FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000765207-99-000001

FILER

FIRST NATIONAL LINCOLN CORP /ME/

CIK:**765207**| IRS No.: **010404322** | State of Incorp.:**ME** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **002-96573** | Film No.: **99574165**
SIC: **6021** National commercial banks

Mailing Address
P.O. BOX 940
DAMARISCOTTA ME 04543

Business Address
P.O. BOX 940
MAIN STREET
DAMARISCOTTA ME 04543
2075633195

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934
For the Fiscal Year ended December 31, 1998

Commission File Number 2-96573

FIRST NATIONAL LINCOLN CORPORATION
(Exact name of Registrant as specified in its charter)

MAINE	01-0404322
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
MAIN STREET, DAMARISCOTTA, MAINE	04543
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (207) 563-3195

Securities registered pursuant to Section 12(b) or Section 12(g)
of the Securities Exchange Act of 1934
None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No[ ]

State the aggregate market value of voting stock held by non-affiliates of the Registrant as of March 1, 1999:
Common Stock, $.01 par value per share: $55,579,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 1999:
Common Stock: 2,470,157 shares

TABLE OF CONTENTS

ITEM 1. Discussion of Business

First National Lincoln Corporation (the "Company") was incorporated under the general business laws of the State of Maine on January 15, 1985, for the purpose of becoming the parent holding company of The First National Bank of Damariscotta (the "Bank"). The common stock of the Bank is the principal asset of the Company, which has no other subsidiaries. As of December 31, 1998, the Company's securities consisted of one class of common stock, $.01 par value per share, of which there were 2,471,531 shares outstanding and held of record by approximately 492 shareholders.

The Bank was chartered as a national bank under the laws of the United States on May 30, 1864. The Bank's capital stock consists of one class of common stock of which 120,000 shares, par value $2.50 per share, are authorized and outstanding. All of the Bank's common stock is owned by the Company.

The Bank has six offices in Mid-Coast Maine, including its principal office located on Main Street, Damariscotta, Lincoln County, Maine and five branch offices located at U.S. Route 1, Waldoboro, Maine; Townsend Avenue, Boothbay Harbor, Maine; Route 27, Wiscasset, Maine; U.S. Route 1, Rockport, Maine; and Elm Street, Camden, Maine. The Bank also maintains an Operations Center at the corner of Bristol Road and Cross Street in Damariscotta. The Bank has not consummated any mergers, consolidations or other acquisitions of assets with any other person during the past five years, other than as described elsewhere herein.

The Bank emphasizes personal service to the community, concentrating on retail banking. Customers are primarily small businesses and individuals for whom the Bank offers a wide variety of services, including checking, savings and investment accounts, consumer, commercial and mortgage loans, credit cards, as well as a full investment management and trust department. The Bank has not made any material changes in its mode of conducting business during the past five years.

The banking business in the Bank's market area historically has been seasonal with lower deposits in the winter and spring and higher deposits in the summer and fall. This swing is fairly predictable and has not had a materially adverse effect on the Bank. The Bank operates in a highly competitive geographical area with respect to both loans and deposits, primarily from savings banks, savings and loan associations, credit unions, and other commercial banks, some of which are larger institutions with higher lending limits than the Bank. The Bank also has competition from non-banking providers of financial products and services such as insurance companies, mortgage companies, automotive finance companies, and mutual funds both from within and without the Bank's primary geographic service area.

Competition has intensified in recent years with a revision in banking law which allows out-of-state bank holding companies to acquire or establish banks in Maine. As a result, several out-of-state holding companies have entered the Maine banking market, principally through the acquisition of existing Maine banks. The Bank expects to be subject to an increased level of competition from these out-of-state banking institutions. The Bank anticipates that the further relaxation of restrictions on interstate banking potentially resulting from the recently enacted Riegle-Neal bill and the Maine Legislature's recent adoption of legislation permitting out-of-state banks, under certain circumstances, to establish or acquire branches in Maine, will heighten competition faced by the Bank, although the extent to which such legislation will have an effect in Maine is as yet unclear.

As of December 31, 1998, the Bank employed 112 persons, with 107 full-time equivalent employees.

Supervision and Regulation

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Act"), and is required to file with the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") an annual report and other information required pursuant to the Act. The Company is subject to examination by the Federal Reserve Board.

The Act requires the prior approval of the Federal Reserve Board for a bank holding company to acquire or hold more than a 5% voting interest in any bank, and controls interstate banking activities. The Act restricts First National Lincoln Corporation's non-banking activities to those which are determined by the Federal Reserve Board to be closely related to banking. The Act does not place territorial restrictions on the activities of non-bank subsidiaries of bank holding companies.

The majority of the Company's cash revenues are generally derived from dividends paid to the Company by the Bank. These dividends are subject to various legal and regulatory restrictions which are summarized in Note 16 to the accompanying financial statements.

The Bank is subject to the provisions of the National Bank Act, and as such, must meet certain liquidity and capital requirements, which are discussed in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. The Office of the Comptroller of the Currency -- the Bank's principal regulatory agency -- conducts periodic examinations of the Bank. Certain state banking regulations also apply to the Bank, as administered by the Maine Bureau of Banking.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) recapitalized the deposit insurance funds and gave regulators the authority to restrict the operations, management and capital distributions of a bank, depending upon its risk. On December 31, 1998, the Bank was classified in the lowest risk category. FDICIA also directs regulators to establish underwriting and operations standards, encompassing such areas as real estate lending, consumer disclosure rules, internal controls and new reporting requirements.

The monetary policies of regulatory authorities, including the Federal Reserve Board, have a significant effect on the operating results of banks and bank holding companies. Through open market securities transactions and changes in its discount rate and reserve requirements, the Board of Governors exerts considerable influence over the cost and availability of funds for lending and investment. The nature of future monetary policies and the effect of such policies on the future business and earnings of the Company and the Bank cannot be predicted. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, regarding the Bank's net interest margin and the effect of interest-rate volatility on future earnings.

ITEM 2. Properties

The principal office of the Bank is located in Damariscotta, Maine, and serves the people of Newcastle, Edgecomb, Jefferson, Bremen, Wiscasset, Nobleboro, South Bristol and Bristol. A branch office opened in Waldoboro in 1975, which is located approximately ten miles from Damariscotta on U.S. Rt. 1, serves the population of Waldoboro and the surrounding towns of Friendship, Warren, Washington and Monhegan Island.

In 1979, a branch office was opened in Boothbay Harbor, which is situated approximately 16 miles from Damariscotta. This office serves the towns of Boothbay, West Boothbay, Boothbay Harbor, Southport and neighboring areas. In 1988, a branch office was opened in Wiscasset, which is approximately eight miles from Damariscotta. This office serves the towns of Wiscasset, Edgecomb, Alna, Woolwich and Dresden. An operations center was completed in the adjacent block fronting on Bristol Road in Damariscotta. It was put in service in July, 1989.

Expansion of the Bank's Boothbay Harbor office began in the Fall of 1995 to better serve customer needs. It included utilization of an adjacent property that was purchased in 1994. The project was completed in the summer of 1996. The Bank also owns real estate on Water Street in Damariscotta, Maine, which was put into use for additional office space during 1995.

In 1997, the Bank purchased and renovated a property on Route 1 in Rockport, Maine, in which to open its first branch office outside of Lincoln County, Maine. Rockport is located in Knox County, Maine, which is contiguous to Lincoln County, Maine, and with similar demographic characteristics. This move into Knox County was made to provide additional growth opportunities for the Bank, which has limited potential for growth in its existing market area.

In May of 1998, the Bank opened a sixth branch in Camden, Maine, which is geographically contiguous to Rockport, Maine. The addition of this branch in the Knox County market has allowed the Bank to better serve customers in this area by providing both in-town and out-of-town locations that meet different customer needs.

The Bank owns all of its facilities except for the Camden location, for which the Bank entered into a long-term lease. Management believes that the Bank's current facilities are suitable and adequate in light of its current needs and its anticipated needs over the near term.

Page 3

ITEM 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or the Bank is a 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.

Page 4

ITEM 4. Submission of Matters to a Vote of Security Holders

There were no items submitted to a vote of security holders of the Company during the fourth quarter of 1998.

ITEM 5. Market for Registrant's Common Equity

The Company's stock is not traded on any securities exchange and is not regularly quoted by the National Association of Securities Dealers Automated Quotation System (NASDAQ). There is no established public trading market for the Company's stock, and it is traded only sporadically through individual purchases and sales. The following table reflects the high and low prices of actual sales in each quarter of 1998 and 1997. Such quotations do not reflect retail mark-ups, mark-downs or brokers' commissions. The data contained in this table (and the dividend table set forth below) has been adjusted to reflect, retroactively, a stock dividend of three shares of common stock paid on December 30, 1997, with respect to each share of common stock outstanding on December 1, 1997.

	1998		1997	
	High	Low	High	Low
1st Quarter	22	13 3/4	10 1/2	10

2nd Quarter	22 1/2	22	11 1/2	10 1/2
3rd Quarter	22 1/2	20 3/4	12 1/2	11 1/2
4th Quarter	23	22 1/2	13 3/4	12 1/2

The last known transaction involving the Company's stock during 1998 was at $22.50 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. As of December 31, 1998, there were approximately 492 holders of record of the Company's common stock, as listed on the Company's shareholder records.

The table below sets forth the cash dividends declared by the Company during its last two fiscal years, including a special cash dividend of $.06 declared on December 18, 1997 and a special cash dividend of $.05 declared on December 17, 1998:

Date Declared	Dividend Per Share	Date Payable
March 20, 1997	$ 0.0525	April 30, 1997
June 19, 1997	0.0550	July 30, 1997
September 18, 1997	0.0575	October 30, 1997
December 18, 1997	0.0600	January 30, 1998
December 18, 1997	0.0600	January 30, 1998
	$ 0.2850	
February 24, 1998	$ 0.0700	April 30, 1998
June 18, 1998	0.0800	July 31, 1998
September 17, 1998	0.0900	October 30, 1998
December 17, 1998	0.1000	January 29, 1999
December 17, 1998	0.0500	January 29, 1999
	$ 0.3900	

The ability of the Company to pay cash dividends depends on receipt of dividends from the Bank. Dividends may be declared by the Bank out of its net profits as the directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year plus retained net profits of the preceding two years. The Bank is also required to maintain minimum amounts of capital-to-total-risk-weighted-assets, as defined by banking regulators. At December 31, 1998, the Bank was required to have minimum Tier 1 and Tier 2 risk-based capital ratios of 4.00% and 8.00%, respectively. The Bank's actual ratios were 15.28% and 16.29%, respectively, as of December 31, 1998.

ITEM 6. Selected Financial Data

Dollars in thousands, except for per share amounts Years ended December 31,	1998	1997	1996	1995	1994
Summary of Operations					
Operating Income	$23,621	$21,439	$18,863	$17,404	$14,871
Operating Expense	17,903	15,757	13,852	13,414	11,766
Net Interest Income	10,844	10,337	9,347	8,538	8,209
Provision for Loan Losses	400	103	60	0	0
Net Income	4,011	3,906	3,424	2,720	2,174
Per Common Share Data (1)					
Net Income					
Basic	$ 1.62	$ 1.58	$ 1.40	$ 1.12	$ 0.90
Fully Diluted	1.56	1.55	1.38	1.11	0.90
Cash Dividends Declared	0.39	0.29	0.24	0.18	0.14
Book Value	11.64	10.46	9.12	8.03	6.95
Market Value	22.50	13.75	10.25	8.25	6.25
Financial Ratios					
Return on Average Equity	14.86%	16.16%	16.38%	15.03%	13.59%
Return on Average Assets	1.44	1.55	1.54	1.34	1.11
Average Equity to Average Assets	9.70	9.62	9.41	8.90	8.20
Net Interest Margin	4.28	4.45	4.51	4.49	4.54
Dividend Payout Ratio	24.06	18.04	16.82	15.66	15.36
Allowance for Loan Losses/Total Loans	0.90	0.99	1.21	1.55	2.02
Non-Performing Loans to Total Loans	0.34	0.28	0.28	0.78	1.43
Non-Performing Assets to Total Assets	0.36	0.26	0.54	0.79	1.16
Efficiency Ratio	0.54	0.51	0.52	0.57	0.65
At Year End					
Total Assets	$286,806	$266,279	$230,768	$212,282	$196,531
Total Loans	209,224	181,510	156,970	133,245	120,294
Total Investment Securities	59,342	68,745	60,564	61,570	65,654
Total Deposits	201,803	169,880	155,674	150,468	142,445
Total Shareholders' Equity	28,776	25,885	22,477	19,565	16,892

1) Per common share data has been adjusted to reflect the 300% stock dividend issued in 1997.

	High	Low
Market price per common share of stock during 1998	$23.00	$13.75

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

First National Lincoln Corporation and its subsidiary, The First National Bank of Damariscotta, posted record earnings in 1998, continuing the positive growth in both assets and income seen during the past five years.

During 1998, the Bank opened a new office in Camden, Maine, and 1998 was also the first full year of operation for its Rockport, Maine, office which opened in 1997. As of year end 1998, these offices were ahead of Management's initial projections.

The most significant asset growth came in the loan portfolio, which increased during 1998 by $27.7 million or 15. 3% to end the year at $209.2 million. The largest amount of growth was in residential mortgages, but the Bank also saw significant growth in commercial loans. Overall loan volumes in the Bank's market area have remained relatively stable during the past few years, but the Bank's market share has grown slightly as a result of an increased focus on mortgage loan origination.

Non-interest expense increased 14.3% to $7.0 million in 1998 from $6.2 million in 1997. This increase was attributable to the Bank's new offices in Rockport and Camden. The Company's efficiency ratio -- a benchmark measure of the amount spent to generate a dollar of income -- was 0.54 in 1998 compared to 0.51 in 1997.

Management believes that the Bank has limited exposure to changes in interest rates, which is discussed more fully in "Interest Rate Risk Management" elsewhere in Management's Discussion.

Results of Operations and Three-Year Comparison

Net income for the year ended December 31, 1998 was $4,011,000 -- the highest net income recorded by the Company in one year. This represents a 2.69% or $105,000 increase from net income of $3,906,000 that was posted in 1997. Return on average assets in 1998 was 1.44%, down from 1.55% in 1997 and 1.54% in 1996. Return on average equity was 14.86% in 1998, compared to 16.16% in 1997 and 16.38% in 1996. This drop in return on equity during 1998 was attributable to the Company's income growing at a lower rate than in previous years, the result of narrowed interest rate margins and higher operating expenses from the opening of two new offices in 1998 and late 1997.

Average shareholders' equity to average assets was 9.70% in 1998, compared to 9.62% in 1997, and 9.41% in 1996. Net income per share for the year ended December 31, 1998 was $1.62 compared to $1.58 in 1997, and $1.40 in 1996. Book value per share was $11.64 on December 31, 1998, up from $10.46 on December 31, 1997 and $9.12 on December 31, 1996.

On December 31, 1998, assets stood at $286.8 million, compared to $266.3 million on December 31, 1997, a 7.7% increase. As of December 31, 1998, total loans were $209.2 million. This represents an increase of 15.26% from total loans of $181.5 million on December 31, 1997. Investments totaled $59.3 million on December 31, 1998, a 13.7% decrease from $68.7 million on December 31, 1997. Deposits increased 18.79% in 1998, standing at $201.8 million on December 31, 1998, compared to $169.9 million on December 31, 1997.

The Bank's loan delinquency ratio decreased again in 1998, and was 1.50% on December 31, 1998, versus 1.60% on December 31, 1997. The greatest decrease was seen in commercial loans, which posted a significant improvement in delinquencies as a percentage of outstanding loans. In Management's opinion, there has been no pattern or trend in loan delinquencies which is of concern.

Average Rates and Net Interest Yield

The following table shows for the years ended December 31, 1998, 1997 and 1996, the interest earned or paid for each major asset and liability category, the average yield for each major asset and liability category, and the net yield between assets and liabilities. Tax-exempt income has been calculated on a tax-equivalent basis using a 34% rate. Interest not recognized on non-accrual loans is not included in the amount of interest presented, but the average balance of non-accrual loans is included in the denominator when calculating yields.

