Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

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

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

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

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

I, Chester A. Rice
Name of the Holding Company Director and Official

Chairman of the Board
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/20/2020
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID ____
C.I. ____

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

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Damariscotta Bankshares, Inc.
Legal Title of Holding Company

PO Box 999
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Damariscotta	ME	04543-0999

25 Main Street, Damariscotta, ME 04543
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Grace S. Shorey	VP, Strategic Initiatives

207-563-8121 ext. 121
Area Code / Phone Number / Extension

207-563-2309
Area Code / FAX Number

gshorey@damariscottabank.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report .... [ ]
2. a letter justifying this request has been provided separately ... [ ]

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

Form FR Y-6

Damariscotta Bankshares, Inc.
Damariscotta, Maine
Fiscal Year Ending December 31, 2019

Item 1: Annual Report to Shareholders

Damariscotta Bankshares, Inc. prepares an annual report for its shareholders and is not registered with the SEC. One copy is attached by email.

Item 2a: Organization Chart

Damariscotta Bankshares, Inc.
LEI is N/A
Damariscotta, Maine
(Incorporated in the State of Maine)

|
| 100 percent of the 14,400 shares of common stock authorized and outstanding
|

Damariscotta Bank & Trust Co.
LEI is N/A
Damariscotta, Maine
(Incorporated in the State of Maine)

Item 2b: Domestic Branch Listing

See page 6

Item 3: (1)(a)(b)(c) Securities Holders

(1)(a) Name/Address	(1)(b) Citizenship/ Incorporation	(1)(c) Common # Of shares	(1)(c) Stock % Of total
John R. Hilton Newcastle, ME USA	USA	111,535	8.5
Brenda B. Hilton Newcastle, ME USA	USA	111,535	8.5
Dennis H. Hilton Nobleboro, ME USA	USA	111,303	8.5

Nathan J. Hilton Damariscotta, ME USA	USA	111,036	8.5
Christopher J. Hilton Damariscotta, ME USA	USA	111,036	8.5
Krista H. Hatch Newcastle, ME USA	USA	104,333	8.0
Sloane E. Fossett Newcastle, ME USA	USA	94,675	7.3
Lexie M. Fossett Newcastle, ME USA	USA	94,675	7.3
Damariscotta Bankshares, Inc. ESOP Damariscotta, ME USA	USA	73,982	5.7
Rebecca L. Bickmore Damariscotta, ME USA	USA	88,634	6.8
John E. Reny Round Pond, ME USA	USA	106,089	8.1
Collette R Agnese Brooklyn, NY USA	USA	65,410	5.0
Faustine E. Reny Bristol, ME USA	USA	67,165	5.1
Kathleen Reny Round Pond, ME USA	USA	106,089	8.1
Robert D. Reny Bremen, ME USA	USA	110,628	8.5
Mary Kate Reny Bremen, ME USA	USA	110,628	8.5
Adam J. Reny Round Pond, ME USA	USA	65,202	5.0
Christopher Reny Waldoboro, ME USA	USA	65,202	5.0

Daniel E. Reny Round Pond, ME USA	USA	65,202	5.0
Andrea J. Reny Round Pond, ME USA	USA	65,202	5.0
Cameron D Reny Round Pond ME	USA	65,202	5.0
Michael P. Reny Damariscotta, ME USA	USA	98,029	7.5
Susan Reny Damariscotta, ME USA	USA	98,029	7.5
Leslie H. Reny Round Pond, ME USA	USA	98,029	7.5
Allan Roberts Damariscotta, ME USA	USA	78,235	6.0
Frances L. Roberts Nobleboro, ME USA	USA	76,309	5.8
Paula F. Roberts Damariscotta, ME USA	USA	78,743	6.0
Christopher A. Roberts Damariscotta, ME USA	USA	78,743	6.0
Abbie A. Roberts Nobleboro, ME USA	USA	78,743	6.0
Samuel E. Roberts Nobleboro, ME USA	USA	78,743	6.0

ESOP Trustees:

John C. Harris	John E. Reny
Allen D. Holmes	Chester A. Rice
Clayton N. Howard	Gary E. Sukeforth
Scott D. Conant	Dale E. Leighton

ESOP Voting Provisions:

5.5 **VOTING OF EMPLOYER STOCK.** Employer stock held by the trustee for a participant's account shall be voted by the trustee as the administrator directs in writing; provided, however, that if employer stock is allocated to a participant's account the participant shall direct the trustee as to the manner in which such employer stock is voted only with respect to a corporate matter which by charter of the employer or operation of Maine law must be decided by more than a majority vote of outstanding employer stock voted.

Item 3: (2)(a)(b)(c) Securities Holders Not Listed Above

(2)(a) Name/Address	(2)(b) Citizenship/ Incorporation	(2)(c) Common # Of shares	(2)(c) Stock % Of total
Clayton N. Howard Damariscotta, ME USA	USA	68,476	5.2
Scott D. Howard Harpswell, ME USA	USA	68,476	5.2
Heidi A. Coffin Brunswick, ME USA	USA	68,476	5.2
John E. Coffin Brunswick, ME USA	USA	68,476	5.2

December 31, 2019 Annual Report – FR Y-6

Item 4 – Insiders

Name and Address (1)	Principal occupation (2)	Title and position with Holding Co. (3)(a)	Title and position with Bank (3)(b)	Title and position with other Businesses (3)(c)	Percentage of Holding Co. voting shares (4)(a)	Percentage of Bank voting shares (4)(b)	Other companies, percentage of voting securities held (4)(c)
John C. Harris South Bristol, ME USA	Retired	Director	Director	None	3.4	None	None
Allen D. Holmes Belfast, ME USA	Retired	Director	Director	Co-owner	0.1	None	Holmes Greenhouse and Florist 50%
Clayton N. Howard Damariscotta, ME USA	Attorney	Director and Clerk	Director and Clerk	President	4.5	None	Howard & Bowie 100%
Dale E. Leighton Union, ME USA	Modular Home Sales	Director	Director	President	0.1	None	The Leighton Group, Inc. 100%
John E. Reny Round Pond, ME USA	Retail	Vice Chairman of the Board	Vice Chairman of the Board	President	8.1	None	R H Reny, Inc. 42%
Chester A. Rice Damariscotta, ME USA	Retired	Chairman of the Board	Chairman of the Board	President	1.1	None	K.E.A., Inc. 100%
Gary E. Sukeforth Union, ME USA	Grocery Store Owner	Director	Director	President	0.0	None	GES, Inc. 100%
Scott D. Conant Damariscotta, ME USA	Banking	President	President & CEO	None	0.7	None	None
Sonja D. Benner Warren, ME USA	Banking	Treasurer	VP and Treasurer	None	0.0	None	None

