Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Tony C. McKim
Name of the Holding Company Director and Official

President & CEO
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

3/9/2020
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____________
C.I. ____________

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2019
Month / Day / Year

5493002J7RM1JLAXN553
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

The First Bancorp, Inc.
Legal Title of Holding Company

PO Box 940
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Damariscotta	ME	04543

223 Main St Damariscotta, ME 04543
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Deborah Wallace	Financial Report Manager

207-563-3195 2015
Area Code / Phone Number / Extension

207-563-6853
Area Code / FAX Number

debbie.wallace@thefirst.com
E-mail Address

www.thefirstbancorp.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

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(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

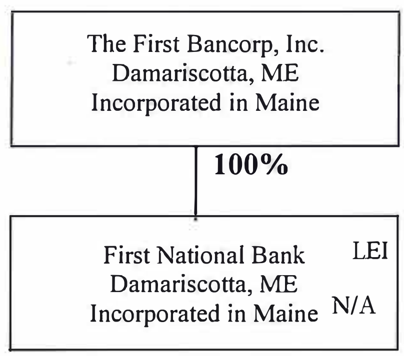
Physical Location (if different from mailing address)

Form FRY-6

The First Bancorp, Inc.
Damariscotta, Maine
Fiscal Year Ending December 31, 2019

Report Item
1: a. See Form 10-K December 31, 2019 attached
1: b. Annual Report attached

2a: Organizational Chart – LEI is 5493002J7RM1JLAXN553



2b: Branch Information - Submitted separately 3/9/2019 via email

Results: A list of branches for your depository institution: FIRST NATIONAL BANK (ID_RSSD: 439404).
This depository institution is held by FIRST BANCORP, INC., THE (1133932) of DAMARISCOTTA, ME.
The data are as of 12/31/2019. Data reflects information that was received and processed through 03/05/202(

Reconciliation and Verification Steps
1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions
OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Actior**
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** colu
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** col

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page s

Submission Procedure
When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for mo
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for ea
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10or

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is nc

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name
OK		Full Service (Head Office)	439404	FIRST NATIONAL BANK
OK		Full Service	4496281	EXCHANGE STREET BRANCH
OK		Full Service	523808	BAR HARBOR BRANCH
OK		Full Service	2883092	BLUE HILL BRANCH
OK		Full Service	501703	BOOTHBAY HARBOR BRANCH
OK		Full Service	432601	CALAIS OFFICE
OK		Full Service	2706285	CAMDEN BRANCH
OK		Full Service	1464104	EASTPORT BRANCH
OK		Full Service	524702	ELLSWORTH OFFICE
OK		Full Service	2700993	NORTHEAST HARBOR BRANCH
OK		Full Service	3060630	PARK STREET BRANCH
OK		Full Service	364403	ROCKLAND BRANCH
OK		Full Service	2622826	ROCKPORT BRANCH
OK		Limited Service	433103	SOUTHWEST HARBOR BRANCH
OK		Full Service	1391992	SOUTHWEST HARBOR BRANCH
OK		Full Service	531205	WALDOBORO BRANCH
OK		Full Service	1222676	WISCASSET BRANCH

).

ı column and the date when this information first became valid in the **Effective Date** column.
ˀ in the **Effective Date** column.
mn.
lumn and the opening or acquisition date in the **Effective Date** column.

caling, and/or legal sized paper.

ıre information.
ˀ-mail.

ıch branch with a **Data Action** of Change, Close, Delete, or Add.
ıline.federalreserve.gov.

ıt required.

Street Address	City	State	Zip Code	County
223 MAIN STREET	DAMARISCOTTA	ME	04543	LINCOLN
145 EXCHANGE STREET	BANGOR	ME	04401	PENOBSCOT
102 MAIN STREET	BAR HARBOR	ME	04609	HANCOCK
1 SOUTH STREET	BLUE HILL	ME	04614	HANCOCK
77 OAK STREET	BOOTHBAY HARBOR	ME	04538	LINCOLN
319 NORTH STREET	CALAIS	ME	04619	WASHINGTON
44 ELM STREET	CAMDEN	ME	04843	KNOX
102 WASHINGTON STREET	EASTPORT	ME	04631	WASHINGTON
194 BEECHLAND ROAD	ELLSWORTH	ME	04605	HANCOCK
3 SUMMIT ROAD, NORTHEAST HARBOR	MOUNT DESERT	ME	04662	HANCOCK
132 PARK STREET	ROCKLAND	ME	04841	KNOX
63 UNION STREET	ROCKLAND	ME	04841	KNOX
114 COMMERCIAL STREET	ROCKPORT	ME	04856	KNOX
11 SEAL COVE ROAD	SOUTHWEST HARBOR	ME	04679	HANCOCK
350 MAIN STREET	SOUTHWEST HARBOR	ME	04679	HANCOCK
1471 ATLANTIC HIGHWAY	WALDOBORO	ME	04572	LINCOLN
39 GARDINER ROAD	WISCASSET	ME	04578	LINCOLN

Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
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UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404
UNITED STATES	Not Required	Not Required	FIRST NATIONAL BANK	439404

Comments

FRY-6 December 31, 2019 Report Item 3: Shareholders

1.a. BlackRock Fund Advisors
400 Howard Street
San Francisco, CA

b. USA
c. 745,681 – 6.83% Common Stock

1.a. The Midwest Trust Company
5901 College Blvd, STE 100
Overland Park, KS

b. USA
c. 616,668 – 5.65% Common Stock

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2. None.

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

Trustees – None
Partners – None
Directors – as follows:

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1. Mark N. Rosborough
Ellsworth, ME 04605

2. Co-Owner - J. T. Rosborough, Inc.
Co-Owner - Rosborough Family Limited Partnership
Co-Owner - Penrose
Co-Owner - TISA

3.a. Director – Chairman of the Board – The First Bancorp, Inc.
b. Director – Chairman of the Board – First National Bank
c. None

4.a. 1.51%
b. None
c. J.T. Rosborough 60%
Rosborough Family Limited Partnership 30%
Penrose 50%
TISA 33%

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1. Katherine M. Boyd
Boothbay Harbor, ME 04538

2. Co-Owner – Boothbay Region Greenhouses

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. Boothbay Region Greenhouses 50%.

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

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1. Robert B. Gregory
Damariscotta, ME 04543

2. Owner – Robert B. Gregory Law Firm
Owner – Damariscotta Title Company

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. Robert B. Gregory Law Firm-Sole Proprietorship
Damariscotta Title Company 100%

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1. Renee W. Kelly
Carmel, ME 04419

2. AVP Innovation and Economic Development - University of Maine

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. None

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

1.	Tony C. McKim Trenton, ME 04605
2.	Co-Owner - McKim Brothers LLC
3.a.	Director – President & CEO – The First Bancorp, Inc.
b.	Director – President & CEO – First National Bank
c.	None
4.a.	<1%
b.	None
c.	McKim Brothers LLC 60%

1.	Cornelius J. Russell Rockport, ME 04856
2.	Regional General Manager - Samoset Resort
3.a.	Director – The First Bancorp, Inc.
b.	Director – First National Bank
c.	None
4.a.	<1%
b.	None
c.	None

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

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1. Stuart G. Smith
Camden, ME 04843

2. Co-Owner – 14-16 Central Street, LLC
Co-Owner – 2 Bay View Street, LLC
Co-Owner – 20 Central Street, LLC
Co-Owner – 24 Central Street, LLC
Co-Owner – Bay View Landing, LLC
Co-Owner – Bay View Management, LLC
Co-Owner – Bay View Street Inn, LLC
Co-Owner - Bay View Street Loft, LLC
Co-Owner - Breakwater Marketplace, LLC
Co-Owner - Grand Harbor Inn, LLC
Co-Owner - Hoboken School House, LLC
Co-Owner – JIK Rockport, LLC
Co-Owner – Liberty Two, LLC
Co-Owner – Old Garage, LLC
Co-Owner – Quantabacook Cottages, LLC
Co-Owner – Rockland Harbor Investment Property, LLC
Co-Owner – Rockland Harbor Park, LLC
Co-Owner – Rockport Harbor Hotel, LLC

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. 14-16 Central Street, LLC 50%
2 Bay View Street, LLC 50%
20 Central Street, LLC 50%
24 Central Street, LLC 50%
Bay View Landing, LLC 50%
Bay View Management, LLC 50%
Bay View Street Inn, LLC 50%
Bay View Street Loft, LLC 50%
Breakwater Market Place, LLC 50%
Grand Harbor Inn, LLC 50%
Hoboken School House, LLC 50%
JIK Rockport, LLC 100%
Liberty Two, LLC 50%
Old Garage, LLC 50%
Quantabacook, LLC 50%
Rockland Harbor Investment Property, LLC 50%
Rockland Harbor Park, LLC 20%
Rockport Harbor Hotel, LLC 50%

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

Shepard Block, LLC 100%
Virginia Ave Holdings, LLC 50%
135 Camden Street, LLC 50%
Maine Sport Outfitters 50%
Lord Camden Inn 50%

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1. Bruce B. Tindal
Boothbay, ME 04537

2. Owner – Tindal & Callahan Real Estate
Co-Owner – BBH Montgomery Road LLC

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. Tindal & Callahan Real Estate 100%
Co-Owner – BBH Montgomery Road LLC 50%

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1. F. Stephen Ward
Orlando,, FL 32839

2. Kiwi Hanger Club

3.a. Director – The First Bancorp, Inc.
b. Director – First National Bank
c. None

4.a. <1%
b. None
c. Kiwi Hanger Club 14%

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

Officers – as follows:

1.	Tony C. McKim, President & Chief Executive Officer (see above list of Directors)

1.	Charles A. Wootton West Rockport ME 04865
2.	None.
3.a.	Clerk – The First Bancorp, Inc.
b.	Executive Vice President & Senior Loan Officer - First National Bank
c.	None
4.a.	<1%
b.	None
c.	None

1.	Richard M. Elder Edgecomb, ME 04556
2.	None
3.a.	Treasurer – The First Bancorp, Inc.
b.	Executive Vice President, Chief Financial Officer – First National Bank
c.	None
4.a.	<1%
b.	None
c.	None

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

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1. Susan A. Norton
Southport, ME 04576

2. None

3.a.
b. Executive Vice President – Chief Administrative Officer - First National Bank
c. None

4.a. <1%
b. None
c. None

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1. Steven N. Parady
Bar Harbor, ME 04609

2. Sound Investments, Inc.

3.a.
b. Executive Vice President – Chief Fiduciary Officer - First National Bank
c. None

4.a. <1%
b. None
c. Sound Investments, Inc. 100%

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1. Tammy L. Plummer
South Bristol, ME 04568

2. None

3.a.
b. Executive Vice President – Chief Information Officer - First National Bank
c. None

4.a. <1%
b. None
c. None

FRY-6 December 31, 2019
Report Item 4: Directors and Officers- The First Bancorp, Inc.

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1. Sarah Tolman
Rockland, ME 04841

2. None

3.a.
b. Executive Vice President – Branch Administration - First National Bank
c. None

4.a. <1%
b. None
c. None


DREAM BIG
The First Bancorp
2019 ANNUAL REPORT

Selected Financial Data

Dollars in thousands, except for per share amounts	**12/31/2019**	12/31/2018	12/31/2017	12/31/2016	12/31/2015
SUMMARY OF OPERATIONS					
Interest Income	**$78,651**	$70,543	$60,832	$53,759	$50,810
Interest Expense	**26,158**	20,334	13,529	10,812	9,874
Net Interest Income	**52,493**	50,209	47,303	42,947	40,936
Provision for Loan Losses	**1,250**	1,500	2,000	1,600	1,550
Non-Interest Income	**14,189**	12,600	12,548	12,499	12,230
Non-Interest Expense	**35,172**	33,467	31,651	29,383	29,896
Net Income	**25,525**	23,536	19,588	18,009	16,206
PER COMMON SHARE DATA					
Basic Earnings per Share	**$2.36**	$2.18	$1.82	$1.68	$1.52
Diluted Earnings per Share	**2.34**	2.17	1.81	1.66	1.51
Cash Dividends Declared	**1.190**	1.110	0.950	1.030	0.870
Book Value per Common Share	**19.50**	17.63	16.74	15.98	15.58
Tangible Book Value per Common Share	**16.75**	14.87	13.97	13.20	12.78
Market Value	**30.23**	26.30	27.23	33.10	20.47
FINANCIAL RATIOS					
Return on Average Equity [1]	**12.51%**	12.72%	10.91%	10.28%	9.74%
Return on Average Tangible Common Equity [1,2]	**14.66%**	15.18%	13.11%	12.42%	11.90%
Return on Average Assets [1]	**1.27%**	1.23%	1.10%	1.12%	1.07%
Average Equity to Average Assets	**10.17%**	9.70%	10.04%	10.86%	11.00%
Average Tangible Equity to Average Assets [2]	**8.68%**	8.13%	8.36%	9.00%	9.01%
Net Interest Margin Tax-Equivalent [1,2]	**2.89%**	2.91%	3.04%	3.05%	3.10%
Dividend Payout Ratio	**50.42%**	50.92%	52.20%	61.31%	57.24%
Allowance for Loan Losses/Total Loans	**0.90%**	0.91%	0.92%	0.95%	1.00%
Non-Performing Loans to Total Loans	**1.28%**	1.19%	1.27%	0.73%	0.75%
Non-Performing Assets to Total Assets	**0.82%**	0.79%	0.86%	0.48%	0.57%
Efficiency Ratio	**51.04%**	51.50%	49.72%	50.43%	54.26%
AT PERIOD END					
Total Assets	**$2,068,796**	$1,944,570	$1,842,930	$1,712,875	$1,564,810
Total Loans	**1,297,075**	1,238,283	1,164,139	1,071,526	988,638
Total Investment Securities	**651,108**	584,665	563,683	536,276	477,319
Total Deposits	**1,650,466**	1,527,085	1,418,879	1,242,957	1,043,189
Total Borrowings	**184,955**	210,317	228,758	278,901	337,457
Total Shareholders' Equity	**212,508**	191,542	181,321	172,521	167,498

[1] *Annualized using a 365-day basis in all years except 2016, in which a 366-day basis was used.*

[2] *These ratios use non-GAAP financial measures. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.*

OUR BEST DAYS ARE AHEAD

The above phrase is one I use often, with employees, shareholders, community groups, customers and with your Company's Board of Directors. While I am immensely proud of the accomplishments of the last five years and the progress your Company has made in achieving strategic initiatives, we cannot and will not rest on our laurels. We will always look towards the future and the challenges and successes to come. We remain committed to doing what we do best – being successful while being in service to our customers, shareholders and communities – that is the essence of being a community bank and a community banker.

Before taking a look at some of our ongoing and upcoming Company initiatives, let's take a look at the great financial results achieved in 2019.

Keyed off earning asset growth and supplemented by growth in non-interest income, The First Bancorp ended the decade with a sixth consecutive year of record earnings. The Company also closed out 2019 with a record quarter. Overall, net income was $25.5 million up $2.0 million or 8.5% from the previous year. A fantastic year and we were proud to share the results with our shareholders through our generous dividend payout.

FINANCIAL CONDITION

Total assets at December 31, 2019 were $2.07 billion, up $124.2 million from the prior year end. Growth was entirely in earning assets which increased $125.2 million year-over-year, including loan growth of $58.8 million and investment portfolio growth of $66.4 million. Loan growth was centered in the commercial loan portfolio, which was up $52.7 million or 9.1% for the year, including $22.4 million of growth in the fourth quarter. Residential mortgage loans increased $23.3 million, or 5.0% for the year, while decreases were experienced in the municipal loan and home equity line of credit portfolios.

Total deposits at December 31, 2019 were $1.65 billion, up $123.4 million or 8.1% from December 31, 2018. Low-cost deposits increased $15.9 million year-over-year, and certificates of deposit increased $98.6 million. Deposit growth allowed for a $25.4 million year-over-year reduction in borrowed funds.

The Company's capital position remained strong as of December 31, 2019, with a total risk-based capital ratio of 15.27%, and leverage capital ratio of 8.88%. These measures compare favorably to 15.19% and 8.60% respectively as of December 31, 2018, and are well in excess of regulatory requirements.

ASSET QUALITY

Asset quality is stable and solid. As of December 31, 2019, non-performing assets as a percentage of total assets were 0.82%, up marginally from 0.79% a year earlier. Past due loans were 1.16% of total loans at December 31, 2019, up marginally from 1.08% of total loans at December 31, 2018. Net charge-offs as a percentage of loans were 0.07% as of December 31, 2019, down from 0.08% in 2018 and 0.12% in 2017.

The provision for loan losses totaled $375,000 in the fourth quarter of 2019, compared with $167,000 for the same period in 2018. For the year ended December 31, 2019 the provision for loan losses totaled $1.25 million, compared with $1.5 million in 2018. The Company's organic loan portfolio growth, as well as the positive historical charge-off statistics and generally stable economic and market conditions for the last several years, were key factors in the quantitative and qualitative modeling used by management to determine the provision expense required to maintain an adequate allowance for loan losses. The allowance for loan losses stood at 0.90% of total loans as of December 31, 2019, down slightly from the 0.91% of total loans at December 31, 2018.

OPERATING RESULTS

Net Income for the year ended December 31, 2019 was $25.5 million, up $2.0 million or 8.5% from the year ended December 31, 2018. On a fully diluted earnings per share basis, 2019 earnings were $2.34, up $0.17 or 7.8% from the prior year. The Company's Return on Average Assets of 1.27% for the year ended December 31, 2019 was up from 1.23% for the year ended December 31, 2018. Return on Average Tangible Common Equity was 14.66% and 15.18% respectively for the same periods, reflecting a higher level of capital being held.

CONTRIBUTING FACTORS TO THE COMPANY'S 2019 RESULTS

- Earning asset growth led to a $2.4 million increase in tax-equivalent net interest income year-over –year, an increase of 4.6%, despite net interest margin declining

Ellsworth Branch Grand Opening

slightly from 2.91% for the year ended December 31, 2018 to 2.89% for the year ended December 31, 2019.

- Non-interest income, net of securities gains, was $14.0 million for the year ended December 31, 2019, up $1.5 million or 12.1% from 2018. Contributors to the increase were mortgage banking revenue growth of 22.0% year-to-year; growth of 9.5% year-over-year at First National Wealth Management, the bank's trust and investment management division, and new revenue sources including loan swap fees.
- Non-interest expense for 2019 was up $1.7 million or 5.1% from 2018. The year-over-year change was centered in employee expenses which increased 4.3% from the prior year. The Company benefited from FDIC insurance premium credits which helped reduce the bank's FDIC premium expense by $787,000 year-over-year.

"I am very proud of my tremendous team and the hard work we all put in to achieve these amazing results."

DIVIDEND AND STOCK PERFORMANCE

Shares of The First Bancorp closed the year at $30.23 up from $26.30 at the end of 2018. With dividends re-invested, shares of The First Bancorp provided shareholders with a total annualized return of 20.13% for the year ended December 31, 2019, and 103.04% over the five years then ended.

The Company's total return compares well to the broad market over the same periods as measured by the S&P 500 with returns of 31.48%, and 73.80% respectively, and the Russell 2000, in which we are included, with total returns of 25.49%, and 48.36% respectively.

The First Bancorp's stock performance also compares well to the banking industry over these same time horizons as measured by the KBW Regional Bank Index with total returns of 23.86%, and 53.43% respectively, and the NASDAQ Bank Index with total returns of 24.38% and 65.11% respectively over the same time periods.

Your Company's stock has a nice story to tell over the last year, and the last five years.

FIVE YEAR HIGHLIGHTS AND GOAL SETTING FOR SUCCESS

As noted above, it is not in the nature of your Company to rest on the successes of the past. We remain forward looking to a successful completion of each year's mission and to the three year mission as defined by our strategic plan. Recently, however, I did take a look back at the last five years and want to highlight a few financial indicators that have contributed to the Company's success.

	Year End 2014	Year End 2019	% Variance
Return on Equity	11.59%	15.11%	30.37%
Return on Assets	1.04%	1.32%	26.92%
Key Fee Income	$8,061,235	$11,245,004	39.49%
Net Income	$15,071,910	$26,122,293	73.32%
Efficiency Ratio	55.72%	49.98%	-10.30%

**please note above metrics are for the Bank only, not the holding company*

Each of these statistics has its own story to tell and we have shared that information in our annual reports over the years. I am very proud of my tremendous team and the hard work we all put in to achieve these amazing results.

While there are other successes we could point to – such as OREO which has dropped over 92% in the last five years, and total assets which have grown over 40%, I highlight these five because they are a critical part of the Company's approach to goal setting.

When I was first appointed President and CEO, I knew that it was important for the success of our Company to ensure that all employees were pulling on the same rope and that everyone understood the Company's goals and the role that each individual plays in achieving those goals. To that end, we established a unique approach to goal setting that has and continues to serve the Company well.

Our goal setting approach is three-tiered. At the top of every employee's goal sheet are listed our corporate goals which are the quantitative, measurable indicators that represent the Company's overall numerical objectives for the year. These goals become part of the mission we are working towards in any given year.

In the second and third tier we focus on the employee's individual role within the Company. Each employee has a mix of both quantitative goals and qualitative goals related to their specific job on their individual goal sheet. These goals are directly tied to both the Company's overall mission for the year as well as to the Company's strategic plan. In each coaching session employees have with their supervisors, goals are reviewed and progress is noted. We also share our corporate results with employees as the year goes on.

Through these goals sheets, we communicate corporate priorities through the Company, to all employees. Through clear communication and transparency about what we hope to achieve, employees are vested in the Company and understand how their work makes a difference every day.

RENOVATING FOR CUSTOMER CONVENIENCE AND EXPERIENCE

In some of our more recent annual reports, you have seen pictures and heard me describe our newly renovated branches. Built with the customer experience in mind, the "Pod" environment has improved customer flow and increased customer engagement with our Banking Associates who are able to handle transactions, open deposit accounts, and in some cases, process consumer loans, right at their Pod.

In 2019, we renovated our Rockport branch, so all four of our Knox County branches are now fully renovated. And while we may be changing the "look" of our branch layouts, we are not changing our approach to branch banking. In Rockport, and in all of our locations, our lenders make their own decisions and work directly with customers to help their dreams come true.

Also, in 2019, we celebrated the "Grand Reopening" of our Ellsworth branch. For many years, our branch had been located in the Maine Coast Mall, and our First National Wealth Management staff was located in rented space on the Surry Road. This past year we put them together under one roof at our new location on the Beechland Road. This beautiful new space has created new synergies between wealth management and branch, business development and lending staff. We also now have a community room available for non-profits to use for meeting space. A beautiful branch, friendly staff and easy access from Beechland Road have all combined to enhance the banking experience for our Ellsworth area customers.

PARTNERING WITH THE BEST

Continuing with the customer experience, your Company excels at providing core banking services to customers of all kinds – individuals, families, large and small businesses, municipalities and non-profits. We know, however, that the best way to provide top-notch ancillary services is to partner with the best third party vendors. From a profitability perspective it no longer makes sense for a Company of our size to provide products and services such as payroll and credit cards to our customers directly. To that end, we have partnered with Action Payroll, a New England based company to provide our business customers payroll and other related services. We also work with Elan Financial Services to provide both consumer and business credit card products. And, in early 2020 we began a partnership with First Data to provide our business customers with a merchant credit card processing alternative. By sticking to what we do best, core banking, and partnering with others, we can provide our customers the full complement of financial products and services they need.

HIRING FOR GROWTH AND PROMOTING FROM WITHIN

As we worked on our last two strategic plans, initiatives that revolve around being an employer of choice and employee satisfaction have been true priorities. Through strategic planning action items we created a training and education department and developed our wonderful Dream Academy program which gives eight high potential employees the opportunity to "come back stage", so to speak, to learn in-depth what our Executive Team members do on a daily basis, get a better understanding of strategic decision making and complete a project based on a strategic plan action item. We have had four Dream Academy sessions so far and they have all been very successful with all groups completing extremely valuable work for the Company. Of the 32 employees that have gone through the program, only one is no longer with the Company, and several have been promoted to positions of increased responsibility. The Dream Academy encourages our employees to dream big about their futures at First National Bank.

While promoting from within is often ideal, there are times when we look outside to hire for a specific skill set for experience that our employees may not have. In 2019, we brought in several new employees to fill needs we had in the commercial lending area, in business development, in branch banking and in wealth management related jobs. We are so excited to have these employees on board and so far their acclimation to our culture has been seamless. As our vision statement says, "Highly talented individuals... will think of us as an employer of choice." We are very pleased with the folks who chose to join us in 2019.

As we begin 2020 and look to our next strategic plan, employee engagement will be our priority. We began the process in 2019 by getting input from our employees as to what they like about their jobs and how we can make their work experience more satisfying and engaging for them. We shared these results with the entire management team so we can all work together to create a fully engaged workforce at your Company.

The Summit Project

REMEMBERING THOSE THAT HAVE COME BEFORE US

As I close this letter, I would like to ask that you take a minute and read about the three men who are memorialized in this report. When we began our planning process in 2015, we put together a guiding philosophy that brought forward the best of our past, to prepare us for an even better future. Bruce Bartlett, Les Brewer and Carl Poole impacted The First National Bank of Damariscotta, First National Bank of Bar Harbor and today's merged Company, First National Bank in many ways. They provided guidance to help us get where we are today. As our philosophy says, "We stand on the shoulders of bankers who stood ready to serve their stakeholders, we will continue that service." Our best days are truly ahead.

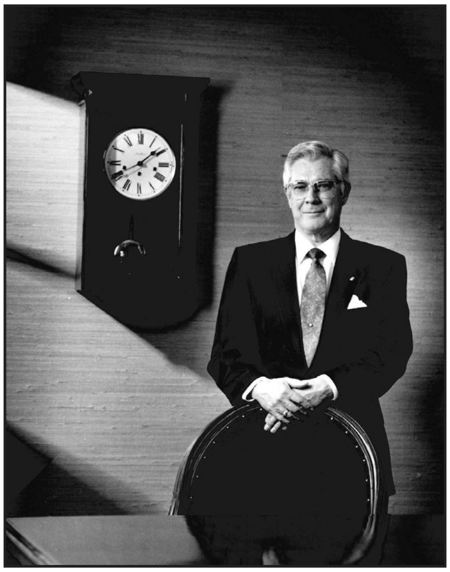
Thank you for honoring me with this position and continuing to support me as President and Chief Executive Officer of your great Company.

Best always,

Tony C. McKim

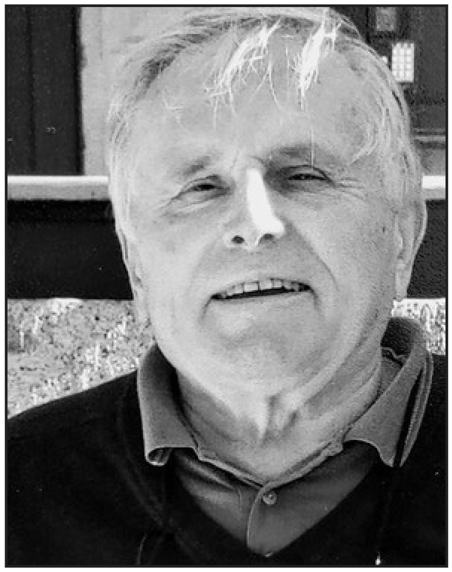
Tony C. McKim
President & Chief Executive Officer

In Remembrance



Bruce A. Bartlett

Bruce Bartlett, President of The First National Bank of Damariscotta from 1981 to 1994, passed away in March, 2019. During Bruce's tenure at the Bank, the Wiscasset branch was opened and the Bank started entering the "technology age" adding ATMs and ATM cards. A Maine native, Bruce grew up in Auburn, graduated from Edward Little High School and started in banking right after his high school graduation as a messenger at Manufacturer's National Bank in Lewiston. Bruce served in the Air Force from 1953-1957. After retiring from the Bank, he was a dedicated volunteer at Skidompha Library in Damariscotta. Often at the front desk, Bruce chatted with friends and former co-workers and kept a pulse on downtown. Father of two sons and grandfather of five, Bruce was married to his wife Margaret for 56 years.



Leslie C. Brewer

Leslie Brewer, a Director of the First National Bank of Bar Harbor passed away in August, 2019. A co-founder of the College of the Atlantic, Les served on the board of the Bank from 1962-1992. Les witnessed major changes in the financial services industry as well as growth of the bank's franchise. A native of Bar Harbor, Les graduated from Bar Harbor High School and received a degree in electrical engineering from the University of Maine Orono after serving in the US Army during World War II. Devoted to the Mount Desert Island area, Les was an entrepreneur, founding and/or partnering in several island businesses. In addition to College of the Atlantic and the bank's board, Les helped create MDI High School and served on the boards of many non-profits as well as being active in local government. A father of two and grandfather of four, Les left a lasting legacy in his home town.

Carl S. Poole, Jr.

Carl Poole, a Director of First National Bank and The First Bancorp passed away in February, 2019. Serving as director of both the Bank and the holding company from 1984-2015, Carl saw the company through tremendous change and growth including the FNB Damariscotta and FNB Bar Harbor merger. A lifelong resident of the Damariscotta area, Carl graduated from Bristol High School and enlisted in the Coast Guard Reserves after graduation. Carl started working at Poole Brother's Lumber Company while still a teenager and then owned and operated the business until retiring in 2005. Carl was passionate about his business and his community. He was a supporter of the Community Energy Fund of Lincoln County which helps low income families purchase fuel, and the Bristol First Responders. Married to his wife Emily for almost 50 years, Carl was a father of two and grandfather of two. He will be long remembered in the Damariscotta region.

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**
For the Fiscal Year ended December 31, 2019

Commission File Number 0-26589

THE FIRST BANCORP, INC.

(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.)

223 Main Street	**Damariscotta**	**Maine**	**04543**
(Address of principal executive offices)			(Zip code)

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ **No** ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ **No** ☒

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 12 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 ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ **Accelerated filer** ☒ **Non-accelerated filer** ☐ **Smaller reporting company** ☒
Emerging growth company ☐
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ **No** ☒

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Common Stock: $273,082,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 2020

Common Stock: 10,920,770 shares

Documents Incorporated By Reference:

Proxy Statement for the Annual Meeting of Shareholders

to be held on April 29, 2020

Table of Contents

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ITEM 1. Discussion of Business

The First Bancorp, Inc. (the "Company") was incorporated under the 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, which was chartered as a national bank under the laws of the United States on May 30, 1864. At the Company's Annual Meeting of Shareholders on April 30, 2008, the Company's name was changed from First National Lincoln Corporation to The First Bancorp, Inc.

On January 14, 2005, the acquisition of FNB Bankshares ("FNB") of Bar Harbor, Maine, was completed, adding seven banking offices and one investment management office in Hancock and Washington counties of Maine. FNB's subsidiary, The First National Bank of Bar Harbor, was merged into The First National Bank of Damariscotta at closing, and from January 31, 2005, until January 28, 2016, the combined banks operated under the name: The First, N.A. On January 28, 2016, the Board of Directors voted to change the Bank's name to First National Bank (the "Bank").

On October 26, 2012, the Bank completed the purchase of a branch at 63 Union Street in Rockland, Maine, from Camden National Bank ("Camden National"). The branch is one of 15 Maine branches Camden National acquired from Bank of America, and this branch was divested by Camden National to resolve competitive concerns in that market raised by the U.S. Department of Justice's Antitrust Division. As part of the transaction, the Bank acquired approximately $32.3 million in deposits as well as a small volume of loans. On the same date, the Bank completed the purchase of a full-service bank building at 145 Exchange Street in Bangor, Maine, also from Camden National, and opened a full-service branch in this building in February of 2013. The total value of the transaction was $6.6 million, which included the premises and equipment for the two locations, the premium paid for the Rockland deposits, a small amount of loans, plus core deposit intangible and goodwill.

As of December 31, 2019, the Company's securities consisted of one class of common stock. At that date, there were 10,899,210 shares of common stock outstanding.

The common stock of the Bank is the principal asset of the Company, which has no other subsidiaries. The Bank's capital stock consists of one class of common stock, of which 290,069 shares, par value $2.50 per share, are issued and outstanding. All of the Bank's common stock is owned by the Company.

The Bank emphasizes personal service, and its customers are primarily small businesses and individuals to whom the Bank offers a wide variety of services, including deposit accounts and consumer, commercial and mortgage loans. 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 is seasonal with lower deposits in the winter and spring and higher deposits in the summer and fall. This swing is predictable and has not had a materially adverse effect on the Bank.

In addition to traditional banking services, the Company provides investment management and private banking services through First National Wealth Management, which is an operating division of the Bank. First National Wealth Management is able to offer a comprehensive array of private banking, financial planning, investment management and trust services to individuals, businesses, non-profit organizations and municipalities of varying asset size, and to provide the highest level of personal service. The staff includes investment and trust professionals with extensive experience. In 2019, the bank introduced First National Investment Services. Through a partnership with a third party provider, First National Investment Services offers additional products such as brokerage, annuity products and certain types of insurance.

The financial services landscape has continued to evolve over the past five years in the Bank's primary market area. While large out-of-state banks have continued to experience local change as a result of activity at the regional and national level, online and mobile banking acceptance has increased and opened the market to new forms of competition. Credit unions have continued to expand their membership and the scope of banking services offered. Non-banking entities such as brokerage houses, mortgage companies and insurance companies are offering very competitive products. Many of these entities and institutions have resources substantially greater than those available to the Bank and in some cases are not subject to the same regulatory restrictions as the Company and the Bank.

The Company believes that there will continue to be a need for a bank in the Bank's primary market area with local management having decision-making power and emphasizing loans to small and medium-sized businesses and to individuals. The Bank has concentrated on extending business loans to such customers in the Bank's primary market area and to extending investment and trust services to clients with accounts of all sizes. Investment has also been made in enhancing the Bank’s suite of online and mobile offerings to both enhance service delivery and provide additional channels for customers to conduct business with the Bank. Management also makes decisions based upon, among other things, the knowledge of the Bank's employees regarding the communities and customers in the Bank's primary market area. The individuals employed by the Bank, to a large extent, reside near the branch offices and thus are generally familiar with their communities and customers. This is important in local decision-making and allows the Bank to respond to customer questions and concerns on a timely basis and fosters quality customer service.

The Bank has worked and will continue to work to position itself to be competitive in its market area. The Bank's ability to make decisions close to the marketplace, Management's commitment to providing quality banking products, the caliber of the professional staff, and the community involvement of the Bank's employees are all factors affecting the Bank's ability to be competitive.

Supervision and Regulation

The Company is a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and section 225.82 of Regulation Y issued by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "FRB"), and is required to file with the Federal Reserve Board an annual report and other information required pursuant to the BHC Act. The Company is subject to examination by the Federal Reserve Board. Virtually all 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 18 to the accompanying financial statements. The Bank is regulated by the Office of the Comptroller of the Currency (the "OCC") and is subject to the provisions of the National Bank Act. As a result, it must meet certain liquidity and capital requirements, which are discussed in the following sections.

General

As a financial holding company, the Company is subject to regulation under the BHC Act and to inspection, examination and supervision by its primary regulator, the FRB. The Company is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, both as administered by the Securities and Exchange Commission (the "SEC"). As a company with securities listed on the NASDAQ, the Company is subject to the rules of the NASDAQ for listed companies. The Bank is subject to regulation and examination primarily by the OCC and is subject to the regulations of the Federal Deposit Insurance Corporation (the "FDIC").

Bank Holding Company Activities

As a bank holding company ("BHC") that has elected to become a financial holding company pursuant to the BHC Act, we may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. "Financial in nature" activities include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking; and activities that the FRB, in consultation with the Secretary of the U.S. Treasury, determines to be financial in nature or incidental to such financial activity. "Complementary activities" are activities that the FRB determines upon application to be complementary to a financial activity and do not pose a safety and soundness risk.

FRB approval is not generally required for us to acquire a company (other than a bank holding company, bank or savings association) engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRB. Prior notice to the FRB may be required, however, if the company to be acquired has total consolidated assets of $10 billion or more. Prior FRB approval is required before we may acquire the beneficial ownership or control of more than 5% of the voting shares or substantially all of the assets of a bank holding company, bank or savings association.

Because we are a financial holding company, if the Bank receives a rating under the Community Reinvestment Act of 1977, as amended (the "CRA"), of less than satisfactory, the Bank and/or the Company will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations, except that we could engage in new activities, or acquire companies engaged in activities, that are closely related to banking under the BHC Act. Industry regulators have recently proposed reforms to CRA; the Company is monitoring these for any impact they may have on our operations. In addition, if the FRB finds that the Bank is not well capitalized or well managed, we would be required to enter into an agreement with the FRB to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, we could be prohibited from engaging in any new activity or acquiring companies engaged in activities that are not closely related to banking under the BHC Act without prior FRB approval. If we fail to correct any such condition within a prescribed period, the FRB could order us to divest our banking subsidiaries or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHC Act.

In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition, and future prospects including current and projected capital ratios and levels, the competence, experience, and integrity of management and record of compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution's record of compliance under the CRA, the effectiveness of the acquiring institution in combating money laundering activities and the risk to the stability of the United States banking system.

The Company is a legal entity separate and distinct from the Bank. The primary source of funds to pay dividends on our common stock is dividends from the Bank. Various federal and state statutory provisions and regulations limit the amount of dividends the Bank may pay without regulatory approval. Federal bank regulatory agencies have the authority to prohibit the Bank from engaging in unsafe or unsound practices in conducting its business. The payment of dividends, depending on the financial condition of the Bank, could be deemed an unsafe or unsound practice. The ability of the Bank to pay dividends in the future is currently, and could be further, influenced by bank regulatory policies and capital guidelines.

The Bank is subject to restrictions under federal law that limit the transfer of funds or other items of value from a subsidiary to the Company and any nonbank subsidiaries (including affiliates) in so-called "covered transactions." In general, covered transactions include loans and other extensions of credit, investments and asset purchases, as well as certain other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. Unless an exemption applies, covered transactions by a subsidiary bank with a single affiliate are limited to 10% of the subsidiary bank's capital and surplus and, with respect to all covered transactions with affiliates in the aggregate, to 20% of the subsidiary bank's capital and surplus. Also, loans and extensions of credit to affiliates generally are required to be secured by qualifying collateral. A bank's transactions with its nonbank affiliates are also generally required to be on arm's-length terms.

The FRB has a policy that a BHC is expected to act as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank. This support may be required at times when the BHC may not have the resources to provide the support. The OCC may order an assessment of the BHC if the capital of one of its national bank subsidiaries were to become impaired. If the BHC failed to pay the assessment within three months, the OCC could order the sale of the BHC's holdings of stock in the national bank to cover the deficiency.