Years ended December 31, Dollars in thousands	1998 Amount of interest	1998 Avg. Yield/ Rate	1997 Amount of interest	1997 Avg. Yield/ Rate	1996 Amount of interest	1996 Avg. Yield/ Rate
Interest-earning assets:						
Investments	$ 4,067	6.62%	4,809	6.91%	4,302	6.74%
Loans held for sale	14	7.45%	4	8.33%	98	8.09%
Loans	17,525	8.81%	15,279	9.06%	13,299	9.09%
Interest-bearing deposits	32	5.29%	42	5.26%	33	5.31%
Total interest-earning assets	$21,637	8.28%	20,134	8.42%	17,732	8.36%
Interest-bearing liabilities:						
Deposits	$ 6,876	4.09%	5,846	4.00%	5,525	3.97%
Other borrowings	3,588	5.35%	3,651	5.56%	2,645	5.48%
Total interest-bearing liabilities	$10,464	4.45%	9,497	4.48%	8,170	4.36%
Net interest income	$11,173		10,637		9,562	
Interest rate spread		3.83%		3.94%		4.00%
Net interest margin		4.28%		4.45%		4.51%

Average Daily Balance Sheets

The following table shows the Company's average daily balance sheets for years ended December 31, 1998, 1997 and 1996.

Dollars in thousands Years ended December 31,	1998	1997	1996
Cash and due from banks	$ 6,785	5,317	4,994
Interest-bearing deposits	606	798	621
Investments			
U.S. Treasury securities & government agencies	49,113	55,825	46,600
Obligations of states & political subdivisions	4,295	3,493	3,168
Other securities	8,527	10,249	14,091
Total investments	61,935	69,567	63,859
Loans held for sale	188	42	1,212
Loans			
Commercial	60,705	49,255	44,022
Consumer	26,003	29,289	26,595
State and municipal	10,234	8,244	5,964
Real estate	102,064	81,803	69,707
Total loans	199,006	168,591	146,288
Allowance for loan losses	1,756	1,847	1,953
Net loans	197,250	166,744	144,335
Fixed assets	4,858	4,226	4,015
Other assets	6,700	4,646	3,091
Total assets	$ 278,322	251,340	222,127
Deposits			
Demand	$ 15,253	13,739	13,133
NOW	31,054	27,662	27,200
Money market	7,918	5,179	6,245
Savings	36,151	34,104	34,091
Certificates of deposit	71,563	64,373	59,084
Certificates of deposit over $100,000	21,306	14,946	12,510
Total deposits	183,245	160,003	152,263
Borrowed funds	67,077	65,672	48,241
Other liabilities	999	1,491	716
Total liabilities	251,321	227,166	201,220
Common stock	25	8	752
Additional paid in capital	4,674	4,532	3,544
Retained earnings	22,403	19,634	16,611
Treasury stock	(101)	0	0
Total capital	27,001	24,174	20,907
Total liabilities and capital	$ 278,322	251,340	222,127

Rate Volume Analysis

The following tables present the changes in interest income and the changes in interest expense attributable to the change in interest rates, the change in volume, and the change in rate/volume(1) of interest-earning assets and interest-bearing liabilities for the periods indicated. Tax-exempt income is calculated on a tax-equivalent basis, using a 34% tax rate in 1998 and 1997.

Year ended December 31, 1998 compared to 1997

Dollars in thousands	Volume	Rate	Rate/ volume(1)	Total

Interest on earning assets				
Loans	$ (565)	$ (201)	$ 24	$ (742)
Loans held for sale	12	-	(1)	11
Investment securities	2,756	(432)	(78)	2,246
Interest-bearing deposits	(10)	-	-	(10)
Total interest income	$ 2,193	$ (633)	$ (55)	$ 1,505
Interest expense				
Deposits	$ 868	$ 141	$ 21	$ 1,030
Other borrowings(2)	78	(138)	(3)	(63)
Total interest expense	$ 946	$ 3	$ 18	$ 967
Change in net interest income	$ 1,247	$ (636)	$ (73)	$ 538

Year ended December 31, 1997 compared to 1996

Dollars in thousands	Volume	Rate	Rate/ volume(1)	Total
Interest on earning assets				
Loans	$ 385	$ 112	$ 10	$ 507
Loans held for sale	(95)	3	(3)	(95)
Investment securities	2,028	(42)	(6)	1,980
Interest-bearing deposits	9	-	-	9
Total interest income	$ 2,327	$ 73	$ 1	$ 2,401
Interest expense				
Deposits	$ 283	$ 36	$ 2	$ 321
Other borrowings(2)	956	37	13	1,006
Total interest expense	$ 1,239	$ 73	$ 15	$ 1,327
Change in net interest income	$ 1,088	$ -	$ (14)	$ 1,074

(1)Represents the change not solely attributable to change in rate or change in volume, but a combination of these two factors.
(2)Includes federal funds purchased.

Capital Resources

Capital on December 31, 1998 was sufficient to meet the requirements of regulatory authorities. Average equity to average assets was 9.70% in 1998, versus 9.62% in 1997. Leverage capital, or total shareholders' equity divided by total assets, stood at 10.03% on December 31, 1998, versus 9.72% in 1997.

At December 31, 1998, the Company had tier-one risk-based capital of 15.92% and tier-two risk-based capital of 16.93%, versus 15.47% and 16.72% in 1997, respectively. To be rated "well-capitalized", requirements call for minimum tier-one and tier-two risk-based capital ratios of 6.00% and 10.00%, respectively. The Company's actual levels of capitalization were comfortably above the standards to be rated "well-capitalized" by regulatory authorities.

During 1998, the Company declared cash dividends of $.07 per share for the first quarter, $.08 per share for the second quarter, $.09 per share for the third quarter, and $.10 per share for the fourth quarter. In addition, the Company declared a special cash dividend of $.05 per share in the fourth quarter. The Company's dividend payout ratio was 24.06% of earnings in 1998, 18.04% in 1997, and 16.82% in 1996.

In determining future dividend payout levels, the Board of Directors carefully analyzes capital requirements and earnings retention, as set forth in the Bank's Dividend Policy. The ability of the Company to pay cash dividends to its shareholders depends on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net profits as the Bank's directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year combined with its retained net profits of the preceding two years. The amount available for dividends in 1999 will be that year's net income plus $6,055,000.

In 1998, 11,487 shares of common stock were issued via director and employee stock programs for consideration totaling $218,000. The Company also purchased 15,504 shares of common stock for total consideration of $343,000, of which 5,765 shares were re-issued via director and employee stock programs before year-end.

Management knows of no present trends, events or uncertainties that will have or are reasonably likely to have a material effect on capital resources, liquidity, or results of operations.

Capital Purchases

In 1998, the Bank opened a sixth office in Camden, Maine, in facilities which are leased. In order to commence operations, leasehold improvements and equipment purchased were made which totaled $449,000. This cost will be amortized over seven to ten years, adding $48,000 to pre-tax operating costs per year. Also during the year, the Bank purchased and implemented a new core banking computer system for Year-2000 remediation. The total cost for both hardware and software was $650,000. This will be amortized over a three-to-five year period, but will have little material impact on operating costs since the depreciation expense for new assets will replace that of assets which had just become fully depreciated.

Liquidity

As of December 31, 1998, the Bank had primary sources of liquidity of $51.5 million, or 18.0% of its assets. It is Management's opinion that this is adequate. The Bank has established guidelines for liquidity management, with policies and procedures prescribed in its funds management policy.

The Bank's principal sources of funds are deposits, cash and due from banks, federal funds sold, loan and dividend payments, loan and investment maturities, and borrowed funds from the Federal Home Loan Bank. To compensate for the seasonal flow in its deposit structure, the Bank maintains adequate funding for its loan portfolio by monitoring maturities within its investment portfolio, and utilizing advances from the Federal Home Loan Bank or entering into securities repurchase agreements.

Through the Federal Home Loan Bank, the Bank has a credit line of $8.0 million for overnight borrowings, and total short-term and long-term advance capacity of $98.4 million. The Bank's liquidity position is further supplemented with securities repurchase agreements with certain brokers.

Deposits grew during 1998, ending the year at $201.8 million. The growth was seen in all types of deposit accounts. Management has not seen any significant deposit runoff trends which would have a material effect on the Bank's liquidity position.

At December 31, 1998, the Company had a net unrealized gain of $63,000 (net of $32,000 in deferred income taxes) in available for sale securities. While the Bank maintains an available for sale portfolio to enhance its overall liquidity position, its present policy is not to liquidate securities to meet short-term liquidity needs. Instead, the Bank uses Federal Home Loan Bank advances or its securities repurchase agreements for this purpose.

Investment Activities

During 1998 the Company's investment portfolio decreased 13.7% to end the year at $59,342,000, compared to $68,745,000 on December 31, 1997. This decrease was due to Management's decision to allow the level of the investment portfolio to decline since available investment opportunities were less attractive than opportunities available to increase the loan portfolio.

The Company's investment securities are classified in two categories: securities available for sale and securities to be held to maturity. Securities available for sale consists primarily of debt securities which Management intends to hold for indefinite periods of time. They may be used as part of the Company's funds management strategy, and may be sold in response to changes in interest rates, changes in prepayment risk, changes in liquidity needs, to increase capital, or for other similar factors. Securities to be held to maturity consists primarily of debt securities which the Company has acquired solely for long-term investment purposes, rather than for trading or future sale. For securities to be held to maturity, Management has the intent and the Company has the ability to hold such investments until their respective maturity dates. The Company does not hold trading account securities.

All investment securities are managed in accordance with a written investment policy adopted by the Board of Directors. It is the Company's general policy that investments for either portfolio be limited to government debt obligations, time deposits, banker's acceptances, corporate bonds and commercial paper with one of the three highest ratings given by a nationally recognized rating agency.

In 1998, the Company's investment portfolio saw a continued shift away from U.S. Treasury securities and toward U.S. Government Agency securities, mortgage-backed securities, and municipal securities. This change was made to enhance the portfolio's overall yield. The following table sets forth the Company's investment securities at book carrying amount as of December 31, 1998, 1997 and 1996.

Dollars in thousands	1998	1997	1996
Securities available for sale:			
U.S. Treasury and agency	$ 2,036	6,501	9,411
Mortgage-backed securities	5,951	3,210	2,085
State and political subdivisions	1,248	-	-
Other securities	9,623	6,752	6,996
	18,858	16,463	18,492
Securities to be held to maturity:			
U.S. Treasury and agency	15,746	16,649	8,994
Mortgage-backed securities	20,196	28,541	23,860
State and political subdivisions	4,531	3,557	3,632
Other securities	11	3.535	5,586
	40,484	52,282	42,072
	$ 59,342	68,745	60,564

The following table sets forth certain information regarding the yields and expected maturities of the Company's investment securities as of December 31, 1998. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax-rate of 34%.

Dollars in thousands	Available for sale Fair value	Yield to maturity	Held to maturity Amortized cost	Yield to maturity
U.S. Treasury and Agency:				
Due in 1 year or less	$ -	0.00%	-	0.00%
Due in 1 to 5 years	1,042	6.77%	1,000	4.31%
Due in 5 to 10 years	994	6.50%	2,000	6.60%
Due after 10 years	-	0.00%	12,746	6.69%
	2,036	6.64%	15,746	6.53%
Mortgage-backed securities:				
Due in 1 year or less	-	0.00%	201	7.34%
Due in 1 to 5 years	-	0.00%	2,840	3.70%
Due in 5 to 10 years	1,474	8.35%	-	0.00%
Due after 10 years	4,477	6.65%	17,155	6.83%
	5,951	7.07%	20,196	6.40%
State and political subdivisions:				
Due in 1 year or less	-	0.00%	-	0.00%
Due in 1 to 5 years	-	0.00%	697	4.19%
Due in 5 to 10 years	-	0.00%	-	0.00%
Due after 10 years	1,248	4.38%	3,834	5.22%
	1,248	4.38%	4,531	5.06%
Other securities:				
Due in 1 year or less	-	0.00%	-	0.00%
Due in 1 to 5 years	504	6.35%	-	0.00%
Due in 5 to 10 years	-	0.00%	11	7.01%
Due after 10 years	2,548	6.18%	-	0.00%
Equity securities	6,571	6.55%	-	0.00%
	9,623	6.44%	11	7.01%
	$18,858	6.52%	40,484	6.30%

Lending Activities

The loan portfolio experienced growth in all areas during 1998, with the most significant increase seen in residential real estate loans. Total loans were $209,224,000 at December 31, 1998, a 15.3% increase from total loans of $181,510,000 on December 31, 1997. This continues the loan growth trend experienced by the Company over the past five years.

The following table summarizes the Bank's loan portfolio as of December 31, 1998, 1997, 1996, 1995 and 1994. Some loans were reclassified in 1994 between commercial real estate and commercial and industrial loans. This internal reclassification was not significant.

Dollars in thousands As of December 31,	1998	1997	1996	1995	1994
Commercial loans					
Real estate	$ 25,585	20,173	18,220	17,578	21,308
Other	38,718	33,100	26,907	24,918	18,491
Residential real estate loans					
Construction	3,397	3,053	3,278	2,167	1,919
Term	105,877	92,937	81,088	65,935	60,211
Consumer loans	27,993	24,041	20,288	18,439	16,196
Municipal	7,654	8,206	7,189	4,208	2,169
Total	$ 209,224	181,510	156,970	133,245	120,294

On December 31, 1998, 52.2% of the Bank's loan portfolio was in residential real estate loans, 12.2% was in commercial real estate loans, 18.5% was in other commercial loans, 13.4% was in consumer loans, and 3.7% was in state and municipal loans. This compares to 1997 and 1996 figures for residential real estate loans of 52.9% and 53.8%, respectively, commercial real estate loans of 11.1% and 11.6%, respectively, other commercial loans of 18.2% and 17.1%, respectively, consumer loans of 13.2% and 12.9%, respectively, and 4.5% and 4.6%, respectively, in state and municipal loans. While most of the Bank's loan growth in the years prior to and including 1996 was in residential real estate loans, 1998's increase can be attributed to a combination of commercial, residential real estate and consumer loans.

The Bank's loan delinquency ratio decreased slightly in 1998, and was 1.50% on December 31, 1998, versus 1.60% on December 31, 1997. This decrease is due to the volume of delinquent loans remaining even with 1997 while total loans increased 15.3% during the year.

The Bank issues its own VISA and MasterCard. These loans totaled $2,569,000 as of December 31, 1998, $2,457,000 as of December 31, 1997, $2,099,000 as of December 31, 1996, $1,571,000 as of December 31, 1995, and $920,000 as of December 31, 1994. The number of credit cards outstanding increased 9.2% in 1998 to end the year at 3,574.

The following table sets forth certain information regarding the contractual maturities of the Bank's loan portfolio as of December 31, 1998.

Dollars in thousands	< 1 Year	1-5 Years	5-10 Years	>10 Years	Total
Commercial real estate	$ 794	1,427	4,830	18,534	25,585
Commercial other	12,569	5,128	11,425	9,596	38,718
Residential real estate	1,608	649	7,768	95,852	105,877
Residential construction	3,397		-	-	3,397
Consumer	3,733	10,729	6,866	6,665	27,993
Municipal	3,045	2,132	799	1,678	7,654
Totals	$25,146	20,065	31,688	132,325	209,224

The following table provides a listing of loans by category, excluding loans held for sale, between variable and fixed rates as of December 31, 1998.

Dollars in thousands	Amount	% of total
Variable-rate loans		

Residential adjustable-rate mortgages	$ 52,950	25.31%
Equity loans	4,930	2.36%
Other consumer loans	6,322	3.02%
Commercial loans	47,562	22.73%
Total	111,764	53.42%
Fixed-rate loans	97,460	46.58%
Total loans	$209,224	100.00%

Approximately 30.9% of the loan portfolio would be repriced within 90 days, and 56.2% within one year. The Bank has $14.6 million or 24.9% of investments maturing or anticipated to be called in 1999. On the liability side, $72.2 million or 71.2% of certificates of deposit will mature by December 31, 1999.

Loan Concentrations

As of December 31, 1998, the Bank did not have any concentration of loans in one particular industry that exceeded 10% of its total loan portfolio.

Loans Held for Sale

In 1998, the Bank placed a much higher volume of residential mortgages into the secondary market compared to prior years. This was the result of increased mortgage underwriting opportunities and current interest rates at the time the loans were sold. Loans held for sale are carried at the lower of cost or market value, which was $209,000 at December 31, 1998 and $100,000 at December 31, 1997.

