

FIRST NATIONAL LINCOLN CORP /ME/

Form 8-K

January 22, 2004

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): January 21, 2004

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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Item 5. Other Events

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 for 2003, Up 13.3% Over Prior Year

DAMARISCOTTA, ME., January 21 -- First National Lincoln Corporation (Nasdaq NM: FNLC), today announced earnings per share of \$2.99 on a fully diluted basis for the year ended December 31, 2003, an increase of \$0.35 or 13.3% over the \$2.64 reported for 2002. Net income for the year ended December 31, 2003, was \$7,427,000, an increase of \$920,000 or 14.1% over the \$6,507,000 posted in 2002. Both earnings per share and net income reported by the Company for the year set new records in 2003.

The Company also announced earnings per share of \$0.80 on a fully diluted basis for the quarter ended December 31, 2003, an increase of \$0.11 or 15.9% over the \$0.69 reported for the same period in 2002. Net income for the fourth quarter was \$2,007,000, an increase of \$308,000 or 18.1% over the \$1,699,000 posted in the fourth quarter of 2002.

Total assets were \$568.8 million at December 31, 2003 -- an increase of 15.1% over December 31, 2002. Loans totaled \$398.9 million, up 20.1% or \$66.8 million over December 31, 2002, while investments increased by 12.0% to \$136.7 million. Deposits of \$359.1 million were up 7.4% over the prior year. As of December 31, 2003, First National Lincoln Corporation had total equity of \$47.7 million, an increase of 11.8% or \$5.0 million over December 31, 2002.

"I am very pleased to report that 2003 was another great year for First National Lincoln Corporation," commented the Company's President and Chief Executive Officer, Daniel R. Daigneault. "Loan growth was definitely the key component in our 2003 results, with total loans increasing \$66.8 million or 20.1% over December 31, 2002's volumes. We experienced excellent growth in most loan categories, including commercial loans, home equity loans, and residential mortgage loans, and at the same time our credit quality remains excellent with historically low loan losses and delinquencies.

"Record-low interest rates in 2003 spurred many homeowners to refinance their mortgages," President Daigneault continued, "and this led to higher non-interest income from the sale of mortgage loans to the secondary market. During 2003, we originated and sold \$55.5 million in mortgage loans, and at year-end, the volume of residential mortgage loans that we have sold and continue to service had increased over year-end 2002 by \$17.8 million to \$87.9 million. At the same time we saw excellent growth in other areas of non-interest income, including asset management fees from Pemaquid Advisors as well as service charges and fees.

"While revenue growth was certainly very good in 2003," President Daigneault said, "controlling our operating expenses also made a significant contribution to our increased profits. Salaries and benefits, which account for more than half of our operating expenses, increased only a modest 4.4%, while we saw lower expenses in a number of other areas when compared to 2002. The net result is that operating expenses in 2003 were only \$55,000 or 0.5% higher than in 2002. This is reflected in our excellent efficiency ratio -- a measure of how much is spent to generate one dollar in income -- which at 0.48 for 2003 is the best we have ever achieved.

"All of these accomplishments in 2003 are consistent with our profitability strategy which was outlined in the Company's 2002 Annual Report," President Daigneault went on. "Since we operate on narrower net interest margins than our peers, asset growth and operating efficiency are critical if we are to produce financial results that are consistently well-above those of our peers. Fortunately, our net interest margin for the year remained at a reasonable level as a result of planned repricing of a large block of wholesale

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funding at mid-year."

"First National Lincoln Corporation's shares closed the year at \$49.90, close to the all-time high of \$51.05 set earlier in December," observed F. Stephen Ward, the Company's Treasurer and Chief Financial Officer. "Our shareholders were certainly well-rewarded in 2003 for their investment in the Company, with our price per share increasing \$18.42 or 58.5% over the \$31.48 closing price on December 31, 2002. When combined with dividends declared of \$1.14 per share that were reinvested in our stock, the total return on FNLC shares was 63.3%. Based upon our December 31, 2003 closing price of \$49.90, our trailing-twelve-month price-to-earnings ratio was 16.7, and our dividend yield was 2.4%.

"For the second year in a row," Mr. Ward continued, "First National Lincoln Corporation was the top-performing stock of all Maine-based banks listed on a major exchange. When compared to the broader market, FNLC's total return of 63.3% is significantly higher than 2003's total return of 28.7% for the S&P 500 and 33.0% for the Nasdaq Bank Index. These results assume that all dividends were reinvested in the index."

"Looking back over the past ten years, FNLC's shareholders have been rewarded with stock performance that has significantly outperformed both indices," President Daigneault concluded. "If you had invested \$100.00 in First National Lincoln Corporation on December 31, 1993, ten years later it would have been worth \$1,262.82 on December 31, 2003. This compares to \$285.49 for the S&P 500 and \$473.98 for the Nasdaq Bank Index for the same period. In my view, this performance has been driven by the consistent results we have produced each year, as evidenced in our return on average equity, which has averaged 15.5% for the past ten years and has been above the important 15.0% threshold in eight of those ten years. It is because of this consistent performance that I continue to see First National Lincoln Corporation as an excellent investment opportunity."