December 31, 2019 Annual Report – FR Y-6

Item 2b - Domestic Branch Verification

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Coun -try	FDIC UNINUM *	Office Num Ber*	Head Office	Head Office ID RSSD*	Com- ments
OK		Full Service (Head Office)	530703	DAMARIS-COTTA BANK & TRUST CO.	25 MAIN STREET	DAMARI-SCOTTA	ME	04543	LINCOLN	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	
OK		Full Service	3149357	RENY'S BELFAST PLAZA BRANCH	1 BELMONT AVENUE	BELFAST	ME	04915	WALDO	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	
OK		Full Service	3942736	619 MAIN STREET BRANCH	619 MAIN STREET	DAMARI-SCOTTA	ME	04543	LINCOLN	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	
OK		Full Service	439806	BRISTOL BRANCH	2578 BRISTOL ROAD	NEW HARBOR	ME	04554	LINCOLN	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	
OK		Full Service	3149348	SENNEBEC ROAD BRANCH	17 SENNEBEC ROAD	UNION	ME	04862	KNOX	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	
OK		Full Service	1393893	WARREN BRANCH	289 CAMDEN ROAD	WARREN	ME	04864	KNOX	USA	Not Required	Not Req-uired	DAMARIS-COTTA BANK & TRUST CO.	530703	

DB&T

Damariscotta Bank & Trust

2019 ANNUAL REPORT

DAMARISCOTTA BANKSHARES, INC.

(This page intentionally left blank)

Board of Directors

Chester A. Rice	Chairman of the Board
John E. Reny	Vice Chairman of the Board
Clayton N. Howard	Secretary and Clerk
John C. Harris	
Allen D. Holmes	
Dale E. Leighton	
Gary E. Sukeforth	

Honorary Directors

William H. Dunlavey John R. Hilton

Bank Officers

Scott D. Conant	President & CEO
Kenneth S. Steele	Executive Vice President & Senior Lender
Marcia L. Benner	Senior Vice President & Chief Administrative Officer
Danielle N. Bernier	Vice President & Operations Officer
Grace S. Shorey	Vice President & Strategic Initiatives Officer
Sally M. L. Teele	Vice President & Development/Technology Officer
Sonja D. Benner	Vice President & Treasurer
Breanne D. Hatch	Vice President, Risk Management & Compliance Officer
Edward P. Varney	Vice President & Business Development Officer
Samantha A. Page	Vice President & Residential Mortgage Officer
Cheryl M. Martin	Assistant Vice President & Loan Officer
Deborah L. Mullinder	Assistant Vice President & Loan Officer
Jennifer L. Boynton	AVP, Branch Manager & Loan Officer—Belfast
Deidre S. Wallace	Branch Manager – Union & Warren
Hannah L. Moore	Branch Manager – Damariscotta & New Harbor
Samantha A. Regan	Human Resources Officer
John F. Riley	Collections Officer
Judith M. B. Verney	Assistant Loan Officer

Damariscotta Bankshares, Inc.

Chester A. Rice	Chairman of the Board
John E. Reny	Vice Chairman of the Board
Clayton N. Howard	Secretary and Clerk
Scott D. Conant	President
Sonja D. Benner	Treasurer

Dear Stockholders;

I am pleased to report our 2019 performance results. We did experience a decline in net income from 2018 in spite of growth in our balance sheet during the year.

2019 was a year marked by lower asset yields and higher deposit costs resulting in a net interest income reduction. In last year's report I spoke about the ingredients used in the creation of our success, some of which we have no control over. The level of interest rates on both sides of our balance sheet are market-driven. In 2019 we experienced a lower level of asset yield resulting from both multiple reductions in the Federal Reserve overnight target rate and pressure in the consumer and commercial deposit markets for higher interest rates.

Our operating expenses in 2019 increased over 2018 by nearly eleven percent. Roughly half the increase is the result of our December 2019 announcement of entering into a merger agreement with Bangor Savings Bank. Much of the remaining operating expense increase is attributed to other market and industry forces that are beyond our control. Technology and regulatory forces continue to complicate the banking business. These factors require us to continue to add additional resources in order to face our competition and satisfy the ever increasing regulatory requirements. Today the cost of those resources is rising at a faster pace as there is clearly a scarcity of available workers in our markets.

We have worked hard these past few decades to build a solid and commendable community bank. However, as we analyze the future trend of business forces beyond our control, we see that our best path forward is to pass our success on to Bangor Savings Bank. All of the DB&T Directors want to gratefully thank all of our employees for their many years of service and the contributions they made to the success of the Bank. It would not have been possible without their dedication and hard work.

In closing, I would be remiss if I did not recognize our last remaining founding director. Nearly fifty years ago a group of local businessmen came together to create DB&T for the purpose of serving the needs of local families and businesses. Over the decades those founding directors served the Bank diligently and, one-by-one, as time went by they retired from the board room. All of them retired with the exception of one: Clayton Howard; our last serving founding director. Clayton continues to serve the Board and the Bank in a steadfast manner. Thank you Clayton for your service to this bank.

Please join us for a stockholder meeting on the fourth Wednesday in April, the 29th, at our 619 Main Street Branch in Damariscotta. I look forward to seeing you there.

Sincerely,

Chester A Rice

Chester A. Rice
Chairman of the Board

Chester M. Kearney
Certified Public Accountants

12 Dyer Street, Presque Isle, Maine 04769-1550
207-764-3171 Fax 207-764-6362

166 Bangor Street, Houlton, Maine 04730-0744
207-532-4271 Fax 207-532-4589

Barbara E. McGuire, CPA, CGMA
Timothy P. Poitras, CPA, CGMA

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Damariscotta Bankshares, Inc.
Damariscotta, Maine

We have audited the accompanying consolidated financial statements of Damariscotta Bankshares, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Damariscotta Bankshares, Inc. and subsidiary as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chester M. Kearney

Houlton, Maine
February 21, 2020

DAMARISCOTTA BANKSHARES, INC.

Consolidated Balance Sheets

ASSETS

	December 31, 2019	December 31, 2018
Cash and due from banks	$ 26,556,000	$ 25,657,000
Investment securities	43,107,000	41,610,000
Loans	126,516,000	125,317,000
Less allowance for loan losses	1,201,000	1,183,000
Net Loans	125,315,000	124,134,000
Bank premises and equipment	3,856,000	4,009,000
Other assets	2,507,000	2,774,000
	$201,341,000	$198,184,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31, 2019	December 31, 2018
Deposits		
Regular checking accounts	$ 22,666,000	$ 27,336,000
NOW accounts	48,748,000	40,884,000
Savings	38,313,000	38,345,000
Time deposits	20,470,000	19,667,000
Time deposits over $100,000	26,627,000	25,267,000
Money market accounts	23,326,000	25,874,000
	180,150,000	177,373,000
Other Liabilities	2,085,000	2,317,000
Stockholders' equity		
Common stock, no par value, $0.42 stated value; 2,000,000 authorized: 1,305,000 issued and outstanding (1,299,000 in 2018)	542,000	540,000
Surplus	4,097,000	4,029,000
Retained earnings	14,473,000	13,912,000
Accumulated other comprehensive income (loss) from the net unrealized loss on available-for-sale securities (net of income taxes)	(6,000)	13,000
	19,106,000	18,494,000
	$ 201,341,000	$ 198,184,000

See Independent Auditor's Report • See Notes to Financial Statements

DAMARISCOTTA BANKSHARES, INC.