Non-Performing Assets

The aggregate dollar amount of loans more than 90 days past-due or on non-accrual status increased slightly during 1998. The following table sets forth a summary of the value of delinquent loans (more than ninety days in arrears) by category, total loans carried on a non-accrual basis, and income not recognized from non-accrual loans as of December 31, 1998, 1997, 1996, 1995 and 1994.

Dollars in thousands As of December 31,	1998	1997	1996	1995	1994
Commercial real estate & business	$ 414	420	203	580	1,359
Residential real estate	222	320	359	558	408
Consumer	91	128	39	61	67
Total	727	868	601	1,199	1,834
Non-accrual loans included in above total	716	510	440	1,034	1,722
Income not recognized from non-accrual loans	$ 51	50	62	114	106

It is the policy of the Bank to place a loan on non-accrual status only after a careful review of the loan circumstances and a determination that payment in full of principal and/or interest is not expected. Income not recognized from non-accrual loans represents the interest income, as of the end of each period, that would have been recorded on loans placed on non-accrual status if they were current in accordance with their original terms. None of these amounts were included in interest income for the same periods.

Other real estate owned increased during 1998. At December 31 it included seven properties valued at $303,000, compared to five properties valued at $184,000 at December 31, 1997.

Other real estate owned and repossessed assets owned is comprised of (i) properties or other assets acquired through a foreclosure proceeding, or acceptance of a deed or title in lieu of foreclosure, (ii) properties which secure loans where the Bank obtains possession of the underlying collateral from the borrower, and (iii) other assets repossessed in connection with non-real estate loans. Other real estate and repossessed assets owned are carried at the lower of cost or fair value less the estimated selling expenses of the collateral. An allowance is established for the amount by which cost exceeds fair value less estimated selling expenses on a property by property basis. Losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses and any subsequent provisions to reduce the carrying value are charged to operations. Gains and losses upon disposition are reflected in earnings as realized.

Allowance for Loan Losses and Loan Loss Experience

The Bank maintains an allowance for loan losses, which is a valuation reserve for estimated future losses on loans. Management's judgment as to the adequacy of the allowance is based upon a continuing review of loans which considers a variety of factors including the risk characteristics of the loan portfolio, current economic conditions and past experience.

Management believes that the allowance for loan losses at December 31, 1998 is adequate. While Management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of borrowers might necessitate future additions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their

judgments about information available to them at the time of their examination.

During 1998, a provision of $400,000 was made to the allowance, compared to a provision of $103,000 in 1997, and $60,000 in 1996. At December 31, 1998, the allowance for loan losses stood at $1,822,000, or 0.87% of total loans outstanding. This compares to $1,800,000, or 0.99% of total loans outstanding at December 31, 1997, and $1,906,000, or 1.21% of total loans outstanding at December 31, 1996.

Impaired loans are measured at the net present value of future cash flows, discounted at the loan's effective interest rate, or at fair market value of collateral if the loan is collateral dependent. This is done by allocating a portion of the allowance for loan losses to impaired loans. The adoption of this statement had no effect on the allowance for loan losses since the Bank was adequately reserved for these loans.

The following table reflects allocation of the Bank's allowance for loan losses by category of loan as of December 31, 1998, 1997, 1996, 1995 and 1994. The unallocated portion of the allowance for loan losses is a general reserve that is not allocated to a specific portion of the loan portfolio.

Dollars in thousands As of December 31,	1998		1997		1996		1995		1994	
Real estate loans	$ 440	52%	454	53%	419	54%	412	51%	267	51%
Commercial loans(2)	736	35%	683	34%	1,010	33%	1,153	35%	1,578	35%
Consumer loans	408	13%	254	13%	477	13%	494	14%	583	14%
Unallocated	238	-	409	-	-	-	-	-	-	-
Total	$1,822	100%	1,800	100%	1,906	100%	2,059	100%	2,428	100%

(1) Percentage is amount in each category for the stated year
(2) Includes commercial real estate loans

Net loans charged off in 1998 were $378,000, or 0.19% of average loans outstanding for the year. This compares to net loan chargeoffs of $209,000 in 1997 and $213,000 in 1996.

The following table summarizes the activity with respect to loan losses for the years ended December 31, 1998, 1997, 1996, 1995 and 1994.

Dollars in thousands As of December 31,	1998	1997	1996	1995	1994
Balance at beginning of period	$ 1,800	1,906	2,059	2,428	2,619
Loans charged off:					
Commercial(1)	121	60	154	197	213
Real estate mortgage	46	31	65	131	-
Consumer	285	246	148	156	93
Total	452	337	367	484	306
Recoveries on loans previously charged off:					
Commercial(1)	14	70	81	30	34
Real estate mortgage	-	-	16	-	-
Consumer	60	58	57	85	81
Total	74	128	154	115	115
Net loans charged off	378	209	213	369	191
Provision for loan losses	400	103	60	-	-
Balance at end of period	$ 1,822	1,800	1,906	2,059	2,428
Ratio of net loans charged off to average loans outstanding	0.19%	0.12%	0.14%	0.29%	0.16%

(1)Includes commercial real estate loans

Deposits

The Bank, with $201,803,000 in deposits as of December 31, 1998, realized an increase of 18.8% in 1998 compared to a 9.1% increase in deposits in 1997 and a 3.5% increase in deposits in 1996. Most of the growth in 1998 and 1997 has been seen in the Bank's CD portfolio, although NOW account, savings and money market deposits also increased significantly in 1998. Average deposits for 1998 were higher than average deposits for 1997.

The Bank's deposit balances generally increase during the summer and autumn months of each year due to increased business activity from seasonal tourist trade. In 1998, deposits peaked during the month of December at $201,997,000. Because of uncertainty about future interest rates, in the past few years investors have shown a strong preference for shorter-term deposits which could reprice quickly should rates begin to rise.

The Bank's average cost of deposits (including non-interest-bearing accounts) was 3.75% for the year ended December 31, 1998, compared to 3.65% for the year ended December 31, 1997 and 3.63% for the year ended December 31, 1996. The following table sets forth the average daily balance for the Bank's principal deposit categories for the period indicated.

Dollars in thousands Years ended December 31,	1998	1997	1996	% growth 1998 vs. 1997
Demand deposits	$ 15,253	13,739	13,133	11.0%
NOW accounts	31,054	27,662	27,200	12.3%
Money market accounts	7,918	5,179	6,245	52.9%
Savings	36,151	34,104	34,091	6.0%
Certificates of deposit	92,869	79,319	71,594	17.1%
Total deposits	$ 183,245	160,003	152,263	14.5%

The following table sets forth the average cost of each category of interest-bearing deposits for the periods indicated.

Years ended December 31,	1998	1997	1996
NOW accounts	1.27%	1.25%	1.37%
Money market accounts	3.16%	2.50%	2.50%
Savings accounts	2.92%	2.96%	3.02%
Certificates of deposit	5.57%	5.50%	5.54%
Total interest-bearing deposits	4.09%	4.00%	3.97%

As of December 31, 1998, the Bank held a total of $29,131,000 in certificate of deposit accounts with balances in excess of $100,000. The following table summarizes the time remaining to maturity for these certificates of deposit:

Dollars in thousands	
Within 3 months	$ 10,648
3 months through 6 months	4,674
6 months through 12 months	7,227
Over 12 months	6,582
Total	$ 29,131

Borrowed Funds

Borrowed funds consists mainly of advances from the Federal Home Loan Bank of Boston (FHLB) which are secured by stock in the FHLB, funds on deposit with FHLB, mortgage-backed securities and qualifying first mortgage loans. Advances at December 31, 1998 totaled $45,433,000, with a weighted average interest rate of 5.26% and maturities ranging from one day to fifteen years. The maximum amount outstanding at any month-end during the year was $76,448,000 at the end of May. The average amount outstanding during the year was $60,335,000, with a weighted average interest rate of 5.45%. This compares to an average outstanding amount of $56,969,000 in 1997, with a weighted average interest rate of 5.67%. The average balance outstanding on the Bank's borrowed funds for the year ended December 31, 1996 was $32,734,000, with a weighted average interest rate of 5.62%.

The Bank began offering securities repurchase agreements to municipal and larger corporate customers as an alternative to deposits. The outstanding balance of all securities repurchase agreements as of December 31, 1998 was $8,742,000, compared to $5,474,000 on December 31,1997, and $8,413,000 on December 31, 1996. The Bank also sells securities under agreement to repurchase to brokerage firms.

On January 1, 1997, the Bank joined the Note Option Depository which is offered to banks by the U.S. Treasury Department. Under the Treasury Tax & Loan Note program, the Bank accumulates tax deposits made by its customers and is eligible to receive Treasury Direct investments up to an established maximum balance of $5 million. These deposits are generally made at interest rates that are favorable in comparison to other borrowings. The balances on the Treasury Tax & Loan note at December 31, 1998 and 1997 were $285,000 and $3,295,000, respectively.

Investment Management and Fiduciary Activities

As of December 31, 1998, the Bank's Investment Management Group had assets with a market value of $91,719,000 under management. This amount consisted of 297 trust accounts, estate accounts, agency accounts, and self-directed individual retirement accounts.

Effect of Future Interest Rates on Postretirement Benefit Liabilities

In evaluating the Company's postretirement benefit liabilities, Management believes that changes in assumptions, especially with regard to discount rates, will not have a significant impact on the Company's future operating results and financial condition.

Year 2000 Readiness

With the year 2000 approaching, all businesses and governments are facing the challenge of assessing and preparing their computer systems to handle dates beyond 1999. First National Lincoln Corporation and its subsidiary, The First National Bank of Damariscotta, have taken steps to address the many issues related to the transition to the next century. The Bank's actions with regard to Year 2000 compliance are reviewed by the Board of Directors, its internal audit department, and its Federal Regulators.

The awareness phase of the Company's Year 2000 readiness began with the creation of a Year 2000 Task Force, overseen by the Board of Directors, which includes top management and staff from each division. It has been working since the summer of 1997 towards full Year 2000 compliance.

From this, the Company began its assessment phase, during which a Year 2000 Plan was formulated to direct and coordinate activities related to Year 2000 preparedness. Development of this plan began with an examination of all internal systems and identification of those which are considered "mission-critical" and requiring the highest priority in evaluation and remediation. This process included not only computer hardware and software, but also non-information-technology systems, such as alarms and heating control systems. From this evaluation, the scope of the Year 2000 remediation project was developed and target dates were set for any necessary systems changes. A test plan was also developed for the testing of all mission-critical systems. The assessment phase of the project was complete in the first quarter of 1998.

The major project in the remediation phase was the acquisition of a new core banking system which became operational in the third quarter of 1998. The system has been certified by the vendor as Year 2000 compliant and offers many features which Management believes will enhance customer service. In addition, several stand-alone hardware and software systems have been upgraded or replaced.

At December 31, 1998, the Company was, in Management's opinion, on track with its timelines for completion of its Year 2000 plan. At that point virtually all hardware and software changes required in the remediation phase were complete and operational, and the testing required in the validation phase of the plan was substantially complete. It is anticipated that any additional testing will be completed by the end of the first quarter of 1999.

The estimated cost to address Year 2000 issues is approximately $1 million. This includes $400,000 for the purchase of hardware and software for the new core banking system, $250,000 for new personal computers and networking hardware, and $50,000 for new telephone equipment. The purchase of new hardware and personal computers, although required for operation of the new core banking system, is part of the Bank's planned upgrade of computers. The phone system is a more modern system that is being installed irrespective of Year 2000 issues, but has been certified by the vendor as Year 2000 compliant. Almost all of these expenditures have been incurred and will be amortized over a three-to-five year period.

In addition to hardware and software, the above-mentioned estimated total cost includes a human-resources allocation of $300,000 which has been or will be expensed as incurred. Of this, it is estimated that only $25,000 will be an incremental expense, which will include summer college students, overtime for existing personnel, and outside support. The remaining $275,000 is an allocation of existing human resources to effectively implement and bring to a successful conclusion the Year 2000 Plan.

Externally, both business relationships and significant counterparties have been evaluated for their state of Year 2000 preparedness. The Company has verified that all key vendors, suppliers and other business partners will be ready for Year 2000, and has created a team to work with bank customers to assess their Year 2000 awareness and readiness.

At this time, it is Management's opinion that the Company's major Year 2000 risks are primarily related key counterparties which are beyond the Company's control. The two most significant counterparties are U.S. Government Agencies -- the Federal Reserve Bank and the Federal Home Loan Bank -- upon which the Company is dependent for liquidity and funds transfer needs. The Company has begun and will continue to closely monitor the Year 2000 preparation and readiness of both agencies.

The Company has developed contingency plans for all mission critical systems. These plans include identification of alternative resources and/or vendors as well as specific trigger dates for action and implementation. Since the Company's primary business is providing traditional banking services, the creation of additional liquidity capacity to meet the potential needs of its customers and communities is a key part of contingency planning. A separate liquidity contingency plan will be completed by the end of the first quarter of 1999.

With Year 2000 assessment, remediation and validation now nearly complete, in Management's opinion the worst-case scenario the Company envisions involves electric power and telecommunication interruptions. For electric power, the Company is currently evaluating the installation of a back-up generator for its operations facility. While no formal plans are in place to address telecommunication disruptions, in Management's opinion this is not a significant issue due to the general state of preparedness of the telecommunications industry.

Accounting Pronouncements

During 1998, the Company adopted SFAS 130, 131 and 132. The adoption of SFAS 130, Reporting Comprehensive Income, required that certain items be reported under a new category of income, "Other Comprehensive Income". Unrealized gains and losses on securities available for sale is the only item included in Other Comprehensive Income. SFAS 131 and 132 relate to disclosures about segments and employee benefits, respectively. The financial statements for 1998 and prior periods where applicable, include the required additional disclosures for SFAS No. 130, 131 and 132. In addition, the Financial Accounting Standards Board issued SFAS No. 133, Accounting For Derivative Instruments and Hedging Activities and is effective for fiscal years beginning after June 15, 1999. Management has not determined the impact of SFAS No. 133 on the financial statements.

Forward-Looking Statements

Certain disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as certain disclosures in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, contain certain forward-looking statements (as defined in the Private Securities Litigation

Reform Act of 1995). In preparing these disclosures, Management must make assumptions, including, but not limited to, the level of future interest rates, general local, regional and national economic conditions, competitive pressures, prepayments on loans and investment securities, required levels of capital, needs for liquidity, and the adequacy of the allowance for loan losses. These forward-looking statements may be subject to significant known and unknown risks and uncertainties, and other factors, including, but not limited to, those matters referred to in the preceding sentence.

Although First National Lincoln Corporation believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the facts which affect the Company's business.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Management

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates. First National Lincoln Corporation's market risk is composed primarily of interest rate risk. The Bank's Asset/Liability Committee (ALCO) is responsible for reviewing the interest rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. All guidelines and policies established by ALCO have been approved by the Board of Directors.

Asset/Liability Management

The primary goals of asset/liability management are to maximize net interest income within the interest rate risk limits set by ALCO.

Interest rate risk is monitored through the use of two complementary measures: static gap analysis and earnings simulation modeling. While each of the interest rate risk measurements has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk in the Company, the level of risk through time, and the amount of exposure to changes in certain interest rate relationships.

Static gap analysis measures the amount of repricing risk embedded in the balance sheet at a point in time. It does so by comparing the differences in the repricing characteristics of assets and liabilities. A gap is defined as the difference between the principal amount of assets and liabilities which reprice within a specified time period. The cumulative one-year gap, at year-end, was -3.2% of total assets. ALCO's policy limit for the one-year gap is plus or minus 20% of total assets.

Core deposits with non-contractual maturities are included in the gap repricing distributions based upon historical patterns of balance attrition and pricing behavior which are reviewed at least annually.

The gap repricing distributions include principal cash flows from residential mortgage loans and mortgage-backed securities in the time frames in which they are expected to be received. Mortgage prepayments are estimated by applying industry median projections of prepayment speeds to portfolio segments based on coupon range and loan age.