In the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors payable in the United States (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution fails, claims of insured and uninsured U.S. depositors, along with claims of the FDIC, will have priority in payment ahead of unsecured creditors, including the BHC, and depositors whose deposits are solely payable at such insured depository institution's non-U.S. offices.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act, enacted on July 21, 2010, has resulted in broad changes to the U.S. financial system and was the most significant financial reform legislation enacted since the 1930s. Financial regulatory agencies have issued numerous rulemakings to implement its provisions; however some rules called for in the Act have yet to be promulgated or to take effect. The present administration in Washington has made a commitment to weaken the Act and numerous reform measures have been proposed including S.2155, passed in May 2018. The ultimate impact of the Dodd-Frank Act continues to evolve nearly 10 years since its passage, but it has affected, and we expect it will continue to affect, most of our business in some way, either directly through regulation of specific activities or indirectly through regulation of concentration risks, capital and liquidity.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau (the “CFPB”) to ensure consumers receive clear and accurate disclosures regarding financial products and to protect consumers from hidden fees and unfair or abusive practices. The CFPB concentrated much of its initial rulemaking efforts on mortgage lending related topics required under the Act, including ability-to-repay, qualified mortgage standards, mortgage servicing standards, loan originator compensation, high-cost mortgage requirements and appraisal and escrow requirements for higher priced mortgage loans. In October 2015 TILA RESPA Integrated Disclosure (TRID) requirements went into effect to enhance the disclosures provided by lenders to mortgage loan applicants. In 2018 new rules went into effect for the Home Mortgage Disclosure Act (HMDA), expanding its scope and data reporting requirements. While the general tenor of the CFPB has shifted under its new leadership, we expect that the CFPB will remain focused on the exercise of its rulemaking authority through its own examination practices or those of the prudential regulators.

Customer Information Security

The FDIC, the OCC and other bank regulatory agencies have published guidelines (the "Guidelines") establishing standards for safeguarding nonpublic personal information about customers that implement provisions of the Gramm-Leach-Bliley Act (the "GLBA"). Among other things, the Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Protecting the privacy of our customers’ information as well as the security of the Bank’s systems and networks has long been and will continue to be a priority. The Board is committed to maintaining strong and meaningful privacy and security protections for our customers’ information. The Chief Information Officer regularly provides reports to Senior Management and the Board regarding the Company's ongoing assessment of cybersecurity threats and risks, data security programs designed to prevent and detect threats, attacks, incursions and breaches, as well as management, mitigation and remediation of potential, and any actual, cybersecurity and information technology risks and breaches. In addition, the Audit Committee and Management review reports from the Internal Auditor regarding their evaluation of the Company’s Information Technology department on a regular basis. The Board and Management recognize that cybersecurity matters, including expenditure related threats and the impact of incursions or breaches, may implicate the Company's disclosure under SEC rules and regulations, and intend to remain vigilant with respect to the cybersecurity aspects of these obligations.

Privacy

The FDIC, the OCC and other regulatory agencies have published privacy rules pursuant to provisions of the GLBA ("Privacy Rules"). The Privacy Rules, which govern the treatment of nonpublic personal information about consumers by financial institutions, require a financial institution to provide notice to customers (and other consumers in some circumstances) about its privacy policies and practices, describe the conditions under which a financial institution may disclose nonpublic personal information to nonaffiliated third parties, and provide a method for consumers to prevent a financial institution from disclosing that information to most nonaffiliated third parties by "opting-out" of that disclosure, subject to certain exceptions.

USA Patriot Act
The USA Patriot Act of 2001, designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system, has significant implications for depository institutions, broker-dealers and other businesses involved in the transfer of money. The USA Patriot Act, together with the implementing regulations of various federal regulatory agencies, have caused financial institutions, including the Bank, to adopt and implement additional, or to amend existing, policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity and currency transaction reporting, customer identity verification and customer risk analysis. The statute and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board (and other federal banking regulatory agencies) to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHC Act or under the Bank Merger Act.

The Bank Secrecy Act
The Bank Secrecy Act (the "BSA") requires all financial institutions, including banks and securities broker-dealers, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence/know-your-customer documentation requirements. The Bank has established an anti-money laundering program to comply with the BSA requirements.

The Sarbanes-Oxley Act
The Sarbanes-Oxley Act of 2002 ("SOX") implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as the Company) designed to promote honesty and transparency in corporate America and better protect investors from the types of corporate wrongdoings that occurred at Enron and WorldCom, among other companies. SOX's principal provisions, many of which have been implemented through regulations released and policies and rules adopted by the securities exchanges in 2003 and 2004, provide for and include, among other things:

- The creation of an independent accounting oversight board;
- Auditor independence provisions which restrict non-audit services that accountants may provide to clients;
- Additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements;
- The forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve-month period following initial publication of any financial statements that later require restatement;
- An increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the public company's independent auditors;
- Requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer;
- Requirements that companies disclose whether at least one member of the audit committee is a 'financial expert' (as such term is defined by the SEC), and if not, why not;
- Expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during certain blackout periods;
- A prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, such as the Bank, on nonpreferential terms and in compliance with bank regulatory requirements;
- Disclosure of a code of ethics and filing a Form 8-K in the event of a change or waiver of such code; and
- A range of enhanced penalties for fraud and other violations.

The Company complies with the provisions of SOX and its underlying regulations. Management believes that such compliance efforts have strengthened the Company's overall corporate governance structure, and does not believe that such compliance has to date had, or will in the future have, a material impact on the Company's results of operations or financial condition.

Capital Requirements
The OCC has established guidelines with respect to the maintenance of appropriate levels of capital by FDIC-insured banks. The Federal Reserve Board has established substantially identical guidelines with respect to the maintenance of appropriate levels of capital, on a consolidated basis, by BHCs. If a banking organization's capital levels fall below the minimum requirements established by such guidelines, a bank or BHC will be expected to develop and implement a plan acceptable to the FDIC or the Federal Reserve Board, respectively, to achieve adequate levels of capital within a reasonable period, and may be

denied approval to acquire or establish additional banks or non-bank businesses, merge with other institutions or open branch facilities until such capital levels are achieved. Federal regulations require federal bank regulators to take "prompt corrective action" with respect to insured depository institutions that fail to satisfy minimum capital requirements, and to impose significant restrictions on such institutions. See "Prompt Corrective Action" below.

Leverage Capital Ratio
The regulations of the OCC require national banks to maintain a minimum "Leverage Capital Ratio" or ratio of "Tier 1 Capital" (as defined in the Risk-Based Capital Guidelines discussed in the following paragraphs) to Total Assets of 4.0%. Any bank experiencing or anticipating significant growth is expected to maintain capital well above the minimum levels. The Federal Reserve Board's guidelines impose substantially similar leverage capital requirements on BHCs on a consolidated basis. It is possible that banking regulators may increase minimum capital requirements for banks should economic conditions worsen.

Risk-Based Capital Requirements
OCC regulations also require national banks to maintain minimum capital levels as a percentage of a bank's risk-adjusted assets. A bank's qualifying total capital ("Total Capital") for this purpose may include two components: "Core" (Tier 1) Capital and "Supplementary" (Tier 2) Capital. Core Capital consists primarily of common stockholders' equity, which generally includes common stock, related surplus and retained earnings, certain non-cumulative perpetual preferred stock and related surplus, and minority interests in the equity accounts of consolidated subsidiaries, and (subject to certain limitations) mortgage servicing rights and purchased credit card relationships, less all other intangible assets (primarily goodwill). Supplementary Capital elements include, subject to certain limitations, a portion of the allowance for loan losses, perpetual preferred stock that does not qualify for inclusion in Tier 1 capital, long-term preferred stock with an original maturity of at least 20 years and related surplus, certain forms of perpetual debt and mandatory convertible securities, and certain forms of subordinated debt and intermediate-term preferred stock.

The risk-based capital rules assign the majority of a bank's balance sheet assets and the credit equivalent amounts of the bank's off-balance sheet obligations to one of four risk categories, weighted at 0%, 20%, 50% or 100%, as applicable. A small amount of assets and off-balance sheet obligations are assigned a risk weight above 100%. Applying these risk-weights to each category of the bank's balance sheet assets and to the credit equivalent amounts of the bank's off-balance sheet obligations and summing the totals results in the amount of the bank's total Risk-Adjusted Assets for purposes of the risk-based capital requirements. Risk-Adjusted Assets can either exceed or be less than reported balance sheet assets, depending on the risk profile of the banking organization. Risk-Adjusted Assets for institutions such as the Bank will generally be less than reported balance sheet assets because its retail banking activities include proportionally more residential mortgage loans, many of its investment securities have a low risk weighting and there is a relatively small volume of off-balance sheet obligations.

The risk-based capital regulations require all banks to maintain a minimum ratio of Total Capital to Risk-Adjusted Assets of 8.0%, of which at least one-half (4.0%) must be Core (Tier 1) Capital. For the purpose of calculating these ratios: (i) a banking organization's Supplementary Capital eligible for inclusion in Total Capital is limited to no more than 100% of Core Capital; and (ii) the aggregate amount of certain types of Supplementary Capital eligible for inclusion in Total Capital is further limited. For example, the regulations limit the portion of the allowance for loan losses eligible for inclusion in Total Capital to 1.25% of Risk-Adjusted Assets. The Federal Reserve Board has established substantially identical risk-based capital requirements, which are applied to BHCs on a consolidated basis. The risk-based capital regulations explicitly provide for the consideration of interest rate risk in the overall evaluation of a bank's capital adequacy to ensure that banks effectively measure and monitor their interest rate risk, and that they maintain capital adequate for that risk. A bank deemed by its federal banking regulator to have excessive interest rate risk exposure may be required to maintain additional capital (that is, capital in excess of the minimum ratios discussed above). The Bank believes, based on its level of interest rate risk exposure, that this provision will not have a material adverse effect on it.

On December 31, 2019, the Company's consolidated Total and Tier 1 Risk-Based Capital Ratios were 15.27% and 14.34%, respectively, and its Leverage Core Capital Ratio was 8.88%. Based on the above figures and accompanying discussion, the Company exceeds all regulatory capital requirements and is considered well capitalized.

Basel III Capital Requirements
In December 2010, the Basel Committee on Bank Supervision (the "BCBS") finalized a set of international guidelines for determining regulatory capital known as "Basel III." These guidelines were developed in response to the financial crisis of 2008 and 2009 and were intended to address many of the weaknesses identified in the banking sector as contributing to the crisis including excessive leverage, inadequate and low quality capital and insufficient liquidity buffers. The Basel III guidelines:

- raised the quality of capital so that banks will be better able to absorb losses on a going concern basis;
- increased the risk coverage of the capital framework, specifically for trading activities, securitizations, exposures to off-balance sheet vehicles, and counterparty credit exposures arising from derivatives;
- raised the level of minimum capital requirements;
- established an international leverage ratio;
- developed capital buffers; and

- raised standards for the supervisory review process (Pillar 2) and public disclosures (Pillar 3).

In June 2013, the U.S. banking regulators finalized rulemaking to implement the BCBS capital guidelines for U.S. banks, including, among other things:

- implement in the United States the Basel III regulatory capital reforms, including those that revise the definition of capital, increase minimum capital ratios, and introduce a minimum Tier 1 common equity ratio of 4.5% and a capital conservation buffer of 2.5% (for a total minimum Tier 1 common equity ratio of 7.0%) and a potential countercyclical buffer of up to 2.5%, which would be imposed by regulators at their discretion if it is determined that a period of excessive credit growth is contributing to an increase in systemic risk;
- revise "Basel I" rules for calculating risk-weighted assets to enhance risk sensitivity;
- modify the existing Basel II advanced approaches rules for calculating risk-weighted assets to implement Basel III; and
- comply with the Dodd-Frank Act provision prohibiting reliance on external credit ratings to support certain investment decisions.

The U.S. banking regulators also approved a final rule to implement changes to the market risk capital rule, which requires banking organizations with significant trading activities to adjust their capital requirements to better account for the market risks of those activities.

The Company has evaluated the impact of Basel III on its capital ratios based on our interpretation of the capital requirements, and our Tier 1 common equity ratio of 14.34% exceeded the fully phased-in minimum of ratio of 7.00% by 7.34 percentage points at December 31, 2019.

From time to time, the OCC, the FRB and the Federal Financial Institutions Examination Council (the "FFIEC") propose changes and amendments to, and issue interpretations of, risk-based capital guidelines and related reporting instructions. In addition, the FRB has closely monitored capital levels of the institutions it supervises during the ongoing financial disruption, and may require such institutions to modify capital levels based on FRB determinations. Such determinations, proposals or interpretations could, if implemented in the future, affect our reported capital ratios and net risk-adjusted assets.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") requires, among other things, that the federal banking regulators take "prompt corrective action" with respect to, and imposes significant restrictions on, any bank that fails to satisfy its applicable minimum capital requirements. FDICIA establishes five capital categories consisting of "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." Under applicable regulations, a bank that has a Total Risk-Based Capital Ratio of 10.0% or greater, a Tier 1 Risk-Based Capital Ratio of 8.0% or greater and a Leverage Capital Ratio of 5.0% or greater, and is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure, is deemed to be "well capitalized." A bank that has a Total Risk-Based Capital Ratio of 8.0% or greater, a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Leverage Capital Ratio of 4.0% (or 3% for banks with the highest regulatory examination rating that are not experiencing or anticipating significant growth or expansion) or greater and does not meet the definition of a well-capitalized bank is considered to be "adequately capitalized." A bank that has a Total Risk-Based Capital Ratio of less than 8.0% or has a Tier 1 Risk-Based Capital Ratio that is less than 4.0%, except as noted above, or a Leverage Capital Ratio of less than 4.0% is considered "undercapitalized." A bank that has a Total Risk-Based Capital Ratio of less than 6.0%, or a Tier 1 Risk-Based Capital Ratio that is less than 3.0% or a Leverage Capital Ratio that is less than 3.0% is considered to be "significantly undercapitalized," and a bank that has a ratio of tangible equity to total assets equal to or less than 2% is deemed to be "critically undercapitalized." A bank may be deemed to be in a capital category lower than is indicated by its actual capital position if it is determined to be in an unsafe or unsound condition or receives an unsatisfactory examination rating. FDICIA generally prohibits a bank from making capital distributions (including payment of dividends) or paying management fees to controlling stockholders or their affiliates if, after such payment, the bank would be undercapitalized.

Under FDICIA and the applicable implementing regulations, an undercapitalized bank will be (i) subject to increased monitoring by its primary federal banking regulator; (ii) required to submit to its primary federal banking regulator an acceptable capital restoration plan (guaranteed, subject to certain limits, by the bank's holding company) within 45 days of being classified as undercapitalized; (iii) subject to strict asset growth limitations; and (iv) required to obtain prior regulatory approval for certain acquisitions, transactions not in the ordinary course of business, and entries into new lines of business. In addition to the foregoing, the primary federal banking regulator may issue a "prompt corrective action directive" to any undercapitalized institution. Such a directive may (i) require sale or re-capitalization of the bank; (ii) impose additional restrictions on transactions between the bank and its affiliates; (iii) limit interest rates paid by the bank on deposits; (iv) limit asset growth and other activities; (v) require divestiture of subsidiaries; (vi) require replacement of directors and officers; and (vii) restrict capital distributions by the bank's parent holding company. In addition to the foregoing, a significantly undercapitalized institution may not award bonuses or increases in compensation to its senior executive officers until it has submitted an acceptable capital restoration plan and received approval from its primary federal banking regulator.

No later than 90 days after an institution becomes critically undercapitalized, the primary federal banking regulator for the institution must appoint a receiver or, with the concurrence of the FDIC, a conservator, unless the agency, with the concurrence of the FDIC, determines that the purpose of the prompt corrective action provisions would be better served by another course of action. FDICIA requires that any alternative determination be "documented" and reassessed on a periodic basis. Notwithstanding the foregoing, a receiver must be appointed after 270 days unless the appropriate federal banking agency and the FDIC certify that the institution is viable and not expected to fail.

Deposit Insurance Assessments

The Bank is a member of the Deposit Insurance Fund ("DIF") maintained by the FDIC. Through the DIF, the FDIC insures the deposits of the Bank up to prescribed limits for each depositor. The DIF was formed March 31, 2006, upon the merger of the Bank Insurance Fund and the Savings Insurance Fund in accordance with the Federal Deposit Insurance Reform Act of 2005 (the "FDIR Act"). The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the institution's regulatory agency. The termination of deposit insurance for the Bank could have a material adverse effect on our earnings.

The Bank's deposits are subject to deposit insurance assessments to maintain the DIF. The Bank's deposit insurance assessments are based on its assets. To determine its deposit insurance assessment base, the Bank computes the base amount of its average consolidated assets less its average tangible equity (defined as the amount of Tier I capital) and the applicable assessment rate. On May 20, 2016, the FDIC's Board of Directors adopted a final rule that changed the manner in which deposit insurance assessment rates are calculated for established small banks (generally those banks with less than $10 billion of assets that have been insured for at least five years). The rule takes a risk based approach, utilizing the CAMELS rating system, which is a supervisory rating system designed to take into account and reflect financial and operational risks that a bank may face, as one component of the assessment calculation along with seven additional metrics including capital adequacy, asset quality, earnings, brokered deposit reliance, and assets growth rate. Each of the seven metrics and a weighted average of CAMELS component ratings is multiplied by a corresponding pricing multiplier. The sum of these products is added to a uniform amount, with the resulting sum being an institution's initial base assessment rate (subject to minimum or maximum assessment rates based on a bank's CAMELS composite rating). Assessments for established small banks with a CAMELS rating of 1 or 2 range from 1.5 to 16 basis points, after adjustments. Assessment rates for established small banks with a CAMELS rating of 3 range from 3 to 30 basis points, after adjustments. Assessment rates for established small banks with a CAMELS composite rating of 4 or 5 range from 11 to 30 basis points, after adjustments. Assessment rates specific to the Bank are calculated quarterly based upon its balance sheet and performance metrics as of the prior quarter end. The FDIC has the power to adjust deposit insurance assessment rates at any time, and the Company is not able to predict the amount or timing of any adjustment.

The Federal Deposit Insurance Act ("FDIA"), as amended by the Federal Deposit Insurance Reform Act and the Dodd-Frank Act, establishes a minimum reserve ratio of the DIF to estimated insured deposits of 1.15% prior to September 2020 and 1.35% thereafter. Further, the Dodd-Frank Act required that, in setting assessments, the FDIC offset the effect of the increase in the minimum reserve ratio from 1.15% to 1.35% on banks with less than $10 billion in assets. To satisfy these requirements, on March 15, 2016, the FDIC's Board of Directors approved a final rule to increase the DIF's reserve ratio to the statutorily required minimum ratio of 1.35% of estimated insured deposits. The final rule imposed a 4.5 basis points surcharge on the quarterly insurance assessments of large banks, which became effective on July 1, 2016. The surcharge continued through September 30, 2018, when the reserve ratio reached 1.36% of insured deposits, exceeding the statutorily required minimum reserve ratio of 1.35%. Small banks, such as the Bank, were not required to pay the surcharge. To offset the effect of the increase in the reserve ratio on small banks, those banks received credits for the portion of their assessments that helped to raise the reserve ratio from 1.15% to 1.35%. Credits are to be applied automatically to reduce a small bank's regular assessment in each quarter that the reserve ratio is at least 1.38%, up to the entire amount of the credit or assessment. Credits were received in the third and fourth quarters of 2019.

Brokered Deposits and Pass-Through Deposit Insurance Limitations

Under FDICIA, a bank cannot accept brokered deposits unless it either (i) is "Well Capitalized" or (ii) is "Adequately Capitalized" and has received a written waiver from its primary federal banking regulator. For this purpose, "Well Capitalized" and "Adequately Capitalized" have the same definitions as in the Prompt Corrective Action regulations. See "Prompt Corrective Action" above. Banks that are not in the "Well Capitalized" category are subject to certain limits on the rates of interest they may offer on any deposits (whether or not obtained through a third-party deposit broker). Pass-through insurance coverage is not available in banks that do not satisfy the requirements for acceptance of brokered deposits, except that pass-through insurance coverage will be provided for employee benefit plan deposits in institutions which at the time of acceptance of the deposit meet all applicable regulatory capital requirements and send written notice to their depositors that their funds are eligible for pass-through deposit insurance. Industry regulators have recently proposed changes to the definition of brokered deposits; the Company is monitoring the proposal for any impact upon its business. The Bank currently accepts brokered deposits.

Real Estate Lending Standards
FDICIA requires the federal bank regulatory agencies to adopt uniform real estate lending standards. The FDIC and the OCC have adopted regulations which establish supervisory limitations on Loan-to-Value ("LTV") ratios in real estate loans by FDIC-insured banks, including national banks. The regulations require banks to establish LTV ratio limitations within or below the prescribed uniform range of supervisory limits. The CFPB amended Regulation Z effective January 10, 2014 to implement Ability to Repay and Qualified Mortgage Standards for residential mortgage lending. The Bank has elected to follow large bank treatment under the rule. The Bank follows the Ability to Repay rule by making a good faith determination of an applicant's ability to repay under the terms of the transaction; loans meeting the outlined standards for Qualified Mortgages are identified as such in the Bank's records. The CFPB further amended Regulation Z along with amending Regulation X to combine certain disclosures consumers receive when applying for and closing on a mortgage loan under the Truth in Lending Act and Real Estate Settlement Procedures Act. These amendments became effective October 3, 2015.

Standards for Safety and Soundness
Pursuant to FDICIA the federal bank regulatory agencies have prescribed, by regulation, standards and guidelines for all insured depository institutions and depository institution holding companies relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; and (vi) compensation, fees and benefits. The compensation standards prohibit employment contracts, compensation or benefit arrangements, stock option plans, fee arrangements or other compensatory arrangements that would provide "excessive" compensation, fees or benefits, or that could lead to material financial loss. In addition, the federal bank regulatory agencies are required by FDICIA to prescribe standards specifying: (i) maximum classified assets to capital ratios; (ii) minimum earnings sufficient to absorb losses without impairing capital; and (iii) to the extent feasible, a minimum ratio of market value to book value for publicly-traded shares of depository institutions and depository institution holding companies.

Consumer Protection Provisions
FDICIA also includes provisions requiring advance notice to regulators and customers for any proposed branch closing and authorizing (subject to future appropriation of the necessary funds) reduced insurance assessments for institutions offering "lifeline" banking accounts or engaged in lending in distressed communities. FDICIA also includes provisions requiring depository institutions to make additional and uniform disclosures to depositors with respect to the rates of interest, fees and other terms applicable to consumer deposit accounts.

FDIC Waiver of Certain Regulatory Requirements
The FDIC issued a rule, effective on September 22, 2003, that includes a waiver provision which grants the FDIC Board of Directors extremely broad discretionary authority to waive FDIC regulatory provisions that are not specifically mandated by statute or by a separate regulation.

Impact of Monetary Policy
Our business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations in United States government securities, (b) changing the discount rates of borrowings of depository institutions, (c) imposing or changing reserve requirements against depository institutions' deposits, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB may have a material effect on our business, results of operations and financial condition. 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 and Item 1A - Risk Factors, regarding the Bank's net interest margin and the effect of interest rate volatility on future earnings.

Employees
At December 31, 2019, the Company had 245 employees and full-time equivalency of 240 employees. The Company enjoys good relations with its employees. A variety of employee benefits, including health, group life and disability income insurance, a defined contribution retirement plan, and an incentive bonus plan, are available to qualifying officers and other employees.

Company Website
The Company maintains a website at www.thefirstbancorp.com/shareholder-relations where it makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as well as all Section 16 reports on Forms 3, 4, and 5, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. The Company's reports filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov. Information contained on the Company's website does not constitute a part of this report. Beginning with the

third quarter of 2018, the Company adopted inline XBRL. Interactive reports for our 10-K and 10-Q filings are available in iXBRL format at www.sec.gov.

ITEM 1A. Risk Factors

The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of these risks were to materialize, our business, financial condition or results of operations could be materially and adversely affected.

Risk Associated With Our Business

We are subject to credit risk and may incur losses if loans are not repaid.

There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans and the value of the collateral securing these loans. We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

Our loan portfolio includes commercial, commercial real estate and commercial construction loans that may have higher risks than other types of loans.

Our commercial, commercial real estate, and commercial construction loans at December 31, 2019 and 2018 were $629.7 million and $576.9 million, or 48.6% and 46.6% of total loans, respectively. Commercial and commercial real estate loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. As a result, banking regulators continue to give greater scrutiny to lenders (such as the bank) with a high concentration or a high growth rate of commercial real estate loans in their portfolios, and such lenders are expected to implement stricter underwriting criteria, internal controls, risk management policies and portfolio stress testing, as well as higher capital levels and loss allowances. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties, the potential illiquidity of the real estate collateral securing such losses, and the increased difficulty of evaluating and monitoring these types of loans.

Regulators have the right to require banks to maintain elevated levels of capital or liquidity due to commercial real estate loan concentrations, and could do so, especially if there is a downturn in our local real estate markets. In addition, when underwriting a commercial or industrial loan, we may take a security interest in commercial real estate, and, in some instances upon a default by the borrower, we may foreclose on and take title to the property, which results in the incurrence of tax and other maintenance costs and which may lead to potential financial risks for us under applicable environmental laws. If hazardous substances were discovered on any of these properties, we may be liable to governmental agencies or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether the accused lender knew of, or had been responsible for, the contamination.

Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flows from the project are reduced, a borrower's ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, we may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or the broader economy.

Our allowance for loan losses may be insufficient and require additional provision from earnings.

The Bank maintains an allowance for loan losses based on, among other things, national and regional economic conditions, historical loss experience and delinquency trends. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions. However, we cannot predict loan losses with certainty, and we cannot provide assurance that charge-offs in future periods will not exceed the allowance for loan losses. If, as a result of general economic conditions, previously incorrect assumptions or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional provision expenses. In addition, regulatory agencies review the Bank's allowance for loan losses and may require additions to the allowance based on their judgment about information available to them at the time of their examination. Management could also decide that the allowance for loan losses should be increased. If charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Furthermore, growth in the loan portfolio would generally lead to an increase in the provision for loan losses. Finally, our industry is the midst of a methodology change in the calculation of the allowance for loan losses. The incurred loss model presently in use will be replaced by a current expected credit loss model (“CECL”). The effective implementation date of CECL for the Company had been January 1, 2020. In October 2019 the Financial Accounting Standards Board ("FASB") approved an amendment to ASU 2016-13, the CECL standard, whereby the effective date of ASU 2016-13 was delayed for companies that qualify as a Smaller Reporting Companies ("SRC"). The Company qualifies as an SRC and as such our effective implementation date for CECL is now January 1, 2023. Given the delay, the Company opted not to complete its calculation of a formal estimate of any adjustment to the level of the allowance to meet the CECL standard. Sufficient progress towards a formal estimate was made to conclude that it continues to be likely that an increase in the level will be necessary. As allowed by CECL implementation rules, any such day one increase will be a one-time capital event with an option to phase-in over three years for regulatory capital purposes, and is not presently expected to materially and adversely impact the Company’s earnings.

Increases in the allowance for loan losses typically result in a decrease in net income and capital, and may have a material adverse effect on our financial condition, results of operations and cash flows. See the section captioned "Credit Risk Management and Allowance for Loan Losses" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, located elsewhere in this report, for further discussion related to our process for determining the appropriate level of the allowance for loan losses.

The Maine foreclosure process can be lengthy and add additional losses for the Bank.

Residential foreclosures in Maine occur through the judicial system. Under ideal circumstances, it can take as little as six months to foreclose on a Maine property; however, if the borrower contests the foreclosure or the court delays the foreclosure, the process may take as long as two years. In 2009, the Maine Legislature passed "An Act to Preserve Home Ownership and Stabilize the Economy by Preventing Unnecessary Foreclosures." This law provides for mediation of foreclosure of residential mortgages and borrowers may choose mediation in which parties must attend mediation sessions and evaluate foreclosure alternatives in good faith. This law also provides that issues such as reinstatement of the mortgage, modification of the loan and restructuring of the mortgage debt are to be addressed at these mediations. Given the uncertain timeframe related to foreclosure in Maine, the Bank can incur additional legal fees and other costs, such as payment of property taxes and insurance, if the foreclosure process is extended. In addition, the value of the property may further decline if the borrower fails to maintain the property in good order or market conditions worsen during this extended period.

Our level of troubled debt restructured ("TDR") remains elevated.

Our efforts to assist homeowners and other borrowers impacted by the Great Recession (2008–2009) increased our overall level of TDRs. We continue to work with homeowners and other borrowers who face difficulty on a case by case basis. In each case when a loan is modified, Management determines it is in the Bank's best interest to work with the borrower with modified terms rather than to proceed to foreclosure. Once a loan is classified as a TDR, however, it remains classified as a TDR until the balance is fully repaid, whether or not the loan is performing under the modified terms. As of December 31, 2019 there were 81 loans with an outstanding balance of $21.4 million that have been restructured. This compares to 76 loans with a value of $25.2 million as of December 31, 2018.

As of December 31, 2019, 51 loans with an aggregate balance of $12.2 million were performing under the modified terms, four loans with an aggregate balance $436,000 were more than 30 days past due and accruing and 26 loans with an aggregate balance of $8.8 million were on nonaccrual. As a percentage of aggregate outstanding balances, 56.9% were performing under the modified terms, 2.0% were more than 30 days past due and accruing and 41.1% were on nonaccrual. Although a large percentage of TDRs continue to be performing, the full collection of principal and interest on some TDRs may not occur, which could adversely affect our financial condition and results of operations.

Changes in interest rates could adversely affect our net interest income and profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect

- our ability to originate loans and obtain deposits;
- the fair value of our financial assets and liabilities; and
- the average duration of our loans and securities that are collateralized by mortgages.

If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. If interest rates decline, our higher-rate loans and investments may be subject to prepayment risk, which could negatively impact our net interest margin. Conversely, if interest rates increase, our loans and investments may be subject to extension risk, which could negatively impact our net interest margin as well. Any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition, results of operations and cash flows. See Item 7A. Quantitative and Qualitative Disclosures about Market Risk, located elsewhere in this report, for further discussion related to our management of interest rate risk.

The value of our investment portfolio may be negatively affected by changes in interest rates and disruptions in securities markets.

Volatile market conditions may detrimentally affect the value of securities held in our portfolio due to the perception of heightened credit and liquidity risks. There can be no assurance that the declines in market value associated with these disruptions will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels. Our mortgage-backed bond portfolio may be subject to extension risk as interest rates rise, extending the average life of the bonds. As of December 31, 2019, we had $360.5 million and $281.6 million in available for sale and held to maturity investment securities, respectively. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information for investment securities, adverse changes in business climate, adverse actions by regulators, rising interest rates, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough it could affect the ability of the Bank to renew funding. This could have a material adverse effect on our liquidity and the Bank's ability to upstream dividends to the Company and for the Company to then pay dividends to shareholders. It could also negatively impact our regulatory capital ratios and result in our not being classified as "well-capitalized" for regulatory purposes.

Illiquidity could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through traditional deposits, brokered deposit renewals or rollovers, secured or unsecured borrowings, the sale of securities or loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry or the economy in general, or could be available only under terms which are unacceptable to us. We rely primarily on commercial and retail deposits and, to a lesser extent, brokered deposit renewals and rollovers, advances from the Federal Home Loan Bank of Boston (the "FHLB") and other secured and unsecured borrowings to fund our operations. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, changes in market interest rates or increased competition for funding within our market. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources less favorable and may make it difficult for us to sell securities when needed to provide additional liquidity. In addition, if we fall below the FDIC's thresholds to be considered "well capitalized", we will be unable to continue to roll over or renew brokered funds, and the interest rate we pay deposits would be subject to restrictions. As a result, there is a risk that our cost of funding will increase or we will not have sufficient funds to meet our obligations when they become due.

Loss of lower-cost funding sources could lead to margin compression and decrease net interest income.

Checking and savings, NOW, and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, we could lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income. Advances from the FHLB are currently a relatively low-cost source of funding. The availability of qualified collateral on the Bank's balance sheet determines the level of advances available from FHLB and a deterioration in quality in the Bank's loan portfolio can adversely impact the availability of this source of funding, which could increase our funding costs and reduce our net interest income.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. In addition, many of these transactions expose us to credit risk in the event of default of our counterparty or client. Further, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition or results of operations.

Lack of loan demand may adversely impact net interest income.

Loan demand in the Bank's market area may be limited during periods of weak economic conditions. This could have the greatest impact on the commercial loan portfolio. In addition, in order to reduce the Bank's exposure to interest rate risk, the Bank may sell residential mortgages to the secondary market that have been refinanced by borrowers seeking to take advantage of lower interest rates. Should this happen, net interest income may be negatively impacted if loans are replaced by lower-yielding investment securities or if the balance sheet is allowed to shrink.

A decline in real estate values in our primary market area could adversely impact results of operations and financial condition.

Most of the Bank's lending is in Mid-Coast and Down East Maine. As a result of this geographic concentration, a significant broad-based deterioration in economic conditions in this area of Northern New England could have a material adverse impact on the quality of the Bank's loan portfolio, and could result in a decline in the demand for our products and services and, accordingly, could negatively impact our results of operations. Such a decline in economic conditions could impair borrowers' ability to pay outstanding principal and interest on loans when due and, consequently, adversely affect the cash flows of our business. The Bank's loan portfolio is largely secured by real estate collateral. A substantial portion of the real and personal property securing the loans in the Bank's portfolio is located in Mid-Coast and Down East Maine. Conditions in the real estate market in which the collateral for the Bank's loans is located strongly influence the level of the Bank's non-performing loans and results of operations.

Our investment management activities are dependent on the value of investment securities which may lead to revenue fluctuations.

First National Wealth Management is the investment management arm of the Bank, operating under trust powers granted by the OCC in the Bank's charter. First National Wealth Management provides trustee, investment management and custody services for individual, municipal and business clients, predominantly in the Bank's market area. First National Wealth Management's revenues are directly tied to the asset values of the investments it manages for clients, and these may be adversely affected by a decline in the market value of these investments caused by normal fluctuations in the bond and stock markets.

We are dependent upon the services of our management team, and if we are unable to retain the services of our management team, our business may suffer.

Our future success and profitability are substantially dependent upon the management and banking abilities of our senior executives. Changes in key personnel may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management. Competition for the best people in most activities in which we are engaged can be intense, and we may not be able to retain or hire the people we want and/or need. In order to attract and retain qualified employees, we must compensate such employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense. If we are unable to continue to attract and retain qualified employees, or do so at increased rates necessary to maintain our competitive position, our performance, including our competitive position, could suffer, and, in turn, have a material adverse effect on us. Although we have incentive compensation plans aimed, in part, at long-term employee retention, the unexpected loss of services of one or more of our key personnel could still occur, and such events may have a material adverse effect on us because of the loss of the employee's skills, knowledge of our market, and years of industry experience, and the difficulty of promptly finding qualified replacement personnel for our talented executives and/or relationship managers.

Our internal control systems are inherently limited and may fail or be circumvented.

We face the risk that the design of our controls and procedures, including those intended to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or may be circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. Although Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures, the Company's systems of internal controls, disclosure controls and corporate governance policies and procedures are inherently limited. The inherent limitations of our system of internal controls include the use of judgment in decision-making that can be faulty; breakdowns can occur because of human error; and controls can be circumvented by individual acts or by collusion of two or more people. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations of a cost-effective control system, misstatements due to error or fraud may occur and may not be detected, which may have an adverse effect on the Company's business, results of operations or financial condition. Additionally, any plans for remediation of any identified limitations may be ineffective in improving internal controls.

We continually encounter technological change that may be difficult (costly) to keep up with.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Our largest competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry, and increased costs due to efforts to keep pace with change, could have a material adverse effect on us.

We are subject to security, transactional and operational risks relating to the use of technology that could damage our reputation and our business.

We rely heavily on communications and information systems to conduct our business, serving both internal and customer constituencies. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have in place policies and procedures, security applications and fraud mitigation applications designed to prevent or limit the effect of failure, interruption, fraud attack or security breach of or affecting our information systems, there can be no assurance that any such failures, interruptions, fraud attacks or security breaches will not occur or, if they do occur, that they will be adequately and promptly addressed. Fraud attacks targeting customer-controlled devices, plastic payment card terminals, and merchant data collection points provide another source of potential loss, possibly through no fault of our own. The occurrence of any failures, interruptions or security breaches of information systems used to process customer transactions could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability and/or substantial remediation or recovery costs, any of which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications, information systems (both internal and provided by third parties) and the internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. Our use of and reliance on, and the risks associated with, such operations are likely to increase in the future as we continue to increase mobile capabilities and other internet-based product offerings and expand our internal usage of web-based products and third-party hosted applications.

In the event of a failure, interruption or breach of our information systems and business operations, we may be unable to avoid impact to our customers and business. Other U.S. financial service institutions and companies have reported breaches in the security of their websites or other systems and have experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to confidential information or destroy data, often through the introduction of computer viruses or malware, cyberattacks and other means. To date, none of these efforts has had a material adverse effect on our business or operations. However, our costs of preventing, detecting, and addressing such threats or attacks continue to increase. Such security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or funds or those of our customers or clients. The Bank regularly works with a third party information security consultant to review and test various systems, and has an ongoing information security training program for employees. Despite these efforts our security systems may not be able to protect our information systems from similar attacks due to the rapid evolution and creation of sophisticated cyberattacks. We are also subject to the risk that our employees, without authorization, may intercept and transmit confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action and reputational harm.

We also have risk related to data or security breaches affecting other companies. Under Federal banking regulations, if a consumer's debit card is compromised, the liability for unauthorized transactions falls primarily on the issuing financial institution, not on the consumer or the company which experienced the data or security breach. With the introduction of EMV or Chip cards, we now have the ability to charge back fraudulent transactions to the acquiring merchant if that merchant does not have an EMV capable terminal. In the normal course of business the Bank issues EMV/Chip debit cards to its customers to keep this risk as low as possible. However fraud can still occur online or using fallback transactions, creating potential risk for this type of liability.

We are subject to claims and litigation that may impact our earnings and/or our reputation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in financial liability and/or adversely affect the market perception of the Bank and its products and services. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, consistent with applicable accounting guidance. At any given time we may have legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number of and risk associated with these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to changes to the consumer protection laws provided for by the Dodd-Frank Act, the creation of the CFPB, and the uncertainty as to whether federal preemption of certain state consumer laws remains intact for federally chartered financial institutions like the Bank. A weakening of federal pre-emption could increase our compliance and operational costs and risks since the Bank is a national bank, and we could face new state and local regulation and enforcement activity. There have also been a number of highly publicized cases involving fraud or misconduct by employees in the financial services industry in recent years, and we face the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Any financial liability for which we have not adequately maintained reserves or insurance coverage, and/or any damage to our reputation from such claims and legal actions, could have a material adverse effect on us.

Damage to our reputation could significantly harm our businesses.

Our ability to attract and retain customers, clients, investors and highly-skilled management and employees is impacted by our reputation. Public perception of the financial services industry declined in the aftermath of the most recent downturn in the U.S. economy. We continue to face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, and the activities of our clients, customers and counterparties, including vendors and cyber attacks. Actions by the financial services industry generally or by certain members or individuals in the industry could also significantly adversely affect our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

Our recent results may not be indicative of our future results.

We may not be able to sustain our historical rate of growth, and may not even be able to grow our business at all. In addition, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede our ability to expand our market presence. If we were to experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Risks Associated With Our Industry

Our business has been and may continue to be adversely affected by conditions in the financial markets and economic conditions generally and by increased regulation.

Negative developments in the financial services industry resulted in general uncertainty in the financial markets and ultimately led to what is now termed the Great Recession of 2008-2009. As a consequence of the recession, businesses across a wide range of industries faced serious difficulties due to a decrease in consumer spending, reduced consumer confidence brought on by deflated home values, among other factors, and reduced liquidity in the credit markets. Unemployment also increased significantly during that period.

