreement, settle or compromise any liability with respect to taxes, agree to any adjustment of any tax attribute, file any claim for a refund of taxes, or consent to any extension or waiver of the limitation period applicable to any tax claim or assessment, any of which affecting or relating to $75,000 of taxable income;

knowingly take any action that would, or would be reasonably likely to, cause the merger to fail to qualify as a reorganization for federal income tax purposes;

- knowingly take any action that is intended or is reasonably likely to result in any of its representations and warranties contained in the merger agreement being or becoming untrue in any material respect, or in any of the conditions to the merger not being satisfied or in a material violation of any of the provisions of the merger agreement; or

- agree or commit to do any of these prohibited activities.

Camden has agreed that, except as permitted by the merger agreement or otherwise consented to by Union Bankshares in writing, it will not knowingly take any action that would, or would be reasonably likely to, cause the merger to fail to qualify as a reorganization for federal income tax purposes, and it will not knowingly take any action that is intended or is reasonably likely to result in any of its representations and warranties contained in the merger agreement being or becoming untrue in any material respect, or in any of the conditions to the merger not being satisfied or in a material violation of any of the provisions of the merger agreement.

The agreements relating to the conduct of Union Bankshares and Camden s business contained in the merger agreement are complicated and not easily summarized. You are urged to carefully read Article V of the merger agreement attached to this document as *Annex A*.

Employee Benefits

Under the terms of the merger agreement, from and after the effective time of the merger, Camden will provide the employees of Union Bankshares and any of its subsidiaries who remain employed after the effective time with the types and levels of comparable employee benefits in the aggregate as those provided to similarly-situated employees of Camden. At Camden s option, Union Bankshares employees can remain insured under Union Bankshares current medical plan until the end of the plan year. Camden also has the right in its sole discretion to terminate, merge or continue any of Union Bankshares employee benefit plans. To the extent that Union Bankshares employees become eligible to participate in Camden s employee benefit plans after the merger, Camden will:

- provide each employee with eligibility and vesting credit, but not benefit accrual credit with respect to defined benefit plans, equal to the amount of service credited by Union Bankshares prior to the merger;

- subject to the terms of Camden s plans, not treat any employee of Union Bankshares or any of its subsidiaries as a new employee for purposes of any exclusions under any health or similar plan of Camden for any pre-existing medical condition, except to the extent such employee was treated as a new employee under the Union Bankshares health plan; and

- provide for any deductibles, co-payments or out-of-pocket expenses paid under Union Bankshares health plans to be credited toward deductibles, co-payments or out-of-pocket expenses under Camden s health plans upon delivery to Camden of appropriate documentation.

In addition, Camden has agreed to honor Union Bankshares severance guidelines in connection with the termination of employment of any of Union Bankshares employees not covered by a change in control agreement for a specified period of time following the merger. Camden has also agreed to honor the obligations of Union Bankshares under the salary continuation agreements.

Other Covenants

The merger agreement also contains covenants relating to the preparation and distribution of this document and all requisite regulatory filings.

Prior to the closing date of the merger, Union Bankshares shall take reasonable best efforts to sell the deposits and assign the lease for the property located at 3 Glen Street, Rockland, Maine, for consideration sufficient to ensure that such sale will have no negative financial impact to Union Bankshares or Union Trust. Union Bankshares will consult with Camden prior to entering into an agreement for such sale.

Table of Contents

Representations and Warranties

The merger agreement contains representations and warranties that Camden and Union Bankshares made solely to each other as of specific dates. Those representations and warranties were made only for purposes of the merger agreement and may be subject to important qualifications and limitations agreed to by the parties, including the schedules referenced in the merger agreement that each party delivered to the other in connection with the execution of the merger agreement. Moreover, some of those representations and warranties may not be accurate or complete as of any specific date, may be subject to a standard of materiality provided for in the merger agreement, or may have been used for the purpose of allocating risk among Camden and Union Bankshares rather than establishing matters as facts. Accordingly, they should not be relied upon as statements of factual information. Third parties are not entitled to the benefits of the representations and warranties in the merger agreement.

The merger agreement contains reciprocal representations and warranties of Camden and Union Bankshares and its subsidiaries relating to:

- due organization, corporate power, existence, good standing, due registration as a BHC and corporate authority;
- capitalization;
- no violation or breach of certain organizational documents, agreements and governmental orders;
- corporate records;
- compliance with applicable laws;
- litigation;
- SEC documents and filings;
- absence of certain changes;
- tax treatment of the merger;
- employee programs;
- regulatory capitalization;
- deposit insurance;
- the Community Reinvestment Act, anti-money laundering and customer information security;

- brokers; and
- disclosure.

The merger agreement contains additional representations and warranties by Union Bankshares and its subsidiaries relating to:

- subsidiaries;
- labor matters;
- insurance;
- environmental matters;
- intellectual property;
- material agreements and defaults;
- property and leases;

- inapplicability of takeover laws;
- loans and nonperforming and classified assets;
- trust business and administration of fiduciary accounts;
- investment management and related activities;
- derivative transactions;
- repurchase agreements; and
- transactions with affiliates.

The merger agreement also contains additional representations and warranties by Camden and its subsidiaries relating to the sufficiency of funds to complete the merger.

None of the representations and warranties by either party survives the effective time of the merger. The representations and warranties in the merger agreement are complicated and not easily summarized. You are urged to carefully read Articles III and IV of the merger agreement attached to this document as *Annex A*.

Expenses

Each party will pay all fees and expenses it incurs in the merger, except that Union Bankshares and Camden will share equally any printing costs and filing and registration fees.

Amendments

Camden and Union Bankshares may amend the merger agreement by executing a written amendment approved by the boards of directors of Camden and Union Bankshares. However, after approval of the merger agreement by the shareholders of Union Bankshares, no amendment of the merger agreement may be made which by law requires further approval of the Union Bankshares shareholders without obtaining that approval.

Table of Contents

OTHER MATERIAL AGREEMENTS RELATING TO THE MERGER

Voting Agreements

The following summary of the voting agreements is qualified by reference to the complete text of the form of voting agreement, which is attached to this document as *Annex B* and incorporated into this document by reference.

In connection with the merger agreement, Camden entered into voting agreements with certain Union Bankshares directors and officers, consisting of Arthur J. Billings, Peter A. Blyberg, Blake B. Brown, Peter A. Clapp, Samuel G. Cohen, Sandra Hylander Collier, James L. Markos, Jr., Timothy R. Maynard, Harry E. Mikkelsen, Stephen C. Shea, Robert W. Spear, Karen W. Stanley, and Paul L. Tracy. In the voting agreements, each of these shareholders has agreed to vote, and granted Camden an irrevocable proxy and power of attorney to vote, all of his or her shares of Union Bankshares common stock:

- in favor of approval of the merger agreement and the transactions described in the merger agreement, including the merger;
- against any action or agreement that would result in a breach of any covenant, representation or warranty, or any other obligation or agreement of Union Bankshares contained in the merger agreement or of the shareholder contained in the voting agreement, or that would preclude fulfillment of a condition under the merger agreement to Union Bankshares and Camden s respective obligations to consummate the merger; and
- against any acquisition proposal, or any agreement or transaction that is intended, or could reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the consummation of the merger or any of the other transactions described in the merger agreement.

Under the voting agreements, each of the shareholders also agreed not to, and not to permit any of his, her or its affiliates, to:

- initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, another acquisition proposal;
- participate in any discussions or negotiations regarding another acquisition proposal;
- enter into any agreement with respect to another acquisition proposal;
- solicit proxies or take any action to facilitate a solicitation with respect to another acquisition proposal;
- initiate a shareholders vote or action by consent of Union Bankshares shareholders with respect to another acquisition proposal; or
- except by reason of the voting agreement, become a member of a group with respect to any Union Bankshares voting securities that takes any action in support of another acquisition proposal.

In addition, except under limited circumstances, these shareholders also agreed not to dispose of or encumber their shares of Union Bankshares common stock while the voting agreements are in effect. The voting agreements terminate immediately upon the earlier of the effective time of the merger or the termination of the merger agreement in accordance with its terms.

As of the record date, there were 43,072 shares of Union Bankshares common stock subject to the voting agreements, which represent approximately 4.0% of the outstanding shares of Union Bankshares common stock as of that date.

Table of Contents

PRO FORMA INFORMATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined balance sheet as of June 30, 2007 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2006 and the six months ended June 30, 2007 are based on the historical financial statements of Camden and Union Bankshares after giving effect to the merger as a purchase of Union Bankshares by Camden using the purchase method of accounting and applying the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined statements of operations give effect to the merger as if it had occurred on January 1, 2006 and the unaudited pro forma condensed combined balance sheet give effect to the merger as if it had occurred on June 30, 2007.

The merger will be accounted for under the purchase method of accounting in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Under the purchase method of accounting, the total estimated purchase price, calculated as described in Note 1 to these unaudited pro forma condensed combined financial statements, is allocated to the net tangible and intangible assets of Union Bankshares acquired in connection with the merger, based on their estimated fair values. Management has made a preliminary allocation of the estimated purchase price to the tangible and intangible assets acquired and liabilities assumed based on various preliminary estimates. A final determination of these estimated fair values, which cannot be made prior to the completion of the merger, will be based on the actual net tangible and intangible assets of Union Bankshares that exist as of the date of completion of the merger.

Further, the unaudited pro forma condensed combined financial statements do not include any adjustments for liabilities that may result from integration activities, as management of Camden and Union Bankshares are in the process of making these assessments, and estimates of these costs are not currently known. There were no significant intercompany balances between Camden and Union Bankshares as of the dates and for the periods of these pro forma condensed combined financial statements. Certain reclassification adjustments have been made to conform Camden s and Union Bankshares historical reported balances to the pro forma condensed combined financial statement basis of presentation.

These unaudited pro forma condensed combined financial statements have been prepared based on preliminary estimates of fair values. Amounts preliminarily allocated to intangible assets with definite lives may change significantly, which could result in a material change in amortization of intangible assets. Therefore, the actual amounts recorded as of the completion of the merger may differ materially from the information presented in these unaudited pro forma condensed combined consolidated financial statements. The timing of the completion and other changes in Union Bankshares net tangible and intangible assets that occur prior to completion of the merger and changes in interest rates could cause material differences in the information presented.

The unaudited pro forma condensed combined financial statements have been prepared by the managements of Camden and Union Bankshares for illustrative purposes only and are not necessarily indicative of the condensed consolidated financial position or results of operations in future periods or the results that actually would have been realized had Camden and Union Bankshares been a combined company during the specified periods. The pro forma adjustments are based on the preliminary information available at the time of the preparation of this document. The unaudited pro forma condensed combined financial statements, including the notes thereto, are qualified in their entirety by reference to, and should be read in conjunction with, Camden s historical consolidated financial statements included in its Annual Report on Form 10-K for its year ended December 31, 2006 and in its Form 10-Q for the six months ended June 30, 2007, both of which are incorporated herein by reference, and Union Bankshares historical consolidated financial statements for the year ended December 31, 2006 and for the six months ended June 30, 2007, both included elsewhere in this document.

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

OF CAMDEN AND UNION BANKSHARES

June 30, 2007

(dollars in thousands)

	Camden	Union Bankshares	Pro Forma Adjustments	Pro Forma Camden
ASSETS				
Cash and due from banks	$ 31,629	$ 13,276	$ (2,325)(A)	$ 42,580
Federal funds sold	300			300
Securities, available for sale, at market	424,858	135,915	(29,016)(A)	531,757
Securities held to maturity	33,723	1,944	26(B)	35,693
Residential mortgages held for sale		387		387
Loans	1,190,102	377,793	(475)(C)	1,567,420
Less allowance for loan and lease losses	(13,927)	(4,220)		(18,147)
Total loans, net	1,176,175	373,573	(475)	1,549,273
Bank premises and equipment	19,774	8,765	1,440(D)	29,979
Bank owned life insurance	22,062	9,295		31,357
Core deposit intangible	748		7,000(E)	7,748
Goodwill	3,991	6,305	(6,305)(F)	42,011
			38,020(F)	
Other assets	47,843	15,627	743(G)	64,213
Total assets	$ 1,761,103	$ 565,087	$ 9,108	$ 2,335,298
LIABILITIES				
Deposits:				
Demand	$ 150,485	$ 43,018	$	$ 193,503
NOW	130,695	72,630		203,325
Money market	278,098	32,126		310,224
Savings	87,573	51,884		139,457
Certificates of deposit	486,127	149,053	(552)(H)	634,628
Total deposits	1,132,978	348,711	(552)	1,481,137
Borrowings from Federal Home Loan Bank	376,687	138,382	(51)(I)	515,018
Other borrowed funds	92,534	21,532		114,066
Junior subordinated debentures	36,083	8,248	(175)(J)	44,156
Accrued interest and other liabilities	15,312	6,654	3,444(K)	28,739
			3,329(L)	
Total liabilities	$ 1,653,594	$ 523,527	$ 5,995	$ 2,183,116
SHAREHOLDERS EQUITY				
Common stock	2,530	13,307	(13,307)(M)	2,530
Surplus	2,481	266	(266)(M)	47,154
			44,673(M)	
Retained earnings	108,430	30,272	(30,272)(M)	108,430
Accumulated other comprehensive loss				
	(4,936)	(1,863)	1,863(N)	(4,936)

Net unrealized losses on securities available for sale, net of income tax				
Net unrealized losses on derivative instruments, at fair value, net of tax	(218)			(218)
Adjustment for unfunded post-retirement plans, net of tax	(778)	(422)	422(N)	(778)
Total accumulated other comprehensive loss	(5,932)	(2,285)	2,285	(5,932)
Total shareholders equity	107,509	41,560	3,113	152,182
Total liabilities and shareholders equity	$ 1,761,103	$ 565,087	$ 9,108	$ 2,335,298

