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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 |
| 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 |
| | ----- | | ----- | |
| 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

