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, Jon J. Prescott
Name of the Holding Company Director and Official

President & CEO
Title of the Holding Company Director and Official

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

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

Signature of Holding Company Director and Official

03/10/2022
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, 2021
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Katahdin Bankshares Corp.
Legal Title of Holding Company

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

City	State	Zip Code
Patten	ME	04765

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Joseph Porter	VP, Controller

207-521-3228
Area Code / Phone Number / Extension

207-521-0456
Area Code / FAX Number

j.porter@katahdintrust.com
E-mail Address

www.katahdintrust.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."

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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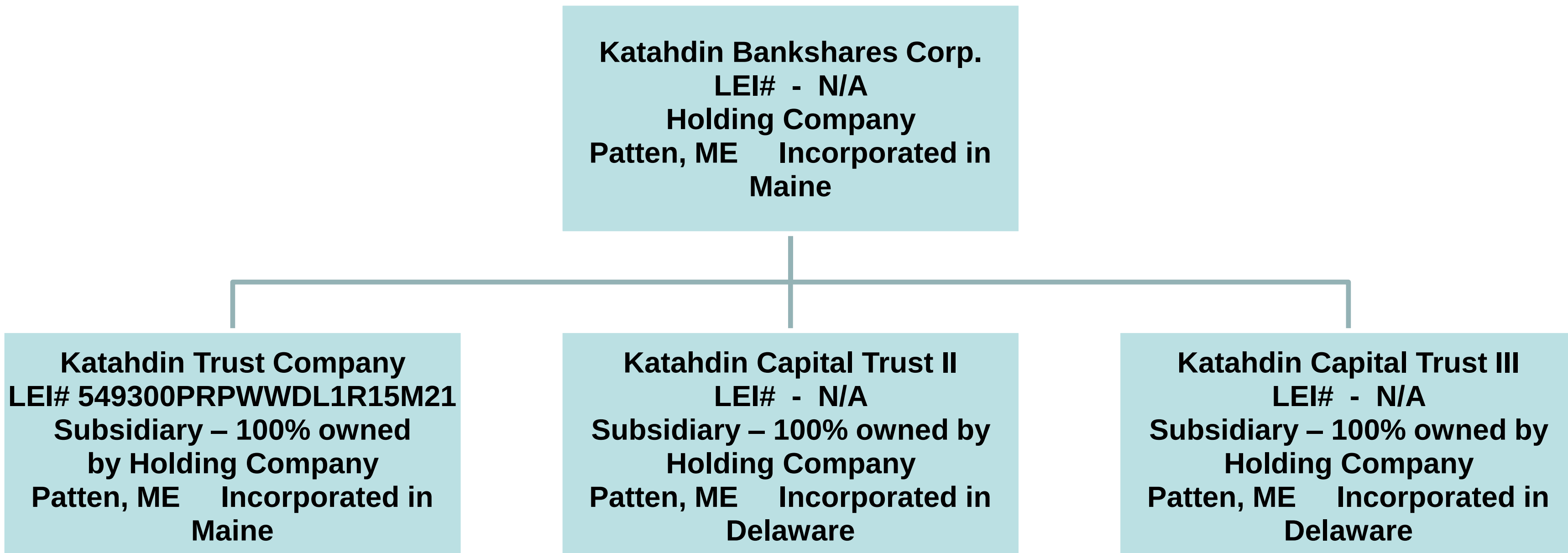
(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Report Item 2: Organization Chart

(1.)



(2.) None

(3.) None

FR Y-6
For year-end December 31, 2021
Katahdin Bankshares Corp.
Main Street, P O Box 450
Patten, Maine 04765

Report Item 1a: Form 10-K filed with the Securities and Exchange Commission

None

Report Item 1b: Annual reports to shareholders

Enclosed

Report Item 3: Shareholders

(1) **CEDE & Co.**
New York, NY/USA
Country of Incorporation – United States of America
2,296,528 shares of Common Stock = 69.10%

Report Item 4: Principal Shareholders, Directors & Officers

Principal Shareholders:

1. Name & Address:	**CEDE & Co.**, New York, NY/USA
2. Principal Occupation:	Depository Trust Company
3. Title/Position:	N/A
4. % of each class:	69.10% of stock in Katahdin Bankshares Corp., (beneficial interest)

Directors:

1. Name & Address:	**Steven L. Richardson,** