

# DREAM FIRST BECAUSE YOU CAN

## Board of Directors

David B. Soule, Jr.  
*Chairman of the Board*  
Katherine M. Boyd  
Robert B. Gregory  
Renee W. Kelly  
Tony C. McKim  
Mark N. Rosborough  
Cornelius J. Russell  
Stuart G. Smith  
Bruce B. Tindal

## Executive Officers

Tony C. McKim  
*President & Chief Executive Officer*  
F. Stephen Ward  
*Executive Vice President & Chief Financial Officer*  
Charles A. Wootton  
*Executive Vice President & Clerk*

## Corporate Counsel

Pierce Atwood  
Portland, Maine

## Independent Auditors

Berry, Dunn, McNeil & Parker  
Portland, Maine

## The First Bancorp

P.O. Box 940, Damariscotta, Maine 04543  
207.563.3195



## Fourth Quarter 2016 Financial Results

January 31, 2017

Dear First Bancorp Shareholders:

Net income for the year ended December 31, 2016, was \$18.0 million, up \$1.8 million or 11.1% from the \$16.2 million reported for the year ended December 31, 2015, with earnings per common share on a fully diluted basis of \$1.66 up \$0.15 or 9.9% compared to 2015. For the quarter ended December 31, 2016, net income was \$4.3 million, up \$551,000 or 14.6% from the fourth quarter of 2015, and earnings per common share on a fully diluted basis of \$0.40 were up \$0.05 or 14.3%.

In 2016 we posted the best annual performance in the Company's history. Increased net interest income was the primary driver with continued strong growth in earning assets. At the same time, we saw a modest drop in operating expense in 2016 compared to 2015. We maintained the quarterly dividend at 23 cents per share in the fourth quarter of 2016 and given our record earnings, we also declared a special cash dividend of 12 cents per share for the same quarter.

Earning assets increased \$142.1 million in 2016, with the loan portfolio up \$82.9 million to end the year at \$1.07 billion and the investment portfolio up \$61.9 million or 13.0% over 2015. On the funding side of the balance sheet, low-cost deposits were up \$61.6 million or 10.6% totaling \$640.8 million as of December 31, 2016 and total deposits were up \$199.8 million or 19.1% to \$1.24 billion at year-end. As a result of our balance sheet growth, net interest income on a tax-equivalent basis in 2016 was up \$2.1 million or 4.7% from 2015.

Continued improvement in credit quality was another contributor to our 2016 results, Non-performing assets stood at 0.48% of total assets as of December 31, 2016 – well below the 0.57% level of non-performing assets a year ago. Net charge offs were 0.13% of average loans in 2016, down from 0.21% of average loans in 2015. We provisioned \$1.6 million for loan losses in 2016, up \$50,000 from the amount provisioned in 2015 and the allowance for loan losses stood at 0.95% of total loans as of December 31, 2016, down from 1.0% of total loans a year ago.

Our stock performance was another major positive in 2016, up \$12.63 from our December 31, 2015 close to end the year at \$33.10 per share. With dividends reinvested, our total return for 2016 was 68.78%. We outperformed the broad market during this period, as measured by the S&P 500 which had a total return with dividends reinvested of 11.95%, as well the Russell 2000, in which we are included, which had a total return of 21.28%. We also outperformed the banking industry, with total returns year to date of 39.12% for the KBW Regional Bank Index and 37.97% for the Nasdaq Bank Index.

If I had to sum up 2016 for The First Bancorp in one word, it would be 'incredible' and I am pleased we were able to share this great year with our shareholders in the form of increased cash dividends and the \$12.63 per share increase in the price of our stock. As always, I am most proud of the tremendous team of people we have at First National Bank. We have a dedicated group who are all pulling on the same rope in the same direction, day in and day out, to provide quality service to our customers. It is their positive attitude and tenacity that is ultimately behind the great year we had in 2016.