As a result of the downturn in economic conditions during that period, many lending institutions, including us, experienced deterioration in the performance of their loans, including construction, land development and land loans, commercial real estate loans, and other commercial and consumer loans (see "Credit Risk Management and Allowance for Loan Losses" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations). Similar future disruptions or negative events in the financial markets may affect consumer confidence levels and may cause adverse changes in payment patterns, leading to increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. As the severity level of any disruption increases, it is more likely to exacerbate the adverse effects of difficult market conditions on us and others in the financial services industry.

Economic risks are not limited to the United States.

Negative economic events in other parts of the world may have a negative impact on the US economy. Economic growth in European Union ("EU") appears to be slowing while negative interest rates remain prevalent, potentially limiting stimulus options available to the European Central Bank ("ECB") and impacting both the global and US economy. Similarly, a sustained slowdown in growth in China or strategic Asian countries (including due to the corona virus outbreak and its consequences) could have negative implications for the both the global and US economies. Trade imbalances or retaliating tariffs or similar measures brought about by either ongoing or new tariff disputes or Great Britain's recent departure from the EU could further disrupt global economics. A severe market reaction to any of the foregoing could have a material adverse effect on our liquidity, financial condition, results of operations, and ability to meet regulatory requirements.

Reforms to London Interbank Offered Rate ("LIBOR") and other potentially indices, and related uncertainty, may adversely affect our business, financial condition or results of operations.

In July 2017, the U.K. Financial Conduct Authority announced that after 2021 it will no longer require banks to submit rates for LIBOR. This announcement, along with other changes in the interbank lending markets, has resulted in uncertainty about the future of LIBOR and certain other rates or indices that are used as interest rate benchmarks, though it is widely assumed that LIBOR will no longer be a viable index after 2021. The U.S Federal Reserve formed the Alternative Reference Rate Committee ("ARRC") to develop a LIBOR alternative. ARRC has recommended the Secured Overnight Funding Rate ("SOFR") as a replacement for LIBOR, and a market for SOFR based transactions is developing along with related protocols. The ultimate impact of this likely transition is uncertain, and the potential or actual discontinuance of benchmark quotes may have a material, adverse effect on the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to benchmarks, including our hedge contracts, or our financial condition or results of operations. In addition, we cannot assure that we and other market participants will adequately be prepared for a discontinuation of LIBOR or other benchmarks, and such discontinuation may have an unpredictable impact on our contracts and/or cause significant disruption to financial markets that are relevant to our business, which may have a material, adverse effect on our financial condition or results of operations.

We operate in a highly regulated environment and may be adversely affected by changes in law and regulations.

Bank holding companies and nationally chartered banks operate in a highly regulated environment and are subject to supervision and examination by various regulatory agencies. The cost of compliance with regulatory requirements may adversely affect our results of operations or financial condition. Federal and state laws and regulations govern numerous matters including: changes in the ownership or control of banks and bank holding companies; maintenance of adequate capital and the financial condition of a financial institution; permissible types, amounts and terms of extensions of credit and investments; permissible non-banking activities; the required level of reserves against deposits; and restrictions on dividend payments. These and other restrictions limit the manner in which we may conduct our business and obtain financing. If we fail to meet minimum regulatory capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. Our failure to maintain the status of "well-capitalized" under our regulatory framework could affect the confidence of our customers in us, thus compromising our competitive position, or could cause our regulators to take corrective or other supervisory action.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau and tightened capital standards, and will continue to result in new laws and regulations that are expected to increase our costs of operations.

The Dodd-Frank Act has significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. Many of the details and the impacts of the Dodd-Frank Act have been implemented; however, some provisions remain unaddressed. Any new legislation or implementing regulations may materially increase our operating and compliance costs.

The CFPB has broad rule-making authority for a wide range of consumer protection matters that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB's authority to prescribe rules governing the provision of consumer financial products and services could result in rules and regulations that reduce the profitability of such products or services, or impose new disclosure or substantive requirements on us that could increase the cost to us of providing such products and services. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable to national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws, which could increase our operating costs.

Basel III Capital Rules may limit future activity.

In June 2013 the Federal Reserve Board finalized rules that substantially amended the regulatory risk-based capital rules applicable to us. These rules implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. Phase-in of the rules started in 2015 and was completed in 2019. As of December 31, 2019 we comply with the 2019 standard.

In addition, in a weak economic environment, bank regulators may impose capital requirements that are more stringent than those required by applicable existing regulations. The application of more stringent capital requirements could result in lower returns on equity, require the raising of more capital, or result in adverse regulatory actions or other consequences if we are unable to comply with such requirements. Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital, or additional capital conservation buffers could result in management modifying our business strategy and could limit our ability to make distributions, including paying dividends or repurchasing our shares, or to grow the Bank's business.

Significant competition in the financial services industry may impact our results.

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have more financial resources than we do. We compete with other providers of financial services such as commercial and savings banks, savings and loan associations, credit unions, money market and mutual funds, mortgage companies, asset managers, insurance companies and a wide array of other local, regional and national institutions which offer financial services. Mergers between financial institutions within Maine and in nearby states have added competitive pressure. If we are unable to compete effectively, we will lose market share and our income generated from loans, deposits, and other financial products will decline.

Risks Associated With Our Common Stock

There may not be a robust trading market for our common stock.

Although our common stock is traded on the NASDAQ Global Select market and is part of the Russell stock market index, the trading volume of the common stock has historically not been substantial. For the year ended December 31, 2019, the average monthly trading volume of our common stock was 215,820 shares, or approximately 1.98% of the average number of our outstanding common shares. Due to the limited trading volume in our common stock, the intraday spread between bid and ask prices of the shares can be quite high. There can be no assurance that a more robust, active or economical trading market for our common stock will develop. The market value and liquidity of our common stock may, as a result, be adversely affected.

The price of our common stock may fluctuate.

The price of our common stock on the NASDAQ Global Select Market constantly changes. Price fluctuations may or may not track the general direction of equity markets. We expect the market price of our common stock will continue to fluctuate. Holders of our common stock will be subject to the risk of volatility and changes in prices. Our common stock price can fluctuate as a result of many factors which are beyond our control, including:

- quarterly fluctuations in our operating and financial results;
- operating results that vary from the expectations of investors;
- changes in expectations as to our future financial performance, including financial estimates;
- events negatively impacting the financial services industry which result in a general decline for the industry;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- general domestic economic and market conditions; and
- declines in bank stock prices driven by macro-economic concerns.

In addition, recently the stock market generally has experienced extreme price and volume fluctuations, and industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of our operating results.

The inability to receive dividends from the Bank would negatively affect our ability to pay dividends to shareholders.

The Company is a legal entity separate and distinct from the Bank. With the exception of cash raised from debt and equity issuances, we receive substantially all of our cash flow from dividends from the Bank. These dividends are the principal source of funds to pay dividends on our common stock. Federal banking law and regulations limit the amount of dividends that the Bank can pay. For further information on the regulatory restrictions on the payment of dividends by the Bank, see "Supervision and Regulation" in Item 1. In the event the Bank is unable to pay dividends to the Company or such dividends were to be restricted or reduced, we may not be able to service debt, pay obligations or pay dividends on our common stock. Our right to participate in a distribution of assets upon the Bank's liquidation or reorganization would be subject to the prior claims of the Bank's creditors.

If we do not manage our capital position strategically, our return on equity could be lower compared to our competitors as a result of our high level of capital.

If we are unable to strategically use our excess capital, or to successfully continue capital management programs, such as stock repurchase programs or quarterly dividends to our shareholders, then our goal of generating a return on average equity that is competitive and increasing earnings per share and book value per share without assuming undue risk, could be delayed or may not be attained. Failure to achieve a competitive return on average equity might decrease investments in our common stock and might cause our common stock to trade at lower prices.

We may issue additional equity securities or engage in other transactions which dilute our book value or affect the priority of the common stock, which may adversely affect the market price of our common stock.

Our Board of Directors may determine from time to time that we need to raise additional capital by issuing additional shares of our common stock or other securities. Except pursuant to the rules of the NASDAQ Stock Market, we are not restricted from issuing additional shares of common stock, including securities that are convertible into or exchangeable for, or that represent the right to receive, common stock to the extent of our authorized but unissued capital stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offerings, or the prices at which such offerings may be effected. Such offerings could be dilutive to common shareholders or reduce the market price of our common stock. Holders of our common stock are not entitled to preemptive rights or protection against dilution. New investors also may have rights, preferences and privileges that are senior to, and that adversely affect, our then-current common shareholders. We may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below the required minimums, we could be forced to raise additional capital, by making offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of shares of our preferred stock and lenders with respect to other borrowings would receive distributions of our available assets prior to the holders of our common stock. Our Board of Directors is authorized to issue one or more series of preferred stock from time to time without any action on the part of our shareholders (except as may be required under NASDAQ Stock Market rules). Our Board of Directors also has the power, without shareholder approval (except as may be required under NASDAQ Stock Market rules), to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock and the market price of our common stock could be adversely affected.

Potential acquisitions may disrupt our business and dilute shareholder value.

Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including:

- potential exposure to unknown or contingent liabilities of the target;
- exposure to potential asset quality issues of the target;
- difficulty and expense of integrating the operations and personnel of the target;
- potential disruption to our business;
- potential diversion of Management's time and attention;
- the possible loss of key employees and customers of the target;
- difficulty in estimating the value of the assets and liabilities of the target; and
- potential changes in banking or tax laws or regulations that may affect the target.

Merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on us.

ITEM 1B. Unresolved Staff Comments

None

ITEM 2. Properties

The principal office of the Company and the Bank is located in Damariscotta, Maine. The Bank operates 16 full-service banking offices in five counties in the Mid-Coast, Eastern and Down East regions of Maine:

Lincoln County	**Knox County**	**Hancock County**	**Washington County**
Boothbay Harbor	Camden	Bar Harbor	Eastport
Damariscotta	Rockland Park Street	Blue Hill	Calais
Waldoboro	Rockland Union Street	Ellsworth	
Wiscasset	Rockport	Northeast Harbor	**Penobscot County**
		Southwest Harbor	Bangor

First National Wealth Management, the investment management and trust division of the Bank, operates from four offices in Bangor, Bar Harbor, Ellsworth and Damariscotta. The Bank also maintains an Operations Center in Damariscotta. The Company owns all of its facilities except for the land on which the Southwest Harbor drive-up facility is located. In 2019, the company constructed a new facility on owned land in Ellsworth. A long-term lease is in place for the Southwest Harbor drive-up facility. The company also owns land in Belfast. 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.

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 their properties are 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.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The last transaction in the Company's stock on NASDAQ during 2019 was on December 31 at $30.23 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.

Repurchase of Shares and Use of Proceeds

The Company made the following repurchases of its common stock during the year ended December 31, 2019:

Month	Shares Purchased	Average Price Per Share[1]	Total shares purchased as part of publicly announced repurchase plans	Maximum number of shares that may be purchased under the plans
January 2019	250	$ 0.00	—	—
February 2019	3,554	26.52	—	—
March 2019	—	—	—	—
April 2019	300	0.00	—	—
May 2019	—	—	—	—
June 2019	—	—	—	—
July 2019	—	—	—	—
August 2019	—	—	—	—
September 2019	75	27.48	—	—
October 2019	—	—	—	—
November 2019	2,999	28.96	—	—
December 2019	—	—	—	—
	7,178	$ 27.65	—	—

[1]Zero average price for share represents forfeiture of shares issued under 2010 Equity Incentive Plan.

Unregistered Sales of Equity Securities

None

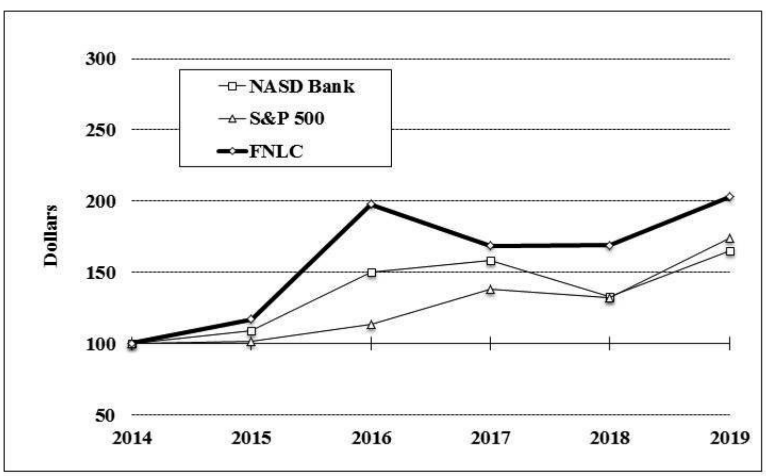
Securities Authorized for Issuance Under Equity Compensation Plans

The following table lists the amount and weighted-average exercise price of securities authorized for issuance under equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity compensation plans approved by security holders	—	$ —	237,108
Equity compensation plans not approved by security holders	—	—	—
Total	—	$ —	237,108

Performance Graph

Set forth below is a line graph comparing the five-year cumulative total return of $100.00 invested in the Company's common stock ("FNLC"), assuming reinvestment of all cash dividends and retention of all stock dividends, with a comparable amount invested in 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.



	2014	2015	2016	2017	2018	2019
FNLC	100.00	117.17	197.75	168.68	169.01	203.04
S&P 500	100.00	101.37	113.49	138.26	132.18	173.80
NASD Bank	100.00	108.84	150.17	158.37	132.76	165.13

ITEM 6. Selected Financial Data

The First Bancorp, Inc. and Subsidiary

	Years ended December 31,				
Dollars in thousands, except for per share amounts	**2019**	2018	2017	2016	2015
Summary of Operations					
Interest Income	**$ 78,651**	$ 70,543	$ 60,832	$ 53,759	$ 50,810
Interest Expense	**26,158**	20,334	13,529	10,812	9,874
Net Interest Income	**52,493**	50,209	47,303	42,947	40,936
Provision for Loan Losses	**1,250**	1,500	2,000	1,600	1,550
Non-Interest Income	**14,189**	12,600	12,548	12,449	12,230
Non-Interest Expense	**35,172**	33,467	31,651	29,383	29,896
Net Income	**25,525**	23,536	19,588	18,009	16,206
Per Common Share Data					
Basic Earnings per Share	**$ 2.36**	$ 2.18	$ 1.82	$ 1.68	$ 1.52
Diluted Earnings per Share	**2.34**	2.17	1.81	1.66	1.51
Cash Dividends Declared per Common Share[3]	**1.190**	1.110	0.950	1.030	0.870
Book Value per Common Share	**19.50**	17.63	16.74	15.98	15.58
Tangible Book Value per Common Share	**16.75**	14.87	13.97	13.20	12.78
Market Value per Common Share	**30.23**	26.30	27.23	33.10	20.47
Financial Ratios					
Return on Average Equity[1]	**12.51%**	12.72%	10.91%	10.28%	9.74%
Return on Average Tangible Equity[1,2]	**14.66%**	15.18%	13.11%	12.42%	11.90%
Return on Average Assets[1]	**1.27%**	1.23%	1.10%	1.12%	1.07%
Average Equity to Average Assets	**10.17%**	9.70%	10.04%	10.86%	11.00%
Average Tangible Equity to Average Assets[2]	**8.68%**	8.13%	8.36%	9.00%	9.01%
Net Interest Margin Tax-Equivalent[1,2]	**2.89%**	2.91%	3.04%	3.05%	3.10%
Dividend Payout Ratio	**50.42%**	50.92%	52.20%	61.31%	57.24%
Allowance for Loan Losses/Total Loans	**0.90%**	0.91%	0.92%	0.95%	1.00%
Non-Performing Loans to Total Loans	**1.28%**	1.19%	1.27%	0.73%	0.75%
Non-Performing Assets to Total Assets	**0.82%**	0.79%	0.86%	0.48%	0.57%
Efficiency Ratio[2]	**51.04%**	51.50%	49.72%	50.43%	54.26%
At Year End					
Total Assets	$ 2,068,796	$ 1,944,570	$ 1,842,930	$ 1,712,875	$ 1,564,810
Total Loans	1,297,075	1,238,283	1,164,139	1,071,526	988,638
Total Investment Securities	651,108	584,665	563,683	536,276	477,319
Total Deposits	1,650,466	1,527,085	1,418,879	1,242,957	1,043,189
Total Borrowings	184,955	210,317	228,758	278,901	337,457
Total Shareholders' Equity	212,508	191,542	181,321	172,521	167,498

[1]*Annualized using a 365-day basis in all years except 2016, in which a 366-day basis was used.*

[2]*These ratios use non-GAAP financial measures. See Management's Discussion and Analysis of Financial Condition and Results of Operations for additional disclosures and information.*

[3]*Cash dividends declared per common share for 2016 included a $0.12 per share special dividend.*

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

The First Bancorp, Inc. (the "Company" or "The First Bancorp") was incorporated in the State of Maine on January 15, 1985, and is the parent holding company of First National Bank (the "Bank"). On January 28, 2016, the Board of Directors voted to change the Bank's name to First National Bank from The First, N.A.

The Company generates almost all of its revenues from the Bank, which was chartered as a national bank under the laws of the United States on May 30, 1864. The Bank, which has sixteen offices along coastal and eastern Maine, emphasizes personal service to the communities it serves, concentrating primarily on small businesses and individuals.

The Bank offers a wide variety of traditional banking services and derives the majority of its revenues from net interest income – the spread between what it earns on loans and investments and what it pays for deposits and borrowed funds. While net interest income typically increases as earning assets grow, the spread can vary up or down depending on the level and direction of movements in interest rates. Management believes the Bank has modest exposure to changes in interest rates, as discussed in "Interest Rate Risk Management" elsewhere in Management's Discussion. 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 seasonal swing is fairly predictable and has not had a materially adverse effect on the Bank.

Non-interest income is the Bank's secondary source of revenue and includes fees and service charges on deposit accounts and services, income from the sale and servicing of mortgage loans, and income from investment management and private banking services through First National Wealth Management (previously First Advisors), a division of the Bank.

Forward-Looking Statements

This report contains statements that are "forward-looking statements." We may also make forward-looking statements in other documents we file with the SEC, in our annual reports to Shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words "believe", "expect", "anticipate", "intend", "estimate", "assume", "outlook", "will", "should", "may", "might, "could", and other expressions that predict or indicate future events or trends and which do not relate to historical matters. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance or achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements.

Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, adverse economic developments in or affecting the geographic areas in which the Bank operates, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectibility, default and charge-off rates, changes in the size and nature of the Company's competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this annual report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Although the Company 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 also urged to carefully review and consider the various disclosures made by the Company, which attempt to advise interested parties of the factors that affect the Company's business.

Critical Accounting Policies

Management's discussion and analysis of the Company's financial condition and results of operations is based on the consolidated financial statements which are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of such financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, Management evaluates its estimates, including those related to the allowance for loan losses, goodwill, the valuation of mortgage servicing rights, and other-than-temporary impairment on securities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets that are not readily apparent from other sources. Actual results could differ from the amounts derived from Management's estimates and assumptions under different assumptions or conditions.

Allowance for Loan Losses. Management believes the allowance for loan losses requires the most significant estimates and assumptions used in the preparation of the consolidated financial statements. The allowance for loan losses is based on Management's evaluation of the level of the allowance required in relation to the estimated loss exposure in the loan portfolio. Management believes the allowance for loan losses is a significant estimate and therefore regularly evaluates it to determine the appropriate level by taking into consideration factors such as prior loan loss experience, the character and size of the loan portfolio, business and economic conditions and Management's estimation of potential losses. The use of different estimates or assumptions could produce different provisions for loan losses.

Goodwill. Management utilizes numerous techniques to estimate the value of various assets held by the Company, including methods to determine the appropriate carrying value of goodwill as required under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350 "Intangibles – Goodwill and Other." Goodwill from purchase acquisitions is subject to ongoing periodic evaluation for impairment.

Mortgage Servicing Rights. The valuation of mortgage servicing rights is a critical accounting policy which requires significant estimates and assumptions. The Bank often sells mortgage loans it originates and retains the ongoing servicing of such loans, receiving a fee for these services, generally 0.25% of the outstanding balance of the loan per annum. Mortgage servicing rights are recognized at fair value when they are acquired through the sale of loans, and are reported in other assets. They are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. The rights are subsequently carried at the lower of amortized cost or fair value. Management uses an independent firm which specializes in the valuation of mortgage servicing rights to determine the fair value. The most important assumption is the anticipated loan prepayment rate, and increases in prepayment speed and amount result in lower valuations of mortgage servicing rights. The valuation also includes an evaluation for impairment based upon the fair value of the rights, which can vary depending upon current interest rates and prepayment expectations, as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. The use of different assumptions could produce a different valuation. All of the assumptions are based on standards the Company believes would be utilized by market participants in valuing mortgage servicing rights and are consistently derived and/or benchmarked against independent public sources.

Other-Than-Temporary Impairment on Securities. One of the significant estimates related to investment securities is the evaluation of other-than-temporary impairments. The evaluation of securities for other-than-temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period of unrealized losses. Securities that are in an unrealized loss position are reviewed at least quarterly to determine if other-than-temporary impairment is present based on certain quantitative and qualitative factors and measures. The primary factors considered in evaluating whether a decline in value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the securities' market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred, including the expectation of receipt of all principal and interest when due.

Derivative Financial Instruments Designated as Hedges. The Company recognizes all derivatives in the consolidated balance sheets at fair value. On the date the Company enters into the derivative contract, the Company designates the derivative as a hedge of either a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or a held for trading instrument ("trading instrument"). The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in other comprehensive income (loss) and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is effective. Those derivatives that are classified as trading instruments, including customer loan swaps, are recorded at fair value with changes in fair value recorded in earnings. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

Use of Non-GAAP Financial Measures

Certain information in Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management uses these "non-GAAP" measures in its analysis of the Company's performance and believes that these non-GAAP financial measures provide a greater understanding of ongoing operations and enhance comparability of results with prior periods as well as demonstrating the effects of significant gains and charges in the current period. The Company believes that a meaningful analysis of its financial performance requires an understanding of the factors underlying that performance. Management believes that investors may use these non-GAAP financial measures to analyze financial performance without the impact of unusual items that may obscure trends in the Company's underlying performance. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

In several places in this report, net interest income is presented on a fully taxable equivalent basis. Specifically included in interest income was tax-exempt interest income from certain investment securities and loans. An amount equal to the tax benefit derived from this tax exempt income has been added back to the interest income total, which adjustments increased net interest income accordingly. Management believes the disclosure of tax-equivalent net interest income information improves the clarity of financial analysis, and is particularly useful to investors in understanding and evaluating the changes and trends in the Company's results of operations. Other financial institutions commonly present net interest income on a tax-equivalent basis. This adjustment is considered helpful in the comparison of one financial institution's net interest income to that of another institution, as each will have a different proportion of tax-exempt interest from its earning assets. Moreover, net interest income is a component of a second financial measure commonly used by financial institutions, net interest margin, which is the ratio of net interest income to average earning assets. For purposes of this measure as well, other financial institutions generally use tax-equivalent net interest income to provide a better basis of comparison from institution to institution. The Company follows these practices. The following table provides a reconciliation of tax-equivalent financial information to the Company's consolidated financial statements, which have been prepared in accordance with GAAP. A Federal income tax rate of 21.0% was used in 2019 and 2018 and a 35.0% Federal income tax rate was used in 2017.

	Years ended December 31,		
Dollars in thousands	**2019**	2018	2017
Net interest income as presented	**$ 52,493**	$ 50,209	$ 47,303
Effect of tax-exempt income	**2,295**	2,156	3,935
Net interest income, tax equivalent	**$ 54,788**	$ 52,365	$ 51,238

The Company presents its efficiency ratio using non-GAAP information which is most commonly used by financial institutions. The GAAP-based efficiency ratio is noninterest expenses divided by net interest income plus noninterest income from the Consolidated Statements of Income and Comprehensive Income. The non-GAAP efficiency ratio excludes securities losses from noninterest expenses, excludes securities gains from noninterest income, and adds the tax-equivalent adjustment to net interest income. The following table provides a reconciliation between the GAAP and non-GAAP efficiency ratio:

	Years ended December 31,		
Dollars in thousands	**2019**	2018	2017
Non-interest expense, as presented	**$ 35,172**	$ 33,467	$ 31,651
Net interest income, as presented	**52,493**	50,209	47,303
Effect of tax-exempt income	**2,295**	2,156	3,935
Non-interest income, as presented	**14,189**	12,600	12,548
Effect of non-interest tax-exempt income	**163**	162	338
Net securities gains	**(224)**	(137)	(471)
Adjusted net interest income plus non-interest income	**$ 68,916**	$ 64,990	$ 63,653
Non-GAAP efficiency ratio	**51.04%**	51.50%	49.72%
GAAP efficiency ratio	**52.75%**	53.28%	52.88%

The Company presents certain information based upon average tangible common shareholders' equity instead of total average shareholders' equity. The difference between these two measures is the Company's intangible assets, specifically goodwill from prior acquisitions. Management, banking regulators and many stock analysts use the tangible common equity ratio and the tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method in accounting for mergers and acquisitions. The following table provides a reconciliation of tangible average shareholders' equity to the Company's consolidated financial statements, which have been prepared in accordance with GAAP:

	Years ended December 31,		
Dollars in thousands	**2019**	2018	2017
Average shareholders' equity as presented	**$ 204,092**	$ 185,049	$ 179,473
Less intangible assets (average)	**(29,957)**	(30,001)	(30,044)
Average tangible common shareholders' equity	**$ 174,135**	$ 155,048	$ 149,429

Executive Summary

This was the best annual performance in The First Bancorp, Inc.'s history, ending the decade with a sixth consecutive year of record earnings. The Company's 2019 performance was driven by earning asset growth, which led to increased net interest income, which was supplemented in 2019 by growth in non-interest income. Total assets surpassed $2 billion for the first time, ending the year at $2.07 billion.

Net income for the year ended December 31, 2019 was $25.5 million, up $2.0 million or 8.5% from the $23.5 million posted for the year ended December 31, 2018. Earnings per common share on a fully diluted basis were $2.34 for the year ended December 31, 2019, up $0.17 or 7.8% from the $2.17 posted for the year ended December 31, 2018. Net interest income on a tax-equivalent basis increased $2.4 million or 4.6% for the year ended December 31, 2019 compared to the year ended December 31, 2018, with growth in earning assets responsible for the increase. The Company's net interest margin was 2.89% in 2019, compared to 2.91% in 2018.

Non-interest income in 2019 was $14.2 million, an increase of $1.6 million or 12.6% from the $12.6 million reported in 2018. This growth was due to mortgage banking revenue, wealth management income as well as new revenue sources including loan swap fees.

Non-interest expense in 2019 was $35.2 million, an increase of $1.7 million or 5.1% from the $33.5 million reported in 2018, primarily due to increased employee expense incurred to support the Company's growth. The Company benefited from FDIC insurance premium credits which helped reduce the Bank's FDIC premium expense.

Income taxes on operating earnings were $4.7 million for the year ended December 31, 2019, up $429,000 from the same period in 2018.

During 2019, total assets increased $124.2 million or 6.4%, surpassing $2 billion for the first time. The loan portfolio increased $58.8 million or 4.7% in 2019, ending the year at $1.30 billion. The investment portfolio was up $66.4 million or 11.4% for the year. On the liability side of the balance sheet, low-cost deposits increased $15.9 million or 2.0%, totaling $799.5 million as of December 31, 2019. Certificates of deposit increased $98.6 million or 16.7% from the end of 2018. Local certificates of deposit (CDs) increased $1.1 million and wholesale CDs increased $97.5 million at December 31, 2019 compared to December 31, 2018.

Non-performing loans stood at 1.28% of total loans as of December 31, 2019 - up from the 1.19% level of non-performing loans a year ago. This compares to non-performing loans at 0.55% for our Uniform Bank Performance Report peer group ("UBPR peer group") as of December 31, 2019. Net chargeoffs were $843,000 or 0.07% of average loans in 2019, down $154,000 from December 31, 2018. Net chargeoffs for the UBPR peer group in 2019 were 0.10% of average loans. The provision for loan losses in 2019 was $1.3 million, $250,000 or 16.7% lower than in 2018. The allowance as a percentage of loans outstanding stood at 0.90% in 2019, down from 0.91% at December 31, 2018.

Remaining well capitalized remains a top priority for The First Bancorp, Inc. Since December 31, 2008, the Company's total risk-based capital ratio has increased from 11.13% to 15.27%, well above the well-capitalized threshold of 10.0% set by the Federal Deposit Insurance Corporation.

The Company's operating ratios remain good, with a return on average tangible common equity of 14.66% for the year ended December 31, 2019 compared to 15.18% and 13.11% for the years ended December 31, 2018 and 2017, respectively. Our return on average equity was in the top 16% of all banks in the UBPR peer group, which had an average return of 11.30% for the year. Our efficiency ratio continues to be an important component in our overall performance and at 51.04% in 2019, was below the 51.50% and above the 49.72% posted for 2018 and 2017, respectively. As of December 31, 2019, the average non-GAAP efficiency ratio for our UBPR peer group was 62.07% which put us in the top 12% of all banks in the UBPR peer group.

Results of Operations

Net Interest Income

Net interest income on a tax-equivalent basis increased 4.6% or $2.4 million to $54.8 million for the year ended December 31, 2019 from the $52.4 million reported for the year ended December 31, 2018, with growth in earning assets responsible for the increase. The Company's net interest margin was 2.89% in 2019, compared to 2.91% in 2018.

Total interest income on a tax-equivalent basis in 2019 was $80.9 million, a increase of $8.2 million or 11.3% from the $72.7 million posted by the Company in 2018. Total interest expense in 2019 was $26.2 million, an increase of $5.8 million or 28.6% from the $20.3 million posted by the Company in 2018. Tax-exempt interest income amounted to $8.6 million for the year ended December 31, 2019, $8.1 million for the year ended December 31, 2018 and $7.3 million for the year ended December 31, 2017.

Net interest income on a tax-equivalent basis increased 2.2% or $1.1 million to $52.4 million for the year ended December 31, 2018 from the $51.2 million reported for the year ended December 31, 2017, with growth in earning assets responsible for the increase. The Company's net interest margin was 2.91% in 2018, compared to 3.04% in 2017.

Total interest income on a tax-equivalent basis in 2018 was $72.7 million, an increase of $7.9 million or 12.2% from the $64.8 million posted by the Company in 2017. Total interest expense in 2018 was $20.3 million, an increase of $6.8 million or 50.3% from the $13.5 million posted by the Company in 2017. The year-to-year increase was driven primarily by costs of wholesale funding.

The following tables present changes in interest income and expense attributable to changes in interest rates, volume, and rate/volume[1] for interest-earning assets and interest-bearing liabilities. Tax-exempt income is calculated on a tax-equivalent basis, using a 21.0% Federal income tax rate in 2019 and 2018, and a 35.0% rate in 2017.

Year ended December 31, 2019 compared to 2018				
Dollars in thousands	Volume	Rate	Rate/ Volume[1]	Total
Interest on earning assets				
Interest-bearing deposits	$ (50)	$ (5)	$ 1	$ (54)
Investment securities	1,883	625	63	2,571
Loans held for sale	—	(1)	—	(1)
Loans	2,027	3,569	135	5,731
Total interest income	3,860	4,188	199	8,247
Interest expense				
Deposits	1,761	4,987	550	7,298
Borrowings	(1,230)	(340)	96	(1,474)
Total interest expense	531	4,647	646	5,824
Change in net interest income	$ 3,329	$ (459)	$ (447)	$ 2,423

Year ended December 31, 2018 compared to 2017				
Dollars in thousands	Volume	Rate	Rate/ Volume[1]	Total
Interest on earning assets				
Interest-bearing deposits	$ 67	$ 54	$ 69	$ 190
Investment securities	336	(635)	(11)	(310)
Loans held for sale	(3)	4	(2)	(1)
Loans	4,092	3,636	325	8,053
Total interest income	4,492	3,059	381	7,932
Interest expense				
Deposits	796	5,254	441	6,491
Borrowings	103	206	5	314
Total interest expense	899	5,460	446	6,805
Change in net interest income	$ 3,593	$ (2,401)	$ (65)	$ 1,127

[1] *Represents the change attributable to a combination of change in rate and change in volume.*

The following table presents the interest earned on or paid for each major asset and liability category, respectively, for the years ended December 31, 2019, 2018, and 2017, as well as 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 21% Federal income tax rate in 2019 and 2018, and a 35.0% rate in 2017. Unrecognized interest on non-accrual loans is not included in the amount presented, but the average balance of non-accrual loans is included in the denominator when calculating yields.

	2019		2018		2017	
Dollars in thousands	**Amount of interest**	**Average Yield/Rate**	Amount of interest	Average Yield/Rate	Amount of interest	Average Yield/Rate
Interest-earning assets						
Interest-bearing deposits	**$ 188**	**1.96%**	$ 242	2.00%	$ 52	0.98%
Investment securities	**21,173**	**3.38%**	18,602	3.26%	18,912	3.35%
Loans held for sale	**4**	**1.09%**	5	1.33%	20	2.58%
Loans	**59,581**	**4.73%**	53,850	4.43%	45,783	4.11%
Total interest-earning assets	**80,946**	**4.27%**	72,699	4.04%	64,767	3.84%
Interest-bearing liabilities						
Deposits	**23,268**	**1.61%**	15,970	1.23%	9,479	0.82%
Borrowings	**2,890**	**1.56%**	4,364	1.69%	4,050	1.61%
Total interest-bearing liabilities	**26,158**	**1.61%**	20,334	1.31%	13,529	0.96%
Net interest income	**$ 54,788**		$ 52,365		$ 51,238	
Interest rate spread		**2.66%**		2.74%		2.88%
Net interest margin		**2.89%**		2.91%		3.04%

Average Daily Balance Sheets

The following table shows the Company's average daily balance sheets for the years ended December 31, 2019, 2018 and 2017.

	Years ended December 31,		
Dollars in thousands	**2019**	2018	2017
Assets			
Cash and cash equivalents	**$ 16,433**	$ 17,626	$ 17,728
Interest-bearing deposits in other banks	**9,612**	12,103	5,280
Securities available for sale	**328,014**	302,260	308,607
Securities to be held to maturity	**288,533**	257,514	243,392
Restricted equity securities, at cost	**9,273**	11,599	12,313
Loans held for sale (fair value approximates cost)	**368**	376	776
Loans	**1,260,671**	1,214,932	1,115,288
Allowance for loan losses	**(11,553)**	(11,331)	(10,584)
Net loans	**1,249,118**	1,203,601	1,104,704
Accrued interest receivable	**7,764**	6,632	6,080
Premises and equipment, net	**21,492**	21,896	21,698
Other real estate owned	**412**	754	384
Goodwill	**29,805**	29,805	29,805
Other assets	**46,179**	43,986	37,177
Total Assets	**$ 2,007,003**	$ 1,908,152	$ 1,787,944
Liabilities & Shareholders' Equity			
Demand deposits	**$ 159,933**	$ 152,386	$ 143,260
NOW deposits	**375,402**	318,823	310,701
Money market deposits	**141,881**	124,305	136,624
Savings deposits	**237,489**	233,606	227,024
Certificates of deposit	**687,492**	622,261	523,966
Total deposits	**1,602,197**	1,451,381	1,341,575
Borrowed funds – short term	**175,514**	193,341	113,638
Borrowed funds – long term	**10,105**	65,112	138,418
Dividends payable	**1,163**	1,157	987
Other liabilities	**13,932**	12,112	13,853
Total Liabilities	**1,802,911**	1,723,103	1,608,471
Shareholders' Equity:			
Common stock	**109**	109	108
Additional paid-in capital	**63,283**	62,220	61,196
Retained earnings	**140,143**	128,362	117,977
Net unrealized gain (loss) on securities available for sale	**347**	(7,340)	(634)
Net unrealized gain on cash flow hedging derivative instruments	**364**	2,030	1,064
Net unrealized loss on securities transferred from available for sale to held to maturity	**(191)**	(187)	(136)
Net unrealized gain (loss) on postretirement benefit costs	**37**	(145)	(102)
Total Shareholders' Equity	**204,092**	185,049	179,473
Total Liabilities & Shareholders' Equity	**$ 2,007,003**	$ 1,908,152	$ 1,787,944

Non-Interest Income

Non-interest income in 2019 was $14.2 million, an increase of $1.6 million or 12.6% from the $12.6 million reported in 2018. This growth was due to increased mortgage banking revenue, increased revenue from First National Wealth Management, the Company's wealth and investment management division, as well as new revenue sources including loan swap fees.

Non-interest income in 2018 was $12.6 million, an increase of $52,000 or 0.4% from the year ended December 31, 2017. This was due to an increase in revenue from First National Wealth Management, the Company's wealth and investment management division, as well as an increase in other operating income and deposit-based charges, offsetting a decline in mortgage banking income and net securities gains.

Non-Interest Expense

Non-interest expense in 2019 was $35.2 million, an increase of $1.7 million or 5.1% from the $33.5 million reported in 2018, primarily due to increased employee expense incurred to support the Company's growth. The Company benefited from FDIC insurance premium credits which helped reduce the Bank's FDIC premium expense. In the absence of these credits, expense would have been $849,000.

Non-interest expense in 2018 was $33.5 million, an increase of $1.8 million or 5.7% from the $31.7 million reported in 2017, primarily due to increased employee expense incurred to support the Company's growth.

Provision to the Allowance for Loan Losses

The Company's provision to the allowance for loan losses was $1.3 million in 2019 compared to $1.5 million in 2018. The 2019 provision was 0.06% of average assets in 2019, compared to 0.12% of average assets for the UBPR peer group. The allowance for loan losses stood at 0.90% of total loans as of December 31, 2019, compared to 0.91% a year ago, and 1.09% for the UBPR peer group.

Net loan chargeoffs in 2019 were $0.8 million or 0.07% of average loans, down $154,000 from 2018. Non-performing assets stood at 0.82% of total assets as of December 31, 2019 compared to 0.79% of total assets at December 31, 2018. Past-due loans were 1.16% of total loans as of December 31, 2019, up from 1.08% of total loans as of December 31, 2018.

The Company's provision to the allowance for loan losses was $1.5 million in 2018 compared to $2.0 million in 2017. This was 0.08% of average assets in 2018, compared to 0.12% of average assets for the UBPR peer group. The allowance for loan losses stood at 0.91% of total loans as of December 31, 2018, compared to 0.92% at December 31, 2017.

Net loan chargeoffs in 2018 were $1.0 million or 0.08% of average loans, down $412,000 from 2017. Non-performing assets stood at 0.79% of total assets as of December 31, 2018 compared to 0.86% of total assets at December 31, 2017. Past-due loans were 1.08% of total loans as of December 31, 2018, down from 1.60% of total loans as of December 31, 2017.

Income Taxes

Income taxes on operating earnings were $4.7 million for the year ended December 31, 2019, up $429,000 from 2018.

Income taxes on operating earnings were $4.3 million for the year ended December 31, 2018, down $2.3 million from 2017. This decrease was due to the benefits from the TCJA.

Net Income

Net income for 2019 was $25.5 million, up 8.5% or $2.0 million from net income of $23.5 million that was posted in 2018. Earnings per share on a fully diluted basis for 2019 were $2.34, up $0.17 or 7.8% from the $2.17 reported for the year ended December 31, 2018.

