ANNUAL REPORT 2008

THE FIRST BANCORP

First Light

As the sun peaks over our spruce-lined shores, a new day dawns along the coast of Maine. While much of the country is still asleep, a lobsterman heads out on Penobscot Bay; a runner begins her morning jog on the carriage roads of Acadia; and, at 7 a.m. sharp, customers of The First are banking at drive-up windows all along the coast, from Wiscasset to Calais. Here in Maine, we make the most of dawn's early light.

And here at The First Bancorp, we are proud to report that your company was on the rise again in 2008, shining brightly on the financial industry's larger, wavering horizon. On the following pages, we invite you to read our President's letter, our Chief Financial Officer's letter, and the articles that appear in between which we have written to help you gain a better understanding of the financial crisis our country is facing.

Dear Shareholder:

I am pleased to report that 2008 was another year of record earnings for The First Bancorp, Inc. Especially satisfying was the fact that these earnings were achieved in a year with the economy in a recession, the housing market collapsing and a financial crisis that engulfed the banking industry. 2008 was both a tumultuous and a highly volatile year for the financial sector with economic conditions not seen in many decades. In this annual report we will share with you our results and articulate the underlying reasons for another successful year at The First. In addition, we have included several background articles on important topics that will help clarify what led to the financial crisis and what steps have been taken to address the issues.

Record Earnings

Net income of $14,034,000 was an increase of $933,000 or 7.1% over the $13,101,000 earned in 2007. Earnings per share on a fully diluted basis were $1.44, up $0.10 or 7.5% from the $1.34 reported for the year ended December 31, 2007. The First Bancorp certainly stands out in comparison to other financial institutions that are announcing large losses or a fairly significant decline in earnings. There are a number of factors that led to this exceptional result for the Company.

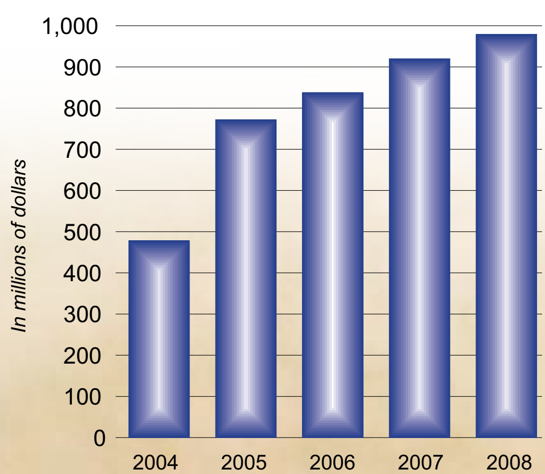
One of the major contributors was the $99.3 million growth in earning assets. The Company's loan portfolio increased by $59.1 million or 6.4% during the course of the year and we increased the Bank's investment portfolio by $40.7 million or 18.4%. This growth, combined with a decrease in interest costs, resulted in a strong increase in net interest income from $31.8 million in 2007 to $37.7 million in 2008 – a $5.9 million or 18.4% increase. As previously mentioned, this excellent result in net interest income was driven by a combination of growth in earning assets and a substantial reduction in funding costs brought to fruition by declining interest rates. The net interest margin also improved from 3.13% in 2007 to 3.33% in 2008. The Bank's balance sheet was liability sensitive at the end of 2007, which meant that as interest rates declined, the cost of funding our loans and investments declined at a more rapid pace than the decrease in yields on our loans and investments. This $5.9 million increase in net interest income was the single most contributing factor to the $933,000 improvement in net income.

When we mention interest rates we are referring to the Federal Funds Target Rate which is set by the Federal Open Market Committee (FOMC) of the Federal Reserve Bank. As of December 31, 2007, this rate was 4.25%, which was down 1.00% from the June 2006 high of 5.25%. As the economy continued to weaken during 2008 and the financial crisis worsened, the FOMC dramatically lowered this target rate by 4.00% to 0.25% as of yearend. This was an unprecedented low, well below the 1.00% bottom in June 2003 during the post 9/11 rate cycle. The prime lending rate, which is widely used as the base for business loans and home equity loans, averages 3.00% above the Fed Funds Target Rate and ended 2008 at 3.25%.

The last time that the Prime rate was this low was over 50 years ago in 1955, making today's rates historically low for the modern economy. According to economic theory, low interest rates spur economic growth and decreasing rates is a move to either prevent a recession or minimize the depth and length of a recession.

Net interest income grew from $31.8 million in 2007 to $37.7 million in 2008 – a $5.9 million or 18.4% increase.

Total Loans



We continue to have a strong lending focus and culture which

Efficiency Ratio

One of the performance metrics The First Bancorp prides itself on is the efficiency ratio – a measure of the cost of operations in relationship to operating revenues. The lower the figure, the more efficiently the company performs. This ratio improved from 50.16% in 2007 to an industry-leading level of 46.07% in 2008. This is the best it has been in the history of the Company. On a national basis, The First Bancorp had the 60th-best efficiency ratio of the 500 largest bank holding companies in the United States in the third quarter of 2008. Operating as efficiently as possible has been a major focus of the Company for the past 15 years and is made possible by the great buy-in from all of the employees and the effective utilization of technology.

Asset Growth

Loans: Despite a weak economy and relatively slack loan demand, the Company still posted a net increase in loans on the books of $59.1 million. The categories with the largest increases were commercial real estate, which contributed $52.8 million to the growth, and residential real estate, which was up $10.0 million. The growth in these portfolios was offset by a net decline in general business loans and consumer loans of $5.2 million. We continue to have a strong lending focus and culture which has helped us grow the portfolio in weak economic times without compromising our loan underwriting standards nor our loan pricing approach. Generating good quality loans and operating efficiently have been the keys to our success over the past 15 years.

Investments: Another source of revenue growth for the Company is the investment portfolio which increased by $40.7 million in 2008. The primary investments purchased were municipal securities and U.S. agency securities, all of which carry low exposure to credit risk. At the same time, the Company decreased its corporate bond holdings by $10.3 million, and the $5.7 million in remaining corporate bonds represent only 2.2% of the investment portfolio. Our goal is to have minimal credit risk in the portfolio which is the reason for the reduction in corporate bonds. Revenues from interest and dividends on investments were $13.3 million, an increase of $2.2 million or 19.3% over 2007.

Asset Quality

While the weaknesses in the national and global economies have not impacted coastal Maine as much as other parts of the country, we nevertheless experienced deterioration in the asset quality of our loan portfolio. Net charge offs in

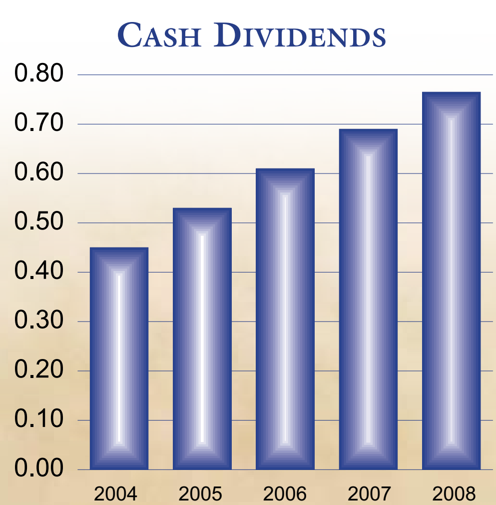
has helped us grow the portfolio in weak economic times.

2008 were $2.7 million compared to $1.0 million in 2007. One borrowing relationship contributed $1.1 million to the loan losses in 2008, with the balance being spread across the portfolios similarly to our past experience. This $2.7 million in net losses is 0.28% of average loans in 2008 which is higher than our results in the most recent decade but is still relatively low compared to most banks across the country. Our average loss rate over the past 20 years is 0.22%. Without the $1.1 million attributable to the one relationship, the loss ratio would have been 0.17%, which is in line with our ten-year historical average of 0.16%. We have an excellent track record of managing our loan portfolio to minimize losses, and the last time loan losses were at this level was during the late 1980s and early 1990s. In addition to covering the actual losses posted in 2008, the $4.7 million provision made to the allowance for loan losses in 2008 resulted in a $2.0 million net increase in the allowance. With a weakening economy and an increase in our level of non-performing loans, we felt it prudent to add to the reserve.

In addition to loan losses being up, the level of non-performing assets to total assets stood at 1.31% as of yearend 2008, a significant increase over the 0.56% level of December 31, 2007. This increase is clearly attributable to the impact the weakened economy is having on our borrowers. Small businesses are seeing revenue and sales decline and some are now struggling to meet their obligations. A number of consumers have either lost their jobs or seen a reduction in hours worked and/or overtime, thereby creating strained finances resulting in payment issues on their loans. This, unfortunately, is very common and expected in these recessionary cycles. We feel our long-standing approach to working with our borrowers and our strong loan underwriting standards helps alleviate some of the payment problems on customers' bank loans and in the end minimizes actual loan losses.

Another downside of a recession is the amount of foreclosed properties the Bank ends up owning. As of December 31, 2008, these totaled $2.4 million, up $1.6 million from the $0.8 million at the end of 2007. This is a relatively modest level, however, given the loan portfolio is nearly $1.0 billion.

As previously mentioned, the Company's allowance for loan losses increased by $2.0 million in 2008, ending the year at $8.8 million. The allowance is a figure that represents an amount sufficient to absorb probable losses in the loan portfolio in the short term. A number of factors are taken into consideration in arriving at the appropriate level for the allowance, such as historical losses, delinquency trends, a specific review of individual



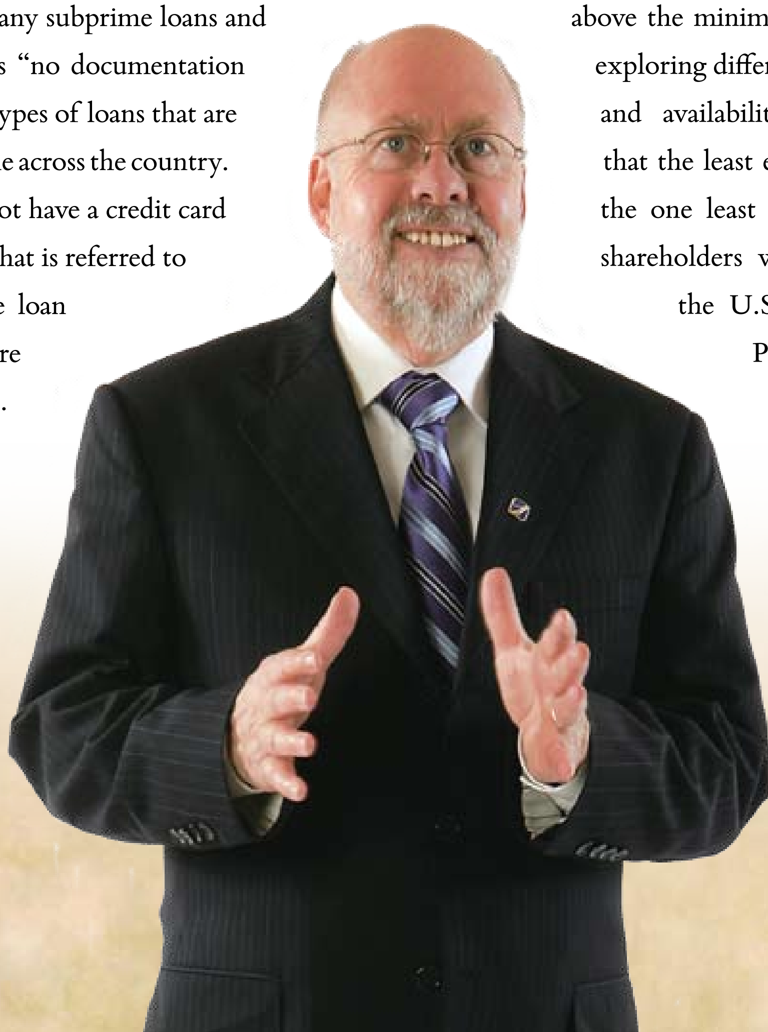
The Company ended the year comfortably

loans and general economic conditions. The two most important elements are the historical losses and the specific loan reviews. As of December 31, 2008, the allowance for loan losses stood at 0.90% of total loans outstanding.

Our historical loss factor over the past 20 years is 0.22%, so at 0.90%, this represents coverage for more than four years of potential losses. The First has a high concentration in residential real estate loans, comprising 46.6% of the total loan portfolio. This loan category has a much lower level of losses in comparison to other loan types. For example, in 2008 the loss ratio for residential mortgages was 0.04% compared to 0.28% for the portfolio as a whole. We have avoided writing any subprime loans and what is commonly referred to as "no documentation loans" which have been the two types of loans that are currently defaulting on a large scale across the country. In addition, the Company does not have a credit card loan portfolio or a portfolio of what is referred to as dealer consumer loans. These loan categories generally carry more risk and therefore higher losses. Given all of the above factors management feels comfortable with the $8.8 million allowance level as of December 31, 2008.

Bank Capital

In challenging economic times bank capital becomes increasingly important and critical for every bank, irrespective of its performance. The bank regulatory agencies place a strong emphasis on a bank's capital ratios which they see as a buffer to absorb losses. The more capital a bank has, the more comfortable the regulators are. In these recessionary times it is no longer viewed as acceptable to only be well-capitalized – the new measure bank regulators are looking for is to have the bank be super-capitalized.



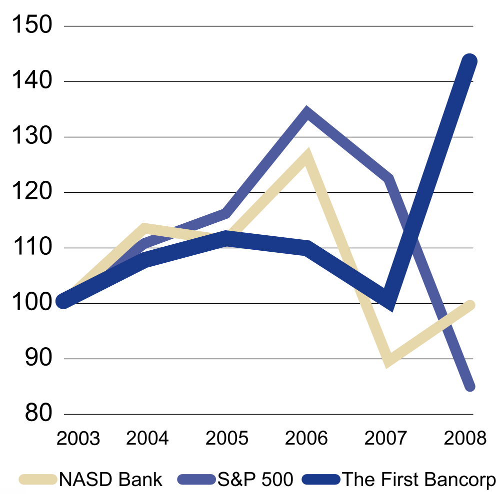
The Company ended the year comfortably above the well-capitalized threshold but felt the prudent course was to increase the bank capital to levels well above the minimum requirements. In exploring different sources of capital and availability, it became clear that the least expensive option and the one least dilutive to common shareholders was to participate in the U.S. Treasury's Capital Purchase Program. The Company did so to the tune of $25.0 million, receiving the capital in early January 2009. On page 10 of this report is a detailed article on the Capital Purchase *above the well-capitalized threshold.*

Program and a more detailed explanation as to the reasons for our participation. With our total capital ratio now at 13.97% based upon risk-based assets on December 31, 2008, we feel very comfortable going forward and working through this economic recession regardless of how long it may last or how deep it may go.