Consolidated Statements of Income and Comprehensive Income

	Years ended December 31, 2019	2018
Interest Income		
Interest on loans	$ 6,090,000	$ 5,757,000
Interest on federal funds sold and bank deposits	350,000	286,000
Interest and dividends on investments	1,026,000	971,000
	7,466,000	7,014,000
Interest expense	1,173,000	678,000
Net interest income	6,293,000	6,336,000
Provision for loan losses	63,000	122,000
Net interest income after provision for loan losses	6,230,000	6,214,000
Other operating income		
Fees for customer services	479,000	493,000
Loan fees	75,000	84,000
Other income	795,000	433,000
	1,349,000	1,010,000
Other operating expenses		
Salaries, wages and benefits	3,104,000	2,801,000
Net occupancy and F&F expense	838,000	851,000
Other	2,335,000	2,013,000
	6,277,000	5,665,000
Income before income taxes	1,302,000	1,559,000
Income taxes	288,000	343,000
Net Income	$ 1,014,000	$ 1,216,000
Other comprehensive income		
Unrealized losses on securities available-for-sale		
Unrealized holding losses arising during the period	(24,000)	(145,000)
Federal income tax related to other comprehensive income	5,000	53,000
Other comprehensive loss, net of federal income tax	(19,000)	(92,000)
Total comprehensive income	$ 995,000	$ 1,124,000

See Independent Auditor's Report • See Notes to Financial Statements

DAMARISCOTTA BANKSHARES, INC.

Consolidated Statements of Cash Flows

	Years ended December 31, 2019	2018
Cash flows from operating activities		
Interest received	$ 7,446,000	$ 6,996,000
Other operating income	1,416,000	1,010,000
Interest paid	(1,171,000)	(667,000)
Cash paid to suppliers and employees	(5,739,000)	(5,277,000)
Income taxes paid	(418,000)	(343,000)
Net cash provided by operating activities	1,534,000	1,719,000
Cash flows from investing activities		
Proceeds from maturities and principal payments on available-for-sale securities	499,000	999,000
Purchase of available-for-sale securities	(125,000)	(174,000)
Proceeds from maturities and principal payments on held-to-maturity securities	16,174,000	877,000
Purchase of held-to-maturity securities	(18,064,000)	
Net increase in loans	(1,353,000)	(3,624,000)
Proceeds from sale of other real estate owned	109,000	129,000
Purchase of property and equipment	(202,000)	(327,000)
Net cash used in investing activities	(2,962,000)	(2,120,000)
Cash flows from financing activities		
Net increase (decrease) in demand deposits and savings accounts	614,000	(4,374,000)
Net increase in certificates of deposit	2,163,000	8,882,000
Common stock redeemed	(22,000)	(17,000)
Dividends paid in cash	(428,000)	(429,000)
Net cash provided by financing activities	2,327,000	4,062,000
Net increase in cash	899,000	3,661,000
Cash, beginning of year	25,657,000	21,996,000
Cash, end of year	$ 26,556,000	$ 25,657,000
Cash, end of year consists of the following:		
Cash and due from banks		
Non-interest bearing	26,495,000	25,554,000
Interest bearing	61,000	103,000
	$ 26,556,000	$ 25,657,000
Noncash investing transaction,		
Transfer of loans to foreclosed property	108,000	48,000
Shares issued through Dividend Investment Plan	92,000	89,000

See Independent Auditor's Report • See Notes to Financial Statements

DAMARISCOTTA BANKSHARES, INC.

Consolidated Statements of Changes in Stockholders' Equity

	Total	Comprehensive Income	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (loss) from the Net Unrealized Loss on Available-for-Sale Securities
Balance, December 31, 2017	$17,793,000		$ 538,000	$3,959,000	$13,191,000	$ 105,000
Net income, $0.94 per share	1,216,000	1,216,000			1,216,000	
Dividends, $0.40 per share	(517,000)				(517,000)	
Reclassification adjustment for						
Effect of tax law changes	22,000				22,000	
Market change in AFS securities,						
Net of income taxes, $53,000	(92,000)	(92,000)				(92,000)
Comprehensive income		$ 1,124,000				
Stock redemption	(17,000)		(1,000)	(16,000)		
Stock sold	89,000		3,000	86,000		
Balance, December 31, 2018	$18,494,000		$ 540,000	$4,029,000	$13,912,000	$ 13,000
Net income, $0.78 per share	1,014,000	1,014,000			1,014,000	
Dividends, $0.40 per share	(520,000)				(520,000)	
Net reclassification adjustments for						
Accounting standard changes	67,000				67,000	
Market change in AFS securities,						
Net of income taxes, $5,000	(19,000)	(19,000)				(19,000)
Comprehensive income		$ 995,000				
Stock redemption	(22,000)		(1,000)	(21,000)		
Stock sold	92,000		3,000	89,000		
Balance, December 31, 2019	$19,106,000		$ 542,000	$4,097,000	$14,473,000	$ (6,000)

See Independent Auditor's Report • See Notes to Financial Statements

DAMARISCOTTA BANKSHARES, INC.

Notes To Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Damariscotta Bankshares, Inc. conform to generally accepted accounting principles in the United States of America and to general practices within the banking industry. The following is a description of the more significant policies.

Principles of Consolidation

These consolidated financial statements include the accounts of Damariscotta Bankshares, Inc. and its fully owned subsidiary, Damariscotta Bank & Trust Company. All material intercompany accounts and transactions have been eliminated.

Business

Damariscotta Bankshares, Inc. (the Company) is a bank holding company whose sole activity is the ownership and management of its wholly owned subsidiary, Damariscotta Bank & Trust Company. Damariscotta Bank & Trust Company (the Bank) is a commercial bank that accepts deposits and makes residential, consumer and commercial loans in the mid-coastal region of Maine. The Company and its subsidiary are subject to competition from other financial institutions in the area and from national competition and are also subject to regulation of, and periodic examination by, the Federal Deposit Insurance Corporation, the Maine Bureau of Financial Institutions and the Federal Reserve Board. The regulators do not take any responsibility for the accuracy of these financial statements.

The economy of the mid-coastal region is especially dependent upon the tourism, fishing, forestry and defense related industries, and the Bank would be directly affected by changes in any of these industries.

