



**Board of Directors**

Stuart G. Smith  
*Chairman of the Board*  
Katherine M. Boyd  
Daniel R. Daigneault  
Robert B. Gregory  
Tony C. McKim  
Randy A. Nelson  
Carl S. Poole, Jr.  
Mark N. Rosborough  
David B. Soule, Jr.  
Bruce B. Tindal

**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*

**Corporate Counsel**

Pierce Atwood  
*Portland, Maine*

**Independent Auditors**

Berry, Dunn, McNeil & Parker  
*Portland, Maine*

**First National Lincoln Corporation**  
P.O. Box 940, Damariscotta, Maine 04543  
207.563.3195



*Second Quarter 2007*  
**Financial Results**



July 31, 2007

Dear First National Lincoln Corporation Shareholder:

I am pleased to report the cash dividend for the second quarter of 2007 is \$0.17 per share. This dividend is an increase over the \$0.165 per share declared in the first quarter of 2007 and is the 47th consecutive quarter of dividend increases for First National Lincoln Corporation. This results in an annualized dividend of \$0.68 per share and a dividend yield of 4.0% based on the closing price of \$17.00 for FNLC shares on June 30, 2007. The Company has now raised its dividend for 14 consecutive years, and in declaring this dividend increase, the Board of Directors has reaffirmed its view of the importance of paying an attractive dividend to our shareholders. This amounts to a dividend payout of 51.5% of the second quarter earnings, which leaves 48.5% for the Company to deploy to support future growth and stock buyback opportunities.

The Company posted unaudited second quarter earnings of \$3,196,000, an increase of \$24,000 or 0.8% over the \$3,172,000 earned in the second quarter of 2006. Earnings per share were \$0.33 on a fully diluted basis for the quarter ended June 30, 2007, up \$0.01 or 3.1% from the \$0.32 reported for the same period in 2006.

For the first six months of 2007, the Company recognized net income of \$6,198,000, an increase of \$50,000 over the \$6,148,000 posted in the first half of 2006. Earnings per share were \$0.63 on a fully diluted basis for the six months ended June 30, 2007, up \$0.01 or 1.6% from the \$0.62 reported for the same period in 2006. Even though this is a modest increase, I feel it reflects a positive sign given the continued flat-to-inverted yield curve and weak housing market.

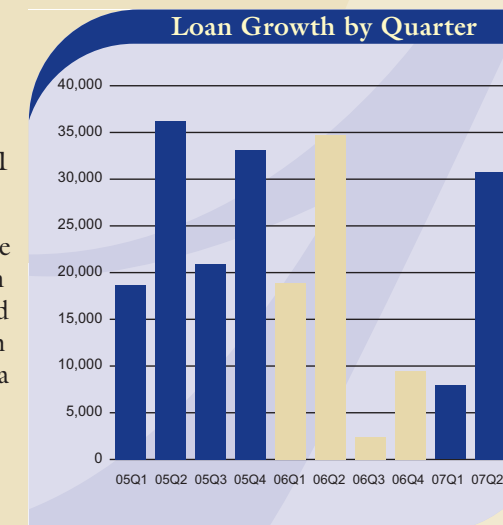
We experienced strong growth in our loan portfolio during the second quarter, increasing \$31.0 million or 3.7%. The majority of the growth – \$20.2 million – was in commercial loans, which are our highest yielding assets. This \$31.0 million increase in the loan portfolio is nearly at the same dollar amount that we have seen in the second quarter for the last three years. At the same time asset quality was significantly improved from June 30, 2006, with the ratio of non-performing loans to total loans declining from 0.31% to 0.24%. We remain focused on booking loans that provide a reasonable profit margin without taking undue credit risk.

We also saw a small up-tick in the market value of FNLC shares, closing the quarter at \$17.00, a nice increase of 6.8% over the first quarter 2007 closing price of \$15.92 per share.

On behalf of the Board of Directors and our employees, I thank you for your continued support in First National Lincoln Corporation and The First, N.A.