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

OF CAMDEN AND UNION BANKSHARES

For the Year Ended December 31, 2006

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

	Camden	Union Bankshares	Pro Forma Adjustments	Pro Forma Camden
Interest Income				
Interest and fees on loans	$ 87,335	$ 23,169	$ 158(C)	$ 110,662
Interest on investments	19,903	6,464	(1,434)(A)	24,920
			(13)(B)	
Total Interest Income	107,238	29,633	(1,289)	135,582
Interest Expense				
Interest on deposits	35,017	6,898	552(H)	42,467
Interest on borrowed funds	18,031	8,056	51(I)	26,187
			49(J)	
Total Interest Expense	53,048	14,954	652	68,654
Net Interest Income	54,190	14,679	(1,941)	66,928
Provision for loan and lease losses	2,208			2,208
Net interest income after provision for loan and lease losses	51,982	14,679	(1,941)	64,720
Non-interest Income				
Service charges on deposit accounts	3,436	1,940		5,376
Other service changes and fees	1,646	1,133		2,779
Income from fiduciary services	4,455	2,491		6,946
Brokerage and insurance commissions	469			469
Life insurance earnings	800	356		1,156
Gain (loss) on sale of securities		(112)		(112)
Other income	823	227	(372)(G)	678
Total Non-interest Income	11,629	6,035	(372)	17,292
Non-interest Expenses				
Salaries and employee benefits	17,980	9,184		27,164
Net occupancy	2,500	1,546	36(D)	4,082
Furniture, equipment and data processing	2,202	1,330		3,532
Amortization of core deposit intangible	864	47	875(E)	1,786
Other expenses	10,678	3,542		14,220
Total Non-interest Expenses	34,224	15,649	911	50,784
Income before income taxes	29,387	5,065	(3,224)	31,228
Income Taxes	9,111	1,264	(1,128)	9,247
Net Income	$ 20,276	$ 3,801	$ (2,096)	$ 21,981

Per Share Data				
Basic earnings per share	$ 2.93	$ 3.50		$ 2.70
Diluted earnings per share	$ 2.93	$ 3.50		$ 2.70
Average Common Shares Outstanding	6,919,579		1,222,905(M)	8,142,484

74

Table of Contents

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

OF CAMDEN AND UNION BANKSHARES

For the Six Months Ended June 30, 2007

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

	Camden	Union Bankshares	Pro Forma Adjustments	Pro Forma Camden
Interest Income				
Interest and fees on loans	$ 43,057	$ 12,156	$ 79(C)	$ 55,292
Interest on investments	11,113	3,390	(717)(A)	13,779
			(7)(B)	
Total Interest Income	54,170	15,546	(645)	69,071
Interest Expense				
Interest on deposits	18,652	4,317	276(H)	23,245
Interest on borrowed funds	10,744	4,104	26(I)	14,899
			25(J)	
Total Interest Expense	29,396	8,421	327	38,144
Net Interest Income	24,774	7,125	(972)	30,927
Provision for loan and lease losses	100	30		130
Net interest income after provision for loan and lease losses	24,674	7,095	(972)	30,797
Non-interest Income				
Service charges on deposit accounts	1,744	930		2,674
Other service changes and fees	878	463		1,341
Income from fiduciary and financial services	2,857	1,354		4,211
Life insurance earnings	385	177		562
Gain on sale of securities		7		7
Other income	387	302	(186)(G)	503
Total Non-interest Income	6,251	3,233	(186)	9,298
Non-interest Expenses				
Salaries and employee benefits	9,285	4,653		13,938
Net occupancy	1,384	863	18(D)	2,265
Furniture, equipment and data processing	1,111	673		1,784
Amortization of core deposit intangible	428		438(E)	866
Other expenses	4,856	1,818		6,674
Total Non-interest Expenses	17,064	8,007	456	25,527
Income before income taxes	13,861	2,321	(1,614)	14,568
Income Taxes	4,136	550	(565)	4,121
Net Income	$ 9,725	$ 1,771	$ (1,049)	$ 10,447

Per Share Data				
Basic earnings per share	$ 1.47	$ 1.66		$ 1.34
Diluted earnings per share	$ 1.47	$ 1.66		$ 1.34
Average Common Shares Outstanding	6,601,741		1,222,905(M)	7,824,646

Table of Contents

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Preliminary Pro Forma Adjustments

A reconciliation of the preliminary consideration paid by Camden over Union Bankshares s net assets acquired (goodwill) is as follows:

		(in thousands)
Purchase Price		
Cash Consideration	$	29,016
Camden common stock issued		44,673
Transaction costs		2,325
Total purchase price	$	76,014

		(in thousands)
Purchase accounting adjustments		
Union Bankshares total shareholders equity at June 30, 2007	$	41,560
Union Bankshares goodwill		(6,305)
Union Bankshares estimated merger related costs, net of tax		(3,444)
Adjusted net assets acquired	$	31,811

		(in thousands)
Calculation of goodwill		
Total purchase price	$	76,014
Adjusted net assets acquired		(31,811)
Excess of purchase price over adjusted net assets acquired	$	44,203

The excess of the total purchase price over the adjusted net assets acquired was allocated to assets and liabilities as follows:

		(in thousands)
Securities held to maturity	$	26
Loans		(475)
Bank premise and equipment		1,440
Mortgage servicing rights		743
Core deposit intangible		7,000
Goodwill		38,020
Certificates of deposit		552
Borrowings		51
Junior subordinated debentures		175
Net tax liability		(3,329)
Total excess of purchase price over adjusted net assets acquired	$	44,203

(A) Adjustment to recognize cash consideration paid to complete the merger ($31.3 million), which consists of cash paid to Union Bankshares shareholders ($29.0 million) and estimated transaction costs ($2.3 million). Camden currently intends to finance the cash portion of the merger by liquidating approximately $29.0 million of available for sale securities. The preliminary pro forma combined income statement impact of the reduction in investments resulted in a decrease to interest income of $717,000 for the six months ended June 30, 2007 and $1.4 million for the twelve months ended December 31, 2006. The final financing of the cash portion of the transaction may cause the actual adjustments to differ from these preliminary adjustments.

Table of Contents

(B) Fair value adjustment to Union Bankshares investments held to maturity. The preliminary pro forma combined income statement impact for the adjustment resulted in a decrease to interest income of $7,000 and $13,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to Union Bankshares investments held to maturity may cause the actual adjustments to differ from these preliminary adjustments.

(C) Fair value adjustment to Union Bankshares loan portfolio. The adjustment will be recognized over a three year period as an increase of yield on a straight-line basis. The preliminary pro forma combined income statement impact for the fair value adjustment resulted in an increase to interest income of $79,000 for the six months ended June 30, 2007 and $158,000 for the twelve months ended December 31, 2006. The final adjustment to Union Bankshares loan portfolio may cause the actual adjustments to differ from these preliminary adjustments.

(D) Fair value adjustment to Union Bankshares bank premise and property. The fair value adjustment of acquired bank premise and property will be depreciated over the estimated useful life. The preliminary pro forma combined income statement impact for the fair value adjustment resulted in an increase in depreciation expense of $18,000 for the six months ended June 30, 2007 and $36,000 for the twelve months ended December 31, 2006. The final adjustment to Union Bankshares bank premise and property may cause the actual adjustments to differ from these preliminary adjustments.

(E) Adjustment to record the core deposit intangible related to the merger. The fair value adjustment of acquired core deposit intangible will be recognized over an eight year period as an increase in non-interest expense on a straight-line basis. The preliminary pro forma impact from the newly created core deposit intangible resulted in an increase in non-interest expense of $437,500 and $875,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to record the core deposit intangible related to the merger may cause the actual adjustment to differ from these preliminary adjustments.

(F) Adjustment to eliminate the Union Bankshares goodwill and record goodwill resulting from the merger. See purchase price allocation above for more information. The final adjustment to goodwill may cause the actual adjustment to differ from these preliminary adjustments.

(G) Fair value adjustment to Union Bankshares mortgage servicing rights. The preliminary pro forma combined income statement impact for the adjustment resulted in a decrease to other non-interest income of $186,000 and $372,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to Union Bankshares mortgage servicing rights may cause the actual adjustment to differ from these preliminary adjustments.

(H) Fair value adjustment to Union Bankshares interest bearing time deposits, which will be recognized over a one year period. The preliminary pro forma combined income statement impact for the adjustment resulted in an increase to interest expense of $276,000 and $552,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to Union Bankshares interest bearing time deposits may cause the actual adjustment to differ from the preliminary adjustments.

(I) Fair value adjustment to Union Bankshares borrowings, which will be recognized over a one year period. The preliminary pro forma combined income statement impact for the adjustment resulted in an increase to interest expense of $26,000 and $51,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to Union Bankshares borrowings may cause the actual adjustment to differ from the preliminary adjustments.

(J) Fair value adjustment to Union Bankshares junior subordinated debentures. The fair value adjustment will be recognized on a straight-line basis until the first redemption date. The preliminary pro forma combined income statement impact for the adjustment resulted in an increase to interest expense of $25,000 and $49,000 for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, respectively. The final adjustment to Union Bankshares junior subordinated debentures may cause the actual adjustment to differ from the preliminary adjustments.

(K) Adjustment to record estimated merger related liabilities net of income taxes, including executive change of control agreements, other personnel related liabilities and contract termination fees. The final adjustment to merger related liabilities may cause the actual adjustment to differ from the preliminary adjustments.

Table of Contents

(L) Adjustment to record net deferred tax liability for fair value adjustments. The final adjustment to deferred tax liability may cause the actual adjustment to differ from the preliminary adjustments.

(M) Adjustment to eliminate Union Bankshares stockholders equity and to record the issuance of Camden common stock. The merger will result in the issuance of 1.2 million shares of Camden common stock, in addition to cash consideration. The issuance of the Camden common stock is recognized in the pro forma balance sheet at a value of $36.53 per share, which was the closing price of Camden common stock on the American Stock Exchange on the last trading day prior to the announcement of the merger. The final adjustment to Union Bankshares stockholders equity and to record the issuance of Camden common stock may cause the actual adjustment to differ from the preliminary adjustments.

(N) Change in accumulated other comprehensive income (loss) to reflect the fair value adjustments of the balance sheet in purchase accounting.

Table of Contents

MATERIAL FEDERAL INCOME TAX CONSEQUENCES

The following is a general summary of material United States federal income tax consequences of the merger of Camden and Union Bankshares. The federal income tax laws are complex and the tax consequences of the merger may vary depending upon each shareholder s individual circumstances or tax status. The following discussion is based upon current provisions of the Internal Revenue Code, or the Code, existing temporary and final regulations under the Code and current administrative rulings and court decisions, all of which are subject to change, possibly on a retroactive basis. No attempt has been made to comment on all United States federal income tax consequences of the merger that may be relevant to shareholders of Union Bankshares. The tax discussion set forth below is included for general information only. It is not intended to be, nor should it be construed to be, legal or tax advice to a particular shareholder of Union Bankshares.

The following discussion may not apply to particular categories of holders of shares of Union Bankshares common stock subject to special treatment under the Code, such as insurance companies, financial institutions, broker-dealers, tax-exempt organizations, individual retirement and other tax-deferred accounts, banks, persons subject to the alternative minimum tax, persons who hold Union Bankshares capital stock as part of a straddle, hedging or conversion transaction, persons whose functional currency is other than the United States dollar, persons eligible for tax treaty benefits, foreign corporations, foreign partnerships and other foreign entities, individuals who are not citizens or residents of the United States and holders whose shares were acquired pursuant to the exercise of an employee stock option or otherwise as compensation. This discussion assumes that holders of shares of Union Bankshares common stock hold their shares as capital assets. The following discussion does not address state, local or foreign tax consequences of the merger. You are urged to consult your tax advisors to determine the specific tax consequences of the merger, including any state, local or foreign tax consequences of the merger.

The Merger

Based on facts and representations and assumptions regarding factual matters that were provided by Camden and Union Bankshares and that are consistent with the state of facts that Camden and Union Bankshares believe will be existing as of the effective time of the merger, Goodwin Procter LLP and Thacher Proffitt & Wood LLP are each of the opinion that the merger, when consummated in accordance with the terms of the merger agreement, will constitute a reorganization within the meaning of Section 368(a) of the Code. If the merger is treated as a reorganization, neither Camden nor Union Bankshares will recognize any taxable gain or loss as a result of the merger.

The federal income tax consequences of the merger to a Union Bankshares shareholder generally will depend on whether the shareholder receives cash, Camden common stock or a combination of cash and stock in exchange for the shareholder s shares of Union Bankshares common stock.

Receipt of Solely Camden Common Stock

A Union Bankshares shareholder who receives solely Camden common stock in exchange for all of that shareholder s shares of Union Bankshares common stock pursuant to the merger will not recognize gain or loss on the exchange, except to the extent the shareholder receives cash in lieu of a fractional share of Camden common stock. The shareholder s tax basis in the Camden common stock received pursuant to the merger will equal that shareholder s tax basis in the shares of Union Bankshares common stock being exchanged, reduced by any amount allocable to a fractional share of Camden common stock for which cash is received. The holding period of Camden common stock received will include the holding period of the shares of Union Bankshares common stock being exchanged.