Basis of Financial Statement Presentation

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from these estimates. The determination of the allowance for loan losses and the valuation of other real estate owned are estimates that are particularly susceptible to significant change.

A large portion of the Bank’s loan portfolio consists of single-family residential loans and commercial real estate loans in the mid-coast area. Accordingly, the collectability of a substantial portion of the Bank’s loan portfolio is susceptible to changes in the local real estate market.

While management uses all available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in the local economy. In addition, regulatory agencies, as a part of their examination process, periodically review the Bank’s loan portfolio and may require the Bank to make additions to the allowance for loan losses based on judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowance for loan losses and the valuation of Other Real Estate Owned may change materially in the near term.

Investment Securities

Debt securities that the Bank has the ability and intent to hold to maturity are classified as held-to-maturity and carried at cost and adjusted for amortization of premium and accretion of discounts using methods approximating the interest method.

Debt securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of stockholders' equity.

Equity securities not using the equity method are carried at estimated fair value based on information provided by a third-party pricing service with changes in fair value and realized gains or losses reported in noninterest income. If fair value is not readily determinable, the equity security is carried at cost subject to adjustments for any observable market transactions on the same or similar instruments of the investee. All equity securities are evaluated at least annually for impairment. The Bank's equity securities have readily determinable fair values. Because changes in fair value are recorded as they occur, there is no expectation of a gain or loss on the sale of equity securities.

Loans and Loan Losses

Loans are stated at unpaid principal balances, less the allowance for loan losses and deferred loan fees and costs. Interest on loans is calculated using the simple interest method.

Loan origination fees and certain direct loan origination costs are deferred and amortized as an adjustment to interest income over the estimated lives of the related loans.

The recording of interest on problem loans, which includes impaired loans, ceases when collectability within a reasonable time is considered to be doubtful. Cash receipts on 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. Loans are restored to accrual status when payments are current and repayment of the remaining amount is expected.

Loans are classified as impaired when it is probable that the Bank will not be able to collect all the amounts due according to the contractual terms of the loan agreement. The amount of the impairment is measured based on the present value of expected future cash flows or on the collateral value if the loan is collateral dependent. Impairment losses are included in the allowance for loan losses.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the loans, credit concentrations, trends in historical loss experience, risk on non-periodic losses, specific impaired loans, real estate market and economic conditions in the local area. The allowance is increased by a provision for loan losses, which is charged to expense, and reduced by charge-offs, net of recoveries.

The allowance for loan losses is comprised of two primary components: impaired loans and all other loans. A specific reserve is set up for individual impaired loans. All other loans are grouped by type and analyzed by a myriad of factors to determine an allowance. The most significant factor in the analysis of all other loans is the past loss experience. Other qualitative factors comprise the remainder of the reserve for all other loans.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the estimated useful life of the improvement or the term of the lease. Maintenance and repairs are expensed as incurred.

Other Real Estate Owned

Real estate properties acquired through foreclosure are initially recorded at the lower of the Bank's cost or the property's fair value, less costs to sell. Any write-down at the time of foreclosure is charged to the allowance for loan losses. Costs incurred in maintaining foreclosed real estate and any subsequent write-downs to reflect market declines are included in operating expenses.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Provisions for deferred taxes are made as a result of temporary differences between financial and taxable income. These differences relate principally to provisions for loan losses, depreciation, certain equity securities and deferred compensation plans. The deferred tax assets represent the future tax benefits that will be realized when the temporary differences are reversed. Deferred tax assets and liabilities are recorded at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision of income taxes.

Management has evaluated its tax positions and determined that there are no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Adopted Accounting Pronouncements

ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Under the new guidance, entities have to measure equity investments (except those accounted for under the equity method) at fair value and recognize any changes in fair value in net income. Adoption of this ASU, which was effective for the Bank on January 1, 2019, did not have a material impact on the Bank's consolidated financial statements.

ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (AOCI). The adoption of this guidance permitted the Bank to reclassify, from AOCI to retained earnings, stranded tax effects due to the revaluation of deferred tax assets and liabilities as result of changes in applicable tax rates under the Tax Cut and Jobs Act. The Bank early adopted this ASU which resulted in a cumulative effect adjustment to retained earnings and AOCI in the amount of $22,000 for the year ended December 31, 2018.

ASU 2014-09, Revenue from Contracts with Customers, is meant to replace a wide range of industry-specific rules with a broad, principles-based framework for recognizing and measuring revenue from contracts with customers. The guidance is codified at FASB ASC 606. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Bank's revenue is composed of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, adoption of this ASU, which was effective for the Bank on January 1, 2019, did not have a material impact on the Bank's consolidated financial statements.

Accounting Standards Pending Adoption

ASU No. 2016-02 Leases. This ASU was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU is effective for fiscal years beginning after December 15, 2020. Management does not anticipate this ASU to have a material effect on the consolidated financial statements.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU will replace the existing incurred loss model for recognizing credit losses and will require that expected credit losses for financial assets held at the reporting date be measured and recognized based on historical experience as well as current and forecasted conditions to reflect the full amount of expected credit losses. The ASU is effective for fiscal years beginning after December 15, 2022. Management is reviewing this ASU to determine the impact on the consolidated financial statements.

Statements of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and interest bearing and non-interest bearing amounts due from banks.

CDARS

The Bank has entered into an arrangement called CDARS whereby the Bank's customers, for one large deposit in excess of FDIC insurance limits, can receive multiple FDIC insured CD's from various other banks. In return, the Bank agrees to purchase an equivalent amount of CD's from other banks in the program. Deposits placed through the CDARS service may be considered brokered deposits by the FDIC.

Comprehensive Income

Comprehensive income is defined as all changes to equity except dividends paid to shareholders. For the Bank, comprehensive income includes net income and the change in net unrealized gains (losses) on certain available-for-sale securities. At December 31, 2019 and 2018, realized gains of $0 were reclassified out of accumulated other comprehensive income into earnings.

Advertising Costs

The Bank expenses all advertising costs when incurred. Advertising costs for the years ended December 31, 2019 and 2018 were $75,000 and $76,000, respectively.

NOTE 2 - INVESTMENT SECURITIES

At December 31, 2019, investment securities consisted of the following:

Securities Available-For-Sale, carried at fair value

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
U.S. Government and				
Federal Agencies	$1,999,000	$1,990,000		$ 9,000
Other Securities	928,000	1,273,000	$345,000	
	$2,927,000	$3,263,000	$345,000	$ 9,000

Other Securities unrealized gain of $345,000, has been recognized in the financial statements at December 31, 2019 with the adoption of ASU 2016-01. Unrealized gains of $89,000 were reclassified from other comprehensive income to retained earnings upon adoption. The $255,000 change in fair value since adoption has been included in other income on the consolidated statements of net income and comprehensive income at December 31, 2019.