Cash Dividend

The Company has a long history of paying out a good portion of our earnings in the form of cash dividends. In 2008, the dividends declared amounted to 52.76% of our net income and was the fifteenth consecutive year of dividend increases and provided the highest payout over this period. In comparison, in 1994 the payout was 15.36% of earnings. We recognize that a strong dividend yield is not only an attractive component for investing in The First Bancorp, but is also a source of current income that a number of shareholders rely on. In 2008 the dividend represented a 10.9% increase over the 2007 dividend and produced a yield of 3.92% based on the $19.89 year end closing price – especially attractive in the low interest rate environment that exists. We still feel it is both prudent and good practice for the Company to continue to distribute a good portion of our annual earnings to our shareholders in the form of cash dividends and believe our longstanding track record supports that view.

Relative Stock Performance



Market Value of The First Bancorp Shares

One of the biggest highlights of our successful performance in 2008 was the market appreciation of First Bancorp shares. In an era when all indices were down in the 30% range, our stock went from $14.64 on December 31, 2007 to $19.89 per share on December 31, 2008, and posted a total return of 43.7% for the year. For a good part of the year, our stock price was up despite most of the market, especially financial stocks, being down. As a comparison, the KBW Regional Bank Index had a total return of -18.5% and the broad market S&P 500 had a total return of -36.9%. Over the past five years the total return of FNLC shares has been 43.93% with a compound annual growth rate of 7.56%. This compares to a negative total return of 15.16% for the S&P 500 and a negative 0.42% for the NASD Bank Index.

In June, The First Bancorp was added to the Russell 2000 and Russell 3000 indices. Being part of these indices has resulted in much more volatility in our stock as larger volumes of shares may be traded in a day based on investors flowing funds into or out of index funds. Inclusion in the Russell 3000 Index is based on the market capitalization of the top 3,000 stocks that are publicly traded, therefore we do not make the decision to belong or not belong. On the whole it appears that despite the volatility this added liquidity for our shares is a positive.

The First Bancorp, Inc.

At the April 2008 shareholder meeting, the name of the Company was changed from "First National Lincoln Corporation" to "The First Bancorp, Inc.". The rational for the new name reflects the expansion of the Company's physical presence and the Bank's customer base beyond Lincoln County communities. Since the introduction of The First Bancorp, we have been very pleased with the results. The synergy of referring to the Bank as The First and the Company as The First Bancorp has developed effectively. We feel a much broader base of customers and shareholders now realize that both entities are one and the same. On a go forward basis, we are confident that the brand identity of the Company and the Bank will become much stronger as well.

FDIC Insurance

As the financial crisis worsened and the media became more and more obsessed with perceived problems in banking industry, the importance of FDIC insurance has heightened. Especially confusing to the general public was the reference to Wall Street investment firms such as Bear Stearns and Lehman Brothers as banks. These companies were not banks, were not approved to accept FDIC-insured deposits, and were not regulated like a bank. The reference in the media, however, created an increased level of anxiety for all bank customers. Fortunately, the FDIC took decisive action to alleviate this concern by increasing the insurance coverage from $100,000 to $250,000. The FDIC also was proactive in informing the public that the insurance fund was solvent and they had access to the full resources of the U.S. Government should additional monies be needed to cover losses from failed banks. Please see the article on page 13 for more detail on this topic.

The Financial Crisis

2008 was a year that will be remembered as one of the most challenging periods since the Great Depression. The problems first surfaced in the summer of 2007 and were related primarily to problems with subprime mortgage loans. From that point forward, the problems in housing carried over into the entire financial system. There were several points during the year when the crisis and concerns about a systemic failure of the financial markets became critical. The Federal Reserve began aggressively lowering the Fed Funds Target Rate in March 2008 after the near-collapse of Bear Stearns, which ended up being sold to J.P. Morgan with the help of the Federal Reserve Bank. The markets seemed to have calmed down after that as the Federal Reserve also provided the investment banks access to the Fed Discount Window. The housing market continued to decline, however, resulting in more losses in mortgage-backed securities, more questions on the value of those securities and the losses the banks holding these securities would have to recognize. Please see the article on page 16 for more detail on this topic.

The next pivotal event was in September 2008 when over the course of a few days, the investment bank Lehman Brothers filed bankruptcy and 80% of AIG

even greater uncertainty than 2008.

(American International Group) was acquired by the U.S. Government to keep it from failing. As a result, the financial markets seized up even more and for the most part were on a downward spiral. The financial crisis was not limited to just the United States as similar major financial problems surfaced globally. The Federal Reserve, the U.S. Government and the FDIC collectively instituted aggressive actions to stabilize the financial markets, free up the flow of funds and calm people's concerns about the safety of their money held in banks and money market mutual funds. As 2008 came to a close, solving the financial crisis was a top priority as the economy continued to worsen. The housing slide in home sales and prices did not show any improvement and the unemployment rate and job losses continued to increase at an alarming rate.

What Will 2009 Look Like?

2009 will likely be a year of even greater uncertainty than 2008 was. As I write this letter in the first quarter of 2009, the unemployment rate has continued to increase and is expected to reach levels not seen in many years. On a daily basis, the news media reports additional major layoffs, the economy shows continued weakness, the auto industry is under severe strains and the housing crisis still has not been contained. All of these components are interconnected with multiple ideas and opinions on what the best steps need to be taken to resolve them.

The problems brought about from subprime mortgage lending have carried over into the entire housing market, impacting the value of real estate across the country. Not only have housing values declined, but the actual salability of real estate has been impacted as well. As borrowers default on mortgage loans, foreclosures have increased as the owners are unable to sell their homes. With a weak buyers market, there is little interest in the foreclosure sales which drives the values of homes down further, fueling the downward spiral.

We are optimistic that in 2009 the housing market will somehow stabilize and the financial markets, in turn, will begin to improve. The economy, however, is likely to remain weak for most of 2009, even if the housing market stabilizes. For the Company, this will be another year with a strong focus on asset quality. At the same time, we expect to still find good lending opportunities and will continue to take advantage of them when they present themselves. We continue to keep a watchful eye on our expenses and anticipate that the interest rate environment will be stable at these historically low levels.

Despite the economic turmoil of the past two years, The First Bancorp has prospered and we are optimistic that 2009 will be another successful year. On behalf of the Board of Directors and our employees, we thank you for your support and confidence in The First.

Sincerely,

Daniel R. Daigneault
President & Chief Executive Officer

U.S. TREASURY CAPITAL PURCHASE PROGRAM

In the fall of 2008, the financial crisis worsened to the point where there was grave concern that some of the major financial institutions in the United States might fail and the financial markets would cease to function. For months, various steps had been taken by the Federal Reserve Bank to calm the financial markets without any great success and, in October, at the request of the Bush Administration and the Federal Reserve, the U.S. Congress enacted the Emergency Economic Stabilization Act.

The Act allowed the Secretary of the Treasury to establish the Troubled Asset Relief Program (TARP), and one of its initial priorities was to have the U.S. Government purchase troubled assets directly from financial institutions at an agreed upon price. The theory was that taking troubled assets off the institutions' books would make the markets more liquid and place the affected financial institutions in a better position to lend more money to businesses and consumers. This approach was not implemented, however, as its execution proved to be more complex than anticipated and the pricing of the toxic assets was a major roadblock.

What is the Capital Purchase Program?

The same legislation, however, also authorized a Capital Purchase Program (CPP) with a goal of "stabilizing the financial system by increasing the capital in U.S. banks and then restoring confidence so credit can flow to consumers and businesses." This voluntary program for qualifying healthy banks is designed to allow the U.S. Treasury to inject capital into the banking system by buying senior preferred stock issued by the banks. Out of the $700 billion that was authorized by Congress under the Emergency Economic Stabilization Act, $250 billion was set aside for this program.

The amount any one bank could receive was limited to 3.00% of its risk based assets, and the $250 billion provided sufficient funds for all banks in the United States to participate. The attractiveness to banks was the relatively low cost of 5.00% for tier-1 bank capital, as well as the ease of participation and the short time frame which the funds would be available.

The goal is to stabilize the financial system by increasing the capital in U.S. banks and then restoring confidence so credit can flow to consumers and businesses.

Sources of Capital

Banks – especially community banks like The First Bancorp – have limited options to raise additional capital. One option that has been utilized by banks over the past ten years is the issuance of Trust Preferred Pooled Securities. This form of bank capital generally carried an interest rate in the 9% range and was, at one time, readily available to healthy banks on relatively short notice. The financial crisis and credit crunch in late summer 2008 essentially wiped out this market and the availability of capital from this source became non-existent.

The other option for capital is the issuance of additional common stock, which is much more expensive and dilutive to the holdings of existing shareholders. The cost of common stock is calculated on the targeted rate of return on tangible equity (ROE). The First Bancorp has a targeted ROE of 15.0%, which we have achieved over the past fifteen years. If we wanted to raise $25.0 million in equity, we would have to issue approximately 1.5 million new shares of common stock. These new shares would dilute the ownership of the current shareholders by 13% -- a fairly significant level.

Cost of Capital

In order to provide a 15.0% ROE on this higher capital base, the earnings after tax would need to increase by $3.7 million, or 26.4%, over the $14.0 million earned by the Company in 2008. In contrast, the senior preferred stock sold to the government under Capital Purchase Program has a 5.0% cost for the first five years, which would require a much more readily attainable increase in after-

Community banks like The First have, on average, outstanding loans equal to ten times their tangible capital.

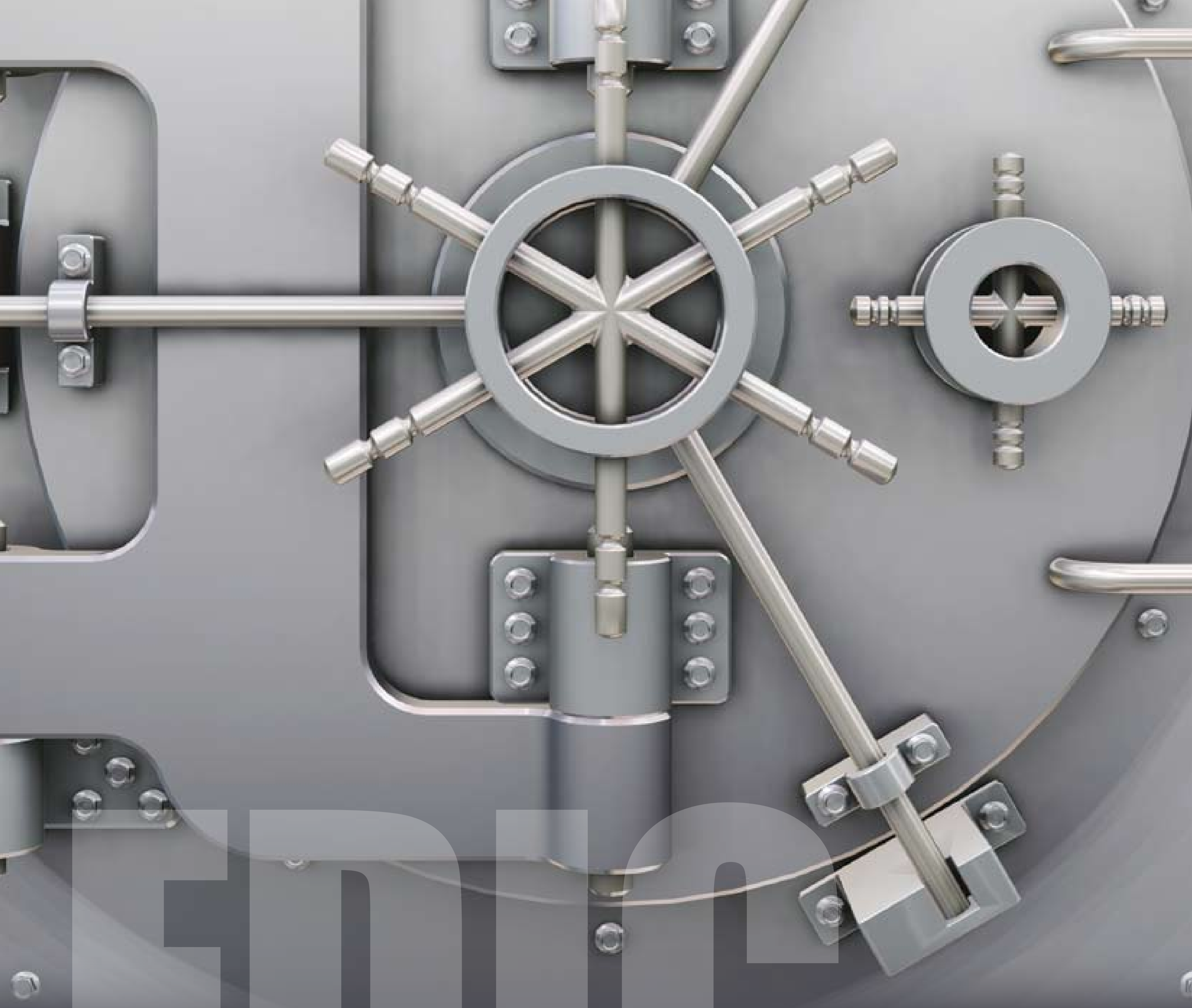
tax earnings of $1.25 million, or 8.9%, to cover the incremental costs. The CPP also required participating banks to issue warrants to the Treasury giving it the right to purchase from the company a number of common shares equal to 15% of the amount of the senior preferred stock. For The First Bancorp, this totaled 225,904 shares, or 2.33% of our outstanding shares. So the dilutive factor is 2.33%, versus 13.00% had the same amount of capital been raised by the issuance of common stock. Under the CPP program, the Treasury does not have any voting rights and the preferred stock can be repaid at the bank's option and with the approval of the bank's regulator.

Importance of Bank Capital

Why would a healthy bank participate in this program? The amount of capital a bank has is a critical driver in determining the amount of money that can be loaned to customers or invested. Community banks like The First have, on average, outstanding loans equal to ten times their tangible capital, meaning that $25.0 million of new capital supports up to $250 million in net new loans. Equally important, however, is that capital is viewed by banking regulators as the backstop for problem loans.

Regulators look very carefully at the ratio of criticized loans to a bank's tangible capital. If that ratio gets too high they may require the bank to raise additional capital and/or reduce the level of non-performing assets in a short time period. An accelerated sell-off of problem loans could result in increased loan losses, business failures and increased unemployment. With excess capital made available through the CPP, healthy banks are in a much better position to work with struggling customers and modify loan terms, change payment structures or take other reasonable steps to allow businesses a better chance of surviving the economic recession, and help consumers stay in and keep their homes.

The Capital Purchase Program has noble goals and, if implemented effectively, will be a successful program for the U.S. Treasury and participating banks. For a further discussion of the importance of capital for banks, please see the letter from our Chief Financial Officer on page 20. ▪



THE IMPORTANCE OF FDIC INSURANCE

One of the basic foundations of our nation's financial system is confidence, and as financial intermediaries, banks rely on confidence to make their business work. The basic model for a bank is very simple: bring in funding, primarily from depositors, and use it to make loans or purchase investments. What makes this work is the confidence that the Federal Deposit Insurance Corporation (FDIC) provides to depositors: they will get all of their money back, when they need it, which is especially important during times of financial turbulence.

What is the FDIC?

