



*First National Lincoln Corporation*



ANNUAL REPORT 2007

## STRENGTH IN NUMBERS

Damariscotta Lake is a spawning ground for the alewife, and each year these fish make an intrepid journey back from the ocean. Clearly there is strength in numbers, as seen in the photographs on the cover and below, as the alewives travel homeward in large schools. Perhaps they do this to baffle the osprey, eagles and other predators looming above as they pass through Great Salt Bay, for an alewife's journey between sea and stream is likely to be a repeat performance, since unlike salmon, they do not die after spawning. In 2007, First National Lincoln Corporation enjoyed an alewife-like journey of its own, with a return to record earnings despite a challenging economic current. Our success was due in large part to a collective strength in numbers – underscored by employee, customer, and community service initiatives, many of which are highlighted in this report.



## MESSAGE FROM THE PRESIDENT



### **Dear First National Lincoln Corporation Shareholder:**

I am pleased to report that 2007 was a great year for First National Lincoln Corporation and its subsidiary, The First, N.A., with a return to record earnings. This represents the fourteenth year of record earnings out of the last fifteen years, with 2006 the only down year over this period. Throughout this year's annual report we will share with you what was behind our 2007 success, our views on the state of the banking industry, as well as the challenges and opportunities that we see on the horizon for 2008.

In 2007 we took inventory of our strengths and weaknesses, reviewed our business model and examined our positioning in the markets we serve. After reviewing all of this data, it became very clear to us that First National Lincoln Corporation is well positioned for success by continuing to do what we do best: to focus on serving our three primary constituents – our shareholders, our customers, and our employees. How we serve each of these constituents is the distinguishing factor between The First and all of our competitors.

Our strategy is to generate quality loan growth with a reasonable spread above our funding costs in order to provide the Company with a strong, consistent net interest margin. We believe that focusing on the spread business of banking and operating with the best efficiency ratio possible will enable us to continue to generate above average returns for our shareholders. We must also maintain our discipline in credit underwriting and pricing – venturing outside of these boundaries is one of the reasons why a lot of financial institutions have had so many problems in 2007. While this may sound like a simple formula for success, executing this strategy is what sets First National Lincoln Corporation apart from others.

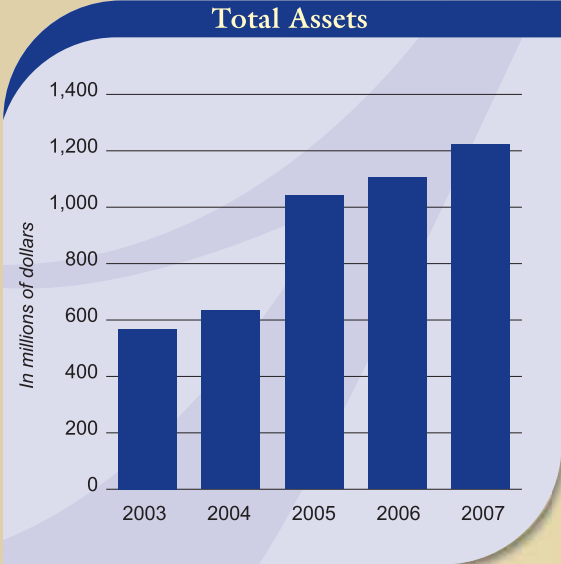
### ***Record Earnings***

Net income of \$13,101,000 was an increase of \$806,000 or 6.6% over the \$12,295,000 earned in 2006. The driving force behind our improved earnings was net interest income, which at \$31,836,000 was

up \$1.2 million or 4.0% compared to 2006. The Company's net interest income, non-interest income, operating expenses, and the provision for loan losses are the primary operating components that affect profitability. Our objective is to increase net interest income each year, keep operating cost increases to a minimum, have stable non-interest income and maintain strong loan quality in order to minimize the amount we have to provision to cover loan losses. Each component requires a strong focus and discipline to optimize the benefit to the bottom line.

Interest rates were relatively stable in the first half of 2007: the Federal Reserve stopped increasing rates in mid-2006 and took a "wait and see" attitude until September 2007. Although the yield curve was still inverted for most of the year, with short-term rates higher than long-term rates, it did not present as much of a challenge as it did in 2006 when rates were still on an upward swing. As the year progressed, concerns of the continued weakening of the housing market – driven primarily by the subprime loan problems – lead to select opportunities to reduce our cost of funds and to purchase high-quality investments at attractive yields. As a result, the Company's net interest margin improved as the year progressed, and although the margin of 3.13% for the year in 2007 was below the 3.24% posted in 2006, in the fourth quarter of 2007 the margin was 3.17% compared to 3.11% for the fourth quarter of 2006.

In addition to the reduction in our funding costs, the other major reason for the increase in net interest income was the excellent asset growth that was posted in the loan and investment portfolios. Total loans increased \$82.0 million or 9.8% in 2007 while the level of investments increased \$41.3 million or 22.9%. For a more detailed discussion on the investment portfolio and funding, see page 16.



**Loan Growth**

For most banks, 2007 was a very challenging year to grow a loan portfolio. The weakening economy impacted loan demand for business as well as consumer loans. This was accompanied by continuing issues in the housing market which experienced declines in home purchases and demand for residential construction loans. The subprime loan crisis, which was in the news for a good part of the year, did not have any direct impact on us since the Bank has avoided doing those types of loans.

By far the strongest area of loan growth for The First in 2007 was business loans. The total increase of \$39.8 million or 12.0% was not only much better than the prior year, but also one of our strongest years historically. The residential loan portfolio experienced modest growth of \$23.4 million, which was respectable given the decline in home sales and lack of refinancing activity that we and most banks saw in 2007. This speaks to the relative stability of the housing market along the coast of Maine, and although demand for second homes and retirees moving to Maine was not exceptional in 2007, it was still good and healthy. Another loan category that provided good growth for the Bank in 2007 was municipal loans to local towns and school districts for a variety of needs: from funding operations until taxes are collected to construction loans for new schools. This market was quite vibrant in the communities we serve, providing excellent business opportunities and resulting in \$11.0 million in new dollars advanced in 2007.