Receipt of Solely Cash

A Union Bankshares shareholder who receives solely cash in exchange for all of that shareholder s shares of Union Bankshares common stock pursuant to the merger generally will recognize capital gain or loss in an amount equal to the difference between the amount of cash received and the shareholder s aggregate tax basis for such shares of Union Bankshares common stock, which gain or loss will be long-term capital gain or loss if such shares of Union Bankshares common stock were held for more than one year. If, however, any such Union Bankshares shareholder constructively owns shares of Union Bankshares common stock that are exchanged for shares of Camden common stock in the merger or owns shares of Camden common stock actually or constructively after the merger, such actual or constructive ownership of Camden common stock may prevent any gain recognized in the merger from qualifying for capital gain treatment and instead result in any gain being treated as the distribution of a dividend. Under the constructive ownership rules of the Code, a shareholder may be treated as owning stock that is actually owned by another person or entity. You should consult your tax advisors as to the possibility that all or a portion of any cash received in exchange for your shares of Union Bankshares common stock will be treated as a dividend.

Receipt of Camden Common Stock and Cash

A Union Bankshares shareholder who receives both Camden common stock and cash consideration in exchange for all of his or her shares of Union Bankshares common stock generally will recognize gain, but not loss, to the extent of the lesser of:

- the excess, if any, of (a) the sum of the aggregate fair market value of the Camden common stock received (including any fractional share of Camden common stock deemed to be received and exchanged for cash) and the amount of cash received (excluding any cash received in lieu of a fractional share of common stock) over (b) the shareholder s aggregate tax basis in the shares of Union Bankshares common stock exchanged in the merger; and

- the amount of cash received by the shareholder.

For this purpose, gain or loss must be calculated separately for each block of shares surrendered in the exchange, and a loss realized on one block of shares may not be used to offset gain realized on another block of shares. Any such gain will be long-term capital gain if the shares of Union Bankshares common stock exchanged were held for more than one year, unless the receipt of cash has the effect of a distribution of a dividend under the provisions of the Code, in which case such gain will be treated as a dividend to the extent of the shareholder s ratable share of the undistributed accumulated earnings and profits of Union Bankshares. You should consult your tax advisors as to the possibility that all or a portion of any cash received in exchange for your Union Bankshares common stock will be treated as a dividend.

The shareholder s aggregate tax basis in the Camden common stock received pursuant to the merger will equal that shareholder s aggregate tax basis in the shares of Union Bankshares common stock being exchanged, reduced by any amount allocable to a fractional share of Camden common stock for which cash is received and by the amount of any cash consideration received, and increased by the amount of taxable gain, if any, recognized by that shareholder in the merger (including any portion of such gain that is treated as a dividend).

Cash in Lieu of Fractional Shares

No fractional shares of Camden common stock will be issued in the merger. A Union Bankshares shareholder who receives cash in lieu of such a fractional share will be treated as having received that fractional share pursuant to the merger and then as having exchanged such fractional share for cash in a redemption by Camden. A Union Bankshares shareholder will generally recognize capital gain or loss on such a deemed redemption of the fractional share in an amount determined by the excess of the amount of cash received and the shareholder s tax basis in the fractional share. Any capital gain or loss will be long-term capital gain or loss if the Union Bankshares common stock exchanged was held for more than one year.

Table of Contents

Tax Opinions

Tax opinions of Goodwin Procter LLP and Thacher Proffitt & Wood LLP have been filed as Exhibits 8.1 and 8.2, respectively, to the registration statement of which this document is a part. Additionally, it is a condition to the obligation of Camden and Union Bankshares to complete the merger that Camden receive an opinion of Goodwin Procter LLP, counsel to Camden, and that Union Bankshares receive an opinion of Thacher Proffitt & Wood LLP, counsel to Union Bankshares, each dated as of the closing date and each to the effect that, based on representations of Camden and Union Bankshares and on certain customary assumptions and conditions, the merger will be treated for United States federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code. The tax opinions in Exhibits 8.1 and 8.2 are not intended to satisfy this closing condition.

The tax opinions delivered or to be delivered to Camden and to Union Bankshares in connection with the merger are not binding on the Internal Revenue Service or the courts, and neither Camden nor Union Bankshares has sought or will seek any ruling from the IRS regarding any matters relating to the merger. Consequently, there can be no assurance that the IRS will not disagree with or challenge any of the conclusions contained in the tax opinions delivered to Camden or Union Bankshares, or the federal income tax consequences of the merger described in this document.

Backup Withholding

Non-corporate holders of Union Bankshares common stock may be subject to information reporting and backup withholding on any cash payments they receive. Union Bankshares shareholders will not be subject to backup withholding, however, if they:

- furnish a correct taxpayer identification number and certify that they are not subject to backup withholding on the Form W-9 or successor form included in the election form/letter of transmittal you will receive; or
- are otherwise exempt from backup withholding.

If withholding results in an overpayment of taxes, a refund or credit against a Union Bankshares shareholder s United States federal income tax liability may be obtained from the Internal Revenue Service, provided the shareholder furnishes the required information to the IRS. A holder that does not furnish a correct taxpayer identification number may be subject to penalties imposed by the IRS.

Reporting Requirements

Union Bankshares shareholders who receive Camden common stock as a result of the merger will be required to retain records pertaining to the merger. Union Bankshares shareholders who owned at least five percent (by vote and value) of the total outstanding Union Bankshares common stock before the merger or whose tax basis in the Union Bankshares common stock surrendered pursuant to the merger equals or exceeds $1.0 million are subject to certain reporting requirements with respect to the merger. Union Bankshares shareholders are urged to consult with their tax advisors with respect to these and other reporting requirements applicable to the merger.

Other Tax Consequences

The state and local tax treatment of the merger may not conform to the federal income tax consequences discussed above. Consequently, you should consult your own tax advisors regarding the treatment of the merger under state and local tax laws.

SUPERVISION AND REGULATION

Camden and its banking subsidiary are subject to extensive regulation under federal and state banking laws and regulations. The following discussion of the material elements of the regulatory framework applicable to bank holding companies and banks is not intended to be complete and is qualified in its entirety by the discussion included in Camden s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and any other subsequent reports filed by Camden with the Securities and Exchange Commission (SEC), as well as the text of the relevant federal and state laws and regulations. See the section in this document titled Where You Can Find More Information beginning on page 127.

A change in the applicable banking laws or regulations may have a material effect on Camden s business. Because the federal and state banking laws and regulations discussed below are subject to change from time to time, the following discussion should be read together with the related discussion included in Camden s SEC reports as described above.

For a discussion of the supervision and regulation of Union Bankshares banking subsidiary under federal and state banking laws and regulations, see the section in this document titled Union Bankshares Business Supervision and Regulation beginning on page 93.

Regulation of Camden

Supervision and Regulation. The business in which Camden and its subsidiaries are engaged is subject to extensive supervision, regulation and examination by various federal regulatory agencies, including the Board of Governors of the Federal Reserve System (the FRB) and the Office of the Comptroller of the Currency (the OCC). The supervision, regulation and examination are intended primarily to protect depositors or are aimed at carrying out broad public policy goals, and not necessarily for the protection of shareholders.

Some of the more significant statutory and regulatory provisions applicable to banks and bank holding companies (BHCs) to which Camden and its subsidiaries are subject are described more fully below, together with certain statutory and regulatory matters concerning Camden and its subsidiaries. The description of these statutory and regulatory provisions does not purport to be complete and is qualified in its entirety by reference to the particular statutory or regulatory provision. Any change in applicable law or regulation may have a material effect on Camden s business and operations, as well as those of its subsidiaries.

BHCs Activities and Other Limitations. As a registered BHC and a Maine financial institution holding company, Camden is subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHCA), and Maine law. In addition, Camden is subject to examination and supervision by the FRB, and is required to file reports with, and provide additional information requested by, the FRB. The FRB has the authority to issue orders to BHCs to cease and desist from unsafe and unsound banking practices and violations of conditions imposed by, or violations of agreements with, the FRB. The FRB is also empowered to assess civil money penalties against companies or individuals that violate the BHCA or orders or regulations thereunder, to order termination of non-banking activities of non-banking subsidiaries of BHCs, and to order termination of ownership and control of a non-banking subsidiary by a BHC.

Various other laws and regulations, including Sections 23A and 23B of the Federal Reserve Act, as amended (the FRA), and Federal Reserve Board Regulation W thereunder, generally limit borrowings, extensions of credit and certain other transactions between Camden and its non-bank subsidiaries and its affiliate insured depository institution. Section 23A of the FRA also generally requires that an insured depository institution s loans to non-bank affiliates be secured in appropriate amounts, and Section 23B of the FRA generally requires that transactions between an insured depository institution and its non-bank affiliates be on arm s length terms. These laws and regulations also limit BHCs and their subsidiaries from engaging in certain tying arrangements in connection with any extension of credit, sale or lease of property or furnishing of services.

The BHCA prohibits a BHC from acquiring substantially all the assets of a bank or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank or merging or consolidating with any BHC without prior FRB approval. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 generally authorizes BHCs to acquire banks located in any state, possibly subject to certain state-imposed age and deposit concentration limits, and also generally authorizes interstate mergers and to a lesser extent, interstate branching.

Unless a BHC becomes a financial holding company (FHC) under the Gramm-Leach-Bliley Act of 1999 (the GLBA), the BHCA also prohibits a BHC from acquiring a direct or indirect interest in or control of more than 5% of the voting shares of any company which is not a bank or BHC, and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiary banks, except that it may engage in and may own shares of companies engaged in certain activities the FRB determined to be so closely related to banking or managing and controlling banks as to be a proper incident thereto. In addition, Maine law imposes certain approval and notice requirements with respect to acquisitions of banks and other entities by a Maine financial institution holding company.

Further, the GLBA permits national banks and state banks, to the extent permitted under state law, to engage in certain new activities, which are permissible for subsidiaries of an FHC. Further, the GLBA expressly preserves the ability of national banks and state banks to retain all existing subsidiaries. In order to form a financial subsidiary, a national bank or state bank must be well-capitalized, and such banks would be subject to certain capital deduction, risk management and affiliate transaction rules. Also, the FDIC s final rules governing the establishment of financial subsidiaries adopt the position that activities that a national bank could only engage in through a financial subsidiary may only be conducted in a financial subsidiary by a state nonmember bank. However, activities that a national bank could not engage in through a financial subsidiary, such as real estate development or investment, continue to be governed by the FDIC s standard activities rules. Moreover, to mirror the FRB s actions with respect to state member banks, the final rules provide that a state bank subsidiary that engages only in activities that the bank could engage in directly (regardless of the nature of the activities) will not be deemed to be a financial subsidiary.

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

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

Table of Contents

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

Dividend payments by national banks, such as Camden Bank, also are subject to certain restrictions. For instance, national banks generally may not declare a dividend in excess of the bank s undivided profits and, absent OCC approval, if the total amount of dividends declared by the national bank in any calendar year exceeds the total of the national bank s retained net income of that year to date combined with its retained net income for the preceding two years. National banks also are prohibited from declaring or paying any dividend if, after making the dividend, the national bank would be considered undercapitalized (defined by reference to other OCC regulations).

Federal bank regulatory agencies also have authority to prohibit banking institutions from paying dividends if those agencies determine that, based on the financial condition of the bank, such payment would constitute an unsafe or unsound practice.

Capital Requirements.

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

The FRB s capital adequacy guidelines generally require BHCs to maintain total capital equal to 8.0% of total risk-adjusted assets and off-balance sheet items, with at least one-half of that amount consisting of Tier 1 or core capital and the remaining amount consisting of Tier 2 or supplementary capital. Tier 1 capital for BHCs generally consists of the sum of common shareholders equity and restricted core capital elements (subject in the case of the latter to limitations on the kind and amount of such elements which may be included as Tier 1 capital), less goodwill and other non-qualifying intangible assets. Tier 2 capital generally consists of hybrid capital instruments; perpetual preferred stock, which is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan and lease losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics.

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

OCC Guidelines. The OCC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of national banks. These requirements are substantially similar to those adopted by the FRB.

Table of Contents

Moreover, the federal banking agencies have promulgated substantially similar regulations to implement the system of prompt corrective action established by Section 38 of the FDIA. Under the prompt correction action regulations, a bank generally shall be deemed to be:

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

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

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

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

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

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

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

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

At December 31, 2006, Camden Bank was deemed to be a well-capitalized institution for the above purposes. The federal bank regulatory agencies may raise capital requirements applicable to banking organizations beyond current levels. Camden is unable to predict whether higher capital requirements will be imposed and, if so, at what levels and on what schedules. Therefore, Camden cannot reliably predict what effect such higher requirements may have on it. As is discussed above, Camden s subsidiary bank would be required to remain a well-capitalized institution at all times if Camden elected to be treated as an FHC.

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective U.S. federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5.0% of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness related generally to operations and management, asset quality and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various federal bank regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well capitalized institution must have a Tier 1 capital ratio of at least 6.0%, a total capital ratio of at least 10.0% and a leverage ratio of at least 5.0% and not be subject to a capital directive order. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4.0%, a total capital ratio of at least 8.0% and a leverage ratio of at least 4.0%, or 3.0% in some cases. Under these guidelines, Camden is considered well capitalized.

In 2005, the federal banking agencies issued an advance notice of proposed rulemaking (ANPR) concerning potential changes in the risk-based capital rules (Basel 1-A) that are designed to apply to, and potentially reduce the risk capital requirements of, bank holding companies, such as Camden, that are not among the 20 or so largest U.S. bank holding companies. In July 2007 the Federal Reserve, the OCC and the Office of Thrift Supervision agreed to proceed promptly to issue a proposed rule that would provide bank holding companies such as Camden with the option to adopt a standardized approach under the Basel II Accord. This would replace the earlier proposed rule to adopt the Basel I-A option. The federal banking agencies intend that the proposed standardized option would be finalized before the core banks begin the first transition period year under the advanced approaches of Basel II. Accordingly, Camden is not yet in a position to determine the effect of such rules on its risk capital requirements.

