

# 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 2017 Financial Results

December 31, 2017

Dear First Bancorp Shareholders:

I am happy to report that the Board of Directors maintained the quarterly dividend at 24 cents per share. This fourth-quarter dividend is payable January 31, 2018, to shareholders of record as of January 8, 2018. Based on the December 31, 2017 closing price of \$27.23 per share, the annualized dividend of 96 cents per share translates into a yield of 3.53%. This was the best year in the Company's history with net income of \$19.6 million, up \$1.6 million or 8.8% from the \$18.0 million reported for the year ended December 31, 2016. The fourth quarter of 2017 was also the best quarter in the history of the Company, up \$104,000 or 2.1% from the previous record set in the third quarter of 2017.

Earning assets increased \$121.3 million in 2017. Growth came primarily from the loan portfolio which increased \$92.6 million to end the year at \$1.16 billion. In addition, the investment portfolio grew \$27.9 million or 5.2% over 2016. On the funding side of the balance sheet, low-cost deposits grew \$55.2 million, or 8.6%, to \$696.0 million as of December 31, 2017, while total deposits grew \$175.9 million or 14.2% to \$1.42 billion at year-end.

Our growth in earning assets led directly to increased net interest income. On a tax-equivalent basis, net interest income was up \$5.1 million or 11.2% from 2016, while our net interest margin held steady at 3.04% after three Federal Reserve rate hikes during the year. At \$12.5 million, non-interest income in 2017 was level with the prior year, while non-interest expense in 2017 was up \$2.3 million or 7.7% from 2016 levels. The Company's investments in personnel and technology growth contributed to this increase, along with higher FDIC insurance expense.

## Together we will get there.

Our stock ended 2017 at \$27.23 per share, down \$5.87 from our December 31, 2016 close of \$33.10 per share. With dividends reinvested, our total return for 2017 was -14.70%. While the price performance of our stock over the past year has been a disappointment, we continue to nicely outperform the broad market over a three-year period, with a total return of 68.7%, as compared to the S&P 500 which had a

three-year total return with dividends reinvested of 38.3%, as well the Russell 2000, in which we are included, with a three-year total return of 32.9%. We have also outperformed the banking industry over the past three years, with total returns for The First Bancorp over the period exceeding both the 50.1% of the KBW Regional Bank Index and the 58.4% of the Nasdaq Bank Index.

We continue to execute on our strategic vision, and the 7.4% growth in earning assets we experienced in the course of 2017 led directly to strong growth in net interest income and ultimately our bottom line results. I can't say enough about our outstanding team of customer-focused banking professionals who are committed to building our business each and every day. Whether it's through the businesses and building projects we've financed, our innovative Dream First Rewards program, the investment management expertise of First Advisors, or the many charitable causes we've supported, their impact is apparent in both the success of the Bank and well being of the communities we serve.

Best always,

Tony C. McKim  
President & Chief Executive Officer

Our best days  
are ahead.

## Consolidated Balance Sheets (Unaudited)

<i>In thousands of dollars, except per share data</i>	12/31/2017	12/31/2016
<b>Assets</b>		
Cash and due from banks	\$19,207	\$17,366
Interest-bearing deposits in other banks	860	293
Securities available for sale	300,172	300,416
Securities to be held to maturity	256,567	226,828
Restricted equity securities, at cost	10,358	11,930
Loans held for sale	386	782
Loans	1,164,139	1,071,526
Less allowance for loan losses	10,729	10,138
Net loans	1,153,410	1,061,388
Accrued interest receivable	5,867	5,532
Premises and equipment	22,502	22,202
Other real estate owned	1,012	375
Goodwill	29,805	29,805
Other assets	42,642	35,958
<b>Total assets</b>	<b>\$1,842,788</b>	<b>\$1,712,875</b>
<b>Liabilities</b>		
Demand deposits	\$181,970	\$160,488
NOW deposits	281,405	262,965
Money market deposits	163,898	125,544
Savings deposits	232,605	217,340
Certificates of deposit	559,001	476,620
Total deposits	1,418,879	1,242,957
Borrowed funds	228,758	278,901
Other liabilities	13,830	18,496
<b>Total Liabilities</b>	<b>1,661,467</b>	<b>1,540,354</b>
<b>Shareholders' equity</b>		
Common stock	108	108
Additional paid-in capital	61,747	60,723
Retained earnings	120,847	111,693
Net unrealized gain (loss) on securities available-for-sale	(2,387)	(935)
Net unrealized loss on transferred securities	(143)	(129)
Net unrealized gain on cash flow hedging derivatives	1,270	1,163
Net unrealized loss on postretirement benefit costs	(121)	(102)
<b>Total shareholders' equity</b>	<b>181,321</b>	<b>172,521</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>\$1,842,788</b>	<b>\$1,712,875</b>
<b>Common Stock</b>		
Number of shares authorized	18,000	18,000
Number of shares issued and outstanding	10,830	10,794
Tangible book value per common share	\$13.97	\$13.20
Leverage capital ratio (2017 estimated)	8.40%	8.71%
Total risk-based capital ratio (2017 estimated)	15.70%	15.78%