A summary of the Company's static gap, as of December 31, 1998, is presented in the following table:

Dollars in thousands Interest rate risk repricing		0-90 days	91-365 days	1-5 years	5+ years
Investment securities at amortized cost	$	14,581	10,531	19,615	14,519
Loans held for sale		209	-	-	-
Loans		66,736	57,983	67,545	16,960
Other interest-earning assets		3,719	-	-	-
Non-rate-sensitive assets		-	-	-	14,408
Total assets		85,245	68,514	87,160	45,887
Interest-bearing deposits		41,871	49,134	29,164	63,985
Borrowed funds		28,554	1,262	24,644	-
Non-rate-sensitive liabilities and equity		-	-	-	48,192
Total liabilities and equity	$	70,425	50,396	53,808	112,177
Period gap	$	14,820	18,118	33,352	(66,290)
Percent of total assets		5.17%	6.32%	11.63%	(23.11%)
Cumulative gap (current)	$	14,820	32,938	66,290	-
Percent of total assets		5.17%	11.48%	23.11%	0.00%

The earnings simulation model forecasts one- and two-year net interest income under a variety of scenarios that incorporate changes in the absolute level of interest rates as well as basis risk, as represented by changes in the shape of the yield curve and changes in interest rate relationships. Management evaluates the effects on income of alternative interest rate scenarios against earnings in a stable interest rate environment. This type of analysis is also most useful in determining the short-run earnings exposures to changes in customer behavior involving loan payments and deposit additions and withdrawals.

The most recent earnings simulation model projects net interest income would decrease by approximately 3.3% of stable-rate net interest income if rates fall gradually by two percentage points over the next year, and increase of approximately 0.8% if rates rise gradually by two percentage points. Both scenarios are well within ALCO's policy limit of a decrease in net interest income of no more than 5.0% given a 2.0% move in interest rates, up or down. Management believes this reflects a stable interest rate risk position for the one-year horizon. Within a two-year horizon and assuming no additional movement in rates, the model forecasts that net income would fall below that earned in a stable rate environment by 4.6% in a falling rate scenario and increase by 2.0% in a rising rate scenario.

This dynamic simulation model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. Loans and deposits are projected to maintain stable balances. All maturities, calls and prepayments in the securities portfolio are assumed to be reinvested in similar assets. Mortgage loan prepayment assumptions are developed from industry median estimates of prepayment speeds for portfolios with similar coupon ranges and seasoning. Non-contractual deposit volatility and pricing are assumed to follow historical patterns. The sensitivities of key assumptions are analyzed at least annually and reviewed by ALCO.

A summary of the Company's interest rate risk simulation modeling, as of December 31, 1998, is presented in the following table:

Changes in Net Interest Income	
Year 1	
Projected change if rates decrease by 2.0%	-3.3%
Projected change if rates increase by 2.0%%	+0.8%
Year 2	
Projected change if rates decrease by 2.0%	-4.6%
Projected change if rates increase by 2.0%%	+2.0%

Changes in market value of portfolio equity reflect the anticipated change in net present value of the Company's assets and liabilities, given an instant interest rate shock of plus or minus 2.0%. This market value of portfolio equity disclosure presents the effect of changes in interest rates should the Company seek to liquidate any or all of its assets and liabilities, and does not reflect any consideration for the potential additional value that might be realized from the ongoing viability of the Company's operations.

Interest Rate Risk Management

A variety of financial instruments can be used to manage interest rate sensitivity. These may include the securities in the investment portfolio, interest rate swaps, and interest rate caps and floors. Frequently called interest rate derivatives, interest rate swaps, caps and floors have characteristics similar to securities but possess the advantages of customization of the risk-reward profile of the instrument, minimization of balance sheet leverage and improvement of the liquidity position. As of December 31, 1998, the Company was not using any derivative instruments for interest rate risk management.

The Company engages an independent consultant to periodically review its interest rate risk position, as well as the effectiveness of simulation modeling and reasonableness of assumptions used in the modeling. As of December 31, 1998, the were no significant differences between the views of the independent consultant and Management regarding the Company's interest rate risk exposure.

Management expects interest rates to be relatively stable during 1999 and believes that the current level of interest rate risk is acceptable.

ITEM 8. Financial Statements and Supplementary Data

Report of Management

The management of First National Lincoln Corporation is responsible for the preparation, content, and integrity of the financial statements and other statistical data. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include amounts based on management's best estimates and judgment. Management also prepared the other information in this report and is responsible for the accuracy and consistency with the financial statements.

First National Lincoln Corporation maintains internal control systems designed to produce reliable financial statements. Management recognizes that although controls established for these systems are applied in a prudent manner, errors and irregularities may occur. However, management believes that its internal accounting and reporting systems provide reasonable assurance that material errors or irregularities are prevented or would be detected and corrected on a timely basis.

The Company's internal auditor continually reviews, evaluates, and monitors internal control systems and recommends programs to management to further safeguard assets. The Board of Directors discharges its responsibility for financial statements through its Audit Committee. The Audit Committee regularly meets with the independent auditors, internal auditor, and representatives of management to assure that each is meeting its responsibility. The Committee also reviews the independent auditors' reports and findings as they are submitted throughout the year. Both the independent auditors and internal auditor have direct access to the Audit Committee to discuss the scope and results of their work, the adequacy of internal controls, and the quality of financial reporting.

Daniel R. Daigneault
Daniel R. Daigneault
President & Chief Executive Officer

F. Stephen Ward
F. Stephen Ward
Treasurer

Berry, Dunn, McNeil & Parker
Certified Public Accountants

Independent Auditors' Report

The Board of Directors and Stockholders
First National Lincoln Corporation

We have audited the consolidated balance sheets of First National Lincoln Corporation and subsidiary as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the consolidated financial position of First National Lincoln Corporation and subsidiary as of December 31, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Berry, Dunn, McNeil & Parker
Berry, Dunn, McNeil & Parker

Portland, Maine
January 29, 1999

Consolidated Balance Sheets
First National Lincoln Corporation and Subsidiary

As of December 31,	1998	1997
Assets		
Cash and due from banks	$ 6,338,000	$5,683,000
Securities available for sale	18,858,000	16,463,000
Securities to be held to maturity, market value of $40,702,000 in 1998 and $52,610,000 in 1997	40,484,000	52,282,000
Loans held for sale at cost, market value $209,000 in 1998 and $100,000 in 1997	209,000	100,000

Loans	209,224,000	181,510,000
Less allowance for loan losses	1,822,000	1,800,000
Net loans	207,402,000	179,710,000
Accrued interest receivable	1,770,000	1,961,000
Bank premises and equipment	5,866,000	4,871,000
Other real estate owned	303,000	184,000
Other assets	5,576,000	5,025,000
Total assets	$ 286,806,000	$ 266,279,000

Consolidated Balance Sheets, Concluded
First National Lincoln Corporation and Subsidiary

As of December 31,	1998	1997
Liabilities and Shareholders' Equity		
Demand deposits	$ 17,649,000	$ 14,109,000
NOW deposits	33,710,000	29,213,000
Money market deposits	9,793,000	6,238,000
Savings deposits	39,226,000	34,104,000
Certificates of deposit (including certificates of $100,000 or more of $29,131,000 in 1998 and of $17,246,000 in 1997)	101,425,000	86,216,000
Total deposits	201,803,000	169,880,000
Borrowed funds	54,460,000	69,037,000
Other liabilities	1,767,000	1,477,000
Total liabilities	258,030,000	240,394,000
Shareholders' equity:		
Common stock, one cent par value	25,000	25,000
Additional paid-in capital	4,687,000	4,595,000
Retained earnings	24,218,000	21,172,000

Net unrealized gain on securities available for sale, net of tax	63,000	93,000
Treasury stock	(217,000)	-
Total shareholders' equity	28,776,000	25,885,000
Commitments and contingent liabilities (note 12)		
Total liabilities and shareholders' equity	$ 286,806,000	$ 266,279,000

Common stock		
Number of shares authorized	6,000,000	6,000,000
Number of shares issued	2,481,270	2,475,548
Number of shares outstanding	2,471,531	2,475,548

The accompanying footnotes are an integral part of these consolidated financial statements

Consolidated Statements of Income
First National Lincoln Corporation and Subsidiary

Years ended December 31,	1998	1997	1996
Interest income:			
Interest and fees on loans	$ 17,289,000	$ 15,068,000	$ 13,242,000
Interest on deposits with other banks	32,000	42,000	33,000
Interest and dividends on investments (includes tax-exempt income of $207,000 in 1998, $161,000 in 1997, and $117,000 in 1996)	3,987,000	4,724,000	4,242,000
Total interest income	21,308,000	19,834,000	17,517,000
Interest expense:			
Interest on deposits	6,876,000	5,846,000	5,525,000
Interest on borrowed funds	3,588,000	3,651,000	2,645,000
Total interest expense	10,464,000	9,497,000	8,170,000
Net interest income	10,844,000	10,337,000	9,347,000
Provision for loan losses	400,000	103,000	60,000
Net interest income after provision for loan losses	10,444,000	10,234,000	9,287,000
Other operating income:			
Fiduciary and investment management income	421,000	324,000	306,000
Service charges on deposit accounts	627,000	562,000	491,000
Net realized gain (loss) on securities available for sale	(21,000)	3,000	(4,000)
Net realized gain on securities to be held to maturity	-	-	6,000
Other	1,286,000	716,000	547,000

Total other operating income	2,313,000	1,605,000	1,346,000
Other operating expenses:			
Salaries and employee benefits	3,703,000	3,142,000	2,988,000
Occupancy expense	448,000	354,000	330,000
Furniture and equipment expense	584,000	625,000	571,000
Other	2,304,000	2,036,000	1,733,000
Total other operating expenses	7,039,000	6,157,000	5,622,000
Income before income taxes	5,718,000	5,682,000	5,011,000
Income tax expense	1,707,000	1,776,000	1,587,000
Net income	$ 4,011,000	$ 3,906,000	$ 3,424,000

Consolidated Statements of Income, Concluded
First National Lincoln Corporation and Subsidiary

Years ended December 31,	1998	1997	1996
Basic earnings per share	$ 1.62	$ 1.58	$ 1.40
Diluted earnings per share	$ 1.56	$ 1.55	$ 1.38
Cash dividends declared per share	$ 0.39	$ 0.29	$ 0.24
Weighted average number of shares outstanding	2,478,223	2,468,250	2,444,616

The accompanying footnotes are an integral part of these consolidated financial statements

Page 35<PAGE

Consolidated Statement of Changes in Shareholders Equity
First National Lincoln Corporation and Subsidiary

<TABLE>
<CAPTION>

Years ended December 31, 1998, 1997 and 1996

<S>	Number of common shares <C>	Common stock <C>	Additional paid in capital <C>	Retained earnings <C>	Net unrealized gain (loss) on securities available for sale <C>	Treasury stock <C>	Total share holders' equity <C>
Balance at December 31, 1995	2,438,136	1,543,000	2,700,000	15,123,000	202,000	(3,000)	19,565,000
Net income	0	0	0	3,424,000	0	0	3,424,000
Net unrealized loss on securities available for sale, net of taxes of $97,000	0	0	0	0	(188,000)	0	(188,000)
Comprehensive income				3,424,000	(188,000)		3,236,000
Effect of change to $0.01 par value	0	(1,518,000)	1,518,000	0	0	0	0
Cash dividends declared	0	0	0	(576,000)	0	0	(576,000)
Stock issued	26,128	0	248,000	0	0	0	248,000
Treasury stock purchases	(2,896)	0	0	0	0	(26,000)	(26,000)
Treasury stock sold	3,336	0	1,000	0	0	29,000	30,000
Balance at December 31, 1996	2,464,704	25,000	4,467,000	17,971,000	14,000	0	22,477,000

Consolidated Statement of Changes in Shareholders Equity continued
First National Lincoln Corporation and Subsidiary

Years ended December 31, 1998, 1997 and 1996

	Number of common shares	Common stock	Additional paid in capital	Retained earnings	Net unrealized gain (loss) on securities available for sale	Treasury stock	Total share holders' equity
Net income	0	0	0	3,906,000	0	0	3,906.000
Net unrealized gain on securities available for sale, net of taxes of $41,000	0	0	0	0	79,000	0	79,000
Comprehensive income				3,906,000	79,000		3,985,000
Cash dividends declared	0	0	0	(705,000)	0	0	(705,000)
Stock issued	10,844	0	127,000	0	0	0	127,000
Treasury stock purchases	(4,668)	0	0	0	0	(48,000)	(48,000)
Treasury stock sold	4,668	0	1,000	0	0	48,000	49,000
Balance at December 31, 1997	2,475,548	$ 25,000	$4,595,000	$21,172,000	$ 93,000	$ 0	$ 25,885,000

Consolidated Statement of Changes in Shareholders Equity concluded
First National Lincoln Corporation and Subsidiary

Years ended December 31, 1998, 1997 and 1996

	Number of common shares	Common stock	Additional paid in capital	Retained earnings	Net unrealized gain (loss) on securities available for sale	Treasury stock	Total share holders' equity
Net income	0	0	0	3,011,000	0	0	3,011.000
Net unrealized gain on securities available for sale, net of taxes of $41,000	0	0	0	0	(30,000)	0	(30,000)
Comprehensive income				3,011,000	(30,000)		3,981,000
Cash dividends declared	0	0	0	(965,000)	0	0	(965,000)
Stock issued	5,722	0	90,000	0	0	0	90,000
Treasury stock purchases	(15,504)	0	0	0	0	(343,000)	(343,000)
Treasury stock sold	5,765	0	2,000	0	0	126,000	128,000
Balance at December 31, 19987	2,471,531	$ 25,000	$4,687,000	$24,218,000	$ 63,000	$(217,000)	$ 28,776,000

</TABLE>

The accompanying footnotes are an integral part of these consolidated financial statements

Consolidated Statements of Cash Flows
First National Lincoln Corporation and Subsidiary

Years ended December 31,	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 4,011,000	$ 3,906,000	$ 3,424,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	544,000	582,000	530,000
Deferred income taxes	(58,000)	44,000	115,000
Provision for loan losses	400,000	103,000	60,000

Provision for losses on other real estate owned	16,000	14,000	25,000
Loans originated for resale	(19,039,000)	(2,677,000)	(2,391,000)
Proceeds from sales of loans	18,930,000	2,879,000	2,232,000
Net (gain) loss on sale or call of securities available for sale	21,000	(3,000)	4,000
Net gain on sale of investment securities to be held to maturity	-	-	(6,000)
Losses related to other real estate owned	(4,000)	33,000	7,000
Net change in other assets and accrued interest receivable	(302,000)	(4,355,000)	(389,000)
Net change in other liabilities	232,000	(84,000)	454,000
Net amortization of premium on investments	210,000	91,000	141,000
Net cash provided by operating activities	4,961,000	533,000	4,206,000
Cash flows from investing activities:			
Proceeds from sales, maturities and calls of securities available for sale	7,836,000	4,869,000	16,437,000
Proceeds from maturities and calls of securities to be held to maturity	33,739,000	11,757,000	7,421,000
Proceeds from sales of other real estate owned	24,000	634,000	441,000
Additional investment in other real estate owned	-	(1,000)	(36,000)
Purchases of securities available for sale	(10,314,000)	(2,711,000)	(988,000)
Purchases of securities to be held to maturity	(22,134,000)	(22,064,000)	(22,306,000)
Maturities of interest-bearing deposits in other banks	-	975,000	1,725,000
Net increase in loans	(28,247,000)	(24,618,000)	(20,618,000)
Capital expenditures	(1,539,000)	(1,281,000)	(556,000)
Net cash used in investing activities	(20,635,000)	(32,440,000)	(18,480,000)

Consolidated Statements of Cash Flows, concluded
First National Lincoln Corporation and Subsidiary

Years ended December 31,	1998	1997	1996
Cash flows from financing activities:			
Net increase in demand deposits, savings, and money market accounts	16,714,000	1,526,000	1,962,000
Net increase in certificates of deposit	15,209,000	12,678,000	3,244,000
Net increase (decrease) in other borrowings	(14,577,000)	17,889,000	9,923,000
Purchase of Treasury stock	(343,000)	(48,000)	(26,000)
Proceeds from sale of Treasury stock	128,000	49,000	30,000
Proceeds from stock issuance	90,000	127,000	248,000
Dividends paid	(892,000)	(654,000)	(488,000)
Net cash provided by financing activities	16,329,000	31,567,000	14,893,000
Net increase (decrease) in cash and cash equivalents	655,000	(340,000)	619,000
Cash and cash equivalents at beginning of year	5,683,000	6,023,000	5,404,000

Cash and cash equivalents at end of year	$ 6,338,000	$ 5,683,000	$ 6,023,000
	==========	==========	==========
Interest paid	$10,445,000	$ 9,488,000	$ 8,145,000
Income taxes paid	1,809,000	1,773,000	1,482,000
Non-cash transactions:			
Loans transferred to other real estate owned (net)	(155,000)	(50,000)	604,000
Loans held for sale transferred to loan portfolio	-	-	3,923,000
Change in unrealized gain (loss) on available for sale securities	(45,000)	120,000	(285,000)

The accompanying footnotes are an integral part of these consolidated financial statements

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of First National Lincoln Corporation conform to generally accepted accounting principles and to general practice within the banking industry. The following is a description of the more significant policies.