## *Credit Quality*

In addition to growing the loan portfolio, it is essential to maintain good credit quality for the loans that are made. While there is a strong temptation to relax credit standards to generate more loan activity, we have been unrelenting in our quest to not fall into this trap and have not relaxed our underwriting standards to generate volume. We take pride in our approach to working with customers to minimize loan problems and loan losses. The success we have had with this approach is reflected in the Bank's asset quality figures, one of which is the ratio of non-performing loans to total loans which was 0.31% as of December 31, 2007 compared to 0.42% as of the end of 2006. This figure is the lowest it has been since the end of 2001. Another measure of credit quality is the level of net loan losses, which was \$996,000 or 0.11% of total loans for 2007. This is a relatively modest level of loan losses given the dollar amount of our loans outstanding and is a reflection of our strong credit quality culture.



The other ratio reflecting the quality of both the loan and the investment portfolios is the level of non-performing assets to total assets which was 0.23% at the end of 2007 compared to 0.32% at the end of 2006. This validates that we have minimal credit risk in the investment portfolio, which has been our objective. We have avoided collateralized debt obligations (CDOs) and the like – the type of investments that many financial and other companies invested in and have led to investment quality problems. Higher yields are almost always the result of a higher level of risk, and we stayed true to our strategy and were not tempted to purchase riskier investments such as these, which was the critical factor in our success in managing this portfolio in 2007.

## *FNLC Stock Performance*

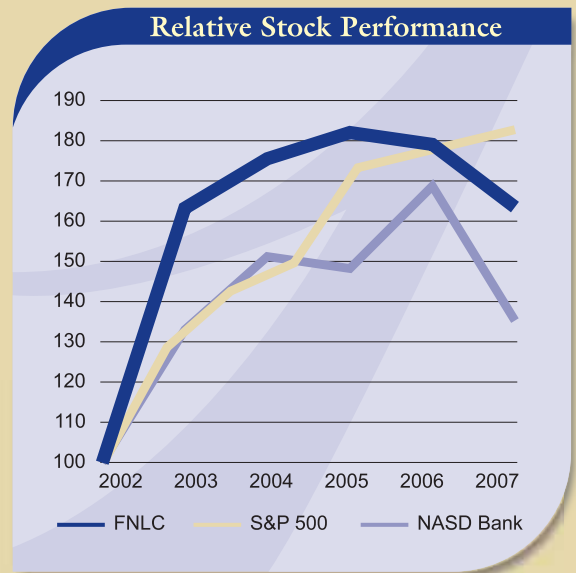
As you have read, all of the financial metrics of the Company were very favorable for 2007. This was not only in relationship to 2006 but also when compared to the last several years. By most measures, 2007 was one of the better years in the Company's history. The only disappointment was the market price of First National Lincoln Corporation's stock, which ended the year at \$14.64 per share, a decline of \$2.08 or 12.4% from \$16.72 as of December 31, 2006. This decline in market value was seen despite continued increases in the cash dividend, which was \$0.69 per share in 2007, a 13.1% increase over the \$0.61 declared in 2006. Earnings per share for the year ended December 31, 2007 were \$1.34, up \$0.09 or 7.2% from the \$1.25 reported for the year ended December 31, 2006. Earnings per share, along with net income, were the highest in the history of the Company. So with record earnings, strong increases in the cash dividend, a strong dividend yield, as well as good credit quality and asset growth, the question is, why did the market price of the stock decline? This reduction in value defies financial logic.

We do not have the answer to this question; however, 2007 was a very negative year for bank stocks – nearly all declined in value, regardless of the individual company's performance. An analysis of individual bank stock performance revealed that 90% of publicly traded banks experienced declines in stock prices during 2007. The SNL Bank Index posted a 25.0% decline in 2007 and showed banks with assets between \$1 billion and \$5 billion (like FNLC) off by almost 29.0% for the year. So our 12.4% decline was relatively modest in comparison. We will continue to be patient and focus on maintaining our high-performance results, and eventually the market value of the stock will reflect our efforts.

### *Observations for 2008 for the Industry and FNLC*

In late summer 2007, the Federal Open Market Committee (FOMC) began to reduce interest rates in response to the rising crisis in the subprime mortgage market. As delinquencies on those loans increased, the global impact of the problem became apparent. Not only were the lenders that originated the loans having problems, the holders of the investment securities engineered from these subprime loans began to realize the value of their investments were in question. This led to a liquidity crisis, which carried over into the entire credit market.

Over the last few months, concerns have continued to increase over the magnitude of the weakened housing and construction markets and the impact these will have on the economy. Is the United States in or heading into a recession? The FOMC aggressively reduced interest rates to help the economy, and the United States Congress has passed a fiscal stimulus package as well. In my opinion, 2008 will be a year of uncertainty until a clearer picture of the impact that housing, consumer spending, and energy costs will have on the economy. Despite high gasoline prices in 2007, tourism was good in many areas, especially along the coast of Maine, and we are optimistic that a stabilization of gas prices will occur and help the 2008 tourist season. The real estate market should also rebound at some point; the question is, when? We have experienced several cyclical housing markets in Maine and feel confident that improvement in housing activity along the coast of Maine is not too far away. Although a few small businesses are seeing some weaknesses in their particular industries, others in our markets are doing quite well and are hopeful that 2008 will be a good year for them.



For First National Lincoln Corporation, we plan to continue to focus on generating good quality loans, keep expenses in check, and take advantage of declining rates to continue to reduce funding costs. We weathered 2007 with great success, and we look forward to continued prosperous results in 2008. On behalf of the First National Lincoln Corporation leadership team and Board of Directors, I would like to thank you, our shareholders, as well as our employees and our customers, for your support and contributions to the success of the Company.