The FDIC is the U.S. Government agency that provides deposit insurance and guarantees the safety of checking accounts, savings accounts, certificates of deposit and retirement accounts – up to certain limits. While we have all heard of the FDIC and have seen "Member FDIC" signage in banks and in bank advertising, the concept of insuring bank deposits is relatively new. Prior to the twentieth century, there was no bank guarantee fund

In 2008, the deposit insurance coverage limit increased from $100,000 to $250,000 and the insurance coverage for non-interest-bearing checking accounts is now unlimited.

at a national level to protect depositors during the occasional bank panic or failure. Over time, a number of deposit security measures were adopted at the state level, and when the Federal Reserve was founded in 1913, the government chose to be a "lender of last resort" which would keep troubled banks afloat rather than provide guarantees on bank deposits.

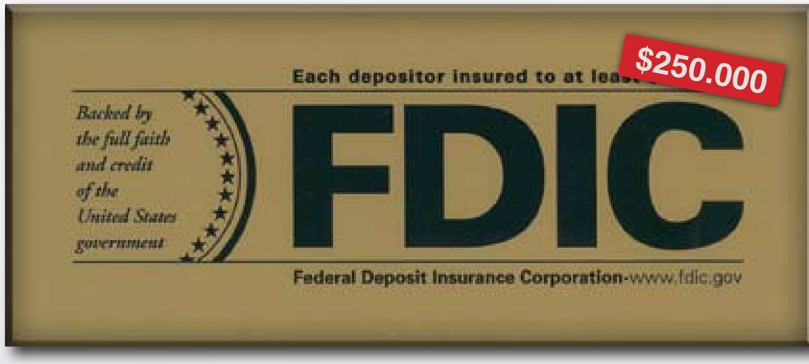
The Great Depression put an enormous strain on the banking system, however, and in 1933, the United States experienced a bank panic that saw the closing of over 4,000 banks. While the federal government stepped in to merge weaker banks with stronger ones, it was months before depositors saw even a portion of their funds that were deposited in the failed banks. At the height of this crisis, President Roosevelt signed the Banking Act of 1933 establishing the Federal Deposit Insurance Corporation – initially intended to be a temporary measure to raise the confidence of U.S. depositors in the banking system.

When FDIC deposit insurance went into effect in January of 1934, the initial insurance coverage level was $2,500. Later that year, the coverage was increased to $5,000, and with the passing of The Banking Act of 1935, deposit insurance coverage and the FDIC itself were made permanent. Over the years, the insurance level has been increased several times until it reached $100,000 in 1980, where it remained until 2008. In 1950, Congress expanded the FDIC's role and authorized the agency to also examine banks on a regular basis to determine how well each bank is run and the level of risk it places on the deposit insurance fund. Today the FDIC insures more than $4.3 trillion in deposits in over 8,000 U.S. banks and thrifts. It employs 4,500 people nationwide and is managed by a five person board of directors, all of whom are appointed by the President and confirmed by the Senate.

How is the FDIC funded?

The short answer to this question is that the FDIC is funded by banks themselves though premiums that are assessed based upon a bank's level of deposits. It also receives a small amount of revenue from the investment of the fund's assets in U.S. Treasury securities. Over the years, however, the costs to the FDIC-member banks have gone up dramatically and this increase was not based solely on regular deposit premiums. By law, the FDIC has to maintain reserves at a specified target, currently 1.25% of insured deposits, and if the Fund falls below this target, deposit insurance premiums paid by banks are increased. In other words, when a bank fails, the remaining healthy banks pay the cost of replenishing the fund, not the U.S. taxpayer.

Until the 1980s, only regular banks were insured by the FDIC. Savings and loan institutions, or thrifts, were insured by a similar but separate agency, the Federal Savings and Loan Insurance Corporation (FSLIC). During the S&L debacle in the late 1980s, FSLIC became insolvent and was recapitalized with $8.0 billion of bonds issued by the Financing Corporation (FICO), to be repaid with funds from the Federal Home Loan Bank System and premiums from FSLIC-insured banks. The recapitalization plan proved to be inadequate, however, and in 1989 Congress established a new fund – the Savings Association Insurance Fund (SAIF) – which was administered by the FDIC. At this point, FICO bond payments were expected to come



out of insurance premiums paid by the FSLIC-insured banks for their coverage by the SAIF fund.

It soon became apparent that the SAIF revenues would not be able to cover the SAIF bond payments as the projected annual deposit growth rate of 7% proved to be overly optimistic. This led Congress to pass the Deposit Insurance Funds Act of 1996 requiring regular banks, which had previously not been involved in the S&L problems, to assist with repayment of the FICO bonds. Beginning in 1996, regular banks were required to pay a FICO bond assessment equal to one-fifth of the amount that the FSLIC-insured banks were paying until 1999 when the SAIF fund and Bank Insurance Fund (BIF) were merged into one – the Deposit Insurance Fund (DIF) – after which the assessments were equally shared by all.

Changes to FDIC Coverage in 2008

With a high level of instability in the financial markets in 2008, Congress passed the Emergency Economic Stabilization Act (EESA) to shore up depositor confidence in the banking industry. First, the deposit insurance coverage limit was increased from $100,000 to $250,000. This is expected to be temporary and revert to $100,000 on December 31, 2009 (excluding retirement accounts which were already insured up to $250,000 and will remain at that level.) The second major change is that insurance coverage for non-interest-bearing checking accounts is now unlimited, however this is optional for financial institutions. The First is participating, so all non-interest bearing checking accounts in our Bank, regardless of how they are owned, are insured to the balance on deposit. This additional coverage is also expected to be temporary and end on December 31, 2009.

In addition to providing insurance coverage and examining banks, the FDIC also provides many educational services for consumers, including informational booklets and an interactive website that helps consumers learn about deposit insurance. Consumers can also use an online calculator to determine that best way to structure their accounts for maximum FDIC coverage. The FDIC is backed by the full faith and credit of the United States government and since its inception no one has lost a penny of insured deposits as the result of a bank failure.

The Cost to Us

So what does this mean to The First in terms of real dollars? At the end of 2008 our FDIC insurance premium assessment (based on our total deposits) was approximately $550,000 per year and our FICO Assessment was $100,000 per year, for a total annual premium of $650,000. As noted above, when a bank fails, the cost of this falls to the remaining healthy banks, and as a result of the increasing level of bank failures in 2008, we expect our total deposit insurance premium in 2009 to be at least $1.5 million. The FDIC has also proposed a one-time special assessment to be levied on all FDIC-insured banks in 2009 to help replenish the fund.

While increased FDIC coverage will prove to be beneficial to depositors and is necessary in these challenging economic times, this comes at a cost to FDIC-member banks, even if those banks are very healthy and well-capitalized like The First, with little risk of failure. ▪

MAIN STREET WALL

The roots of the current financial crisis go very deep and are centered on the traditional home mortgage, which, until recently, had been considered one of the safest, most secure and least risky loans. Mortgages are typically written for repayment over 20 to 30 years and may have a fixed interest rate for the entire period or one that may adjust periodically based on a change in an agreed upon index, such as the rate on the one-year U.S. Treasury. The borrower makes a monthly payment that includes both interest and repayment of principal. Because of the pride most Americans traditionally take in their homes, conventional wisdom and experience have shown that borrowers tend not to risk their homes and, in general, when paying debt, the mortgage gets paid first.

If these were such low-risk loans, then how could they be at the heart of today's mess? The simple answer is greed and self-deception. Take a low-interest rate environment and a huge demand for home ownership, combine these with the belief that home prices would continue to climb, and the stage was set for the mortgage meltdown that we have seen over the past two years. While most mortgages that were made in this decade were based on sound underwriting standards, a hybrid product – the subprime mortgage – ultimately is behind our situation today.

This is a story that starts on Main Street and ends on Wall Street. There is a lot of jargon used these days to describe the various contributors to the mortgage meltdown. To help understand what the most commonly used terms mean, we have assembled the following glossary and chronology that takes us from the simple, safe, low-risk home mortgage of Main Street to what is now described as the toxic waste of Wall Street and the effect it is having on the financial system.

Fannie, Freddie and Ginnie

Many of the banks on Main Street that originate mortgages do not want to hold these long-term fixed-rate instruments on their balance sheets

To Street

The Alchemy of Transforming Simple Home Mortgages Into Toxic Assets

because they pose too much interest rate risk. As a result, three entities were created between 1968 and 1970 to broaden home ownership in the United States by making mortgage financing more readily and widely available. Fannie Mae (Federal National Mortgage Association or FNMA) and Freddie Mac (Federal Home Loan Mortgage Corporation or FHLMC) are both Government Sponsored Enterprises (GSEs) – for-profit corporations created through Congressional legislation but owned by shareholders. Ginnie Mae (Government National Mortgage Association or GNMA), however, is a part of the U.S. Department of Housing and Urban Development and thus is backed by the full faith and credit of the U.S. Government.

MBS

Fannie, Freddie and Ginnie work in a similar fashion – they buy mortgages from regular banks and mortgage origination companies (such as Countrywide) and then sell the majority of them to other investors. Rather than selling them as individual mortgages, however, a number of mortgages are put together to create a pool of mortgages, and then pieces of the pool are sold to different investors – usually in $1,000 units – as a Mortgage-Backed Security (MBS). One important characteristic of an MBS is that Fannie, Freddie and Ginnie provide a credit guarantee, so an MBS has a AAA rating and has virtually no credit risk for the investor.

CMO

MBS investors receive a principal and interest payment every month based upon the payments from the mortgages which make up the pool. Since mortgages give the borrower the ability to repay part or all of the loan at any time, however, the MBS investor does not know exactly how long it will be until the investment is completely repaid. Enter the Collateralized Mortgage Obligation (CMO) – a marvel of Wall Street financial engineering that is designed to bring a much higher degree of repayment certainty than an MBS. A CMO is typically a behemoth financial structure that is created by pooling many MBS pools and then dividing them into tranches, or slices, each with a different time period for repayment. With the good comes the bad, though … to create a tranche with more certain repayment characteristics, a backstop tranche with total repayment uncertainty is also created to make this happen. These backstop tranches typically have much higher yields and much greater risk, and they were the toxic waste of Wall Street that was sold in the early 1990s to unsuspecting local governments, such as Orange County, California, which had no idea what they were purchasing.

ABS

Since Wall Street is very creative, putting together pools didn't stop with regular mortgages. Today you can purchase an Asset Backed Security (ABS), a pool made up of a variety of underlying financial instruments, including commercial loans, auto loans, student loans, financing receivables, or credit card debt, to name a few. Investors like these because pooling together the underlying loans reduced the overall risk and these were sometimes enhanced with an added credit guarantee.

Subprime Mortgage

In good financial times, potential risks and memories of past problems are easy to ignore, and in the early to middle part of this decade, economic conditions were ripe for such avoidance. The economy was doing well, housing demand and prices were skyrocketing, and everyone wanted to get in on home ownership before it was too late. Enter the Subprime Mortgage, a loan generally made by mortgage originators (not regular banks) to borrowers with little or no demonstrated ability to repay or with marginal credit, typically characterized by a FICO score of 620 or below. Many of these loans were made with an initial low rate that would adjust upward after a few years, at which time it was presumed that the borrower would have higher income to afford the higher payments or would sell the home and book a tidy profit. The problem is that many of these subprime mortgages were made to borrowers who didn't have the ability to repay even at the low initial rate, let alone the higher rate that some of the loans reset to after one to two years.

CDO

Once again, enter the financial engineers of Wall Street. After such great success in creating and selling the MBS, the CMO and the ABS, putting together pools of subprime mortgage was seen as the logical next step. In the same way that the CMO provided predictability for the timing of repayment of principal, the Collateralized Debt Obligation (CDO) was designed to remove credit risk for the investor in pools of subprime mortgages. Once again, this was done by creating good tranches, in this case with little or no credit risk, balanced by higher-yielding bad tranches, which were designed to take most or all of the credit risk. While the good tranches had AAA ratings from the credit agencies, there was a fatal flaw in the design: the assumptions and models used to quantify the potential default of subprime mortgages grossly underestimated the actual rate. The result was that the bad tranches were quickly wiped out as mortgages defaulted and suddenly the AAA-rated tranches were experiencing losses that were never anticipated.

CDS

Just as most people purchase insurance to protect against an untimely event beyond their control such as a home fire, auto accident or early death, investors can purchase insurance against the credit default of a borrower: the

Credit Default Swap (CDS). Like a typical insurance policy, regular payments are made by the policy owner for the term of the policy or until a specified event occurs: with a CDS this is typically a loan or bond default or a declaration of bankruptcy. If that event occurs, an agreed-upon sum is paid to the policy owner. In good economic times, the perceived potential for default or bankruptcy was low, so banks and insurance companies were willing to write a CDS for a relatively low premium, thinking it would be easy income with little risk. In the past two years, however, that has not been the case, and the amount of CDS payouts have crippled many underwriters, such as the insurance giant AIG. And to make matters worse, a CDS could be written for speculative purposes, betting against a company even if one had no financial interest in it.

Mark-to-Market

For decades, companies have accounted for their assets using historical cost – the actual price paid for an asset, less any accumulated depreciation. Since the early 1990s, however, the Securities and Exchange Commission and the Financial Accounting Standards Board (which establishes the accounting rules in the United States), have pushed to change from historical cost accounting to Mark-to-Market or fair value accounting. While this has been touted as in the best interest of the investor, it may not always be the case. For example, when markets seize up and no one is willing to buy anything at any price, as they did in the third and fourth quarters of 2008, what is the true value of an asset? In this case, fair value accounting can mislead the investor about the true value of a company, since the asset would be priced at its liquidation value at that moment in time, not at its true value assuming the company has the ability to ride out current economic problems and await the market's rebound.

Impairment

A component of fair value accounting is Impairment – a charge against current earnings to write down an asset to its current fair value. For banks, this is typically seen in the investment portfolio when the partial or full repayment of a security is uncertain, resulting in the security being classified as "other-than-temporarily-impaired." When this occurs, the difference between the carrying value and fair value of the security is recorded in the company's statement of income.

> We have never originated subprime mortgages and none of the securities we own have subprime mortgages as their underlying collateral.

The Situation Today

While it has taken nearly forty years, what started as a way to expand home ownership and allow more people to live the American dream is now on a much different path. As the economy weakened, people became more conservative and began spending less. This, in turn, led to fewer jobs and more foreclosures. With less demand and more houses for sale, home prices suddenly began to fall after rising for so long. At this point in the cycle, borrowers with subprime mortgages had loans that were repricing upward and they were unable to sell their homes or refinance their loans, which put them in default. Investors then saw huge losses on securities that were supposedly of the highest quality, which ultimately led to the writedown of billions and billions of dollars by large banks and brokerage firms holding the CDOs collateralized by subprime mortgages.

How This Affects The First

The First Bancorp has always operated on Main Street, not Wall Street. We maintain a conservative credit culture with high underwriting standards, which is why we have never originated any subprime mortgages. This culture extends to the investment portfolio as well, where none of the securities we own have subprime mortgages as their underlying collateral. Our securities available for sale portfolio carries all investments at fair value, and as of December 31, 2008, none of our investment securities were classified as other-than-temporarily impaired. While staying with our principles may have seemed overly conservative to some in the past, today it is obvious that it was the best course to have taken. ▪

Message From the Chief Financial Officer

Dear Shareholder:

It is certainly a challenging time for the banking industry and we have devoted much of this year's annual report to help you better understand what has led to the current economic situation and how The First Bancorp is navigating through it. In 2008, our record earnings were driven by excellent growth in earning assets, wider margins due to declining rates, controlled operating expenses and a strong focus on asset quality.

