



First National Lincoln Corporation

**Board of Directors**

Robert B. Gregory  
*Chairman of the Board*  
Katherine M. Boyd  
Daniel R. Daigneault  
Tony C. McKim  
Randy A. Nelson  
Carl S. Poole, Jr.  
Mark N. Rosborough  
Stuart G. Smith  
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  
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*Fourth Quarter 2006*  
**Financial Results**



First National Lincoln Corporation

January 31, 2007

Dear First National Lincoln Corporation Shareholder:

I am pleased to report the cash dividend for the fourth quarter of 2006 is \$0.16 per share, an increase over the \$0.155 per share declared in the third quarter of 2006. This fourth quarter dividend also represents an increase of 14.3% over the fourth quarter dividend declared in 2005 and is the 45th consecutive quarter of dividend increases for First National Lincoln Corporation. On an annualized basis, the quarterly dividend of \$0.16 per share amounts to \$.64 per share and represents a yield of 3.83% based on the \$16.72 per share price as of December 31, 2006.

The Company posted unaudited earnings of \$12,295,000 for the year ended December 31, 2006. This is a decrease of \$548,000 or 4.3% from the \$12,843,000 earned for the year ended December 31, 2005. Earnings per share were \$1.25 on a fully diluted basis for the year ended December 31, 2006 down \$0.05 or 3.8% from the \$1.30 reported for the year ended December 31, 2005. This is the first year since 1990 that the Company experienced a decline in net income from the prior year.

A challenging interest rate environment and an inverted yield curve were the primary reasons for the decline in our net interest income. Our funding costs increased faster than the yield earned on our loans and investments, which contributed to a decline in our net interest margin on a tax-equivalent basis to 3.24% for 2006 compared to 3.84% in 2005. In addition to a decline in net interest income of \$1.0 million, the provision for loan losses increased \$1.1 million in 2006 compared to 2005. This was not attributable to a significant decline in credit quality but more a reflection of the requirement to maintain the allowance for loan losses at an adequate level in 2006 based on an historical adequacy model developed after the 2005 merger. On a positive note, \$1.3 million of the above items were offset by an increase in non-interest income. Non-interest expense also declined slightly in 2006 compared to 2005, which offset some of these items as well.

The market value of FNLC shares closed the year at \$16.72 per share, down \$0.86 or 4.9% from our year end 2005 close of \$17.58 per share. During the past five years, however, FNLC shares have significantly outperformed both the broad market S&P 500 as well as our industry-specific NASD Bank Index with a compound annual total return of 21.44% for FNLC versus 6.19% and 12.02% for the S&P 500 and NASD Bank Index respectively.

Overall 2006 provided a number of positives, including a continued increase in the cash dividend, solid loan growth and a strong increase in non-interest income. These were diluted by a decline in net interest income and an increase in the provision for loan losses. All in all, 2006 was an acceptable year, but one not as stellar as the many great years previously posted by First National Lincoln Corporation.

Very truly yours,

Daniel R. Daigneault  
President & Chief Executive Officer



## Consolidated Balance Sheets *(unaudited)*

<i>Dollars in thousands</i>	December 31, 2006	December 31, 2005
<b>Assets</b>		
Cash and due from banks	\$ 24,188	\$ 25,982
Overnight funds sold	-	-
Securities available for sale	44,815	54,743
Securities to be held to maturity (fair value \$134,649 at December 31, 2006 and \$128,563 at December 31, 2005)	135,734	129,238
Loans held for sale (fair value approximates cost)	460	-
Loans	838,145	772,338
Less allowance for loan losses	6,364	6,086
Net loans	831,781	766,252
Accrued interest receivable	6,140	5,005
Premises and equipment	15,844	16,712
Other real estate owned	1,144	-
Goodwill	27,684	27,684
Other assets	16,911	16,593
Total assets	\$ 1,104,701	\$1,042,209
<b>Liabilities</b>		
Demand deposits	\$ 62,157	\$ 62,109
NOW deposits	99,612	109,124
Money market deposits	137,163	127,630
Savings deposits	98,131	109,615
Certificates of deposit	179,617	125,741
Certificates \$100,000 and over	228,555	179,745
Total deposits	805,235	713,964
Borrowed funds	179,862	215,189
Other liabilities	11,985	9,604
Total liabilities	997,082	938,757
<b>Shareholders' equity</b>		
Common stock	98	99
Additional paid-in capital	45,527	47,718
Retained earnings	61,298	54,901
Net unrealized gains on available-for-sale securities	696	734
Total stockholders' equity	107,619	103,452
Total liabilities & stockholders' equity	\$ 1,104,701	\$ 1,042,209
Number of shares authorized	18,000,000	18,000,000
Number of shares issued and outstanding	9,770,792	9,832,777
Book value per share	\$ 11.01	\$ 10.52
Allowance for loan losses/total loans	0.76%	0.79%
Non-performing assets to total assets	0.32%	0.30%

## Consolidated Statements of Income *(unaudited)*

<i>Dollars in thousands</i>	For the years ended December 31,		For the quarters ended December 31,	
<i>except per share amounts</i>	2006	2005	2006	2005
<b>Interest income</b>				
Interest and fees on loans	\$ 54,585	\$ 42,623	\$ 14,421	\$ 12,004
Interest on deposits with other banks	64	13	3	3
Interest and dividends on investments	9,555	7,795	2,304	2,094
Total interest income	64,204	50,431	16,728	14,101
<b>Interest expense</b>				
Interest on deposits	25,804	13,489	7,264	4,510
Interest on borrowed funds	7,785	5,359	1,829	1,406
Total interest expense	33,589	18,848	9,093	5,916
Net interest income	30,615	31,583	7,635	8,185
Provision for loan losses	1,325	200	425	100
Net interest income after provision for loan losses	29,290	31,383	7,210	8,085
<b>Other operating income</b>				
Fiduciary income	1,951	1,686	504	441
Service charges on deposit accounts	2,752	2,438	698	660
Mortgage origination and servicing income	503	616	143	135
Other operating income	5,100	4,294	1,283	954
Total other operating income	10,306	9,034	2,628	2,190
<b>Other operating expenses</b>				
Salaries and employee benefits	10,826	11,099	2,620	2,750
Occupancy expense	1,421	1,395	363	379
Furniture and equipment expense	2,124	2,136	567	572
Amortization of identified intangibles	283	271	71	71
Other	7,785	7,617	2,068	1,851
Total other operating expenses	22,439	22,518	5,689	5,623
Income before income taxes	17,157	17,899	4,149	4,652
Applicable income taxes	4,862	5,056	1,179	1,285
Net income	\$ 12,295	\$ 12,843	\$ 2,970	\$ 3,367
<b>Earnings per common share</b>				
Basic earnings per share	\$ 1.25	\$ 1.32	\$ 0.30	\$ 0.34
Diluted earnings per share	1.25	1.30	0.30	0.34
Cash dividends declared	0.610	0.530	0.160	0.140
Closing market price per share	16.72	17.58	16.72	17.58
<b>Financial ratios</b>				
Return on average tangible equity <sup>1</sup>	15.75%	17.81%	14.80%	17.88%
Return on average assets <sup>1</sup>	1.14%	1.36%	1.08%	1.33%
Net interest margin tax-equivalent <sup>1</sup>	3.24%	3.84%	3.11%	3.71%
Dividend payout ratio	48.80%	40.15%	53.33%	41.18%
Efficiency ratio	52.12%	52.89%	52.44%	51.67%

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