Principles of Consolidation

The consolidated financial statements include the accounts of First National Lincoln Corporation (the Company) and its wholly-owned subsidiary, The First National Bank of Damariscotta (the Bank). All inter-company accounts and transactions have been eliminated.

Business

The Bank provides a full range of banking services to individual and corporate customers in Mid-Coast Maine. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulations of certain federal agencies and undergoes periodic examinations by those regulatory authorities.

Basis of Financial Statement Presentation

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and the carrying value of real estate owned, management obtains independent appraisals for significant properties.

Statements of Cash Flows

For purposes of the statements of cash flows, cash and cash equivalents includes cash on hand and amounts due from banks.

Investment Securities

Investment securities are classified as available for sale or held to maturity when purchased. There are no trading account securities.

Securities available for sale consists primarily of debt securities which management intends to hold for indefinite periods of time. They may be used as part of the Bank's funds management strategy, and may be sold in response to changes in interest rates or prepayment risk, changes in liquidity needs, to increase capital, or for other similar reasons. These assets are accounted for at fair value, with unrealized gains or losses adjusted through shareholders' equity.

Securities to be held to maturity consist primarily of debt securities which management has acquired solely for long-term investment purposes, rather than to acquire such securities for purposes of trading or future sale. For securities to be held to maturity, management has the intent and the Company has the ability to hold such securities until their respective maturity dates, and such securities are carried at cost adjusted for the amortization of premiums and accretion of discount.

Investment securities transactions are accounted for on a settlement date basis. The reported amounts would not be materially different than those accounted for on a trade date basis. Gains and losses on the sales of investment securities are determined using the amortized cost of the specific security sold.

Loans Held for Sale

Loans held for sale consist of residential real estate mortgage loans and are carried at the lower of aggregate cost or market value, as determined by current investor yield requirements.

Bank Premises and Equipment

Premises, furniture and equipment are stated at cost, less accumulated depreciation. Depreciation expense is computed by straight-line and accelerated methods over the asset's estimated useful life.

Loan Fees and Costs

Loan origination fees and certain direct loan origination costs are deferred and recognized in interest income as an adjustment to the loan yield over the life of the related loans. The unamortized net deferred fees and costs are included on the balance sheets with the related loan balances, and the amortization is included with the related interest income.

Allowance for Loan Losses

Loans considered to be uncollectible are charged against the allowance for loan losses. The allowance for loan losses is maintained at a level determined by management to be adequate to absorb possible losses. This allowance is increased by provisions charged to operating expenses and recoveries on loans previously charged off. Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment.

In determining the appropriate level of allowance for loan losses, management takes into consideration the following factors: non-per-forming loans, performing watch-report loans, loan portfolio size by category, and economic conditions. Although management utilizes its best judgment in providing for possible losses, there can be no assurance the Bank will not have to increase its provision for possible losses in the future due to increases in non-performing assets or otherwise, which would adversely affect the results of operations.

Impaired loans, including restructured loans, are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Management takes into consideration impaired loans in addition to the above mentioned factors in determining the appropriate level of allowance for loan losses.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the change is enacted.

Accrual of Interest Income and Expense

Interest on loans and investment securities is taken into income using methods which relate the income earned to the balances of loans and investment securities outstanding. Interest expense on liabilities is derived by applying applicable interest rates to principal amounts outstanding. Recording of interest income on problem loans, which includes impaired loans, ceases when collectibility of principal and interest within a reasonable period of time becomes doubtful. Cash payments received on non-accrual loans, which includes impaired loans, are applied to reduce the loan's principal balance until the remaining principal balance is deemed collectible, after which interest is recognized when collected. As a general rule, a loan may be restored to accrual status when payments are current and repayment of the remaining contractual amounts is expected or when it otherwise becomes well secured and in the process of collection.

Earnings Per Share

Basic earnings per share data are based on the weighted average number of common shares outstanding during each year. Diluted earnings per share gives effect to the stock options outstanding, determined by the treasury stock method.

Postretirement Benefits

The cost of providing postretirement benefits is accrued during the active service period of the employee.

Segments

First National Lincoln Corporation, through the branch network of its subsidiary, First National Bank of Damariscotta, provides a broad range of financial services to individuals and companies in mid-coast Maine. These services include demand, time, and savings deposits; lending; credit card servicing; ATM processing; and trust services. Operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all of the Company's banking operations are considered by management to be aggregated in one reportable operating segment.

Comprehensive Income

Under a new accounting standard, comprehensive income is now reported for all periods. Comprehensive income includes both net income and other comprehensive income. Other comprehensive income includes the change in unrealized gains and losses on securities available for sale and is disclosed in the consolidated statements of changes in shareholders' equity.

Effect of New Financial Accounting Standards

During 1998, the Company adopted Statements of Financial Accounting Standards 130, 131 and 132. The adoption of SFAS 130, Reporting Comprehensive Income, required that certain items be reported under a new category of income, "Other Comprehensive Income". Unrealized gains and losses on securities available for sale is the only item included in Other Comprehensive Income. SFAS 131 and 132 relate to disclosures about segments and employee benefits, respectively. The financial statements for 1998 and prior periods where applicable, include the required additional disclosures for SFAS No. 130, 131 and 132. In addition, the Financial Accounting Standards Board issued SFAS No. 133, Accounting For Derivative Instruments and Hedging Activities and is effective for fiscal years beginning after June 15, 1999. Management has not determined the impact of SFAS No. 133 on the financial statements.

Note 2. Cash and Due from Banks

At December 31, 1998 the Company had a contractual clearing balance of $500,000 at the Federal Reserve Bank.

Note 3. Investment Securities

The following tables summarize the amortized cost and estimated fair value of investment securities at December 31, 1998 and 1997:

December 31, 1998	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale:				
U.S. Treasury and agency	$ 1,994,000	48,000	(6,000)	2,036,000
Mortgage-backed securities	5,880,000	110,000	(39,000)	5,951,000
State and political subdivisions	1,290,000	-	(42,000)	1,248,000
Other securities	9,598,000	33,000	(8,000)	9,623,000
	$18,762,000	191,000	(95,000)	18,858,000
Securities to be held to maturity:				
U.S. Treasury and agency	$15,746,000	-	(59,000)	15,687,000
Mortgage-backed securities	20,196,000	161,000	(115,000)	20,242,000
State and political subdivisions	4,531,000	234,000	(3,000)	4,762,000
Other securities	11 ,000	-	-	11,000
	$40,484,000	395,000	(177,000)	40,702,000

December 31, 1997	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale:				
U.S. Treasury and agency	$ 6,490,000	32,000	(21,000)	6,501,000
Mortgage-backed securities	3,098,000	121,000	(9,000)	3,210,000
Other securities	6,734,000	18,000	-	6,752,000
	$16,322,000	171,000	(30,000)	16,463,000
Securities to be held to maturity:				
U.S. Treasury and agency	$16,649,000	39,000	(40,000)	16,648,000
Mortgage-backed securities	28,541,000	319,000	(160,000)	28,700,000
State and political subdivisions	3,557,000	150,000	-	3,707,000
Other securities	3,535,000	21,000	(1,000)	3,555,000
	$52,282,000	529,000	(201,000)	52,610,000

The contractual maturities of investment securities at December 31, 1998, are shown below. For purposes of this table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of the underlying collateral, adjusted for anticipated principal prepayments in accordance with current interest rates.

	Securities available for sale:		Securities to be held to maturity:	
	Amortized Cost	Fair Value (Estimated)	Amortized Cost	Fair Value (Estimated)
Due in 1 year or less	$ 1,217,000	1,231,000	4,178,000	4,188,000
Due in 1 to 5 years	4,749,000	4,843,000	12,890,000	12,918,000
Due in 5 to 10 years	1,913,000	1,918,000	5,148,000	5,153,000
Due after 10 years	4,333,000	4,295,000	18,268,000	18,443,000
Equity securities	6,550,000	6,571,000	-	-
	$ 18,762,000	18,858,000	40,484,000	40,702,000

At December 31, 1998 securities carried at $21,502,000, with a market value of $21,477,000, were pledged to secure borrowings from the Federal Reserve Bank, public deposits, and for other purposes as required by law.

Gains and losses on the sale of securities available for sale are computed by subtracting the amortized cost at the time of sale from the security's selling price, net of accrued interest to be received. Information regarding the sales of securities available for sale is summarized below:

	1998	1997	1996
Proceeds from sales	$ 5,567,000	-	4,479,000
Gross gains	5,000	3,000	-
Gross losses	(26,000)	-	(4,000)
Net gain (loss)	(21,000)	3,000	(4,000)
Related income taxes	$ (6,000)	1,000	(1,000)

The realized gain on securities in 1997 was the result of a security which was called at par value by the issuer.

Note 4. Loans

The following table shows the composition of the Company's loan portfolio as of December 31, 1998 and 1997:

	1998	1997
Real estate loans		
Residential	$ 105,877,000	92,937,000
Commercial	25,585,000	20,173,000
Commercial and industrial loans	38,718,000	33,100,000
State and municipal loans	7,654,000	8,206,000
Consumer loans	27,993,000	24,041,000
Residential construction loans	3,397,000	3,053,000
Total loans	$ 209,224,000	181,510,000

Loan balances are stated net of deferred loan fees of $50,000 in 1998 and $76,000 in 1997.

At December 31, 1998 and 1997, loans on non-accrual status totaled $716,000 and $510,000, respectively. Interest income which would have been recognized on these loans, if interest had been accrued, was $51,000 for 1998, $50,000 for 1997 and $62,000 for 1996. Loans past due greater than 90 days which are accruing interest totaled $548,000 at December 31, 1998 and $358,000 at December 31, 1997. The Company continues to accrue interest on these loans because it believes collection of principal and interest is reasonably assured. Transactions in the allowance for loan losses for the years ended December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Balance at beginning of year	$ 1,800,000	1,906,000	2,059,000
Provision charged to operating expenses	400,000	103,000	60,000
	2,200,000	2,009,000	2,119,000
Loans charged off	(452,000)	(337,000)	(367,000)
Recoveries on loans	74,000	128,000	154,000
Net loans charged off	(378,000)	(209,000)	(213,000)
Balance at end of year	$ 1,822,000	1,800,000	1,906,000

Information regarding impaired loans is as follows:

	1998	1997	1996
Average investment in impaired loans	$ 324,000	361,000	309,000
Interest income recognized on impaired loans, including cash basis	0	0	0

	1998	1997
Balance of impaired loans	$ 302,000	388,000
Less portion for which no allowance for loan losses is allocated	(39,000)	(97,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	263,000	291,000
Portion of allowance for loan losses allocated to the impaired loan balance	$ 145,000	121,000

Loans to directors, officers and employees totaled $7,637,000 at December 31, 1998 and $5,212,000 at December 31, 1997. A summary of loans to directors and executive officers, which in the aggregate exceed $60,000, is as follows:

	1998	1997
Balance at beginning of year	$ 2,855,000	2,451,000
New loans	2,365,000	875,000
Repayments	(1,218,000)	(439,000)
Balance at end of year	$ 4,002,000	2,887,000

Note 5. Bank Premises and Equipment

Bank premises and equipment are carried at cost and consist of the following:

	1998	1997
Land	$ 903,000	903,000
Land improvements	333,000	308,000
Bank buildings	4,300,000	3,996,000
Equipment	4,682,000	3,486,000
	10,218,000	8,693,000
Less accumulated depreciation	4,352,000	3,822,000
	$ 5,866,000	4,871,000

Note 6. Other Real Estate Owned

The following summarizes the composition of other real estate owned:

	1998	1997
Real estate acquired in settlement of loans	$ 339,000	208,000
Less: allowance for losses	(36,000)	(24,000)
Other real estate owned, net	$ 303,000	184,000

Changes in the allowance for each of the three years ended December 31 were as follows:

	1998	1997	1996

Beginning balance	$ 24,000	31,000	56,000
Losses charged to allowance	(4,000)	(21,000)	(50,000)
Provision charged to income	16,000	14,000	25,000
Ending balance	$ 36,000	24,000	31,000

Note 7. Income Taxes

The current and deferred components of income tax expense were as follows:

	1998	1997	1996
Federal income tax:			
Current	$ 1,703,000	1,655,000	1,413,000
Deferred	(58,000)	44,000	115,000
	1,645,000	1,699,000	1,528,000
State income tax	62,000	77,000	59,000
	$ 1,707,000	1,776,000	1,587,000

The actual tax expense differs from the expected tax expense (computed by applying the applicable U.S. Federal corporate income tax rate to income before income taxes) as follows:

	1998	1997	1996
Expected tax expense	$ 1,944,000	1,931,000	1,704,000
Non-taxable income	(256,000)	(161,000)	(121,000)
State income taxes	41,000	51,000	39,000
Qualified housing investment tax credit	(31,000)	(38,000)	(38,000)
Other	9,000	(7,000)	3,000
	$ 1,707,000	1,776,000	1,587,000

The items that give rise to the deferred income tax assets and liabilities and the tax effect of each at December 31 are as follows:

	1998	1997
Allowance for loan losses and OREO	$ 490,000	435,000
Deferred loan fees	(24,000)	(6,000)
Non-accrual loan interest	9,000	33,000
Accrued pension and post-retirement	100,000	65,000
Depreciation	(82,000)	(109,000)
Unrealized gain on securities available for sale	(32,000)	(48,000)
Other assets	41,000	82,000
Other liabilities	(36,000)	(60,000)

Net deferred income tax asset	$ 466,000	392,000

These amounts are included in other assets on the balance sheets. The deferred income tax asset and liability at December 31, 1998 and 1997 is as follows:

	1998	1997
Asset	$ 640,000	615,000
Liability	$ 174,000	223,000

No valuation allowance is deemed necessary for the deferred tax asset.

Note 8. Certificates of Deposit

At December 31, 1998, the scheduled maturities of certificates of deposit are as follows:

1999	$ 72,245,000
2000	22,481,000
2001	3,901,000
2002	2,404,000
2003	394,000
Total	$ 101,425,000

Interest on certificates of deposit $100,000 or more was $1,319,000, $850,000 and $709,000 in 1998, 1997 and 1996, respectively.

Note 9. Borrowed Funds

Borrowed funds consists of advances from the Federal Home Loan Bank of Boston (FHLB), Treasury Tax & Loan Notes, and securities sold under agreements to repurchase with local municipal and commercial customers. Advances from FHLB include overnight borrowings on an $8,000,000 line of credit.

Pursuant to collateral agreements, FHLB advances are collateralized by all stock in the Home Loan Bank, with a value of $5,942,000 at both December 31, 1998 and 1997, qualifying first mortgage loans, which were valued at $105,507,000 and $90,006,000 in 1998 and 1997, respectively; U.S. Government and Agency securities not pledged to others, which were valued at $22,339,000 in 1998 and $20,710,000 in 1997; and funds on deposit with FHLB, which were $1,000 in both 1998 and 1997.

As of December 31, 1998, the Bank's total FHLB borrowing capacity was $99,326,000, of which $53,893,000 was unused and available for additional borrowings. All FHLB advances as of December 31, 1998, had fixed rates of interest until their respective maturity dates, except for the FHLB overnight line of credit, which has an interest rate which can fluctuate daily.