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

Other Regulatory Requirements

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

Table of Contents

Customer Information Security. The OCC and other bank regulatory agencies have adopted final guidelines establishing standards for safeguarding nonpublic personal information about customers that implement provisions of the GLBA. Among other things, these require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to, or use of, such information that could result in substantial harm or inconvenience to any customer.

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

USA PATRIOT Act. The USA PATRIOT Act of 2001 (the PATRIOT Act), designed to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The PATRIOT Act requires financial institutions to implement additional policies and procedures with respect to money laundering, suspicious activities, currency transaction reporting, customer identity notification and customer risk analysis. The PATRIOT Act also permits information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and requires the FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. In 2006, final regulations under Section 312 of the PATRIOT Act were issued requiring financial institutions, including Camden Bank, to take additional steps to monitor their correspondent banking and private banking relationships as well as their relationships with shell banks. Moreover, in August 2007, the federal banking agencies adopted an additional final rule under Section 312 of the PATRIOT Act governing the enhanced due diligence procedures required for correspondent accounts maintained by U.S. covered financial institutions for certain foreign banks. The enhanced due diligence procedures mandated by this rule will need to be applied to new correspondent accounts established on or after February 5, 2008. In addition, those procedures will have to be retroactively applied to pre-existing accounts (that is, accounts established prior to February 5, 2008) no later than May 5, 2008. Management believes that it is currently in compliance with all currently effective requirements prescribed by the PATRIOT Act and all applicable final implementing regulations.

Deposit Insurance. The bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. In 2006, the FDIC enacted various rules to implement the provisions of the Federal Deposit Insurance Reform Act of 2005 (the FDI Reform Act). Pursuant to the FDI Reform Act, in 2006 the FDIC merged the Bank Insurance Fund with the Savings Association Insurance Fund to create a newly named Deposit Insurance Fund (the DIF) that covers both banks and savings associations. The FDIC also revised, effective January 1, 2007, the risk-based premium system under which the FDIC classifies institutions based on the factors described below and generally assesses higher rates on those institutions that tend to pose greater risks to the DIF. For most banks and savings associations, including Camden Bank, FDIC rates will depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency s evaluation of the financial institution s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings and CAMELS component ratings. For institutions, such as Camden Bank, which are in the lowest risk category, assessment rates will vary initially from five to seven basis points per $100 of insured deposits. The Federal Deposit Insurance Act (FDIA) as amended by the FDI Reform

Table of Contents

Act requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (the DRR) for a particular year within a range of 1.15% to 1.50%. For 2007, the FDIC has set the initial DRR at 1.25%. Under the FDI Reform Act and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. The FDIC also issued a one-time assessment credit pool to be shared among institutions that were in existence on December 31, 1996, and paid a deposit insurance assessment prior to that date, or is a successor to such an institution. For 2007, Camden Bank s share of the assessment credit pool was estimated to be sufficient to cover 2007 annual calculated contribution to the DIF, thus there will be no impact to the Statement of Income for 2007. For years following 2007, Camden Bank estimates its premium contribution will be approximately 5.0 basis points per $100 of insured deposits, which will adversely impact the statement of income. We cannot reliably predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above 2007 levels.

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

Status of Regulatory Approvals and Other Information

Before Camden and Union Bankshares may complete the merger, they must obtain a number of regulatory approvals from, or give notices to, federal and state bank regulators, as summarized in the following paragraphs.

Office of the Comptroller of the Currency: Camden Bank will file with the OCC the required application under the Bank Merger Act, 12 USC 1828(c), to obtain approval for the merger of Union Trust with and into Camden Bank. The OCC determination whether to approve the merger of the bank subsidiaries is also subject to the requirements of 12 U.S.C. Sec. 215a. The OCC is required to consider the financial and managerial resources and future prospects of the banks concerned, as well as the convenience and needs of the communities to be served. The consideration of convenience and needs includes the parties performance under the CRA. Consideration of financial resources generally focuses on capital adequacy. In addition, in reviewing the application, the OCC must consider the effectiveness of both Camden Bank s and Union Trust s Bank Secrecy Act/Anti-Money Laundering Programs and the competitive impact, if any, on any relevant banking market. An OCC approval of the merger will be subject to a condition that the merger may not be consummated prior to the expiration of a waiting period, which is expected to be 15 days from the date of the OCC approval. The United States Department of Justice has the authority during such waiting period to challenge the approval on antitrust grounds.

Federal Reserve Board: Camden will submit a notification to the Federal Reserve Board pursuant to Section 225.12(d)(2) of Regulation Y of the Federal Reserve Board (Regulation Y) requesting a waiver of the Federal Reserve Board from the application requirement under Section 3 of the BHCA. The Federal Reserve Board s determination whether the merger is eligible for the exemption from BHCA application and approval requirements is subject to the Federal Reserve Board s verification that the merger satisfies all of the requirements of Section 225.12(d)(2).

Maine Bureau of Financial Institutions: Camden is required under Title 9-B, Ch. 35, Sec. 351(3-A) of the Maine Revised Statutes Annotated to notify and provide the Maine Superintendent of Banks with a copy of the application filed with the OCC within three days of its delivery of the application to the OCC.

Table of Contents

The merger agreement provides that the obligation of each of Camden and Union Bankshares to complete the merger is conditioned upon the receipt of all requisite regulatory approvals, the giving of all required notices to regulatory agencies, and the expiration of all waiting periods. There can be no assurance that any governmental agency will approve or take any required action with respect to the merger, and, if such approvals are received or action is taken, there can be no assurance as to the date of such approvals or action, that such approvals or action will not be conditioned upon matters that would cause the parties to mutually consent to abandon the merger or that no action will be brought challenging such approvals or action, or, if such a challenge is made, the result thereof. Camden and Union Bankshares are not aware of any governmental approvals or actions that may be required for completion of the merger other than as described above. Should any other approval or action be required, Camden and Union Bankshares currently contemplate that such approval or action would be sought.

Table of Contents

UNION BANKSHARES BUSINESS

General

Union Bankshares is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, which has elected financial holding company status. Union Bankshares was incorporated in 1984 and is headquartered in Ellsworth, Maine. Union Bankshares is the sole shareholder of Union Trust, a Maine-chartered commercial bank established in 1887.

Union Trust is a community-oriented commercial bank with thirteen offices located along Maine s coast, stretching from Waldoboro to Jonesport. Union Trust conducts its operations out of its main office in Ellsworth, Maine. It also operates through branch offices located in Ellsworth, Blue Hill, Stonington, Milbridge, Jonesport, Town Hill, Castine, Bar Harbor, Waldoboro, Rockland, Belfast and Camden, Maine. Its deposits are gathered from the general public in these towns and surrounding communities, and its lending activities are concentrated primarily in Hancock, Washington, Knox, Lincoln and Waldo Counties of the State of Maine.

Union Bankshares serves the financial needs of individuals, businesses, municipalities and organizations with a full range of community banking services. The community banking business derives its revenues from interest and fees earned in connection with its lending activities, interest and dividends on investment securities, service charges and fees on deposit accounts, and fees and commissions from trust accounts and investment advisory services. As of June 30, 2007, Union Bankshares had total assets of $565.1 million, total deposits of $348.7 million and shareholders equity of $41.6 million.

Competition

Union Bankshares contends with competition both in generating loans and attracting deposits. Union Bankshares competition for loans is primarily from other commercial banks, savings banks, credit unions, mortgage banking companies, insurance companies, finance companies, and other institutional lenders. In attracting deposits, Union Bankshares primary competitors are savings banks, commercial banks, credit unions, as well as other non-bank institutions such as brokerage firms and insurance companies that offer financial alternatives.

Union Bankshares has worked to position itself to be competitive in its market area. Its ability to make decisions close to the marketplace, management s commitment to providing quality banking products, the caliber of the professional staff, and the community involvement of Union Trust s employees are all factors affecting our ability to be competitive. If Union Bankshares and Union Trust are unable to compete successfully, however, the business and operations could be adversely affected.

Lending Activities

Union Trust s loan portfolio consists primarily of one- to four-family residential real estate loans. To a lesser extent, Union Trust s loan portfolio includes commercial real estate loans, commercial and industrial loans, consumer loans and municipal loans. Union Trust s borrowers consist of small-to-medium sized businesses and retail customers located primarily in Maine.

Residential Real Estate Loans. Union Trust s primary lending activity is the origination of conventional mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in Union Trust s market area. Union Trust offers fixed-rate and adjustable-rate mortgage loans with terms up to 30 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period of interest rates and loan fees for adjustable-rate loans. The loan fees charged, as well as interest rates and other provisions of mortgage loans are determined by Union Trust on the basis of its own pricing criteria and competitive market conditions.

Table of Contents

Commercial Real Estate Loans. Union Trust also offers fixed-rate and adjustable-rate mortgage loans secured by commercial real estate. Loans secured by commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential real estate loans. Of primary concern in commercial real estate lending is the borrower s creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy, more so than residential real estate loans. In reaching a decision on whether to make a commercial real estate loan, Union Trust considers the net operating income of the property, the borrower s expertise, credit history and profitability and the value of the underlying property.

Commercial and Industrial Loans. Union Trust makes commercial and industrial loan products and services available to a variety of professionals, sole proprietorships and small-to-medium sized businesses primarily in our market area. These products and services are designed to give business owners borrowing opportunities to support working capital needs, inventory and equipment purchases, facility construction, consolidation, real estate acquisition and vehicle purchases. Although Union Trust does originate fixed-rate term loans, substantially all of its commercial loans have variable interest rates indexed to the prime rate as published in *The Wall Street Journal*.

Consumer Loans. Union Trust makes loans for a wide variety of personal and consumer needs. Consumer loans primarily consist of installment loans, home equity loans and cash reserve loans. Unsecured loans generally have a maximum borrowing limit of $15,000 and a maximum term of three years. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as published in *The Wall Street Journal* for terms of up to 20 years. Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly.

Municipal Loans. Union Trust, as a member of the communities it serves, also actively participates in the local bidding process to obtain municipal loans throughout its market area. Through the bidding process, the municipality is able to receive a competitive rate on short- and longer-term loans providing funds for operating or capital project needs. Union Trust also provides a wide array of municipal banking services to enhance the relationship between Union Trust and the municipality. Interest earned on a municipal loan is tax exempt for federal tax purposes which enhances the overall yield on each loan. Municipal loan balances are somewhat seasonal, typically reaching a high in August and a low in December.

Loan Originations, Purchases and Sales. Loan applications are obtained through existing customers, solicitation by Union Trust s relationship managers, referrals from current or past customers, or walk-in customers. Union Trust will also occasionally purchase participation shares in other Maine community bank loans.

Union Trust sells a portion of its fixed-rate residential real estate loans with terms in excess of 15 years to the secondary market based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management goals. Generally, loans are sold without recourse and with loan servicing retained. During the first six months of 2007, Union Trust sold $8.8 million of these loans to Freddie Mac. Union Trust also occasionally sells participation interests in its larger commercial loans to other community banks in Maine.

Investment Activities

Union Trust s investment portfolio consists primarily of mortgage-backed securities, U.S. Treasury notes and other U.S. Government Agency obligations, corporate debt securities, obligations of states and political subdivisions within the State of Maine and out-of-state municipalities, and other securities. Union Trust s investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of

Table of Contents

interest rate risk, to provide an alternate source of low-risk investments when demand for loans is weak, and to generate a favorable return.

Sources of Funds

Deposits. Union Trust offers a wide-range of deposit products including demand deposits, interest checking, money market accounts, savings accounts and time certificates of deposit. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. The majority of Union Trust s depositors are residents of Maine. Wholesale certificates of deposit are also used to supplement Union Trust s sources of funds.

Borrowings. Borrowings consist of short-term and intermediate term obligations. This funding consists of Federal Home Loan Bank of Boston, or the FHLB, advances, federal funds purchased, treasury tax and loan notes and assets sold under repurchase agreements. In a repurchase transaction, Union Trust will generally sell a security agreeing to repurchase either the same or a substantially identical security on a specified later date. Union Trust has also established repurchase agreements with major brokerage firms as potential sources of liquidity. At June 30, 2007, Union Bankshares had $10.0 million outstanding of such repurchase agreements. In addition to agreements with brokers, Union Trust also had customer repurchase agreements outstanding amounting to $10.5 million at June 30, 2007. Total repurchase agreements averaged $17.3 million during the first six months of 2007, up from $13.4 million in the same period of 2006. Union Trust also borrows from the FHLB to supplement its supply of funds available for lending and to meet deposit withdrawal requirements. The FHLB functions as a central reserve bank providing credit for member financial institutions. As a member of the FHLB, Union Trust is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and qualifying mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of Union Trust s net worth or on the FHLB s assessment of Union Trust s creditworthiness. At June 30, 2007, Union Trust had $138.4 million outstanding in FHLB borrowings with initial maturities ranging from 1 month to 10 years.