Sincerely,

Daniel R. Daigneault  
President & Chief Executive Officer





## RISE AND SHINE WITH THE FIRST

In the summer of 2007, The First launched an eye-opening customer convenience and brand building initiative: be the bank that is *First to Open* for business in all of our market areas. Since the first day of summer and every weekday since, our tellers raise their drive-up banking window curtains at 7 a.m.

To promote *First to Open*, the Bank created a multimedia advertising campaign entitled “Rise and Shine: The Rewards of Banking at The First” and outfitted each branch with drive-up banners, front lawn signs, and lobby posters. As an incentive during the first month, customers received a small thank you gift for visiting the Bank between 7 a.m. and 8 a.m. Within the first two weeks of operation, *First to Open* transactions reached a steady pace that has held throughout the summer and into fall and winter.

Long-time Bar Harbor customer, Vicki Tibbetts, observes, “Now that The First opens at 7 a.m., I do all of my personal and business banking on the way to work. In the summer months, this means I don’t have to fight the downtown traffic at lunchtime, and in the winter months, this means I don’t have to walk very far in the snow because I arrive early enough to get a prime parking spot at the office. I really love your early morning hours!” Many new customers have cited our early opening hour as a primary reason for choosing The First as their bank.

*First to Open* has created convenience and advantages for employees too. Tellers who staff the early morning shifts appreciate the opportunity to end their work day a little earlier so they can be home when their children get out of school, enjoy an afternoon in the garden, or take a trip to the beach. What started out as a customer convenience initiative has turned into one of the brightest ideas in banking! *First to Open* is here to stay.



*The early bird crew in Rockport greets the day with smiles and cups of coffee. Shown left to right are Kristin Ross, Josie Hanks, Ronda Monroe (at the drive-up), and Mindy Marshall.*



*Brenda Bolan and her beagle pup Jenny experience one of the many rewards of 7a.m. banking with teller David Nadeau at the Damariscotta drive-up window.*





*The members of Tremont's Girl Scout Troop 330 meet in our brand new Southwest Harbor community conference room to plan their next badge project. Terri Lanpher (third from left) leads Lorelei Wehrfritz, Kylie Tozier, Audrey Beal, Ajha Stanley, and Natalie Butler.*



## SOUTHWEST HARBOR: A COMMUNITY INVESTMENT

Our Southwest Harbor office opened in 1951 and has been a Main Street fixture for more than half a century. In 2007, the time had come for this branch to receive a complete makeover. After a careful study that included input from our customers, plans were put into action to expand and enhance our banking presence while adding charm to the downtown setting.

In August, the new Southwest Harbor office was revealed. The building's exterior is trimmed with an environmentally friendly fiber-cement siding, and the look is now consistent with all of our non-brick buildings. Inside, customers are welcomed into a warm and comfortable lobby that features a handcrafted cherry and marble teller line. Handicapped accessibility has been greatly improved with access ramps, an electronic push button entrance, and a sit-down teller station. The former upstairs apartment was masterfully converted to more offices, an employee break room, and storage space. Wherever possible, historic fixtures and built-ins were retained for character.

A community access conference room is one of the most unique features of our new Southwest Harbor office. Equipped with its own external entrance, the conference room is available by pre-arrangement to local organizations wishing to conduct their meetings in a comfortable and professional setting, no matter the day or hour.

From the inside out, our Southwest Harbor office project has been a true community reinvestment act. Felice Janes, Southwest Harbor Branch Manager, says, "Main Street has never looked better, and my staff and I are so pleased to be working in such lovely surroundings. We truly feel rededicated to this entire community."



*Employees Wanda Jewett, Heather Parsons, and Felice Janes stand proudly in the lobby of their spacious new office on Main Street in Southwest Harbor.*



## THE ART AND SCIENCE OF FINANCIAL SERVICES

In our coastal Maine marketplace, we are privileged to partner with many dynamic and growing businesses. At The First, we recognize that many of our business customers require the high-tech banking tools that give them a competitive edge; at the same time, they seek the personalized service and customer care that is our hallmark. One fine example of a business customer that appreciates The First's state-of-the-art banking and savvy investment management with a human touch is The Jackson Laboratory, a world-class scientific research and education facility headquartered in Bar Harbor.

The Jackson Laboratory is a fully engaged business banking partner, utilizing many of our *Business First* products and services. In fact, The Laboratory was our first customer to utilize *First Remote Deposit*, a desktop check depositing service that was introduced in 2007. In addition to the business banking relationship, The Laboratory entrusts our First Advisors team with the stewardship of endowment funds that allow students of science to realize their goals: from investigating diseases to defining the very cutting edge of research.

Linda Jensen, Chief Financial Officer for The Laboratory, affirms, "The people at The First and First Advisors are very responsive to our business needs, offering the latest services and personal know-how that allow us to devote our time and resources to accomplishing our mission. It's very gratifying to work with a local business that shares our passion for excellence." So while scientists at The Jackson Laboratory lead the search for preventing, treating and curing human disease, the team at The First will continue to advance a long-standing business relationship based on service and trust. From our perspective, a more rewarding partnership would be difficult to discover.



*Members of the First Advisors' Jackson Laboratory service team include Amanda Horton, Eileen Dorieka, Scott Hammond and Tony McKim.*



*Scott Hammond (right), Senior Investment Officer for First Advisors, looks on as Dr. Jon Geiger, Director of Educational Programs at The Jackson Laboratory, assists Master of Science in Teaching intern Hannah Webber in the student laboratory.*



*First employees Dennis Dorr, Heather Lewis, and Mike Martin (shown left to right) walk and talk their way around the indoor track at the Central Lincoln County YMCA.*



## WELLNESS FIRST

The key element to The First's ongoing success is exceptional customer service, which is provided by our exceptional employees. Keeping our team healthy was a major focus in 2007, and a corporate wellness program kicked into high gear and introduced our employees to the fun of fitness with meaningful and enjoyable programs for employees to rally around as individuals and as small teams.