The Importance of Capital

The basic business of banking is pretty simple – we bring in money from deposits and other borrowings (our liabilities) and then lend it or invest it (our assets). There is a third section of the balance sheet however: shareholders' equity or the bank's own stake in the game. In order for a bank to remain in business, shareholders' equity or bank capital must be a minimum percentage of assets to be considered "well-capitalized" by the FDIC.

Since some assets on a bank's balance sheet have more risk than others, capital ratios are calculated in two ways: with total assets as shown and then after adjusting these assets for credit risk. To calculate "risk-weighted assets," U.S. Treasury securities are weighted at 0% of their carrying value, Government Agency securities at 10%, municipal securities at 20%, residential mortgages at 50% and all other loans at 100%. Risk-weighted assets are typically quite lower than total assets at most banks. For The First Bancorp, as of December 31, 2008 our total assets were $1.325 billion while our risk-weighted assets were only $877.7 million.

In challenging times such as these, having ample capital is critical and enables a bank to better ride out the economic storm.

There are three capital ratios used by the banking regulators. The first is total capital (after adjusting for intangibles) as a percentage of average assets for the quarter, which is known as leverage capital. The second is total capital as a percentage of risk-weighted assets, or tier-1 risk-based capital. The third is total capital plus the allowance for loan losses as a percentage of risk-weighted assets, which is known as total risk-based capital. To be considered well-capitalized, a bank's leverage capital must be at least 5.0%, tier-1 risk-based capital at least 6.0%, and total risk-based capital at least 10.0%. As of December 31, 2008, the Company's actual ratios were 7.07%, 10.11% and 11.13%, respectively.

How does a bank add to its capital? Retained earnings is the most common way, however a bank can also issue new stock to increase capital levels. And what reduces capital? Dividends are the most common use of capital, and a bank can also use capital to repurchase its own stock. But in the same way that earnings add to capital, losses reduce bank capital – which is the reason regulators require a bank to have a minimum ratio of capital to its assets. This is the buffer that allows a bank to absorb losses while depositors' dollars remain safe.

In challenging times such as these, having ample capital is critical and enables a bank to better ride out the economic storm. But banking regulators look at more than the ratio of bank capital to assets – they also evaluate the level of problem loans to bank capital. If this ratio rises above 50% of bank capital, the regulators may step in and push a bank to reduce its level of problem loans. This can be done in two ways – by encouraging the borrower to refinance elsewhere or sometimes to foreclose on the loan, which happened frequently in the early 1990s. It is one of the factors which made that economic recession even worse.

Although The First Bancorp comfortably met the well-capitalized threshold of 10.0% of risk-weighted assets as of December 31, 2008, the Board and Management felt that carrying additional bank capital would be prudent given current economic conditions. This was the primary reason for choosing to participate in the Capital Purchase Program, under which we received a $25 million preferred stock investment from the U.S. Treasury. Based upon our December 31, 2008 assets, leverage capital increased from 7.07% to 9.06% after the preferred stock investment, tier-1 risk-based capital went from 10.11% to 12.96%, and total-risked-based capital increased from 11.13% to 13.97%.

The challenge we face is determining

The Capital Purchase Program has, unfortunately, been incorrectly maligned by the media. It is not a bailout, and it has been structured to make money for the U.S. taxpayer, not to cost the taxpayer. More importantly, though, it is intended to strengthen the capital position of the banks and stimulate the flow of funding to the banking system, which is expected, in turn, to increase the level of bank lending.

The table below shows the composition of the investment portfolio at December 31, 2008. All of the mortgage-backed securities in the portfolio were issued by either Fannie Mae, Freddie Mac, or Ginnie Mae and we had no collateralized debt obligations secured by subprime mortgages – the toxic securities which were a prime contributor to the current economic situation. Corporate debt securities rated below investment grade totaled $2.4 million and had an estimated fair value of $1.4 million. Management has evaluated these securities for other-than temporary impairment, and in the Company's opinion, none of these holdings warranted other-than-temporary classification as of December 31, 2008. Management considered several factors in making this determination, including:

- All three companies were current on their interest payments to bondholders.
- The securities are issued by auto-related companies. The U.S. Government and President Obama have publicly stated the importance of helping the U.S. auto industry and preserving jobs.
- The Company has both the intent and the ability to continue to hold these securities.
- The securities are in the available-for-sale portfolio, and the decline in market value is recognized on the Company's balance sheets as an unrealized loss to equity in accordance with SFAS 115.

The First's investment portfolio as of December 31, 2008

U.S. Treasury and agency	$110,513,000	42.1%
Mortgage-backed securities	61,696,000	23.5%
State and municipal	71,240,000	27.1%
Corporate securities	4,127,000	1.6%
FHLB stock	14,031,000	5.3%
FRB stock	662,000	0.3%
Other equity securities	263,000	0.1%
Total	**$262,532,000**	**100.0%**

Our Investment Portfolio

During 2008, the Company increased its investment portfolio by $40.7 million or 18.4% and also saw interest income from investments increase by $2.2 million or 19.3%. We have always sought to minimize the amount of credit risk in the portfolio, and during the fourth quarter we reduced the level of corporate securities by $10.7 million. It has been our long-standing position that the predominant risk we take in the investment portfolio is interest rate risk, not credit risk, and paring back the level of holdings of corporate debt securities is consistent with that view.

the opportune time to extend liabilities.

Liquidity Management

Unlike most other businesses, a bank does not manage cash flow. Why? Because cash is the raw material which a bank turns into its product – either loans or investments. Instead, a bank needs to manage its liquidity or its access to sources of funding, since almost all of the money it lends or invests come from deposits or borrowed funds, not from bank capital or shareholders' equity.

The key to liquidity management at a bank is to have multiple sources to go to. While local deposits are our largest single source of funding, it is difficult to raise a significant amount of local deposits in a short period of time. As a result, The First Bancorp uses a liability-based approach to liquidity management and has a variety of wholesale or non-local funding sources which it can tap quickly and easily. These include the Federal Home Loan Bank of Boston, repurchase agreements with brokerage firms, lines of credit from two correspondent banks and non-local certificates of deposit from brokers and online networks. Management evaluates our liquidity position on a daily basis and is prepared to move from one source to another based on available pricing and overall liquidity needs.

One of the major reasons that the financial markets came close to seizing up in September was liquidity – or lack thereof. With huge uncertainty about what a bank might have on its balance sheet, other banks became extremely cautious about which banks they would loan money to and for how much or for how long. Access to this short-term liquidity is the lifeblood of the global financial system, and when these funds stopped flowing, the financial crisis deepened quickly.

Since the middle of 2008 we have strengthened our liquidity position, and as of December 31, 2008, the Bank had primary sources of liquidity of $188.4 million, or 14.5% of its assets compared to $84.5 million, or 7.07% of its assets as of December 31, 2007. In Management's view, this is adequate and can meet the growth and liquidity needs of the Bank.

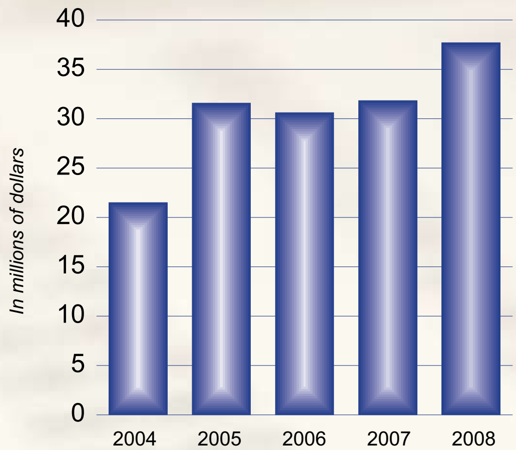
Managing Interest Rate Risk

The increase in earnings in 2008 was a direct result of the $5.9 million or 18.4% increase in net interest income over 2007. While this was partly attributable to growth in earning assets, a greatly improved net interest margin was also a major contributor to this increase.

The management of interest rate risk is the major factor in a bank's net interest margin – the spread earned between the income on loans and investments and the cost of deposits and borrowings, expressed as a percentage of average earning assets. With a balance sheet made up of tens of

Given our strong capital position, conservative credit culture, ample liquidity, and limited interest rate risk, we feel we are in a much better position to weather this economic storm than many other banks.

Net Interest Income



thousands of accounts with various maturities or repricing at different intervals, when interest rates change, not everything changes at the same time or by the same amount. This can lead to the net interest margin widening or contracting.

The First Bancorp started 2008 with a liability-sensitive balance sheet. This means that we had more liabilities repricing in the short-term than assets, which is a good position to be in with a declining rate environment. The 3.25% drop in prime rate and the Fed Funds target rate during the year led to our margin increasing from 3.13% in 2007 to 3.33% in 2008.

Management's goal in managing the balance sheet is to have a modest level of interest rate risk at most. Given that interest rates are now at unprecedented lows, our objective is to reduce liability sensitivity so that liabilities reprice less quickly. The preferred way to do this is by extending the maturity of liabilities, however this comes at a cost since longer liabilities typically have a higher rate of interest. The challenge we face is determining the opportune time to extend liabilities – before rates begin to increase but not too soon should rates remain flat for an extended period.

As President Daigneault noted in his letter, we expect 2009 to be a challenging year for the banking industry. Given our strong capital position, conservative credit culture, ample liquidity, and limited interest rate risk, we feel that The First Bancorp is in a much better position to weather this economic storm than many other banks – especially the large money center banks and the super-regionals. We are a true community bank and have stayed true to our focus of serving our customers and communities. This has served us very well in the past, and I am confident that this approach will continue to serve us well in the future.

F. Stephen Ward
Executive Vice President & Chief Financial Officer

Selected Financial Data

The First Bancorp, Inc. and Subsidiary

Dollars in thousands, except for per share amounts	**2008**	2007	2006	2005	2004
	Years ended December 31,				
Summary of Operations					
Interest Income	**$ 71,372**	$ 71,721	$ 64,204	$ 50,431	$ 30,528
Interest Expense	**33,669**	39,885	33,589	18,848	9,024
Net Interest Income	**37,703**	31,836	30,615	31,583	21,504
Provision for Loan Losses	**4,700**	1,432	1,325	200	880
Non-Interest Income	**9,646**	10,145	10,306	9,034	4,667
Non-Interest Expense	**22,994**	22,183	22,439	22,518	13,371
Net Income	**14,034**	13,101	12,295	12,843	8,509
Per Common Share Data					
Net Income					
Basic	**$ 1.45**	$ 1.34	$ 1.25	$ 1.32	$ 1.16
Diluted	**1.44**	1.34	1.25	1.30	1.14
Cash Dividends (Declared)	**0.765**	0.69	0.61	0.53	0.45
Book Value	**12.09**	11.58	10.98	10.52	7.18
Market Value	**19.89**	14.64	16.72	17.58	17.45
Financial Ratios					
Return on Average Equity	**12.02%**	11.89%	11.63%	12.98%	17.10%
Return on Average Tangible Equity	**15.75**	15.89	15.75	17.81	17.36
Return on Average Assets	**1.10**	1.13	1.14	1.36	1.41
Average Equity to Average Assets	**9.14**	9.53	9.81	10.44	8.22
Average Tangible Equity to Average Assets	**6.98**	7.13	7.24	7.61	8.27
Net Interest Margin (Tax-Equivalent)	**3.33**	3.13	3.24	3.84	3.94
Dividend Payout Ratio (Declared)	**52.76**	51.49	48.80	40.15	38.62
Allowance for Loan Losses/Total Loans	**0.90**	0.74	0.76	0.79	0.99
Non-Performing Loans to Total Loans	**1.27**	0.31	0.42	0.40	0.34
Non-Performing Assets to Total Assets	**1.31**	0.56	0.32	0.30	0.25
Efficiency Ratio (Tax-equivalent)	**46.07**	50.16	52.12	52.89	48.78
At Year End					
Total Assets	**$1,325,744**	$1,223,250	$1,104,869	$1,042,209	$ 634,238
Total Loans	**979,273**	920,164	838,145	772,338	478,332
Total Investment Securities	**262,532**	221,815	180,549	183,981	126,827
Total Deposits	**925,736**	781,280	805,235	713,964	369,844
Total Borrowings	**272,074**	316,719	179,862	215,189	207,206
Total Shareholders' Equity	**117,181**	$112,453	$ 107,327	$ 103,452	$ 52,815
				High	Low
Market price per common share of stock during 2008				$23.05	$12.84

Consolidated Balance Sheets

The First Bancorp, Inc. and Subsidiary

As of December 31,	2008	2007 (restated for change in accounting principle)
Assets		
Cash and cash equivalents	**$ 16,856,000**	$ 17,254,000
Securities available for sale	**27,765,000**	40,461,000
Securities to be held to maturity, fair value of $229,460,000 at December 31, 2008, and $181,132,000 at December 31, 2007	**234,767,000**	181,354,000
Loans held for sale	**1,298,000**	1,817,000
Loans	**979,273,000**	920,164,000
Less allowance for loan losses	**8,800,000**	6,800,000
Net loans	**970,473,000**	913,364,000
Accrued interest receivable	**5,783,000**	6,585,000
Premises and equipment, net	**16,028,000**	16,481,000
Other real estate owned	**2,428,000**	827,000
Goodwill	**27,684,000**	27,684,000
Other assets	**22,662,000**	17,423,000
Total assets	**$1,325,744,000**	$ 1,223,250,000
Liabilities		
Demand deposits	**$ 68,399,000**	$ 60,637,000
NOW deposits	**108,188,000**	101,680,000
Money market deposits	**129,333,000**	124,033,000
Savings deposits	**82,867,000**	86,611,000
Certificates of deposit under $100,000	**246,152,000**	301,364,000
Certificates of deposit $100,000 or more	**290,797,000**	106,955,000
Total deposits	**925,736,000**	781,280,000
Borrowed funds	**272,074,000**	316,719,000
Other liabilities	**10,753,000**	12,798,000
Total liabilities	**1,208,563,000**	1,110,797,000
Commitments and contingent liabilities (notes 13, 15, 19 and 20)		
Shareholders' equity		
Common stock, one cent par value	**97,000**	97,000
Additional paid-in capital	**44,117,000**	44,762,000
Retained earnings	**74,057,000**	67,432,000
Accumulated other comprehensive (loss) income		
Net unrealized (loss) gain on securities available for sale, net of tax benefit of $441,000 in 2008 and net of tax of $234,000 in 2007	**(819,000)**	436,000
Net unrealized loss on post-retirement benefit costs, net of tax benefit of $146,000 in 2008 and $147,000 in 2007	**(271,000)**	(274,000)
Total shareholders' equity	**117,181,000**	112,453,000
Total liabilities and shareholders' equity	**$ 1,325,744,000**	$ 1,223,250,000
Common stock		
Number of shares authorized	**18,000,000**	18,000,000
Number of shares issued	**9,696,397**	9,732,493
Number of shares outstanding	**9,696,397**	9,732,493
Book value per share	**$12.09**	$11.58