Also included in borrowings are junior subordinated debentures payable to Union Bankshares unconsolidated Delaware trust affiliate, Union Bankshares Capital Trust I (the Trust), that on February 17, 2006 completed a private placement of $8.0 million of trust preferred securities. As part of this transaction, Union Bankshares issued an aggregate principal amount of $8.2 million of 30-year junior subordinated deferrable interest debt securities to the Trust. For the first five years after issuance, the debt securities will bear interest at a blended rate equal to the sum of (1) the product of (a) 50% times (b) the floating three month LIBOR plus 1.42%, or the variable rate, plus (2) the product of (a) 50% times (b) the 5 year interest rate swap rate fixed two business days prior to closing plus 1.42%, or the fixed rate. Therefore, for the first five years after issuance, the variable rate portion of the blended rate will float in relation to the floating three month LIBOR rate and the fixed rate portion of the blended rate will be fixed. The blended rate applicable to the last distribution, on July 7, 2007, was 6.6%. The debt securities obligate Union Bankshares to pay interest on their principal sum quarterly in arrears on January 7, April 7, July 7, and October 7 of each year. The debentures have a stated maturity of April 7, 2036, but may be redeemed by Union Bankshares, in whole or in part, beginning on April 7, 2011, on any interest payment date.

Investment Management, Brokerage and Insurance

Union Trust s Investment and Trust Services Group provides advisory and investment management and trust services to a broad range of individuals and institutional customers. In addition, Union Trust serves as fiduciary for clients, acting as trustee, agent, or personal representative of estates.

Table of Contents

Accounts maintained by the Investment and Trust Services Group consist of managed and non-managed accounts. Managed accounts are those for which Union Trust is responsible for administration and investment management and/or investment advice. Non-managed accounts are those for which Union Trust acts solely as a custodian or directed trustee. Union Trust receives fees dependent upon the level and type of service(s) provided. For the six months ended June 30, 2007, the Investment and Trust Services Group generated gross fee revenues of $1.4 million. Total assets under administration as of June 30, 2007, were $398.3 million, an increase of $65.0 million, or 19.5% from the same period of 2006.

Union Trust s Cornerstone Investment Services Group provides access to a wide-range of brokerage and insurance products. The majority of accounts maintained consist of retirement and other accounts, annuities, mutual funds, individual stocks and bonds, and life and long term care insurance.

Employees

As of June 30, 2007, Union Trust had 154 full-time employees and 6 part-time employees. Union Trust enjoys good relations with its employees. A variety of employee benefits, including health, life and disability income replacement insurance, a funded, noncontributory pension plan, and a defined contribution plan are available to qualifying employees.

Seasonal Information

In Union Trust s market area, deposit balances generally increase during the summer and autumn months of each year due to an influx of tourists and seasonal residents returning to the area. In 2006, the maximum amount of deposits at any month end was $353.8 million in October. The deposit fluctuation is predictable and does not have a material adverse effect on Union Trust and its operations.

Financial Information about Industry Segments

The information required to be set forth under this item is incorporated by reference to the financial statements set forth below in Information About Union Bankshares Financial Statements .

Supervision And Regulation

General

Union Trust is a Maine-chartered community bank whose deposit accounts are insured up to applicable limits by the FDIC. Union Trust is also a member of the Federal Reserve System. Union Trust is subject to extensive regulation, examination and supervision by the Maine Bureau of Financial Institutions, or the Bureau, as its chartering regulator, by the FDIC as its deposit insurer and by the FRB as its primary federal regulator. Union Bankshares, a financial holding company (FHC) under the BHCA, is subject to the rules and regulations of the FRB. Union Bankshares is also subject to the rules and regulations of the Securities and Exchange Commission, or the SEC, and the National Association of Security Dealers, or the NASD, to the extent that the NASD rules apply to companies quoted on the OTC Bulletin Board. Both Union Bankshares and Union Trust are subject to the provisions of the Maine Revised Statues applicable to financial institutions, and the rules and regulations of the Bureau.

The following references to the laws and regulations under which Union Trust and Union Bankshares are regulated are brief summaries thereof, do not purport to be complete, and are qualified in their entirety by reference to such laws and regulations.

Maine Banking Laws and Supervision

Union Bankshares and Union Trust are subject to Maine law and the rules and regulations of the Bureau. The approval of the Bureau is required to establish or close branches, to merge with another bank, to form a

Table of Contents

BHC, to issue stock or to undertake many other activities. Any Maine bank that does not operate in accordance with the regulations, policies and directives of the Bureau is subject to sanctions.

Loans-to-One-Borrower Limitations. With certain exceptions, the total obligations of a single borrower to Union Trust may not exceed 20% of Union Trust s total capital. Total loans or other extensions of credit in excess of 10% of total capital must be approved by a majority of the governing body or the executive committee of Union Trust. Union Trust currently complies with applicable loans-to-one-borrower limitations.

Dividends. Under Maine law, Union Bankshares may declare and pay a dividend on its capital stock provided that adequate levels of capital are maintained. The Bureau s minimum capital requirements are set by regulation, and must be at least as stringent as those set forth by federal banking regulations. See Information About Union Bankshares Supervision and Regulation Federal Regulation of Union Trust Capital Requirements. In addition, federal law also may limit the amount of dividends that may be paid by Union Trust.

Examination. The Bureau is required to regularly examine each state-chartered bank at least once every 36 months.

Enforcement. The Bureau is authorized to issue cease and desist orders to any state-chartered bank that is engaging in or has engaged in: an unsafe or unsound practice; a violation of a law, rule or regulation relating to the supervision of the institution; a violation of any condition, imposed in writing, in connection with the approval of any application by the superintendent; a violation of any written agreement entered into with the superintendent; or an anticompetitive or deceptive practice, or one that is otherwise injurious to the public interest.

The Bureau may, under certain circumstances, suspend or remove directors or officers of a bank if: (1) the directors or officers have violated a law, rule, regulation or cease and desist order that has become final; engaged in or participated in any unsafe or unsound practice; or committed or engaged in any act, omission, or practice that constitutes a breach of the fiduciary duty of the officer or director; (2) by reason of the violation, practice or breach the bank has suffered or will probably suffer financial loss or other damage, the interests of the bank s depositors or creditors or the public have been or could be prejudiced, or the officer or director has received financial gain or other benefit; and (3) the violation, practice or breach involves personal dishonesty or demonstrates willful or continuing disregard for the safety or soundness of the bank.

Federal Regulation of Union Bankshares

Union Bankshares is subject to the federal law of the United States and the regulations of the FRB.

Capital Requirements. The FRB has adopted capital adequacy guidelines pursuant to which it assesses the adequacy of capital in examining and supervising a BHC and in analyzing applications to it under the BHCA. The FRB capital adequacy guidelines generally require bank holding companies to maintain total capital equal to 8.0% of total risk-adjusted assets, with at least one-half of that amount consisting of Tier 1, or core capital, and up to one-half of that amount consisting of Tier 2, or supplementary capital. Tier 1 capital for bank holding companies generally consists of the sum of common stockholders equity and perpetual preferred stock (subject in the case of the latter to limitations on the kind and amount of such stocks which may be included as Tier 1 capital), less goodwill and, with certain exceptions, intangibles. Tier 2 capital generally consists of hybrid capital instruments; perpetual preferred stock which is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. Assets are adjusted under the risk-based guidelines to take into account different risk characteristics, with the categories ranging from 0.0% (requiring no additional capital) for assets such as cash to 100.0% for the bulk of assets which are typically held by a BHC, including multi-family residential and commercial real estate loans, commercial business loans and consumer loans. Single-family residential first mortgage loans which are not past-due (90 days or more) or non-performing and which have been made in accordance with prudent underwriting

Table of Contents

standards are assigned a risk-weight of 50.0%, as are certain privately-issued mortgage-backed securities representing indirect ownership of such loans. Off-balance sheet items also are adjusted to take into account certain risk characteristics.

In addition to the risk-based capital requirements, the FRB requires bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital to total assets of 3.0%. Total assets for this purpose do not include goodwill and any other intangible assets and investments that the FRB determines should be deducted from Tier 1 capital. The FRB has announced that the 3.0% Tier 1 leverage capital ratio requirement is the minimum for the top-rated bank holding companies without any supervisory, financial or operational weaknesses or deficiencies or those that are not experiencing or anticipating significant growth. Other bank holding companies are expected to maintain Tier 1 leverage capital ratios of at least 4.0% to 5.0% or more, depending on their overall condition. Union Bankshares is in compliance with the above-described FRB regulatory capital requirements.

Activities. The BHCA prohibits a BHC from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, or increasing such ownership or control of any bank, without prior approval of the FRB. No approval under the BHCA is required, however, for a BHC already owning or controlling 50% of the voting shares of a bank to acquire additional shares of such bank.

The BHCA also prohibits a BHC, with certain exceptions, from acquiring more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. Under the BHCA, the FRB is authorized to approve the ownership of shares by a BHC in any company, the activities of which the FRB has determined to be so closely related to banking or to managing or controlling banks as to be a proper incident thereto. In making such determinations, the FRB is required to weigh the expected benefit to the public, such as greater convenience, increased competition or gains in efficiency, against the possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

In addition, a BHC which does not qualify and elect to be treated as an FHC under the Gramm-Leach-Bliley Financial Services Modernization Act is generally prohibited from engaging in, or acquiring, direct or indirect control of any company engaged in non banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling banks as to be permissible.

Bank holding companies may qualify to become financial holding companies if they meet certain criteria set forth by the FRB. In 2003, Union Bankshares elected to be treated as an FHC under the BHCA. As an FHC, Union Bankshares may conduct activities that are considered financial in nature under the BHCA. Such activities include:

- Activities permissible for bank holding companies prior to the enactment of the Act;
- Lending, exchanging, transferring, investing for others, or safeguarding money or securities;
- Underwriting and selling insurance;
- Providing financial, investment, or advisory services;
- Selling pools of assets;
- Underwriting, dealing in, or making a market in securities; and
- Merchant banking.

In order to commence a new activity, Union Trust must have received a Satisfactory on its latest CRA exam. See Information About Union Bankshares Supervision and Regulation Federal Regulation of Union Trust Community Reinvestment below.

Table of Contents

The Sarbanes-Oxley Act. As a public company, Union Bankshares is subject to the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) which implements a broad range of corporate governance and accounting measures for public companies designed to promote honesty and transparency in corporate America and better protect investors from corporate wrongdoing. The Sarbanes-Oxley Act s principal legislation and the derivative regulation and rule making promulgated by the SEC includes:

- the creation of an independent accounting oversight board;
- auditor independence provisions which restrict non-audit services that accountants may provide to their audit clients;
- additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer certify financial statements;
- a requirement that companies establish and maintain a system of internal control over financial reporting and that a company s management provide an annual report regarding its assessment of the effectiveness of such internal control over financial reporting to the company s independent accountants and that such accountants provide an attestation report with respect to management s assessment of the effectiveness of the company s internal control over financial reporting (Union Bankshares, as a non-accelerated filer, is not subject to the requirement for a management assessment of internal controls until the year ending December 31, 2007, and is not subject to the requirement for an accountant s report until the year ending December 31, 2008);
- the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- an increase in the oversight of, and enhancement of certain requirements relating to audit committees of public companies and how they interact with Union Bankshares independent auditors;
- requirement that audit committee members must be independent and are absolutely barred from accepting consulting, advisory or other compensatory fees from the issuer;
- requirement that companies disclose whether at least one member of the committee is a financial expert (as such term is defined by the SEC) and if not, why not;
- expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;
- a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions;
- disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;
- mandatory disclosure by analysts of potential conflicts of interest; and

a range of enhanced penalties for fraud and other violations.

Section 402 of the Sarbanes-Oxley Act prohibits the extension of personal loans to directors and executive officers of issuers. The prohibition, however, does not apply to mortgages advanced by an insured depository institution, such as Union Trust, that are subject to the insider lending restrictions of Section 22(h) of the FRA. See Information About Union Bankshares Supervision and Regulation Federal Regulation of Union Trust Loans to Insiders below.

Although Union Bankshares has and will continue to incur additional expense in complying with the provisions of the Sarbanes-Oxley Act and the resulting regulations, such compliance will not have a material impact on its results of operations or financial condition.

Table of Contents

Federal Securities Law. Union Bankshares common stock is registered with the SEC under Section 12(g) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Thus, Union Bankshares is subject to information, proxy solicitation, insider trading restrictions, and other requirements under the Exchange Act.

Federal Regulation of Union Trust

Union Trust is subject to the federal law of the United States and regulations of the FRB and the FDIC.

Capital Requirements. Under FRB regulations, Union Trust is required to maintain minimum levels of capital. The FRB regulations define two classes of capital known as Tier 1 and Tier 2 capital. For an institution with a rating of 1 (the highest examination rating for banks) under the Uniform Financial Institutions Rating System, the minimum capital leverage requirement is a ratio of Tier 1 capital to total assets of 3%. For all other banks, the minimum leverage capital requirement is 4%, unless the particular circumstances or risk profile of the depository institution warrants a higher leverage capital ratio.

The FRB regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital (which is defined as the sum of Tier 1 capital and Tier 2 capital, minus certain investments or holdings) to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FRB believes are inherent in the type of asset or item.

The federal banking agencies, including the FRB, have also adopted regulations to require an assessment of an institution s exposure to declines in the economic value of a bank s capital due to changes in interest rates when assessing Union Trust s capital adequacy. Under such a risk assessment, examiners will evaluate a bank s capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors.

Institutions with significant interest rate risk may be required to hold additional capital. The agencies also issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies evaluation of interest rate risk in connection with capital adequacy. Union Trust was considered well capitalized under FRB guidelines at June 30, 2007.

Activity Restrictions on State-Chartered Banks. Section 24 of the FDIA which was added by the FDICIA, generally limits the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by Section 24 or consented to by the FDIC.

Before making a new investment or engaging in a new activity not permissible for a national bank or not otherwise permissible under Section 24 or the FDIC regulations thereunder, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless Union Trust meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC insurance funds.