By far, the most successful program was the 14-week Wellness Walking Tour. Participants engaged in various types of physical activity outside of work in order to earn miles on a virtual walk from Calais to Boothbay Harbor, passing through each of our branch office towns in between. Employees who exercised their way to each weekly milepost received fun rewards purchased from our local merchants along the course. Over half of our employees participated – 110 to be exact – logging more than 45,000 miles of exercise!

Caryn Weaver from Damariscotta cites a personal perk that she discovered along the way: “By walking with small groups of people on my lunch break, I have gotten to know several of my coworkers on a more personal level. This would not have happened without the incentive of our walking tour!”

As health insurance and medical costs continue to escalate, our investment in employee wellness becomes a valuable business asset. Susan Norton, our Senior Vice President of Human Resources notes, “Healthier employees have less absences and are more productive because they feel better. Morale is raised when employees sense that the company is interested in them as total persons. By assisting our employees in meeting their desired health goals and avoiding disabling problems, we also send a message of self-responsibility – a valuable personal trait and an important employee quality.”



*April Lawrence and Dennis Dorr enjoy the great outdoors while representing The First at the Camden Snow Bowl's National Toboggan Championships for the past two years.*



## FIRST HOOP!

At The First, we share wholeheartedly in our communities' passion for youth sports. From little league baseball to high school basketball, we are proud to support programs that promote active lifestyles, teamwork, and good sportsmanship in our young athletes.

Since 2005, The First has enjoyed great success on the basketball court with a brand-boosting, community commitment we call *First Hoop*. Through *First Hoop*, each participating high school's general athletic fund is awarded a cash donation at every home court basketball game played during the regular season. Fifty dollars is the base donation, automatically awarded at the start of each game. The rest of the donation rides on the outcome of two events: The First Hoop and The First Fan Free-Throw. Fifty dollars is added to the fund if the first hoop of the game is scored by the home team. Finally, fifty dollars is added to the fund if a randomly selected spectator, also known as "The First Fan," successfully makes a free-throw hoop at halftime.

Speaking of The First Fan, spectator enthusiasm has grown each year as more fans are stepping up to the challenge and realizing some of the donation power rests in their hands. With fifty dollars on the line, fans are usually given several attempts at their free-throw. For their effort, we award each First Fan with a thank-you gift, regardless of whether they make the shot.

Without having to jump through hoops, each participating high school receives a meaningful donation at the end of the basketball season. To date, the *First Hoop* program has donated over \$20,000 to high school athletic programming in our market area. Now that's what we call a slam dunk!



*The Calais Blue Devils accept their First Hoop check from our Calais staff. Shown left to right are: Kim Currier, Janis Marchese, Shirley Ray Coburn, Marlene Parks, Sam Bell, Nicole Osborne, Kayla Beaton, and Randy Morrison.*



*Mike Delahanty, First Fan and Medomak Valley High School student, sets his sights on the rim as First Hoop volunteers from left, Jennifer Oldham, Cheryl Jones, and Sue Ferrier cheer him on.*



## MESSAGE FROM THE CHIEF FINANCIAL OFFICER

An often overlooked profit center for many bank holding companies is the Treasury function. For FNLC, this produced significant earnings in 2007 by using the excess equity over and above that needed to support loans and other assets and putting it to work in the investment portfolio. Since we are largely wholesale-funded, the Treasury function generates its own funding from several non-local sources. The result is a significant contribution to net interest income, which flows almost directly to the bottom line since this is done with little additional non-interest expense.

### *Growth in Earning Assets*

The Company posted excellent growth in earning assets in 2007, and a large portion of this came in the investment portfolio, which increased \$41.3 million or 22.9% over December 31, 2006. After more than a year of a flat-to-inverted yield curve, the Federal Open Market Committee began lowering short-term interest rates in the third quarter of 2007. This resulted in a steepening of the yield curve and provided

an excellent opportunity for the Company to add to the investment portfolio as short-term rates dropped while long-term rates remained relatively stable.



Unlike many bank holding companies, the investment portfolio is an important component of earning assets for FNLC, not just a liquidity management tool. This can be seen in its average yield, which at 5.98% on a tax-equivalent basis for 2007 – up from 5.73% in 2006 – places us in the top ten percent of all bank holding companies in our peer group and is nearly 1.0% above our peers. We do this with a conservative investment approach that takes very little credit risk and seeks to enhance yield through careful selection of investment-grade securities with a modest level of interest rate risk. It is important to note that as in the Company's

loan portfolio, our investment portfolio does not hold any securities with sub-prime mortgages as their underlying collateral.

### *Funding the Balance Sheet*

In addition to our investment portfolio, another area where FNLC differs from peers is how we fund our balance sheet. Recognizing that growing earning assets is the primary way we increase earnings per share, finding ways to fund asset growth has been critical to our success for the past ten-plus years. Unlike many other parts of the United States, Maine is a state with a very low rate of deposit growth, which means that if we only had local deposits to fund asset growth, we would have either had to pay much higher rates to attract those deposits or forego growth opportunities.

Beginning in 1993, FNLC began using non-local or wholesale sources of funding to supplement that which was available within our market. These include borrowings from the Federal Home Loan Bank as well as non-local certificates of deposits obtained through brokers, matching services, and internet direct placement. Although we pay rates comparable to local certificates of deposit – our most expensive source of local funding – wholesale sources have virtually no origination costs. The result is that wholesale funding has an all-in cost

(interest paid plus origination costs) that is comparable to checking and savings accounts, which have a high cost of origination and maintenance.

Another important role wholesale funding plays is in helping the Company manage the regular seasonal flows we experience in local deposits. Typically, these deposits peak in the late third or early fourth quarter, and are at their lowest point in the first or second quarters. While this seasonal flow is quite predictable, the size of it has increased substantially after our acquisition of FNB Bankshares in 2005, totaling nearly \$40.0 million in 2007.

