Risk Factors Comparison 2024-03-08 to 2023-03-10 Form: 10-K

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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 ~~COVID- 19 Pandemic Our operations, business, and financial condition have been and may continue to be impacted by the COVID- 19 pandemic. The COVID- 19 outbreak, which evolved into a worldwide pandemic, has had a myriad of adverse impacts upon society as a whole. The spread of COVID- 19 has caused illness, quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, supply chain interruptions and overall economic and financial market instability. In response to the COVID- 19 pandemic, Federal, State and Local governments took preventative or protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forgo their time outside of their homes, and ordering temporary closures of businesses that have been deemed to be non- essential. The restrictions and other consequences of the pandemic have resulted, and may continue to result, in significant adverse effects for many different types of businesses, including, among others, those in the retail sales, travel, hospitality and food and beverage industries, and resulted in a significant number of layoffs and furloughs of employees nationwide and in the markets in which we operate. Future impacts of the COVID- 19 pandemic on our business are uncertain and outside our control, could be widespread and material, and may include, or exacerbate, among other consequences, the following: • unavailability of key personnel necessary to conduct our business activities; • disruption resulting from having a significant percentage of employees work remotely; • repeated or sustained closures of our branch lobbies; • declines in demand for loans and other banking services; • reduced consumer spending due to job losses or other impacts of the virus; • adverse conditions in financial markets may have a negative impact on our investment portfolio; • adverse economic conditions result in a slowdown in municipal tax collections potentially impacting municipal loans; • investments, and deposit balances; • decline in credit quality of our loan portfolio leading to increased provisions for loan losses; • declines in the value of loan collateral, including residential and commercial real estate; • decline in the liquidity of borrowers and guarantors impairing their ability to honor financial commitments; or • actions of governmental entities to limit business activities. The First Bancorp- 2022 Form 10- K- Page 9 The significant contribution of tourism and hospitality businesses to the State of Maine' s overall economy, and the Company' s primary market areas in particular, may result in a disproportionate effect relative to other regions. These factors, together or in combination with other events or occurrences related to COVID- 19 that may not yet be known or anticipated, may materially and adversely affect our business, financial condition and results of operations.~~ Credit Risks 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. Other changes in the values of underlying collateral securing loans could pose additional risk if the collateral must be relied upon for repayment in the event of a loan default. 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~~ **credit** 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, **2023 and** 2022 ~~and 2021~~ were $ ~~1~~ **760** . ~~11~~ **3** ~~billion~~ **million** and $ ~~920~~ **669** . ~~1~~ **9** million, or ~~58~~ **35** . ~~1~~ **8** % and ~~55~~ **35** . ~~9~~ **0** % 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. **The First Bancorp- 2023 Form 10- K- Page 9** Our ~~allowance~~ **Allowance** for ~~loan~~ **Credit** ~~losses~~ **Losses** may be insufficient and require additional provision from earnings. The Bank maintains an allowance for ~~loan~~ **credit** 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~~ **credit** losses, we rely on our experience and our evaluation of economic conditions. However, we cannot predict ~~loan~~ **credit** losses with certainty, and we cannot provide assurance that charge- offs in future periods will not exceed the allowance for ~~loan~~ **credit** 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~~ **credit** losses are necessary, we will incur additional provision expenses. In addition, regulatory agencies review the Bank' s allowance for ~~loan~~ **credit** 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~~ **credit** losses should be increased. If charge- offs in future periods exceed the allowance for ~~loan~~ **credit** losses, we will need additional provisions to increase the allowance for ~~loan~~ **credit** losses. Furthermore, growth in the loan portfolio would generally lead to an increase in the provision for ~~loan~~ **credit** losses. ~~Finally, our industry is the midst of a methodology change in the calculation of the allowance for loan losses.~~ The **Bank adopted ASC 326, the** ~~incurred loss model presently in use will be replaced by a~~ current expected credit loss ~~model (" CECL "). The effective implementation date The First Bancorp- 2022 Form 10- K- Page 10 of CECL for the Company had been January 1, 2020. In October 2019, the Financial Accounting Standards Board~~ (" ~~FASB~~ **CECL** ") ~~approved an amendment to ASU 2016- 13, the CECL~~ standard **in** ~~, whereby~~ the ~~effective date~~ **first quarter** of ~~ASU 2016- 13 was delayed~~ **2023, and increased its Allowance** for **Credit Losses** ~~companies that qualify as a Smaller Reporting Companies~~ (" ~~SRC~~ **ACL** ") **via** ~~. The Company qualified as an SRC and as such our effective implementation date for CECL is now January 1, 2023. Substantial progress towards a formal estimate of a required allowance for credit losses to meet the CECL standard has been made, and the Company expects that an increase in the level may be necessary. As allowed by CECL implementation rules, any such day one increase will be~~ a one- time **charge** ~~capital event with an option~~ to **retained** ~~phase- in over three years for regulatory capital purposes, and is not presently expected to materially and adversely impact the Company' s~~ earnings ~~upon adoption~~ . Increases in the **ACL** ~~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~~ **Credit** 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~~ **credit** 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 up to two years, or longer in some instances. 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 mediation sessions. 