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

Consolidated Statements of Income

The First Bancorp, Inc. and Subsidiary

Years ended December 31,	**2008**	2007	2006
Interest and dividend income			
Interest and fees on loans (includes tax-exempt income of $1,245,000 in 2008, $1,179,000 in 2007, and $975,000 in 2006)	**$58,079,000**	$60,585,000	$54,585,000
Interest on deposits with other banks	**3,000**	-	64,000
Interest and dividends on investments (includes tax-exempt income of $2,820,000 in 2008, $2,685,000 in 2007, and $2,703,000 in 2006)	**13,290,000**	11,136,000	9,555,000
Total interest and dividend income	**71,372,000**	71,721,000	64,204,000
Interest expense			
Interest on deposits	**23,000,000**	29,745,000	25,804,000
Interest on borrowed funds	**10,669,000**	10,140,000	7,785,000
Total interest expense	**33,669,000**	39,885,000	33,589,000
Net interest income	**37,703,000**	31,836,000	30,615,000
Provision for loan losses	**4,700,000**	1,432,000	1,325,000
Net interest income after provision for loan losses	**33,003,000**	30,404,000	29,290,000
Non-interest income			
Fiduciary and investment management income	**1,475,000**	1,737,000	1,951,000
Service charges on deposit accounts	**2,837,000**	2,740,000	2,752,000
Net securities gains	**-**	2,000	18,000
Mortgage origination and servicing income	**145,000**	589,000	503,000
Other operating income	**5,189,000**	5,077,000	5,082,000
Total non-interest income	**9,646,000**	10,145,000	10,306,000
Non-interest expense			
Salaries and employee benefits	**11,333,000**	11,037,000	10,826,000
Occupancy expense	**1,518,000**	1,438,000	1,421,000
Furniture and equipment expense	**2,005,000**	1,944,000	2,124,000
Net securities losses	**89,000**	-	-
Amortization of core deposit intangible	**283,000**	283,000	283,000
Other operating expenses	**7,766,000**	7,481,000	7,785,000
Total non-interest expense	**22,994,000**	22,183,000	22,439,000
Income before income taxes	**19,655,000**	18,366,000	17,157,000
Income tax expense	**5,621,000**	5,265,000	4,862,000
Net income	**$ 14,034,000**	$13,101,000	$12,295,000
Earnings per common share			
Basic earnings per share	**$ 1.45**	$ 1.34	$ 1.25
Diluted earnings per share	**1.44**	1.34	1.25
Cash dividends declared per share	**0.765**	0.690	0.610
Weighted average number of shares outstanding	**9,701,379**	9,787,287	9,816,307
Incremental shares	**18,952**	25,731	49,476

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

	Number of common shares outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at December 31, 2005	9,832,777	$ 99,000	$47,718,000	$54,901,000	$ 734,000	$103,452,000
Net income	-	-	-	12,295,000	-	12,295,000
Net unrealized loss on securities available for sale, net of tax benefit of $3,000	-	-	-	-	(38,000)	(38,000)
Initial application of Statement No. 158, net of tax benefit of $190,000	-	-	-	-	(352,000)	(352,000)
Comprehensive income	-	-	-	12,295,000	(390,000)	11,905,000
Cash dividends declared	-	-	-	(5,983,000)	-	(5,983,000)
Equity compensation expense	-	-	60,000	-	-	60,000
Payment to repurchase common stock	(179,176)	(1,000)	(3,051,000)	-	-	(3,052,000)
Proceeds from sale of common stock	117,191	-	860,000	-	-	860,000
Tax benefit of disqualifying disposition of stock option shares	-	-	-	85,000	-	85,000
Balance at December 31, 2006	9,770,792	98,000	45,587,000	61,298,000	344,000	107,327,000
Net income	-	-	-	13,101,000	-	13,101,000
Net unrealized loss on securities available for sale, net of tax benefit of $100,000	-	-	-	-	(260,000)	(260,000)
Unrecognized actuarial gain for post-retirement benefits, net of taxes of $42,000	-	-	-	-	78,000	78,000
Comprehensive income	-	-	-	13,101,000	(182,000)	12,919,000
Cash dividends declared	-	-	-	(6,752,000)	-	(6,752,000)
Equity compensation expense	-	-	59,000	-	-	59,000
Payment to repurchase common stock	(109,860)	(1,000)	(1,686,000)	-	-	(1,687,000)
Proceeds from sale of common stock	71,561	-	802,000	-	-	802,000
Balance at December 31, 2007 (as previously stated)	9,732,493	$ 97,000	$ 44,762,000	$67,647,000	$ 162,000	$112,668,000
Change in accounting for split dollar life insurance arrangements	-	-	-	(215,000)	-	(215,000)
Balance at December 31, 2007 (restated)	9,732,493	$ 97,000	$ 44,762,000	$67,432,000	$ 162,000	$112,453,000
Net income	-	-	-	14,034,000	-	14,034,000
Net unrealized loss on securities available for sale, net of tax benefit of $675,000	-	-	-	-	(1,255,000)	(1,255,000)
Unrecognized actuarial gain for post-retirement benefits, net of taxes of $1,000	-	-	-	-	3,000	3,000
Comprehensive income	-	-	-	14,034,000	(1,252,000)	12,782,000
Cash dividends declared	-	-	-	(7,416,000)	-	(7,416,000)
Equity compensation expense	-	-	37,000	-	-	37,000
Payment to repurchase common stock	(88,764)	-	(1,414,000)	-	-	(1,414,000)
Proceeds from sale of common stock	52,668	-	732,000	-	-	732,000
Tax benefit of disqualifying disposition of stock option shares	-	-	-	7,000	-	7,000
Balance at December 31, 2008	**9,696,397**	**$ 97,000**	**$ 44,117,000**	**$74,057,000**	**$ (1,090,000)**	**$117,181,000**

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

<u>Consolidated Statements of Cash Flows</u>

The First Bancorp, Inc. and Subsidiary

For the years ended December 31,	**2008**	2007	2006
Cash flows from operating activities			
Net income	**$14,034,000**	$13,101,000	$12,295,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**1,232,000**	1,224,000	1,400,000
Change in deferred income taxes	**(1,039,000)**	(464,000)	(424,000)
Provision for loan losses	**4,700,000**	1,432,000	1,325,000
Loans originated for resale	**(19,199,000)**	(24,081,000)	(17,435,000)
Proceeds from sales of loans	**19,718,000**	22,724,000	16,975,000
Net (gain) loss on sale of other real estate owned	**-**	20,000	(10,000)
Net (gain) loss on sale of premises and equipment	**17,000**	(34,000)	-
Equity compensation expense	**37,000**	59,000	60,000
Net (gain) loss on sale or call of securities	**89,000**	(2,000)	(18,000)
Net change in other assets and accrued interest receivable	**(1,627,000)**	(926,000)	(1,444,000)
Net change in other liabilities	**(1,933,000)**	486,000	2,542,000
Amortization of investment in limited partnership	**84,000**	-	-
Net accretion of discounts on investments	**(5,475,000)**	(2,996,000)	(253,000)
Net acquisition amortization	**239,000**	228,000	252,000
Provision for losses on other real estate owned	**-**	56,000	269,000
Net cash provided by operating activities	**10,877,000**	10,827,000	15,534,000
Cash flows from investing activities			
Proceeds from sales of securities available for sale	**14,192,000**	179,000	218,000
Proceeds from maturities, payments, calls of securities available for sale	**3,551,000**	8,883,000	9,801,000
Proceeds from maturities, payments, calls of securities held to maturity	**106,450,000**	90,261,000	20,040,000
Proceeds from sales of other real estate owned	**-**	978,000	561,000
Purchases of securities available for sale	**(6,836,000)**	(4,983,000)	(58,000)
Investment in limited partnership	**(1,700,000)**	-	-
Purchases of securities to be held to maturity	**(154,618,000)**	(133,008,000)	(26,339,000)
Net increase in loans	**(63,410,000)**	(83,804,000)	(68,961,000)
Capital expenditures	**(796,000)**	(2,108,000)	(872,000)
Proceeds from sale of premises and equipment	**-**	282,000	339,000
Net cash used in investing activities	**(103,167,000)**	(123,320,000)	(65,271,000)
Cash flows from financing activities			
Net increase (decrease) in transaction and savings accounts	**15,826,000**	(24,102,000)	(11,415,000)
Net increase in certificates of deposit	**128,651,000**	231,000	102,837,000
Advances on long-term borrowings	**50,000,000**	100,000,000	30,000,000
Repayments on long-term borrowings	**-**	(62,000,000)	-
Net increase (decrease) in short-term borrowings	**(94,622,000)**	98,880,000	(65,304,000)
Payments to repurchase common stock	**(1,414,000)**	(1,687,000)	(3,052,000)
Proceeds from sale of common stock	**732,000**	802,000	860,000
Dividends paid	**(7,281,000)**	(6,565,000)	(5,983,000)
Net cash provided by financing activities	**91,892,000**	105,559,000	47,943,000
Net decrease in cash and cash equivalents	**(398,000)**	(6,934,000)	(1,794,000)
Cash and cash equivalents at beginning of year	**17,254,000**	24,188,000	25,982,000
Cash and cash equivalents at end of year	**$16,856,000**	$17,254,000	$24,188,000
Interest paid	**$34,558,000**	$39,265,000	$32,934,000
Income taxes paid	**7,111,000**	5,919,000	4,443,000
Non-cash transactions:			
Transfer from loans to other real estate owned	**1,601,000**	737,000	1,964,000
Net decrease in unrealized gain on securities available for sale	**1,930,000**	360,000	41,000

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, The First, N.A. ("the Bank"), provides a full range of banking services to individual and corporate customers from fourteen offices in coastal Maine. First Advisors, a division of the Bank, provides investment management, private banking and financial planning services. At the Company's Annual Meeting of Shareholders on April 30, 2008, the Company's name was changed to The First Bancorp, Inc. from First National Lincoln Corporation.

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.

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, 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, the valuation of mortgage servicing rights, and goodwill.

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. 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. 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 security.

Loans Held for Sale

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

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 adequate 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. Loans more than 30 days past due are considered delinquent. Impaired loans, including restructured 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.

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 is amortized on a straight-line basis over ten years. Amortization expense for 2008, 2007 and 2006 was $283,000 and the amortization expense for each year until fully amortized will be $283,000. 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 on the basis of whether these assets are fully recoverable from projected, undiscounted net cash flows of the acquired company. At December 31, 2008, 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period the change is enacted.

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

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

Other Real Estate Owned (OREO)
Real estate acquired by foreclosure or deed in lieu of foreclosure is transferred to OREO and recorded at the lower of cost or fair market 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 specific property basis.

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

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

Comprehensive Income
Comprehensive income 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, and unrealized gains and (loss) related to post-retirement benefit costs, net of tax, is disclosed in the consolidated statements of changes in shareholders' equity.

Segments
The First Bancorp, Inc., through the branches of its subsidiary, The First, N.A., provides a broad range of financial services to individuals and companies in coastal Maine. These services include demand, time, and savings deposits; lending; credit card servicing; 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.

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.

Stock Options
The Company established a shareholder-approved stock option plan in 1995, under which the Company may grant options to its employees for up to 600,000 shares of common stock. The Company believes that such awards align the interests of its employees with those of its shareholders. Only incentive stock options may be granted under the plan. The exercise price of each option grant is determined by the Options Committee of the Board of Directors, and in no instance shall be less than the fair market value on the date of the grant. An option's maximum term is ten years from the date of grant, with 50% of the options granted vesting two years from the date of grant and the remaining 50% vesting five years from date of grant. As of January 16, 2005, all options under this plan had been granted.

The Company applies the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payment", to stock-based employee compensation for fiscal years beginning on or after January 1, 2006. As a result, $37,000, $59,000 and $60,000 in compensation cost was included in the Company's financial statements for 2008, 2007 and 2006, respectively. The unrecognized compensation cost to be amortized over a weighted average remaining vesting period of 2.0 years is $74,000 for 21,000 options granted in 2005.

The weighted average fair market value per share was $4.41 for options granted in 2005. The fair market value was estimated using the Black-Scholes option pricing model and the following assumptions: quarterly dividends of $0.12, risk-free interest rate of 4.20%, volatility of 25.81%, and an expected life of ten years. Volatility is based on the actual volatility of the Company's stock during the quarter in which the options were granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of the option grant.

The following table summarizes the status of the Company's non-vested options as of December 31, 2008.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2007	21,000	$4.41
Granted in 2008	-	-
Vested in 2008	-	-
Forfeited in 2008	-	-
Non-vested at December 31, 2008	21,000	$4.41

During 2008, 13,000 options were exercised, with total proceeds paid to the Company of $84,000. The excess of the fair value of the stock issued upon exercise over the exercise price was $115,000. A summary of the status of the Company's Stock Option Plan as of December 31, 2008, and changes during the year then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2007	89,500	$ 12.28		
Granted in 2008	-	-		
Vested in 2008	-	-		
Exercised in 2008	(13,000)	6.43		
Forfeited in 2008	-	-		
Outstanding at December 31, 2008	76,500	$ 13.27	4.1	$ 506,000
Exercisable at December 31, 2008	55,500	$ 11.49	3.4	$ 466,000

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, 2008 the Company had a contractual clearing balance of $500,000 and a reserve balance requirement of $706,000 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, 2008 and 2007:

As of December 31, 2008	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$ 900,000	$ 22,000	$ -	$ 922,000
State and political subdivisions	8,571,000	339,000	-	8,910,000
Corporate securities	4,566,000	-	(1,589,000)	2,977,000
Federal Home Loan Bank stock	14,031,000	-	-	14,031,000
Federal Reserve Bank stock	662,000	-	-	662,000
Other equity securities	295,000	2,000	(34,000)	263,000
	$ 29,025,000	$ 363,000	$(1,623,000)	$ 27,765,000
Securities to be held to maturity				
U.S. Treasury and agency	$110,513,000	$ 74,000	$(5,871,000)	$104,716,000
Mortgage-backed securities	60,774,000	640,000	(297,000)	61,117,000
State and political subdivisions	62,330,000	952,000	(684,000)	62,598,000
Corporate securities	1,150,000	-	(121,000)	1,029,000
	$234,767,000	$1,666,000	$(6,973,000)	$229,460,000

As of December 31, 2007	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value (Estimated)
Securities available for sale				
Mortgage-backed securities	$ 1,309,000	$ 40,000	$ (27,000)	$ 1,322,000
State and political subdivisions	10,524,000	331,000	-	10,855,000
Corporate securities	14,393,000	638,000	(304,000)	14,727,000
Federal Home Loan Bank stock	12,569,000	-	-	12,569,000
Federal Reserve Bank stock	662,000	-	-	662,000
Other equity securities	334,000	5,000	(13,000)	326,000
	$ 39,791,000	$ 1,014,000	$ (344,000)	$ 40,461,000
Securities to be held to maturity				
U.S. Treasury and agency	$ 95,009,000	$ 189,000	$ (935,000)	$ 94,263,000
Mortgage-backed securities	30,786,000	219,000	(354,000)	30,651,000
State and political subdivisions	53,914,000	731,000	(81,000)	54,564,000
Corporate securities	1,645,000	9,000	-	1,654,000
	$ 181,354,000	$ 1,148,000	$ (1,370,000)	$ 181,132,000

The following table summarizes the contractual maturities of investment securities at December 31, 2008:

	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	$ 1,063,000	$ 935,000	$ 935,000	$ 936,000
Due in 1 to 5 years	5,251,000	4,408,000	7,210,000	7,369,000
Due in 5 to 10 years	5,935,000	6,162,000	21,856,000	22,199,000
Due after 10 years	1,788,000	1,304,000	204,766,000	198,956,000
Equity securities	14,988,000	14,956,000	-	-
	$29,025,000	$27,765,000	$234,767,000	$229,460,000

At December 31, 2008, securities with a fair value of $153,560,000 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 $139,108,000, as of December 31, 2007 pledged for the same purpose.