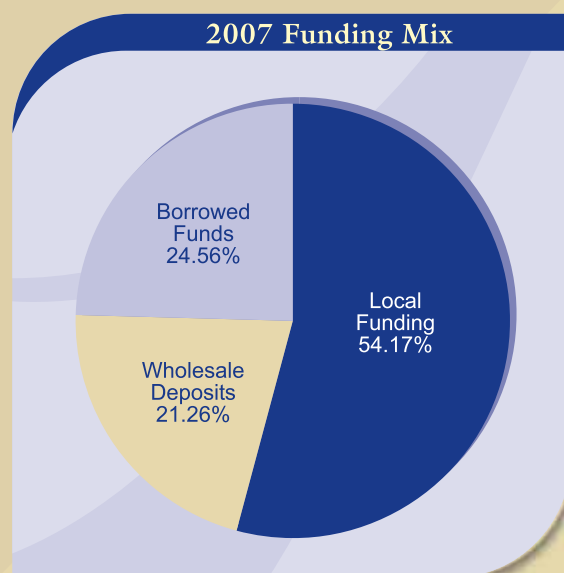
### ***Change in Funding Structure***

All of the growth in earning assets in 2007 was funded through wholesale sources, with local deposits actually declining by \$13.4 million or 2.4%. Although we saw growth in checking accounts and local certificates of deposit, there were net outflows in savings and money market accounts, which we attribute primarily to customers needing to utilize some of their cash reserves in a period of a weakening economy. At the same time, we shifted a portion of funding between wholesale certificates of deposit and borrowed funds to take advantage of significantly better rates at the Federal Home Loan Bank – another factor in our improved earnings in 2007.

As a result, we saw borrowed funds increase to 24.6% of total funding from 14.2% at the end of 2006, and wholesale certificates of deposit decline to 21.3% of total funding compared to 24.6% at the end of 2006. Looking at the entire funding picture, the Company saw its funding from local sources decline to 54.2% as of December 31, 2007, compared to 61.2% at December 31, 2006. This continues the trend we have seen over the past decade to use more wholesale funding. Ten years ago, at the end of 1997, 73.4% of our balance sheet was funded with local deposits and 26.6% from wholesale sources, and five years ago, at the end of 2002, this had changed to 68.9% from wholesale sources and 30.1% from local sources.

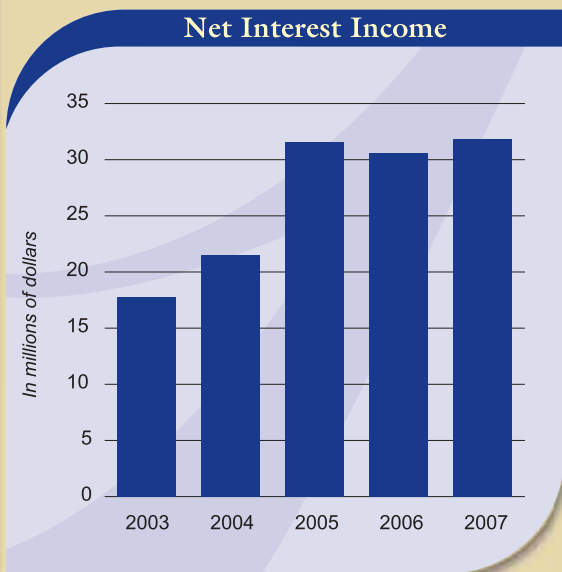
There continues to be a lively discussion in the banking industry about the use of wholesale funding. For FNLC, however, there has not been sufficient deposit growth in our local market area to fund the balance sheet growth we have generated over the past ten years at a reasonable cost. It is extremely difficult to bring in new low-cost accounts if we are relying on growth at the expense of our competitors – moving a checking account from one bank to another is not an easy task and one with a large amount of customer inertia. And with higher-cost source of funding, there soon reaches a point where the only way to obtain these funds is to pay an above-market rate of interest.

Our goal in managing our funding sources has been to pay a fair and competitive rate of interest to our local customers, and turn to wholesale sources for the additional funding we need. As noted above, when acquisition costs are factored in, the cost of wholesale funding is roughly the same as local funding, and the net result is the funding of our balance sheet at the lowest total cost.



## Capital Management

In addition to managing the Company's investment portfolio and providing wholesale funding, the Treasury function has the primary responsibility for capital management. In order to remain viable, a bank holding company must maintain a level of equity capital to meet requirements set forth by banking regulators. The Treasury function's goal is to maximize the shareholders' investment in the Company over the long term by balancing three competing uses of capital: paying dividends, repurchasing the Company's stock, or providing for future growth. During 2007, the Company repurchased 109,861 shares at an average price of \$15.35 per share and at a total cost of \$1.7 million and declared cash dividends of \$6.8 million, leaving \$5.3 million added to capital for future growth.



## 2007 Results and Key Performance Ratios

For the year ended December 31, 2007, FNLC posted record earnings per share on a fully diluted basis of \$1.34, up \$0.09 or 7.2% from the \$1.25 reported for the year ended December 31, 2006. Net income for 2007 was \$13,101,000, an increase of \$806,000 or 6.6% from the \$12,295,000 posted in 2006. The Treasury function made a significant contribution to the Company's profitability in 2007. With \$14.8 million in interest income on a tax-equivalent basis and \$10.5 million in interest expense, the Treasury function contributed \$2.4 million to net income after deduction for a small allocation of operating expenses and taxes. This represents 18.0% of the Company's net income and equates to \$0.24 of our earnings per share of \$1.34.

For 2007, our return on average tangible equity was 15.89%, up from the 15.75% posted in 2006, and well above the 15.00% threshold defining high-performance banks. FNLC's efficiency ratio – a key operating statistic which measures how much a company spends to generate revenue – was 50.16% for 2007, a significant improvement from the 52.12% posted for 2006. We are even more pleased with the improvement we have seen in our efficiency ratio during the past three years after it rose significantly due to our acquisition of FNB Bankshares in 2005. It is now almost back to the pre-acquisition level of 2004, and we feel that the continued improvement of our efficiency ratio will be a vital factor in FNLC's ongoing financial performance.