Securities Held-To-Maturity, carried at amortized cost

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss
Debt securities				
U.S. Government and				
Federal Agencies	$26,902,000	$26,915,000	$13,000	
State and local governments	528,000	550,000	22,000	
Mortgage backed securities	12,414,000	12,342,000		$ 72,000
	$39,844,000	$39,807,000	$35,000	$ 72,000

The amortized cost and estimated fair value of securities held-to-maturity and available-for-sale at December 31, 2019, by contractual maturity, are as follows:

Contracted Maturity Schedule

	Held-to-Maturity		Available-for-Sale	
	Carrying Value	**Fair Value**	**Amortized Cost**	**Fair Value**
Amounts maturing in:				
One year or less	$ 3,497,000	$ 3,500,000		
After one year through five years	12,987,000	13,074,000	$1,999,000	$1,990,000
After five years through ten years	13,214,000	13,107,000		
After ten years	10,146,000	10,126,000		
No Maturity Date			928,000	1,273,000
	$39,844,000	$39,807,000	$2,927,000	$3,263,000

At December 31, 2019, securities valued at $12,793,000 were pledged to secure municipal deposits and securities valued at $2,000,000 were pledged to provide borrowing capacity for Federal Reserve Bank advances.

At December 31, 2018, investment securities consisted of the following:

Securities Available-For-Sale, carried at fair value

	Amortized	Fair	Gross Unrealized	
	Cost	**Value**	**Gain**	**Loss**
Mutual funds	$ 804,000	$ 893,000	$ 89,000	
U.S. Government and				
Federal Agencies	2,497,000	2,424,000		$ 73,000
	$3,301,000	$3,317,000	$ 89,000	$ 73,000

Securities Held-To-Maturity, carried at amortized cost

	Amortized	Fair	Gross Unrealized	
	Cost	**Value**	**Gain**	**Loss**
Debt securities				
U.S. Government and Federal				
Agencies	$37,328,000	$35,790,000		$ 1,538,000
State and local governments	532,000	521,000		11,000
Mortgage backed securities	433,000	448,000	$ 15,000	
	$38,293,000	$36,759,000	$ 15,000	$ 1,549,000

Management reviews Held-to-Maturity debt securities with significant unrealized losses for other than temporary impairment. As of December 31, 2019, there were 30 debt securities, with unrealized losses, in the Bank's portfolio. Management does not believe that these securities are permanently impaired because the unrealized loss is a direct result of market decline related to interest rates, therefore an allowance has not been recorded. Management expects the full bond value to be received at maturity. Information regarding securities temporarily impaired at December 31, 2019 and 2018 is summarized below:

	Less than 12 mo.		12 mo. or more		Total	
As of Dec. 31, 2019:	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Gov't. and Federal Agencies	$ 999,000	$ 1,000	$14,376,000	$ 106,000	$15,375,000	$ 107,000
Mortgage backed securities	11,979,000	94,000	30,000		12,009,000	94,000
	$12,978,000	$95,000	$14,406,000	$ 106,000	$27,384,000	$ 201,000

	Less than 12 mo.		12 mo. or more		Total	
As of Dec. 31, 2018:	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Gov't. and Federal Agencies	$ 984,000	$ 3,000	$34,806,000	$1,535,000	$35,790,000	$1,538,000
State and local governments			521,000	11,000	521,000	11,000
Mortgage backed securities	44,000	1,000			44,000	1,000
	$1,028,000	$ 4,000	$35,327,000	$1,546,000	$36,355,000	$1,550,000

NOTE 3 - LOANS

A summary of the loan balances follows:

	2019	2018
Mortgage loans on real estate		
Commercial	$ 32,446,000	$ 34,755,000
Residential	68,955,000	65,070,000
Home equity	10,931,000	11,334,000
Commercial loans	10,871,000	11,145,000
Municipal loans	506,000	554,000
Consumer loans	2,807,000	2,459,000
	$126,516,000	$125,317,000
Less Allowance for loan losses	1,201,000	1,183,000
Net Loans	$125,315,000	$124,134,000

Deferred loan fees of $246,000 and $233,000 are included in consumer loans for the years ended December 31, 2019 and 2018, respectively.

An analysis of the allowance for loan losses follows:

Years Ended December 31,	2019	2018
Balance at beginning of year	$ 1,183,000	$ 1,106,000
Provision for loan losses	63,000	122,000
Loans charged off	(49,000)	(54,000)
Recoveries of loans previously charged off	4,000	9,000
Balance at end of year	$ 1,201,000	$ 1,183,000

The following table presents the allowance for loan losses and select loan information for the year ended December 31, 2019:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Municipal	Total
Allowance for loan losses (in $1,000's)						
Ending balance	175	430	581	15		1,201
Individually evaluated for impairment	36		151			187
Collectively evaluated for impairment	139	430	430	15		1,014
Loans (in $1,000's)						
Ending balance	10,871	32,446	79,886	2,807	506	126,516
Individually evaluated for impairment	95	1,496	745			2,336
Collectively evaluated for impairment	10,776	30,950	79,141	2,807	506	124,180

Management’s judgment of the likelihood of a loss is demonstrated by the internal Risk Rating assigned to each loan in both the Commercial and Consumer portfolios.

The loan portfolio is closely monitored for quality and the likelihood for loss using an Allowance for Loan and Lease Loss Methodology that conforms to regulatory guidance. For commercial loans the Bank utilizes the following Risk Ratings:

PASS GRADE CLASSIFICATIONS:

1: Superior

Loans will be secured by a cash account or US Treasury Securities with adequate margin.

2: Above Average

Commercial Loans: Strong profitability, very well capitalized with minimal debt, and strong, experienced management. Guarantor could pay back debt. DSCR generally 1.75x or more. If secured, LTV ratio generally 50% or less.

Commercial Real Estate Loans: Guarantor strength. Will have considerable equity in project, with superior location and market conditions. DSCR generally 1.20x or more. LTV ratio generally 50% or less.

3: Average

Commercial Loans: Will be well capitalized with modest debt to worth and profitable operations and is able to weather economic cycles. Will have capable management. DSCR generally 1.20x or more. If secured, LTV generally 75% or less.

Commercial Real Estate Loans: Guarantor has a positive impact on credit. Will be pre-leased with quality tenants. DSCR generally 1.05x or more. LTV ratio generally 75% or less. *Construction loans*- full pre-sale or pre-leasing.

4: Acceptable

Commercial Loans: Has a generally clear repayment history and debt to worth is acceptable. Management may be inexperienced. Business may be cyclical; may face strong competition, product risk, etc. DSCR lower than Bank guidelines. LTV ratio may exceed Bank guidelines. Includes TDR's performing in accordance with terms.

Commercial Real Estate Loans: Generally clear repayment history. Guarantor does not add strength. Property is less adaptive and the location affords additional risk. May lack full pre-sales or leases and real estate activity may be a side-line. DSCR lower than Bank guidelines. LTV ratio may exceed Bank guidelines. Includes TDR's performing in accordance with terms.