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

<i>In thousands of dollars, except per share data</i>	For the years ended		For the quarters ended	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
<b>Interest income</b>				
Interest and fees on loans	\$45,373	\$39,996	\$11,958	\$10,237
Interest on deposits with other banks	52	22	6	5
Interest and dividends on investments	15,407	13,741	3,858	3,358
<b>Total interest income</b>	<b>60,832</b>	<b>53,759</b>	<b>15,822</b>	<b>13,600</b>
<b>Interest expense</b>				
Interest on deposits	9,479	6,028	2,710	1,646
Interest on borrowed funds	4,050	4,784	904	1,216
<b>Total interest expense</b>	<b>13,529</b>	<b>10,812</b>	<b>3,614</b>	<b>2,862</b>
Net interest income	47,303	42,947	12,208	10,738
Provision for loan losses	2,000	1,600	250	475
<b>Net interest income after provision for loan losses</b>	<b>45,303</b>	<b>41,347</b>	<b>11,958</b>	<b>10,263</b>
<b>Non-interest income</b>				
Investment management and fiduciary income	2,680	2,411	685	606
Service charges on deposit accounts	2,081	2,237	519	526
Net securities gains	471	673	-	5
Mortgage origination and servicing income	1,853	2,192	593	658
Other operating income	5,463	4,986	1,413	1,265
<b>Total non-interest income</b>	<b>12,548</b>	<b>12,499</b>	<b>3,210</b>	<b>3,060</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	16,601	15,215	4,491	4,079
Occupancy expense	2,400	2,313	584	578
Furniture and equipment expense	3,681	3,305	979	889
FDIC insurance premiums	1,008	789	246	158
Amortization of identified intangibles	43	43	11	11
Other operating expense	7,918	7,718	1,989	1,818
<b>Total non-interest expense</b>	<b>31,651</b>	<b>29,383</b>	<b>8,300</b>	<b>7,533</b>
Income before income taxes	26,200	24,463	6,868	5,790
Applicable income taxes	6,612	6,454	1,782	1,470
<b>Net income</b>	<b>\$19,588</b>	<b>\$18,009</b>	<b>\$5,086</b>	<b>\$4,320</b>
Basic earnings per common share	\$1.82	\$1.68	\$0.47	\$0.40
Diluted earnings per common share	\$1.81	\$1.66	\$0.47	\$0.40
Net unrealized gain (loss) on securities available for sale	(1,452)	(2,058)	(1,562)	(3,643)
Net unrealized gain (loss) on transferred securities	(14)	(17)	(3)	(5)
Net unrealized gain (loss) on hedging derivatives	107	1,163	235	1,105
Net unrealized gain (loss) on postretirement benefit costs	(19)	54	(19)	54
<b>Other comprehensive income (loss)</b>	<b>(1,378)</b>	<b>(858)</b>	<b>(1,349)</b>	<b>(2,489)</b>
<b>Comprehensive income</b>	<b>\$18,210</b>	<b>\$17,151</b>	<b>\$3,737</b>	<b>\$1,831</b>
<b>Financial Ratios</b>				
Return on average tangible common equity	13.11%	12.42%	13.79%	11.68%
Net interest margin, tax equivalent	3.04%	3.05%	3.34%	2.94%