In all, 2007 was a very good year for First National Lincoln Corporation, and although this section has focused on the contribution of the Treasury function, it is the individual efforts that all of our 200+ employees make that enable the Company to produce financial results which are consistently above that of our peers. Once again, thank you for the opportunity to serve as your Chief Financial Officer and to be part of a team focused on maximizing long-term value for our shareholders.

F. Stephen Ward  
Executive Vice President & Chief Financial Officer

## SELECTED FIVE-YEAR FINANCIAL DATA

*Dollars in thousands, except for per share amounts*

Years ended December 31, 2007 2006 2005 2004 2003

### Summary of Operations

Interest Income	\$ 71,721	\$ 64,204	\$ 50,431	\$ 30,528	\$ 27,540
Interest Expense	39,885	33,589	18,848	9,024	9,796
Net Interest Income	31,836	30,615	31,583	21,504	17,744
Provision for Loan Losses	1,432	1,325	200	880	907
Non-Interest Income	10,145	10,306	9,034	4,667	5,148
Non-Interest Expense	22,183	22,439	22,518	13,371	11,600
Net Income	13,101	12,295	12,843	8,509	7,427

### Per Common Share Data

Net Income					
Basic	\$ 1.34	\$ 1.25	\$ 1.32	\$ 1.16	\$ 1.02
Diluted	1.34	1.25	1.30	1.14	1.00
Cash Dividends (Declared)	0.69	0.61	0.53	0.45	0.38
Book Value	11.58	10.98	10.52	7.18	6.57
Market Value	14.64	16.72	17.58	17.45	16.63

### Financial Ratios

Return on Average Equity	11.89%	11.63%	12.98%	17.10%	16.39%
Return on Average Tangible Equity	15.89	15.75	17.81	17.36	16.39
Return on Average Assets	1.13	1.14	1.36	1.41	1.41
Average Equity to Average Assets	9.53	9.81	10.44	8.22	8.58
Average Tangible Equity to Average Assets	7.13	7.24	7.61	8.27	8.58
Net Interest Margin (Tax-Equivalent)	3.13	3.24	3.84	3.94	3.73
Dividend Payout Ratio (Declared)	51.49	48.80	40.15	38.62	37.13
Allowance for Loan Losses/Total Loans	0.74	0.76	0.79	0.99	1.05
Non-Performing Loans to Total Loans	0.31	0.42	0.40	0.34	0.39
Non-Performing Assets to Total Assets	0.23	0.32	0.30	0.25	0.29
Efficiency Ratio (Tax-equivalent)	50.16	52.12	52.89	48.78	48.32

### At Year End

Total Assets	\$ 1,223,250	\$ 1,104,869	\$ 1,042,209	\$ 634,238	\$ 568,812
Total Loans	920,164	838,145	772,338	478,332	398,895
Total Investment Securities	221,815	180,549	183,981	126,827	136,689
Total Deposits	781,280	805,235	713,964	369,844	359,077
Total Borrowings	316,719	179,862	215,189	207,206	157,822
Total Shareholders' Equity	112,668	107,327	103,452	52,815	47,718

				High	Low
Market price per common share of stock during 2007				\$ 17.50	\$ 13.60

# CONSOLIDATED BALANCE SHEETS

*First National Lincoln Corporation and Subsidiary*

<i>As of December 31,</i>	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 17,254,000	\$ 24,188,000
Securities available for sale	40,461,000	44,815,000
Securities to be held to maturity, fair value of \$181,132,000 at December 31, 2007, and \$134,649,000 at December 31, 2006	181,354,000	135,734,000
Loans held for sale	1,817,000	460,000
Loans	920,164,000	838,145,000
Less allowance for loan losses	6,800,000	6,364,000
Net loans	913,364,000	831,781,000
Accrued interest receivable	6,585,000	6,140,000
Premises and equipment, net	16,481,000	15,845,000
Other real estate owned	827,000	1,144,000
Goodwill	27,684,000	27,684,000
Other assets	17,423,000	17,078,000
<b>Total assets</b>	<b>\$ 1,223,250,000</b>	<b>\$ 1,104,869,000</b>
<b>Liabilities</b>		
Demand deposits	\$ 60,637,000	\$ 62,157,000
NOW deposits	101,680,000	99,612,000
Money market deposits	124,033,000	137,163,000
Savings deposits	86,611,000	98,131,000
Certificates of deposit under \$100,000	301,364,000	164,770,000
Certificates of deposit \$100,000 or more	106,955,000	243,402,000
Total deposits	781,280,000	805,235,000
Borrowed funds	316,719,000	179,862,000
Other liabilities	12,583,000	12,445,000
<b>Total liabilities</b>	<b>1,110,582,000</b>	<b>997,542,000</b>
<b>Shareholders' equity</b>		
Common stock, one cent par value	97,000	98,000
Additional paid-in capital	44,762,000	45,587,000
Retained earnings	67,647,000	61,298,000
Accumulated other comprehensive income		
Net unrealized gain on securities available for sale, net of tax of \$370,000 in 2006 and \$373,000 in 2005	436,000	696,000
Net unrealized loss on postretirement benefit costs, net of tax benefit of \$190,000	(274,000)	(352,000)
<b>Total shareholders' equity</b>	<b>112,668,000</b>	<b>107,327,000</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,223,250,000</b>	<b>\$ 1,104,869,000</b>
<b>Common stock</b>		
Number of shares authorized	18,000,000	18,000,000
Number of shares issued	9,732,493	9,770,792
Number of shares outstanding	9,732,493	9,770,792
Book value per share	\$ 11.58	\$ 10.98

