

FIRST NATIONAL LINCOLN CORP /ME/
Form 8-K
July 16, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 15, 2003

FIRST NATIONAL LINCOLN CORPORATION
(Exact name of Registrant as specified in charter)

MAINE
(State or other jurisdiction of incorporation)

0-26589 01-0404322
(Commission file number) (IRS employer identification no.)

Main Street, Damariscotta, Maine 04853
(Address of principal executive offices) (Zip Code)

(207) 563-3195
(Registrant's telephone number, including area code)

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This information is being provided under Item 12 of Form 8-K.

The Company today issued the following press release:

First National Lincoln Corporation Reports Record Earnings,
Up 8.7% Year-to-Date

DAMARISCOTTA, ME., July 15 - First National Lincoln Corporation (Nasdaq NM: FNLC), today announced earnings per share of \$1.37 on a fully diluted basis for the six months ended June 30, 2003, an increase of \$0.11 or 8.7% over the \$1.26 reported for the same period in 2002. Net income for the first six months of 2003 was \$3,408,000, an increase of \$289,000 or 9.3% over the \$3,119,000 posted in 2002. Both earnings per share and net income reported by the Company for 2003 set new records for the first six months of the year.

The Company also announced earnings per share of \$0.70 on a fully diluted basis for the quarter ended June 30, 2003, an increase of \$0.04 or 6.1% over the \$0.66 reported for the same period in 2002. Net income for the second quarter was \$1,729,000, an increase of \$83,000 or 5.0% over the \$1,646,000 posted in the second quarter of 2002. Both earnings per share and net income reported by the Company for 2003 set new single-quarter records.

Year-to-date change on the balance sheet showed total assets at \$531.1 million on June 30, 2003 - an increase of 7.5% over December 31, 2002. Loans totaled \$367.9 million, up 10.8% over December 31, 2002, while investments increased by 5.1% to \$128.3 million. Deposits of \$359.0 million were up 7.4% over year end. As of June 30, 2003, First National Lincoln Corporation had total equity of \$45.6 million, an increase of 6.8% or \$2.9 million over December 31, 2002.

"I am happy to report another record quarter as well as record earnings for the first six months," commented the Company's President and Chief Executive Officer, Daniel R. Daigneault. "Our second-quarter income of \$1,729,000 eclipses the previous single-quarter record of \$1,699,000 set in the fourth quarter of 2002. Balance sheet growth has been the key driver of this performance - not only in the loan portfolio, but also with investments and deposits. At the same time, asset quality remains excellent, with past-due loans at the lowest levels we have seen in many years and the percentage of non-performing assets to total assets down slightly from year end.

"For many other banks, generating quality loan growth has been challenging in 2003," President Daigneault continued, "however, that has not been the case for us. Portfolio loans have increased \$35.8 million or 10.8% since December 31, 2002, and the majority of this growth has been in commercial loans - up \$17.4 million - as well as home equity loans - up \$12.0 million. The current record-low interest rate environment has resulted in exceptionally high levels of mortgage origination due to refinancing of existing mortgages, and in the first six months of 2003 we originated nearly the same volume of mortgages that we did for the entire year in 2002. A large portion of the mortgage production was sold, and secondary market loans posted a net increase of \$11.9 million or 16.4% since December 31, 2002. In addition, our portfolio mortgage loans saw a net increase of \$6.0 million or 4.2% during the same period."

"Although we experienced a decline in net interest income during the first six months of 2003 compared to the first six months of 2002, this was more than made up for in non-interest income," noted F. Stephen Ward, the Company's Treasurer and Chief Financial Officer. "While balance sheet growth is very important to us, our primary focus in managing the Company is long-term, not short-term. Since we have had excellent growth in both commercial and home equity loans this year, we opted to sell the majority of our fixed-rate

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mortgage production to the secondary market, allowing us to effectively manage interest rate risk. As a result, we were able to replace the shortfall in net interest income with non-interest income arising from the sale of these mortgage loans.

"Similar to many other banks, margin compression has been the other factor impacting net interest income in 2003," Mr. Ward continued. "This compression was anticipated, and assuming that interest rates remain at record low levels, we expect our margins will begin to widen as we reprice a significant volume of liabilities downward."

"This was also a good quarter for our shareholders," President Daigneault concluded. "Following the pattern established for more than seven years, our cash dividend increased again by another \$0.01 to \$0.28 per share per quarter. This results in an annual dividend of \$1.12 per share and in turn produces an annual dividend yield of 2.9% based on the June 30, 2003 closing price of \$39.18. At the same time, our stock increased in value by 24.5% or \$7.70 from the December 31, 2002 closing price of \$31.48 per share. In our opinion, the combination of all the factors presented here - strong earnings, asset growth, excellent credit quality, as well as our stock price and dividend yield - reinforce the attractiveness of FNLC as an investment."

First National Lincoln Corporation, headquartered in Damariscotta, Maine, is the holding company for The First National Bank of Damariscotta and Pemaquid Advisors. The First is an independent community bank serving Mid-Coast Maine with seven offices in Lincoln and Knox Counties that provide consumer and commercial banking products and services. Pemaquid Advisors provides investment advisory, private banking and trust services from offices in Damariscotta, Boothbay Harbor, and Portland, Maine.

Forward-looking and cautionary statements: except for the historical information and discussions contained herein, statements contained in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed in the Company's filings with the Securities and Exchange Commission.

For more information, please contact F. Stephen Ward, Treasurer & Chief Financial Officer, at 207.563.3195 ext. 5001

First National Lincoln Corporation Consolidated Balance Sheets (Unaudited)

In thousands of dollars	June 30, 2003	June 30, 2002	December 31, 2002
Assets			
Cash and due from banks	\$ 12,973	\$ 9,573	\$ 14,181
Overnight Funds Sold	6,100	-0-	9,325
Investments:			
Available for sale	64,339	53,452	56,410
Held to maturity (market values \$66,204)			

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at 6/30/03, \$75,583 at 6/30/02 and \$67,421 at 12/31/02)	63,952	74,898	65,663
Loans held for sale (fair value approximates cost)	1,162	2,272	2,613
Loans	367,915	324,511	332,074
Less: allowance for loan losses	3,987	3,468	3,700
Net loans	363,928	321,043	328,374
Accrued interest receivable	2,922	3,129	2,642
Bank premises and equipment	7,659	7,783	7,833
Other real estate owned	75	195	255
Other assets	8,017	6,277	6,772
Total Assets	\$ 531,127	\$ 478,622	\$ 494,068
Liabilities & Stockholders' Equity			
Demand deposits	\$ 27,035	\$ 24,103	\$ 25,484
NOW deposits	49,985	43,762	46,989
Money market deposits	86,566	61,986	80,805
Savings deposits	64,735	51,063	59,521
Certificates of deposit	69,867	75,151	71,169
Certificates \$100,000 and over	60,822	52,229	50,256
Total deposits	359,010	308,294	334,224
Borrowed funds	121,933	126,734	113,365
Other liabilities	4,582	3,691	3,784
Total Liabilities	485,525	438,719	451,373
Shareholders' Equity:			
Common stock	25	25	25
Additional paid-in capital	4,687	4,687	4,687
Retained earnings	40,399	36,019	38,322
Net unrealized gains on available-for-sale securities	2,919	1,363	2,170
Treasury stock	(2,428)	(2,191)	(2,509)
Total Stockholders' Equity	45,602	39,903	42,695
Total Liabilities & Stockholders' Equity	\$ 531,127	\$ 478,622	\$ 494,068

First National Lincoln Corporation
Consolidated Statements of Income (Unaudited)

In thousands of dollars	For the six months ended		For the quarters ended	
	2003	2002	2003	2002
Interest Income:				
Interest and fees on loans	\$ 10,591	\$ 11,028	\$ 5,326	\$ 5,555
Interest on deposits with other banks	48	5	5	0
Interest and dividends on investments	3,033	3,524	1,473	1,848
Total interest income	13,672	14,557	6,804	7,403
Interest expense:				

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Interest on deposits	3,282	3,775	1,578	1,875
Interest on borrowed funds	2,126	2,293	1,062	1,202
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Total interest expense	5,408	6,068	2,640	3,077
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Net interest income	8,264	8,489	4,164	4,326
Provision for loan losses	450	690	225	280
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Net interest income after provision for loan losses	7,814	7,799	3,939	4,046
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Other operating income:				
Fiduciary income	374	383	185	198
Service charges on deposit accounts	565	469	298	250
Other operating income	1,494	1,083	727	569
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Total other operating income	2,433	1,935	1,210	1,017
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Other operating expenses:				
Salaries and employee benefits	2,831	2,661	1,419	1,304
Occupancy expense	393	358	201	172
Furniture and equipment expense	701	624	343	314
Other	1,590	1,685	794	919
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Total other operating expenses	5,515	5,328	2,757	2,709
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Income before income taxes	4,732	4,406	2,392	2,354
Applicable income taxes	1,324	1,287	663	708
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NET INCOME	\$ 3,408	\$ 3,119	\$ 1,729	\$ 1,646
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First National Lincoln Corporation
Selected Financial Data (Unaudited)

Dollars in thousands, except for per share amounts	For the six months ended June 30,		For the quarters ended June 30,	
	2003	2002	2003	2002
Summary of Operations				
Operating Income	\$ 16,105	\$ 16,492	\$ 8,014	\$ 8,420
Operating Expense	11,373	12,086	5,622	6,066
Net Interest Income	8,264	8,489	4,164	4,326
Provision for Loan Losses	450	690	225	280
Net Income	3,408	3,119	1,729	1,646
Per Common Share Data				
Basic Earnings per Share	\$ 1.41	\$ 1.30	\$ 0.71	\$ 0.69
Diluted Earnings per Share	1.37	1.26	0.70	0.66
Cash Dividends Declared	0.55	0.47	0.28	0.24
Book Value	18.83	16.64	18.83	16.64
Market Value	39.18	28.25	39.18	28.25

Financial Ratios

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Return on Average Equity (a)	15.68%	16.46%	15.60%	17.14%
Return on Average Assets (a)	1.35%	1.40%	1.35%	1.44%
Average Equity to Average Assets	8.63%	8.53%	8.67%	8.40%
Net Interest Margin Tax-Equivalent(a)	3.65%	4.20%	3.63%	4.16%
Dividend Payout Ratio	39.01%	36.06%	39.44%	34.89%
Allowance for Loan Losses/Total Loans	1.08%	1.07%	1.08%	1.07%
Non-Performing Loans to Total Loans	0.30%	0.51%	0.30%	0.51%
Non-Performing Assets to Total Assets	0.23%	0.42%	0.23%	0.42%
Efficiency Ratio	49.06%	49.30%	48.70%	48.92%

At Period End

Total Assets	531,127	478,622	531,127	478,622
Total Loans	367,915	324,511	367,915	324,511
Total Investment Securities	128,291	128,350	128,291	128,350
Total Deposits	359,010	308,294	359,010	308,294
Total Shareholders' Equity	45,602	39,903	45,602	39,903

(a) Annualized using a 365-day basis

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be filed on its behalf by the undersigned thereunto duly authorized.

FIRST NATIONAL LINCOLN CORPORATION

By: /s/ F. Stephen Ward
F. Stephen Ward
Treasurer & Chief Financial Officer
July 15, 2003