Enforcement. The FRB has extensive enforcement authority over state-chartered member banks, including Union Trust. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

Deposit Insurance. The FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the DIF on March 31, 2006. Union Trust is a member of the DIF and pays its deposit insurance assessments to the DIF.

Table of Contents

Pursuant to FDICIA, the FDIC established a system for setting deposit insurance premiums based upon the risks a particular bank or savings association posed to its deposit insurance fund. Effective January 1, 2007, the FDIC established a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the assessment system, the FDIC assigns an institution to one of four risk categories, with the first category having two sub-categories based on the institution s most recent supervisory and capital evaluations, designed to measure risk. Assessment rates currently range from 0.05% of deposits for an institution in the highest sub-category of the highest category to 0.43% of deposits for an institution in the lowest category. The FDIC is authorized to raise the assessment rates as necessary to maintain the required reserve ratio of 1.25%. The FDIC allows the use of credits for assessments previously paid, and Union Trust has credits that will offset certain assessments.

In addition, all federally insured institutions are required to pay assessments to the FDIC at an annual rate of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Under the FDIA, the FDIC may terminate the insurance of an institution s deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of Union Trust does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Transactions with Affiliates of Union Trust. Union Trust s authority to engage in transactions with its affiliates is limited by the FRB s Regulation W and Sections 23A and 23B of the FRA. In general, these transactions must be on terms which are as favorable to Union Trust as comparable transactions with non-affiliates. In addition, certain types of these transactions referred to as covered transactions are subject to quantitative limits based on a percentage of Union Trust s capital, thereby restricting the total dollar amount of transactions Union Trust may engage in with each individual affiliate and with all affiliates in the aggregate. The term covered transaction includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Affiliates must pledge qualifying collateral in amounts between 100% and 130% of the covered transaction in order to receive loans from Union Trust. In addition, applicable regulations prohibit Union Trust from lending to any of its affiliates that engage in activities that are not permissible for bank holding companies and from purchasing low-quality (i.e., non-performing) assets from an affiliate or purchasing the securities of any affiliate, other than a subsidiary.

Loans to Insiders. Union Trust s authority to extend credit to its directors, executive officers and principal shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the FRA and Regulation O of the FRB. Among other things, these provisions require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with third parties and that do not involve more than the normal risk of repayment or present other features that are unfavorable to Union Trust; and

- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Union Trust s capital.

The regulations allow small discounts on fees on residential mortgages for directors, officers and employees. In addition, extensions for credit in excess of certain limits must be approved by Union Trust s Board of Directors.

Nontraditional Mortgage Product Risk. In September of 2006, the federal banking agencies published final guidance for institutions that originate or service nontraditional or alternative mortgage products, defined to include all residential mortgage loan products that allow borrowers to defer repayment on principal or interest, such as interest-only mortgages and payment option adjustable-rate mortgages. At this time Union Trust does not originate or service nontraditional or alternative mortgage products.

Concentrations in Commercial Real Estate Loans. In December of 2006, the FRB adopted guidance entitled Concentrations in Commercial Real Estate (CRE) Lending, Sound Risk Management Practices (the CRE Guidance) to address concentrations of commercial real estate loans in institutions. The CRE Guidance reinforces and enhances the FRB s existing regulations and guidelines for real estate lending and loan portfolio management, and establishes specific commercial real estate lending thresholds at which a concentration of commercial real estate loan is deemed to exist. The CRE Guidance applies to institutions with an accumulation of credit concentration exposures and asks that the banks quantify the additional risk such exposures may pose, including stratification of the commercial real estate portfolio by, among other things, property type, geographic market, tenant concentrations, tenant industries, developer concentrations and risk rating. In addition, an institution should perform periodic market analyses for the various property types and geographic markets represented in its portfolio. Further, an institution with commercial real estate concentration risk should also perform portfolio level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings and capital. Union Trust believes that the CRE Guidance will not have a material impact on the conduct of its business, and Union Trust will be able to effectively implement requirements and suggestions set forth in the CRE Guidance during 2007.

Safety and Soundness Standards. Pursuant to the requirements of the FDIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, each federal banking agency, including the FRB, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. In addition, the FRB adopted regulations to require a bank that is given notice by the FRB that it is not satisfying any of such safety and soundness standards to submit a compliance plan to the FRB. If, after being so notified, a bank fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the FRB may issue an order directing corrective and other actions of the types to which a significantly undercapitalized institution would be subject under the prompt corrective action provisions of the FDICIA. If a bank fails to comply with such an order, the FRB may seek to enforce such an order in judicial proceedings and to impose civil monetary penalties.

Prompt Corrective Action. The FDIA also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FRB, as well as the other federal banking regulators, adopted regulations governing the supervisory actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The severity of the action authorized or required to be taken under the prompt corrective action regulations increases as a bank s capital decreases within the three undercapitalized categories. Union Trust is prohibited from paying dividends or other capital distributions or paying management fees to any controlling person if, following such distribution, Union Trust would be undercapitalized.

Community Reinvestment. Under the CRA, insured depository institutions, including Union Trust, have a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of the entire community, including low and moderate-income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the FRB to assess the depository institution s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution, including applications for additional branches and acquisitions. The CRA requires the FRB to provide a written evaluation of an institution s CRA performance utilizing a four-tiered descriptive rating system, and the institution is required to publicly disclose its CRA rating. The four descriptive ratings are outstanding, satisfactory, needs to improve and substantial noncompliance. Union Trust received a Satisfactory rating on its last CRA exam dated July 31, 2006.

CRA regulations rate an institution based on its actual performance in meeting community needs. In particular, the assessment system focuses on three tests:

- a lending test, to evaluate the institution s record of making loans in its assessment areas;

- an investment test, to evaluate the institution s record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses in its assessment area, or a broader area that includes its assessment areas; and

- a service test, to evaluate the institution s delivery of services through its retail banking channels and the extent and innovativeness of its community development services.

Federal Home Loan Bank System. Union Trust is a member of the Federal Home Loan Bank (the FHLB) system, which consists of 12 regional FHLB s. The FHLB provides a central credit facility primarily for member institutions. Union Trust, as a member of the FHLB of Boston (the FHLB-Boston), is required to acquire and hold shares of capital stock in the FHLB-Boston in an amount equal to at least 0.35% of Union Trust s Membership Stock Investment Base, as defined by the FHLB-Boston, or $10,000, whichever is greater. Union Trust is also required to own activity based stock, which is based on 4.5% of Union Trust s outstanding advances, or 3% for overnight advances. These percentages are subject to change by the FHLB-Boston. Union Trust was in compliance with this requirement with an investment in FHLB-Boston stock at June 30, 2007 of $7.7 million. Any FHLB advances must be secured by specified types of collateral, and all long-term advances may be obtained only for the purpose of providing funds for residential housing finance. The FHLB s are required to provide funds for certain purposes including contributing funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLB s pay to their members and result in the FHLB s imposing a higher rate of interest on advances to their members. If dividends were reduced, or interest on future FHLB advances increased, Union Trust s net interest income would be affected.

Federal Reserve System. Under FRB regulations, Union Trust is required to maintain noninterest-earning reserves against its transaction accounts. Current FRB regulations generally require a 3% reserve for transaction accounts from $8.5 million to $45.8 million, subject to adjustment by the FRB. The first $8.5 million of otherwise reservable balances, subject to adjustments by the FRB, are exempted from the reserve requirements. A 10% reserve is required for transaction accounts in excess of $45.8 million. Union Trust is in compliance with these requirements. Because required reserves must be maintained in the form of either vault cash, a noninterest-bearing account at a Federal Reserve Bank or a pass-through account as defined by the FRB, the effect of this reserve requirement is to reduce Union Trust s interest-earning assets.

The Interstate Banking Act. Beginning June 1, 1997, the Interstate Banking Act permitted federal banking agencies to approve merger transactions between banks located in different states, regardless of whether the merger would be prohibited under the law of the two states. The Interstate Banking Act also permitted a state to opt in to the provisions of the Interstate Banking Act before June 1, 1997, and permitted a state to opt out of the provisions of the Interstate Banking Act by adopting appropriate legislation before that date. Accordingly, beginning June 1, 1997, the Interstate Banking Act permitted a bank, such as Union Trust, to acquire an institution by merger in a state other than Maine unless the other state had opted out of the Interstate Banking Act. The Interstate Banking Act also authorizes de novo branching into another state if the host state enacts a law expressly permitting out of state banks to establish such branches within its borders.

The Bank Secrecy Act. Union Trust is subject to the Bank Secrecy Act, as amended by the PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, and mandatory transaction reporting obligations. By way of example, the Bank Secrecy Act imposes an affirmative obligation on Union Trust to report currency transactions that exceed certain thresholds and to report other transactions determined to be suspicious.

Title III of the PATRIOT Act takes measures intended to encourage information sharing among financial institutions, bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act. Among other requirements, the PATRIOT Act imposes the following obligations on financial institutions:

- all financial institutions must establish anti-money laundering programs that include, at minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program;

- all financial institutions must establish and meet minimum standards for customer due diligence, identification and verification;

- financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) must establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering through those accounts;

- financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and are subject to certain recordkeeping obligations with respect to correspondent accounts of foreign banks; and

- bank regulators are directed to consider a bank s or holding company s effectiveness in combating money laundering when ruling on FRA and Bank Merger Act applications.

Office of Foreign Asset Control. Union Trust and Union Bankshares, like all United States companies and individuals, are prohibited from transacting business with certain individuals and entities named on the Office of Foreign Asset Control s list of Specially Designated Nationals and Blocked Persons. Failure to comply may result in fines and other penalties. Recently, the Office of Foreign Asset Control issued guidance directed at financial institutions in which it asserted that it may, in its discretion, examine institutions determined to be high-risk or to be lacking in their efforts to comply with these prohibitions.

Acquisition of Union Bankshares or Union Trust. Under the federal Change in Bank Control Act, any person (including a company), or group acting in concert, seeking to acquire control of Union Bankshares or Union Trust will be required to submit prior notice to the FRB. Under the Change in Bank Control Act, the FRB has 60 days within which to act on such notices, taking into consideration factors, including the financial and managerial resources of the acquirer, the convenience and needs of the communities served by Union Bankshares and Union Trust, and the anti-trust effects of the acquisition. The term control is defined generally under the BHCA to mean the ownership or power to vote 25% or more of any class of voting securities of an institution or the ability to control in any manner the election of a majority of the institution s directors. Additionally under the Bank Merger Act sections of the FDIA, the prior approval of an insured institution s primary federal regulator is required for an insured institution to merge with or transfer assets to another insured institution or an uninsured institution.

Table of Contents

Properties

Union Bankshares headquarters and Union Trust s main branch are located at 66 Main Street, Ellsworth, Maine, in a three-story building owned by Union Trust. The building contains approximately 44,000 square feet. As of June 30, 2007, Union Bankshares properties and leasehold improvements had an aggregate net book value of $8.8 million.

Location	Ownership	Year Opened	Lease Expiration
Corporate Headquarters of Union Trust and Union Bankshares 66 Main Street Ellsworth, Maine 04605	Owned	1887	
Branch Offices:			
51 Main Street Jonesport, Maine 04649	Owned	1974	
9 Tenney Hill Blue Hill, Maine 04614	Owned	1974	
3 Atlantic Avenue Stonington, Maine 04681	Owned	1922	
29 Main Street Milbridge, Maine 04658	Owned	1956	
1768 Atlantic Highway Waldoboro, Maine 04572	Owned	1988	
75 Elm Street Camden, Maine 04843	Owned	2001	
3 Myrick Street Ellsworth, Maine 04605	Leased	2007	2037
21 Main Street Castine, Maine 04421	Leased	1991	2007
43 Cottage Street Bar Harbor, Maine 04609	Leased	1997	2007
17 Belmont Avenue Belfast, Maine 04915	Leased	1997	2018
1316 State Highway 102 Mount Desert, Maine 04660	Leased	2006	2026

3 Glen Street Rockland, Maine 04841	Leased	2006	2036

Legal Proceedings

There are no material legal proceedings pending to which Union Bankshares or Union Trust is a party, or of which any of their property is the subject, other than ordinary routine litigation incidental to the business.