# CONSOLIDATED STATEMENTS OF INCOME

First National Lincoln Corporation and Subsidiary

Years ended December 31,	2007	2006	2005
<b>Interest and dividend income</b>			
Interest and fees on loans (includes tax-exempt income of \$1,179,000 in 2007, \$975,000 in 2006, and \$879,000 in 2005)	\$ 60,585,000	\$ 54,585,000	\$ 42,623,000
Interest on deposits with other banks	-	64,000	13,000
Interest and dividends on investments (includes tax-exempt income of \$2,685,000 in 2007, \$2,703,000 in 2006, and \$2,482,000 in 2005)	11,136,000	9,555,000	7,795,000
<b>Total interest and dividend income</b>	<b>71,721,000</b>	<b>64,204,000</b>	<b>50,431,000</b>
<b>Interest expense</b>			
Interest on deposits	29,745,000	25,804,000	13,489,000
Interest on borrowed funds	10,140,000	7,785,000	5,359,000
<b>Total interest expense</b>	<b>39,885,000</b>	<b>33,589,000</b>	<b>18,848,000</b>
Net interest income	31,836,000	30,615,000	31,583,000
Provision for loan losses	1,432,000	1,325,000	200,000
<b>Net interest income after provision for loan losses</b>	<b>30,404,000</b>	<b>29,290,000</b>	<b>31,383,000</b>
<b>Non-interest income</b>			
Fiduciary and investment management income	1,737,000	1,951,000	1,686,000
Service charges on deposit accounts	2,740,000	2,752,000	2,438,000
Net securities gains	2,000	18,000	-
Mortgage origination and servicing income	589,000	503,000	616,000
Other operating income	5,077,000	5,082,000	4,294,000
<b>Total non-interest income</b>	<b>10,145,000</b>	<b>10,306,000</b>	<b>9,034,000</b>
<b>Non-interest expense</b>			
Salaries and employee benefits	11,037,000	10,826,000	11,099,000
Occupancy expense	1,438,000	1,421,000	1,395,000
Furniture and equipment expense	1,944,000	2,124,000	2,136,000
Amortization of core deposit intangible	283,000	283,000	271,000
Other operating expenses	7,481,000	7,785,000	7,617,000
<b>Total non-interest expense</b>	<b>22,183,000</b>	<b>22,439,000</b>	<b>22,518,000</b>
Income before income taxes	18,366,000	17,157,000	17,899,000
Income tax expense	5,265,000	4,862,000	5,056,000
<b>Net income</b>	<b>\$ 13,101,000</b>	<b>\$ 12,295,000</b>	<b>\$ 12,843,000</b>
<b>Earnings per common share</b>			
Basic earnings per share	\$ 1.34	\$ 1.25	\$ 1.32
Diluted earnings per share	1.34	1.25	1.30
Cash dividends declared per share	0.69	0.61	0.53
Weighted average number of shares outstanding	9,787,287	9,816,307	9,745,456
Incremental shares	25,731	49,476	114,751



# DIRECTORS AND MANAGEMENT

## BOARD OF DIRECTORS

Stuart G. Smith  
*Chairman of the Board*

Daniel R. Daigneault  
*President & Chief Executive Officer*

Tony C. McKim  
*Executive Vice President & Chief Operating Officer*

### Directors:

Katherine M. Boyd

Robert B. Gregory

Randy A. Nelson

Carl S. Poole, Jr.

Mark N. Rosborough

David B. Soule, Jr.

Bruce B. Tindal

*Directors of First National Lincoln Corporation  
also serve as Directors of The First, N.A.*

## FNLK EXECUTIVE OFFICERS

Daniel R. Daigneault  
*President & Chief Executive Officer*

Tony C. McKim  
*Executive Vice President & Chief Operating Officer*

F. Stephen Ward  
*Executive Vice President & Chief Financial Officer*

Charles A. Wootton  
*Executive Vice President & Clerk*

## EXECUTIVE LEADERSHIP TEAM

Daniel R. Daigneault  
*President & Chief Executive Officer*

Tony C. McKim  
*Executive Vice President & Chief Operating Officer*

F. Stephen Ward  
*Executive Vice President & Chief Financial Officer*

Charles A. Wootton  
*Executive Vice President & Senior Loan Officer*

Richard M. Elder  
*Senior Vice President, Retail Services*

Michael T. Martin  
*Senior Vice President, Credit Officer*

Susan A. Norton  
*Senior Vice President, Human Resources & Compliance*

Ronald J. Wrobel  
*Senior Vice President, Operations Officer*

## ADMINISTRATION

Jody L. Brown  
*Vice President, Credit Administration*

John P. Quesnel  
*Vice President, Special Assets Manager*

Thomas C. Bland  
*Assistant Vice President, Controller*

Eva-Marie Fleury  
*Assistant Vice President, Collections Manager*

Terri L. Geroux  
*Assistant Vice President, Human Resources Officer*

Denise C. Griffin  
*Assistant Vice President, Human Resources Officer*

Cathryn A. Peterman  
*Assistant Vice President, Security, Branch Operations Officer*

Amy M. Rollins  
*Assistant Vice President, Marketing Director*

Jeanette M. Hayes  
*Mortgage Loan Underwriter*

Deborah J. Wallace  
*Financial Analyst*

Glory Ann West  
*Marketing Manager*

## OPERATIONS

Tammy L. Plummer  
*Vice President, Chief Technology Officer*

Thomas M. Wilhelm  
*Vice President, Operations Officer*

Janett N. Muise  
*Assistant Vice President, Electronic Banking Officer*

Ann E. Greenleaf  
*Deposit Services*

Patti J. Gwara  
*Data Processing Manager*

Lucinda B. Leeman  
*Loan Processing Manager*

Connie J. Miller  
*Loan Services Manager*

Miles L. Smith  
*Information Systems Manager*



# DIRECTORS AND MANAGEMENT

## **BAR HARBOR OFFICE**

Robert S. Wilson  
*Vice President, Senior Business Relationship Officer*

Karri A. Bailey  
*Vice President, Business Relationship Officer*

Marilyn E. Silocka  
*Vice President, Regional Manager, Branch Manager*

Stephen H. Sprague  
*Vice President, Senior Mortgage Loan Officer*

Robert Cambridge  
*Branch Supervisor*

## **BLUE HILL OFFICE**

Duane R. Crawford  
*Business Relationship Officer*

Bonnie A. Marckoon  
*Branch Manager*

## **BOOTHBAY HARBOR OFFICE**

Brenda L. Blackman  
*Vice President, Business Relationship Officer*

Tana J. Gamage  
*Branch Manager*

## **CALAIS OFFICE**

Louis J. Esposito  
*Vice President, Regional Manager  
Senior Business Relationship Officer*