Net income for 2018 was $23.5 million, up 20.2% or $3.9 million from net income of $19.6 million that was posted in 2017. Earnings per share on a fully diluted basis for 2018 were $2.17, up $0.36 or 19.9% from the $1.81 reported for the year ended December 31, 2017.

Key Ratios

Return on average assets in 2019 was 1.27%, up from the 1.23% and 1.10% posted in 2018 and 2017, respectively. This compares to 1.23%, 1.20% and 0.91%, respectively, for the UBPR peer group. Return on average tangible common equity was 14.66% in 2019, compared to 15.18% in 2018 and 13.11% in 2017. This compares to 11.30%, 11.71% and 9.26%, respectively, for the UBPR peer group. In 2019, the Company's dividend payout ratio (dividends declared per share divided by earnings per share) was 50.42%, compared to 50.92% in 2018 and 52.20% in 2017. This compares to 37.65%, 33.07% and 37.93%, respectively, for the UBPR peer group. The Company's non-GAAP efficiency ratio – a benchmark measure of the amount spent to generate a dollar of income – was 51.04% in 2019 compared to 62.07% for the UBPR peer group, on average. In 2018, the Company's non-GAAP efficiency ratio was 51.50% compared to 61.82% for the UBPR peer group, on average.

Investment Management and Fiduciary Activities

As of December 31, 2019, First National Wealth Management, the Bank's trust and investment management division, had assets under management or custody with a market value of $1.047 billion, consisting of 1,208 trust accounts, estate accounts, agency accounts, and self-directed individual retirement accounts. This compares to December 31, 2018, when 1,196 accounts with a market value of $943.4 million were under management or custody.

Assets and Asset Quality

Total assets of $2.069 billion at December 31, 2019 increased 6.4% or $124.2 million from $1.945 billion at December 31, 2018. The investment portfolio increased $66.4 million or 11.4% over December 31, 2018, and the loan portfolio increased $58.8 million or 4.7%. Year-over-year, average assets were up $98.9 million in 2019 over 2018. Average loans in 2019 were $45.7 million higher than in 2018, and average investments in 2019 were $57.5 million higher than in 2018.

Non-performing assets to total assets stood at 0.82% at December 31, 2019, above 0.79% of total assets at December 31, 2018 and below 0.86% of total assets at December 31, 2017. In general terms, the Company's long-standing approach to working with borrowers and ethical loan underwriting standards helps alleviate some of the payment problems on customers' loans and minimizes actual loan losses, in Management's opinion.

Net chargeoffs in 2019 were $843,000 or 0.07% of average loans outstanding, down $154,000 from December 31, 2018. This compares to net charge offs for our UBPR peer group in 2019 of 0.10% of average loans. Residential real estate term loans represent 37.9% of the total loan portfolio, and this loan category generally has a lower level of losses in comparison to other loan types. In 2019, the loss ratio for residential mortgages was 0.05% compared to 0.07% for the entire loan portfolio. The Company does not have a credit card portfolio or offer dealer consumer loans, which generally carry more risk and potentially higher losses than other types of consumer credit.

The allowance for loan losses ended 2019 at $11.6 million and stood at 0.90% of total loans outstanding, compared to $11.2 million and 0.91% of total loans outstanding at December 31, 2018. A $1.3 million provision for losses was made in 2019 and net charge offs totaled $843,000, resulting in the allowance for loan losses increasing $407,000 or 3.6% from December 31, 2018. Management believes the allowance for loan losses is appropriate as of December 31, 2019 based on loan portfolio activity, composition, quality indicators and external conditions present at this date.

Investment Activities

During 2019, the investment portfolio increased 11.4% to end the year at $651.1 million, compared to $584.7 million at December 31, 2018. Average investments in 2019 were $57.5 million higher than in 2018. As of December 31, 2019, mortgage-backed securities had a carrying value of $341.0 million and a fair value of $341.5 million. Of this total, securities with a fair value of $120.7 million or 35.3% of the mortgage-backed portfolio were issued by the Government National Mortgage Association and securities with a fair value of $220.8 million or 64.7% of the mortgage-backed portfolio were issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association.

The Company's investment securities are classified into two categories: securities available for sale and securities to be held to maturity. Securities available for sale consist 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, prepayment risk and liquidity needs, to increase capital ratios, or for other similar reasons. Securities to be held to maturity consist primarily of debt securities that the Company has acquired solely for long-term investment purposes, rather than for trading or future sale. For securities to be categorized as held to maturity, Management must have the intent and the Company must have 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, and corporate bonds or commercial paper with one of the three highest ratings given by a nationally recognized rating agency. The portfolio is currently invested primarily in U.S. Government sponsored agency securities and tax-exempt obligations of states and political subdivisions. The individual securities have been selected to enhance the portfolio's overall yield while not materially adding to the Company's level of interest rate risk.

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 with a corresponding fair value of $89,757,000 from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in accumulated other comprehensive income (loss), net of tax and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in accumulated other comprehensive income (loss) will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from available for sale to held to maturity was $182,000 at December 31, 2019. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

In December 2019, the Company elected to adopt early the amendments to Topic 815, Derivatives and Hedging, which allowed the Company a one–time reclassification of certain prepayable debt securities from held to maturity to available for sale. In December 2019, prepayable debt securities with a carrying value of $24.9 million and a net unrealized gain of $1.6 million were transferred from held to maturity to available for sale. The reclassified securities consisted of state and political subdivision municipal debt securities. The Company subsequently sold approximately $4.3 million of those securities at a gain of $209,000 which was recognized in 2019.

The following table sets forth the Company's investment securities at their carrying amounts as of December 31, 2019, 2018, and 2017.

Dollars in thousands	**2019**	2018	2017
Securities available for sale			
U.S. Government sponsored agencies	**$ 7,398**	$ 5,007	$ —
Mortgage-backed securities	**326,617**	307,693	289,989
State and political subdivisions	**26,505**	4,716	6,769
	360,520	317,416	296,758
Securities to be held to maturity			
U.S. Government sponsored agencies	**32,840**	11,155	11,155
Mortgage-backed securities	**14,431**	18,250	23,284
State and political subdivisions	**219,585**	221,958	217,828
Corporate securities	**14,750**	4,300	4,300
	281,606	255,663	256,567
Restricted equity securities			
Federal Home Loan Bank Stock	**7,945**	10,549	9,321
Federal Reserve Bank Stock	**1,037**	1,037	1,037
	8,982	11,586	10,358
Total securities	**$ 651,108**	$ 584,665	$ 563,683

The following table sets forth information on the yields and expected maturities of the Company's investment securities as of December 31, 2019. Yields on tax-exempt securities have been computed on a tax-equivalent basis using a tax rate of 21%. Mortgage-backed securities are presented according to their contractual maturity date, while the yield takes into effect intermediate cashflows from repayment of principal which results in a much shorter average life.

	Available For Sale		Held to Maturity	
Dollars in thousands	Fair Value	Yield to maturity	Amortized Cost	Yield to maturity
U.S. Government Sponsored Agencies				
Due in 1 year or less	$ —	0.00%	$ —	0.00%
Due in 1 to 5 years	—	0.00%	—	0.00%
Due in 5 to 10 years	—	0.00%	26,175	3.53%
Due after 10 years	7,398	2.99%	6,665	4.16%
Total	7,398	2.99%	32,840	3.65%
Mortgage-Backed Securities				
Due in 1 year or less	127	2.87%	14	0.02%
Due in 1 to 5 years	36,778	2.65%	4,723	2.84%
Due in 5 to 10 years	82,967	2.99%	6,334	3.47%
Due after 10 years	206,745	2.75%	3,360	5.15%
Total	326,617	2.80%	14,431	3.65%
State & Political Subdivisions				
Due in 1 year or less	—	0.00%	1,320	5.52%
Due in 1 to 5 years	—	0.00%	16,387	5.67%
Due in 5 to 10 years	12,047	4.81%	136,624	4.57%
Due after 10 years	14,458	5.28%	65,254	4.38%
Total	26,505	5.06%	219,585	4.60%
Corporate Securities				
Due in 1 year or less	—	0.00%	—	0.00%
Due in 1 to 5 years	—	0.00%	4,750	4.91%
Due in 5 to 10 years	—	0.00%	10,000	5.11%
Due after 10 years	—	0.00%	—	0.00%
Total	—	0.00%	14,750	5.05%
	$ 360,520	2.97%	$ 281,606	4.47%

Impaired Securities

The securities portfolio contains certain securities, the amortized cost of which exceeds fair value, which at December 31, 2019 amounted to an unrealized loss of $1.1 million, or 0.18% of the amortized cost of the total securities portfolio. At December 31, 2018 this amount represented an unrealized loss of $13.1 million, or 2.30% of the total securities portfolio. As a part of the Company's ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. If a decline in the fair value of a debt security is judged to be other-than-temporary, the decline related to credit loss is recorded in net realized securities losses while the decline attributable to other factors is recorded in other comprehensive income or loss.

The Company's evaluation of securities for impairment is a quantitative and qualitative process intended to determine whether declines in the fair value of investment securities should be recognized in current period earnings. The primary factors considered in evaluating whether a decline in the fair value of securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments, (d) the volatility of the security's market price, (e) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery, which may be at maturity, and (f) any other information and observable data considered relevant in determining whether other-than-temporary impairment has occurred.

The Company's best estimate of cash flows uses severe economic recession assumptions to quantify potential market uncertainty. The Company's assumptions include but are not limited to delinquencies, foreclosure levels and constant default rates on the underlying collateral, loss severity ratios, and constant prepayment rates. If the Company does not expect to receive 100% of future contractual principal and interest, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral.

As of December 31, 2019, the Company had temporarily impaired securities with a fair value of $96.1 million and unrealized losses of $1.1 million, as identified in the table below. Securities in a continuous unrealized loss position of twelve months or more amounted to $19.0 million as of December 31, 2019, compared with $240.9 million at December 31, 2018. The Company has concluded that these securities were not other-than-temporarily impaired. This conclusion was based on the issuers' continued satisfaction of their obligations in accordance with their contractual terms and the expectation that the issuers will continue to do so, Management's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value (which may be at maturity), the expectation that the Company will receive 100% of future contractual cash flows, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence. The following table summarizes temporarily impaired securities and their approximate fair values at December 31, 2019.

	Less than 12 months		**12 months or more**		**Total**	
Dollars in thousands	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored agencies	$ 12,372	$ (128)	$ —	$ —	$ 12,372	$ (128)
Mortgage-backed securities	54,244	(359)	18,696	(490)	72,940	(849)
State and political subdivisions	10,532	(101)	304	(8)	10,836	(109)
	$ 77,148	$ (588)	$ 19,000	$ (498)	$ 96,148	$ (1,086)

For securities with unrealized losses, the following information was considered in determining that the securities were not other-than-temporarily impaired:

Securities issued by U.S. Government-sponsored agencies. As of December 31, 2019, the total unrealized losses on these securities amounted to $128,000, compared with $472,000 at December 31, 2018. All of these securities were credit rated "AAA" or "AA+" by the major credit rating agencies. Management believes that securities issued by U.S. Government-sponsored agencies and enterprises have minimal credit risk, as these agencies and enterprises play a vital role in the nation's financial markets, and does not consider these securities to be other-than-temporarily impaired at December 31, 2019.

Mortgage-backed securities issued by U.S. Government agencies and U.S. Government-sponsored enterprises. As of December 31, 2019, the total unrealized losses on these securities amounted to $849,000, compared with $7.0 million at December 31, 2018. All of these securities were credit rated "AAA" by the major credit rating agencies. Management believes that securities issued by U.S. Government agencies bear no credit risk because they are backed by the full faith and credit of the United States and that securities issued by U.S. Government-sponsored enterprises have minimal credit risk, as these agencies enterprises play a vital role in the nation's financial markets. Management believes that the unrealized losses at December 31, 2019 were attributable to changes in current market yields and spreads since the dates the underlying securities were purchased, and does not consider these securities to be other-than-temporarily impaired at December 31, 2019. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Obligations of state and political subdivisions. As of December 31, 2019, the total unrealized losses on municipal securities amounted to $109,000, compared with $5.7 million at December 31, 2018. Municipal securities are supported by the general taxing authority of the municipality and, in the cases of school districts, are supported by state aid. At December 31, 2019, all municipal bond issuers were current on contractually obligated interest and principal payments. The Company monitors price changes and changes in credit quality of municipal issuers on a regular basis as a potential indicator of temporary impairment. The Company attributes the unrealized losses at December 31, 2019, however, to changes in prevailing market yields and pricing spreads since the dates the underlying securities were purchased, combined with current market liquidity conditions and the disruption in the financial markets in general. Accordingly, the Company does not consider these municipal securities to be other-than-temporarily impaired at December 31, 2019. The Company also has the ability and intent to hold these securities until a recovery of their amortized cost, which may be at maturity.

Corporate securities. As of December 31, 2019 and 2018, there were no unrealized losses on corporate securities. Corporate securities are dependent on the operating performance of the issuers. At December 31, 2019, all corporate bond issuers were current on contractually obligated interest and principal payments.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the FHLB for much of its wholesale funding needs. As of December 31, 2019 and 2018, the Bank's investment in FHLB stock totaled $7.9 million and $10.5 million, respectively. The year-to-year change was based upon the Bank's lower level of borrowings from the FHLB, and by a change in FHLB's minimum ownership requirements. FHLB stock is a non-marketable equity security and therefore is reported at cost, which equals par value. The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2019. The Bank will continue to monitor its investment in FHLB stock.

Lending Activities

The loan portfolio increased $58.8 million or 4.7% in 2019, with total loans at $1.30 billion at December 31, 2019, compared to $1.24 billion at December 31, 2018. Commercial loans increased $52.7 million or 9.1% between December 31, 2018 and December 31, 2019. Residential term loans increased by $23.3 million or 5.0% and municipal loans decreased by $9.8 million or 19.2% over the same period.

Commercial loans are comprised of three major classes: commercial real estate loans, commercial construction loans and other commercial loans.

Commercial real estate loans consist of mortgage loans to finance investments in real property such as multi-family residential, commercial/retail, office, industrial, hotels, educational and other specific or mixed use properties. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Commercial real estate loans typically have a loan-to-value ratio of up to 80% based upon current valuation information at the time the loan is made. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

Commercial construction loans consist of loans to finance construction in a mix of owner- and non-owner occupied commercial real estate properties. Commercial construction loans typically have maturities of less than two years. Payment structures during the construction period are typically on an interest only basis, although principal payments may be established depending on the type of construction project being financed. During the construction phase, commercial construction loans are primarily paid by cash reserves or other operating cash flows of the borrower or guarantors, if applicable. At the end of the construction period, loan repayment typically comes from a third party source in the event that the Bank will not be providing permanent term financing. Collateral valuation and loan-to-value guidelines follow those for commercial real estate loans.

Other commercial loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital or capital investment. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant and equipment, and/or real estate, if applicable. Commercial loans are primarily paid from the operating cash flow of the borrower. Commercial loans may be secured or unsecured.

Municipal loans are comprised of loans to municipalities in Maine for capitalized expenditures, construction projects or tax-anticipation notes. All municipal loans are considered general obligations of the municipality and are collateralized by the taxing ability of the municipality for repayment of debt.

Residential loans are comprised of two classes: term loans and construction loans.

Residential term loans consist of residential real estate loans held in the Company's loan portfolio made to borrowers who demonstrate the ability to make scheduled payments with full consideration of applicable underwriting factors comprising the Bank's credit policies. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Residential loans typically have a loan-to-value ratio of up to 80% based on appraisal information at the time the loan is made. Collateral consists of mortgage liens on one- to four-family residential properties. Loans are offered with fixed or adjustable rates with amortization terms of up to thirty years.

Residential construction loans typically consist of loans for the purpose of constructing single family residences to be owned and occupied by the borrower. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Residential construction loans normally have construction terms of one year or less and payment during the construction term is typically on an interest only basis from sources including interest reserves, borrower liquidity and/or income. Residential construction loans will typically convert to permanent financing from the Bank or have another financing commitment in place from an acceptable mortgage lender. Collateral valuation and loan-to-value guidelines are consistent with those for residential term loans.

Home equity lines of credit are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity line of credit typically has a variable interest rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Loan maturities are normally 25 years. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios usually not exceeding 80% inclusive of priority liens. Collateral valuation guidelines follow those for residential real estate loans.

Consumer loan products including personal lines of credit and amortizing loans are made to qualified individuals for various purposes such as automobiles, recreational vehicles, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer loans may be secured or unsecured.

Construction loans, both commercial and residential, at 27.9% of capital are well under the regulatory guidance of 100.0% of capital at December 31, 2019. Construction loans and non-owner-occupied commercial real estate loans are at 123.0% of total capital at December 31, 2019, well below the regulatory limit of 300.0% of capital.

The following table summarizes the loan portfolio, by class, as of December 31, 2019, 2018, 2017, 2016 and 2015.

	As of December 31,									
Dollars in thousands	**2019**		2018		2017		2016		2015	
Commercial										
Real estate	**$ 372,810**	**28.7%**	$ 353,243	28.5%	$ 323,809	27.8%	$ 302,506	28.2%	$269,462	27.3%
Construction	**38,084**	**3.0%**	27,304	2.2%	38,056	3.3%	25,406	2.4%	24,881	2.5%
Other	**218,773**	**16.9%**	196,391	15.9%	181,528	15.6%	150,769	14.1%	128,341	13.0%
Municipal	**41,288**	**3.2%**	51,128	4.1%	33,391	2.9%	27,056	2.5%	19,751	2.0%
Residential										
Term	**492,455**	**37.9%**	469,145	37.9%	432,661	37.1%	411,469	38.4%	403,030	40.7%
Construction	**14,813**	**1.2%**	17,743	1.4%	17,868	1.5%	18,303	1.7%	8,451	0.9%
Home equity line of credit	**92,349**	**7.1%**	98,469	8.0%	111,302	9.6%	110,907	10.4%	110,202	11.1%
Consumer	**26,503**	**2.0%**	24,860	2.0%	25,524	2.2%	25,110	2.3%	24,520	2.5%
Total loans	**$1,297,075**	**100.0%**	$1,238,283	100.0%	$1,164,139	100.0%	$1,071,526	100.0%	$988,638	100.0%

The following table sets forth certain information regarding the contractual maturities of the Bank's loan portfolio as of December 31, 2019:

Dollars in thousands	< 1 Year	1 - 5 Years	5 - 10 Years	> 10 Years	Total
Commercial					
Real estate	$ 876	$ 19,616	$ 35,142	$ 317,176	$ 372,810
Construction	161	6,246	2,089	29,588	38,084
Other	3,361	89,556	58,191	67,665	218,773
Municipal	—	22,009	11,283	7,996	41,288
Residential					
Term	100	8,178	26,099	458,078	492,455
Construction	—	716	—	14,097	14,813
Home equity line of credit	—	589	721	91,039	92,349
Consumer	8,000	6,284	4,011	8,208	26,503
Total loans	$ 12,498	$ 153,194	$ 137,536	$ 993,847	$ 1,297,075

The following table provides a listing of loans, by class, between variable and fixed rates as of December 31, 2019.

	Fixed-Rate		Adjustable-Rate		Total	
Dollars in thousands	Amount	% of total	Amount	% of total	Amount	% of total
Commercial						
Real estate	$ 145,272	11.2%	$ 227,538	17.5%	$ 372,810	28.7%
Construction	25,607	2.0%	12,477	1.0%	38,084	3.0%
Other	136,331	10.5%	82,442	6.4%	218,773	16.9%
Municipal	40,157	3.1%	1,131	0.1%	41,288	3.2%
Residential						
Term	388,386	29.9%	104,069	8.0%	492,455	37.9%
Construction	14,813	1.1%	—	0.1%	14,813	1.2%
Home equity line of credit	1,621	0.1%	90,728	7.0%	92,349	7.1%
Consumer	19,675	1.5%	6,828	0.5%	26,503	2.0%
Total loans	$ 771,862	59.4%	$ 525,213	40.6%	$ 1,297,075	100.0%

Loan Concentrations

As of December 31, 2019, 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

As of December 31, 2019, the Bank had $154,000 in loans held for sale. This compares to no loans held for sale at December 31, 2018.

Credit Risk Management and Allowance for Loan Losses

Credit risk is the risk of loss arising from the inability of a borrower to meet its obligations. We manage credit risk by evaluating the risk profile of the borrower, repayment sources, the nature of the underlying collateral, and other support given current events, conditions, and expectations. We attempt to manage the risk characteristics of our loan portfolio through various control processes, such as credit evaluation of borrowers, establishment of lending limits, and application of lending procedures, including the holding of adequate collateral and the maintenance of compensating balances. However, we seek to rely primarily on the cash flow of our borrowers as the principal source of repayment. Although credit policies and evaluation processes are designed to minimize our risk, Management recognizes that loan losses will occur and the amount of these losses will fluctuate depending on the risk characteristics of our loan portfolio, as well as general and regional economic conditions.

We provide for loan losses through the establishment of an allowance for loan losses which represents an estimated reserve for existing losses in the loan portfolio. We deploy a systematic methodology for determining our allowance that includes a quarterly review process, risk rating, and, where appropriate, adjustment to our allowance. We classify our portfolios as either commercial or residential and consumer and monitor credit risk separately as discussed below. We evaluate the appropriateness of our allowance continually based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that we believe require special attention.

The allowance consists of four elements: (1) specific reserves for loans evaluated individually for impairment; (2) general reserves for types or portfolios of loans based on historical loan loss experience; (3) qualitative reserves judgmentally adjusted for local and national economic conditions, concentrations, portfolio composition, volume and severity of delinquencies and nonaccrual loans, trends of criticized and classified loans, changes in credit policies, and underwriting standards, credit administration practices, and other factors as applicable; and (4) unallocated reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance.

Appropriateness of the allowance for loan losses is determined using a consistent, systematic methodology, which analyzes the risk inherent in the loan portfolio. In addition to evaluating the collectability of specific loans when determining the appropriateness of the allowance for loan losses, Management also takes into consideration other factors such as changes in the mix and size of the loan portfolio, historic loss experience, the amount of delinquencies and loans adversely classified, economic trends, changes in credit policies, and experience, ability and depth of lending management. The appropriateness of the allowance for loan losses is assessed through an allocation process whereby specific reserve allocations are made against certain impaired loans, and general reserve allocations are made against segments of the loan portfolio which have similar attributes. The Company's historical loss experience, industry trends, and the impact of the local and regional economy on the Company's borrowers are considered by Management in determining the appropriateness of the allowance for loan losses.

The allowance for loan losses is increased by provisions charged against current earnings. Loan losses are charged against the allowance when Management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance. While Management uses available information to assess possible losses on loans, future additions to the allowance may be necessary based on increases in non-performing loans, changes in economic conditions, growth in loan portfolios, or for other reasons. Any future additions to the allowance would be recognized in the period in which they were determined to be necessary. In addition, various regulatory agencies periodically review the Company's allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to record additions to the allowance based on judgments different from those of Management. No such addition has been required by any agency in over twenty years.

Commercial

Our commercial portfolio includes all secured and unsecured loans to borrowers for commercial purposes, including commercial lines of credit and commercial real estate. Our process for evaluating commercial loans includes performing updates on loans that we have rated for risk. Our non-performing commercial loans are generally reviewed individually to determine impairment, accrual status, and the need for specific reserves. Our methodology incorporates a variety of risk considerations, both qualitative and quantitative. Quantitative factors include our historical loss experience by loan type, collateral values, financial condition of borrowers, and other factors. Qualitative factors include judgments concerning general economic conditions that may affect credit quality, credit concentrations, the pace of portfolio growth, and delinquency levels; these qualitative factors are also considered in connection with the unallocated portion of our allowance for loan losses.

The process of establishing the allowance with respect to our commercial loan portfolio begins when a loan officer initially assigns each loan a risk rating, using established credit criteria. Approximately 60% of a trailing four quarter average gross commercial portfolio is subject to review and validation annually by an independent consulting firm, as well as periodically by our internal credit review function. Our methodology employs Management's judgment as to the level of losses on existing loans based on our internal review of the loan portfolio, including an analysis of the borrowers' current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers and lines of business. In determining our ability to collect certain loans, we also consider the fair value of any underlying collateral. We also evaluate credit risk concentrations, including trends in large dollar exposures to related borrowers, industry and geographic concentrations, and economic and environmental factors.

Residential, Home Equity and Consumer

Consumer, home equity and residential mortgage loans are generally segregated into homogeneous pools with similar risk characteristics. Trends and current conditions in these pools are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for the consumer, home equity and residential mortgage portfolios are consistent with those for the commercial portfolios. Certain loans in the consumer and residential portfolios identified as having the potential for further deterioration are analyzed individually to confirm the appropriate risk status and accrual status, and to determine the need for a specific reserve. Consumer loans that are greater than 120 days past due are generally charged off. Residential loans and home equity lines of credit that are greater than 90 days past due are evaluated for collateral adequacy and if deficient are placed on non-accrual status. The Bank sells residential loans through the Federal Home Loan Bank of Boston Mortgage Partnership Finance program (MPF) with recourse. Volume sold to MPF continues to be diminimus; therefore, the impact on the Allowance is minimal.

Unallocated

The unallocated portion of the allowance is intended to provide for losses that are not identified when establishing the specific and general portions of the allowance and is based upon Management's evaluation of various conditions that are not directly measured in the determination of the portfolio and loan specific allowances. Such conditions may include general economic and business conditions affecting our lending area, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, duration of the current business cycle, bank regulatory examination results, findings of external loan review examiners, and our judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Management reviews these conditions quarterly. We have risk management practices designed to ensure timely identification of changes in loan risk profiles; however, undetected losses may exist inherently within the loan portfolio. The judgmental aspects involved in applying the risk grading criteria, analyzing the quality of individual loans, and assessing collateral values can also contribute to undetected, but probable, losses. Consequently, there may be underlying credit risks that have not yet surfaced in the loan-specific or qualitative metrics the Company uses to estimate its allowance for loan losses.

The allowance for loan losses includes reserve amounts assigned to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when Management believes it is probable that the Company will not collect all of the contractual interest and principal payments as scheduled in the loan agreement. Impaired loans include troubled debt restructured loans (TDRs) and loans placed on non-accrual status. A specific reserve is allocated to an individual loan when that loan has been deemed impaired and when the amount of a probable loss is estimable on the basis of its collateral value, the present value of anticipated future cash flows, or its net realizable value. At December 31, 2019, impaired loans with specific reserves totaled $11.1 million and the amount of such reserves was $2.2 million. This compares to impaired loans with specific reserves of $10.7 million at December 31, 2018, at which date the amount of such reserves was $2.3 million.

All of these analyses are reviewed and discussed by the Directors' Loan Committee, and recommendations from these processes provide Management and the Board of Directors with independent information on loan portfolio condition. Our total allowance at December 31, 2019 is considered by Management to be appropriate to address the credit losses inherent in the loan portfolio at that date. However, our determination of the appropriate allowance level is based upon a number of assumptions we make about future events, which we believe are reasonable, but which may or may not prove valid. Thus, there can be no assurance that our charge-offs in future periods will not exceed our allowance for loan losses or that we will not need to make additional increases in our allowance for loan losses.

The following table summarizes our allocation of allowance by loan class as of December 31, 2019, 2018, 2017, 2016 and 2015. The percentages are the portion of each loan type to total loans.

	As of December 31,									
Dollars in thousands	**2019**		2018		2017		2016		2015	
Commercial										
Real estate	**$ 3,742**	**28.7%**	$ 3,567	28.5%	$ 3,872	27.8%	$ 3,988	28.2%	$ 3,120	27.3%
Construction	**365**	**3.0%**	255	2.2%	434	3.3%	396	2.4%	580	2.5%
Other	**3,329**	**16.9%**	3,541	15.9%	3,358	15.6%	1,780	14.1%	1,452	13.0%
Municipal	**27**	**3.2%**	24	4.1%	20	2.9%	18	2.5%	17	2.0%
Residential										
Term	**1,024**	**37.9%**	1,235	37.9%	1,130	37.1%	1,288	38.4%	1,391	40.7%
Construction	**25**	**1.2%**	34	1.4%	36	1.5%	44	1.7%	24	0.9%
Home equity line of credit	**1,078**	**7.1%**	730	8.0%	692	9.6%	807	10.4%	893	11.1%
Consumer	**867**	**2.0%**	630	2.0%	545	2.2%	559	2.3%	566	2.5%
Unallocated	**1,182**	**—%**	1,216	—%	642	—%	1,258	—%	1,873	—%
Total	**$ 11,639**	**100.0%**	$ 11,232	100.0%	$ 10,729	100.0%	$ 10,138	100.0%	$ 9,916	100.0%

The allowance for loan losses totaled $11.6 million at December 31, 2019, compared to $11.2 million at December 31, 2018. Management's ongoing application of methodologies to establish the allowance include an evaluation of non-accrual loans and troubled debt restructured loans for specific reserves. These specific reserves decreased $95,000 in 2019 from $2.3 million at December 31, 2018 to $2.2 million at December 31, 2019. The specific loans that make up those categories change from period to period. Impairment on those loans, which would be reflected in the allowance for loan losses, might or might not exist, depending on the specific circumstances of each loan. The portion of the reserve based upon homogeneous pools of loans decreased by $102,000 in 2019. The portion of the reserve based on qualitative factors increased by $638,000 during 2019 due to a mix of factors. Unallocated reserves, which were $1.2 million, or 10.8% of the total reserve at December 31, 2018, stayed level in dollar terms at $1.2 million as of December 31, 2019, while the percentage of the overall reserve moved modestly down to 10.2%. Management considers these levels appropriate as they supported general imprecision related to portfolio growth and included considerations of general economic and business conditions affecting our lending area, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, duration of the current business cycle, bank regulatory examination results, findings of external loan review examiners, and Management's judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Consequently, there may be underlying credit risks that have not yet surfaced in the loan specific or qualitative metrics the Company uses to estimate its allowance for loan losses that are reflected in the unallocated component.

A breakdown of the allowance for loan losses as of December 31, 2019, by loan class, and allowance element, is presented in the following table:

Dollars in thousands	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 251	$ 729	$ 2,762	$ —	$ 3,742
Construction	—	76	289	—	365
Other	1,273	430	1,626	—	3,329
Municipal	—	—	27	—	27
Residential					
Term	237	153	634	—	1,024
Construction	—	5	20	—	25
Home equity line of credit	447	130	501	—	1,078
Consumer	5	460	402	—	867
Unallocated	—	—	—	1,182	1,182
	$ 2,213	$ 1,983	$ 6,261	$ 1,182	$ 11,639

Based upon Management's evaluation, provisions are made to maintain the allowance as a best estimate of inherent losses within the portfolio. The provision for loan losses to maintain the allowance at an appropriate level was $1.3 million in 2019 compared to $1.5 million in 2018. Net charge offs were $843,000 in 2019 compared to net charge offs of $1.0 million in 2018. The allowance as a percentage of loans outstanding stood at 0.90% at December 31, 2019 compared to 0.91% at December 31, 2018.

The following table summarizes the activities in our allowance for loan losses as of December 31, 2019, 2018, 2017, 2016, and 2015:

	As of December 31,				
Dollars in thousands	**2019**	2018	2017	2016	2015
Balance at beginning of year	**$ 11,232**	$ 10,729	$ 10,138	$ 9,916	$ 10,344
Loans charged off:					
Commercial					
Real estate	**89**	168	587	294	280
Construction	**—**	—	—	75	9
Other	**179**	423	212	376	732
Municipal	**—**	—	—	—	—
Residential					
Term	**445**	213	456	379	420
Construction	**—**	—	—	—	—
Home equity line of credit	**69**	121	28	147	582
Consumer	**338**	348	335	450	350
Total	**1,120**	1,273	1,618	1,721	2,373
Recoveries on loans previously charged off					
Commercial					
Real estate	**15**	52	—	—	2
Construction	**—**	—	—	8	1
Other	**73**	40	49	129	88
Municipal	**—**	—	—	—	—
Residential					
Term	**57**	64	40	93	152
Construction	**—**	—	—	—	—
Home equity line of credit	**4**	24	11	5	31
Consumer	**128**	96	109	108	121
Total	**277**	276	209	343	395
Net loans charged off	**843**	997	1,409	1,378	1,978
Provision for loan losses	**1,250**	1,500	2,000	1,600	1,550
Balance at end of period	**$ 11,639**	$ 11,232	$ 10,729	$ 10,138	$ 9,916
Ratio of net loans charged off to average loans outstanding	**0.07%**	0.08%	0.13%	0.13%	0.21%
Ratio of allowance for loan losses to total loans outstanding	**0.90%**	0.91%	0.92%	0.95%	1.00%

Management believes the allowance for loan losses is appropriate as of December 31, 2019. In Management's opinion, the level of the provision for loan losses in 2019 was directionally consistent with the overall credit quality of our loan portfolio and corresponding levels of nonperforming loans, as well as with the performance of the national and local economies.

Nonperforming Loans

Nonperforming loans are comprised of loans for which, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to current status in the near future.

When a loan becomes nonperforming (generally 90 days past due), it is evaluated for collateral dependency based upon the most recent appraisal or other evaluation method. If the collateral value is lower than the outstanding loan balance plus accrued interest and estimated selling costs, the loan is placed on non-accrual status, all accrued interest is reversed from interest income, and a specific reserve is established for the difference between the loan balance and the collateral value less selling costs or, in certain situations, the difference between the loan balance and the collateral value less selling costs is written off. Concurrently, a new appraisal or valuation may be ordered, depending on collateral type, currency of the most recent valuation, the size of the loan, and other factors appropriate to the loan. Upon receipt and acceptance of the new valuation, the loan may have an additional specific reserve or write down based on the updated collateral value. On an ongoing basis, appraisals or valuations may be obtained periodically on collateral dependent non-performing loans and an additional specific reserve or write down will be made, if appropriate, based on the new collateral value.

Once a loan is placed on nonaccrual, it remains in nonaccrual status until the loan is current as to payment of both principal and interest and the borrower demonstrates the ability to pay and remain current. All payments made on non-accrual loans are applied to the principal balance of the loan.

Nonperforming loans, expressed as a percentage of total loans, totaled 1.28% at December 31, 2019 compared to 1.19% at December 31, 2018. This compares to non-performing loans to total loans at 0.55% for all the banks in the UBPR peer group as of December 31, 2019 and 2018.The following table shows the distribution of nonperforming loans by class as of December 31, 2019, 2018, 2017, 2016, and 2015:

	As of December 31,				
Dollars in thousands	**2019**	2018	2017	2016	2015
Commercial					
Real estate	**$ 1,784**	$ 1,226	$ 752	$ 1,907	$ 915
Construction	**256**	—	—	—	238
Other	**6,534**	8,664	9,357	964	66
Municipal	**—**	—	—	—	—
Residential					
Term	**5,899**	4,062	3,778	4,060	5,260
Construction	—	—	—	—	—
Home equity line of credit	**2,171**	760	833	843	893
Consumer	**5**	15	16	—	—
Total non-performing loans	**$ 16,649**	$ 14,727	$ 14,736	$ 7,774	$ 7,372

Total nonperforming loans does not include loans 90 or more days past due and still accruing interest. These are loans in which we expect to collect all amounts due, including past-due interest. As of December 31, 2019, loans 90 or more days past due and still accruing interest totaled $1.6 million, compared to $351,000, $445,000, $777,000 and $136,000 at December 31, 2018, 2017, 2016 and 2015, respectively. The increase to loans 90 days or more past due and still accruing as of December 31, 2019, was due to one loan in the amount of $1.0 million.

As of December 31, 2019, 26 loans with a balance of $8.8 million were non-performing and also classified as troubled-debt-restructured. This compares to 17 loans with a balance of $8.2 million as of December 31, 2018.

Troubled Debt Restructured

A restructuring of debt constitutes a troubled debt restructured ("TDR") if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, Management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender, and
- The Bank has granted a concession; common concession types include maturity date extension, interest rate adjustments to below market pricing, and deferral of payments.

As of December 31, 2019 there were 81 loans with an aggregate outstanding balance of $21.4 million that have been restructured. This compares to 76 loans with amounts totaling $25.2 million that had been restructured as of December 31, 2018. The following table shows the activity in loans classified as TDRs between December 31, 2017 and December 31, 2019:

Balance in Thousands of Dollars	Number of Loans	Aggregate Balance	
Total at December 31, 2017	62	$	17,801
Added in 2018	18		9,140
Principal reduction on loans added in 2018	—		(108)
Net added in 2018	18		9,032
Loans paid off in 2018	(4)	$	(1,150)
Repayments in 2018	—		(461)
Total at December 31, 2018	76		25,222
Added in 2019	11		1,085
Principal reduction on loans added in 2019	—		(25)
Net added in 2019	11		1,060
Loans paid off in 2019	(6)		(4,053)
Repayments in 2019	—		(805)
Total at December 31, 2019	81	$	21,424

As of December 31, 2019, 51 loans with an aggregate balance of $12.2 million were performing under the modified terms, four loans with an aggregate balance of $436,000 were more than 30 days past due and accruing, and 26 loans with an aggregate balance of $8.8 million were on nonaccrual. As a percentage of aggregate outstanding balance, 56.9% were performing under the modified terms, 2.0% were more than 30 days past due and accruing and 41.1% were on nonaccrual. The performance status of all TDRs as of December 31, 2019, as well as the associated specific reserve in the allowance for loan losses, is summarized by class of loan in the following table.

In thousands of dollars	Performing As Modified	30+ Days Past Due and Accruing	On Nonaccrual	All TDRs
Commercial				
Real estate	$ 4,525	$ —	$ 311	$ 4,836
Construction	701	—	—	701
Other	418	124	6,390	6,932
Municipal	—	—	—	—
Residential				
Term	6,229	312	1,931	8,472
Construction	—	—	—	—
Home equity line of credit	316	—	167	483
Consumer	—	—	—	—
	$ 12,189	$ 436	$ 8,799	$ 21,424
Percent of balance	56.9%	2.0%	41.1%	100.0%
Number of loans	51	4	26	81
Associated specific reserve	$ 261	$ 72	$ 1,344	$ 1,677

Residential TDRs as of December 31, 2019 included 55 loans with an aggregate balance of $9.0 million and the modifications granted fell into five major categories. Loans totaling $5.7 million had an extension of term, allowing the borrower to repay over an extended number of years and lowering the monthly payment to a level the borrower can afford. Loans totaling $3.1 million had interest capitalized, allowing the borrower to become current after unpaid interest was added to the balance of the loan and re-amortized over the remaining life of the loan. Loans with an aggregate balance of $505,000 were converted from interest-only to regular principal-and-interest payments based on the borrowers' ability to service the higher payment amount. Short-term rate concessions were granted on loans totaling $1.8 million. Certain residential TDRs had more than one modification.

Commercial TDRs as of December 31, 2019 were comprised of 26 loans with a balance of $12.5 million. Of this total, six loans with an aggregate balance of $1.4 million had an extended period of interest-only payments, deferring the start of principal repayment. Four loans with an aggregate balance of $1.7 million had an extension of term, allowing the borrower to repay over an extended number of years and lowering the monthly payment to a level the borrower can afford. Nine loans with an aggregate balance of $7.3 million had a deferral of payment. The remaining seven loans with an aggregate balance of $2.1 million had several different modifications.