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 2008, 2007 and 2006:

	2008	2007	2006
Proceeds from sales	**$14,192,000**	$179,000	$218,000
Gross gains	**$ 123,000**	$ 2,000	$ 18,000
Gross losses	**(212,000)**	-	-
Net gain (loss)	**$ (89,000)**	$ 2,000	$ 18,000
Related income taxes	**$ (31,000)**	$ 1,000	$ 6,000

Management reviews securities with unrealized losses for other than temporary impairment. Federal Home Loan Bank stock and Federal Reserve Bank stock have been evaluated for impairment. As of December 31, 2008, there were 97 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 market value, of which 29 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. Information regarding securities temporarily impaired as of December 31, 2008 is summarized below:

	Less than 12 months		12 months or more		Total	
As of December 31, 2008	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency	$64,951,000	$(4,610,000)	$10,043,000	$(1,261,000)	$74,994,000	$(5,871,000)
Mortgage-backed securities	12,498,000	(110,000)	3,534,000	(187,000)	16,032,000	(297,000)
State and political subdivisions	13,592,000	(573,000)	2,165,000	(111,000)	15,757,000	(684,000)
Corporate securities	1,821,000	(187,000)	1,709,000	(1,523,000)	3,530,000	(1,710,000)
Other equity securities	-	-	32,000	(34,000)	32,000	(34,000)
	$92,862,000	$(5,480,000)	$17,483,000	$(3,116,000)	$110,345,000	$(8,596,000)

As of December 31, 2007, there were 74 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 market value, of which 50 had been temporarily impaired for 12 months or more. Information regarding securities temporarily impaired as of December 31, 2007 is summarized below:

As of December 31, 2007	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury and agency	$ 37,356,000	$ (719,000)	$ 13,575,000	$ (216,000)	$ 50,931,000	$ (935,000)
Mortgage-backed securities	-	-	17,844,000	(381,000)	17,844,000	(381,000)
State and political subdivisions	1,658,000	(21,000)	2,559,000	(60,000)	4,217,000	(81,000)
Corporate securities	2,529,000	(182,000)	930,000	(122,000)	3,459,000	(304,000)
Other equity securities	11,000	-	65,000	(13,000)	76,000	(13,000)
	$ 41,554,000	$ (922,000)	$ 34,973,000	$ (792,000)	$ 76,527,000	$ (1,714,000)

Note 4. Loan Servicing

At December 31, 2008 and 2007, the Bank serviced loans for others totaling $168,242,000 and $168,001,000, respectively. Net gains from the sale of loans totaled $249,000 in 2008, $333,000 in 2007, and $222,000 in 2006.

In 2008, mortgage servicing rights of $201,000 were capitalized or acquired, and amortization for the year totaled $366,000. After deducting for an impairment reserve of $368,000 at December 31, 2008, mortgage servicing rights had a fair value of $311,000, which is included in other assets. In 2007, mortgage servicing rights of $325,000 were capitalized or acquired, and amortization for the year totaled $471,000. After deducting for an impairment reserve of $11,000 at December 31, 2007, mortgage servicing rights had a fair value of $832,000, which is included in other assets.

SFAS No. 156, “Accounting for Servicing of Financial Assets”, 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 is 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, 2008, the prepayment assumption using the PSA model was 549, which translates into an anticipated prepayment rate of 32.95%. The discount rate is the quarterly average ten-year U.S. Treasuries plus 9.42%. 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.

Note 5 – Derivative Financial Instruments

During 2007, the Bank purchased an interest rate protection agreement (cap) as a cash flow hedge to eliminate the cash flow exposure of interest rate movements on money-market deposits. The premium paid for the cap is amortized over its life. Any cash payments received are recorded as an adjustment to net interest income. The Bank documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge. The cap is designated and qualifies as a cash flow hedge, and thus is recorded at fair value. SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, provides that a cash flow hedge is effective to the extent the variability in its cash flows offsets the variability in the cash flows of the hedged item, in this case the increase in cost of money market deposits. Management has determined that the hedge relationship is 100 percent effective. The amortized cost of the cap was $24,000 and $51,000 at December 31, 2008 and 2007, respectively, and is recorded on the balance sheet. This approximates the fair value of the derivative, and as a result, no unrealized gain or loss, net of applicable income taxes, is recorded in other comprehensive loss in the statement of changes in shareholders’ equity for the year ended December 31, 2008 and 2007.

Note 6. Loans

The following table shows the composition of the Company’s loan portfolio as of December 31, 2008 and 2007:

As of December 31,	**2008**	2007
Real estate loans		
Residential	**$ 455,753,000**	$ 442,407,000
Commercial	**172,492,000**	119,675,000
Commercial and industrial loans	**245,224,000**	251,489,000
State and municipal loans	**36,279,000**	34,785,000
Consumer loans	**67,642,000**	66,539,000
Residential construction loans	**1,883,000**	5,269,000
Total loans	**$ 979,273,000**	$ 920,164,000

Loan balances include net deferred loan costs of $1,369,000 in 2008 and $1,303,000 in 2007. Pursuant to collateral agreements, qualifying first mortgage loans, which were valued at $356,964,000 and $349,797,000 in 2008 and 2007, respectively, were used to collateralize borrowings from the Federal Home Loan Bank of Boston.

At December 31, 2008 and 2007, loans on non-accrual status totaled $12,449,000 and $2,867,000, respectively. As of December 31, 2008, 2007 and 2006, interest income which would have been recognized on these loans, if interest had been accrued, was $489,000, $283,000, and $396,000, respectively. Loans past due greater than 90 days which are accruing interest totaled $4,980,000 at December 31, 2008 and $2,287,000 at December 31, 2007. The Company continues to accrue interest on these loans because it believes collection of principal and interest is reasonably assured.

Transactions in the allowance for loan losses for the years ended December 31, 2008, 2007 and 2006 were as follows:

For the years ended December 31,	**2008**	2007	2006
Balance at beginning of year	**$ 6,800,000**	$ 6,364,000	$ 6,086,000
Provision charged to operating expenses	**4,700,000**	1,432,000	1,325,000
	11,500,000	7,796,000	7,411,000
Loans charged off	**(2,941,000)**	(1,337,000)	(1,313,000)
Recoveries on loans	**241,000**	341,000	266,000
Net loans charged off	**(2,700,000)**	(996,000)	(1,047,000)
Balance at end of year	**$ 8,800,000**	$ 6,800,000	$ 6,364,000

Information regarding impaired loans is as follows:

As of December 31,	**2008**	2007	2006
Average investment in impaired loans	**$ 6,199,000**	$ 2,427,000	$ 3,391,000
Interest income recognized on impaired loans, all on cash basis	**24,000**	163,000	99,000

As of December 31,	**2008**	2007
Balance of impaired loans	**$ 12,449,000**	$ 2,867,000
Less portion for which no allowance for loan losses is allocated	**(4,805,000)**	(1,589,000)
Portion of impaired loan balance for which an allowance for loan losses is allocated	**$ 7,644,000**	$ 1,278,000
Portion of allowance for loan losses allocated to the impaired loan balance	**$ 1,957,000**	$ 560,000

Loans to directors, officers and employees totaled $37,876,000 at December 31, 2008 and $34,510,000 at December 31, 2007. A summary of loans to directors and executive officers, which in the aggregate exceed $60,000, is as follows:

For the years ended December 31,	**2008**	2007
Balance at beginning of year	**$ 20,886,000**	$ 18,695,000
New loans	**12,245,000**	10,021,000
Repayments	**(9,235,000)**	(7,830,000)
Balance at end of year	**$ 23,896,000**	$ 20,886,000

Note 7. Premises and Equipment

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

As of December 31,	**2008**	2007
Land	**$ 3,556,000**	$ 3,837,000
Land improvements	**636,000**	602,000
Buildings	**13,788,000**	13,115,000
Equipment	**6,348,000**	6,082,000
	24,328,000	23,636,000
Less accumulated depreciation	**8,300,000**	7,155,000
	$ 16,028,000	$ 16,481,000

Note 8. Other Real Estate Owned

The following summarizes other real estate owned:

As of December 31,	**2008**	2007
Real estate acquired in settlement of loans	**$ 2,428,000**	$ 827,000

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

For the years ended December 31,	**2008**	2007	2006
Balance at beginning of year	**$ 325,000**	**$ 269,000**	$ -
Losses charged to allowance	**-**	**-**	-
Provision charged to operating expenses	**-**	**56,000**	269,000
Balance at end of year	**$ 325,000**	**$ 325,000**	$ 269,000

Note 9. Goodwill

On January 14, 2005, the Company completed the acquisition of FNB Bankshares ("FNB") of Bar Harbor, Maine, and its subsidiary, The First National Bank of Bar Harbor. As part of the acquisition, the Company issued 2.35 shares of its common stock to the shareholders of FNB in exchange for each of the 1,048,814 shares of the common stock outstanding of FNB. The total value of the transaction was $47,955,000, 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 tangible assets acquired equaled $27,559,000 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, and goodwill is evaluated annually for possible impairment under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets.

Note 10. Income Taxes

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

For the years ended December 31,	**2008**	2007	2006
Federal income tax			
Current	**$ 6,415,000**	$ 5,500,000	$ 5,075,000
Deferred	**(1,039,000)**	(464,000)	(424,000)
	5,376,000	5,036,000	4,651,000
State franchise tax	**245,000**	229,000	211,000
	$ 5,621,000	$ 5,265,000	$ 4,862,000

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,	**2008**	2007	2006
Expected tax expense	**$ 6,879,000**	$ 6,428,000	$ 6,005,000
Non-taxable income	**(1,364,000)**	(1,244,000)	(1,209,000)
State franchise tax, net of federal tax benefit	**159,000**	149,000	137,000
Tax credits, net of amortization	**(100,000)**	-	-
Other	**47,000**	(68,000)	(71,000)
	$ 5,621,000	$ 5,265,000	$ 4,862,000

Deferred tax assets and liabilities are classified as 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, 2008 and 2007 are as follows:

	2008	2007
Allowance for loan losses	**$3,080,000**	$2,328,000
Other real estate owned	**114,000**	114,000
Assets related to FNB acquisition	**9,000**	24,000
Accrued pension and post-retirement	**1,139,000**	1,087,000
Unrealized loss on securities available for sale	**441,000**	-
Other assets	**75,000**	120,000
Total deferred tax asset	**4,858,000**	3,673,000
Net deferred loan costs	**(578,000)**	(529,000)
Depreciation	**(1,422,000)**	(1,490,000)
Unrealized gain on securities available for sale	**-**	(234,000)
Mortgage servicing rights	**(109,000)**	(291,000)
Core deposit intangible	**(600,000)**	(699,000)
Liabilities related to FNB acquisition	**(32,000)**	(52,000)
Other liabilities	**(35,000)**	(8,000)
Total deferred tax liability	**(2,776,000)**	(3,303,000)
Net deferred tax asset	**$2,082,000**	$370,000

At December 31, 2008, the Company held an investment in a limited partnership with related New Market Tax Credits. This investment is carried at cost and amortized on the effective yield method. The tax credit from this investment is estimated at $154,000 for the year ended December 31, 2008, and is recorded as a reduction of income tax expense. Amortization of the investment in the limited partnership for the year ended December 31, 2008 totaled $84,000 and is recognized as a component of income tax expense in the consolidated statements of income. The carrying value of this investment at December 31, 2008 amounts to $1,616,000, which is recorded in other assets. The Company's total exposure to this limited partnership at December 31, 2008 was $5,516,000, which is comprised of the Company's equity investment in the limited partnership and the balance of a participated loan receivable.

Note 11. Certificates of Deposit

At December 31, 2008, the scheduled maturities of certificates of deposit are as follows:

Year of Maturity	Less than $100,000	Greater than $100,000	All Certificates of Deposit
2009	$211,889,000	$272,597,000	$484,486,000
2010	28,694,000	12,268,000	40,962,000
2011	2,633,000	3,074,000	5,707,000
2012	1,141,000	1,553,000	2,694,000
2013	1,795,000	1,305,000	3,100,000
	$246,152,000	$290,797,000	$536,949,000

Interest on certificates of deposit of $100,000 or more was $6,905,000, $11,885,000, and $11,210,000 in 2008, 2007 and 2006, respectively.

Note 12. Borrowed Funds

Borrowed funds consist of advances from the Federal Home Loan Bank of Boston (FHLB), Treasury Tax & Loan Notes, 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. As of December 31, 2008, the Bank's total FHLB borrowing capacity was $317,796,000, of which $102,612,000 was unused and available for additional borrowings. All FHLB advances as of December 31, 2008, had fixed rates of interest until their respective maturity dates. Under the Treasury Tax & Loan Note program, the Bank accumulates tax deposits made by customers and is eligible to receive Treasury Direct investments up to an established maximum balance. Securities sold under agreements to repurchase include U.S. Treasury and Agency securities and other securities. Repurchase agreements have maturity dates ranging from one to 365 days. The Bank also has in place $15.0 million in credit lines with correspondent banks which are currently not in use.

Borrowed funds at December 31, 2008 and 2007 have the following range of interest rates and maturity dates:

As of December 31, 2008				
Federal Home Loan Bank Advances				
2009	0.36%	-	5.00%	$80,227,000
2010	4.43%	-	5.41%	50,000,000
2011		-		-
2012			4.39%	10,000,000
2013			3.49%	10,000,000
2014 and thereafter	0.00%	-	3.89%	70,184,000
				220,411,000
Treasury Tax & Loan Notes (rate at December 31, 2008 was 0.00%)			variable	2,864,000
Repurchase agreements				
Municipal and commercial customers	1.49%	-	4.75%	48,799,000
				$272,074,000

As of December 31, 2007				
Federal Home Loan Bank Advances				
2008	3.00%	-	4.94%	$ 156,460,000
2009	4.79%	-	5.00%	27,000,000
2010	4.43%	-	5.41%	50,000,000
2011				-
2012		-	4.39%	10,000,000
2013 and thereafter	0.00%	-	3.89%	30,191,000
				273,651,000
Treasury Tax & Loan Notes (rate at December 31, 2007 was 3.59%)			variable	1,961,000
Repurchase agreements				
Municipal and commercial customers	2.71%	-	5.02%	41,107,000
				$316,719,000

Note 13. Employee Benefit Plans

401(k) Plan

The Bank has a defined contribution plan available to substantially all employees who have completed six months of service. Employees may contribute up to $15,500 of their compensation if under age 50 and $20,500 if over age 50, 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 2008, 2007, and 2006. The expense related to the 401(k) plan was $356,000, $338,000, and $315,000 in 2008, 2007, and 2006, respectively.