Marlene R. Parks  
*Branch Manager*

## **CAMDEN OFFICE**

Eric G. Belléy  
*Vice President, Senior Business Relationship Officer*

Angela M. Sabins  
*Assistant Branch Manager*

## **DAMARISCOTTA OFFICE**

Bonnie L. Lash  
*Vice President, Senior Mortgage Loan Officer*

Sarah S. Matel  
*Vice President, Senior Business Relationship Officer*

Todd L. Savage  
*Vice President, Senior Business Relationship Officer*

Sherry D. Smith  
*Assistant Vice President, Branch Manager*

Dana J. Orenstein  
*Assistant Branch Manager*

## **EASTPORT OFFICE**

Tari L. Camick  
*Branch Manager*

Gloria J. Harris  
*Business Relationship Officer*

## **ELLSWORTH OFFICE**

Lornie E. Smith  
*Vice President, Senior Business Relationship Officer*

E. Ray Huntley  
*Vice President, Senior Business Relationship Officer*

Gail C. Sargent  
*Branch Manager*

Kathleen R. Kief  
*Branch Supervisor*

## **NORTHEAST HARBOR OFFICE**

Hannah E. Wilkinson  
*Branch Supervisor*

## **ROCKLAND OFFICE**

Steven H. Poulin  
*Vice President, Regional Manager,  
Senior Business Relationship Officer*

Gail F. Pinto  
*Branch Manager*

## **ROCKPORT OFFICE**

Petrea Allen  
*Vice President, Senior Mortgage Loan Officer*

Jennifer B. Stewart  
*Branch Manager*

## **SOUTHWEST HARBOR OFFICE**

Felice D. Janes  
*Branch Manager*

## **WALDOBORO OFFICE**

Tina P. O'Donnell  
*Vice President, Regional Manager  
Business Relationship Officer*

Susan E. Blackler  
*Branch Manager*

Angela M. Powell  
*Branch Supervisor*

## **WISCASSET OFFICE**

Lorna J. Weber  
*Assistant Vice President, Branch Manager*

Monique C. McRae  
*Assistant Branch Manager*

## **FIRST ADVISORS**

### ***Principals***

Scott S. Hammond  
Edythe A. Jordan  
Steven K. Parady  
Martin S. Snider  
Kent A. Whitaker



## INFORMATION FOR SHAREHOLDERS

### Common Stock Prices and Dividends

The common stock of First National Lincoln Corporation (ticker symbol FNLC) trades on the Nasdaq National Market System. The following table reflects the high and low prices of actual sales in each quarter of 2007 and 2006. Such quotations do not reflect retail mark-ups, mark-downs or brokers' commissions.

	2007		2006	
	High	Low	High	Low
1st Quarter	\$16.84	\$15.64	\$17.89	\$17.10
2nd Quarter	17.00	15.50	17.72	16.45
3rd Quarter	17.50	13.60	17.99	16.62
4th Quarter	15.95	14.20	17.40	16.39

The last known transaction of the Company's stock during 2007 was on December 31 at \$14.64 per share. There are no warrants outstanding with respect to the Company's common stock, and the Company has no securities outstanding which are convertible into common equity. The table below sets forth the cash dividends declared in the last two fiscal years:

Date Declared	Amount Per Share	Date Payable
March 16, 2006	\$ 0.145	April 28, 2006
June 15, 2006	\$ 0.150	July 31, 2006
September 21, 2006	\$ 0.155	October 31, 2006
December 21, 2006	\$ 0.160	January 31, 2007
March 22, 2007	\$ 0.165	April 30, 2007
June 21, 2007	\$ 0.170	July 31, 2007
September 19, 2007	\$ 0.175	October 31, 2007
December 20, 2007	\$ 0.180	January 31, 2008

### Pending Legal Proceedings

There are no material pending legal proceedings to which the Company or the Bank is the party or to which any of its property is subject, other than routine litigation incidental to the business of the Bank. None of these proceedings is expected to have a material effect on the financial condition of the Company or of the Bank.

### Annual Meeting

The Annual Meeting of the Shareholders of First National Lincoln Corporation will be held Wednesday, April 30, 2008 at 11:00 a.m. at The Samoset Resort, 220 Warrenton Street, Rockport, Maine 04856.

### Number of Shareholders

The number of shareholders of record as of February 21, 2008 was approximately 2,200.

### Annual Report on Form 10-K

The Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission is available online at the Commission's website: [www.sec.gov](http://www.sec.gov). Shareholders may obtain a written copy, without charge, upon written request to the address listed below.

### Accessing Reports Online

First National Lincoln Corporation's press releases, SEC filings and other reports or information issued by the Company are available at: [www.FNLC.com](http://www.FNLC.com). In addition, all SEC filings are accessible at the Commission's website: [www.sec.gov](http://www.sec.gov).

### Corporate Headquarters

Contact:

F. Stephen Ward, Chief Financial Officer  
First National Lincoln Corporation  
223 Main Street, P.O. Box 940  
Damariscotta, Maine 04543  
207-563-3195; 1-800-564-3195

### Transfer Agent

Shareholder inquiries regarding change of address or title should be directed to:  
Shareholder Relations  
First National Lincoln Corporation  
223 Main Street, P.O. Box 940  
Damariscotta, Maine 04543  
207-563-3195; 1-800-564-3195

### Independent Certified Public Accountants

Berry, Dunn, McNeil & Parker  
100 Middle Street, P.O. Box 1100  
Portland, Maine 04104-1100

### Corporate Counsel

Pierce Atwood, Attorneys  
One Monument Square  
Portland, Maine 04101

### Annual Report Photography Credits

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