In each case when a loan was modified, Management determined it was in the Bank's best interest to work with the borrower with modified terms rather than to proceed to foreclosure. Once a loan is classified as a TDR, however, it remains classified as such until the balance is fully repaid, despite whether the loan is performing under the modified terms. As of December 31, 2019, Management is aware of nine loans classified as TDRs that are involved in bankruptcy proceedings with an aggregate outstanding balance of $987,000. There were also 26 loans with an outstanding balance of $8.8 million that were classified as TDRs and on non-accrual status. Two loans with an outstanding balance of $350,000 were in the process of foreclosure.

Impaired Loans

Impaired loans include troubled debt restructured loans (TDRs) and loans placed on non-accrual status when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral less estimated selling costs if the loan is collateral dependent. If the measure of an impaired loan is lower than the recorded investment in the loan, a specific reserve is established for the difference. Impaired loans totaled $29.3 million at December 31, 2019, and have decreased $2.5 million from December 31, 2018. The number of impaired loans increased by 7 loans from 143 to 150 during the same period. Impaired commercial loans decreased $5.4 million from December 31, 2018 to December 31, 2019. The specific allowance for impaired commercial loans decreased from $2.0 million at December 31, 2018 to $1.5 million as of December 31, 2019, which represented the fair value deficiencies for those loans for which the net fair value of the collateral was estimated at less than our carrying amount of the loan. From December 31, 2018 to December 31, 2019, impaired residential loans increased $1.5 million and impaired home equity lines of credit increased $1.4 million.

The following table sets forth impaired loans as of December 31, 2019, 2018, 2017, 2016 and 2015:

	As of December 31,				
Dollars in thousands	**2019**	2018	2017	2016	2015
Commercial					
Real estate	**$ 6,309**	$ 9,760	$ 7,790	$ 10,021	$ 10,717
Construction	**958**	721	741	763	1,026
Other	**7,075**	9,259	9,918	1,743	1,234
Municipal	**—**	—	—	—	—
Residential					
Term	**12,439**	10,904	11,748	13,669	15,088
Construction	**—**	—	—	—	—
Home equity line of credit	**2,488**	1,092	1,179	1,387	1,466
Consumer	**5**	15	16	—	—
Total	**$ 29,274**	$ 31,751	$ 31,392	$ 27,583	$ 29,531

Past Due Loans

The Bank's overall loan delinquency ratio was 1.16% at December 31, 2019, versus 1.08% at December 31, 2018. Loans 90 days delinquent and accruing increased from $351,000 at December 31, 2018 to $1.6 million as of December 31, 2019. This total is made up of eight loans, with the largest loan totaling $1.0 million. We expect to collect all amounts due on these loans, including interest.

The following table sets forth loan delinquencies as of December 31, 2019, 2018, 2017, 2016 and 2015:

	As of December 31,				
Dollars in thousands	**2019**	2018	2017	2016	2015
Commercial					
Real estate	**$ 1,774**	$ 2,051	$ 874	$ 3,476	$ 884
Construction	**271**	10	—	—	273
Other	**5,028**	580	7,779	1,031	328
Municipal	**—**	—	—	—	—
Residential					
Term	**4,640**	6,638	7,659	6,403	5,187
Construction	**—**	76	471	—	368
Home equity line of credit	**2,957**	3,731	1,707	1,564	1,108
Consumer	**347**	289	186	184	139
Total	**$ 15,017**	$ 13,375	$ 18,676	$ 12,658	$ 8,287
Loans 30-89 days past due to total loans	**0.63%**	0.80%	1.28%	0.65%	0.46%
Loans 90+ days past due and accruing to total loans	**0.12%**	0.03%	0.04%	0.07%	0.01%
Loans 90+ days past due on non-accrual to total loans	**0.40%**	0.25%	0.29%	0.46%	0.37%
Total past due loans to total loans	**1.16%**	1.08%	1.60%	1.18%	0.84%

As of December 31, 2019, the UBPR peer group had loans 30-89 days past due to total loans of 0.43% and loans 90+ days past due or non-accrual to total loans of 0.55%.

Potential Problem Loans and Loans in Process of Foreclosure

Potential problem loans consist of classified accruing commercial and commercial real estate loans that were between 30 and 89 days past due. Such loans are characterized by weaknesses in the financial condition of borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve due to changes in collateral values or the financial condition of the borrowers, while the credit quality of other loans may deteriorate, resulting in some amount of loss. At December 31, 2019, there were nine potential problem loans with a balance of $1.3 million or 0.10% of total loans. This compares to seven loans with a balance of $645,000 or 0.05% of total loans at December 31, 2018.

As of December 31, 2019, there were 17 loans in the process of foreclosure with a total balance of $2.0 million. The Bank's residential foreclosure process begins when a loan becomes 75 days past due at which time a Demand/Breach Letter is sent to the borrower. If the loan becomes 120 days past due, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review and a complaint for foreclosure is then prepared. An authorized Bank officer signs the affidavit certifying the validity of the documents and verification of the past due amount, which is then forwarded to the court. Once a Motion for Summary Judgment is granted, a Period of Redemption ("POR") begins, which gives the customer 90 days to cure the default. A foreclosure auction date is then set 30 days from the POR expiration date if the default is not cured.

The Bank's commercial foreclosure process begins when a loan becomes 60 days past due, at which time a default letter is issued. At expiration of the period to cure default, which lasts 12 days after the issuing of the default letter, copies of the promissory note and mortgage deed are forwarded to the Bank's attorney for review. A Notice of Statutory Power of Sale is then prepared. This notice must be published for three consecutive weeks in a newspaper located in the county in which the property is located. A notice also must be issued to the mortgagor and all parties of interest 21 days prior to the sale. The foreclosure auction occurs and the Affidavit of Sale is recorded within the appropriate county within 30 days of the sale.

In July 2019, the Bank conducted a self-audit of its loans in foreclosure and its foreclosure process and found there were no deficiencies or areas to improve. For loans sold to the secondary market on which servicing is retained, the Bank follows the investor's published guidelines and regularly reviews these guidelines for updates and changes to process. Most secondary market loans have been sold without recourse on a non-securitized, one-on-one basis. Liability in the the event of foreclosure is limited to events of fraud or material misrepresentation at the time of origination.

Other Real Estate Owned

Other real estate owned and repossessed assets ("OREO") are comprised of properties or other assets acquired through a foreclosure proceeding, or acceptance of a deed or title in lieu of foreclosure. Real estate acquired through foreclosure is carried at the lower of cost or fair value less estimated cost to sell. At December 31, 2019, there were two properties owned with a net OREO balance of $279,000, compared to December 31, 2018 when there were five properties owned with a net OREO balance of $584,000. There was no related allowance in either 2019 or 2018. The following table presents the composition of other real estate owned as of December 31, 2019, 2018, 2017, 2016 and 2015:

	As of December 31,				
Dollars in thousands	**2019**	2018	2017	2016	2015
Carrying Value					
Commercial					
Real estate	**$ —**	$ —	$ —	$ —	$ —
Construction	**—**	—	28	28	28
Other	**—**	—	511	170	706
Municipal	**—**	—	—	—	—
Residential					
Term	**279**	584	526	382	960
Construction	**—**	—	—	—	—
Home equity line of credit	**—**	—	—	—	—
Consumer	**—**	—	—	—	—
Total	**$ 279**	$ 584	$ 1,065	$ 580	$ 1,694
Related Allowance					
Commercial					
Real estate	**$ —**	$ —	$ —	$ —	$ —
Construction	**—**	—	28	11	11
Other	**—**	—	—	127	77
Municipal	**—**	—	—	—	—
Residential					
Term	**—**	—	25	67	74
Construction	**—**	—	—	—	—
Home equity line of credit	**—**	—	—	—	—
Consumer	**—**	—	—	—	—
Total	**$ —**	$ —	$ 53	$ 205	$ 162
Net Value					
Commercial					
Real estate	**$ —**	$ —	$ —	$ —	$ —
Construction	**—**	—	—	17	17
Other	**—**	—	511	43	629
Municipal	**—**	—	—	—	—
Residential					
Term	**279**	584	501	315	886
Construction	**—**	—	—	—	—
Home equity line of credit	**—**	—	—	—	—
Consumer	**—**	—	—	—	—
Total	**$ 279**	$ 584	$ 1,012	$ 375	$ 1,532

Funding, Liquidity and Capital Resources

As of December 31, 2019, the Bank had primary sources of liquidity of $680.2 million or 33.4% of its total assets. It is Management's opinion that this is an appropriate level. In addition, the Bank has an additional $118.8 million in borrowing capacity under the Federal Reserve Bank of Boston's Borrower in Custody program, $51.0 million in credit lines with correspondent banks, and $221.0 million in unencumbered securities available as collateral for borrowing. These bring the Bank's primary sources of liquidity to $1.071 billion or 52.5% of its total assets. The Asset/Liability Committee ("ALCO") establishes guidelines for liquidity in its Asset/Liability policy and monitors internal liquidity measures to manage liquidity exposure. Based on its assessment of the liquidity considerations described above, Management believes the Bank's and the Company's sources of funding will meet anticipated funding needs.

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. The Bank's primary source of liquidity is deposits, which funded 79.8% of total average assets in 2019. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and other borrowings), cash flows from the securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs, although Management has no intention to do so at this time.

The Bank has a detailed liquidity funding policy and a contingency funding plan that provide for prompt and comprehensive responses to unexpected demands for liquidity. Management has developed quantitative models to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. In Management's estimation, risks are concentrated in two major categories: runoff of in-market deposit balances and the inability to renew wholesale sources of funding. Of the two categories, potential runoff of deposit balances would have the most significant impact on contingent liquidity. Our modeling attempts to quantify deposits at risk over selected time horizons. In addition to these unexpected outflow risks, several other "business as usual" factors enter into the calculation of the adequacy of contingent liquidity, including payment proceeds from loans and investment securities, maturing debt obligations and maturing time deposits. The Bank has established collateralized borrowing capacity with the Federal Reserve Bank of Boston and also maintains additional collateralized borrowing capacity with the FHLB in excess of levels used in the ordinary course of business, as well as Fed Funds lines with three correspondent banks.

Deposits

During 2019, total deposits increased by $123.4 million, ending the year at $1.650 billion compared to $1.527 billion at December 31, 2018. Low-cost deposits (demand, NOW, and savings accounts) increased by $15.9 million or 2.0% during the year, money market deposits increased $9.0 million or 5.9%, and certificates of deposit increased $98.6 million or 16.7%. The majority of the change in certificates of deposit year-to-date resulted from funding of asset growth and a rate driven shift in funding between borrowed funds and certificates of deposit. The increase in low cost deposits is attributable primarily to organic growth within the Bank's market area. Average deposits increased $150.8 million in 2019, as shown in the following table, which sets forth the average daily balance for the Bank's principal deposit categories for each period:

	Years ended December 31,			% change
Dollars in thousands	**2019**	2018	2017	2019 vs. 2018
Demand deposits	**$ 159,933**	$ 152,386	$ 143,260	4.95%
NOW accounts	**375,402**	318,823	310,701	17.75%
Money market accounts	**141,881**	124,305	136,624	14.14%
Savings	**237,489**	233,606	227,024	1.66%
Certificates of deposit	**687,492**	622,261	523,966	10.48%
Total deposits	**$ 1,602,197**	$ 1,451,381	$ 1,341,575	10.39%

The average cost of deposits (including non-interest-bearing accounts) was 1.45% for the year ended December 31, 2019, compared to 1.10% for the year ended December 31, 2018 and 0.71% for the year ended December 31, 2017. The following table sets forth the average cost of each category of interest-bearing deposits for the periods indicated.

	Years ended December 31,		
	2019	2018	2017
NOW	**1.05%**	0.73%	0.59%
Money market	**1.65%**	1.28%	0.73%
Savings	**0.29%**	0.30%	0.26%
Certificates of deposit	**2.37%**	1.83%	1.20%
Total interest-bearing deposits	**1.61%**	1.23%	0.82%

Of all certificates of deposit, $507.2 million or 73.51% will mature by December 31, 2020. As of December 31, 2019, the Bank held a total of $412.8 million 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:

	As of December 31,	
Dollars in thousands	**2019**	2018
Within 3 Months	**$ 75,089**	$ 60,817
3 Months through 6 months	**198,807**	27,386
6 months through 12 months	**56,475**	20,138
Over 12 months	**82,383**	110,604
Total	**$ 412,754**	$ 218,945

Borrowed Funds

Borrowed funds consists mainly of advances from the FHLB which are secured by FHLB stock, funds on deposit with FHLB, U.S. Agency notes and mortgage-backed securities and qualifying first mortgage loans. As of December 31, 2019, advances totaled $147.5 million, with a weighted average interest rate of 1.79% per annum and remaining maturities ranging from 2 days to five years. This compares to advances totaling $170.1 million, with a weighted average interest rate of 2.21% per annum and remaining maturities ranging from 16 days to 6 years, as of December 31, 2018, and advances totaling $158.2 million, with a weighted average interest rate of 1.69% per annum and remaining maturities ranging from three days to 14 years, as of December 31, 2017. A portion of the Bank's FHLB borrowed funds are term advances that date to 2016 and prior; the remainder are short-term advances associated with longer interest rate swap positions. As term advances mature, the Bank decides upon an appropriate funding mechanism to repay the advance. In 2018 and 2019, issuance of certificates of deposit was often a lower cost alternative to FHLB advances, resulting in maturing term advances being paid down and a lower overall level of advances. The decrease in the weighted average rate paid on borrowed funds in 2019 compared to 2018 is centered in changes in the cost of short-term advances, and is consistent with the interest rate policy and actions of the FOMC.

The Bank offers securities repurchase agreements to municipal and corporate customers as an alternative to deposits. The balance of these agreements as of December 31, 2019 was $37.5 million, compared to $40.2 million on December 31, 2018, and $70.6 million on December 31, 2017. The weighted average interest rates payable under these agreements were 0.67% per annum as of December 31, 2019, compared to 0.61% per annum as of December 31, 2018 and 1.25% per annum as of December 31, 2017.

The maximum amount of borrowed funds outstanding at any month-end during each of the last three years was $212.9 million at the end of January in 2019, $297.5 million at the end of June in 2018, and $282.3 million at the end of June in 2017. The average amount outstanding during 2019 was $185.6 million with a weighted average interest rate of 1.55% per annum. This compares to an average outstanding amount of $258.5 million with a weighted average interest rate of 1.69% per annum in 2018, and an average outstanding amount of $252.1 million with a weighted average interest rate of 1.61% per annum in 2017.

Capital Resources

Shareholders' equity as of December 31, 2019 was $212.5 million, compared to $191.5 million as of December 31, 2018. Capital at December 31, 2019 was sufficient to meet the requirements of regulatory authorities. Leverage capital of the Company, or total shareholders' equity divided by average total assets for the current quarter less goodwill and any net unrealized gain or loss on securities available for sale and postretirement benefits, stood at 8.88% on December 31, 2019 and

8.60% at December 31, 2018. To be rated "well-capitalized", regulatory requirements call for a minimum leverage capital ratio of 5.00%. At December 31, 2019, the Company had tier-one risk-based capital of 14.34% and tier-two risk-based capital of 15.27%, versus 14.22% and 15.19%, respectively, at December 31, 2018. To be rated "well-capitalized", regulatory requirements call for minimum tier-one and tier-two risk-based capital ratios of 8.00% 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 2019, the Company declared cash dividends of $0.29 per share in the first quarter and $0.30 per share in the remaining three quarters, or $1.19 per share for the year. The dividend payout ratio, which is calculated by dividing dividends declared per share by diluted earnings per share, was 50.42% for the year ended December 31, 2019 compared to 50.92% for the year ended December 31, 2018. In determining future dividend payout levels, the Board of Directors carefully analyzes capital requirements and earnings retention, as set forth in the Company'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 2020 is this year's net income plus $26.1 million.

In 2019, 43,737 shares were issued via employee stock programs, the dividend reinvestment plan, and restricted stock grants. The Company received consideration totaling $653,000. The following table summarizes the Company's 2019 stock issuances:

Dividend reinvestment plan	11,242
Employee stock program	13,408
Restricted stock grants	19,087
Total	43,737

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The net unrealized gain or loss on available for sale securities is generally not included in computing regulatory capital. During the first quarter of 2015, the Company adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. The adoption of this new framework modified the calculation of the various capital ratios, added a new ratio, common equity tier 1, and revised the adequately and well capitalized thresholds. Additionally, under the new rule, in order to avoid limitations on capital distributions, including dividend payments, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% for 2015 to 2.50% in 2019. The amounts shown below as the adequately capitalized ratio plus capital conservation buffer includes the fully phased-in 2.50% buffer.

The Company met each of the well-capitalized ratio guidelines at December 31, 2019. The following tables indicate the capital ratios for the Bank and the Company at December 31, 2019 and December 31, 2018.

As of December 31, 2019	Leverage	Tier 1	Common Equity Tier 1	Total Risk-Based
Bank	8.84 %	14.25 %	14.25 %	15.19 %
Company	8.88 %	14.34 %	14.34 %	15.27 %
Adequately capitalized ratio	4.00 %	6.00 %	4.50 %	8.00 %
Adequately capitalized ratio plus capital conservation buffer	4.00 %	8.50 %	7.00 %	10.50 %
Well capitalized ratio (Bank only)	5.00 %	8.00 %	6.50 %	10.00 %

As of December 31, 2018	Leverage	Tier 1	Common Equity Tier 1	Total Risk-Based
Bank	8.51 %	14.13 %	14.13 %	15.11 %
Company	8.60 %	14.22 %	14.22 %	15.19 %
Adequately capitalized ratio	4.00 %	6.00 %	4.50 %	8.00 %
Adequately capitalized ratio plus capital conservation buffer	4.00 %	8.50 %	7.00 %	10.50 %
Well capitalized ratio (Bank only)	5.00 %	8.00 %	6.50 %	10.00 %

Except as identified in Item 1A, "Risk Factors", Management knows of no present trends, events or uncertainties that will have, or are reasonably likely to have, a material effect on the Company's capital resources, liquidity, or results of operations.

Contractual Obligations

The following table sets forth the contractual obligations and commitments to extend credit of the Company as of December 31, 2019:

Dollars in thousands	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Borrowed funds	**$ 184,955**	$ 174,850	$ 10,000	$ 105	$ —
Operating leases	**70**	16	33	21	—
Certificates of deposit	**689,979**	507,231	159,326	23,271	151
Total	**$ 875,004**	$ 682,097	$ 169,359	$ 23,397	$ 151
Unused lines, collateralized by residential real estate	**$ 81,193**	$ 81,193	$ —	$ —	$ —
Other unused commitments	**90,186**	90,186	—	—	—
Standby letters of credit	**4,496**	4,496	—	—	—
Commitments to extend credit	**19,702**	19,702	—	—	—
Total loan commitments and unused lines of credit	**$ 195,577**	$ 195,577	$ —	$ —	$ —

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 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. Commitments for unused lines are agreements to lend to a customer provided there is no violation of any condition established in the contract, and generally have fixed expiration dates. Standby letters of credit are conditional commitments issued by the Bank to guarantee a customer's performance to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. As of December 31, 2019, the Company's off-balance-sheet activities consisted entirely of commitments to extend credit.

Derivative Financial Instruments Designated as Hedges

As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets and/or liabilities so that change in interest rates does not have a significant adverse effect on net interest income. Derivative instruments that Management periodically uses as part of its interest rate risk management strategy may include interest rate swap agreements, interest rate floor agreements, and interest rate cap agreements.

At December 31, 2019, the Company had seven outstanding off-balance sheet derivative instruments. These derivative instruments were interest rate swap agreements, with notional principal amounts totaling $150,000,000 and an unrealized gain of $97,000, net of tax. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Company is exposed to credit loss only to the extent the counter-party defaults in its responsibility to pay interest under the terms of the agreements. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that Management believes to be creditworthy and by limiting the amount of exposure to each counter-party. At December 31, 2019, the Company's derivative instrument counterparties were credit rated "A" by the major credit rating agencies. The interest rate swap agreements were entered into by the Company to limit its exposure to rising interest rates and were designated as cash flow hedges.

The Bank also enters into swap arrangements with qualified loan customers as a means to provide these customers with access to long-term fixed interest rates for borrowings, and simultaneously enters into a swap contract with an approved third-party financial institution. The terms of the two contracts are designed to offset one another resulting in their being neither a net gain or a loss. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent that either counter-party defaults in its responsibility to pay interest under the terms of the agreements. Credit risk is mitigated by prudent underwriting of the loan customer and financial institution counterparties. As of December 31, 2019, the Bank had customer loan swap contracts in place with a total notional value of $32,748,000.

Off-Balance Sheet Financial Instruments

No material off-balance sheet risk exists that requires a separate liability presentation.

Capital Purchases

In 2019, the Company made capital purchases totaling $1.6 million for real estate improvements for branch or operations premises and equipment related to technology. This cost will be amortized over an average of 15 years, adding approximately $2,000 to pre-tax operating costs per year.

Goodwill

On October 26, 2012, the Bank completed the purchase of a branch at 63 Union Street in Rockland, Maine, from Camden National Bank that was formerly operated by Bank of America. As part of the transaction, the Bank acquired approximately $32.3 million in deposits as well as a small volume of loans.

The excess of the purchase price over the fair value of the assets acquired, liabilities assumed, and the amount allocated for core deposit intangible totaled $2.1 million and was recorded as goodwill. The goodwill is not amortizable for GAAP but is amortizable for tax purposes.

On January 14, 2005, the Company acquired FNB Bankshares (“FNB”) of Bar Harbor, Maine, and its subsidiary, The First National Bank of Bar Harbor. The total value of the transaction was $48.0 million, and all of the voting equity interest of FNB was acquired in the transaction. The transaction was accounted for as a purchase and the excess of purchase price over the fair value of net identifiable assets acquired equaled $27.6 million and was recorded as goodwill, none of which was deductible for tax purposes. The portion of the purchase price related to the core deposit intangible is being amortized over its expected economic life.

Goodwill is evaluated annually for possible impairment under the provisions of FASB ASC Topic 350, “Intangibles – Goodwill and Other”. As of December 31, 2019, in accordance with Topic 350, the Company completed its annual review of goodwill and determined there has been no impairment. The Bank also carries $125,000 in goodwill for a de minimus transaction in 2001.

Effect of Future Interest Rates on Post-retirement Benefit Liabilities

In evaluating the Company's post-retirement benefit liabilities, Management believes changes in discount rates which have occurred pursuant to recently enacted Federal legislation will not have a significant impact on the Company's future operating results or financial condition.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, and the Company'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 goal of asset/liability management is 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 measurement has limitations, taken together they present 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 December 31, 2019, was -5.96% of total assets, compared to -2.01% of total assets at December 31, 2018. ALCO's policy limit for the one-year gap is plus or minus 20% of total assets. Core deposits with non-contractual maturities are presented based upon historical patterns of balance attrition, 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.

The Company's summarized static gap, as of December 31, 2019, is presented in the following table:

Dollars in thousands	**0-90 Days**	**90-365 Days**	**1-5 Years**	**5+ Years**
Investment securities at amortized cost (HTM) and fair value (AFS)	$ 80,141	$ 85,771	$ 251,129	$ 225,085
Restricted equity securities, at cost	7,945	—	—	1,037
Loans	401,884	179,744	498,390	217,057
Other interest-earning assets	—	23,975	—	—
Non-rate-sensitive assets	12,699	—	—	83,785
Total assets	502,669	289,490	749,519	527,118
Interest-bearing deposits	531,977	238,484	157,631	588,843
Borrowed funds	137,400	—	10,105	—
Non-rate-sensitive liabilities and equity	1,900	5,700	34,100	362,656
Total liabilities and equity	671,277	244,184	201,836	951,499
Period gap	$(168,608)	$ 45,306	$ 547,683	$(424,381)
Percent of total assets	(8.15)%	2.19 %	26.47%	(20.51)%
Cumulative gap (current)	$(168,608)	$(123,302)	$ 424,381	—
Percent of total assets	(8.15)%	(5.96)%	20.51%	0.00 %

The earnings simulation model forecasts capture the impact of changing interest rates on one-year and two-year net interest income. The modeling process calculates changes in interest income received and interest expense paid on all interest-earning assets and interest-bearing liabilities reflected on the Company's balance sheet. None of the assets used in the simulation are held for trading purposes. The modeling is done for 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 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 Company's most recent simulation model projects net interest income would increase by approximately 0.2% of stable-rate net interest income if short-term rates affected by Federal Open Market Committee actions fall gradually by one percentage point over the next year, and decrease by approximately 4.3% if rates rise gradually by two percentage points over that period. Both scenarios are well within ALCO's policy limit of a decrease in net interest income of no more than 10.0% given a 2.0% move in interest rates, up or down. Management believes this reflects a reasonable interest rate risk position. In year two, and assuming no additional movement in rates, the model forecasts that net interest income would be lower than that earned in a stable rate environment by 0.9% in a falling-rate scenario, and lower than that earned in a stable rate environment by 10.1% in a rising rate scenario, when compared to the year-one base scenario. A summary of the Bank's interest rate risk simulation modeling, as of December 31, 2019 and 2018 is presented in the following table:

Changes in Net Interest Income	**2019**	2018
Year 1		
Projected changes if rates decrease by 1.0% (December 31, 2019) and decrease by 2.0% (December 31, 2018)	**0.2%**	-0.1%
Projected change if rates increase by 2.0%	**-4.3%**	-3.9%
Year 2		
Projected changes if rates decrease by 1.0% (December 31, 2019) and decrease by 2.0% (December 31, 2018)	**-0.9%**	1.6%
Projected change if rates increase by 2.0%	**-10.1%**	-7.0%

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 and amounts 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 annually and reviewed by ALCO.

This sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including, among others, the nature and timing of interest rate levels, yield curve shape, prepayments on loans and securities, pricing decisions on loans and deposits, and reinvestment/ replacement of asset and liability cash flows. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive ability of these assumptions, including how customer preferences or competitor influences might change.

Interest Rate Risk Management

A variety of financial instruments can be used to manage interest rate sensitivity. These may include investment securities, 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 liquidity. As of December 31, 2019, the Company was using interest rate swaps 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. As of December 31, 2019, there 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 will increase slightly in the next year and believes that the current level of interest rate risk is acceptable.

ITEM 8. Financial Statements and Supplementary Data

Consolidated Balance Sheets

The First Bancorp, Inc. and Subsidiary

As of December 31,	**2019**	2018
Assets		
Cash and cash equivalents	**$ 14,433,000**	$ 19,134,000
Interest-bearing deposits in other banks	**11,310,000**	12,079,000
Securities available for sale	**360,520,000**	317,416,000
Securities to be held to maturity (fair value of $287,045,000 at December 31, 2019, and $250,900,000 at December 31, 2018)	**281,606,000**	255,663,000
Restricted equity securities, at cost	**8,982,000**	11,586,000
Loans held for sale	**154,000**	—
Loans	**1,297,075,000**	1,238,283,000
Less allowance for loan losses	**11,639,000**	11,232,000
Net loans	**1,285,436,000**	1,227,051,000
Accrued interest receivable	**7,167,000**	6,660,000
Premises and equipment, net	**21,305,000**	22,056,000
Other real estate owned	**279,000**	584,000
Goodwill	**29,805,000**	29,805,000
Other assets	**47,799,000**	42,536,000
Total assets	**$ 2,068,796,000**	$ 1,944,570,000
Liabilities		
Demand deposits	**$ 169,777,000**	$ 163,575,000
NOW deposits	**393,569,000**	382,923,000
Money market deposits	**161,000,000**	152,043,000
Savings deposits	**236,141,000**	237,135,000
Certificates of deposit	**689,979,000**	591,409,000
Total deposits	**1,650,466,000**	1,527,085,000
Borrowed funds – short term	**174,850,000**	145,205,000
Borrowed funds – long term	**10,105,000**	65,112,000
Other liabilities	**20,867,000**	15,626,000
Total liabilities	**1,856,288,000**	1,753,028,000
Commitments and contingent liabilities		
Shareholders' equity		
Common stock, one cent par value per share	**109,000**	109,000
Additional paid-in capital	**63,964,000**	62,746,000
Retained earnings	**144,839,000**	132,460,000
Accumulated other comprehensive income (loss)		
Net unrealized gain (loss) on securities available for sale	**3,657,000**	(5,051,000)
Net unrealized loss on securities transferred from available for sale to held to maturity	**(182,000)**	(197,000)
Net unrealized gain on cash flow hedging derivative instruments	**97,000**	1,438,000
Net unrecognized gain on postretirement benefit costs	**24,000**	37,000
Total shareholders' equity	**212,508,000**	191,542,000
Total liabilities and shareholders' equity	**$ 2,068,796,000**	$ 1,944,570,000
Common stock		
Number of shares authorized	**18,000,000**	18,000,000
Number of shares issued and outstanding	**10,899,210**	10,862,651
Book value per common share	**$ 19.50**	$ 17.63
Tangible book value per common share	**$ 16.75**	$ 14.87

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

Consolidated Statements of Income and Comprehensive Income

The First Bancorp, Inc. and Subsidiary

Years ended December 31,	**2019**	2018	2017
Interest and dividend income			
Interest and fees on loans (includes tax-exempt income of $1,302,000 in 2019, $1,157,000 in 2018, and $798,000 in 2017)	**$ 59,239,000**	$ 53,548,000	$ 45,373,000
Interest on deposits with other banks	**188,000**	242,000	52,000
Interest and dividends on investments (includes tax-exempt income of $7,333,000 in 2019, $6,954,000 in 2018, and $6,501,000 in 2017)	**19,224,000**	16,753,000	15,407,000
Total interest and dividend income	**78,651,000**	70,543,000	60,832,000
Interest expense			
Interest on deposits	**23,268,000**	15,970,000	9,479,000
Interest on borrowed funds	**2,890,000**	4,364,000	4,050,000
Total interest expense	**26,158,000**	20,334,000	13,529,000
Net interest income	**52,493,000**	50,209,000	47,303,000
Provision for loan losses	**1,250,000**	1,500,000	2,000,000
Net interest income after provision for loan losses	**51,243,000**	48,709,000	45,303,000
Non-interest income			
Fiduciary and investment management income	**3,318,000**	3,030,000	2,680,000
Service charges on deposit accounts	**2,330,000**	2,194,000	2,081,000
Net securities gains	**224,000**	137,000	471,000
Mortgage origination and servicing income	**1,909,000**	1,565,000	1,853,000
Other operating income	**6,408,000**	5,674,000	5,463,000
Total non-interest income	**14,189,000**	12,600,000	12,548,000
Non-interest expense			
Salaries and employee benefits	**18,396,000**	17,641,000	16,601,000
Occupancy expense	**2,558,000**	2,435,000	2,400,000
Furniture and equipment expense	**3,990,000**	3,924,000	3,681,000
FDIC insurance premiums	**439,000**	1,226,000	1,008,000
Amortization of identified intangibles	**43,000**	43,000	43,000
Other operating expense	**9,746,000**	8,198,000	7,918,000
Total non-interest expense	**35,172,000**	33,467,000	31,651,000
Income before income taxes	**30,260,000**	27,842,000	26,200,000
Applicable tax expense	**4,735,000**	4,306,000	6,612,000
Net income	**$ 25,525,000**	$ 23,536,000	$ 19,588,000
Basic earnings per common share	**$ 2.36**	$ 2.18	$ 1.82
Diluted earnings per common share	**2.34**	2.17	1.81
Other comprehensive income (loss), net of tax			
Net unrealized gain (loss) on securities available for sale	**8,708,000**	(2,150,000)	(1,452,000)
Net unrealized gain (loss) on securities transferred from available for sale to held to maturity, net of amortization	**15,000**	(23,000)	(14,000)
Net unrealized gain (loss) on cash flow hedging derivative instruments	**(1,341,000)**	(106,000)	107,000
Net unrecognized gain (loss) on postretirement benefits	**(13,000)**	184,000	(19,000)
Other comprehensive gain (loss)	**7,369,000**	(2,095,000)	(1,378,000)
Comprehensive income	**$ 32,894,000**	$ 21,441,000	$ 18,210,000

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

Consolidated Statements of Changes in Shareholders' Equity
The First Bancorp, Inc. and Subsidiary

	Common stock and additional paid-in capital		Retained	Accumulated other comprehensive	Total shareholders'
	Shares	Amount	earnings	income (loss)	equity
Balance at December 31, 2016	**10,793,946**	**$60,831,000**	**$111,693,000**	**$ (3,000)**	**$172,521,000**
Net income	—	—	19,588,000	—	19,588,000
Net unrealized loss on securities available for sale, net of tax	—	—	—	(1,452,000)	(1,452,000)
Net unrealized gain on cash flow hedging derivative instruments, net of tax	—	—	—	107,000	107,000
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(14,000)	(14,000)
Unrecognized loss for post-retirement benefits, net of tax	—	—	—	(19,000)	(19,000)
Comprehensive income	—	—	19,588,000	(1,378,000)	18,210,000
Cash dividends declared ($0.95 per share)	—	—	(10,280,000)	—	(10,280,000)
Equity compensation expense	—	392,000	—	—	392,000
Payment for repurchase of common stock	(5,562)	—	(154,000)	—	(154,000)
Reclassification adjustment for effect of enacted tax law changes	—	—	297,000	(297,000)	—
Issuance of restricted stock	18,850	—	—	—	—
Proceeds from sale of common stock	22,684	632,000	—	—	632,000
Balance at December 31, 2017	**10,829,918**	**$61,855,000**	**$121,144,000**	**$ (1,678,000)**	**$181,321,000**
Net income	—	—	23,536,000	—	23,536,000
Net unrealized loss on securities available for sale, net of tax	—	—	—	(2,150,000)	(2,150,000)
Net unrealized loss on cash flow hedging derivate instruments, net of tax	—	—	—	(106,000)	(106,000)
Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax	—	—	—	(23,000)	(23,000)
Unrecognized gain for post-retirement benefits, net of tax	—	—	—	184,000	184,000
Comprehensive income	—	—	23,536,000	(2,095,000)	21,441,000
Cash dividends declared ($1.11 per share)	—	—	(12,052,000)	—	(12,052,000)
Equity compensation expense	—	381,000	—	—	381,000
Payment for repurchase of common stock	(5,725)	—	(168,000)	—	(168,000)
Issuance of restricted stock	16,795	—	—	—	—
Proceeds from sale of common stock	21,663	619,000	—	—	619,000
Balance at December 31, 2018	**10,862,651**	**$62,855,000**	**$132,460,000**	**$ (3,773,000)**	**$191,542,000**

	Common stock and additional paid-in capital		Retained	Accumulated other comprehensive	Total shareholders'
	Shares	Amount	earnings	income (loss)	equity
Balance at December 31, 2018	**10,862,651**	**$62,855,000**	**$132,460,000**	**$ (3,773,000)**	**$191,542,000**
Net income	—	—	25,525,000	—	25,525,000
Net unrealized gain on securities available for sale, net of tax	—	—	—	8,708,000	8,708,000
Net unrealized loss on cash flow hedging derivative instruments, net of tax	—	—	—	(1,341,000)	(1,341,000)
Net unrealized gain on securities transferred from available for sale to held to maturity, net of tax	—	—	—	15,000	15,000
Unrecognized loss for post-retirement benefits, net of tax	—	—	—	(13,000)	(13,000)
Comprehensive income	—	—	25,525,000	7,369,000	32,894,000
Cash dividends declared ($1.19 per share)	—	—	(12,963,000)	—	(12,963,000)
Equity compensation expense	—	565,000	—	—	565,000
Payment for repurchase of common stock	(7,178)	—	(183,000)	—	(183,000)
Issuance of restricted stock	19,087	—	—	—	—
Proceeds from sale of common stock	24,650	653,000	—	—	653,000
Balance at December 31, 2019	**10,899,210**	**$64,073,000**	**$144,839,000**	**$ 3,596,000**	**$212,508,000**

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

Consolidated Statements of Cash Flows

The First Bancorp, Inc. and Subsidiary

For the years ended December 31,	**2019**	2018	2017
Cash flows from operating activities			
Net income	**$ 25,525,000**	$ 23,536,000	$ 19,588,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**1,938,000**	1,792,000	1,864,000
Change in deferred taxes	**336,000**	(485,000)	2,083,000
Provision for loan losses	**1,250,000**	1,500,000	2,000,000
Loans originated for resale	**(37,721,000)**	(25,447,000)	(39,039,000)
Proceeds from sales and transfers of loans	**38,218,000**	26,323,000	40,172,000
Net gain on sales of loans	**(651,000)**	(490,000)	(737,000)
Net gain on sale or call of securities	**(224,000)**	(137,000)	(471,000)
Net amortization of investment premiums	**1,082,000**	1,820,000	3,212,000
Net gain on sale of other real estate owned	**(113,000)**	(312,000)	(84,000)
Provision for losses on other real estate owned	**—**	—	17,000
Equity compensation expense	**565,000**	381,000	392,000
Net (increase) decrease in other assets and accrued interest	**(7,690,000)**	1,146,000	(4,817,000)
Net increase (decrease) in other liabilities	**2,802,000**	3,848,000	(2,020,000)
Net (gain) loss on disposal of premises and equipment	**386,000**	136,000	(108,000)
Amortization of investments in limited partnerships	**307,000**	186,000	178,000
Net acquisition amortization	**43,000**	43,000	43,000
Net cash provided by operating activities	**26,053,000**	33,840,000	22,273,000
Cash flows from investing activities			
(Increase) decrease in interest-bearing deposits in other banks	**769,000**	(11,219,000)	(567,000)
Proceeds from sales of securities available for sale	**8,339,000**	459,000	15,587,000
Proceeds from maturities, payments, calls of securities available for sale	**78,825,000**	51,752,000	156,969,000
Proceeds from maturities, payments, calls and sales of securities held to maturity	**24,087,000**	14,094,000	14,770,000
Proceeds from sales of other real estate owned	**418,000**	1,350,000	607,000
Purchases of securities available for sale	**(98,257,000)**	(76,893,000)	(177,409,000)
Purchases of securities to be held to maturity	**(71,857,000)**	(13,159,000)	(44,334,000)
Purchase of Federal Home Loan Bank Stock	**—**	(1,228,000)	—
Redemption of restricted equity securities	**2,604,000**	—	1,572,000
Net increase in loans	**(59,635,000)**	(75,751,000)	(95,199,000)
Capital expenditures	**(1,573,000)**	(1,484,000)	(2,529,000)
Proceeds from sale of premises and equipment	**—**	2,000	473,000
Net cash used in investing activities	**(116,280,000)**	(112,077,000)	(130,060,000)

Cash flows from financing activities			
Net increase in demand, savings, and money market accounts	**24,811,000**	75,798,000	88,372,000
Net increase in certificates of deposit	**98,570,000**	32,408,000	82,381,000
Advances on long-term borrowings	**—**	—	50,000,000
Repayment on long-term borrowings	**(25,362,000)**	(80,000,000)	(70,000,000)
Net increase (decrease) in short-term borrowings	**—**	61,559,000	(30,143,000)
Payment to repurchase common stock	**(183,000)**	(168,000)	(154,000)
Proceeds from sale of common stock	**653,000**	619,000	632,000
Dividends paid	**(12,963,000)**	(12,052,000)	(11,460,000)
Net cash provided by financing activities	**85,526,000**	78,164,000	109,628,000
Net increase (decrease) in cash and cash equivalents	**(4,701,000)**	(73,000)	1,841,000
Cash and cash equivalents at beginning of year	**19,134,000**	19,207,000	17,366,000
Cash and cash equivalents at end of year	**$ 14,433,000**	$ 19,134,000	$ 19,207,000
Interest paid	**$ 26,088,000**	$ 20,104,000	$ 13,366,000
Income taxes paid	**3,994,000**	3,057,000	5,730,000
Non-cash transactions:			
Net transfer from loans to other real estate owned	**—**	610,000	1,177,000

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

Notes to Consolidated Financial Statements

Nature of Operations

The First Bancorp, Inc. (the "Company") through its wholly-owned subsidiary, First National Bank (the "Bank"), provides a full range of banking services to individual and corporate customers from sixteen offices in coastal and eastern Maine. First National Wealth Management, a division of the Bank, provides investment management, private banking and financial planning services. On January 28, 2016, the Board of Directors voted to change the Bank's name to First National Bank from The First, N.A.