Very truly yours,

Daniel R. Daigneault  
President & Chief Executive Officer



## Consolidated Balance Sheets *(unaudited)*

<i>Dollars in thousands</i>	June 30, 2007	December 31, 2006	June 30, 2006
<b>Assets</b>			
Cash and due from banks	\$ 21,349	\$ 24,188	\$ 22,606
Securities available for sale	43,009	44,815	50,486
Securities to be held to maturity (fair value \$152,876 at June 30, 2007, \$134,649 at December 31, 2006, and \$136,317 at June 30, 2006)	157,161	135,734	139,232
Loans held for sale (fair value approximates cost)	44	460	240
Loans	877,220	838,145	825,699
Less allowance for loan losses	6,714	6,364	6,021
Net loans	870,506	831,781	819,678
Accrued interest receivable	7,876	6,140	6,904
Premises and equipment	15,615	15,845	16,285
Other real estate owned	625	1,144	1,413
Goodwill	27,684	27,684	27,684
Other assets	17,405	17,078	16,055
Total assets	\$ 1,161,274	\$1,104,869	\$ 1,100,583
<b>Liabilities</b>			
Demand deposits	\$ 63,063	\$ 62,157	\$ 60,941
NOW deposits	101,908	99,612	102,618
Money market deposits	121,352	137,163	110,313
Savings deposits	89,798	98,131	99,176
Certificates of deposit	364,611	164,770	161,418
Certificates \$100,000 and over	110,357	243,402	252,495
Total deposits	851,089	805,235	786,961
Borrowed funds	188,478	179,862	196,649
Other liabilities	11,494	12,445	11,343
Total liabilities	1,051,061	997,542	994,953
<b>Shareholders' equity</b>			
Common stock	98	98	99
Additional paid-in capital	45,817	45,587	46,917
Retained earnings	64,213	61,298	58,202
Net unrealized gains on available-for-sale securities	428	696	412
Net unrealized loss on postretirement benefits	(343)	(352)	-
Total stockholders' equity	110,213	107,327	105,630
Total liabilities & stockholders' equity	\$ 1,161,274	\$ 1,104,869	\$ 1,100,583
Number of shares authorized	18,000,000	18,000,000	18,000,000
Number of shares issued and outstanding	9,802,892	9,770,792	9,817,897
Book value per share	\$ 11.24	\$ 10.98	\$ 10.76
Allowance for loan losses/total loans	0.77%	0.76%	0.73%
Non-performing assets to total assets	0.18%	0.32%	0.23%

## Consolidated Statements of Income *(unaudited)*

<i>Dollars in thousands</i>	For the six months ended June 30,		For the quarters ended June 30,	
<i>except per share amounts</i>	2007	2006	2007	2006
<b>Interest income</b>				
Interest and fees on loans	\$ 29,405	\$ 25,910	\$ 14,943	\$ 13,403
Interest on deposits with other banks	-	-	-	-
Interest and dividends on investments	5,045	4,735	2,559	2,430
Total interest income	34,450	30,645	17,502	15,833
<b>Interest expense</b>				
Interest on deposits	14,868	11,053	7,640	5,933
Interest on borrowed funds	4,405	4,350	2,250	2,405
Total interest expense	19,273	15,403	9,890	8,338
Net interest income	15,177	15,242	7,612	7,495
Provision for loan losses	550	600	250	350
Net interest income after provision for loan losses	14,627	14,642	7,362	7,145
<b>Other operating income</b>				
Fiduciary income	955	973	453	477
Service charges on deposit accounts	1,400	1,350	741	728
Mortgage origination and servicing income	214	252	114	169
Other operating income	2,048	1,858	1,162	986
Total other operating income	4,617	4,433	2,470	2,360
<b>Other operating expenses</b>				
Salaries and employee benefits	5,335	5,170	2,622	2,508
Occupancy expense	748	757	370	382
Furniture and equipment expense	969	997	495	492
Amortization of identified intangibles	142	142	71	71
Other	3,409	3,450	1,794	1,628
Total other operating expenses	10,603	10,516	5,352	5,081
Income before income taxes	8,641	8,559	4,480	4,424
Applicable income taxes	2,443	2,411	1,284	1,252
Net income	\$ 6,198	\$ 6,148	\$ 3,196	\$ 3,172
<b>Earnings per common share</b>				
Basic earnings per share	\$ 0.63	\$ 0.62	\$ 0.33	\$ 0.32
Diluted earnings per share	0.63	0.62	0.33	0.32
Cash dividends declared	0.335	0.295	0.170	0.150
Closing market price per share	17.00	16.83	17.00	16.83
<b>Financial ratios</b>				
Return on average tangible equity <sup>1</sup>	15.41%	16.07%	15.70%	16.42%
Return on average assets <sup>1</sup>	1.12%	1.17%	1.13%	1.19%
Net interest margin tax-equivalent <sup>1</sup>	3.12%	3.33%	3.07%	3.21%
Dividend payout ratio	53.17%	47.58%	51.52%	46.88%
Efficiency ratio	50.79%	50.80%	50.41%	48.99%

<sup>1</sup>Quarterly results have been annualized using a 365-day basis