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. The Bank is exposed to risk of environmental liabilities with respect to properties to which it takes title. In the course of business, the Bank may own or foreclose and take title to real estate that may be subject to environmental liabilities with respect to subject property. As a result, the Company may be held liable for property damage, personal injury, investigation and restoration costs. The cost associated with investigation or restoration activities could be substantial. In addition, as the owner or former owner of a contaminated site, the Company may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. A decline in economic conditions or 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 Eastern 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 Eastern 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, the potential or actual amounts realized from real estate collateral in the event of default, and ultimately the results of operations. Liquidity & Interest Rate Risks 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 **The First Bancorp- 2023 Form 10- K- Page 10** 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. ~~The First Bancorp- 2022 Form 10- K- Page 11~~ 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, ~~2022~~ **2023** , we had $ ~~284~~ **282** . ~~5~~ **1** million and $ ~~393~~ **385** . ~~9~~ **7** 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 or 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 on 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~~ **proposition** . 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~~ **typically** a **reliable** ~~relatively low- cost~~ source of **funding and often less expensive than other types of wholesale** 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 First Bancorp- 2023 Form 10- K- Page 11** 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. ~~The First Bancorp- 2022 Form 10- K- Page 12~~ Operational Risk 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. 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 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. The current employment landscape includes a very low national and local unemployment rate, upward wage pressures, and increased workplace flexibility brought about by remote work options. 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. While the Company is not aware of any such events, remediation of any identified limitations may be ineffective in improving internal controls. **The First Bancorp- 2023 Form 10- K- Page 12** We continually encounter technological change that may be difficult (costly) to keep up with. The financial services industry is continually undergoing 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 ~~The First Bancorp- 2022 Form 10- K- Page 13~~ 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. To date, there has been no material adverse effect on our business or operations due to failure of keeping pace with technological change. 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, and substantial investment has been made in these systems in recent years. 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. To date, there has been no material adverse effect on our business or operations due to these risks. 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. Since the introduction of EMV or Chip cards, we have had the ability to charge back fraudulent transactions to the acquiring merchant if that merchant does not **The First Bancorp- 2023 Form 10- K- Page 13** 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. ~~The First Bancorp- 2022 Form 10- K- Page 14~~ 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 pre- emption 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. Significant harm to our reputation can arise from adverse financial market developments, 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 operations and financial performance could be adversely affected by natural disasters. Climate change may exacerbate these risks and introduce additional compliance, strategic, reputational, and / or other types of risks. Our business, as well as the business activities of our vendors and customers, could be negatively affected by climate change. Climate change presents immediate and long- term risks, which are expected to increase over time. Climate change risks could include but are not limited to operational risk from the physical effects of climate events on our facilities and other assets as well as those of our vendors and customers, and transitional risks, including new or more stringent regulatory requirements, increased monitoring and disclosure requirements, and potential effects on our reputation and / or changes in our business as a result of our climate change practices, our carbon footprint or our business relationships with customers who may operate in carbon- intensive industries. Natural disasters can disrupt our operations, result in damage to our properties, negatively impact the value of the collateral for our loans and have an adverse economic effect on the markets in which we operate, any of which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a tornado, hurricane, earthquake, fire or flood, occurring either in the markets in which we operate or where key vendors or customers operate, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Climate change may result in reduced availability of insurance for our borrowers, including insurance that protects property pledged as collateral, or disrupt their operations, which could increase our credit risk by diminishing borrowers' repayment capacity or collateral values. Because we primarily serve individuals and businesses located in coastal and eastern Maine, a localized natural disaster likely would have a greater impact on our business, operations and financial condition than if our business were more geographically diverse. **The First Bancorp- 2023 Form 10- K- Page 14** Banking regulators and other supervisory authorities, investors and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their customers. This focus may result in financial institutions coming under increased pressure regarding the monitoring and disclosure, and management of climate risks in related lending and investment activities. Ongoing legislative or regulatory ~~The First Bancorp- 2022 Form 10- K- Page 15~~ uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs, and may affect the activities in which we engage and the products that we offer. 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 or reversal 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. The onset of COVID- 19 in the United States in early 2020 quickly plunged the US economy into its first recession since the Great Recession of 2008- 2009. ~~COVID- 19 resulted in a broad- based economic slowdown as governments at all levels implemented measures to protect public health that resulted in curtailment of activity across many sectors of the general economy. Unemployment initially rose to record levels and unprecedented~~ **Unprecedented** levels of monetary stimulus from the Federal Reserve and fiscal stimulus from the Federal government were enacted **ultimately leading** ~~. As progress towards prevention and treatment of COVID- 19 was made, restrictions were lifted and near normal economic activity returned. Increased demand for goods coupled with supply chain disruptions contributed~~ to levels of inflationary pressure not seen in the US economy since the 1980' s. In response the Federal Reserve enacted a series of interest rate increases and other actions designed to rein in inflation, **and in doing so** ~~introducing~~ **introduced** ~~the~~ **a** risk of economic slowdown or