Supplemental Retirement Plan

The Bank also sponsors an unfunded, non-qualified supplemental retirement plan for certain officers. The agreement provides supplemental retirement benefits payable in installments over 20 years upon retirement or death. The costs for this plan are recognized over the service periods of the participating officers. The expense of this supplemental plan was $164,000 in 2008, $153,000 in 2007,and $149,000 in 2006. As of December 31, 2008 and 2007, the accrued liability of this plan was $1,265,000 and $1,157,000, respectively.

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 seven 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 other plan provides life insurance coverage to certain retired employees. The Bank also provides health insurance for retired directors. None of these plans are pre-funded.

In December 2003, the federal Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act included two features to Medicare (Medicare Part D) that could affect the measurement of the accumulated post-retirement benefit obligation and net periodic postretirement benefit costs: a subsidy to plan sponsors that is based on 28% of an individual beneficiary's annual prescription drug costs between $250 and $5,000, and the opportunity for a retiree to obtain a prescription drug benefit under Medicare. During 2004, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The FSP addresses employers' accounting for the effects of the Act and was effective for the Company in 2004. The accounting for the Act will depend on the Company's assessment as to whether the prescription drug benefits available under its plan are actuarially equivalent to Medicare Part D, among other factors. The Company's Plan has not been actuarially determined to be equivalent to Medicare Part D. Accordingly, the impact of applying the FSP has not been reflected in the consolidated financial statements.

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

At December 31,	**2008**	2007	2006
Change in benefit obligations			
Benefit obligation at beginning of year:	**$ 1,949,000**	$ 2,005,000	$ 1,705,000
Service cost	**19,000**	20,000	13,000
Interest cost	**134,000**	136,000	125,000
Benefits paid	**(155,000)**	(144,000)	(157,000)
Actuarial (gain) loss	**43,000**	(68,000)	319,000
Benefit obligation at end of year:	**$ 1,990,000**	$ 1,949,000	$ 2,005,000
Funded status			
Benefit obligation at end of year	**$(1,990,000)**	$(1,949,000)	$ (2,005,000)
Accrued benefit cost	**$(1,990,000)**	$(1,949,000)	$ (2,005,000)

For the years ended December 31,	**2008**	2007	2006
Components of net periodic benefit cost			
Service cost	**$ 19,000**	$ 20,000	$ 13,000
Interest cost	**134,000**	136,000	125,000
Amortization of unrecognized transition obligation	**29,000**	29,000	29,000
Amortization of prior service credit	**(3,000)**	(3,000)	(3,000)
Amortization of accumulated losses	**21,000**	26,000	4,000
Net periodic benefit cost	**$ 200,000**	$ 208,000	$ 168,000
Weighted average assumptions as of December 31			
Discount rate	**7.0%**	7.0%	7.0%

The above discount rate assumption was used in determining both the accumulated benefit obligation as well as the net benefit cost. The measurement date for benefit obligations was as of year-end for all years presented. The estimated amount of benefits to be paid in 2009 is $157,000. For years ending 2010 through 2013 the estimated amount of benefits to be paid is $163,000, $169,000, $185,000 and $183,000 respectively, and the total estimated amount of benefits to be paid for years ended 2014 through 2018 is $850,000. Plan expense for 2009 is estimated to be $175,000.

In 2006, the Company adopted SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans.” On initial application, a $352,000 adjustment was recognized in the Statement of Changes in Shareholders’ Equity as a component of accumulated other comprehensive income. Amounts not yet reflected in net periodic benefit cost and included in accumulated other comprehensive income are as follows:

At December 31,	**2008**	2007	Portion to Be Recognized in Income in 2009
Unamortized prior service credit	**$ 1,000**	$ 5,000	$ -
Unamortized net actuarial loss	**(297,000)**	(276,000)	-
Unrecognized transition obligation	**(121,000)**	(150,000)	29,000
	(417,000)	(421,000)	29,000
Deferred tax benefit at 35%	**146,000**	147,000	(10,000)
Net unrecognized post-retirement benefits included in accumulated other comprehensive income	**$(271,000)**	$(274,000)	$ 19,000

Note 14. Shareholders' Equity

The Company has reserved 700,000 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. During 2006, the number of shares set aside for these plans was increased by the Board of Directors from 480,000 to 700,000. As of December 31, 2008, 463,382 shares had been issued pursuant to these plans, leaving 236,618 shares available for future use. The issuance price is based on the market price of the stock at issuance date. Sales of stock to directors and employees amounted to 17,425 in 2008, 17,828 shares in 2007, and 17,410 shares in 2006.

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. When the plan was established, 600,000 shares were registered with the Securities and Exchange Commission, and as of December 31, 2008, 134,388 shares have been issued, leaving 465,612 shares for future use. 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 22,243 shares in 2008, 20,233 shares in 2007, and 17,031 shares in 2006.

Note 15. 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 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 2008, 2007 or 2006.

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, the Bank had the following off-balance-sheet financial instruments, whose contract amounts represent credit risk:

As of December 31,	**2008**	2007
Unused lines, collateralized by residential real estate	**$ 55,370,000**	$ 55,694,000
Other unused commitments	**75,236,000**	56,904,000
Standby letters of credit	**2,687,000**	2,594,000
Commitments to extend credit	**12,496,000**	15,098,000
Total	**$145,789,000**	$ 130,290,000

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.

Note 16. Earnings Per Share

The following tables provide detail for basic earnings per share (EPS) and diluted earnings per share for the years ended December 31, 2008, 2007 and 2006:

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
For the year ended December 31, 2008			
Net income as reported	$ 14,034,000		
Basic EPS: Income available to common shareholders	14,034,000	9,701,379	$ 1.45
Effect of dilutive securities: incentive stock options		18,952	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 14,034,000	9,720,331	$ 1.44
For the year ended December 31, 2007			
Net income as reported	$ 13,101,000		
Basic EPS: Income available to common shareholders	$ 13,101,000	9,787,287	$ 1.34
Effect of dilutive securities: incentive stock options		25,731	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 13,101,000	9,813,018	$ 1.34
For the year ended December 31, 2006			
Net income as reported	$ 12,295,000		
Basic EPS: Income available to common shareholders	$ 12,295,000	9,816,307	$ 1.25
Effect of dilutive securities: incentive stock options		49,476	
Diluted EPS: Income available to common shareholders plus assumed conversions	$ 12,295,000	9,865,783	$ 1.25

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

Note 17 – 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 and derivative financial instruments 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.

Under Statement of Financial Accounting No. 157, Fair Value Measurements, 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 techniques include use of discounted cash flow models and similar techniques.

The most significant instruments that the Company fair values include securities and derivative instruments, all of which fall into Level 2 in the fair value hierarchy. The securities in the available for sale portfolio are priced by independent providers. 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. Derivative instruments are priced by independent providers using observable market assumptions with adjustments based on widely accepted valuation techniques. A discounted cash flow analysis on the expected cash flows of each derivative reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities, and credit valuation adjustments.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Securities Available for Sale. Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices for similar assets, if available. If quoted prices are not available, fair values are measured using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as yield curves, prepayment speeds, and default rates. Recurring Level 1 securities would include U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets. Recurring Level 2 securities include federal agency securities, mortgage-backed securities, collateralized mortgage obligations, municipal bonds and corporate debt securities.

Derivative Financial Instruments. Substantially all derivative financial instruments held by the Company are traded in over-the-counter markets where quoted market prices are not readily available. For those derivatives, the Company measures fair value based upon pricing for similar derivative instruments if they were purchased today. The Company classifies derivative financial instruments held or issued for risk management as recurring Level 2.

The following table presents the balances of assets and liabilities that were measured at fair value on a recurring basis as of December 31, 2008.

	At December 31, 2008			
In thousands of dollars	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities available for sale	$ -	$ 27,765	$ -	$ 27,765
Derivative financial instruments	-	24	-	24
Total Assets	$ -	$ 27,789	$ -	$ 27,789

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

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 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. As such, the Company classifies mortgage servicing rights as nonrecurring Level 2.

Loans Held for Sale. Mortgage loans held for sale are recorded at the lower of carrying value or market value. The fair value of mortgage loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies mortgage loans held for sale as nonrecurring Level 2.

Other Real Estate Owned. Real estate acquired through foreclosure is recorded at the lower of carrying value or market value. The fair value of other real estate owned is based on property appraisals and an analysis of similar properties currently available. As such, the Company records other real estate owned as nonrecurring Level 2.

Impaired Loans. A loan is considered to be impaired when it is probable that all of the principal and interest due under the original underwriting terms of the loan may not be collected. Impairment is measured based on the fair value of the underlying collateral. The Company measures impairment on all nonaccrual loans for which it has established specific reserves as part of the specific allocated allowance component of the allowance for loan losses. As such, the Company records impaired loans as nonrecurring Level 2.

The following table includes assets measured at fair value on a nonrecurring basis that have had a fair value adjustment since their initial recognition as of March 31, 2008. Other real estate owned is presented net of an allowance for losses of $325,000. Impaired loans are presented net of their related specific allowance for loan losses of $1,957,000.

In thousands of dollars	Level 1	Level 2	Level 3	Total
		At December 31, 2008		
Mortgage servicing rights	$ -	$ 311	$ -	$ 311
Loans held for sale	-	1,298	-	1,298
Other real estate owned	-	2,428	-	2,428
Impaired loans	-	10,492	-	10,492
Total Assets	$ -	$ 14,529	$ -	$ 14,529

SFAS No. 107, "Disclosures about the Fair Value of 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. SFAS No. 107 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.

The estimated fair values for financial instruments as of December 31, 2008 and 2007 were as follows:

	December 31, 2008		December 31, 2007	
	Carrying amount	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets				
Cash and cash equivalents	**$ 16,856,000**	**$ 16,856,000**	$ 17,254,000	$17,254,000
Securities available for sale	**27,765,000**	**27,765,000**	40,461,000	40,461,000
Securities to be held to maturity	**234,767,000**	**229,460,000**	181,354,000	181,132,000
Loans held for sale	**1,298,000**	**1,298,000**	1,817,000	1,817,000
Loans (net of allowance for loan losses)	**970,473,000**	**994,560,000**	913,364,000	908,190,000
Cash surrender value of life insurance	**9,148,000**	**9,148,000**	8,804,000	8,804,000
Accrued interest receivable	**5,783,000**	**5,783,000**	6,585,000	6,585,000
Interest rate cap	**24,000**	**24,000**	51,000	51,000
Financial liabilities				
Deposits	**$ 925,736,000**	**$ 904,926,000**	$ 781,280,000	$687,739,000
Borrowed funds	**272,074,000**	**290,336,000**	316,719,000	317,288,000
Accrued interest payable	**1,322,000**	**1,322,000**	2,212,000	2,212,000

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

Cash and Cash Equivalents

The carrying values of cash equivalents, due from banks and federal funds sold approximate their relative fair values.

Investment Securities

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

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. The fair values of performing loans are calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest risk inherent in the loan. The estimates of maturity are based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions, and the effects of estimated prepayments. Fair values for significant non-performing loans are based on estimated cash flows and are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. Management has made estimates of fair value using discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, Management has no basis to determine whether the fair value presented above would be indicative of the value negotiated in an actual sale.

Cash Surrender Value of Life Insurance

The fair value is based on the actual cash surrender value of life insurance policies.

Accrued Interest Receivable

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

Deposits

The fair value of deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposits compared to the cost of borrowing funds in the market. If that value were considered, the fair value of the Company's net assets could increase.

Derivatives

The fair values of derivatives are based on quotations received from securities dealers.

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.

Accrued Interest Payable

The fair value estimate approximates the carrying amount as this financial instrument has a short maturity.

Off-Balance-Sheet Instruments

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

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These values do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on 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.

Note 18. 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,	**2008**	2007	2006
Other operating income			
Merchant discount fees	**$ 2,433,000**	$ 2,528,000	$ 2,507,000
ATM income	**1,156,000**	971,000	771,000
Other operating expense			
Merchant interchange fees	**$ 2,358,000**	$ 2,427,000	$ 2,393,000

Note 19. Regulatory Capital Requirements

The ability of the Company to pay cash dividends to its shareholders depends primarily on receipt of dividends from its subsidiary, the Bank. The subsidiary may pay dividends to its parent out of so much of its net 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 2009 will be 2009 earnings plus retained earnings of $12,279,000 from 2008 and 2007.

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

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 capital and Tier 2 or total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2008, 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, 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, 2008			
Tier 2 capital to	$97,454,000	$70,243,000	$87,804,000
risk-weighted assets	11.10%	8.00%	10.00%
Tier 1 capital to	$88,554,000	$35,122,000	$52,682,000
risk-weighted assets	10.09%	4.00%	6.00%
Tier 1 capital to	$88,554,000	$51,311,000	$64,139,000
average assets	6.90%	4.00%	5.00%
As of December 31, 2007			
Tier 2 capital to	$88,775,000	$64,628,000	$80,785,000
risk-weighted assets	10.99%	8.00%	10.00%
Tier 1 capital to	$81,875,000	$32,314,000	$48,471,000
risk-weighted assets	10.13%	4.00%	6.00%
Tier 1 capital to	$81,875,000	$46,883,000	$58,604,000
average assets	6.99%	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, 2008			
Tier 2 capital to	$97,649,000	$70,218,000	n/a
risk-weighted assets	11.13%	8.00%	n/a
Tier 1 capital to	$88,749,000	$35,109,000	n/a
risk-weighted assets	10.11%	4.00%	n/a
Tier 1 capital to	$88,749,000	$50,204,000	n/a
average assets	7.07%	4.00%	n/a
As of December 31, 2007			
Tier 2 capital to	$89,470,000	$64,667,000	n/a
risk-weighted assets	11.07%	8.00%	n/a
Tier 1 capital to	$82,570,000	$32,334,000	n/a
risk-weighted assets	10.21%	4.00%	n/a
Tier 1 capital to	$82,570,000	$45,771,000	n/a
average assets	7.22%	4.00%	n/a

Note 20. 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 21. 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,	**2008**	2007
Assets		
Cash and cash equivalents	**$ 213,000**	$ 369,000
Dividends receivable	**1,800,000**	1,750,000
Investments	**123,000**	171,000
Investment in subsidiary	**89,323,000**	84,163,000
Premises and equipment	**-**	350,000
Goodwill	**27,559,000**	27,559,000
Other assets	**64,000**	67,000
Total assets	**$ 119,082,000**	$ 114,429,000
Liabilities and shareholders' equity		
Dividends payable	**$ 1,891,000**	$ 1,752,000
Other liabilities	**10,000**	10,000
Total liabilities	**1,901,000**	1,762,000
Shareholders' equity		
Common stock	**97,000**	97,000
Additional paid-in capital	**44,117,000**	44,762,000
Retained earnings	**73,259,000**	68,088,000
Accumulated other comprehensive loss		
Net unrealized loss on available for sale securities, net of tax benefit of $11,000 in 2008 and $3,000 in 2007	**(21,000)**	(6,000)
Net unrealized loss on post-retirement benefit costs, net of tax benefit of $146,000 in 2008 and $147,000 in 2007	**(271,000)**	(274,000)
Total accumulated other comprehensive loss	**(292,000)**	(280,000)
Total shareholders' equity	**117,181,000**	112,667,000
Total liabilities and shareholders' equity	**$ 119,082,000**	$ 114,429,000