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Bank. All intercompany accounts and transactions have been eliminated in consolidation.

Subsequent Events

Events occurring subsequent to December 31, 2019 have been evaluated as to their potential impact on the financial statements.

Use of Estimates in Preparation of Financial Statements

In preparing the financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), 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 reporting 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, goodwill, the valuation of mortgage servicing rights, and other-than-temporary impairment of securities.

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 consist 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, or for other reasons. They are accounted for at fair value, with unrealized gains or losses adjusted through shareholders' equity, net of related income taxes. The cost basis is adjusted for the amortization of premiums and accretion of discounts, computed using the effective interest method over the securities' contractual lives. Securities to be held to maturity consist primarily of debt securities which Management has acquired solely for long-term investment purposes, rather than for purposes of trading or future sale. For securities to be held to maturity, Management has the intent and the Bank has the ability to hold such securities until their respective maturity dates. Such securities are carried at cost adjusted for the amortization of premiums and accretion of discounts, computed using the effective interest method over the securities' contractual lives. Investment securities transactions are accounted for on a settlement date basis; reported amounts would not be materially different from 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 specifically identified security. For declines in the fair value of individual debt securities available for sale below their cost that are deemed to be other than temporary, where the Bank does not intend to sell the security and it is more likely than not that the Bank will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors is recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows using the effective rate at acquisition is less than the amortized cost basis of the debt security. For individual debt securities where the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Derivative Financial Instruments Designated as Hedges

The Bank recognizes all derivatives in the consolidated balance sheets at fair value. On the date the Bank enters into the derivative contract, the Bank designates the derivative as a hedge of either a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), or a held for trading instrument (“trading instrument”). The Bank formally documents relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Bank also assesses, both at the hedge’s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in cash flows or fair values of hedged items. Changes in fair value of a derivative that is effective and that qualifies as a cash flow hedge are recorded in other comprehensive income (loss) and are reclassified into earnings when the forecasted transaction or related cash flows affect earnings. Changes in fair value of a derivative that qualifies as a fair value hedge and the change in fair value of the hedged item are both recorded in earnings and offset each other when the transaction is effective. Those derivatives that are classified as trading instruments are recorded at fair value with changes in fair value recorded in earnings. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, that it is unlikely that the forecasted transaction will occur, or that the designation of the derivative as a hedging instrument is no longer appropriate.

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 fair value, as determined by current investor yield requirements.

Loans
Loans are generally reported at their outstanding principal balances, adjusted for chargeoffs, the allowance for loan losses and any deferred fees or costs to originate loans. Loan commitments are recorded when funded.

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 appropriate to absorb probable 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 several factors, including reviews of individual non-performing loans and performing loans listed on the watch report requiring periodic evaluation, loan portfolio size by category, recent loss experience, delinquency trends and current economic conditions. For all loan classes, loans over 30 days past due are considered delinquent. Impaired loans include troubled debt restructured loans and loans placed on non-accrual status when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at 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.

Troubled Debt Restructured
A troubled debt restructured ("TDR") constitutes a restructuring of debt if the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, Management evaluates a loan to first determine if the borrower demonstrates financial difficulty. Common indicators of this include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender. If the borrower is experiencing financial difficulty and concessions are granted, such as maturity date extension, interest rate adjustments to below market pricing, or a deferral of payments, the loan will generally be classified as a TDR.

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. For all classes of loans, 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 for a substantial period of time, generally six months, and repayment of the remaining contractual amounts is expected or when it otherwise becomes well secured and in the process of collection.

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

Other Real Estate Owned ("OREO")
Real estate acquired by foreclosure or deed in lieu of foreclosure is transferred to OREO and recorded at fair value, less estimated costs to sell, based on appraised value at the date actually or constructively received. Loan losses arising from the acquisition of such property are charged against the allowance for loan losses. Subsequent provisions to reduce the carrying value of a property are recorded to the allowance for OREO losses and a charge to operations on a property specific basis.

Goodwill and Identified Intangible Assets
Intangible assets include the excess of the purchase price over the fair value of net assets acquired (goodwill) from the acquisition of FNB Bankshares in 2005 as well as the core deposit intangible related to the same acquisition. The core deposit intangible related to this acquisition was fully amortized in 2015. Intangible assets also include the goodwill and core deposit intangible from the 2012 acquisition of a bank branch in Rockland, Maine and a bank building in Bangor, Maine. The core deposit intangible will be amortized on a straight-line basis over ten years. Annual amortization expense for each of 2019, 2018 and 2017 was $43,000, and the amortization expense for each year until fully amortized (presently expected to be 2022) will be $43,000. The straight-line basis is used because the Company does not expect significant run off in the core deposits acquired. The Company annually evaluates goodwill, and periodically evaluates other intangible assets, for impairment. At December 31, 2019, the Company determined goodwill and other intangible assets were not impaired.

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, and for tax credits that are available to offset future taxable income. 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. On December 22, 2017 the Tax Cuts and Jobs Act of 2017 ("TCJA") was enacted. One facet of TCJA reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of this legislation, the Company evaluated its deferred tax assets and deferred tax liabilities. The effect of the new corporate income tax rate reduced the value of our net tax deferred assets by $134,000, and a charge to earnings was recorded for this amount in the fourth quarter of 2017.

Loan Servicing
Servicing rights are recognized when they are acquired through sale of loans. Capitalized servicing rights are reported in other assets and are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Post-Retirement Benefits
The cost of providing post-retirement benefits is accrued during the active service period of the employee or director.

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 restricted stock granted and stock options and warrants outstanding, determined by the treasury stock method.

Comprehensive Income (Loss)
Comprehensive income (loss) includes net income and other comprehensive income (loss), which is comprised of the change in unrealized gains and losses on securities available for sale, net of tax, change in unrealized gains and losses on securities transferred from available for sale to held to maturity, net of amortization, change in unrealized gain and losses on cash flow hedging derivative instruments, net of tax, and unrecognized gains and losses related to post-retirement benefit costs, net of tax.

Segments
The First Bancorp, Inc., through the branches of its subsidiary, First National Bank, provides a broad range of financial services to individuals and companies in coastal Maine. These services include demand, time, and savings deposits; lending; ATM processing; and investment management 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.

Note 2. Cash and Cash Equivalents

For the purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. At December 31, 2019, the Company had a contractual clearing balance of $500,000 and a reserve balance requirement of $3,147,000 at the Federal Reserve Bank, which are satisfied by both cash on hand at branches and balances held at the Federal Reserve Bank of Boston. The Company maintains a portion of its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant risk with respect to these accounts.

Note 3. Investment Securities

The following tables summarize the amortized cost and estimated fair value of investment securities at December 31, 2019 and 2018:

As of December 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. government-sponsored agencies	$ 7,500,000	$ —	$ (102,000)	$ 7,398,000
Mortgage-backed securities	323,277,000	4,173,000	(833,000)	326,617,000
State and political subdivisions	25,113,000	1,392,000	—	26,505,000
	$ 355,890,000	$ 5,565,000	$ (935,000)	$ 360,520,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$ 32,840,000	$ 47,000	$ (26,000)	$ 32,861,000
Mortgage-backed securities	14,431,000	450,000	(16,000)	14,865,000
State and political subdivisions	219,585,000	4,936,000	(109,000)	224,412,000
Corporate securities	14,750,000	157,000	—	14,907,000
	$ 281,606,000	$ 5,590,000	$ (151,000)	$ 287,045,000
Restricted equity securities				
Federal Home Loan Bank Stock	$ 7,945,000	$ —	$ —	$ 7,945,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$ 8,982,000	$ —	$ —	$ 8,982,000

As of December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
U.S. government-sponsored agencies	$ 5,000,000	$ 7,000	$ —	$ 5,007,000
Mortgage-backed securities	313,854,000	571,000	(6,732,000)	307,693,000
State and political subdivisions	4,955,000	—	(239,000)	4,716,000
	$ 323,809,000	$ 578,000	$ (6,971,000)	$ 317,416,000
Securities to be held to maturity				
U.S. Government-sponsored agencies	$ 11,155,000	$ —	$ (472,000)	$ 10,683,000
Mortgage-backed securities	18,250,000	336,000	(255,000)	18,331,000
State and political subdivisions	221,958,000	1,046,000	(5,418,000)	217,586,000
Corporate securities	4,300,000	—	—	4,300,000
	$ 255,663,000	$ 1,382,000	$ (6,145,000)	$ 250,900,000
Restricted equity securities				
Federal Home Loan Bank Stock	$ 10,549,000	$ —	$ —	$ 10,549,000
Federal Reserve Bank Stock	1,037,000	—	—	1,037,000
	$ 11,586,000	$ —	$ —	$ 11,586,000

The following table summarizes the contractual maturities of investment securities at December 31, 2019:

	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	$ 127,000	$ 127,000	$ 1,334,000	$ 1,338,000
Due in 1 to 5 years	36,534,000	36,778,000	25,860,000	26,323,000
Due in 5 to 10 years	93,134,000	95,014,000	179,133,000	182,834,000
Due after 10 years	226,095,000	228,601,000	75,279,000	76,550,000
	$ 355,890,000	$ 360,520,000	$ 281,606,000	$ 287,045,000

The following table summarizes the contractual maturities of investment securities at December 31, 2018:

	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	$ —	$ —	$ 1,432,000	$ 1,433,000
Due in 1 to 5 years	13,501,000	13,518,000	20,717,000	20,778,000
Due in 5 to 10 years	83,954,000	83,326,000	157,544,000	155,313,000
Due after 10 years	226,354,000	220,572,000	75,970,000	73,376,000
	$ 323,809,000	$ 317,416,000	$ 255,663,000	$ 250,900,000

At December 31, 2019, securities with a fair value of $214,173,000 were pledged to secure borrowings from the Federal Home Loan Bank of Boston, public deposits, repurchase agreements, and for other purposes as required by law. This compares to securities with a fair value of $222,829,000 as of December 31, 2018 pledged for the same purposes.

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.

The following table shows securities gains and losses for 2019, 2018 and 2017:

	2019	2018	2017
Proceeds from sales of securities	**$ 9,229,000**	$ 459,000	$ 15,587,000
Gross realized gains	**224,000**	137,000	471,000
Gross realized losses	**—**	—	—
Net gain	**$ 224,000**	$ 137,000	$ 471,000
Related income taxes	**$ 47,000**	$ 29,000	$ 165,000

Management reviews securities with unrealized losses for other than temporary impairment. As of December 31, 2019, there were 86 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 28 had been temporarily impaired for 12 months or more. At the present time, there have been no material changes in the credit quality of these securities resulting in other than temporary impairment, and in Management's opinion, no additional write-down for other-than-temporary impairment is warranted.

Information regarding securities temporarily impaired as of December 31, 2019 is summarized below:

	Less than 12 months		12 months or more		Total	
As of December 31, 2019	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored agencies	$ 12,372,000	$ (128,000)	$ —	$ —	$ 12,372,000	$ (128,000)
Mortgage-backed securities	54,244,000	(359,000)	18,696,000	(490,000)	72,940,000	(849,000)
State and political subdivisions	10,532,000	(101,000)	304,000	(8,000)	10,836,000	(109,000)
	$ 77,148,000	$ (588,000)	$ 19,000,000	$ (498,000)	$ 96,148,000	$ (1,086,000)

As of December 31, 2018, there were 511 securities with unrealized losses held in the Company's portfolio. These securities were temporarily impaired as a result of changes in interest rates reducing their fair value, of which 232 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 31, 2018 is summarized below:

	Less than 12 months		12 months or more		Total	
As of December 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored agencies	$ —	$ —	$ 10,683,000	$ (472,000)	$ 10,683,000	$ (472,000)
Mortgage-backed securities	76,050,000	(1,061,000)	185,136,000	(5,926,000)	261,186,000	(6,987,000)
State and political subdivisions	76,809,000	(1,784,000)	45,052,000	(3,873,000)	121,861,000	(5,657,000)
	$152,859,000	$ (2,845,000)	$240,871,000	$ (10,271,000)	$393,730,000	$ (13,116,000)

As disclosed in Note 25, the FASB issued Accounting Standards Update ("ASU") No. 2019–04 in April 2019. In December 2019, the Company elected to early adopt the amendments to Topic 815, Derivatives and Hedging, which allowed the Company a one–time reclassification of certain prepayable debt securities from held to maturity to available for sale. In December 2019, prepayable debt securities with a carrying value of $24.9 million and a net unrealized gain of $1.6 million were transferred from held to maturity to available for sale. The reclassified securities consisted of state and political subdivision municipal debt securities. The Company subsequently sold approximately $4.3 million of those securities at a gain of $209,000 recognized in 2019.

During the third quarter of 2014, the Company transferred securities with a total amortized cost of $89,780,000 and a corresponding fair value of $89,757,000 from available for sale to held to maturity. The net unrealized loss, net of taxes, on these securities at the date of the transfer was $15,000. The net unrealized holding loss at the time of transfer continues to be reported in accumulated other comprehensive income (loss), net of tax, and is amortized over the remaining lives of the securities as an adjustment of the yield. The amortization of the net unrealized loss reported in accumulated other comprehensive income (loss) will offset the effect on interest income of the discount for the transferred securities. The remaining unamortized balance of the net unrealized losses for the securities transferred from available for sale to held to maturity was $182,000 at December 31, 2019. These securities were transferred as a part of the Company's overall investment and balance sheet strategies.

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston, a cooperatively owned wholesale bank for housing and finance in the six New England States. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank uses the FHLB for much of its wholesale funding needs. As of December 31, 2019 and 2018, the Bank's investment in FHLB stock totaled $7,945,000 and $10,549,000, respectively. FHLB stock is a restricted equity security and therefore is reported at cost, which equals par value.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other factors, the capital adequacy of the FHLB and its overall financial condition. No impairment losses have been recorded through December 31, 2019. The Bank will continue to monitor its investment in FHLB stock.

Note 4. Mortgage Servicing Rights

At December 31, 2019 and 2018, the Bank serviced loans for others totaling $266,173,000 and $261,654,000, respectively. Net gains from the sale of loans, serviced by the bank, totaled $651,000 in 2019, $490,000 in 2018, and $737,000 in 2017. In 2019, mortgage servicing rights of $422,000 were capitalized and amortization for the year totaled $231,000. At December 31, 2019, mortgage servicing rights had a fair value of $2,089,000. In 2018, mortgage servicing rights of $291,000 were capitalized and amortization for the year totaled $204,000. At December 31, 2018, mortgage servicing rights had a fair value of $2,586,000.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification (the "Codification" or "ASC") Topic 860, "Transfers and Servicing", requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. Servicing assets and servicing liabilities are reported using the amortization method or the fair value measurement method. In evaluating the carrying values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. The model utilizes several assumptions, the most significant of which are loan prepayments, calculated using a three-month moving average of weekly prepayment data published by the Public Securities Association (PSA) and modeled against the serviced loan portfolio, and the discount rate to discount future cash flows. As of December 31, 2019, the prepayment assumption using the PSA model was 220, which translates into an anticipated annual prepayment rate of 13.20%. The discount rate is 9.50%. Other assumptions include delinquency rates, foreclosure rates, servicing cost inflation, and annual unit loan cost. All assumptions are adjusted periodically to reflect current circumstances. Amortization of mortgage servicing rights, as well as write-offs due to prepayments of the related mortgage loans, are recorded as a charge against mortgage servicing fee income.

Mortgage servicing rights are included in other assets and detailed in the following table:

As of December 31,	**2019**	2018
Mortgage servicing rights	**$ 6,140,000**	$ 5,718,000
Accumulated amortization	**(4,594,000)**	(4,364,000)
	$ 1,546,000	$ 1,354,000

Note 5. Loans

The following table shows the composition of the Company's loan portfolio as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
Commercial				
Real estate	**$ 372,810,000**	**28.7%**	$ 353,243,000	28.5%
Construction	**38,084,000**	**3.0%**	27,304,000	2.2%
Other	**218,773,000**	**16.9%**	196,391,000	15.9%
Municipal	**41,288,000**	**3.2%**	51,128,000	4.1%
Residential				
Term	**492,455,000**	**37.9%**	469,145,000	37.9%
Construction	**14,813,000**	**1.2%**	17,743,000	1.4%
Home equity line of credit	**92,349,000**	**7.1%**	98,469,000	8.0%
Consumer	**26,503,000**	**2.0%**	24,860,000	2.0%
Total loans	**$1,297,075,000**	**100.0%**	$1,238,283,000	100.0%

Loan balances include net deferred loan costs of $7,419,000 in 2019 and $6,615,000 in 2018. Pursuant to collateral agreements, qualifying first mortgage loans and commercial real estate, which totaled $296,871,000 and $290,138,000 at December 31, 2019 and 2018, respectively, were used to collateralize borrowings from the Federal Home Loan Bank of Boston. In addition, commercial, residential construction and home equity loans totaling $240,133,000 at December 31, 2019 and $237,152,000 at December 31, 2018 were used to collateralize a standby line of credit at the Federal Reserve Bank of Boston that is currently unused.

At December 31, 2019 and 2018, non-accrual loans were $16,649,000 and $14,727,000, respectively. For the years ended December 31, 2019, 2018 and 2017, interest income which would have been recognized on these loans, if interest had been accrued, was $906,000, $811,000, and $496,000, respectively. Loans more than 90 days past due accruing interest totaled $1,560,000 at December 31, 2019 and $351,000 at December 31, 2018. The Company continues to accrue interest on these loans because it believes collection of principal and interest is reasonably assured.

Loans to directors, officers and employees totaled $35,071,000 at December 31, 2019 and $34,566,000 at December 31, 2018. A summary of loans to directors and executive officers is as follows:

For the years ended December 31,	**2019**	2018
Balance at beginning of year	**$ 22,149,000**	$ 22,354,000
New loans	**521,000**	1,341,000
Repayments	**(1,536,000)**	(1,192,000)
Retired director	**—**	(354,000)
Balance at end of year	**$ 21,134,000**	$ 22,149,000

Information on the past-due status of loans as of December 31, 2019, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$ 786,000	$ 377,000	$ 611,000	$ 1,774,000	$ 371,036,000	$ 372,810,000	$ —
Construction	—	14,000	257,000	271,000	37,813,000	38,084,000	—
Other	2,764,000	465,000	1,799,000	5,028,000	213,745,000	218,773,000	1,464,000
Municipal	—	—	—	—	41,288,000	41,288,000	—
Residential							
Term	1,129,000	1,132,000	2,379,000	4,640,000	487,815,000	492,455,000	86,000
Construction	—	—	—	—	14,813,000	14,813,000	—
Home equity line of credit	1,169,000	58,000	1,730,000	2,957,000	89,392,000	92,349,000	—
Consumer	291,000	46,000	10,000	347,000	26,156,000	26,503,000	10,000
Total	$ 6,139,000	$ 2,092,000	$ 6,786,000	$15,017,000	$1,282,058,000	$1,297,075,000	$1,560,000

Information on the past-due status of loans as of December 31, 2018, is presented in the following table:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	All Past Due	Current	Total	90+ Days & Accruing
Commercial							
Real estate	$ 1,274,000	$ —	$ 777,000	$ 2,051,000	$ 351,192,000	$ 353,243,000	$ —
Construction	—	10,000	—	10,000	27,294,000	27,304,000	—
Other	455,000	5,000	120,000	580,000	195,811,000	196,391,000	—
Municipal	—	—	—	—	51,128,000	51,128,000	—
Residential							
Term	1,097,000	3,518,000	2,023,000	6,638,000	462,507,000	469,145,000	339,000
Construction	76,000	—	—	76,000	17,667,000	17,743,000	—
Home equity line of credit	2,819,000	419,000	493,000	3,731,000	94,738,000	98,469,000	—
Consumer	237,000	25,000	27,000	289,000	24,571,000	24,860,000	12,000
Total	$ 5,958,000	$ 3,977,000	$ 3,440,000	$13,375,000	$1,224,908,000	$1,238,283,000	$ 351,000

For all classes, loans are placed on non-accrual status when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement or when principal and interest is 90 days or more past due unless the loan is both well secured and in the process of collection (in which case the loan may continue to accrue interest in spite of its past due status). A loan is "well secured" if it is secured (1) by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full, or (2) by the guarantee of a financially responsible party. A loan is "in the process of collection" if collection of the loan is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or, (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status in the near future.

Information on nonaccrual loans as of December 31, 2019 and 2018 is presented in the following table:

As of December 31,	**2019**	2018
Commercial		
Real estate	**$ 1,784,000**	$ 1,226,000
Construction	**256,000**	—
Other	**6,534,000**	8,664,000
Municipal	**—**	—
Residential		
Term	**5,899,000**	4,062,000
Construction	**—**	—
Home equity line of credit	**2,171,000**	760,000
Consumer	**5,000**	15,000
Total	**$ 16,649,000**	$ 14,727,000

Information regarding impaired loans is as follows:

For the years ended December 31,	**2019**	2018	2017
Average investment in impaired loans	**$ 31,557,000**	$ 31,805,000	$ 29,108,000
Interest income recognized on impaired loans, all on cash basis	**735,000**	864,000	784,000

As of December 31,	**2019**	2018
Balance of impaired loans	**$ 29,274,000**	$ 31,751,000
Less portion for which no allowance for loan losses is allocated	**(18,212,000)**	(21,030,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	**$ 11,062,000**	$ 10,721,000
Portion of allowance for loan losses allocated to the impaired loan balance	**$ 2,213,000**	$ 2,308,000

Impaired loans include troubled debt restructured loans and loans placed on non-accrual. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. If the measure of an impaired loan is lower than the recorded investment in the loan and estimated selling costs, a specific reserve is established for the difference, or, in certain situations, if the measure of an impaired loan is lower than the recorded investment in the loan and estimated selling costs, the difference is written off.

A breakdown of impaired loans by category as of December 31, 2019, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$ 5,235,000	$ 5,492,000	$ —	$ 7,611,000	$ 228,000
Construction	958,000	970,000	—	936,000	47,000
Other	756,000	786,000	—	965,000	29,000
Municipal	—	—	—	—	—
Residential					
Term	10,176,000	11,931,000	—	10,033,000	269,000
Construction	—	—	—	—	—
Home equity line of credit	1,087,000	1,151,000	—	997,000	20,000
Consumer	—	—	—	—	—
	$ 18,212,000	$ 20,330,000	$ —	$ 20,542,000	$ 593,000
With an Allowance Recorded					
Commercial					
Real estate	$ 1,074,000	$ 1,093,000	$ 251,000	$ 1,528,000	$ 60,000
Construction	—	—	—	—	—
Other	6,319,000	6,925,000	1,273,000	6,778,000	—
Municipal	—	—	—	—	—
Residential					
Term	2,263,000	2,412,000	237,000	2,424,000	82,000
Construction	—	—	—	—	—
Home equity line of credit	1,401,000	1,412,000	447,000	283,000	—
Consumer	5,000	6,000	5,000	2,000	—
	$ 11,062,000	$ 11,848,000	$ 2,213,000	$ 11,015,000	$ 142,000
Total					
Commercial					
Real estate	$ 6,309,000	$ 6,585,000	$ 251,000	$ 9,139,000	$ 288,000
Construction	958,000	970,000	—	936,000	47,000
Other	7,075,000	7,711,000	1,273,000	7,743,000	29,000
Municipal	—	—	—	—	—
Residential					
Term	12,439,000	14,343,000	237,000	12,457,000	351,000
Construction	—	—	—	—	—
Home equity line of credit	2,488,000	2,563,000	447,000	1,280,000	20,000
Consumer	5,000	6,000	5,000	2,000	—
	$ 29,274,000	$ 32,178,000	$ 2,213,000	$ 31,557,000	$ 735,000

Substantially all interest income recognized on impaired loans for all classes of financing receivables was recognized on a cash basis as received.

A breakdown of impaired loans by category as of December 31, 2018, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$ 8,718,000	$ 9,161,000	$ —	$ 5,536,000	$ 380,000
Construction	721,000	721,000	—	762,000	43,000
Other	1,468,000	1,555,000	—	2,037,000	32,000
Municipal	—	—	—	—	—
Residential					
Term	9,136,000	10,317,000	—	9,427,000	289,000
Construction	—	—	—	—	—
Home equity line of credit	972,000	1,035,000	—	1,001,000	20,000
Consumer	15,000	42,000	—	13,000	—
	$21,030,000	$22,831,000	$ —	$18,776,000	$ 764,000
With an Allowance Recorded					
Commercial					
Real estate	$ 1,042,000	$ 1,059,000	$ 260,000	$ 3,477,000	$ 42,000
Construction	—	—	—	—	—
Other	7,791,000	8,216,000	1,696,000	7,471,000	5,000
Municipal	—	—	—	—	—
Residential					
Term	1,768,000	1,998,000	335,000	1,982,000	53,000
Construction	—	—	—	—	—
Home equity line of credit	120,000	124,000	17,000	99,000	—
Consumer	—	—	—	—	—
	$10,721,000	$11,397,000	$ 2,308,000	$13,029,000	$ 100,000
Total					
Commercial					
Real estate	$ 9,760,000	$10,220,000	$ 260,000	$ 9,013,000	$ 422,000
Construction	721,000	721,000	—	762,000	43,000
Other	9,259,000	9,771,000	1,696,000	9,508,000	37,000
Municipal	—	—	—	—	—
Residential					
Term	10,904,000	12,315,000	335,000	11,409,000	342,000
Construction	—	—	—	—	—
Home equity line of credit	1,092,000	1,159,000	17,000	1,100,000	20,000
Consumer	15,000	42,000	—	13,000	—
	$31,751,000	$34,228,000	$ 2,308,000	$31,805,000	$ 864,000

A breakdown of impaired loans by category as of December 31, 2017, is presented in the following table:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Recognized Interest Income
With No Related Allowance					
Commercial					
Real estate	$ 3,791,000	$ 3,996,000	$ —	$ 5,124,000	$ 164,000
Construction	741,000	741,000	—	62,000	38,000
Other	2,591,000	2,671,000	—	1,908,000	36,000
Municipal	—	—	—	—	—
Residential					
Term	9,769,000	10,909,000	—	10,770,000	297,000
Construction	—	—	—	—	—
Home equity line of credit	1,115,000	1,429,000	—	1,351,000	18,000
Consumer	16,000	29,000	—	12,000	—
	$18,023,000	$19,775,000	$ —	$19,227,000	$ 553,000
With an Allowance Recorded					
Commercial					
Real estate	$ 3,999,000	$ 4,116,000	$ 224,000	$ 4,460,000	$ 152,000
Construction	—	—	—	699,000	—
Other	7,327,000	7,371,000	1,309,000	2,584,000	—
Municipal	—	—	—	—	—
Residential					
Term	1,979,000	2,144,000	255,000	2,106,000	79,000
Construction	—	—	—	—	—
Home equity line of credit	64,000	67,000	24,000	32,000	—
Consumer	—	—	—	—	—
	$13,369,000	$13,698,000	$ 1,812,000	$ 9,881,000	$ 231,000
Total					
Commercial					
Real estate	$ 7,790,000	$ 8,112,000	$ 224,000	$ 9,584,000	$ 316,000
Construction	741,000	741,000	—	761,000	38,000
Other	9,918,000	10,042,000	1,309,000	4,492,000	36,000
Municipal	—	—	—	—	—
Residential					
Term	11,748,000	13,053,000	255,000	12,876,000	376,000
Construction	—	—	—	—	—
Home equity line of credit	1,179,000	1,496,000	24,000	1,383,000	18,000
Consumer	16,000	29,000	—	12,000	—
	$31,392,000	$33,473,000	$ 1,812,000	$29,108,000	$ 784,000

Troubled Debt Restructured

A TDR constitutes a restructuring of debt if the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. To determine whether or not a loan should be classified as a TDR, Management evaluates a loan based upon the following criteria:

- The borrower demonstrates financial difficulty; common indicators include past due status with bank obligations, substandard credit bureau reports, or an inability to refinance with another lender, and
- The Company has granted a concession; common concession types include maturity date extension, interest rate adjustments to below market pricing, and deferment of payments.

As of December 31, 2019, the Company had 81 loans with a value of $21,424,000 that have been classified as TDRs. This compares to 76 loans with a value of $25,222,000 classified as TDRs as of December 31, 2018. The impairment carried as a specific reserve in the allowance for loan losses is calculated by present valuing the cashflow modification on the loan, or, for collateral-dependent loans, using the fair value of the collateral less costs to sell.

The following table shows TDRs by class and the specific reserve as of December 31, 2019:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	17	$ 4,836,000	$ 246,000
Construction	1	701,000	—
Other	8	6,932,000	1,231,000
Municipal	—	—	—
Residential			
Term	52	8,472,000	200,000
Construction	—	—	—
Home equity line of credit	3	483,000	—
Consumer	—	—	—
	81	$ 21,424,000	$ 1,677,000

The following table shows TDRs by class and the specific reserve as of December 31, 2018:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	17	$ 8,631,000	$ 132,000
Construction	1	721,000	—
Other	10	7,298,000	1,276,000
Municipal	—	—	—
Residential			
Term	45	8,074,000	160,000
Construction	—	—	—
Home equity line of credit	3	498,000	—
Consumer	—	—	—
	76	$ 25,222,000	$ 1,568,000

As of December 31, 2019, 13 of the loans classified as TDRs with a total balance of $1,510,000 were more than 30 days past due. Two of these loans had been placed on TDR status in the previous 12 months. The following table shows past-due TDRs by class and the associated specific reserves included in the allowance for loan losses as of December 31, 2019:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$ —	$ —
Construction	—	—	—
Other	4	371,000	131,000
Municipal	—	—	—
Residential			
Term	8	972,000	86,000
Construction	—	—	—
Home equity line of credit	1	167,000	—
Consumer	—	—	—
	13	$ 1,510,000	$ 217,000

As of December 31, 2018, nine of the loans classified as TDRs with a total balance of $1,013,000 were more than 30 days past due. None of these loans had been placed on TDR status in the previous 12 months. The following table shows past-due TDRs by class and the associated specific reserves included in the allowance for loan losses as of December 31, 2018:

	Number of Loans	Balance	Specific Reserves
Commercial			
Real estate	—	$ —	$ —
Construction	—	—	—
Other	—	—	—
Municipal	—	—	—
Residential			
Term	8	846,000	26,000
Construction	—	—	—
Home equity line of credit	1	167,000	—
Consumer	—	—	—
	9	$ 1,013,000	$ 26,000

For the year ended December 31, 2019, 11 loans were placed on TDR status. The following table shows these TDRs by class and the associated specific reserves included in the allowance for loan losses as of December 31, 2019:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserves
Commercial				
Real estate	2	$ 109,000	$ 90,000	90,000
Construction	—	—	—	—
Other	1	98,000	98,000	—
Municipal	—	—	—	—
Residential				
Term	8	996,000	872,000	72,000
Construction	—	—	—	—
Home equity line of credit	—	—	—	—
Consumer	—	—	—	—
	11	$ 1,203,000	$ 1,060,000	162,000

For the year ended December 31, 2018, 18 loans were placed in TDR status. The following table shows these TDRs by class and the associated specific reserves included in the allowance for loan losses as for December 31, 2018.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserves
Commercial				
Real estate	9	$ 1,729,000	$ 1,727,000	$ 42,000
Construction	—	—	—	—
Other	6	7,116,000	6,798,000	1,276,000
Municipal	—	—	—	—
Residential				
Term	3	520,000	507,000	26,000
Construction	—	—	—	—
Home equity line of credit	—	—	—	—
Consumer	—	—	—	—
	18	$ 9,365,000	$ 9,032,000	$ 1,344,000

As of December 31, 2019, Management is aware of nine loans classified as TDRs that are involved in bankruptcy with an outstanding balance of $987,000. As of December 31, 2019, there were 26 loans with an outstanding balance of $8,799,000 that were classified as TDRs and were on non-accrual status, two of which, with an outstanding balance of $350,000, were in the process of foreclosure.

Residential Mortgage Loans in Process of Foreclosure

As of December 31, 2019, there were 14 mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $1,502,000; this compares to 11 mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $1,131,000 as of December 31, 2018.

Note 6. Allowance for Loan Losses

The Company provides for loan losses through the establishment of an allowance for loan losses, which represents an estimated reserve for existing losses in the loan portfolio. A systematic methodology is used for determining the allowance that includes a quarterly review process, risk rating changes, and adjustments to the allowance. Major risk characteristics relevant to each portfolio segment are as follows:

Commercial Real Estate - Commercial real estate loans are impacted by factors such as competitive market forces, vacancy rates, cap rates, net operating incomes, lease renewals and overall economic demand. In addition, loans in the recreational and tourism sector can be affected by weather conditions, such as unseasonably low winter snowfalls. Commercial real estate lending also carries a higher degree of environmental risk than other real estate lending.

Commercial Construction - Commercial construction loans are impacted by factors similar to those for commercial real estate loans in addition to risks related to contractor financial capacity and ability to complete a project within acceptable time frames and within budget.

Commercial Other - A weakened economy, soft consumer spending, and the rising cost of labor or raw materials are examples of issues that can impact the credit quality in this segment.

Municipal Loans - The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Residential Real Estate Term - The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Residential Real Estate Construction - The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment. Residential construction loans are impacted by factors similar to those for residential real estate term loans in addition to risks related to contractor financial capacity and ability to complete a project within acceptable time frames and within budget.

Home Equity Line of Credit - The overall health of the economy, including unemployment rates and housing prices, has an impact on the credit quality of this segment.

Consumer -The overall health of the economy, including unemployment rates, has an impact on the credit quality of this segment.

The appropriate level of the allowance is evaluated continually based on a review of significant loans, with a particular emphasis on nonaccruing, past due, and other loans that may require special attention. Other factors include general conditions in local and national economies; loan portfolio composition and asset quality indicators; and internal factors such as changes in underwriting policies, credit administration practices, experience, ability and depth of lending management, among others.

The following table summarizes the composition of the allowance for loan losses, by class of financing receivable and allowance, as of December 31, 2019 and 2018:

As of December 31,	**2019**	2018
Allowance for Loans Evaluated Individually for Impairment		
Commercial		
Real estate	**$ 251,000**	$ 260,000
Construction	**—**	—
Other	**1,273,000**	1,696,000
Municipal	**—**	—
Residential		
Term	**237,000**	335,000
Construction	**—**	—
Home equity line of credit	**447,000**	17,000
Consumer	**5,000**	—
Total	**$ 2,213,000**	$ 2,308,000
Allowance for Loans Evaluated Collectively for Impairment		
Commercial		
Real estate	**$ 3,491,000**	$ 3,307,000
Construction	**365,000**	255,000
Other	**2,056,000**	1,845,000
Municipal	**27,000**	24,000
Residential		
Term	**787,000**	900,000
Construction	**25,000**	34,000
Home equity line of credit	**631,000**	713,000
Consumer	**862,000**	630,000
Unallocated	**1,182,000**	1,216,000
Total	**$ 9,426,000**	$ 8,924,000
Total Allowance for Loan Losses		
Commercial		
Real estate	**$ 3,742,000**	$ 3,567,000
Construction	**365,000**	255,000
Other	**3,329,000**	3,541,000
Municipal	**27,000**	24,000
Residential		
Term	**1,024,000**	1,235,000
Construction	**25,000**	34,000
Home equity line of credit	**1,078,000**	730,000
Consumer	**867,000**	630,000
Unallocated	**1,182,000**	1,216,000
Total	**$ 11,639,000**	$ 11,232,000

The allowance consists of four elements: (1) specific reserves for loans evaluated individually for impairment; (2) general reserves for each portfolio segment based on historical loan loss experience; (3) qualitative reserves judgmentally adjusted for local and national economic conditions, concentrations, portfolio composition, volume and severity of delinquencies and nonaccrual loans, trends of criticized and classified loans, changes in credit policies, and underwriting standards, credit administration practices, and other factors as applicable for each portfolio segment; and (4) unallocated reserves. All outstanding loans are considered in evaluating the appropriateness of the allowance.

A breakdown of the allowance for loan losses as of December 31, 2019 and 2018, by class of financing receivable and allowance element, is presented in the following tables:

As of December 31, 2019	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 251,000	$ 729,000	$ 2,762,000	$ —	$ 3,742,000
Construction	—	76,000	289,000	—	365,000
Other	1,273,000	430,000	1,626,000	—	3,329,000
Municipal	—	—	27,000	—	27,000
Residential					
Term	237,000	153,000	634,000	—	1,024,000
Construction	—	5,000	20,000	—	25,000
Home equity line of credit	447,000	130,000	501,000	—	1,078,000
Consumer	5,000	460,000	402,000	—	867,000
Unallocated	—	—	—	1,182,000	1,182,000
	$ 2,213,000	$ 1,983,000	$ 6,261,000	$ 1,182,000	$ 11,639,000

As of December 31, 2018	Specific Reserves on Loans Evaluated Individually for Impairment	General Reserves on Loans Based on Historical Loss Experience	Reserves for Qualitative Factors	Unallocated Reserves	Total Reserves
Commercial					
Real estate	$ 260,000	$ 742,000	$ 2,565,000	$ —	$ 3,567,000
Construction	—	57,000	198,000	—	255,000
Other	1,696,000	414,000	1,431,000	—	3,541,000
Municipal	—	—	24,000	—	24,000
Residential					
Term	335,000	326,000	574,000	—	1,235,000
Construction	—	12,000	22,000	—	34,000
Home equity line of credit	17,000	263,000	450,000	—	730,000
Consumer	—	271,000	359,000	—	630,000
Unallocated	—	—	—	1,216,000	1,216,000
	$ 2,308,000	$ 2,085,000	$ 5,623,000	$ 1,216,000	$ 11,232,000

Qualitative adjustment factors are taken into consideration when determining reserve estimates. These adjustment factors are based upon our evaluation of various current conditions, including those listed below.

- General economic conditions.
- Credit quality trends with emphasis on loan delinquencies, nonaccrual levels and classified loans.
- Recent loss experience in particular segments of the portfolio.
- Loan volumes and concentrations, including changes in mix.
- Other factors, including changes in quality of loan originations; loan policy changes; changes in credit risk management processes; Bank regulatory and external loan review examination results.