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

December 31, December 31,
2003 2002

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Assets

Cash and due from banks	\$ 17,087	\$ 14,181	
Overnight Funds Sold	0	9,325	
Investments:			
Available for sale	57,445	56,410	
Held to maturity (market values \$80,820 at 12/31/03 and \$67,421 at 12/31/02)		79,244	65,663
Loans held for sale (fair value approximates cost)	982	2,613	
Loans	398,895	332,074	
Less: allowance for loan losses	4,200	3,700	
	-----	-----	
Net loans	394,695	328,374	
	-----	-----	
Accrued interest receivable	2,743	2,642	
Bank premises and equipment	9,007	7,833	
Other real estate owned	51	255	
Other assets	7,558	6,772	
	-----	-----	
Total Assets	\$568,812	\$494,068	
	=====	=====	

Liabilities & Stockholders' Equity

Demand deposits	\$ 28,874	\$ 25,484	
NOW deposits	52,161	46,989	
Money market deposits	80,586	80,805	
Savings deposits	63,356	59,521	
Certificates of deposit	69,880	71,169	
Certificates \$100,000 and over	64,220	50,256	
	-----	-----	
Total deposits	359,077	334,224	
Borrowed funds	157,822	113,365	
Other liabilities	4,195	3,784	
	-----	-----	
Total Liabilities	521,094	451,373	
	-----	-----	
Shareholders' Equity:			
Common stock	25	25	
Additional paid-in capital	4,687	4,687	
Retained earnings	42,988	38,322	
Net unrealized gains on available-for-sale securities	2,497	2,170	
Treasury stock	(2,479)	(2,509)	
	-----	-----	
Total Stockholders' Equity	47,718	42,695	
	-----	-----	
Total Liabilities & Stockholders' Equity	\$568,812	\$494,068	
	=====	=====	

First National Lincoln Corporation
Consolidated Statements of Income (Unaudited)

	For the twelve months		For the quarters	
	Ended December 31,		Ended December 31,	
In thousands of dollars	2003	2002	2003	2002
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Interest Income:

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Interest and fees on loans	\$ 21,374	\$ 22,154	\$ 5,425	\$ 5,502
Interest on deposits with other banks	52	62	0	37
Interest and dividends on investments	6,114	7,091	1,628	1,699
Total interest income	27,540	29,307	7,053	7,238
Interest expense:				
Interest on deposits	5,820	7,702	1,220	1,893
Interest on borrowed funds	3,976	4,502	939	1,069
Total interest expense	9,796	12,204	2,159	2,962
Net interest income	17,744	17,103	4,894	4,276
Provision for loan losses	907	1,323	232	379
Net interest income after provision for loan losses	16,837	15,780	4,662	3,897
Other operating income:				
Fiduciary income	773	728	197	173
Service charges on deposit accounts	1,110	985	277	266
Mortgage origination and servicing income	930	685	136	308
Other operating income	2,335	2,553	563	900
Total other operating income	5,148	4,951	1,173	1,647
Other operating expenses:				
Salaries and employee benefits	6,017	5,766	1,640	1,653
Occupancy expense	772	738	204	206
Furniture and equipment expense	1,339	1,286	300	328
Other	3,472	3,755	866	988
Total other operating expenses	11,600	11,545	3,010	3,175
Income before income taxes	10,385	9,186	2,825	2,369
Applicable income taxes	2,958	2,679	818	670
NET INCOME	\$ 7,427	\$ 6,507	\$ 2,007	\$ 1,699

First National Lincoln Corporation
Selected Financial Data (Unaudited)

Dollars in thousands, except for per share amounts	For the twelve months Ended December 31,		For the quarters Ended December 31,	
	2003	2002	2003	2002

Summary of Operations

Operating Income	\$32,688	\$34,258	\$8,226	\$8,885
Operating Expense	22,303	25,072	5,401	6,516
Net Interest Income	17,744	17,103	4,894	4,276

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Provision for Loan Losses	907	1,323	232	379
Net Income	7,427	6,507	2,007	1,699

Per Common Share Data

Basic Earnings per Share	\$3.07	\$2.71	\$0.83	\$0.70
Diluted Earnings per Share	2.99	2.64	0.80	0.69
Cash Dividends Declared	1.14	0.98	0.30	0.26
Book Value	19.71	17.68	19.71	17.68
Market Value	49.90	31.48	49.90	31.48

Financial Ratios

Return on Average Equity (a)	16.39%	16.34%	15.99%	15.93%
Return on Average Assets (a)	1.41%	1.39%	1.35%	1.36%
Average Equity to Average Assets	8.58%	8.49%	8.47%	8.56%
Net Interest Margin Tax- Equivalent (a)	3.73%	4.00%	3.67%	3.77%
Dividend Payout Ratio	37.13%	36.16%	36.14%	37.14%
Allowance for Loan Losses/ Total Loans	1.05%	1.11%	1.05%	1.11%
Non-Performing Loans to Total Loans	0.39%	0.32%	0.39%	0.32%
Non-Performing Assets to Total Assets	0.29%	0.27%	0.29%	0.27%
Efficiency Ratio	48.32%	50.49%	46.82%	51.63%

At Period End

Total Assets	568,812	494,068	568,812	494,068
Total Loans	398,895	332,074	398,895	332,074
Total Investment Securities	136,689	122,073	136,689	122,073
Total Deposits	359,077	334,224	359,077	334,224
Total Shareholders' Equity	47,718	42,695	47,718	42,695

(a) Annualized using a 365-day basis

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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
January 21, 2004