recession **if interest rates were to rise too high** ~~. COVID- 19 has entered into an endemic phase~~, ~~however, further mutations of the virus could disrupt the economic recovery with consequent negative impacts on our~~ - **or remain elevated for too** ~~loan~~ - **long that continues to the present** ~~portfolio, and our operating results~~. Future disruptions **, pandemic or otherwise**, particularly those that impact the State of Maine' s tourism and hospitality industries, or have negative events in the financial markets, that cause adverse changes in payment patterns, leading to increases in delinquencies and default rates, 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 in the United States and abroad may adversely affect our financial condition and results. The financial condition and performance of the Company and the Bank may be affected by general business and economic conditions in the United States and, to a lesser extent, abroad. These conditions include short- term and long- term interest rates, inflation, money supply, political issues, geopolitical events **such as the ongoing conflicts in Ukraine and the Middle East**, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, unemployment and investor confidence, all of which are beyond our control. Economic concerns, including inflation and inflation remediation efforts have been heightened as a result of the pandemic, and deterioration in any of these conditions or other future events that we are unable to predict, could result in increases in loan delinquencies and non- performing assets, decreases in loan collateral values, the value of our investment portfolio and demand for our products and services. Higher credit or collateral related losses, or decreases in the value of our investment portfolio or demand for our products and services, could negatively impact ~~our financial condition or results of operations. Reforms to London Interbank Offered Rate (" LIBOR") and other potential replacement indices or alternatives, 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. The U. S Federal Reserve formed the Alternative Reference Rate Committee (" ARRC") to develop a LIBOR alternative. ARRC recommended the Secured Overnight Funding Rate (" SOFR") as a replacement for LIBOR, and a market for SOFR based transactions has developed along with related protocols. In November 2020, the administrator of LIBOR announced that it would cease to publish one week and two month US Dollar (USD) LIBOR settings immediately after December 31, 2021, and remaining USD LIBOR tenors after June 30, 2023. US banking regulators have required new contracts written subsequent to December 31, 2021 to utilize a reference rate other than LIBOR. The Company and Bank have adopted the one month and three month tenors of SOFR published by the Chicago Mercantile Exchange as replacement reference rates~~

~~for LIBOR; our various counterparties have indicated SOFR is a suitable replacement. Contracts in place prior to December 31, 2021 are expected to be addressed and appropriate amendments executed prior to June 30, 2023. This timeline could be hastened in the event the pending discontinuance of LIBOR quotes is found to 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 LIBOR, including our hedge contracts, or our financial condition or results of operations. In addition, we cannot assure that we and other market The First Bancorp- 2022 Form 10- K- Page 16 participants will adequately be prepared for the final 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 **First Bancorp- 2023 Form 10- K- Page 15 The** Dodd- Frank Act created the Consumer Financial Protection Bureau and tightened capital standards, and ~~will continue~~ **continues** to result in new laws and regulations that ~~are expected to~~ **may impact our revenues or** 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. 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 pre- emption 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. The Company and Bank complied with the fully phased requirements well in advance of the completion date and continued to do so as of December 31, ~~2022~~ **2023 . In July 2023 US bank regulators jointly published proposed rulemaking for Basel III Finalization, also referred to as Basel III Endgame or B3E. The proposal significantly alters the regulatory capital regime for US banks, generally increasing required capital levels for banks with $ 100 billion or more in assets. Implementation of B3E could have unintended consequences on regional and community banks whose total assets are below threshold, such as the Bank, and result in lower returns on equity, require additional capital, limit lending activities, or limit distributions such as dividends** . 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 2000 Index, the trading volume of the common stock has historically not been substantial. For the year ended December 31, ~~2022~~ **2023** , the average monthly trading volume of our common stock was ~~317~~ **294** , ~~421~~ **570** shares, or approximately 2. ~~88~~ **66** % 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 First Bancorp- 2022 Form 10- K- Page 17~~ 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, and could be significant. 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 significant changes in prices. Our common stock price can fluctuate as a result of many factors **, some of** 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; **The First Bancorp- 2023 Form 10- K- Page 16** • 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, actual or anticipated 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, ~~The First Bancorp- 2022 Form 10- K- Page 18~~ 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. Environmental, social and governance oversight may influence stock price and increase compliance costs. Some investors have begun to consider how corporations, such as the Company, are addressing environmental, social and governance matters, commonly known as" ESG **"** matters ~~"~~ when making investment decisions. Investor advocacy groups, investment funds and influential investors (collectively" influencers") are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Specific examples of matters being evaluated as part of the investment decision or recommendation by certain investors and influencers include the business risks of climate change and the adequacy of companies’ responses to climate change, diversity of a company' s **The First Bancorp- 2023 Form 10- K- Page 17** management and / or board of directors, community involvement and charitable giving, and the inclusion of ESG factors in the determination of executive compensation. These shifts in investing priorities may result in adverse effects on the trading price of the Company’ s common stock if investors determine, whether real or perceived, that the Company' s ESG actions are not satisfactory. In addition, new government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. Increased ESG related compliance costs could result in increases to our overall operational costs. 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.