5: Special Mention

Has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Includes, but is not limited to, loans greater than 90 days past due and loans on non-accrual.

ADVERSE CLASSIFICATIONS:

6: Substandard

An asset classified as substandard is inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Includes, but is not limited to, loans greater than 90 days past due, non-accrual loans, TDR's, and loans in liquidation and/or foreclosure.

7: Doubtful

An asset classified Doubtful has all the weaknesses inherent in Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Includes, but is not limited to, loans with an identified impairment amount, until such time said amount is charged off, at which time the remaining balance will return to a Substandard classification.

8: Loss

An asset classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

Consumer loans are not assigned a Risk Rating at the time of origination. Should management determine that a consumer loan has become compromised, it is then assigned an adverse Risk Rating (6, 7, or 8) and administered in accordance with Policy and regulatory guidance.

The following tables summarize credit risk indicators by portfolio as of December 31, 2019:

	Commercial Real Estate	**Commercial**
Pass	$ 28,193,000	$ 11,162,000
Special mention	2,756,000	167,000
Substandard	1,487,000	16,000
Doubtful	10,000	32,000
	$ 32,446,000	$ 11,377,000

Consumer Credit Risk Exposure
Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	**Consumer**
Pass	$ 79,212,000	$ 2,807,000
Substandard	497,000	
Doubtful	177,000	
	$ 79,886,000	$ 2,807,000

The following table presents an aging analysis of past due loans (in $1,000's) as of December 31, 2019. Nonaccrual loans amounted to $2,962,000 at December 31, 2018.

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total	Non-Accrual	Greater Than 90 Days and Accruing
Commercial	$ 162	$ 89		$ 251	$ 10,620	$ 10,871	$ 95	
Commercial real estate	498	94	257	849	31,597	32,446	1,565	18
Residential real estate	276	386	557	1,219	78,667	79,886	1,151	82
Consumer	13		1	14	2,793	2,807		
Municipal					506	506		
	$ 949	$ 569	$ 815	$2,333	$124,183	$126,516	$ 2,811	$ 100

Interest income not recognized on non-accrual loans was $279,000 at December 31, 2019 and $193,000 at December 31, 2018. Loans greater than ninety days past due and still accruing interest amounted to $201,000 at December 31, 2018.

The following table presents a summary of information pertaining to impaired loans by loan category as of December 31, 2019. Interest income recognized on impaired loans during 2018 amounted to $38,000.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no related allowance recorded:				
Commercial	$ 16,000	$ 16,000		$ 7,000
Commercial real estate	1,561,000	1,728,000		43,000
Residential real estate	497,000	503,000		10,000
Consumer				
With an allowance recorded:				
Commercial	42,000	42,000	$26,000	3,000
Commercial real estate	43,000	43,000	10,000	2,000
Residential real estate	177,000	198,000	151,000	2,000
Consumer				
Total:				
Commercial	58,000	58,000	26,000	10,000
Commercial real estate	1,604,000	1,771,000	10,000	45,000
Residential real estate	674,000	701,000	151,000	12,000
Consumer				
	$ 2,336,000	$2,530,000	$ 187,000	$ 67,000

The following is a comparative summary of information pertaining to impaired loans:

	2019	2018
Impaired loans without a valuation allowance	$2,074,000	$1,561,000
Impaired loans with a valuation allowance	262,000	288,000
Total impaired loans	$2,336,000	$1,849,000
Valuation allowance related to impaired loans	$ 187,000	$ 147,000
Average investment in impaired loans	$ 90,000	$ 103,000

No additional funds are committed to be advanced in connection with impaired loans at December 31, 2019.

At December 31, 2019, Troubled Debt Restructures (TDR's) amounted to $1,234,000. There was no allowance for loan loss related to TDR's. There were no commitments to lend additional funds to borrowers with loans classified as TDR's at December 31, 2019. There was one loan totaling $118,000 classified as a TDR that defaulted in 2019.

NOTE 4 - LINES OF CREDIT

The Bank is a member bank of the Federal Home Loan Bank (FHLB). As of December 31, 2019, the Bank had no borrowings on its line of credit and had total borrowing capacity of $32,000,000. The Bank is required to purchase stock in the FHLB. At December 31, 2019, the Bank had purchased $235,000 of restricted stock recorded at cost. The stock is not marketable, carried at cost on the books, and included with other assets.

The Bank has an unused line of credit with the Federal Reserve Bank for an amount equal to the value of securities held. Securities valued at $2,000,000 are held in safekeeping at the Federal Reserve Bank to secure future advances if requested.

NOTE 5 - INCOME TAXES

The total income taxes shown in the consolidated statements of income are as follows:

	2019	2018
Current federal tax	$ 221,000	$ 315,000
Current state franchise tax	26,000	28,000
Current deferred tax adjustment	41,000	
	$ 288,000	$ 343,000

Following is a reconciliation of income tax calculated at the statutory rate compared to the recorded amounts:

	2019	2018
Tax calculated at statutory rates on income		
for financial reporting purposes	$ 273,000	$ 383,000
Deferred tax adjustment	41,000	2,000
Reduction in tax from:		
Tax exempt interest and dividends	(7,000)	(9,000)
Other differences	(19,000)	(33,000)
	$ 288,000	$ 343,000

Deferred income taxes are as follows:

	2019	2018
Balance, beginning of year	$ 398,000	$ 329,000
Change in tax on unrealized gain (loss) on		
available-for-sale securities	(17,000)	61,000
Change in temporary differences and other changes	(3,000)	8,000
Balance, end of year	$ 378,000	$ 398,000

Items which give rise to deferred income tax assets and liabilities are as follows:

	2019	2018
Deferred tax assets		
Provision for loan losses less for tax purposes		
than for financial reporting purposes	$ 231,000	$ 221,000
Deferred compensation not deductible for tax		
purposes until paid	386,000	387,000
Interest on non-accrual loans	58,000	41,000
Unrealized loss on available-for-sale securities	2,000	15,000
	$ 677,000	$ 664,000
Deferred tax liabilities		
Depreciation more for tax purposes than for financial reporting purposes	$137,000	$ 136,000
CSV of life insurance policies	56,000	62,000
Deferred loan fees	52,000	49,000
Unrealized gain on available-for-sale securities	54,000	19,000
	$ 299,000	$ 266,000
Net Deferred tax asset	$ 378,000	$ 398,000

The deferred tax asset is included as part of Other Assets on the Balance Sheet. No valuation allowance is deemed necessary.