102

Table of Contents

SELECTED FINANCIAL DATA OF UNION BANKSHARES

	For the Six Months Ended June 30,		For the Years Ended December 31,				
	2007	2006	2006	2005	2004	2003	2002
	(In thousands, except share and per share amounts)						
SUMMARY OF OPERATIONS							
Net income	$ 1,771	$ 1,668	$ 3,801	$ 4,747	$ 4,829	$ 4,278	$ 4,315
Net interest income	7,095	7,266	14,679	15,817	15,932	14,131	14,001
Non-interest income	3,233	3,036	6,035	5,751	5,713	6,128	5,837
Non-interest expense	8,007	8,115	15,649	15,220	14,549	13,801	13,423
Provision for (recovery of) loan losses	30			(215)	222	420	360
PER COMMON SHARE DATA							
Earnings per share (in dollars)	$ 1.66	$ 1.53	$ 3.50	$ 4.28	$ 4.24	$ 3.73	$ 3.75
Dividends declared per share (in dollars)	0.860	0.800	1.600	1.600	1.275	1.175	1.100
Book value per share (in dollars) (1)	39.04	36.18	39.09	36.96	36.86	35.57	33.37
FINANCIAL RATIOS							
Return on average equity	8.43%	8.25%	9.40%	11.61%	11.63%	10.75%	11.82%
Return on average assets	0.64	0.61	0.69	0.91	1.03	1.06	1.15
Average equity to average assets	7.65	7.44	7.33	7.87	8.84	9.87	9.76
Net interest margin (2)	2.92	3.01	3.00	3.41	3.77	3.95	4.30
Allowance for loan losses to total loans	1.12	1.14	1.15	1.19	1.45	1.52	1.63
Non performing loans to total loans	0.65	0.77	0.86	0.69	0.47	0.61	0.81
Efficiency ratio (3)	74.51	76.24	73.03	68.30	65.89	66.56	65.90
Dividend payout ratio (declared)	51.70	52.16	45.46	37.36	30.18	31.46	29.34
AT PERIOD END							
Total assets	$ 565,087	$ 560,509	$ 550,975	$ 529,883	$ 488,355	$ 464,194	$ 381,029
Loans, gross (4)	377,793	372,740	370,167	355,858	309,951	286,333	226,226
Total investment securities	145,844	149,991	140,498	140,688	144,139	138,155	109,569
Total deposits	348,711	317,517	347,765	334,998	304,982	298,454	275,765
Total borrowed funds	168,162	198,053	154,779	147,695	134,414	117,729	59,284
Total shareholders equity	41,560	39,235	41,593	40,575	41,092	40,752	38,318

(1) Calculated by dividing total shareholders equity by the net shares outstanding at period end.
(2) Adjusted to tax-equivalent basis.
(3) Calculated by dividing Union Bankshares operating expenses by the total of net interest income on a tax-equivalent basis before the provision for loan losses, plus other income.
(4) Excludes loans held for sale.

Table of Contents

UNION BANKSHARES MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis reviews the consolidated financial condition of Union Bankshares at June 30, 2007 and 2006 and December 31, 2006, and the consolidated results of operations for the three and six months ended June 30, 2007 and 2006. This discussion should be read in conjunction with the consolidated financial statements, notes and tables included in Union Bankshares Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on March 30, 2007.

Certain information discussed below is presented on a fully tax-equivalent basis. Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in Union Bankshares results of operations.

Critical Accounting Policies

Management s discussion and analysis of Union Bankshares financial condition are based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to the allowance for loan losses and the evaluation of mortgage servicing rights. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amount derived from management s estimates and assumptions under different assumptions or conditions.

Allowance for Loan Losses. Management believes the allowance for loan losses is a critical accounting policy that requires estimates and assumptions in the preparation of the consolidated financial statements. The allowance for loan losses is based on management s evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and therefore regularly evaluates it for adequacy by taking into consideration factors such as prior loan loss experience, the character and size of the loan portfolio, business and economic conditions and management s estimation of probable losses. The use of different estimates or assumptions could produce different provisions for loan losses.

Mortgage Servicing Rights. The valuation of mortgage servicing rights is also a critical accounting policy which requires significant estimates and assumptions. Servicing assets are recognized as separate assets when servicing rights are acquired through the sale of residential mortgage loans. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Management uses, on a quarterly basis, an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value which is recorded on the balance sheet. This includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. When the book value exceeds the fair value, a valuation allowance is recorded against these servicing assets. Union Bankshares assumptions are adjusted periodically to reflect current circumstances.

Executive Overview

Net income increased $5,000, or 0.6 %, for the quarter ended June 30, 2007 compared to the quarter ended June 30, 2006. The following were significant factors contributing to the results for the second quarter of 2007:

Net interest income, on a tax-equivalent basis, was essentially level when compared to the same period in 2006.

104

Table of Contents

Non-interest expense decreased by $27,000, or 0.7%, compared to the quarter ended June 30, 2006. Excluding additional legal and other professional costs totaling $147,000 relating to the proxy challenge submitted by a shareholder, total non-interest expense decreased by $174,000, or 4.3%, largely resulting from decreases in salaries and employee benefits and advertising expense.

The commercial real estate portfolio continued to expand, increasing by $13.3 million, or 18.7%, from June 30, 2006.

Total deposits increased $31.2 million, or 9.8%, from June 30, 2006. Of this growth, total retail deposits grew by $11.8 million, or 4.0%, with the remaining growth attributed to brokered certificates of deposit.

Total borrowings, comprised of borrowings from the FHLB, other borrowed funds, and subordinated debt, decreased by $29.9 million, or 15.1%, compared to 2006.

Results of Operations

Net Income. Net income for the six months ended June 30, 2007 was $1.8 million, an increase of $103,000, or 6.2 %, compared to the same period in 2006. Earnings per share were $1.66 and $1.53, respectively, for the six months ended June 30, 2007 and June 30, 2006. Annualized return on average equity, or ROE, and return on average assets, or ROA, for the first six months of the year were 8.43% and 0.64%, respectively. Annualized ROE and ROA were 8.25% and 0.61%, respectively, for the same period in 2006.

Net income for the quarter ended June 30, 2007 increased $5,000 compared with the same period last year and earnings per share increased to $0.79 compared to $0.77 for the same period one year ago. Annualized ROE and ROA were 7.87% and 0.61%, respectively, for the quarter ended June 30, 2007 compared to 8.43% and 0.64% for the same period in 2006.

Net Interest Income. The amount of net interest income is affected by changes in interest rates and by the volume and mix of interest earning assets and interest bearing liabilities. On a fully tax-equivalent basis, net interest income for the six months ended June 30, 2007 decreased by $123,000, or 1.6%, to $7.5 million in comparison to the same period last year. Union Bankshares net interest margin declined 9 basis points to 2.92% for the six months ended June 30, 2007 compared to 3.01% for the same period a year ago. The continued compression in the net interest margin can be attributed to higher deposit costs and increases in the cost of borrowings, without a proportional increase in the yields on loans and investments. Union Bankshares interest rate spread (the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities) decreased 14 basis points to 2.53% for the first six months of 2007 compared to the first six months of 2006.

Net interest income, on a fully tax-equivalent basis, for the quarter ended June 30, 2007 was $3.7 million, and was essentially level when compared to the same period in 2006.

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest income; (iv) net interest rate spread; and (v) net interest margin. For purposes of this table and the following discussion, income from interest-earning assets and net interest income are presented on a fully tax-equivalent basis and nonaccrual loans have been included in average balances only.

Table of Contents

Average Balance Sheets and Analysis of Net Interest Income

(On a Tax-Equivalent Basis)

	Six months ended June 30, 2007			2006		
	Average Balance	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
	(Dollars in thousands)					
Assets						
Interest Earning Assets:						
Investment securities (1)	$ 141,303	$ 3,723	5.31%	$ 146,208	$ 3,455	4.76%
Loans, gross (excludes loans held for sale) (1)	375,283	12,188	6.55%	363,808	11,134	6.17%
Total interest earning assets	516,586	$ 15,911	6.21%	510,016	$ 14,589	5.77%
Other assets:						
Cash and due from banks	9,488			8,892		
Other assets	28,145			24,491		
	$ 554,219			$ 543,399		
Liabilities						
Interest Bearing Liabilities:						
Deposits:						
Savings deposits	$ 55,259	$ 385	1.40%	$ 67,791	$ 498	1.48%
NOW deposits	76,181	597	1.58%	70,763	363	1.03%
Money market accounts	27,315	391	2.89%	21,105	152	1.46%
Time deposits	137,698	2,944	4.31%	116,417	2,012	3.49%
Total interest bearing deposits	296,453	4,317	2.94%	276,076	3,025	2.21%
Borrowings:						
Federal Home Loan Bank borrowings	138,368	3,493	5.09%	158,184	3,561	4.54%
Junior subordinated debt securities	8,248	275	6.72%	6,106	194	6.41%
Other borrowed funds	18,374	336	3.69%	13,646	196	2.90%
Total borrowings	164,990	4,104	5.02%	177,936	3,951	4.48%
Total interest bearing liabilities	461,443	$ 8,421	3.68%	454,012	$ 6,976	3.10%
Non-Interest Bearing Liabilities & Shareholders Equity:						
Demand deposits	43,757			42,941		
Other liabilities	6,647			5,995		
Shareholders equity	42,372			40,451		
	$ 554,219			$ 543,399		
Net interest income (1)		$ 7,490			$ 7,613	
Net interest rate spread (2)			2.53%			2.67%
Net interest margin (2)			2.92%			3.01%

Supplemental Information:

Total deposits, including demand deposits	$ 340,210	$ 4,317		$ 319,017	$ 3,025	
Cost of total deposits			2.56%			1.91%
Total funding liabilities, including demand deposits	$ 505,200	$ 8,421		$ 496,953	$ 6,976	
Cost of funding liabilities			3.36%			2.83%

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $365,000 and $347,000 for the six months ended June 30, 2007 and 2006, respectively.

106

Table of Contents

(2) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average costs of interest-bearing liabilities. Net interest margin represents net interest income as a percent of average interest-earning assets.

The following table presents certain information on a fully tax-equivalent basis regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by prior year volume), and (iii) changes in rate/volume (change in rate multiplied by change in volume).

Analysis of Changes in Interest Income and Expense

	Six months ended June 30,			
	Volume	Rate	Rate/ Volume	Total
	(Dollars in thousands)			
Interest Earning Assets				
Investment securities (1)	$ (116)	$ 399	$ (15)	$ 268
Loans, gross (excludes loans held for sale) (1) (2)	350	684	20	1,054
Total interest earning assets	$ 234	$ 1,083	$ 5	$ 1,322
Interest Bearing Liabilities				
Savings deposits	$ (92)	$ (27)	$ 6	$ (113)
NOW deposits	28	192	14	234
Money market accounts	45	150	44	239
Time deposits	369	474	89	932
Total deposits	$ 350	$ 789	$ 153	$ 1,292
FHLB borrowings	(446)	431	(53)	(68)
Junior subordinated debt securities	68	9	4	81
Other borrowed funds	68	53	19	140
Total borrowings	(310)	493	(30)	153
Total interest bearing liabilities	$ 40	$ 1,282	$ 123	$ 1,445
Net change in net interest income	$ 194	$ (199)	$ (118)	$ (123)

(1) The total amount of adjustment to present interest income and yield on a fully tax-equivalent basis is $365,000 and $347,000 for the six months ended June 30, 2007 and 2006, respectively.

(2) Loans include portfolio loans and nonaccrual loans, but unpaid interest on nonperforming loans has not been included for purposes of determining interest income.

The average balance of interest-earning assets for the first six months of 2007 amounted to $516.6 million, an increase of $6.6 million, or 1.3%, over the same period in 2006. Average loan balances increased $11.5 million, or 3.2% for the first six months of 2007 compared to the same period in 2006. Average investment securities decreased by $4.9 million for the six months ended June 30, 2007 compared to the same period in 2006. The yield on interest-earning assets increased 44 basis points to 6.21% for the first six months in 2007, compared to 5.77% for the same period in 2006. The yield on loans increased 38 basis points from 6.17% for the six months ended June 30, 2006 to 6.55% for the six months ended June 30, 2007 and the yield on investments also increased 55 basis points to 5.31% for the six months ended June 30, 2007.

The average balance of interest-bearing liabilities for the first six months of 2007 was $461.4 million, an increase of $7.4 million, or 1.6%, over the same period in 2006. Average interest-bearing deposits increased

$20.4 million, or 7.4%, to $296.5 million for the six months ended June 30, 2007 compared to the same period in 2006. Average time deposits grew $21.3 million, or 18.3%, for the six months ended June 30, 2007 compared to the same period in 2006; of this increase, $13.7 million was from brokered time certificates of deposit. Average borrowings for the six months ended June 30, 2007 were $165.0 million compared to $177.9 million for the same period in 2006, a decrease of $12.9 million, or 7.3%.

The cost of interest-bearing liabilities increased to 3.68% during the six months ended June 30, 2007, an increase of 58 basis points over the six months ended June 30, 2006. The increase is, in part, attributable to a 55 basis points increase in the cost of Federal Home Loan Bank borrowings during the first six months of 2007 compared to the same period in 2006. Interest expense on the subordinated debt for the six months ended June 30, 2007 was $275,000 compared to $194,000 for the six months ended June 30, 2006. The cost of interest-bearing deposits also increased 73 basis points during the first six months of 2007 compared to the same period in 2006, primarily resulting from upward competitive pricing pressure on deposits. Additionally, the growth in deposits over the prior year was primarily within certificates of deposit, which are typically higher costing than other core sources of funding.

Provision for Loan Losses. The provision for loan losses represents the charge to expense that is required to maintain an adequate level of allowance for loan losses. The process of evaluating the adequacy of the allowance for loan losses involves a high degree of management judgment, based in part on systematic methods. These methods, which are generally quantitative measures, are employed to help ensure all relevant matters affecting loan collectibility will be consistently identified. Such methods include: a loan-by-loan analysis of all impaired loans and loans under close monitoring by management for potential problems; a risk rating analysis for all commercial and commercial real estate loans; and a quantitative analysis of residential real estate and consumer loans. Other factors included in the evaluation of the adequacy of the allowance for loan losses involve: overall loan growth; the character and mix of the loan portfolio; current trends in nonperforming loans; delinquent loans and net charge-offs; new loan origination; local economic conditions; regulatory changes; and other qualitative considerations.

Union Bankshares recorded a provision for loan losses of $30,000 during the first six months of 2007 compared to $0 for the six months ended June 30, 2006. The increase in the provision for loan losses is due to the increasing size of the loan portfolio and a change in the mix of the portfolio towards commercial loans which may expose Union Bankshares to greater credit risk than one-to-four family loans. Asset quality remains good with nonperforming assets of $2.6 million, or 0.46% of total assets, at June 30, 2007 compared to 0.58% of total assets at December 31, 2006. Total net charge offs as a percent of total loans was 0.02% for the six months ended June 30, 2007 and 0.00% for December 31, 2006.