Best always,

Tony C. McKim  
President & Chief Executive Officer

**Dream first.  
Then go from there.**

**Our best days are  
ahead of us.**

## Consolidated Balance Sheets (Unaudited)

<i>In thousands of dollars, except per share data</i>	12/31/2016	12/31/2015
<b>Assets</b>		
Cash and due from banks	\$ 17,366	\$ 14,299
Interest-bearing deposits in other banks	293	4,013
Securities available for sale	300,416	223,039
Securities to be held to maturity	226,828	240,023
Restricted equity securities, at cost	11,930	14,257
Loans held for sale	782	349
Loans	1,071,526	988,638
Less allowance for loan losses	10,138	9,916
Net loans	1,061,388	978,722
Accrued interest receivable	5,532	4,912
Premises and equipment	22,202	21,816
Other real estate owned	375	1,532
Goodwill	29,805	29,805
Other assets	35,958	32,043
<b>Total assets</b>	<b>\$1,712,875</b>	<b>\$1,564,810</b>
<b>Liabilities</b>		
Demand deposits	\$ 160,488	\$ 130,566
NOW deposits	262,965	242,638
Money market deposits	125,544	92,994
Savings deposits	217,340	206,009
Certificates of deposit	476,620	370,982
Total deposits	1,242,957	1,043,189
Borrowed funds	278,901	337,457
Other liabilities	18,496	16,666
<b>Total Liabilities</b>	<b>1,540,354</b>	<b>1,397,312</b>
<b>Shareholders' equity</b>		
Common stock	108	108
Additional paid-in capital	60,723	59,862
Retained earnings	111,693	106,673
Net unrealized gain (loss) on securities available-for-sale	(935)	1,123
Net unrealized loss on transferred securities	(129)	(112)
Net unrealized gain on cash flow hedging derivatives	1,163	-
Net unrealized loss on postretirement benefit costs	(102)	(156)
Total shareholders' equity	172,521	167,498
<b>Total liabilities &amp; shareholders' equity</b>	<b>\$1,712,875</b>	<b>\$1,564,810</b>
<b>Common Stock</b>		
Number of shares authorized	18,000,000	18,000,000
Number of shares issued and outstanding	10,793,399	10,753,855
Tangible book value per common share	\$13.20	\$12.78
Leverage capital ratio (2016 estimated)	8.78%	8.81%
Total risk-based capital ratio (2016 estimated)	16.10%	15.78%

## Consolidated Statements of Income and Comprehensive Income (Unaudited)

<i>In thousands of dollars, except per share data</i>	For the years ended 12/31/2016	12/31/2015	For the quarters ended 12/31/2016	12/31/2015
<b>Interest income</b>				
Interest and fees on loans	\$39,996	\$36,620	\$10,237	\$9,373
Interest on deposits with other banks	22	19	5	3
Interest and dividends on investments	13,741	14,171	3,358	3,662
Total interest income	53,759	50,810	13,600	13,038
<b>Interest expense</b>				
Interest on deposits	6,028	5,285	1,646	1,290
Interest on borrowed funds	4,784	4,589	1,216	1,103
Total interest expense	10,812	9,874	2,862	2,393
Net interest income	42,947	40,936	10,738	10,645
Provision for loan losses	1,600	1,550	475	450
Net interest income after provision for loan losses	41,347	39,386	10,263	10,195
<b>Non-interest income</b>				
Investment management and fiduciary income	2,411	2,258	606	552
Service charges on deposit accounts	2,237	2,384	526	583
Net securities gains	673	1,399	5	3
Mortgage origination and servicing income	2,192	1,558	658	465
Other operating income	4,986	4,631	1,265	1,160
Total non-interest income	12,499	12,230	3,060	2,763
<b>Non-interest expense</b>				
Salaries and employee benefits	15,215	15,080	4,079	4,136
Occupancy expense	2,313	2,312	578	540
Furniture and equipment expense	3,305	3,171	889	847
FDIC insurance premiums	789	890	158	223
Amortization of identified intangibles	43	58	11	11
Other operating expense	7,718	8,385	1,818	2,187
Total non-interest expense	29,383	29,896	7,533	7,944
Income before income taxes	24,463	21,720	5,790	5,014
Applicable income taxes	6,454	5,514	1,470	1,245
Net income	\$18,009	\$16,206	\$ 4,320	\$ 3,769
Basic earnings per common share	\$1.68	\$1.52	\$0.40	\$0.36
Diluted earnings per common share	\$1.66	\$1.51	\$0.40	\$0.35
Net unrealized loss on securities available for sale	(2,058)	(1,399)	(3,643)	(1,195)
Net unrealized loss on transferred securities	(17)	(64)	(5)	(13)
Net unrealized gain on cash flow hedging derivatives	1,163	-	1,105	-
Net unrealized gain (loss) on postretirement benefit costs	54	(31)	54	(31)
Other comprehensive loss	(858)	(1,494)	(2,489)	(1,239)
Comprehensive income	\$17,151	\$14,712	\$1,831	\$2,530
<b>Financial Ratios</b>				
Return on average tangible common equity	12.42%	11.90%	11.68%	10.77%
Net interest margin, tax equivalent	3.05%	3.10%	2.94%	3.11%