Under the Treasury Tax & Loan Note program, the Bank accumulates tax deposits made by customers and is eligible to receive Treasury Direct investments up to an established maximum balance. Securities sold under agreements to repurchase include U.S. Treasury and Agency securities with an aggregate amortized cost of $7,876,000 and $5,519,000 at December 31, 1998 and 1997, respectively, and an aggregate fair value of $7,822,000 and $5,508,000 at December 31, 1998 and 1997, respectively. Borrowed funds at December 31, 1998 and 1997 have the following range of interest rates and maturity dates:

		December 31, 1998
Federal Home Loan Bank Advances		
Maturities within one year	5.13%-5.53%	$ 20,463,000
Maturities within two years		0
Maturities within three years	5.53%-5.79%	4,970,000
Maturities within four years		0
Maturities within five years		0
Maturities over five years	4.89%-5.15%	20,000,000
		45,433,000
Treasury Tax & Loan Notes		
Rate in effect at 12/31/98 was 4.23%	variable	285,000
Repurchase agreements		
Municipal and commercial customers	4.30%-5.35%	8,742,000
		8,742,000
		$ 54,460,000

		December 31, 1997
Federal Home Loan Bank Advances		
Maturities within one year	5.62%-7.05%	$ 58,905,000
Amortizing through February 2001	5.53%	1,363,000
		60,268,000
Treasury Tax & Loan Notes		
Rate in effect at 12/31/97 was 5.25%	variable	3,295,000
Repurchase agreements		
Municipal and commercial customers	4.25%-5.40%	5,474,000
		5,474,000
		$ 69,037,000

Note 10. Employee Benefit Plans

Pension Plans

Effective May 31, 1996, the Board of Directors ratified termination of the Bank's defined benefit pension plan, and regulatory approval for termination of the Plan was received in 1996. The accumulated benefit obligation for each covered participant was settled with the purchase of annuity contracts issued by a major insurance company or through lump sum payments. All assets were distributed to Plan participants. The Bank recognized a gain on termination of $64,000.

The Bank also sponsors an unfunded, non-qualified supplemental retirement plan for certain officers. The agreement provides supplemental retirement benefits payable in installments over 20 years upon retirement or death. The costs for this plan are recognized over the service lives of the participating officers. The expense of this supplemental plan was $84,000 in 1998, $36,000 in 1997, and $11,000 in 1996. As of December 31, 1998 and 1997, the accrued liability of this plan was $109,000 and $21,000, respectively.

401(k) Plan

The Bank also has a defined contribution plan available to substantially all employees who have completed six months of service. Employees may contribute up to 15% of their compensation, and the Bank may provide a match of up to 3% of compensation. Subject to a vote of the Board of Directors, the Bank may also make a profit-sharing contribution to the Plan. Such contribution equaled 3%, 3% and 4% of each eligible employee's compensation in 1998, 1997 and 1996, respectively.

The expense related to the 401(k) plan was $158,000, $141,000, and $121,000 in 1998, 1997, and 1996, respectively.

Post-retirement Benefit Plans

The Bank sponsors two post-retirement benefit plans. One plan provides health insurance benefits to employees hired prior to June 30, 1988 and who retired before June 30, 1996. The other plan provides for life insurance coverage to full-time employees who work until retirement. The Bank also provides health insurance for retired directors. None of these plans are pre-funded.

The Bank elected to recognize the accumulated post-retirement benefit obligation as of January 1, 1993 of $578,000 as a component of net periodic post-retirement benefit cost over a 20-year period.

The following tables sets forth the accumulated post-retirement benefit obligation, funded status, and net periodic pension cost:

At December 31,	1998	1997
Change in benefit obligations:		
Benefit obligation at beginning of year:	$ 490,000	504,000
Service cost	9,000	7,000
Interest cost	32,000	32,000
Benefits paid	(52,000)	(53,000)
Benefit obligation at end of year:	$ 479,000	490,000
Funded status:		
Benefit obligation at end of year	$ (479,000)	(490,000)
Unrecognized net actuarial loss	(74,000)	(37,000)
Unamortized prior service cost	(32,000)	(78,000)
Unrecognized transition obligation	406,000	435,000
Accrued benefit cost	$ (179,000)	(170,000)

Years ended December 31,	1998	1997	1996
Components of net periodic benefit cost:			
Service cost	$ 9,000	7,000	6,000
Interest cost	32,000	32,000	36,000
Amortization of unrecognized transition asset	29,000	29,000	29,000
Amortization of prior service cost	(5,000)	(5,000)	(5,000)
Amortization of accumulated gains	(3,000)	(6,000)	(2,000)
Net periodic benefit cost	$ 62,000	57,000	64,000
Weighted average assumptions as of December 31:			
Discount rate	7.0%	7.0%	7.0%

Note 11. Shareholders' Equity

At December 31, 1998, the total number of shares of common stock outstanding was 2,471,531. The total number of shares of common stock authorized by the shareholders is 6,000,000.On November 20, 1997, the Board of Directors declared a 300% stock dividend (equivalent to a four-for-one stock split), payable December 30, 1997, to shareholders of record on December 1, 1997. This increased the total outstanding shares from 618,887 to 2,475,548.

The Company has reserved 240,000 shares of its common stock to be made available to directors and employees who elect to participate in the directors' deferral, stock purchase, or savings and investment plans. As of December 31, 1998, 127,887 shares had been issued pursuant to these plans, leaving 112,113 shares available for future use. The issuance price is based on the market price of the stock at issuance date.

Sales of stock to directors and employees amounted to 11,487 shares and 15,512 shares in 1998 and 1997, respectively. Stock sold to directors and employees in 1998 included 5,765 Treasury shares.

In 1995, the Company's shareholders adopted a Stock Option Plan and authorized 200,000 shares to be reserved for options to be granted to certain key officers of the Company and the Bank. The option exercise price is equal to the fair market value of the shares on the date of the grant, and options are generally not exercisable before two years from the date granted. All options expire 10 years from the date of grant.

The following table sets forth options granted in 1998 and 1997:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 1996	120,000	$ 6.85
Granted in 1997	32,000	10.25
Balance at December 31, 1997	152,000	7.56
Granted in 1998	6,000	18.25
Balance at December 31, 1998	158,000	$ 7.97

For both years, there were no options that were exercised, forfeited, or expired. The range of prices for outstanding and exercisable stock options at December 31, 1998 and 1997 were as follows:

	December 31, 1998		December 31, 1997	
	Outstanding	Exercisable	Outstanding	Exercisable
$6.38 to $10.00	120,000	48,000	120,000	30,000
$10.01 to $18.25	38,000	-	32,000	-
Total options	158,000	48,000	152,000	30,000
Weighted average price	$ 7.97	6.78	7.56	6.48

No compensation cost has been recognized for the Plan. The fair market value of options granted was $45,000 in 1998, $83,000 in 1997, and $44,000 in 1996. The fair market value is estimated using the Black-Scholes option pricing model and the following assumptions: quarterly dividends of $0.07 in 1998, $0.05 in 1997, and $0.04 in 1996, risk-free interest rate of 5.25% in 1998, 5.36% in 1997, and 5.13% in 1996, volatility of 30.17% in 1998, 10.69% in 1997, and 4.91% in 1996 and an expected life of 10 years.

Had compensation cost been expensed, net of related income taxes, based on fair market value of the options at the grant dates, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts shown in the following table:

	1998	1997	1996
Net income			
As reported	$ 4,011,000	3,906,000	3,424,000
Pro forma	3,981,000	3,851,000	3,395,000
Basic earnings per share			
As reported	1.62	1.58	1.40
Pro forma	1.61	1.56	1.39
Diluted earnings per share			
As reported	1.56	1.55	1.38
Pro forma	1.55	1.52	1.37

Note 12.
Off-Balance Sheet Financial Instruments and Concentrations of Credit Risk

Commitments for unused lines are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party, with the customer being obligated to repay (with interest) any amounts paid out by the Bank under the letter of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, commitments for unused lines of credit, and standby letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. At December 31, the Company had the following off-balance sheet financial instruments, whose contract amounts represent credit risk:

	1998	1997
Unused lines, collateralized by residential real estate	$ 8,561,000	7,099,000
Unused credit card lines	9,900,000	7,005,000
Other unused commitments	13,983,000	11,336,000
Standby letters of credit	241,000	161,000
Commitments to extend credit	12,434,000	5,602,000

The Company grants residential, commercial and consumer loans to customers principally located in the mid-coast area of Maine. Collateral on these loans typically consists of residential or commercial real estate, or personal property. Although the loan portfolio is diversified, a substantial portion of the borrower's ability to honor their contracts is dependent on the economic conditions in the area, especially in the real estate sector.

Note 13. Earnings Per Share

In 1997, the Company adopted SFAS No. 128 relating to disclosures on earnings per share and the dilutive effect of options, rights, warrants and other securities. The following tables provide detail for basic earnings per share and diluted earnings per share for the years ended December 31, 1998, 1997 and 1996:

	For the Year Ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income as reported	$ 4,011,000		
Basic EPS: income available to common shareholders	4,011,000	2,478,223	$ 1.62
Effect of dilutive securities: incentive stock options	-	88,538	
Diluted EPS: income available to common shareholders plus assumed conversions	$ 4,011,000	2,566,761	$ 1.56

	For the Year Ended December 31, 1997		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income as reported	$ 3,906,000		
Basic EPS: income available to common shareholders	3,906,000	2,468,250	$ 1.58
Effect of dilutive securities: incentive stock options	-	56,208	
Diluted EPS: income available to common shareholders plus assumed conversions	$ 3,906,000	2,524,458	$ 1.55

	For the Year Ended December 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Income as reported	$ 3,424,000		
Basic EPS: income available to common shareholders	3,424,000	2,444,616	$ 1.40
Effect of dilutive securities: incentive stock options	-	31,189	
Diluted EPS: income available to common shareholders plus assumed conversions	$ 3,424,000	2,475,805	$ 1.38

All earnings per share calculations have been made using the weighted average number of shares outstanding for each year. All of the dilutive securities are incentive stock options granted to certain key members of management. The dilutive numbers of shares has been calculated using the treasury method, assuming that all granted options were exercisable at each year end.

Note 14. Fair Value of Financial Instruments

Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

Cash and Due from Banks and Federal Funds Sold
The carrying value of cash and due from banks approximates their relative fair values.

Investment Securities
The fair values of investment securities are estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued. Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications, or estimated transaction costs. If these considerations had been incorporated into the fair value estimates, the aggregate fair value could have been changed. The carrying values of restricted equity securities approximate fair values.

Loans
Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments.

Fair values for significant non-performing loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in the actual sale.

The fair value estimate for credit card loans is based on the carrying value of existing loans. This estimate does not include the value that relates to estimated cash flows from new loans generated from existing cardholders over the remaining life of the portfolio.

Loans Held for Sale
The fair value of loans held for sale is determined by the current investor yield requirements.

Accrued Interest Receivable
The fair value estimate of this financial instrument approximates the carrying value as this financial instrument has a short maturity. It is the Company's policy to stop accruing interest on loans which it is probable that the interest is not collectible. Therefore, this financial instrument has been adjusted for estimated credit loss.

Deposits
The fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings and NOW accounts, and money market accounts, is equal to the amount payable on demand. The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company's net assets could increase.

Borrowed Funds

The fair value of borrowed funds is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently available for borrowings of similar remaining maturities.

Off-Balance-Sheet Instruments

Off-balance-sheet instruments include loan commitments. Fair values for loan commitments have not been presented as the future revenue derived from such financial instruments is not significant.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial instruments include the deferred tax asset, bank premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The estimated fair values for the Company's financial instruments as of December 31, 1998 and 1997 were as follows:

	December 31, 1998		December 31, 1997	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Financial assets				
Cash & due from banks	$ 6,338,000	6,338,000	5,683,000	5,683,000
Securities available for sale	18,858,000	18,858,000	16,463,000	16,463,000
Securities to be held to maturity	40,484,000	40,702,000	52,282,000	52,610,000
Loans held for sale	209,000	209,000	100,000	100,000
Loans (net of allowance for loan losses)	207,402,000	207,735,000	179,710,000	179,201,000
Accrued interest receivable	1,770,000	1,770,000	1,961,000	1,961,000
Financial liabilities				
Deposits	201,803,000	198,904,000	169,880,000	161,568,000
Borrowed funds	54,460,000	54,561,000	69,037,000	69,019,000

Note 15. Other Operating Income and Expense

Other operating income includes the following items greater than 1% of revenues.

	1998	1997	1996
Merchant discount fees	$ 359,000	249,000	196,000
Mortgage origination and servicing	$ 247,000	-	-

Other operating expense includes the following items greater than 1% of revenues.

	1998	1997	1996
Stationery and supplies	$ 269,000	-	-
Merchant interchange fees	$ 235,000	-	-
Postage, freight and express	$ 138,000	-	-

Note 16. Regulatory Capital Requirements

The ability of the Company to pay cash dividends to its shareholders depends primarily on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net profits as the Bank's directors deem appropriate, subject to the limitation that the total of all dividends declared by the Bank in any calendar year may not exceed the total of its net profits of that year combined with its retained net profits of the preceding two years and subject to minimum regulatory capital requirements. The amount available for dividends in 1999 will be 1999 earnings plus retained earnings of $6,055,000 from 1998 and 1997.

The payment of dividends by the Company is also affected by various regulatory requirements and policies, such as the requirements to maintain adequate capital. In addition, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), that authority may require, after notice and hearing, that such bank cease and desist from that practice. The Federal Reserve Bank and the Comptroller of the Currency have each indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. The Federal Reserve Bank, the Comptroller and the Federal Deposit Insurance Corporation have issued policy statements which provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

In addition to the effect on the payment of dividends, failure to meet minimum capital requirements can also result in mandatory and discretionary actions by regulators that, if undertaken, could have an impact on the Company's operations. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measurements of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital and Tier 2 or total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 1998, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1998, the most recent notification from the Office of the Comptroller of the Currency classified the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The actual capital amounts and ratios for the Bank are presented in the following table:

	Actual	For capital adequacy purposes	To be well-capitalized under prompt corrective action provisions
As of December 31, 1998			
Tier 2 capital to	$ 29,919,000	10,759,000	17,932,000
risk-weighted assets	16.29%	6.00%	10.00%
Tier 1 capital to	27,397,000	7,173,000	10,759,000
risk-weighted assets	15.28%	4.00%	6.00%
Tier 1 capital to	27,397,000	11,418,000	14,272,000
average assets	9.60%	4.00%	5.00%
As of December 31, 1997			
Tier 2 capital to	$ 26,596,000	9,972,000	16,620,000
risk-weighted assets	16.00%	6.00%	10.00%
Tier 1 capital to	24,796,000	6.648,000	9.972,000
risk-weighted assets	14.92%	4.00%	6.00%
Tier 1 capital to	24,796,000	10,526,000	13,157,000
average assets	9.42%	4.00%	5.00%

The actual capital amounts and ratios for the Company, on a consolidated basis, are presented in the following table:

	Actual	For capital adequacy purposes	To be well-capitalized under prompt corrective action provisions
As of December 31, 1998			
Tier 2 capital to	$ 30,535,000	10,821,000	18,035,000
risk-weighted assets	16.93%	6.00%	10.00%
Tier 1 capital to	28,713,000	7,214,000	10,821,000
risk-weighted assets	15.92%	4.00%	6.00%
Tier 1 capital to	28,713,000	11,456,000	14,320,000
average assets	10.03%	4.00%	5.00%
As of December 31, 1997			
Tier 2 capital to	$ 27,685,000	9,972,000	16,620,000
risk-weighted assets	16.72%	6.00%	10.00%
Tier 1 capital to	25,885,000	6.648,000	9.972,000
risk-weighted assets	15.47%	4.00%	6.00%
Tier 1 capital to	25,885,000	10,526,000	13,157,000
average assets	9.80%	4.00%	5.00%

Note 17. Condensed Financial Information of Parent

Condensed financial information for First National Lincoln Corporation exclusive of its subsidiary is as follows (amounts in thousands):

Balance Sheets December 31,	1998	1997
Assets		
Cash	$ 194	372
Dividends receivable	500	250
Investments	578	252
Investment in subsidiary	27,446	24,881
Other assets	437	427
	$ 29,155	26,182
Liabilities and shareholders' equity		
Dividends payable	$ 371	297
Other liabilities	8	-
Shareholders' equity	28,776	25,885
	$ 29,155	26,182

Statements of Income Years ended December 31,	1998	1997	1996
Investment income	$ 25	6	2
Gain (loss) on sale of investments	-	-	1
Other income	48	48	55
Total income	73	54	58
Other expense	63	52	59
Income (loss) before Bank earnings	10	2	(1)
Equity in earnings of Bank:			
Remitted	1,150	550	488
Unremitted	2,851	3,354	2,937
Net income	$ 4,011	3,906	3,424

Statements of Cash Flows Years ended December 31,	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 4,011	3,906	3,424
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized gain on sale of securities available for sale	-	-	(1)
Increase in other assets	(5)	(17)	(14)
Unremitted earnings of Bank	(2,851)	(3,354)	(2,937)

Net cash provided by operating activities	1,155	535	472
Cash flows from investment activities:			
Proceeds from sales and maturities of securities available for sale	-	-	102
Purchases of investments	(316)	(240)	-
Net cash provided (used) by investing activities	(316)	(240)	102
Cash flows from financing activities:			
Proceeds from sale of stock	90	127	248
Purchase of Treasury stock	(343)	(48)	(26)
Sale of Treasury stock	128	49	30
Dividends paid	(892)	(654)	(488)
Net cash used in financing activities	(1,017)	(526)	(236)
Net increase (decrease) in cash	(178)	(231)	338
Cash, beginning of year	372	603	265
Cash, end of year	$ 194	372	603

ITEM 9. Changes in and/or Disagreements with Accountants

None.