The qualitative portion of the allowance for loan losses was 0.48% of related loans as of December 31, 2019 and 0.45% of related loans as of December 31, 2018. The qualitative portion increased $638,000 between December 31, 2018 and December 31, 2019 due to a mix of factors.

The unallocated component totaled $1,182,000 at December 31, 2019, or 10.2% of the total reserve. This compares to $1,216,000 or 10.8% as of December 31, 2018. Management considers these levels appropriate as they supported general imprecision related to portfolio growth and included considerations of general economic and business conditions affecting our lending area, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, duration of the current business cycle, bank regulatory examination results, findings of external loan review examiners, and Management's judgment with respect to various other conditions including loan administration and management and the quality of risk identification systems. Consequently, there may be underlying credit risks that have not yet surfaced in the loan specific or qualitative metrics the Company uses to estimate its allowance for loan losses that are reflected in the unallocated component.

The allowance for loan losses as a percent of total loans stood at 0.90% as of December 31, 2019, compared to 0.91% of total loans as of December 31, 2018.

Commercial loans are comprised of three major classes: commercial real estate loans, commercial construction loans and other commercial loans.

Commercial real estate loans consist of mortgage loans to finance investments in real property, such as multi-family residential, commercial/retail, office, industrial, hotels, educational and other specific or mixed use properties. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Commercial real estate loans typically have a loan-to-value ratio of up to 80% based upon current valuation information at the time the loan is made. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

Commercial construction loans consist of loans to finance construction in a mix of owner- and non-owner occupied commercial real estate properties. Commercial construction loans typically have maturities of less than two years. Payment structures during the construction period are typically on an interest only basis, although principal payments may be established depending on the type of construction project being financed. During the construction phase, commercial construction loans are primarily paid by cash flow generated from the construction project or other operating cash flows from the borrower or guarantors, if applicable. At the end of the construction period, loan repayment typically comes from a third party source in the event that the Bank will not be providing permanent term financing. Collateral valuation and loan-to-value guidelines follow those for commercial real estate loans.

Other commercial loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital or capital investment. Collateral generally consists of pledges of business assets including, but not limited to, accounts receivable, inventory, plant and equipment, and/or real estate, if applicable. Commercial loans are primarily paid by the operating cash flow of the borrower. Commercial loans may be secured or unsecured.

Municipal loans are comprised of loans to municipalities in Maine for capitalized expenditures, construction projects or tax-anticipation notes. All municipal loans are considered general obligations of the municipality and are collateralized by the taxing ability of the municipality for repayment of debt.

Residential loans are comprised of two classes: term loans and construction loans.

Residential term loans consist of residential real estate loans held in the Bank's loan portfolio made to borrowers who demonstrate the ability to make scheduled payments with full consideration of underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Collateral values are determined based on appraisals and evaluations in accordance with established policy and regulatory guidelines. Residential loans typically have a loan-to-value ratio of up to 80% based on appraisal information at the time the loan is made. Collateral consists of mortgage liens on one- to four-family residential properties. Loans are offered with fixed or adjustable rates with amortization terms of up to thirty years.

Residential construction loans typically consist of loans for the purpose of constructing single family residences to be owned and occupied by the borrower. Borrower qualifications include favorable credit history combined with supportive income requirements and loan-to-value ratios within established policy and regulatory guidelines. Residential construction loans normally have terms of one year or less and payment during the construction term is typically on an interest only basis from sources including interest reserves, borrower liquidity and/or income. Residential construction loans will typically convert to permanent financing from the Bank or have another financing commitment in place from an acceptable mortgage lender. Collateral valuation and loan-to-value guidelines are consistent with those for residential term loans.

Home equity lines of credit are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity line of credit typically has a variable interest rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit payments are billed as a percentage of the principal balance plus all accrued interest. Loan maturities are normally 300 months. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to- value ratios usually not exceeding 80% inclusive of priority liens. Collateral valuation guidelines follow those for residential real estate loans.

Consumer loan products including personal lines of credit and amortizing loans made to qualified individuals for various purposes such as auto, recreational vehicles, debt consolidation, personal expenses or overdraft protection. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines. Consumer loans may be secured or unsecured.

Construction, land and land development loans, both commercial and residential, comprise a small portion of the portfolio, and at 27.9% of capital at December 31, 2019 are below the regulatory guidance of 100.0% of capital. Construction loans and non-owner-occupied commercial real estate loans are at 123.0% of total capital at December 31, 2019, below the regulatory limit of 300.0% of capital.

The process of establishing the allowance with respect to the commercial loan portfolio begins when a Loan Officer or Senior Officer (or designate) initially assigns each loan a risk rating, using established credit criteria. Approximately 60% of a trailing four quarter average gross commercial portfolio is subject to review and validation annually by an independent consulting firm. Additionally, commercial loan relationships with exposure greater than or equal to $500,000 are subject to review annually by the Company's internal credit review function. The methodology employs Management's judgment as to the level of losses on existing loans based on internal review of the loan portfolio, including an analysis of a borrower's current financial position, and the consideration of current and anticipated economic conditions and their potential effects on specific borrowers or lines of business.

In determining the Company's ability to collect certain loans, Management also considers the fair value of underlying collateral. The risk rating system has eight levels, defined as follows:

1 ***Strong*** Credits rated "1" are characterized by borrowers fully responsible for the credit with excellent capacity to pay principal and interest. Loans rated "1" may be secured with acceptable forms of liquid collateral.
2 ***Above Average***
Credits rated "2" are characterized by borrowers that have better than average liquidity, capitalization, earnings and/or cash flow with a consistent record of solid financial performance.
3 ***Satisfactory***
Credits rated "3" are characterized by borrowers with favorable liquidity, profitability and financial condition with adequate cash flow to pay debt service.
4 ***Average***
Credits rated "4" are characterized by borrowers that present risk more than 1, 2 and 3 rated loans and merit an ordinary level of ongoing monitoring. Financial condition is on par or somewhat below industry averages while cash flow is generally adequate to meet debt service requirements.
5 ***Watch***
Credits rated "5" are characterized by borrowers that warrant greater monitoring due to financial condition or unresolved and identified risk factors.
6 ***Other Assets Especially Mentioned (OAEM)***
Loans in this category are currently supported but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. OAEM have potential weaknesses which may, if not checked or corrected, weaken the asset or inadequately protect the Bank's credit position at some future date.
7 ***Substandard***
Loans in this category are inadequately supported by the current paying capacity of the borrower or of the collateral, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Bank may sustain some loss if deficiencies are not corrected.
8 ***Doubtful***
Loans classified "Doubtful" have the same weaknesses as those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

The following table summarizes the risk ratings for the Company's commercial construction, commercial real estate, commercial other and municipal loans as of December 31, 2019:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$ —	$ —	$ 4,258,000	$ 32,000	$ 4,290,000
2 Above average	12,393,000	794,000	6,187,000	38,290,000	57,664,000
3 Satisfactory	74,709,000	2,305,000	41,527,000	379,000	118,920,000
4 Average	205,510,000	19,017,000	107,389,000	2,587,000	334,503,000
5 Watch	63,582,000	15,488,000	47,152,000	—	126,222,000
6 OAEM	1,160,000	—	1,988,000	—	3,148,000
7 Substandard	15,456,000	480,000	10,272,000	—	26,208,000
8 Doubtful	—	—	—	—	—
Total	$ 372,810,000	$ 38,084,000	$ 218,773,000	$ 41,288,000	$ 670,955,000

The following table summarizes the risk ratings for the Company's commercial construction, commercial real estate, commercial other and municipal loans as of December 31, 2018:

	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal Loans	All Risk-Rated Loans
1 Strong	$ —	$ —	$ 3,444,000	$ —	$ 3,444,000
2 Above average	10,484,000	37,000	4,564,000	48,800,000	63,885,000
3 Satisfactory	80,266,000	2,231,000	46,090,000	518,000	129,105,000
4 Average	172,597,000	18,780,000	82,081,000	1,810,000	275,268,000
5 Watch	66,325,000	5,970,000	45,546,000	—	117,841,000
6 OAEM	6,890,000	—	1,805,000	—	8,695,000
7 Substandard	16,558,000	286,000	12,861,000	—	29,705,000
8 Doubtful	123,000	—	—	—	123,000
Total	$ 353,243,000	$ 27,304,000	$ 196,391,000	$ 51,128,000	$ 628,066,000

Commercial loans are generally charged off when all or a portion of the principal amount is determined to be uncollectible. This determination is based on circumstances specific to a borrower including repayment ability, analysis of collateral and other factors as applicable.

Residential loans are comprised of two classes: term loans, which include traditional amortizing home mortgages, and construction loans, which include loans for owner-occupied residential construction. Residential loans typically have a 75% to 80% loan to value ratio based upon current appraisal information at the time the loan is made. Home equity loans and lines of credit are typically written to the same underwriting standards. Consumer loans are primarily amortizing loans to individuals collateralized by automobiles, pleasure craft and recreation vehicles, typically with a maximum loan to value ratio of 80% to 90% of the purchase price of the collateral. Consumer loans also include a small amount of unsecured short-term time notes to individuals.

Residential loans, consumer loans and home equity lines of credit are segregated into homogeneous pools with similar risk characteristics. Trends and current conditions are analyzed and historical loss experience is adjusted accordingly. Quantitative and qualitative adjustment factors for these segments are consistent with those for the commercial and municipal classes. Certain loans in the residential, home equity lines of credit and consumer classes identified as having the potential for further deterioration are analyzed individually to confirm impairment status, and to determine the need for a specific reserve; however, there is no formal rating system used for these classes. Consumer loans greater than 120 days past due are generally charged off. Residential loans 90 days or more past due are placed on non-accrual status unless the loans are both well secured and in the process of collection. One-to four-family residential real estate loans and home equity loans are written down or charged-off no later than 180 days past due, or for residential real estate secured loans having a borrower in bankruptcy, within 60 days of receipt of notification of filing from the bankruptcy court, whichever is sooner. This is subject to completion of a current assessment of the value of the collateral with any outstanding loan balance in excess of the fair value of the property, less costs to sell, written down or charged-off.

There were no changes to the Company's accounting policies or methodology used to estimate the allowance for loan losses during the year ended December 31, 2019.

The following tables present allowance for loan losses activity by class, allowance for loan loss balances by class and related loan balances by class for the years ended December 31, 2019, 2018 and 2017:

For the year ended December 31, 2019	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$ 3,567,000	$ 255,000	$ 3,541,000	$ 24,000	$ 1,235,000	$ 34,000	$ 730,000	$ 630,000	$ 1,216,000	$ 11,232,000
Chargeoffs	89,000	—	179,000	—	445,000	—	69,000	338,000	—	1,120,000
Recoveries	15,000	—	73,000	—	57,000	—	4,000	128,000	—	277,000
Provision (credit)	249,000	110,000	(106,000)	3,000	177,000	(9,000)	413,000	447,000	(34,000)	1,250,000
Ending balance	$ 3,742,000	$ 365,000	$ 3,329,000	$ 27,000	$ 1,024,000	$ 25,000	$ 1,078,000	$ 867,000	$ 1,182,000	$ 11,639,000
Ending balance specifically evaluated for impairment	$ 251,000	$ —	$ 1,273,000	$ —	$ 237,000	$ —	$ 447,000	$ 5,000	$ —	$ 2,213,000
Ending balance collectively evaluated for impairment	$ 3,491,000	$ 365,000	$ 2,056,000	$ 27,000	$ 787,000	$ 25,000	$ 631,000	$ 862,000	$ 1,182,000	$ 9,426,000
Related loan balances:										
Ending balance	$372,810,000	$ 38,084,000	$218,773,000	$41,288,000	$492,455,000	$ 14,813,000	$ 92,349,000	$ 26,503,000	$ —	$ 1,297,075,000
Ending balance specifically evaluated for impairment	$ 6,309,000	$ 958,000	$ 7,075,000	$ —	$ 12,439,000	$ —	$ 2,488,000	$ 5,000	$ —	$ 29,274,000
Ending balance collectively evaluated for impairment	$366,501,000	$ 37,126,000	$211,698,000	$41,288,000	$480,016,000	$ 14,813,000	$ 89,861,000	$ 26,498,000	$ —	$ 1,267,801,000

For the year ended December 31, 2018	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$ 3,872,000	$ 434,000	$ 3,358,000	$ 20,000	$ 1,130,000	$ 36,000	$ 692,000	$ 545,000	$ 642,000	$ 10,729,000
Chargeoffs	168,000	—	423,000	—	213,000	—	121,000	348,000	—	1,273,000
Recoveries	52,000	—	40,000	—	64,000	—	24,000	96,000	—	276,000
Provision (credit)	(189,000)	(179,000)	566,000	4,000	254,000	(2,000)	135,000	337,000	574,000	1,500,000
Ending balance	$ 3,567,000	$ 255,000	$ 3,541,000	$ 24,000	$ 1,235,000	$ 34,000	$ 730,000	$ 630,000	$ 1,216,000	$ 11,232,000
Ending balance specifically evaluated for impairment	$ 260,000	$ —	$ 1,696,000	$ —	$ 335,000	$ —	$ 17,000	$ —	$ —	$ 2,308,000
Ending balance collectively evaluated for impairment	$ 3,307,000	$ 255,000	$ 1,845,000	$ 24,000	$ 900,000	$ 34,000	$ 713,000	$ 630,000	$ 1,216,000	$ 8,924,000
Related loan balances:										
Ending balance	$353,243,000	$ 27,304,000	$196,391,000	$51,128,000	$469,145,000	$ 17,743,000	$ 98,469,000	$ 24,860,000	$ —	$ 1,238,283,000
Ending balance specifically evaluated for impairment	$ 9,760,000	$ 721,000	$ 9,259,000	$ —	$ 10,904,000	$ —	$ 1,092,000	$ 15,000	$ —	$ 31,751,000
Ending balance collectively evaluated for impairment	$343,483,000	$ 26,583,000	$187,132,000	$51,128,000	$458,241,000	$ 17,743,000	$ 97,377,000	$ 24,845,000	$ —	$ 1,206,532,000

For the year ended December 31, 2017	Commercial Real Estate	Commercial Construction	Commercial Other	Municipal	Residential Term	Residential Construction	Home Equity Line of Credit	Consumer	Unallocated	Total
Allowance for loan losses:										
Beginning balance	$ 3,988,000	$ 396,000	$ 1,780,000	$ 18,000	$ 1,288,000	$ 44,000	$ 807,000	$ 559,000	$ 1,258,000	$ 10,138,000
Chargeoffs	587,000	—	212,000	—	456,000	—	28,000	335,000	—	1,618,000
Recoveries	—	—	49,000	—	40,000	—	11,000	109,000	—	209,000
Provision (credit)	471,000	38,000	1,741,000	2,000	258,000	(8,000)	(98,000)	212,000	(616,000)	2,000,000
Ending balance	$ 3,872,000	$ 434,000	$ 3,358,000	$ 20,000	$ 1,130,000	$ 36,000	$ 692,000	$ 545,000	$ 642,000	$ 10,729,000
Ending balance specifically evaluated for impairment	$ 224,000	$ —	$ 1,309,000	$ —	$ 255,000	$ —	$ 24,000	$ —	$ —	$ 1,812,000
Ending balance collectively evaluated for impairment	$ 3,648,000	$ 434,000	$ 2,049,000	$ 20,000	$ 875,000	$ 36,000	$ 668,000	$ 545,000	$ 642,000	$ 8,917,000
Related loan balances:										
Ending balance	$323,809,000	$ 38,056,000	$181,528,000	$33,391,000	$432,661,000	$ 17,868,000	$111,302,000	$25,524,000	$ —	$1,164,139,000
Ending balance specifically evaluated for impairment	$ 7,790,000	$ 741,000	$ 9,918,000	$ —	$ 11,748,000	$ —	$ 1,179,000	$ 16,000	$ —	$ 31,392,000
Ending balance collectively evaluated for impairment	$316,019,000	$ 37,315,000	$171,610,000	$33,391,000	$420,913,000	$ 17,868,000	$110,123,000	$25,508,000	$ —	$1,132,747,000

Note 7. Premises and Equipment

Premises and equipment are carried at cost and consist of the following:

As of December 31,	**2019**	2018
Land	**$ 5,100,000**	$ 4,852,000
Land improvements	**1,100,000**	1,105,000
Buildings	**21,946,000**	22,301,000
Equipment	**12,858,000**	12,461,000
	41,004,000	40,719,000
Less accumulated depreciation	**19,699,000**	18,663,000
	$ 21,305,000	$ 22,056,000

Future minimum receipts under lease agreements at December 31, 2019 for each of the next five years and in the aggregate are:

2020	$129,000
2021	129,000
2022	125,000
2023	41,000
2024	16,000
Thereafter	—
	$440,000

Note 8. Other Real Estate Owned

The following summarizes other real estate owned:

As of December 31,	**2019**	2018
Real estate acquired in settlement of loans	**$ 279,000**	$ 584,000

Changes in the allowance for losses from other real estate owned were as follows:

For the years ended December 31,	**2019**	2018	2017
Balance at beginning of year	**$ —**	$ 53,000	$ 205,000
Losses charged to allowance	**—**	(53,000)	(169,000)
Provision charged to operating expenses	**—**	—	17,000
Balance at end of year	**$ —**	$ —	$ 53,000

Note 9. Income Taxes

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

For the years ended December 31,	**2019**	2018	2017
Federal income tax			
Current	**$ 3,978,000**	$ 4,407,000	$ 4,184,000
Deferred	**336,000**	(492,000)	2,083,000
	4,314,000	3,915,000	6,267,000
State franchise tax	**421,000**	391,000	345,000
	$ 4,735,000	$ 4,306,000	$ 6,612,000

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:

For the years ended December 31,	**2019**	2018	2017
Expected tax expense	**$ 6,355,000**	$ 5,847,000	$ 9,170,000
Non-taxable income	**(1,749,000)**	(1,699,000)	(2,625,000)
State franchise tax, net of federal tax benefit	**332,000**	309,000	224,000
Equity compensation	**(45,000)**	(55,000)	(83,000)
Tax credits, net of amortization	**(85,000)**	(85,000)	(88,000)
Change in federal tax rate	**—**	—	134,000
Other	**(73,000)**	(11,000)	(120,000)
	$ 4,735,000	$ 4,306,000	$ 6,612,000

Deferred tax assets and liabilities are classified in other assets and other liabilities in the consolidated balance sheets. No valuation allowance is deemed necessary for the deferred tax asset. Items that give rise to the deferred income tax assets and liabilities and the tax effect of each at December 31, 2019 and 2018 are as follows:

	2019	2018
Allowance for loan losses	**$ 2,444,000**	$ 2,359,000
Accrued pension and post-retirement	**926,000**	955,000
Unrealized loss on securities available for sale	**—**	1,343,000
Unrealized loss on securities transferred from available for sale to held to maturity	**48,000**	52,000
Restricted stock grants	**203,000**	170,000
Core deposit intangible	**21,000**	18,000
Investment in flow through entities	**55,000**	31,000
Other assets	**—**	24,000
Total deferred tax asset	**3,697,000**	4,952,000
Net deferred loan costs	**(1,669,000)**	(1,504,000)
Depreciation	**(1,434,000)**	(1,300,000)
Unrealized gain on securities available for sale	**(972,000)**	—
Goodwill	**(120,000)**	(80,000)
Mortgage servicing rights	**(325,000)**	(284,000)
Unrealized gain on derivative instruments	**(26,000)**	(382,000)
Prepaid expense	**(205,000)**	(159,000)
Total deferred tax liability	**(4,751,000)**	(3,709,000)
Net deferred tax asset (liability)	**$ (1,054,000)**	$ 1,243,000

At December 31, 2019, the Company held investments in four limited partnerships with related low income housing tax credits compared to three at December 31, 2018. The tax credits from the investments are estimated at $330,000 and $210,000 for the years ended December 31, 2019 and 2018, respectively, and are recorded as a reduction of income tax expense. Amortization of the investment in the limited partnership totaled $307,000 and $186,000 for the years ended December 31, 2019 and 2018, respectively, and is recognized as a component of income tax expense in the consolidated statements of income. The carrying value of these investments was $1,951,000 at December 31, 2019 and $1,408,000 at December 31, 2018, and is recorded in other assets. The Company's total exposure to the limited partnerships was $1,951,000 at December 31, 2019 and $1,408,000 at December 31, 2018, which is comprised of the Company's equity investment in the limited partnerships.

FASB ASC Topic 740, "Income Taxes," defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2015 through 2019.

Note 10. Certificates of Deposit

The following table represents the breakdown of certificates of deposit at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Certificates of deposit < $100,000	**$ 277,225,000**	$ 372,464,000
Certificates $100,000 to $250,000	**345,241,000**	162,185,000
Certificates $250,000 and over	**67,513,000**	56,760,000
	$ 689,979,000	$ 591,409,000

At December 31, 2019, the scheduled maturities of certificates of deposit are as follows:

Year of Maturity	Less than $100,000	$100,000 and Greater	All Certificates of Deposit
2020	$ 176,860,000	$ 330,371,000	$ 507,231,000
2021	21,055,000	26,236,000	47,291,000
2022	35,923,000	17,932,000	53,855,000
2023	24,687,000	33,493,000	58,180,000
2024	18,549,000	4,722,000	23,271,000
2025 and thereafter	151,000	—	151,000
	$ 277,225,000	$ 412,754,000	$ 689,979,000

Interest on certificates of deposit of $100,000 or more was $6,060,000, $3,038,000, and $2,105,000 in 2019, 2018 and 2017, respectively.

Note 11. Borrowed Funds

Borrowed funds consist of advances from the FHLB and securities sold under agreements to repurchase with municipal and commercial customers. Pursuant to collateral agreements, FHLB advances are collateralized by all stock in FHLB, qualifying first mortgage loans, U.S. Government and Agency securities not pledged to others, and funds on deposit with FHLB. All FHLB advances as of December 31, 2019 had fixed rates of interest until their respective maturity dates. Securities sold under agreements to repurchase include U.S. agencies securities and other securities. Repurchase agreements have maturity dates ranging from one to 365 days. The Bank also has in place $51,000,000 in credit lines with correspondent banks and a credit facility of $119,000,000 with the Federal Reserve Bank of Boston using commercial and home equity loans as collateral, which are currently not in use.

Borrowed funds at December 31, 2019 and 2018 have the following range of interest rates and maturity dates:

As of December 31, 2019		
Federal Home Loan Bank Advances		
2020	1.60% - 1.97%	$ 137,400,000
2021	1.55%	10,000,000
2022	0.00%	—
2023	0.00%	—
2024	0.00%	105,000
2025 and thereafter	0.00%	—
		147,505,000
Repurchase agreements		
Municipal and commercial customers	0.10% - 2.33%	37,450,000
		$ 184,955,000

As of December 31, 2018		
Federal Home Loan Bank Advances		
2019	2.25% - 2.58%	$ 105,000,000
2020	1.60% - 1.97%	55,000,000
2021	1.55%	10,000,000
2024 and thereafter	0.00%	112,000
		170,112,000
Repurchase agreements		
Municipal and commercial customers	0.15% - 2.00%	40,205,000
		$ 210,317,000

Note 12. Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed three months of service. Employees may contribute up to Internal Revenue Service determined limits and the Bank may provide a match to employee contributions not to exceed 3.0% of compensation depending on contribution level. Subject to a vote of the Board of Directors, the Bank may also make a profit-sharing contribution to the Plan. Such contribution equaled 2.0% of each eligible employee's compensation in 2019, 2018, and 2017. The expense related to the 401(k) plan was $575,000, $578,000, and $554,000 in 2019, 2018, and 2017, respectively.

Deferred Compensation and Supplemental Retirement Plan

The Bank also provides unfunded supplemental retirement benefits for certain officers, payable in installments over 20 years commencing upon retirement or death. The agreements consist of individual contracts with differing characteristics that, when taken together, do not constitute a post-retirement plan. The costs for these benefits are recognized over the service periods of the participating officers in accordance with FASB ASC Topic 712, "Compensation – Nonretirement Postemployment Benefits". The expense of these supplemental plans was $165,000 in 2019, $176,000 in 2018, and $219,000 in 2017. As of December 31, 2019 and 2018, the accrued liability of these plans was $2,828,000 and $2,949,000, respectively, and is recorded in other liabilities.

Post-Retirement Benefit Plans

The Bank sponsors two post-retirement benefit plans. One plan currently provides a subsidy for health insurance premiums to certain retired employees and a future subsidy for six active employees who were age 50 and over in 1996. These subsidies are based on years of service and range between $40 and $1,200 per month per person. The Bank also provides health insurance for retired directors. The other plan provides life insurance coverage to certain retired employees. None of these plans are pre-funded. The Company utilizes FASB ASC Topic 712 to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its balance sheet and to recognize changes in the funded status in the year in which the changes occur through comprehensive income (loss).

The following table sets forth the accumulated post-retirement benefit obligation and funded status:

At December 31,	**2019**	2018	2017
Change in benefit obligations			
Benefit obligation at beginning of year:	**$ 1,599,000**	$ 1,874,000	$ 1,870,000
Interest cost	**66,000**	77,000	77,000
Benefits paid	**(97,000)**	(117,000)	(113,000)
Actuarial (gain) loss	**13,000**	(235,000)	40,000
Benefit obligation at end of year:	**$ 1,581,000**	$ 1,599,000	$ 1,874,000
Funded status			
Benefit obligation at end of year	**$ (1,581,000)**	$ (1,599,000)	$ (1,874,000)
Unamortized (gain) loss	**(31,000)**	(47,000)	186,000
Accrued benefit cost	**$ (1,612,000)**	$ (1,646,000)	$ (1,688,000)
Weighted average discount rate as of December 31	**3.00%**	4.25%	4.25%

The following table sets forth the net periodic benefit cost:

For the years ended December 31,	**2019**	2018	2017
Components of net periodic benefit cost			
Interest cost	**$ 66,000**	$ 77,000	$ 77,000
Amortization of loss	**—**	—	—
Other settlement (income) expense	**(2,000)**	(3,000)	11,000
Net periodic benefit cost	**$ 64,000**	$ 74,000	$ 88,000
Weighted average discount rate for net periodic cost	**3.00%**	4.25%	4.25%

The measurement date for benefit obligations was as of year-end for all years presented. The estimated amount of benefits to be paid in 2020 is $108,000. For years ending 2021 through 2024, the estimated amount of benefits to be paid is $106,000, $103,000, $101,000 and $107,000, respectively, and the total estimated amount of benefits to be paid for years ended 2025 through 2028 is $496,000. Plan expense for 2020 is estimated to be $64,000.

In accordance with FASB ASC Topic 715, "Compensation – Retirement Benefits", amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income (loss) are as follows:

At December 31,	**2019**	2018	Portion to Be Recognized in Income in 2020
Unamortized net actuarial gain (loss)	**$ 31,000**	$ 47,000	$ (158,000)
Deferred tax (expense) benefit at 21%	**(7,000)**	(10,000)	33,000
Net unrecognized post-retirement benefits included in accumulated other comprehensive income (loss)	**$ 24,000**	$ 37,000	$ (125,000)

Note 13. Other Comprehensive Income (Loss)

The following table summarizes activity in the unrealized gain or loss on available for sale securities included in other comprehensive income (loss) for the years ended December 31, 2019, 2018 and 2017.

For the years ended December 31,	**2019**	2018	2017
Balance at beginning of year	**$ (5,051,000)**	$ (2,901,000)	$ (935,000)
Unrealized gains (losses) arising during the year	**11,247,000**	(2,585,000)	(1,763,000)
Reclassification of realized gains during the year	**(224,000)**	(137,000)	(471,000)
Related deferred taxes	**(2,315,000)**	572,000	782,000
Reclassification adjustment for effect of enacted tax law changes	**—**	—	(514,000)
Net change	**8,708,000**	(2,150,000)	(1,966,000)
Balance at end of year	**$ 3,657,000**	$ (5,051,000)	$ (2,901,000)

The reclassification of realized gains is included in the net securities gains line of the consolidated statements of income and comprehensive income and the tax effect is included in the income tax expense line of the same statement.

The following table summarizes activity in the unrealized loss on securities transferred from available for sale to held to maturity included in other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017.

For the years ended December 31,	**2019**	2018	2017
Balance at beginning of year	**$ (197,000)**	$ (174,000)	$ (129,000)
Amortization of net unrealized gains (losses)	**19,000**	(29,000)	(22,000)
Related deferred taxes	**(4,000)**	6,000	8,000
Reclassification adjustment for effect of enacted tax law changes	**—**	—	(31,000)
Net change	**15,000**	(23,000)	(45,000)
Balance at end of year	**$ (182,000)**	$ (197,000)	$ (174,000)

The following table represents the effect of the Company's derivative financial instruments included in other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017.

For the years ended December 31,	**2019**	2018	2017
Balance at beginning of year	**$ 1,438,000**	$ 1,544,000	$ 1,163,000
Unrealized gains (losses) on cash flow hedging derivatives arising during the year	**(1,697,000)**	(134,000)	165,000
Related deferred taxes	**356,000**	28,000	(58,000)
Reclassification adjustment for effect of enacted tax law changes	**—**	—	274,000
Net change	**(1,341,000)**	(106,000)	381,000
Balance at end of year	**$ 97,000**	$ 1,438,000	$ 1,544,000

The following table summarizes activity in the unrealized gain or loss on postretirement benefits included in other comprehensive income (loss) for the years ended December 31, 2019, 2018, and 2017:

For the years ended December 31,	**2019**	2018	2017
Unrecognized postretirement benefits at beginning of year	**$ 37,000**	$ (147,000)	$ (102,000)
Change in unamortized net actuarial gain (loss)	**(16,000)**	233,000	(30,000)
Related deferred taxes	**3,000**	(49,000)	11,000
Reclassification adjustment for effect of enacted tax law changes	**—**	—	(26,000)
Net change	**(13,000)**	184,000	(45,000)
Unrecognized postretirement benefits at end of year	**$ 24,000**	$ 37,000	$ (147,000)

The reclassification of accumulated losses is a component of net periodic benefit cost (see Note 12) and the income tax effect is included in the income tax expense line of the consolidated statements of income and comprehensive income.

Note 14 - Financial Derivative Instruments

The Bank uses derivative financial instruments for risk management purposes and not for trading or speculative purposes. As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so that changes in interest rates do not have a significant effect on net interest income.

The Bank recognizes its derivative instruments in the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Bank designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Bank formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Bank also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in other comprehensive income or loss. Any ineffective portion is recorded in earnings. The Bank discontinues hedge accounting when it is determined that the derivative is no longer highly effective in offsetting changes of the hedged risk on the hedged item, or management determines that the designation of the derivative as a hedging instrument is no longer appropriate.

The details of the interest rate swap agreements are as follows:

Effective Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Presentation on Consolidated Balance Sheet	**December 31, 2019** Notional Amount	**December 31, 2019** Fair Value	December 31, 2018 Notional Amount	December 31, 2018 Fair Value
06/27/16	06/27/21	1-Month USD LIBOR	0.893%	Other Assets	$ 20,000,000	**$ 199,000**	$ 20,000,000	$ 763,000
06/28/16	06/28/21	1-Month USD LIBOR	0.940%	Other Assets	30,000,000	**278,000**	30,000,000	1,110,000
06/05/18	12/05/19	1-Month USD LIBOR	2.466%	Other Assets	—	**—**	25,000,000	16,000
06/05/18	06/05/20	1-Month USD LIBOR	2.547%	Other Liabilities	25,000,000	**(96,000)**	25,000,000	(9,000)
06/05/18	12/05/20	1-Month USD LIBOR	2.603%	Other Liabilities	25,000,000	**(234,000)**	25,000,000	(60,000)
12/05/19	12/05/22	3-Month USD LIBOR	1.779%	Other Liabilities	25,000,000	**(98,000)**	—	—
08/02/19	08/02/24	1-Month USD Libor	1.590%	Other Liabilities	12,500,000	**(11,000)**	—	—
08/05/19	08/05/24	1-Month USD Libor	1.420%	Other Assets	12,500,000	**85,000**	—	—
					$150,000,000	**$ 123,000**	$125,000,000	$ 1,820,000

The Company would reclassify unrealized gains or losses accounted for within accumulated other comprehensive income (loss) into earnings if the interest rate swaps were to become ineffective or the swaps were to terminate. In the next 12 months, the Company does not believe it will be required to reclassify any unrealized gains or losses accounted for within accumulated other comprehensive income (loss) into earnings as a result of ineffectiveness. Amounts paid or received under the swaps are reported in interest expense in the statement of income, and in interest paid in the statement of cash flows.

Customer loan derivatives

The Company will enter into interest rate swaps with qualified commercial customers. Through these arrangements, the Bank is able to provide a means for a loan customer to obtain a long-term fixed rate, while it simultaneously contracts with an approved, highly-rated, third-party financial institution as counterparty to swap the fixed rate for a variable rate. Such loan level arrangements are not designated as hedges for accounting purposes, and are recorded at fair value in the Company's consolidated balance sheet.

At December 31, 2019 there were two customer loan swap arrangement in place, detailed below:

	Presentation on Consolidated Balance Sheet	**December 31, 2019** Number of Positions	**December 31, 2019** Notional Amount	**December 31, 2019** Fair Value	December 31, 2018 Number of Positions	December 31, 2018 Notional Amount	December 31, 2018 Fair Value
Pay Fixed, Receive Variable	Other Liabilities	**2**	**$ 16,374,000**	**$ (1,205,000)**	—	—	—
Receive Fixed, Pay Variable	Other Assets	**2**	**16,374,000**	**1,205,000**	—	—	—
Total		**4**	**$ 32,748,000**	**—**	—	—	—

Derivative collateral

The Company has entered into a master netting arrangement with its counterparty and settles payments with the counterparty as necessary. The Bank's arrangement with its institutional counterparty requires it to post cash or other assets as collateral for its various swap contracts in a net liability position based on their fair values and the Bank's credit rating or receive cash collateral for contracts in a net asset position as requested. At December 31, 2019, the Bank had posted to the counterparty $3,050,000 of cash as collateral on its swap contracts. The required amount to be pledged was $1,113,000.

Cessation of LIBOR

As discussed in Item 1A Risk Factors, the Company is aware that LIBOR may no longer be published after December 31, 2021. The International Swap and Derivatives Association ("ISDA"), the organization that oversees and guides swap and derivatives markets and participants, continues to work on transitions and replacement rates, including having replacement rates in place before the possible cessation of LIBOR at the end of 2021, and has committed to providing more definitive recommendations later in 2020. The Company intends to continue to monitor these developments closely and expects to pursue the steps ultimately recommended by ISDA to provide for an orderly transition to a post-LIBOR environment. Of the interest rate swap contracts the Company has in place as of December 31, 2019, four contracts carrying a total notional amount of $100 million are set to mature prior to December 31, 2021; three contracts with a total notional amount of $50 million have maturity dates beyond December 31, 2021. The two customer loan swap contracts shown in the table immediately above have maturity dates of December 19, 2029 and October 1, 2039.

Note 15. Common Stock

In 2016, the Company reserved 250,000 shares of its common stock to be made available to directors and employees who elect to participate in the stock purchase or savings and investment plans. As of December 31, 2019, 52,819 shares had been issued pursuant to these plans, leaving 197,181 shares available for future use. The issuance price is based on the market price of the stock at issuance date. Prior to 2016, the Company had reserved 700,000 shares of its common stock to be made available to directors and employees who elected to participate in the stock purchase or savings investment plans. Sales of stock to directors and employees amounted to 13,408 shares in 2019, 12,138 shares in 2018, and 12,762 shares in 2017.

In 2001, the Company established a dividend reinvestment plan to allow shareholders to use their cash dividends for the automatic purchase of shares in the Company. The plan was amended in 2018 to reflect changes in its administration. When the plan was established, 600,000 shares were registered with the Securities and Exchange Commission, and as of December 31, 2019, 278,526 shares have been issued, leaving 321,474 shares available for future issuance. Participation in this plan is optional and at the individual discretion of each shareholder. Shares are purchased for the plan from the Company at a price per share equal to the average of the daily bid and asked prices reported on the NASDAQ System for the five trading days immediately preceding, but not including, the dividend payment date. Sales of stock under the dividend reinvestment plan amounted to 11,242 shares in 2019, 9,524 shares in 2018, and 9,922 shares in 2017.

Proceeds from issuances of common stock under these plans totaled $653,000, $619,000 and $632,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Note 16. Stock Options and Stock-Based Compensation

At the 2010 Annual Meeting, shareholders approved the 2010 Equity Incentive Plan (the "2010 Plan"). This plan reserves 400,000 shares of common stock for issuance in connection with stock options, restricted stock awards and other equity based awards to attract and retain the best available personnel, provide additional incentive to officers, employees and non-employee Directors and promote the success of our business. Such grants and awards have been and will be structured in a manner that does not encourage the recipients to expose the Company to undue or inappropriate risk. Options issued under the 2010 Plan will qualify for treatment as incentive stock options for purposes of Section 422 of the Internal Revenue Code. Other compensation under the 2010 Plan will qualify as performance-based for purposes of Section 162(m) of the Internal Revenue Code, and will satisfy NASDAQ guidelines relating to equity compensation. The plan expires on April 28, 2020; thus no further grants or awards will be made under this plan after that date.

As of December 31, 2019, 162,892 shares of restricted stock had been granted under the 2010 Plan, of which 65,039 shares remain restricted as of December 31, 2019 as detailed in the following table:

Year Granted	Vesting Term (In Years)	Shares	Remaining Term (In Years)
2015	5.0	8,904	0.2
2016	5.0	10,874	1.1
2017	3.0	4,602	0.1
2017	5.0	7,017	2.1
2018	2.0	932	0.1
2018	3.0	5,371	1.1
2018	4.0	2,068	2.0
2018	5.0	6,184	3.0
2019	1.0	1,349	0.1
2019	2.0	1,484	1.1
2019	3.0	16,254	2.1
		65,039	1.3

The compensation cost related to these restricted stock grants was $1,570,000 and will be recognized over the vesting terms of each grant. In 2019, $565,000 of expense was recognized for these restricted shares, leaving $600,000 in unrecognized expense as of December 31, 2019. In 2018, $381,000 of expense was recognized for restricted shares, leaving $678,000 in unrecognized expense as of December 31, 2018.

Note 17. Earnings Per Share

The following table provides detail for basic earnings per share (EPS) and diluted (EPS) for the years ended December 31, 2019, 2018 and 2017:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the year ended December 31, 2019			
Net income as reported	$ 25,525,000		
Basic EPS: Income available to common shareholders	25,525,000	10,815,718	$ 2.36
Effect of dilutive securities: restricted stock		73,591	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 25,525,000	10,889,309	$ 2.34
For the year ended December 31, 2018			
Net income as reported	$ 23,536,000		
Basic EPS: Income available to common shareholders	23,536,000	10,783,419	$ 2.18
Effect of dilutive securities: restricted stock		69,055	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 23,536,000	10,852,474	$ 2.17
For the year ended December 31, 2017			
Net income as reported	$ 19,588,000		
Basic EPS: Income available to common shareholders	19,588,000	10,747,306	$ 1.82
Effect of dilutive securities: restricted stock		71,712	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 19,588,000	10,819,018	$ 1.81

All EPS calculations have been made using the weighted average number of shares outstanding during the period. The dilutive securities are shares of restricted stock granted to certain key members of Management. The dilutive number of shares has been calculated using the treasury method, assuming that all granted stock was vested at the end of each period.