NOTE 6 - RELATED PARTIES

Directors, officers, and related entities as a whole own 11% of the outstanding stock of the Bank and have loans totaling $1,580,000 and deposits totaling $24,916,000 with the Bank as of December 31, 2019. These deposits and loans are made in the ordinary course of business on substantially the same terms and conditions prevailing at the time for comparable transactions with other persons, and did not involve more than a normal risk of collectability. During 2019, loan advances made to directors amounted to $103,000 and payments amounted to $399,000.

The Bank entered into a lease in 1998 for real estate which houses the Belfast branch with a corporation owned by a director. The agreement is classified as an operating lease. The original lease term is for twenty-five years and expires on July 1, 2023. Extensions are available. The lease may be cancelled with sixty days written notice and three years rent payments. The annual lease amount will increase relative to the consumer price index not to exceed 5% of the previous year's lease amount. The following is a schedule of future maximum rental payments required under the operating lease that has initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2019:

Year Ending December 31,	Amount
2020	$ 35,000
2021	37,000
2022	39,000
2023	21,000
	$ 132,000

Lease expense was approximately $33,000 and $31,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - EARNINGS PER SHARE, DIVIDEND INVESTMENT PLAN AND STOCK REDEMPTION PLAN

Under the Dividend Investment Plan, shareholders may elect to receive stock rather than cash dividends. The stock is priced at 95% of its value based on recent trades. Shareholders purchased 7,000 shares of stock under the plan in 2019 and 2018, respectively. The dividend investment plan was suspended effective February 21, 2020.

All earnings per share calculations have been made using the number of shares outstanding at the end of each year. There were no potentially dilutive securities outstanding in any year.

The Bank may redeem up to 50% of the stock from retiring employees in the ESOP plan. 2,000 and 1,000 shares of stock were redeemed for the years ending December 31, 2019 and 2018, respectively.

NOTE 8 - RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2019	2018
Net income	$ 1,014,000	$ 1,216,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	355,000	352,000
Provision for loan losses	63,000	122,000
Changes in accrued interest receivable and prepaids	243,000	(41,000)
Changes in accrued expense and accounts payable	(141,000)	70,000
Net cash provided by operating activities	$ 1,534,000	$ 1,719,000

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Bank sponsors a non-contributory Employee Stock Ownership Plan (ESOP) that covers substantially all of its employees. The Bank plans to make annual discretionary contributions in amounts sufficient to redeem shares as deemed prudent. The Bank made discretionary contributions of $20,000 to the plan in 2019 and 2018. The contributions are allocated to the employee accounts based on their total compensation. The ESOP owns 5.7% of the common stock of the Bank. The common stock held by the plan is valued at fair value based upon an independent appraisal. Distributions attributable to stock accounts with appraised values greater than $30,000 will be paid over five years. The shares owned by the ESOP are included in the total outstanding stock as shown on the Balance Sheets and are utilized in calculating the earnings per share. Dividends paid to the Plan are included with the total dividends paid shown on the Consolidated Statement of Changes in Stockholders' Equity.

The Bank has adopted a policy subject to capitalization requirements to fund the ESOP Plan with an annual contribution and make a discretionary matching dividend to Damariscotta Bankshares, Inc. The Bank made a discretionary dividend of $0 and $40,000 in 2019 and 2018, respectively. This dividend money is available at the holding company's discretion to redeem shares of stock from ESOP Plan participants upon termination.

The Bank sponsors a 401(k) plan that covers substantially all employees. The Bank can make a discretionary employer match of the first 6% of employee contributions. The Bank made discretionary contributions of $44,000 in 2019 and $39,000 in 2018. The Bank sponsors several non-qualified deferred compensation retirement plans for the benefit of key officers and directors. The cost of these plans was approximately $218,000 in 2019 and $211,000 in 2018.

In addition, the Bank has an incentive plan to pay bonuses to officers and employees at the Board's discretion. The cost of this plan was $48,000 in 2019 and 2018.

NOTE 10 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a 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 extend credit. These financial instruments involve elements of credit and interest rate risk in excess of the amounts recognized on the balance sheet. The contract amount of those instruments reflects the extent of involvement the Bank has in particular classes of financial instruments. The Bank maintains cash balances in other financial institutions in excess of FDIC insured amounts.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the commitment to extend credit is represented by the contractual amount of the commitments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established by the contract. Commitments generally have a fixed expiration date and may require payment of a fee. Since many commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

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

	2019	**2018**
Unused lines of credit	$ 20,034,000	$ 18,105,000
Commitment to extend credit	2,363,000	1,251,000
	$ 22,397,000	$ 19,356,000

The Bank is subject to various legal and regulatory proceedings arising in the normal course of business. Management does not anticipate that any losses or costs associated with these proceedings will have a material adverse effect on the financial statements.

NOTE 11 - FAIR VALUE

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1:

Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2:

Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3:

Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

Fair Value Measurements at December 31, 2019, using:

	Total	Level 1	Level 2	Level 3
Assets				
Securities available-for-sale:				
Other securities	$1,273,000		$1,273,000	
U.S. Government and Federal Agencies	1,990,000	$ 495,000	1,495,000	
Total securities available-for-sale	$3,263,000	$ 495,000	$2,768,000	

Fair Value Measurements at December 31, 2018, using:

	Total	Level 1	Level 2	Level 3
Assets				
Securities available-for-sale:				
Mutual funds	$ 893,000		$ 893,000	
U.S. Government and Federal Agencies	2,424,000	$ 973,000	1,451,000	
Total securities available-for-sale	$3,317,000	$ 973,000	$2,344,000	

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below.

		Carrying Value		
	Total	Level 1	Level 2	Level 3
December 31, 2019:				
Impaired loans	$2,149,000			$2,149,000
Other real estate owned	30,000			30,000
	$2,179,000			$2,179,000
December 31, 2018:				
Impaired loans	$1,702,000			$1,702,000
Other real estate owned	30,000			30,000
	$1,732,000			$1,732,000

The carrying amounts of the impaired loans are adjusted when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral. Cash flow analysis considers internally developed inputs, such as discount rates, default rates, costs of foreclosure and changes in real estate values. The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations and assessments provided by third-party appraisers. Impaired loans with a specifically allocated allowance based on cash flow analysis or the underlying collateral are classified as Level 3 assets. Other real estate owned is valued based on inputs such as appraisals and third party opinion, less the estimated selling costs and is classified as a Level 3 asset. There were no changes in the valuation techniques during the year. At December 31, 2019 and 2018, the amount of foreclosed residential real estate property held by the Bank was $30,000. The recorded investment in consumer mortgage loans collateralized by residential real estate property in process of foreclosure at December 31, 2019 and 2018 was $295,000 and $109,000, respectively. Impaired loans charged off in Note 3 include amounts of $10,000 and $20,000 for the years ended December 31, 2019 and 2018, respectively. Other real estate owned charged off was $0 and $48,000 for the years ending December 31, 2019 and 2018, respectively.