ITEM 10. Directors and Executive Officers of the Registrant

The Articles of Incorporation of the Company provide that the Board of Directors shall consist of not fewer than five nor more than 25 persons as determined by the Board prior to each Annual Meeting, with Directors serving for "staggered terms" of three years. A resolution of the Board of Directors adopted pursuant to the Company's Articles of Incorporation has established the number of Directors at eleven. Each person listed below has consented to be named as a nominee, and the Board of Directors knows of no reason why any of the nominees listed below may not be able to serve as a Director if elected.

The following Directors' terms expire in 1999, and each will be nominated for re-election for a three-year term:

Katherine M. Boyd, 48, was elected a Director of the Company and the Bank in 1993. A resident of Boothbay Harbor, she owns Boothbay Region Greenhouses with her husband. Ms. Boyd serves on the Boothbay Region YMCA Camp Committee and is Secretary for the local chapter of AFS. Ms. Boyd previously served as trustee of the YMCA, and past chairperson of the YMCA Annual Fund Drive.

Carl S. Poole, Jr., 53, has been a Director of the Company since its organization in 1985 and has served as a Director of the Bank since 1984. Mr. Poole is President, Secretary and Treasurer of Poole Brothers Lumber, a lumber and building supply company with locations in Damariscotta, Pemaquid and Boothbay Harbor, Maine.

David B. Soule, Jr., 52, was elected a Director of the Company and the Bank in June, 1989. Mr. Soule has been practicing law in Wiscasset since 1971. He spent two terms in the Maine House of Representatives, is a past President of the Lincoln County Bar Association, and is a former Public Administrator, Lincoln County. He has served on the Boards of Directors of Bath area YMCA and of the Coastal Economic Development Corporation and as a Trustee of the Wiscasset Library. He was Selectman, Town of Westport from 1975 to 1976 and served as Chairman of the Board of Selectmen from 1993 to 1995.

Bruce B. Tindal, 48, was elected as a Director of the Company and the Bank in January, 1999. Mr. Tindal formed and is co-owner of Tindal & Callahan Real Estate in Boothbay Harbor, which has been in operation since 1985. Mr. Tindal is a Trustee at St. Andrews Hospital and serves on the Board of Directors of the Boothbay Region Land Trust and the Boothbay Region Economic Development Corp. Mr. Tindal is also a member of the National Association of Realtors.

The following Directors' terms will expire in 2000:

Daniel R. Daigneault, 46, has served as President and Chief Executive Officer of the Company since April 26, 1994, and has served as President and Chief Executive Officer of the Bank since March 7, 1994, and as a member of the Board of Directors of both the Company and the Bank since March 1994. Prior to being employed by the Bank, Mr. Daigneault was Vice President, Senior Commercial Loan Officer at Camden National Bank, Camden, Maine. Mr. Daigneault is President of the Boothbay Region YMCA Board of Trustees and a director of Maine Bankers Association.

Dana L. Dow, 47, was elected as a Director of the Company and the Bank in January 1999. Mr. Dow is President of Dow Furniture, Inc., which he purchased from his father in 1977. Prior to purchasing Dow Furniture, he taught chemistry and physics at Medomak Valley High School. Mr. Dow was elected by the Board of Directors in December, 1998, to fill the unexpired term of Parker Spofford, who retired from the Board upon reaching the mandatory retirement age.

Robert B. Gregory, 45, was elected a Director of the Company and the Bank in October, 1987 and has served as Chairman of both the Company and the Bank since September, 1998. Mr. Gregory has been a practicing attorney since 1980, first in Lewiston, Maine and since 1984 in Damariscotta, Maine. Mr. Gregory is a member of several legal societies and associations.

The following Directors' terms will expire in 2001:

Bruce A. Bartlett, 65, has been a member of the Board of Directors since the Company's organization in 1985. Mr. Bartlett served as President and Chief Executive Officer of the Company and the Bank until his retirement in 1994. He has served as a Director of the Bank since 1981.

Malcolm E. Blanchard, 64, has been a Director of the Company since its organization in 1985, has served as a Director of the Bank since 1976, and is Chairman of the Executive Committee of the Bank. Mr. Blanchard has been actively involved, either as sole proprietor or as a partner, in real estate development since 1970.

Stuart G. Smith, 44, was elected as a Director of the Company and the Bank in July, 1997. A resident of Camden, he owns and operates with his wife, Maine Sport Outfitters in Rockport, and Lord Camden Inn and Bayview Landing in Camden, Maine. Mr. Smith is Chairman of the Five-Town CSD School Board.

Parker L. Spofford retired from the Board of Directors in December, 1998, upon reaching the mandatory retirement age. M. Robert Barter resigned from the Board of Directors in February, 1999.

The Bank has five standing committees of the Board of Directors: Executive, Audit, Asset/Liability, Trust, and Directors' Loan. The Compensation Committee is a subcommittee of the Executive Committee. Certain members of management also serve on some committees. The aggregate attendance of committee meetings by members of the Board of Directors in 1998 was in excess of 90%. The Company has no standing committees of the Board of Directors.

There are no family relationships among any of the Directors of the Company, and there are no arrangements or understandings between any Director and any other person pursuant to which that Director has been or is to be elected. No Director of the Bank or the Company serves as a Director on the board of any other corporation with a class of securities registered pursuant to Section 12 of the Securities Exchange Act or subject to the reporting requirements of Section 15(d) of the Securities Exchange Act or any company registered as an investment company under the Investment Company Act of 1940, as amended.

Executive Officers

Each Executive Officer of the Company and the Bank is identified in the following table which also sets forth their respective ages, offices, and periods served as an Executive Officer of the Bank:

Name and Age (1)	Office & Position	Period Served
Daniel R. Daigneault 46	President & Chief Executive Officer of the Company and of the Bank	1994 to date
F. Stephen Ward 45	Treasurer of the Company; Vice President and Chief Financial Officer and Investment Officer of the Bank	1993 to date
Donald C. Means 61	Clerk of the Company; Senior Vice President and Senior Loan Officer of the Bank	1973 to date
Walter F. Vietze 57	Senior Vice President and Senior Operations Officer of the Bank	1984 to date
John T. Blamey 52	Vice President and Banking Services Officer of the Bank	1994 to date
Michael T. Martin 43	Vice President and Credit Administration Officer of the Bank	1993 to date

(1) As of December 31, 1998

Daniel R. Daigneault has served as President and Chief Executive Officer of the Company since April 26, 1994, and has served as President and Chief Executive Officer of the Bank since March 7, 1994 and as a member of the Board of Directors of both the Company and the Bank since March 1994. Prior to being employed by the Bank, Mr. Daigneault was Vice President, Senior Commercial Loan Officer at Camden National Bank, Camden, Maine.

F. Stephen Ward has served as Treasurer of the Company since 1994 and as Chief Financial Officer of the Bank since 1993. He has been employed by the Bank since 1990 and served as Assistant Vice President and Marketing Officer from 1990 to 1993. From 1978 to 1990 he was employed by Down East Enterprises, Inc. Mr. Ward holds a Masters of Business Administration degree in Finance.

Donald C. Means has been employed by the Bank since 1973. From 1962 to 1973 Mr. Means was employed by First National Bank of Boston, a major New England financial institution. While there, Mr. Means' primary responsibilities involved commercial lending.

Walter F. Vietze has been employed by the Bank since 1984. From 1979 to 1984, Mr. Vietze was employed by Casco Bank. His primary responsibilities involved providing online banking services to correspondent banks. Prior to 1979, Mr. Vietze was affiliated with BayBanks in Massachusetts.

John T. Blamey has been employed by the Bank since 1989. Mr. Blamey was previously Strategic Plan Director and now adds Sales Director to his responsibilities as Vice President of Banking Services. Prior to joining the Bank, Mr. Blamey retired from the U.S. Air Force as Lieutenant Colonel.

Michael T. Martin has been employed by the Bank since 1993. He was employed by Fleet Bank from 1980 to 1992, and by Canal National Bank from 1977 to 1980. His primary responsibilities were in Loan Review and Credit Administration.

There are no family relationships among any of the Executive Officers, nor are there any arrangements or understandings between any Executive Officer and any other person pursuant to which that Executive Officer has been or is to be elected.

ITEM 11. Executive Compensation

The table below sets forth cash compensation paid to the President and Chief Executive Officer during 1998, 1997 and 1996. No other Executive Officers of the Bank received compensation in excess of $100,000 for the years ended December 31, 1998, 1997 and 1996.

	Annual Compensation				Long Term Compensation
Name and Principal Position	Year	Salary	Bonus(1)	Other	# Options
Daniel R. Daigneault	1998	$156,000	$ 14,040	$ 9,600(2)	-0-
President and CEO	1997	$145,000	$ 13,514	$ 9,550(2)	12,000
	1996	$143,000	$ 15,730	$ 7,425	8,000

(1) Bonuses are listed in the year earned and normally accrued. Such bonuses may be paid in the following year.
(2) Amounts shown include contributions paid by the Company to the respective accounts of the Named Executive Officer in the 401-k Plan. In 1998 the Company and The First National Bank of Damariscotta contributed to the First National Bank of Damariscotta Savings and Investment Plan, a matching amount for the salary deferred by Mr. Daigneault equal to 3% of Mr. Daigneault's earnings and a profit-sharing component of 3% of Mr. Daigneault's earnings, which were subject to IRS regulations which limit the maximum amount of an officer's earnings eligible for matching or profit-sharing 401(k) contributions to $160,000. These percentages were equivalent to the 401-(k) Plan match and profit sharing contributions made for all eligible employees.

Director Compensation

Each of the outside directors of the Bank, with the exception of the Chairman of the Board, is paid a director's fee in the amount of $450 for each meeting attended and $150 for each meeting attended of a committee of which the director is a member. The Chairman of the Board is paid an annual fee of $15,000. Certain Board members are also paid fees for appraisals, consulting services and legal services, and such fees are on terms no more favorable to the recipient than are generally paid by the Bank for such services from other providers in the area. Fees paid by the Bank to its Directors as a group totaled $62,000 in 1997, but no fees are paid to Directors of the Company, however. President Daigneault, who is the only director who is also an officer of the Company, receives no additional compensation for serving on the Board of Directors of the Company or the Bank.

Executive Compensation Committee Report

The Compensation Committee consists of four outside members of the Board of Directors including the Chairman of the Board. This Committee has the responsibility for conducting the annual evaluation of the President and renders recommendations to the full Board of Directors regarding compensation for the President. The compensation of the President consists of a base salary plus a bonus, under an approved plan adopted for all employees of the Bank, and other cash bonuses which the Committee may deem appropriate based on the overall performance of the President and the achievement of prescribed goals. These goals are a combination of financial targets and corporate objectives such as implementation of the strategic plan, satisfactorily addressing issues identified as priorities by the banking regulators and overall performance of the management team. The financial goals pertain to profitability, growth and loan portfolio quality.

The compensation philosophy of the Company for all executive officers is to pay a competitive base salary commensurate with salaries paid by other similar sized financial institutions within the State of Maine, plus a short-term incentive which is tied to the achievement of certain performance levels. In 1994 the Company instituted a formal performance-based compensation program called "Performance Compensation for Stakeholders". The overall objective of the program is to shift a portion of employee compensation from base salary to performance based payments. The program, which was developed by Mike Higgins & Associates, Inc., is currently being utilized by over 200 banks and non-banks across the country. In 1998, total cash payout under this Stakeholder Performance Compensation program was 9.30% of the participating employees' base salaries. The cash payout may be deferred to the following calendar year.

This performance compensation program's overall objective is to maximize the long-term viability of the Company. It addresses this by tying the bonus compensation to multiple goals which include profit, growth, productivity and quality. The guiding principle is to reach a balance of profitability, growth, productivity and quality which should have a positive impact on maximizing long-term shareholder value. It rewards current performance which contributes toward the achievement of long-term goals. Each year specific key performance indicators are chosen along with financial performance levels. In 1998 some of the indicators were: loan volume, deposit volume, non-performing loan levels, non-interest income, net interest income, salaries and wages as a percentage of income and operating expenses as a percentage of net income.

The amount of base compensation potentially payable to the President was determined by reviewing an independent salary survey of compensation of officers and employees for comparably sized financial institutions within the State of Maine. The survey was conducted by an independent accounting firm. The committee took into consideration the salary ranges as well as actual salaries paid to Presidents and CEOs of similar banks in establishing the 1998 base salary for President Daigneault.

The President is given annual goals relating to both financial performance and corporate objectives, which are established by the Committee pursuant to discussions with the President. On an annual basis the Committee conducts a formal evaluation of the President, compares his performance to the established goals, assesses the overall performance of the Bank and makes recommendations as appropriate.

President Daigneault's base compensation for 1998 was reflective of the Company's overall financial performance in 1997, which, in the opinion of the Compensation Committee, was considered very good. All 1997 goals set for President Daigneault were met or exceeded, which included reaching certain targets for asset growth, asset quality, and overall profitability. Also considered were the actual salaries of CEOs of other financial institutions of

similar size and complexity, located within the State of Maine. Taking these various factors into consideration and in recognition of his performance, the committee increased his base salary by $11,000 to $156,000.

President Daigneault's 1998 bonus compensation was 9.32% of base compensation, paid in accordance with the Company's Stakeholder Performance Compensation program for all employees, which was described previously.

Compensation Committee Members:
M. Robert Barter
Malcolm E. Blanchard
Carl S. Poole, Jr.
Parker L. Spofford

Stock Option Plan

In addition to the cash compensation, in April 1995 the stockholders approved a Stock Option Plan. The purpose of the Stock Option Plan is to encourage the retention of key employees by facilitating their purchase of a stock interest in the Company. The 1995 Stock Option Plan provides for grants of options to purchase Company common stock and is administered by an Options Committee which consists of four outside directors. During 1998, 1997 and 1996, stock options were granted under the 1995 Stock Option Plan, as set forth in the accompanying table.

1998 Option Committee Members:
M. Robert Barter
Malcolm E. Blanchard
Carl S. Poole, Jr.
Parker L. Spofford

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

During 1998, Directors Barter, Blanchard, Poole and Spofford served as members of the Compensation Committee. No member of the Committee was, or ever has been, an officer or employee of the Company or the Bank. All Committee members are customers of and engage in banking transactions with the Bank in the ordinary course of business. As described in the section entitled "Certain Relationships and Related Transactions", all loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and, in the opinion of Management, did not involve more than the normal risk of collectibility or present other unfavorable features.

Long-Term Compensation

Long-term compensation may be distinguished from annual compensation by the time frame for which performance results are measured to determine awards. While annual compensation covers a calendar year, long-term compensation is provided through the Company's stock option plan which covers a period of two to ten years.

The following table sets forth information with respect to the named executive and all other employees concerning grants of stock options during 1998:

Option Grants During the Year Ended December 31, 1998

	Number of securities underlying options granted	% of total options granted in fiscal year	Exercise price per share(2)	Expir- ation date (3)	Potential realizable value at assumed rates of stock appreciation for option term(1) 5%	10%
Daniel R. Daigneault	-0-	0.0%	n/a	n/a	$ -0-	$ -0-
All other employees	6,000	100.0%	18.25	01/26/08	68,864	163,291
All	6,000	100.0%	18.25	01/26/08	68,864	163,291

1) The dollar gains under these columns result from calculations assuming 5% and 10% growth rates compounded over a 10-year period as set by the Securities and Exchange Commission and are not intended to forecast future price appreciation of the Company's common stock. The gains reflect a future value based upon growth at these prescribed rates. These values have also not been discounted to present value. It is important to note that options have value to the listed executive and to all option recipients only if the stock price advances beyond the exercise price shown on the table during the effective option period.
2) Under the Stock Option Plan, the exercise price may not be less than the fair market value of the common stock on the date the option is granted.
3) In most cases, the Stock Option Plan requires a vesting period of two years after the date granted before 50% of the options may be exercised, and five years after the date granted before 100% of the options may be exercised. All options expire 10 years after the date granted.