Note 18. 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 Bank may pay dividends to its parent out of so much of its net income 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 income of that year combined with its retained net income of the preceding two years and subject to minimum regulatory capital requirements. The amount available for dividends in 2020 will be 2020 earnings plus retained earnings of $26,111,000 from 2019 and 2018.

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 of the Currency 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.

Financial institution regulators have established guidelines for minimum capital ratios for banks and bank holding companies. The net unrealized gain or loss on securities available for sale is generally not included in computing regulatory capital. During the first quarter of 2015, the Company adopted the new Basel III regulatory capital framework as approved by the federal banking agencies. The adoption of this new framework modified the calculation of the various capital ratios, added a new ratio, common equity tier 1, and revised the adequately and well capitalized thresholds. Additionally, under the new rule, in order to avoid limitations on capital distributions, including dividend payments, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was phased in from 0.0% for 2015 to 2.50% in 2019. As of December 31, 2019, the Company's capital conservation buffer was 7.19%, and met the fully phased-in 2019 minimum requirement.

As of December 31, 2019, 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 well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since this notification that Management believes have changed the institution's category.

The actual and minimum 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, 2019			
Tier 2 capital to	$ 189,421,000	$ 99,756,000	$ 124,695,000
risk-weighted assets	15.19%	8.00%	10.00%
Tier 1 capital to	$ 177,682,000	$ 74,817,000	$ 99,756,000
risk-weighted assets	14.25%	6.00%	8.00%
Common equity Tier 1 capital to	$ 177,682,000	$ 56,113,000	$ 81,052,000
risk-weighted assets	14.25%	4.50%	6.50%
Tier 1 capital to	$ 177,682,000	$ 80,385,000	$ 100,481,000
average assets	8.84%	4.00%	5.00%
As of December 31, 2018			
Tier 2 capital to	$ 175,448,000	$ 92,892,000	$ 116,115,000
risk-weighted assets	15.11%	8.00%	10.00%
Tier 1 capital to	$ 164,116,000	$ 69,669,000	$ 92,892,000
risk-weighted assets	14.13%	6.00%	8.00%
Common equity Tier 1 capital to	$ 164,116,000	$ 52,252,000	$ 75,474,000
risk-weighted assets	14.13%	4.50%	6.50%
Tier 1 capital to	$ 164,116,000	$ 77,269,000	$ 96,586,000
average assets	8.51%	4.00%	5.00%

The actual and minimum 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, 2019			
Tier 2 capital to	$ 190,412,000	$ 99,756,000	n/a
risk-weighted assets	15.27%	8.00%	n/a
Tier 1 capital to	$ 178,773,000	$ 74,817,000	n/a
risk-weighted assets	14.34%	6.00%	n/a
Common equity Tier 1 capital to	$ 178,773,000	$ 56,113,000	n/a
risk-weighted assets	14.34%	4.50%	n/a
Tier 1 capital to	$ 178,773,000	$ 80,527,000	n/a
average assets	8.88%	4.00%	n/a
As of December 31, 2018			
Tier 2 capital to	$ 176,349,000	$ 92,892,000	n/a
risk-weighted assets	15.19%	8.00%	n/a
Tier 1 capital to	$ 165,117,000	$ 69,669,000	n/a
risk-weighted assets	14.22%	6.00%	n/a
Common equity Tier 1 capital to	$ 165,117,000	$ 52,252,000	n/a
risk-weighted assets	14.22%	4.50%	n/a
Tier 1 capital to	$ 165,117,000	$ 76,810,000	n/a
average assets	8.60%	4.00%	n/a

Note 19. Off-Balance-Sheet Financial Instruments and Concentrations of Credit Risk

The Bank 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 Bank has in particular classes of financial instruments.

Commitments for unused lines of credit 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 Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation of the borrower. The Bank did not incur any losses on its commitments in 2019, 2018 or 2017.

Standby letters of credit are conditional commitments issued by the Bank to guarantee a customer's performance 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 Bank'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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2019 and 2018, the Bank had the following off-balance-sheet financial instruments, whose contract amounts represent credit risk:

As of December 31,	**2019**	2018
Unused lines, collateralized by residential real estate	**$ 81,193,000**	$ 83,421,000
Other unused commitments	**90,186,000**	60,033,000
Standby letters of credit	**4,496,000**	3,590,000
Commitments to extend credit	**19,702,000**	19,268,000
Total	**$ 195,577,000**	$ 166,312,000

The Bank grants residential, commercial and consumer loans to customers principally located in the Mid-Coast and Down East regions 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 borrowers' ability to honor their contracts is dependent on the economic conditions in the area, especially in the real estate sector.

Derivative Financial Instruments Designated as Hedges

As part of its overall asset and liability management strategy, the Bank periodically uses derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The Bank's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets and/or liabilities so that change in interest rates does not have a significant adverse effect on net interest income. Derivative instruments that Management periodically uses as part of its interest rate risk management strategy may include interest rate swap agreements, interest rate floor agreements, and interest rate cap agreements.

At December 31, 2019, the Company had seven outstanding, off-balance sheet, derivative instruments designated as cash flow hedges. These derivative instruments were interest rate swap agreements, with notional principal amounts totaling $150,000,000 and an unrealized gain of $97,000, net of tax. The notional amounts and net unrealized gain (loss) of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent the counter-party defaults in its responsibility to pay interest under the terms of the agreements. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that Management believes to be creditworthy and by limiting the amount of exposure to each counter-party. At December 31, 2019, the Bank's derivative instrument counterparties were credit rated “A” by the major credit rating agencies. The interest rate swap agreements were entered into by the Bank to limit its exposure to rising interest rates.

The Bank also enters into swap arrangements with qualified loan customers as a means to provide these customers with access to long-term fixed interest rates for borrowings, and simultaneously enters into a swap contract with an approved third- party financial institution. The terms of the two contracts are designed to offset one another resulting in their being neither a net gain or a loss. The notional amounts of the financial derivative instruments do not represent exposure to credit loss. The Bank is exposed to credit loss only to the extent that either counter-party defaults in its responsibility to pay interest under the terms of the agreements. Credit risk is mitigated by prudent underwriting of the loan customer and financial institution counterparties. As of December 31, 2019, the Bank had customer loan swap contracts in place with a total notional value of $32,748,000.

Note 20. Fair Value Disclosures

Certain assets and liabilities are recorded at fair value to provide additional insight into the Company's quality of earnings. Some of these assets and liabilities are measured on a recurring basis while others are measured on a nonrecurring basis, with the determination based upon applicable existing accounting pronouncements. For example, securities available for sale are recorded at fair value on a recurring basis. Other assets, such as mortgage servicing rights, loans held for sale, and impaired loans, are recorded at fair value on a nonrecurring basis using the lower of cost or market methodology to determine impairment of individual assets. The Company groups assets and liabilities which are recorded at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement (with level 1 considered highest and level 3 considered lowest). A brief description of each level follows.

Level 1 – Valuation is based upon quoted prices for identical instruments in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates that market participants would use in pricing the asset or liability. Valuation includes use of discounted cash flow models and similar techniques.

The fair value methods and assumptions for the Company's financial instruments and other assets measured at fair value are set forth below.

Investment Securities

The fair values of investment securities are estimated by independent providers using a market approach with observable inputs, including matrix pricing and recent transactions. In obtaining such valuation information from third parties, the Company has evaluated their valuation methodologies used to develop the fair values in order to determine whether the valuations are representative of an exit price in the Company's principal markets. The Company's principal markets for its securities portfolios are the secondary institutional markets, with an exit price that is predominantly reflective of bid level pricing in those markets. 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. As such, the Company classifies investment securities as Level 2.

Loans

Fair values are estimated for portfolios of loans are based on an exit pricing notion. 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. 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 an actual sale. As such, the Company classifies loans as Level 3, except for certain collateral-dependent impaired loans. Fair values of impaired loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows, or if collateral dependent, discounted to the appraised value of the collateral as determined by reference to sale prices of similar properties, less costs to sell. As such, the Company classifies collateral dependent impaired loans for which a specific reserve results in a fair value measure as Level 2. All other impaired loans are classified as Level 3.

Other Real Estate Owned

Real estate acquired through foreclosure is initially recorded at fair value. The fair value of other real estate owned is based on property appraisals and an analysis of sales prices of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

Mortgage Servicing Rights

Mortgage servicing rights represent the value associated with servicing residential mortgage loans. Servicing assets and servicing liabilities are reported using the amortization method and compared to fair value for impairment. In evaluating the fair values of mortgage servicing rights, the Company obtains third party valuations based on loan level data including note rate, type and term of the underlying loans. As such, the Company classifies mortgage servicing rights as Level 2.

Time Deposits

The fair value of maturity deposits is based on the discounted value of contractual cash flows using a replacement cost of funds approach. The discount rate is estimated using the cost of funds borrowing rate in the market. As such, the Company classifies deposits as Level 2.

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. As such, the Company classifies borrowed funds as Level 2.

Derivatives
The fair value of interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The credit value adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. As of December 31, 2019 and 2018, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives due to collateral postings.

Customer Loan Derivatives
The valuation of the Company’s customer loan derivatives is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of master netting arrangements and any applicable credit enhancements, such as collateral postings.

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 Management's 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, 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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present the balances of assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2019 and 2018.

	At December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Securities available for sale				
U.S. Government-sponsored agencies	**$** —	$ 7,398,000	**$** —	$ 7,398,000
Mortgage-backed securities	—	326,617,000	—	326,617,000
State and political subdivisions	—	26,505,000	—	26,505,000
Total securities available for sale	—	360,520,000	—	360,520,000
Interest rate swap agreements	—	562,000	—	562,000
Customer loan interest swap agreements	—	1,205,000	—	1,205,000
Total interest rate swap agreements	—	1,767,000	—	1,767,000
Total assets	**$** —	$ 362,287,000	**$** —	$ 362,287,000

	At December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Interest rate swap agreements	$ —	$ 439,000	$ —	$ 439,000
Customer loan interest swap agreements	—	1,205,000	—	1,205,000
Total liabilities	$ —	$ 1,644,000	$ —	$ 1,644,000

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
U.S. Government-sponsored agencies	$ —	$ 5,007,000	$ —	$ 5,007,000
Mortgage-backed securities	—	307,693,000	—	307,693,000
State and political subdivisions	—	4,716,000	—	4,716,000
Total securities available for sale	—	317,416,000	—	317,416,000
Interest rate swap agreements	—	1,889,000	—	1,889,000
Total assets	$ —	$ 319,305,000	$ —	$ 319,305,000

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Interest rate swap agreements	$ —	$ 69,000	$ —	$ 69,000
Total liabilities	$ —	$ 69,000	$ —	$ 69,000

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis

The following tables present assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition. Other real estate owned is presented net of an allowance for losses of $0 at December 31, 2019 and 2018. Only collateral-dependent impaired loans with a related specific allowance for loan losses or a partial charge off are included in impaired loans for purposes of fair value disclosures. Impaired loans below are presented net of specific allowances of $1,916,000 and $2,096,000 at December 31, 2019 and 2018, respectively.

	At December 31, 2019			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$ —	$ 279,000	$ —	$ 279,000
Impaired loans	—	6,579,000	—	6,579,000
Total assets	$ —	$ 6,858,000	$ —	$ 6,858,000

	At December 31, 2018			
	Level 1	Level 2	Level 3	Total
Other real estate owned	$ —	$ 584,000	$ —	$ 584,000
Impaired loans	—	7,415,000	—	7,415,000
Total assets	$ —	$ 7,999,000	$ —	$ 7,999,000

Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques using observable inputs when available. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

This summary excludes financial assets and liabilities for which carrying value approximates fair values and financial instruments that are recorded at fair value on a recurring basis. Financial instruments for which carrying values approximate fair value include cash equivalents, interest-bearing deposits in other banks, demand, NOW, savings and money market deposits. The estimated fair value of demand, NOW, savings and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately.

The carrying amounts and estimated fair values for financial instruments as of December 31, 2019 were as follows:

As of December 31, 2019	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Securities to be held to maturity	$281,606,000	$287,045,000	$ —	$287,045,000	$ —
Loans (net of allowance for loan losses)					
Commercial					
Real estate	368,645,000	364,626,000	—	2,000	364,624,000
Construction	37,678,000	37,366,000	—	—	37,366,000
Other	215,068,000	212,548,000	—	5,046,000	207,502,000
Municipal	41,258,000	40,552,000	—	—	40,552,000
Residential					
Term	491,315,000	491,359,000	—	577,000	490,782,000
Construction	14,785,000	14,786,000	—	—	14,786,000
Home equity line of credit	91,149,000	90,959,000	—	954,000	90,005,000
Consumer	25,538,000	23,489,000	—	—	23,489,000
Total loans	1,285,436,000	1,275,685,000	—	6,579,000	1,269,106,000
Mortgage servicing rights	1,546,000	2,089,000	—	2,089,000	—
Financial liabilities					
Local certificates of deposit	$285,602,000	$281,480,000	—	$281,480,000	—
National certificates of deposit	404,377,000	412,337,000	—	412,337,000	—
Total certificates of deposit deposits	689,979,000	693,817,000	—	693,817,000	—
Repurchase agreements	37,450,000	37,450,000	—	37,450,000	—
Federal Home Loan Bank advances	147,505,000	140,063,000	—	140,063,000	—
Total borrowed funds	184,955,000	177,513,000	—	177,513,000	—

The carrying amounts and estimated fair values for financial instruments as of December 31, 2018 were as follows:

As of December 31, 2018	Carrying value	Estimated fair value	Level 1	Level 2	Level 3
Financial assets					
Securities to be held to maturity	$255,663,000	$250,900,000	$ —	$250,900,000	$ —
Loans (net of allowance for loan losses)					
Commercial					
Real estate	349,243,000	340,526,000	—	423,000	340,103,000
Construction	27,018,000	26,344,000	—	—	26,344,000
Other	192,420,000	189,842,000	—	6,096,000	183,746,000
Municipal	51,101,000	50,965,000	—	—	50,965,000
Residential					
Term	467,760,000	451,323,000	—	793,000	450,530,000
Construction	17,705,000	17,083,000	—	—	17,083,000
Home equity line of credit	97,650,000	95,175,000	—	103,000	95,072,000
Consumer	24,154,000	22,530,000	—	—	22,530,000
Total loans	1,227,051,000	1,193,788,000	—	7,415,000	1,186,373,000
Mortgage servicing rights	1,354,000	2,586,000	—	2,586,000	—
Financial liabilities					
Local certificates of deposit	$284,482,000	$281,282,000	$ —	$281,282,000	$ —
National certificates of deposit	306,927,000	307,508,000	—	307,508,000	—
Total certificates of deposits	591,409,000	588,790,000	—	588,790,000	—
Repurchase agreements	40,205,000	40,161,000	—	40,161,000	—
Federal Home Loan Bank advances	170,112,000	169,240,000	—	169,240,000	—
Total borrowed funds	210,317,000	209,401,000	—	209,401,000	—

Note 21. Other Operating Income and Expense

Other operating income and other operating expense include the following items greater than 1% of revenues.

For the years ended December 31,	**2019**	2018	2017
Other operating income			
ATM and debit card income	**$ 3,956,000**	$ 3,556,000	$ 3,378,000
Other operating expense			
Advertising and marketing expense	**$ 1,174,000**	$ 1,165,000	$ 1,208,000
Accounting and auditing expenses	**828,000**	837,000	818,000
ATM and interchange expense	**1,176,000**	995,000	886,000

Note 22. Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of Management, will have no material effect on the Company's consolidated financial statements.

Note 23. Reclassifications

Certain items from prior years were reclassified in the financial statements to conform with the current year presentation. These do not have a material impact on the balance sheet or statement of income presentations.

Note 24. Condensed Financial Information of Parent

Condensed financial information for The First Bancorp, Inc. exclusive of its subsidiary is as follows:

Balance Sheets

As of December 31,	**2019**	2018
Assets		
Cash and cash equivalents	**$ 1,028,000**	$ 1,190,000
Dividends receivable	**3,200,000**	2,950,000
Investment in subsidiary	**183,654,000**	162,763,000
Premises and equipment	**—**	2,000
Goodwill	**27,559,000**	27,559,000
Other assets	**337,000**	232,000
Total assets	**$ 215,778,000**	$ 194,696,000
Liabilities and shareholders' equity		
Dividends payable	**$ 3,270,000**	$ 3,150,000
Other liabilities	**—**	4,000
Total liabilities	**3,270,000**	3,154,000
Shareholders' equity		
Common stock	**109,000**	109,000
Additional paid-in capital	**63,964,000**	62,746,000
Retained earnings	**148,435,000**	128,687,000
Total shareholders' equity	**212,508,000**	191,542,000
Total liabilities and shareholders' equity	**$ 215,778,000**	$ 194,696,000

Statements of Income

For the years ended December 31,	**2019**	2018	2017
Interest and dividends on investments	**$ —**	$ —	$ 15,000
Net securities gains (losses)	**—**	137,000	(3,000)
Total income	**—**	137,000	12,000
Occupancy expense	**1,000**	2,000	5,000
Other operating expense	**826,000**	652,000	588,000
Total expense	**827,000**	654,000	593,000
Loss before income taxes and Bank earnings	**(827,000)**	(517,000)	(581,000)
Applicable income taxes	**(230,000)**	(164,000)	(187,000)
Loss before Bank earnings	**(597,000)**	(353,000)	(394,000)
Equity in earnings of Bank			
Remitted	**12,600,000**	11,300,000	11,180,000
Unremitted	**13,522,000**	12,589,000	8,802,000
Net income	**$ 25,525,000**	$ 23,536,000	$ 19,588,000

Statements of Cash Flows

For the years ended December 31,	**2019**	2018	2017
Cash flows from operating activities:			
Net income	**$ 25,525,000**	$ 23,536,000	$ 19,588,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**2,000**	—	5,000
Equity compensation expense	**565,000**	381,000	392,000
(Gain) loss on sale of investments	**—**	(137,000)	3,000
(Increase) decrease in other assets	**(105,000)**	81,000	27,000
(Increase) decrease in dividends receivable	**(250,000)**	(450,000)	1,300,000
Increase (decrease) in dividends payable	**120,000**	551,000	(1,179,000)
Decrease in other liabilities	**(4,000)**	—	(3,000)
Unremitted earnings of Bank	**(13,522,000)**	(12,589,000)	(8,802,000)
Net cash provided by operating activities	**12,331,000**	11,373,000	11,331,000
Cash flows from investing activities:			
Proceeds from sales/maturities of investments	**—**	459,000	—
Capital expenditures	**—**	1,000	(4,000)
Net cash provided by (used in) investing activities	**—**	460,000	(4,000)
Cash flows from financing activities:			
Purchase of common stock	**(183,000)**	(168,000)	(154,000)
Proceeds from sale of common stock	**653,000**	619,000	632,000
Dividends paid	**(12,963,000)**	(12,052,000)	(11,460,000)
Net cash used in financing activities	**(12,493,000)**	(11,601,000)	(10,982,000)
Net increase (decrease) in cash and cash equivalents	**(162,000)**	232,000	345,000
Cash and cash equivalents at beginning of year	**1,190,000**	958,000	613,000
Cash and cash equivalents at end of year	**$ 1,028,000**	$ 1,190,000	$ 958,000

Note 25. New Accounting Pronouncements

The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, in 2014 to replace the current plethora of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue. Due to the complexity of the new pronouncement and the anticipated effort required by entities in many industries to implement ASU No. 2014-09, FASB delayed the effective date. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance to annual reporting periods beginning after December 15, 2017, and all other entities should apply the guidance to annual reporting periods beginning after December 15, 2018. FASB formed a Transition Resource Group to assist it in identifying implementation issues that may require further clarification or amendment to ASU No. 2014-09. As a result of that group's deliberations, FASB has issued the following amendments, which will be effective concurrently with ASU No. 2014-09: ASU No. 2016-08, Principal versus Agent Considerations, which clarifies whether an entity should record the gross amount of revenue or only its ultimate share when a third party is also involved in providing goods or services to a customer; ASU No. 2016-10, Identifying Performance Obligations and Licensing, which clarifies and simplifies the process for determining whether performance obligations to a customer should be segregated and accounted for individually, and clarifies how the new revenue rules apply to licenses of intellectual property; and ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, which clarifies and simplifies the process of assessing collectability of consideration under a contract, presentation of sales taxes, accounting for noncash consideration received, and certain transitional issues. The new standard does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP. Adoption of ASU No. 2014-09 was made on January 1, 2018 utilizing the modified retrospective approach. The adoption of the ASU did not have a material effect on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU was issued to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The ASU also changes certain disclosure requirements and other aspects of U.S. GAAP, including a requirement for public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The ASU became effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of the ASU did not have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. The adoption of the ASU did not have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available for sale. The ASU was to be effective for all SEC registrants for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. On October 16, 2019 FASB voted to finalize a proposal issued in August 2019 under which the effective implementation date was changed for SEC registrants meeting the definition of a Smaller Reporting Company to fiscal years beginning after December 15, 2022. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within such years. The Company qualifies as a Smaller Reporting Company. It continues to evaluate the impact of the adoption of the ASU on its consolidated financial statements, and continues to anticipates that it may have a material impact upon adoption. The Bank has formed an implementation committee for ASU No. 2016-13. To date, committee members have participated in educational seminars on the new standards, identified the historical data sets that will be necessary to implement the new standard, and have chosen a third-party vendor who provides software solutions for ASU No. 2016-13 modeling and calculation. The Bank is in the late stages of implementing this software and plans to run incurred loss and current expected credit models in parallel until adoption of ASU No. 2016-13.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU was issued to reduce the cost and complexity of the goodwill impairment test. To simplify the subsequent measurement of goodwill, step two of the goodwill impairment test was eliminated. Instead, a Company will recognize an impairment of goodwill should the carrying value of a reporting unit exceed its fair value (i.e. step one). The ASU will be effective for the Company on January 1, 2020 and will be applied prospectively. The Company does not expect the implementation to have a material effect on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, many entities amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be accreted to maturity. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company's current practice aligns with the ASU therefore there was no impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. The ASU was issued to provide clarity and reduce both 1) diversity in practice and 2) cost and complexity when applying the guidance in Topic 718, Compensation-Stock Compensation, to a change to the terms or conditions of a shared-based payment award. The ASU includes guidance on determining which changes to the terms and conditions of share-based payment awards require and entity to apply modification accounting under Topic 718. The ASU is effective for the annual period, and interim periods within the annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The ASU should be applied prospectively to an award modified on or after the adoption date. Adoption of the ASU did not have a material effect on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815). The amendments in this ASU improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, this ASU makes certain targeted improvements to simplify the application of the hedge accounting guidance in current US GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the ASU. The adoption of this ASU did not have a material effect on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Loss). This ASU was issued to allow a reclassification from accumulated other comprehensive income (loss) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for financial statements which have not yet been issued. The Company adopted the ASU for the December 31, 2017 consolidated financial statements, which resulted in a reclassification adjustment on the Consolidated Statements of Changes in Shareholders' Equity of $297,000 from accumulated other comprehensive income (loss) to retained earnings. Refer to Note 9, Income Taxes, in the Company's December 31, 2017 Form 10-K for additional information.

In July 2018, the FASB issued ASU No. 2018-11, Leases - Targeted Improvements to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02. The Company expects to elect both transition options. The adoption of ASU 2018-11 did not have a material effect on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020; early adoption is permitted. As ASU 2018-14 only revises disclosure requirements, it will not have a material impact on the Company’s consolidated financial statements.

In April 2019, the FASB issued ASU No. 2019–04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. With respect to Topic 815, Derivatives and Hedging, ASU 2019-04 clarifies that the reclassification of a debt security from held to maturity (“HTM”) to available for sale (“AFS”) under the transition guidance in ASU 2017-12 would not (1) call into question the classification of other HTM securities, (2) be required to actually designate any reclassified security in a last-of-layer hedge, or (3) be restricted from selling any reclassified security. As part of the transition of ASU 2019-04, entities may reclassify securities that would qualify for designation as the hedged item in a last-of-layer hedging relationship from HTM to AFS; however, entities that already made such a reclassification upon their adoption of ASU 2017-12 are precluded from reclassifying additional securities. The Company did not reclassify any securities from HTM to AFS upon adoption of ASU 2017-12. The Company elected to early adopt the amendments to Topic 815 in December 2019. See Note 3 for more information regarding the impact of the transfer of certain HTM debt securities to AFS.

Note 26. Quarterly Information

The following tables provide unaudited financial information by quarter for each of the past two years:

Dollars in thousands except per share data	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Balance Sheets								
Cash and cash equivalents	$ 16,559	$ 21,056	$ 21,649	$ 19,134	$ 15,270	$ 16,918	$ 21,418	$ 14,433
Interest-bearing deposits in other banks	280	1,616	51,045	12,079	231	917	16,714	11,310
Investments	562,459	565,125	562,839	573,079	606,495	625,097	625,584	642,126
Restricted equity securities	11,947	12,363	11,586	11,586	8,982	8,982	8,982	8,982
Net loans and loans held for sale	1,177,329	1,213,449	1,233,010	1,227,051	1,253,585	1,237,661	1,252,546	1,285,590
Other assets	103,241	100,352	101,725	101,641	106,782	109,124	107,983	106,355
Total assets	$ 1,871,815	$ 1,913,961	$ 1,981,854	$ 1,944,570	$ 1,991,345	$ 1,998,699	$ 2,033,227	$ 2,068,796
Deposits	$ 1,428,192	$ 1,416,646	$ 1,514,911	$ 1,527,085	$ 1,606,875	$ 1,592,956	$ 1,623,290	$ 1,650,466
Borrowed funds	244,229	297,455	265,274	210,317	170,419	181,858	181,417	184,955
Other liabilities	18,022	16,556	17,008	15,626	16,264	19,292	20,031	20,867
Shareholders' equity	181,372	183,304	184,661	191,542	197,787	204,593	208,489	212,508
Total liabilities & equity	$ 1,871,815	$ 1,913,961	$ 1,981,854	$ 1,944,570	$ 1,991,345	$ 1,998,699	$ 2,033,227	$ 2,068,796
Income and Comprehensive Income Statements								
Interest income	$ 16,451	$ 17,205	$ 18,086	$ 18,801	$ 19,268	$ 19,822	$ 19,904	$ 19,657
Interest expense	4,042	4,936	5,550	5,806	6,369	6,872	6,678	6,239
Net interest income	12,409	12,269	12,536	12,995	12,899	12,950	13,226	13,418
Provision for loan losses	500	500	333	167	375	250	250	375
Net interest income after provision for loan losses	11,909	11,769	12,203	12,828	12,524	12,700	12,976	13,043
Non-interest income	3,132	3,181	3,034	3,253	3,144	3,605	3,532	3,908
Non-interest expense	8,579	8,176	8,216	8,496	8,398	8,730	9,040	9,004
Income before taxes	6,462	6,774	7,021	7,585	7,270	7,575	7,468	7,947
Income taxes	956	1,040	1,088	1,222	1,114	1,180	1,180	1,261
Net income	$ 5,506	$ 5,734	$ 5,933	$ 6,363	$ 6,156	$ 6,395	$ 6,288	$ 6,686
Basic earnings per share	$ 0.51	$ 0.53	$ 0.55	$ 0.59	$ 0.57	$ 0.59	$ 0.58	$ 0.62
Diluted earnings per share	$ 0.51	$ 0.53	$ 0.55	$ 0.58	$ 0.57	$ 0.59	$ 0.58	$ 0.60
Other comprehensive income (loss), net of tax								
Net unrealized gain (loss) on securities available for sale	$ (3,309)	$ (1,035)	$ (1,888)	$ 4,082	$ 3,512	$ 4,289	$ 936	$ (29)
Net unrealized gain (loss) on securities transfered from available for sale to held to maturity	(8)	(7)	(5)	(3)	3	4	1	7
Net unrealized gain (loss) on cash flow hedging derivative instruments	384	138	216	(844)	(465)	(898)	(340)	362
Unrecognized gain (loss) on postretirement benefit costs	—	—	—	184	—	—	—	(13)
Other comprehensive income (loss)	$ (2,933)	$ (904)	$ (1,677)	$ 3,419	$ 3,050	$ 3,395	$ 597	$ 327
Comprehensive income	$ 2,573	$ 4,830	$ 4,256	$ 9,782	$ 9,206	$ 9,790	$ 6,885	$ 7,013

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Directors
The First Bancorp, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The First Bancorp, Inc. and Subsidiary (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the financial statements). We have also audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinion

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have served as the Company's auditor since 1993.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
March 6, 2020

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), as of December 31, 2019, the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's Management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. In designing and evaluating the Company's disclosure controls and procedures, the Company and its Management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and the Company's Management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Also, based on Management's evaluation, there was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company reviews its disclosure controls and procedures, which may include its internal controls over financial reporting, on an ongoing basis, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Management's Annual Report on Internal Control over Financial Reporting

The Management of the Company is responsible for the preparation and fair presentation of the financial statements and other financial information contained in this Form 10-K. Management is also responsible for establishing and maintaining adequate internal control over financial reporting and for identifying the framework used to evaluate its effectiveness. Management has designed processes, internal control and a business culture that foster financial integrity and accurate reporting. The Company's comprehensive system of internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements of the Company in accordance with generally accepted accounting principles. The Company's accounting policies and internal control over financial reporting, established and maintained by Management, are under the general oversight of the Company's Board of Directors, including the Board of Directors' Audit Committee.

Management has made a comprehensive review, evaluation, and assessment of the Company's internal control over financial reporting as of December 31, 2019. The standard measures adopted by Management in making its evaluation are the measures in the 2013 Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon its review and evaluation, Management concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective and that there were no material weaknesses.

Berry Dunn McNeil & Parker, LLC, an independent registered public accounting firm, which has audited and reported on the consolidated financial statements contained in this Form 10-K, has issued its written audit report on the Company's internal control over financial reporting which precedes this report.

Tony C. McKim, President and Director
(Principal Executive Officer)
March 6, 2020

Richard M. Elder, Treasurer and Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer)
March 6, 2020

ITEM 9B. Other Information

None

ITEM 10. Directors, Executive Officers and Corporate Governance

Information with respect to directors and executive officers of the Company required by Item 10 shall be included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020 and is incorporated herein by reference.

ITEM 11. Executive Compensation

Information with respect to executive compensation required by Item 11 shall be included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020 and is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Information with respect to security ownership of certain beneficial owners and Management and related stockholder matters required by Item 12 shall be included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020 and is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to certain relationships and related transactions, and director independence required by Item 13 shall be included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020 and is incorporated herein by reference.

ITEM 14. Principal Accounting Fees and Services

Information with respect to principal accounting fees and services required by Item 14 shall be included in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020 and is incorporated herein by reference.

ITEM 15. Exhibits, Financial Statement Schedules
A. Exhibits

Exhibit 3.2 Amendment to the Registrant's Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed under item 5.03 on May 1, 2008).

Exhibit 3.3 Amendment to the Registrant's Articles of Incorporation (incorporated by reference to the Definitive Proxy Statement for the Company's 2008 Annual Meeting filed on March 14, 2008).

Exhibit 3.4 Amendment to the Registrant's Articles of Incorporation authorizing issuance of preferred stock (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K filed on December 29, 2008).

Exhibit 3.5 Conformed Copy of the Company's Bylaws (incorporated by reference to Exhibit 3.5 to the Company's Form 10-K filed March 10, 2017).

Exhibit 3.6 Amendment to the Company's Bylaws (incorporated by reference to Exhibit 3.6 to the Company's Form 8-K filed under item 5.03 on December 20, 2019).

Exhibit 10.1 Director Split Dollar Insurance Plan and Specimen Agreement dated January 1, 2016, attached as Exhibit 10.1 to the Company's Form 8-K filed under item 1.01 on October 25, 2017.

Exhibit 10.2 Executive Split Dollar Insurance Plan and Specimen Agreement dated January 1, 2016, attached as Exhibit 10.2 to the Company's Form 8-K filed under item 1.01 on October 25, 2017.

Exhibit 10.3 Amendments dated November 8, 2019 to the Restricted Stock Agreements of an Executive Officer dated January 29, 2015, January 28, 2016, January 26, 2017 and January 4, 2018 attached as Exhibit 10.3 to the Company’s Form 10-Q filed under Part II Item 4A on November 12, 2019.

Exhibit 14.1 Code of Ethics for Senior Financial Officers, adopted by the Board of Directors on September 19, 2003. Incorporated by reference to Exhibit 14.1 to the Company's Annual Report on Form 10-K filed on March 15, 2006.

Exhibit 14.2 Code of Business Conduct and Ethics, adopted by the Board of Directors on April 15, 2004. Incorporated by reference to Exhibit 14.2 to the Company's Annual Report on Form 10-K filed on March 15, 2006.

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13A-14(A) of The Securities Exchange Act of 1934

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906of The Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906of The Sarbanes-Oxley Act of 2002

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Extension Definitions Linkbase

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.

THE FIRST BANCORP, INC.

Tony C. McKim, President
March 6, 2020

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.

Tony C. McKim, President and Director
(Principal Executive Officer)
March 6, 2020

Richard M. Elder, Treasurer and Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer)
March 6, 2020

Mark N. Rosborough, Director and Chairman of the Board
March 6, 2020

Katherine M. Boyd, Director
March 6, 2020

Robert B. Gregory, Director
March 6, 2020

Renee W. Kelly, Director
March 6, 2020

Cornelius Russell, Director
March 6, 2020

Stuart G. Smith, Director
March 6, 2020

Bruce A. Tindal, Director
March 6, 2020

F. Stephen Ward, Director
March 6, 2020

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

Consent of Independent Registered Public Accounting Firm

As the independent registered public accountants of The First Bancorp, Inc., we hereby consent to the incorporation by reference in the registration statements No. 333-209156 on Form S-8 and No. 333-64308 on Form S-3 of our report dated March 6, 2020, with respect to the consolidated balance sheets of The First Bancorp, Inc. and Subsidiary as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of The First Bancorp, Inc.

Berry Dunn McNeil & Parker, LLC

Bangor, Maine
March 6, 2020

Exhibit 31.1 Certification of Chief Executive Officer

I, Tony C. McKim, President and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancorp, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 6, 2020

Tony C. McKim
President and Chief Executive Officer

Exhibit 31.2 Certification of Chief Financial Officer

I, Richard M. Elder, Treasurer and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of The First Bancorp, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's fourth quarter of 2019 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves Management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: March 6, 2020

Richard M. Elder
Treasurer and Chief Financial Officer

Exhibit 32.1 Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's annual report on Form 10-K for the period ended December 31, 2019 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: March 6, 2020

Tony C. McKim
President and Chief Executive Officer

Exhibit 32.2 Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350

The undersigned officer of The First Bancorp, Inc. (the "Company") hereby certifies that the Company's annual report on Form 10-K for the period ended December 31, 2019 to which this certification is being furnished as an exhibit (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: March 6, 2020

Richard M. Elder
Treasurer and Chief Financial Officer

Shareholder Information

Common Stock Prices and Dividends
The common stock of The First Bancorp, Inc. (ticker symbol FNLC) trades on the NASDAQ Global Select Market. The following table reflects the high and low prices of actual sales in each quarter of 2019 and 2018. Such quotations do not reflect retail mark-ups, mark-downs or brokers' commissions.

	2019		2018	
	High	Low	High	Low
1st Quarter	$27.89	$24.49	$29.92	$26.35
2nd Quarter	27.15	24.64	30.20	27.02
3rd Quarter	28.00	24.19	31.61	28.02
4th Quarter	30.62	26.65	30.62	25.00

The last known transaction of the Company's stock during 2019 was on December 31 at $30.23 per share. There are no warrants outstanding with respect to the Company's common stock.. The Company has no securities outstanding which are convertible into common equity. The table below sets forth the cash dividends declared in the last two fiscal years:

Date Declared	Amount Per Share	Date Payable
March 22, 2018	$0.240	April 30, 2018
June 30, 2018	$0.290	July 21, 2018
September 27, 2018	$0.290	October 31, 2018
December 20, 2018	$0.290	January 31, 2019
March 28, 2019	$0.290	April 30, 2019
June 27, 2019	$0.300	July 31, 2019
September 26, 2019	$0.300	October 22, 2019
December 19, 2019	$0.300	January 17, 2020

Pending Legal Proceedings
There are no material pending legal proceedings to which the Company or the Bank is the 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.

Annual Meeting
The Annual Meeting of the Shareholders of The First Bancorp, Inc. will be held Wednesday, April 29, 2020 at 11:00 a.m. at the Samoset Resort, 220 Warrenton Street Rockport Maine 04856.

Annual Report on Form 10-K
The Annual Report on Form 10-K to be filed with the Securities and Exchange Commission is available online at the Commission's website: www.sec.gov. Shareholders may obtain a written copy, without charge, upon written request to the address listed below.

Accessing Reports Online
The Company's 2020 proxy materials may be accessed online at: http://materials.proxyvote.com/31866P.
The First Bancorp, Inc.'s website address is www.thefirstbancorp.com. All press releases, SEC filings and other reports or information issued by the Company are available at this website, as well as the Company's Code of Ethics for Senior Financial Officers, the Company's Code of Business Conduct and Ethics, Audit Committee Charter, Nominating Committee Charter, and Compensation Committee Charter. All SEC filings are accessible at the Commission's website: www.sec.gov.

Corporate Headquarters
Contact:
Richard M. Elder, Chief Financial Officer
The First Bancorp, Inc.
223 Main Street, P.O. Box 940
Damariscotta, Maine 04543
207-563-3195; 1-800-564-3195

Transfer Agent
Changes of address or title should be directed to:
Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
1-800-685-4509
shareholder@broadridge.com

Independent Certified Public Accountants
Berry Dunn McNeil & Parker, LLC
23 Water St., Suite 101
Bangor, Maine 04401

Corporate Counsel
Pierce Atwood LLP, Attorneys
254 Commercial Street, Merrill's Wharf
Portland, Maine 04101

Number of Shareholders
The number of shareholders of record as of February 19, 2020 was approximately 4,366..

Board of Directors

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

Directors of The First Bancorp also serve as Directors of First National Bank

The First Bancorp Executive Officers

Tony C. McKim
President & Chief Executive Officer

Richard M. Elder
Executive Vice President & Chief Financial Officer

Charles A. Wootton
Executive Vice President & Clerk

Office Locations

Bangor	Ellsworth
Bar Harbor	Northeast Harbor
Blue Hill	Rockland Park Street
Boothbay Harbor	Rockland Union Street
Calais	Rockport
Camden	Southwest Harbor
Damariscotta	Waldoboro
Eastport	Wiscasset

First National Bank Executive Management Team

Tony C. McKim
President & Chief Executive Officer

Richard M. Elder
Executive Vice President & Chief Financial Officer

Susan A. Norton
Executive Vice President & Chief Administrative Officer

Steven K. Parady, Esq.
Executive Vice President,
Senior Trust Officer & Chief Fiduciary Officer

Tammy L. Plummer
Executive Vice President & Chief Information Officer

Sarah J. Tolman
Executive Vice President, Branch Administration

Charles A. Wootton
Executive Vice President & Senior Lending Officer

Office Locations

Bangor	Ellsworth
Bar Harbor	Rockland Union Street
Damariscotta	

TheFirst.com | PO Box 940 | Damariscotta, ME 04543 | 800.564.3195