Statements of Income

For the years ended December 31,	**2008**	2007	2006
Investment income	**$ 11,000**	$ 28,000	$ 36,000
Other income	**-**	26,000	-
Other expense	**136,000**	179,000	120,000
Loss before Bank earnings	**(125,000)**	(125,000)	(84,000)
Equity in earnings of Bank			
Remitted	**7,281,000**	7,825,000	7,485,000
Unremitted	**6,878,000**	5,401,000	4,894,000
Net income	**$ 14,034,000**	$ 13,101,000	$ 12,295,000

Statements of Cash Flows

For the years ended December 31,	**2008**	2007	2006
Cash flows from operating activities:			
Net income	**$ 14,034,000**	$ 13,101,000	$ 12,295,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**2,000**	1,000	2,000
Net realized loss on sale of securities	**24,000**	-	-
Equity compensation expense	**37,000**	59,000	60,000
(Increase) decrease in other assets	**(38,000)**	(134,000)	386,000
Increase (decrease) in other liabilities	**278,000**	(73,000)	(619,000)
Gain on sale of real estate	**-**	(27,000)	-
Unremitted earnings of Bank	**(6,878,000)**	(5,401,000)	(4,894,000)
Net cash provided by operating activities	**7,459,000**	7,526,000	7,230,000
Cash flows from investing activities:			
Proceeds from maturities and calls of investments	**-**	251,000	-
Capital expenditures	**-**	(350,000)	-
Net cash used in investing activities	**-**	(99,000)	-
Cash flows from financing activities:			
Proceeds from sale of real estate	**348,000**	250,000	-
Payments to purchase common stock	**(1,414,000)**	(1,687,000)	(3,052,000)
Proceeds from sale of common stock	**732,000**	802,000	860,000
Dividends paid	**(7,281,000)**	(6,565,000)	(5,983,000)
Net cash used in financing activities	**(7,615,000)**	(7,200,000)	(8,175,000)
Net increase (decrease) in cash and cash equivalents	**(156,000)**	227,000	(945,000)
Cash and cash equivalents at beginning of year	**369,000**	142,000	1,087,000
Cash and cash equivalents at end of year	**$ 213,000**	$ 369,000	$ 142,000

Note 22. New Accounting Pronouncements

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, FASB issued FASB Staff Position ("FSP") No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Although this Statement does not require any new fair value measurements, it has expanded our fair value disclosures. In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset when the Market for that Asset is not Active." FSP FAS No. 157-3 amended SFAS No. 157 by incorporating an example to illustrate key considerations in determining the fair value of a financial asset in an inactive market. The FSP was effective upon issuance.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument-by-instrument basis. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 contains provisions to apply the fair value option to existing eligible financial instruments at the date of adoption. This statement is effective as of the beginning of an entity's first fiscal year after November 15, 2007. The Company did not take the fair value option under SFAS No. 159 for any financial assets or financial liabilities.

Effective January 1, 2008, the Company adopted the provisions of Emerging Issues Task Force (EITF) 06-10: Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. The EITF states that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement. The Company recognized the effect of applying EITF 06-10 as a change in accounting principle through a cumulative-effect adjustment to retained earnings. The cumulative effect of the change on retained earnings on the consolidated balance sheet was $215,000 to retained earnings.

In December 2007, FASB issued Statement No. 160, "Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS No.160). This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2009. The Company does not expect it will have a material effect on its financial condition or results of operations.

In March 2008, FASB issued Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161). This statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 but does not expect it will have a material effect on its financial condition or results of operations.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes, and prescribes a minimum recognition threshold and measurement attributed for the financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2007. The Company implemented FIN 48 during 2008 and it did not have a material impact on the Company's financial statements.

Note 23. Subsequent Events

On January 9, 2009, the Company received $25 million from a preferred stock investment by the U.S. Treasury under the Capital Purchase Program (the "CPP Shares") at a purchase price of $1,000 per share. The CPP Shares call for cumulative dividends at a rate of 5.0% per year for the first five years, and at a rate of 9.0% per year in following years, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Incident to such issuance, the Company issued to the U.S. Treasury warrants (the "Warrants") to purchase up to 225,904 shares of the Company's common stock at a price per share of $16.60 (subject to adjustment). The CPP Shares and the related Warrants (and any shares of common stock issuable pursuant to the Warrants) are freely transferable by Treasury to third parties and the Company has filed a registration statement with the Securities and Exchange Commission to allow for possible resale of such securities. The CPP Shares qualify as Tier 1 capital on the Company's books for regulatory purposes and rank senior to the Company's common stock and senior or at an equal level in the Company's capital structure to any other shares of preferred stock the Company may issue in the future.

The impact on the Company's capital ratios as of December 31, 2008, is shown in the following table:

	As of December 31, 2008	
	Historical as Presented	Pro-Forma as Approved
Total capital to risk-weighted assets	11.13%	13.97%
Tier 1 capital to risk-weighted assets	10.11%	12.96%
Tier 1 capital to average assets	7.07%	9.06%

The Company may redeem the CPP Shares during the first three years only with the proceeds the Company receives from the sale for cash of other Tier 1 qualifying perpetual preferred or common stock that results in aggregate gross proceeds to the Company of not less than 25% of the issue price of the CPP Shares. After three years, the Company could redeem the CPP Shares at its option, in whole or in part, at any time using any funds available to the Company. Any redemption would be subject to the prior approval of the Federal Reserve Bank of Boston. The CPP Shares would be "perpetual" preferred stock, which means that neither Treasury nor any subsequent holder would have a right to require that the Company redeem any of the shares.

During the first three years following the Company's sale of the CPP Shares, the Company will be required to obtain Treasury's consent to increase the dividend per share paid on the Company's common stock unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties. Also during the first three years following the Company's sale of the CPP Shares, the Company would be required to obtain Treasury's consent in order to repurchase any shares of its outstanding stock of any type (other than purchases of common stock or preferred stock ranking junior to the CPP Shares in the ordinary course of the Company's business and consistent with the Company's past practices in connection with a benefit plan) unless the Company had redeemed the CPP Shares in full or Treasury had transferred all of the CPP Shares to other parties.

As a condition to Treasury's purchase of the CPP Shares, during the time that Treasury holds any equity or debt instrument the Company issued, the Company will be required to comply with certain restrictions and other requirements relating to the compensation of the Company's chief executive officer, chief financial officer and three other most highly compensated executive officers. These restrictions include a prohibition on severance payments to those executive officers upon termination of their employment and a $500,000 limit on the tax deductions the Company can take for compensation expense for each of those executive officers in a single year as well as a prohibition on bonus compensation to such officers other than limited amounts of long-term restricted stock.

In conjunction with the sale of the CPP shares, the Company also issued warrants ("Warrants") to Treasury giving it the right to purchase from the Company 225,904 shares of the Company's common stock equal at a price of $16.60 per share. The Warrants have a term of ten years and could be exercised by Treasury or a subsequent holder at any time or from time to time during their term. To the extent they had not previously been exercised, the Warrants would expire after ten years. Treasury will not vote any shares of common stock it receives upon exercise of the Warrants, but that restriction would not apply to third parties to whom Treasury transferred the Warrants. The Warrants (and any common stock issued upon exercise of the Warrants) could be transferred to third parties separately from the CPP Shares.

Note 24. Quarterly Information

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

Dollars in thousands	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4
Balance Sheets								
Cash	$ 21,103	$ 21,349	$ 27,339	$ 17,254	$ 15,837	$ 19,997	$ 21,667	$ 16,856
Investments	178,390	200,170	219,855	221,815	232,878	246,378	261,057	262,532
Net loans	840,279	870,550	886,274	913,364	928,887	946,267	953,797	971,771
Other assets	68,849	69,128	69,111	70,817	70,606	72,731	74,636	84,585
Total assets	$1,108,621	$1,161,197	$1,202,579	$1,223,250	$1,248,208	$1,285,373	$1,311,157	$1,325,744
Deposits	$ 824,761	$ 851,090	$ 811,395	$ 781,280	$ 826,477	$ 842,120	$ 918,856	$ 925,736
Borrowed funds	162,512	188,478	267,011	316,719	295,253	317,055	264,617	272,074
Other liabilities	12,548	11,419	12,068	12,583	12,867	11,440	11,812	10,753
Shareholders' equity	108,800	110,210	112,105	112,668	113,611	114,758	115,872	117,181
Total liabilities & equity	$1,108,621	$1,161,197	$1,202,579	$1,223,250	$1,248,208	$1,285,373	$1,311,157	$1,325,744
Income Statements								
Interest income	$ 16,948	$ 17,502	$ 18,538	$ 18,733	$ 18,330	$ 17,514	$ 17,891	$ 17,637
Interest expense	9,383	9,890	10,381	10,231	9,513	8,572	8,268	7,316
Net interest income	7,565	7,612	8,157	8,502	8,817	8,942	9,623	10,321
Provision for loan losses	300	250	300	582	500	939	875	2,386
Net interest income after provision for loan losses	7,265	7,362	7,857	7,920	8,317	8,003	8,748	7,935
Non-interest income	2,148	2,470	2,985	2,542	2,176	2,518	2,856	2,096
Non-interest expense	5,250	5,353	6,000	5,580	5,449	5,425	6,284	5,836
Income before taxes	4,163	4,479	4,842	4,882	5,044	5,096	5,320	4,195
Income taxes	1,160	1,284	1,428	1,393	1,453	1,493	1,488	1,187
Net income	$ 3,003	$ 3,195	$ 3,414	$ 3,489	$ 3,591	$ 3,603	$ 3,832	$ 3,008
Basic earnings per share	$ 0.30	$ 0.33	$ 0.35	$ 0.36	$ 0.37	$ 0.37	$ 0.40	$ 0.31
Diluted earnings per share	$ 0.30	$ 0.33	$ 0.35	$ 0.36	$ 0.37	$ 0.37	$ 0.39	$ 0.31

Report of Independent Registered Public Accounting Firm

Berry, Dunn, McNeil & Parker

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

We have audited the accompanying consolidated balance sheets of The First Bancorp, Inc. and Subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. We have also audited The First Bancorp, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The First Bancorp, Inc.'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 these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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 U.S. 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 U.S. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The First Bancorp, Inc. and Subsidiary as of December 31, 2008 and 2007, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, The First Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As described in Note 22, the Company changed its method of accounting for split-dollar life insurance arrangements effective January 1, 2008, in accordance with EITF 06-10: Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements.

Berry, Dunn, McNeil & Parker

Portland, Maine
March 13, 2009

Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), as of December 31, 2008, 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, 2008 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 assurances 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, 2008. The standard measures adopted by Management in making its evaluation are the measures in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO"). Based upon its review and evaluation, Management concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective and that there were no material weaknesses.

Berry, Dunn, McNeil & Parker, 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 attestation report on Management's assessment of the Company's internal control over financial reporting which follows this report.

Daniel R. Daigneault, President and Director
(Principal Executive Officer)
March 13, 2009

F. Stephen Ward , Treasurer and Chief Financial Officer
(Principal Financial Officer, Principal Accounting Officer)
March 13, 2009

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 2008 and 2007. Such quotations do not reflect retail mark-ups, mark-downs or brokers' commissions.

	2008		2007	
	High	**Low**	High	Low
1st Quarter	**$15.74**	**$13.95**	$16.84	$15.64
2nd Quarter	**18.00**	**13.65**	17.00	15.50
3rd Quarter	**23.05**	**12.88**	17.50	13.60
4th Quarter	**22.98**	**12.84**	15.95	14.20

The last known transaction of the Company's stock during 2008 was on December 31 at $19.89 per share. As of December 31, 2008, 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. The table below sets forth the cash dividends declared in the last two fiscal years:

Date Declared	Amount Per Share	Date Payable
March 22, 2007	$0.165	April 30, 2007
June 21, 2007	$0.170	July 31, 2007
September 19, 2007	$0.175	October 31, 2007
December 20, 2007	$0.180	January 31, 2008
March 20, 2008	$0.185	April 30, 2008
June 19, 2008	$0.190	July 31, 2008
September 18, 2008	$0.195	October 31, 2008
December 18, 2008	$0.195	January 30, 2009

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, 2009 at 11:00 a.m. at The Samoset Resort, 220 Warrenton Street, Rockport, Maine 04856.

Number of Shareholders
The number of shareholders of record as of February 19, 2009 was approximately 3,353.

Annual Report on Form 10-K
The Company's 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 First Bancorp, Inc.'s press releases, SEC filings and other reports or information issued by the Company are available at: www.TheFirstBancorp.com. In addition, all SEC filings are accessible at the Commission's website: www.sec.gov.

Corporate Headquarters
Contact:
F. Stephen Ward, 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
Shareholder inquiries regarding change of address or title should be directed to:
Shareholder Relations
The First Bancorp, Inc.
223 Main Street, P.O. Box 940
Damariscotta, Maine 04543
207-563-3195; 1-800-564-3195

Independent Certified Public Accountants
Berry, Dunn, McNeil & Parker
100 Middle Street, P.O. Box 1100
Portland, Maine 04104-1100

Corporate Counsel
Pierce Atwood, Attorneys
One Monument Square
Portland, Maine 04101

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Directors and Executive Officers

Board of Directors

Stuart G. Smith, *Chairman of the Board*
Katherine M. Boyd
Daniel R. Daigneault
Robert B. Gregory
Tony C. McKim
Carl S. Poole, Jr.
Mark N. Rosborough
David B. Soule, Jr.
Bruce B. Tindal

Directors of The First Bancorp also serve as Directors of The First, N.A.

THE FIRST BANCORP

The First Bancorp Executive Officers

Daniel R. Daigneault
President & Chief Executive Officer
Tony C. McKim
Executive Vice President & Chief Operating Officer
F. Stephen Ward
Executive Vice President & Chief Financial Officer
Charles A. Wootton
Executive Vice President & Clerk

The First, N.A. Management Executive Committee

Daniel R. Daigneault
President & Chief Executive Officer
Tony C. McKim
Executive Vice President & Chief Operating Officer
Susan A. Norton
Executive Vice President, Human Resources & Compliance
F. Stephen Ward
Executive Vice President & Chief Financial Officer
Charles A. Wootton
Executive Vice President & Senior Loan Officer

THE FIRST
A Better Way to Bank

Office Locations

Bar Harbor
Blue Hill
Boothbay Harbor
Calais
Camden
Damariscotta
Eastport
Ellsworth
Northeast Harbor
Rockland
Rockport
Southwest Harbor
Waldoboro
Wiscasset

FIRST ADVISORS
Performance You Can Trust

Office Locations
Bar Harbor
Damariscotta


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www.thefirstbancorp.com