The following table sets forth information with respect to the named executive and all other optionees concerning the exercise of options during 1998 and unexercised options held as of December 31, 1998:

Aggregated Option Exercises in 1998 and December 31, 1998 Option Values

			Number of securities underlying unexercised options at year end		Value of unexercised in-the-money options at year end	
	Shares acquired on exercise	Value realized	Exer- cisable	Unexer- cisable	Exer- cisable	Unexer- cisable
Daniel R. Daigneault	-0-	-0-	24,000	60,000	$384,000	$ 901,500
All other employees	-0-	-0-	24,000	50,000	$370,000	$ 640,000
All optionees	-0-	-0-	48,000	110,000	$754,000	$1,541,500

Description of the Company's Benefit Plans

The Company has reserved 240,000 shares of its common stock to be made available to directors and employees who elect to participate in the directors' deferral, employee stock purchase, or 401(k) savings and investment plans. As of December 31, 1998, 127,887 shares had been issued pursuant to these plans, leaving 112,113 shares available for future issuance. The issuance price is based on the market price of the stock at issuance date.

All shares for the directors' deferral and 401(k) savings and investment plans are issued pursuant to an exemption from registration under the Securities Act of 1933, as amended, contained in Section 3(a)(11) thereof and Rule 147 promulgated thereunder. During the period ending nine months after the date of issuance of these shares, these shares may be transferred only to residents of the State of Maine. Each certificate issued for these plan shares bears a legend referring to this restriction.

Shares issued under the employee stock purchase plan prior to September 11, 1998, have been issued pursuant to exemptions from registration under Section 3(a)(11) and Rule 147 of the Securities Act of 1933. Shares issued under the employee stock purchase plan on or after September 11, 1998, have been issued pursuant to a registration statement filed under the Securities Act of 1933, as amended (the "Securities Act"). The members of the Board of Directors and certain officers of the Company, who may be deemed to be "affiliates", may resell shares of the Company's Common Stock purchased or acquired under the Plan only in accordance with certain restrictions imposed by the Securities Act and Rule 144 promulgated thereunder.

The Bank's 401(k) Plan (The First National Bank of Damariscotta Savings and Investment Plan) is the Bank's sole retirement plan, and was modified in 1996 after termination of the Bank's traditional defined benefit pension plan. It is available to any employee who has attained the age of 21 and completed six months of service (500 hours during a 12 month period). Eligible employees may contribute to their plan accounts a percentage of their compensation, up to a maximum of 15% annually. The Bank may, by an annual vote of its Directors, make matching contributions. In addition, also by vote of its Directors, the Bank may make an annual profit sharing contribution to the Plan. The 401(k) Plan is administered by a special committee appointed by the Board of Directors.

Employee contributions are 100% vested at all times, while employer contributions are vested over a five-year period. Upon termination of employment for any reason, a plan participant may receive his or her contribution account and earnings allocated to it, as well as the vested portion of his or her employer-matching account and earnings allocated to it. Non-vested amounts are forfeited and are used by the Bank to help defray plan administration expenses incurred by the Bank. The Bank paid $65,000 in matching contributions and $75,000 in profit-sharing contributions to this plan in 1998.

Plan participants may direct the trustees of the 401(k) Plan to purchase specific assets for their accounts from a selection which includes seven mutual funds as well as the Company's stock. As of December 31, 1998, 45,659 shares of the Company's stock had been purchased by the 401(k) Plan at the direction of plan participants.

The Bank instituted an employee stock purchase plan effective February 1, 1987, and the Board of Directors has allocated 80,000 shares of stock to be available for purchase under this plan. Employees who have been employed by the Bank for three consecutive calendar months are eligible to purchase shares on a quarterly basis through payroll deduction. The price per share for shares sold pursuant to the plan is based on fair market value as determined by the Plan Committee appointed by the Board of Directors. As of December 31, 1998, 40,581 shares of the Company's stock had been purchased pursuant to the plan.

On January 15, 1987, the Bank adopted a Compensation Deferral Agreement pursuant to which Directors (other than the Chief Executive Officer) are permitted to defer payment of directors' fees until their retirement from the Board. The Savings and Investment Plan Committee has sole discretion to invest the deferred fees as it sees fit. Two Directors had signed Compensation Deferral Agreements for 1998.

The Bank provides all full-time employees with group life, health, and long-term-disability insurance through Independent Bankers' Employee Benefits Trust of Maine. A Flexible Benefits Plan is available to all full-time employees after satisfying eligibility requirements and to part-time employees scheduled to work 20 or more hours a week.

The Bank also sponsors an un-funded, non-qualified supplemental retirement plan for certain officers. The plan provides supplemental retirement benefits payable in installments over 20 years upon retirement or death. The costs for this plan are recognized over the service lives of the participating officers. The projected retirement benefit for President Daigneault, assuming he remains employed by the Bank until normal retirement age of 65, is $169,329 per year, with such payments beginning in the year 2017. The expense for all participants in this supplemental plan was $84,000 in 1998, $36,000 in 1997, and $11,000 in 1996. As of December 31, 1998 and 1997, the accrued liability of this plan was $109,000 and $21,000, respectively.

On December 15, 1994, the Company's board of directors adopted a Stock Option Plan (the Option Plan) for the benefit of officers and other full-time employees of the Company and the Bank. This plan was approved by the Company's shareholders at the 1995 Annual Meeting. Under the Option Plan, 200,000 shares (subject to adjustment to reflect stock splits and similar events) are reserved from the authorized but unissued common stock of the Company for future issuance by the Company upon exercise of stock options granted to certain key employees of the Company and the Bank from time to time.

The purpose of the Option Plan is to encourage the retention of such key employees by facilitating their purchase of a stock interest in the Company. The Option Plan is intended to provide for the granting of incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Code) to employees of the Company or the Bank.

The Option Plan is administered by the Options Committee of the Company's board of directors, which is comprised solely of directors who are ineligible to receive grants of stock options under the Option Plan and who have not received grants of options within the 12 months preceding their appointment to the Options Committee. The Options Committee selects the employees of the Bank and the Company to whom options are to be granted and the number of shares to be granted. The Option Plan may be amended only by the vote of the holders of a majority of the Company's outstanding common stock if such amendment would increase the number of shares available for issuance under the Option Plan, change the eligibility criteria for grants of options under the Option Plan, change the minimum option exercise price or increase the maximum term of options. Other amendments may be effected by the Options Committee.

Employees selected by the Options Committee receive, at no cost to them, options under the Option Plan. The option exercise prices are equal to the fair market value of the shares on the date of the grant, and no option is exercisable after the expiration of 10 years from the date it is granted. The fair market value of the shares is determined by the Options Committee as specified in the Option Plan. The optionee cannot transfer or assign any option other than by will or in accordance with the laws of descent and distribution, and the option may be exercised only by the employee during the employee's lifetime. After an employee's death, options may be exercised by the employee's estate or heirs up to one year following the date of death. Code Section 422 limits option grants by providing that during the term of the Option Plan, no grant may be made to any employee owning more than 10% of the

shares unless the exercise price is at least 110% of the shares' fair market value and such option is not exercisable more than five years following the option grant. The aggregate fair market value of the stock for which any employee may be granted options in any calendar year may generally not exceed $100,000.

While generally no options may be exercisable before the second anniversary of the grant date, in the event of a change in control involving the Company all options (other than those held by officers or directors of the Company or the Bank for less than six months) shall become immediately exercisable. Also, an employee whose employment is terminated in connection with or within two years after such a change in control event shall be entitled to exercise all options for up to three months following the date of termination; provided that options held by officers or directors shall not be exercisable until six months after the grant date. Employees whose services are terminated, other than following a change in control as described above, shall thereupon forfeit any options held, provided, however, that following termination due to disability an employee shall be entitled to exercise options for up to one year (provided, further, that officers and directors may exercise only with respect to options held for at least six months).

The Company receives no monetary consideration for the granting of incentive stock options. Upon the exercise of options, the Company receives payment in cash from optionees in exchange for shares issued. No federal income tax consequences are incurred by the Company at the time incentive stock options are granted or exercised, unless the optionee incurs liability for ordinary income tax treatment upon exercise of the option, as discussed below, in which event the Company would be entitled to a deduction equal to the optionee's ordinary income attributable to the options. Provided the employee holds the shares received on exercise of a stock option for the longer of two years after the option was granted or one year after it was exercised, the optionee will realize capital gains income (or loss) in the year of sale in an amount equal to the difference between the sale price and the option exercise price paid for shares. If the employee sells the shares prior to the expiration of the period, the employee realizes ordinary income in the year of disposition equal to the difference between the fair market value of the shares on the date of exercise and the exercise price and capital gains income (or loss) equal to the difference (if any) between the sale price of the shares and the fair market value of the shares on the date of exercise.

In addition to the tax consequences discussed above, the excess of the option price over the fair market value of the optioned stock at the time of option exercise is required to be treated by an incentive optionee as an item of tax preference for purposes of the alternative minimum tax.

Performance Graph

Set forth below is a line graph comparing the five-year cumulative total return of the Company's common stock ("FNLC"), assuming reinvestment of all cash dividends and retention of all stock dividends, with that of the Standard

& Poor's 500 Index ("S&P 500") and the NASDAQ Combined Bank Index ("NASD Bank"). The NASD Bank index is a capitalization-weighted index designed to measure the performance of all NASDAQ stocks in the banking sector.

Insert performance graph from Excel (refer to Form SE filed by registrant)

Performance graph data:

	1993	1994	1995	1996	1997	1998
FNLC	100.00	124.63	168.01	213.42	292.23	485.63
NASD Bank	100.00	101.11	146.42	184.71	302.17	266.60
S&P 500	100.00	101.27	138.88	170.38	226.78	291.04

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the number of shares of common stock beneficially owned (1) as of December 31, 1998 by each Director (2) and Executive Officer named in the Summary Compensation Table, and by all Directors and Executive Officers as a group:

Name of Director	Number of Shares	Percent Ownership(1)
Bruce A. Bartlett	9,228	.37%
Malcolm E. Blanchard	30,826	1.25%
Katherine M. Boyd	9,723	.39%
Daniel R. Daigneault(3)	36,825	1.49%
Dana L. Dow	667	.03%
Robert B. Gregory	11,070	.45%
Carl S. Poole, Jr.	86,410	3.49%
Stuart G. Smith	12,643	.51%
David B. Soule, Jr.	4,776	.19%
Bruce B. Tindal	667	.03%
	202,835	8.21%
Other Executive Officers	41,484	1.68%
Total ownership of all Directors and Executive Officers as a group(2)	244,319	9.89%

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended. In general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or to

direct the voting of the security or the power to dispose or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days. The figure set forth includes director's qualifying shares owned by each person listed.

(2) This table does not include 29,359 shares owned by former director M. Robert Barter, who resigned from the Board of Directors in February of 1999.

(2) Includes exercisable stock options as of December 31, 1998, for Daniel R. Daigneault of 24,000 shares, and all directors and executive officers as a group of 48,000 shares.

To the knowledge of the Management of the Company, the following shareholders beneficially owned more than 5% of First National Lincoln Corporation stock as of December 31, 1998.

Name & Address of Beneficial Owner	Amount	Percentage
Daniel P. Thompson, Edith I. Thompson HC 61 Box 039, New Harbor, ME 04545	140,804 shares	5.70%

ITEM 13. Certain Relationships and Related Transactions

The Federal Reserve Act permits the Bank to contract for or purchase property from any of its Directors only when such purchase is made in the regular course of business upon terms not less favorable to the Bank than those offered by others unless the purchase has been authorized by a majority of the Board of Directors not interested in the transaction. Similarly, the Federal Reserve Act prohibits loans to Executive Officers of the Bank unless such loans are on terms not more favorable than those afforded other borrowers and certain other prescribed conditions have been met.

The Bank has had, and expects to have in the future, banking transactions in the ordinary course of its business with Directors, Officers and principal shareholders of the Company and their associates. All such transactions have been made upon substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others.

In the opinion of management, such loans have not involved more than the normal risk of collectibility nor have they presented other unfavorable features. The total amount of loans outstanding at December 31, 1998 to the Company's Directors, Executive Officers and their associates was $4,032,000, which constituted 1.93% of the Bank's total loans outstanding at that date.

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Exhibits

Exhibit 3 Articles of Incorporation and Bylaws, filed as Exhibit 3 to Company's Registration Statement No. 2-96573.

Exhibit 3.1 Articles of Amendment, filed as part of Exhibit 3 to the Company's Registration Statement No. 2-96573.

Exhibit 3.2 Amendments to Articles of Incorporation filed as part of Exhibit 3 to the Company's quarterly filing on Form 10-Q for the second quarter of 1996.

Exhibit 4.1 Articles of Incorporation and Bylaws, filed as Exhibit 3 to the Company's Registration Statement No. 2-96573.

Exhibit 27 Financial Data Schedule.

(b) Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended December 31, 1998.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST NATIONAL LINCOLN COPORATION

By Daniel R. Daigneault
Daniel R. Daigneault, President
March 25, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title and Date
Daniel R. Daigneault Daniel R. Daigneault	President and Director (Principal Executive Officer) March 25, 1999
F. Stephen Ward F. Stephen Ward	Treasurer (Principal Financial Officer, Principal Accounting Officer) March 25, 1999
Robert B. Gregory Robert B. Gregory	Director and Chairman of the Board March 25, 1999
Bruce A. Bartlett Bruce A. Bartlett	Director March 25, 1999
Malcolm E. Blanchard Malcolm E. Blanchard	Director March 25, 1999
Katherine M. Boyd Katherine M. Boyd	Director March 25, 1999
Dana L. Dow Dana L. Dow	Director March 25, 1999
Carl S. Poole, Jr. Carl S. Poole, Jr.	Director March 25, 1999
Stuart G. Smith Stuart G. Smith	Director March 25, 1999
David B. Soule, Jr. David B. Soule, Jr.	Director March 25, 1999
Bruce A. Tindal Bruce A. Tindal	Director March 25, 1999

<TABLE> <S> <C>

<ARTICLE> 9
<MULTIPLIER> 1000

<S> <C>
<PERIOD-TYPE> 12-MOS
<FISCAL-YEAR-END> DEC-31-1998
<PERIOD-START> JAN-01-1998
<PERIOD-END> DEC-31-1998
<CASH> 6338
<INT-BEARING-DEPOSITS> 0
<FED-FUNDS-SOLD> 0
<TRADING-ASSETS> 0
<INVESTMENTS-HELD-FOR-SALE> 18858
<INVESTMENTS-CARRYING> 40484
<INVESTMENTS-MARKET> 40702
<LOANS> 209224
<ALLOWANCE> 1822
<TOTAL-ASSETS> 286806
<DEPOSITS> 201803
<SHORT-TERM> 20463
<LIABILITIES-OTHER> 1767
<LONG-TERM> 24970
<COMMON> 25
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<OTHER-SE> 28751
<TOTAL-LIABILITIES-AND-EQUITY> 286806
<INTEREST-LOAN> 17289
<INTEREST-INVEST> 3987
<INTEREST-OTHER> 32
<INTEREST-TOTAL> 21308
<INTEREST-DEPOSIT> 6876
<INTEREST-EXPENSE> 10464
<INTEREST-INCOME-NET> 10884
<LOAN-LOSSES> 400
<SECURITIES-GAINS> (21)
<EXPENSE-OTHER> 7039
<INCOME-PRETAX> 5718
<INCOME-PRE-EXTRAORDINARY> 5718
<EXTRAORDINARY> 0
<CHANGES> 0
<NET-INCOME> 4011
<EPS-PRIMARY> 1.62
<EPS-DILUTED> 1.56
<YIELD-ACTUAL> 4.14
<LOANS-NON> 716
<LOANS-PAST> 11

<LOANS-TROUBLED>	0
<LOANS-PROBLEM>	0
<ALLOWANCE-OPEN>	1800
<CHARGE-OFFS>	452
<RECOVERIES>	74
<ALLOWANCE-CLOSE>	1822
<ALLOWANCE-DOMESTIC>	1822
<ALLOWANCE-FOREIGN>	0
<ALLOWANCE-UNALLOCATED>	0

</TABLE>