Management believes that the level of allowance for loan losses at June 30, 2007, of $4.2 million, or 1.12% of total loans outstanding, is adequate. The allowance for loan losses was $4.3 million, or 1.14% of total loans outstanding, as of June 30, 2006.

Non-Interest Income. Non-interest income increased by $197,000, or 6.5%, to $3.2 million for the six months ended June 30, 2007 compared to the same period last year. Financial services fees and commissions increased $91,000, or 7.2 %, largely due to continued increases in new business volume and growth in managed assets. Service charges and fees on deposit accounts decreased $37,000, or 3.8%, primarily due to lower levels of NSF and overdraft fees. Bankcard fees increased $12,000, or 7.7%, due to increased debit card interchange revenue. Loan fees increased $101,000, or 27.9%, due primarily to higher levels of loan origination fees and increased gains on the sale of loans. Other income also increased $29,000, or 27.6%, primarily due to higher levels of mortgage banking income.

Total non-interest income decreased $12,000, or 0.7%, during the second quarter of 2007 compared to the second quarter of 2006. The decrease during the quarter was primarily due to lower levels of service charges and fees on deposit accounts and other income.

Table of Contents

Non-Interest Expense. Total non-interest expense, which consists of employee compensation and benefits, occupancy costs, equipment and data processing costs and other operating expense, decreased $108,000, or 1.3%, to $8.0 million for the six months ended June 30, 2007 compared to $8.1 million for the six months ended June 30, 2006. The decrease was primarily attributable to a reduction in salaries and employee benefits costs of $127,000, or 2.7%, for the first six months of 2007 compared to the same period last year, resulting from lower employee incentives and a reduction in staffing levels. Other expense also decreased by $83,000, or 4.4%, for the six months ended June 30, 2007 compared to the same period in 2006. This reduction was primarily due to a $42,000 increase in the fair value of the interest rate cap as well as a decrease in advertising costs of $194,000 associated with Union Trust s new branding efforts in 2006, partially offset with $192,000 of increased legal and professional costs largely attributable to a proxy challenge submitted by a dissident shareholder.

Non-interest expense was $4.0 million in the second quarter of 2007 compared to $4.1 million for the second quarter of 2006, representing a decrease of $27,000.

Income Taxes. In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN 48). This statement clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company s financial statements. FIN 48 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. Effective January 1, 2007, Union Bankshares has adopted the provisions of FIN 48 and there was no material effect on the financial statements. As a result, there was no cumulative effect related to adopting FIN 48. Union Bankshares is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2004 through 2006. Union Bankshares and its subsidiaries state income tax returns are open to audit under the statute of limitations for the years ending December 31, 2004 through 2006.

Financial Condition

Union Bankshares total assets increased to $565.1 million at June 30, 2007, an increase of $4.6 million, or 0.8%, and $14.1 million, or 2.6%, over June 30, 2006 and December 31, 2006, respectively. The increase in total assets was primarily attributable to continued growth in total loans.

Loan Portfolio. Total loans increased by $7.6 million, or 2.1%, during the six months ended June 30, 2007 compared to December 31, 2006. The increases were primarily in the commercial real estate, consumer and municipal loan categories, which increased $6.5 million, $2.1 million and $2.1 million, respectively.

Between June 30, 2006 and June 30, 2007, the loan portfolio increased $5.1 million, or 1.4%, as Union Bankshares commercial real estate portfolio continued to expand, increasing by $13.3 million, or 18.7%, from 2006. Commercial and industrial loans also experienced growth with outstanding balances at June 30, 2007 increasing $839,000, or 3.2%, over the same period one year ago.

Table of Contents

The following table summarizes the composition of Union Trust s loan portfolio by type of loan at the dates indicated.

Loan Portfolio Composition

	June 30, 2007		June 30, 2006		December 31, 2006	
	Amount	Percent of Loans in Category to Total Loans	Amount	Percent of Loans in Category to Total Loans	Amount	Percent of Loans in Category to Total Loans
	(Dollars in thousands)					
Real estate:						
Residential	$ 230,452	61.0%	$ 231,827	62.2%	$ 232,970	62.9%
Commercial	84,213	22.3%	70,935	19.0%	77,666	21.0%
Commercial and industrial	27,373	7.2%	26,534	7.1%	27,939	7.6%
Consumer	31,717	8.4%	32,265	8.7%	29,627	8.0%
Municipal	4,038	1.1%	11,179	3.0%	1,965	0.5%
Total	$ 377,793	100.0%	$ 372,740	100.0%	$ 370,167	100.0%

Asset Quality. As of June 30, 2007, nonperforming assets totaled $2.6 million, a decrease of $290,000 over the same period last year and a decrease of $583,000 from December 31, 2006. As a percentage of total assets, nonperforming assets at June 30, 2007 were 0.46% compared to 0.51% at June 30, 2006 and 0.58% at December 31, 2006.

The following table sets forth information regarding nonperforming assets at the dates indicated.

Nonperforming Assets

	June 30, 2007	June 30, 2006	December 31, 2006
	(Dollars in thousands)		
Loans accounted for on a nonaccrual basis	$ 1,924	$ 1,836	$ 1,267
Accruing loans contractually past due 90 days or more	539	1,048	1,910
Total nonperforming loans	2,463	2,884	3,177
Other real estate owned	131		
Nonperforming securities			
Total nonperforming assets	$ 2,594	$ 2,884	$ 3,177
Ratio of nonperforming assets to total assets	0.46%	0.51%	0.58%
Ratio of nonperforming loans to total loans	0.65%	0.77%	0.86%

Allowance for Loan Losses. At June 30, 2007, the allowance for loan losses totaled $4.2 million, or 1.12% of total loans, compared to $4.3 million, or 1.14% of total loans, at June 30, 2006. Net charge-offs totaled $65,000 for the first six months of 2007 compared to net recoveries of $10,000 for the same period one year ago.

The following table sets forth the breakdown of the allowance for loan losses for the periods indicated.

Analysis of Allowance for Loan Losses

	June 30, 2007	June 30, 2006
	(Dollars in thousands)	
Total loans outstanding at the end of the period (1)	$ 377,793	$ 372,740
Average loans outstanding during the period (1)	$ 375,283	$ 363,808
Allowance for loan losses, beginning of the year	$ 4,255	$ 4,248
Provision for loan losses	30	
Balance before loan charge-offs	4,285	4,248
Loans charged-off	241	175
Less recoveries on loans charged-off	176	185
Net loan (recoveries) charge-offs	65	(10)
Allowance for loan losses, end of the period	$ 4,220	$ 4,258
Ratios:		
Net charge-offs to average loans outstanding	0.02%	0.00%
Net charge-offs to loans, end of period	0.02%	0.00%
Allowance for loan losses to average loans outstanding	1.12%	1.17%
Allowance for loan losses to total loans, end of period	1.12%	1.14%
Allowance for loan losses to nonperforming loans	171.34%	147.64%

(1) Excludes loans held for sale.

Investments. Total investments increased slightly to $145.9 million at June 30, 2007 from $140.5 million at December 31, 2006, representing an increase of $5.4 million. At June 30, 2007, Union Bankshares available for sale portfolio had a net unrealized loss, net of taxes, of $1.9 million, compared to $978,000 at December 31, 2006. Management feels that the change in the net unrealized position is primarily due to a change in market rates during the period.

Between June 30, 2006 and June 30, 2007, the investment securities portfolio decreased $4.1 million, or 2.7%, as cash flows from maturing investments were used to fund growth in the loan portfolio.

The following table sets forth Union Bankshares securities at the dates indicated.

	June 30, 2007 Amortized Cost	June 30, 2007 Fair Value	June 30, 2006 Amortized Cost	June 30, 2006 Fair Value	December 31, 2006 Amortized Cost	December 31, 2006 Fair Value
	(Dollars in thousands)					
Securities available for sale:						
Mortgage-backed securities	$ 98,105	$ 95,582	$ 90,532	$ 86,951	$ 88,406	$ 86,754
U.S. Treasury notes and other U.S. Government agencies	2,000	1,973	21,019	20,719	6,998	6,969
Obligations of states and political subdivisions	21,940	21,752	21,295	21,264	20,888	21,096
Other securities	16,692	16,608	9,722	9,534	15,702	15,693

Total	$ 138,737	$ 135,915	$ 142,568	$ 138,468	$ 131,994	$ 130,512
Securities held to maturity:						
Obligations of states and political subdivisions	$ 1,944	$ 1,970	$ 1,980	$ 2,020	$ 1,977	$ 2,019
Other securities:						
Equity securities	$ 8,025	$ 8,025	$ 9,543	$ 9,543	$ 8,009	$ 8,009

111

Table of Contents

Deposits. Deposits continue to represent Union Bankshares primary source of funds for lending and investment activities. At June 30, 2007, deposits of $348.7 million were $946,000 higher than at December 31, 2006. Between June 30, 2006 and June 30, 2007, total deposits increased $31.2 million, or 9.8%.

Borrowings. Borrowings amounted to $168.2 million at June 30, 2007, an increase of $13.4 million from December 31, 2006. At June 30, 2007, borrowings consisted primarily of FHLB Boston borrowings totaling $138.4 million, an increase of $8.7 million from balances as of December 31, 2006. The remaining borrowings consisted primarily of assets sold under repurchase agreements totaling $20.5 million and subordinated debt issued in connection with our trust preferred securities offering totaling $8.2 million.

Between June 30, 2006 and June 30, 2007, total borrowings decreased $29.9 million, or 15.1%, primarily due to a decrease in FHLB borrowings offset, in part, by an increase in assets sold under repurchase agreements.

Liquidity and Capital Resources

Liquidity. Liquidity, as it pertains to Union Bankshares, is the ability to generate adequate amounts of cash to meet current and future financial obligations. Union Bankshares primary sources of funds consist of deposits, borrowings, and the amortization, prepayment and maturities of loans and securities. While scheduled repayment of loans and maturities of securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, seasonality, economic conditions and competitive factors. Union Trust has also established repurchase agreements with major brokerage firms as potential sources of liquidity. At June 30, 2007, Union Bankshares had $10.0 million outstanding of such repurchase agreements. In addition to agreements with brokers, Union Trust also had customer repurchase agreements outstanding amounting to $10.5 million at June 30, 2007. In addition, as an alternative source of funding to borrowings, Union Trust will occasionally purchase brokered certificates of deposits. At June 30, 2007, Union Trust had $44.4 million of brokered certificates of deposits outstanding. Union Bankshares had $25.0 million in brokered certificates of deposits for the comparable period of 2006.

Union Bankshares, as a separately incorporated BHC, has no significant operations other than serving as the sole stockholder of Union Trust. Union Bankshares commitments and debt service requirement, at June 30, 2007, consist of $8.4 million of junior subordinated debt securities, including accrued interest, issued to an unconsolidated subsidiary, Union Bankshares Capital Trust I. Union Bankshares has contributed $3.0 million of the proceeds from the issuance of trust preferred securities to Union Trust as Tier 1 Capital to support Union Trust s growth.

Union Bankshares actively manages its liquidity position under the direction of the Asset/Liability Management Committee. Periodic review under prescribed policies and procedures is intended to ensure that Union Bankshares will maintain adequate levels of available funds. At June 30, 2007, Union Bankshares liquidity position was well within policy guidelines. Management believes that Union Bankshares has adequate liquidity available to respond to current and future funding requirements.

Capital Resources. The FRB, the FDIC, and other regulatory agencies have established capital guidelines for banks and bank holding companies. Risk-based capital guidelines issued by the federal regulatory agencies require banks to meet a minimum Tier 1 leverage capital ratio of 4.0%, a Tier 1 risk-based capital ratio of 4.0% and a total risk-based capital ratio of 8.0%. At June 30, 2007, Union Bankshares and Union Trust exceeded all of their regulatory capital requirements.

On February 17, 2006, Union Bankshares, through Union Bankshares Capital Trust I, raised additional capital from the issuance of $8.0 million of trust preferred securities, the proceeds of which were used to purchase 30-year junior subordinated deferrable interest debt securities of Union Bankshares.

At June 30, 2007, Union Bankshares had a Tier 1 risk-based capital ratio and a total risk-based capital ratio of 13.41% and 14.66%, respectively, compared to 13.51% and 14.76%, respectively, at December 31, 2006. At

Table of Contents

June 30, 2007, Union Bankshares and Union Trust had a Tier 1 leverage ratios of 8.21% and 7.42%, respectively, compared to 7.99% and 7.22%, respectively, at December 31, 2006.

Off-Balance Sheet Risks and Commitments

As of June 30, 2007 and 2006, the total of approved loan commitments outstanding, commitments under unused lines of credit and unadvanced portions of loans amounted to $76.4 million and $75.6 million, respectively. Other than the foregoing, Union Bankshares does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on Union Bankshares financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Contractual Obligations

The following table is a summary of Union Bankshares contractual obligations as of June 30, 2007, consisting of operating and capital lease obligations, FHLB borrowings and other borrowings, by contractual maturity date for the next five years.

Contractual Obligations by Maturity

	Payment due by period				
	Total	Less than 1 Year	1 3 Years	4 5 Years	After 5 Years
	(Dollars in thousands)				
Contractual Obligations					
Operating lease obligations	$ 5,483	$ 310	$ 615	$ 601	$ 3,957
Capital lease obligations	1,838	93	185	189	1,371
FHLB borrowings	138,382	122,310	10,634	5,115	323
Wholesale repurchase agreements	10,000			5,000	5,000
Customer repurchase agreements	10,510	10,510			
Subordinated debt	8,248				8,248