GAAP requires disclosures of fair value information about financial instruments, whether or not recognized on the balance sheet, if the fair values can be reasonably determined. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Bank'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. Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents and Federal Funds Sold: The carrying amounts reported in the statement of financial condition for cash, cash equivalents and Federal Funds Sold approximate those assets' fair values. Substantially all of the cash is in excess of the federally insured limits.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprise frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and rental property mortgage loans and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.

Deposits, repurchase agreements and advances from the FHLB: The fair values disclosed for demand deposits (for example, interest-bearing checking accounts and passbook accounts), certificates of deposit, repurchase agreements and advances from the FHLB are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates and borrowings to a schedule of aggregated contractual maturities on such time deposits and borrowings. The carrying amount of accrued interest payable approximates fair value.

Other liabilities: Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the borrowers. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates.

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 Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments involving future expected loss experience, current economic conditions, risk characteristics of various 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 off-balance-sheet financial instruments without attempting to estimate the value of future business and the value of assets and liabilities not considered financial instruments. Other significant assets and liabilities not considered to be financial instruments include the deferred tax asset, bank premises and equipment, and other real estate owned. In addition, tax ramifications related to the realization of the unrealized gains or losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

The estimated fair values and related carrying amounts of the Bank's financial instruments at December 31, 2019 and 2018 are as follows:

	2019		**2018**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 26,556,000	$26,556,000	$25,657,000	$25,657,000
Investment securities	43,107,000	43,070,000	41,610,000	40,076,000
Loans, less allowance for losses	125,315,000	128,872,000	124,134,000	122,978,000
Financial liabilities				
Deposits	180,150,000	180,107,000	177,373,000	176,703,000
Unrecognized financial instruments				
Commitments to extend credit	22,397,000	22,397,000	19,356,000	19,356,000

NOTE 12 - OTHER ASSETS

Other assets consist of the following:

	2019	2018
Accrued interest receivable	$ 516,000	$496,000
Cash value of life insurance policies	855,000	872,000
Deferred income tax asset, net of liability	378,000	398,000
Other real estate owned	30,000	30,000
Federal Home Loan Bank Stock	235,000	398,000
Prepaid expenses and other	493,000	580,000
	$2,507,000	$2,774,000

The Bank carries whole life insurance on the lives of its key employees and directors. The value of the policies is recorded at their cash surrender value. The face amount of the policies of approximately $2.5 million is payable to the Bank. At December 31, 2019, other real estate owned consisted of $0 in commercial real estate and $30,000 in residential real estate.

NOTE 13 - OTHER LIABILITIES

Other liabilities consist of the following:

	2019	2018
Income tax payable		$ 62,000
Accrued interest payable	$ 27,000	25,000
Deferred compensation	1,839,000	1,843,000
Other	219,000	387,000
	$2,085,000	$2,317,000

NOTE 14 - TIME DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

2020	$30,823,000
2021	10,758,000
2022	1,478,000
2023	2,342,000
2024	1,696,000
	$47,097,000

NOTE 15 - PREMISES AND EQUIPMENT

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

	2019	2018
Premises		
Land	$ 854,000	$ 876,000
Buildings	5,941,000	5,824,000
Furniture and equipment	3,098,000	3,055,000
	9,893,000	9,755,000
Less accumulated depreciation	6,037,000	5,746,000
	$3,856,000	$4,009,000

NOTE 16 – COMMITMENT

On December 17, 2019, the Board of Directors of Damariscotta Bank Shares, Inc. and Damariscotta Bank & Trust Co. signed a plan of merger agreement with Bangor Savings Bank. Stockholders of record on March 2, 2020 will vote on the merger agreement at a Special Meeting to be held on April 29, 2020. The merger is expected to be finalized in June 2020. All stockholders of Damariscotta Bank Shares, Inc. on record at the closing date will be paid $27 a share.

NOTE 17 - REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can result in mandatory and discretionary actions by regulators that could have a direct material effect on the Bank's financial statements and the Bank's ability to pay dividends. Under the capital adequacy guidelines and the regulatory frame-works for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory guidelines. The Bank's capital amounts and category are also subject to qualitative judgments by the regulators about components, risk weights and other factors.

Qualitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Tier 1, Common Equity Tier 1 and Total capital to risk-based assets, and Tier 1 capital to total assets. Management believes, as of December 31, 2019, the Bank meets all the capital requirements to which it is subject.

As of December 31, 2019 the Bank was "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" or "adequately capitalized", the Bank must maintain ratios as set forth in the following table. There are no conditions or events since that date that management believes have changed the Bank's category.

The Bank's actual capital amounts (in $1,000's) and ratios are as follows:

	Actual		To be "Adequately Capitalized"		To be "Well Capitalized"	
At December 31, 2019:						
Total capital to risk-based assets	20,122	17.3%	9,281	8.0%	11,601	10.0%
Tier 1 capital to risk-based assets	18,921	16.3%	6,961	6.0%	9,281	8.0%
Tier 1 capital to total assets	18,921	9.6%	7,875	4.0%	9,844	5.0%
Common equity capital to risk-based assets	18,921	16.3%	5,220	4.5%	7,541	6.5%
At December 31, 2018:						
Total capital to risk-based assets	19,492	16.9%	9,237	8.0%	11,546	10.0%
Tier 1 capital to risk-based assets	18,269	15.8%	6,928	6.0%	9,237	8.0%
Tier 1 capital to total assets	18,269	9.4%	7,783	4.0%	9,728	5.0%
Common equity capital to risk-based assets	18,269	15.8%	5,196	4.5%	7,505	6.5%

The Bank meets the Capital Conservation Buffer requirements needed in order to avoid limits on capital distributions, such as dividends, under the new regulatory framework. The Bank's Capital Conservation Buffer as of December 31, 2019 was 9.3%.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Management has evaluated subsequent events occurring through February 21, 2020, the date the financial statements were available to be issued.

Damariscotta Bank &Trust

24 Hour ATMs
at All Branch Locations

Damariscotta
25 Main Street
Damariscotta, ME 04543

Damariscotta
619 Main Street
Damariscotta, ME 04543

New Harbor
2578 Bristol Road
New Harbor, ME 04554

Warren
289 Camden Road
Warren, ME 04864

Belfast
Reny's Plaza, Belmont Avenue
Belfast, ME 04915

Union
17 Sennebec Road
Union, ME 04862

Surcharge Free ATM Locations

Hannaford Supermarket
Business Route 1
Damariscotta, ME 04543

Hannaford Supermarket
Route 1
Waldoboro, ME 04572

Hannaford Supermarket
93 Lincolnville Avenue
Belfast, ME 04915

Mike's Place
Route 1
Newcastle, ME 04553

Hannaford Supermarket
180 Townsend Avenue
Boothbay Harbor, ME 04538

Lincoln Health Cafe
35 Miles Street
Damariscotta, ME 04543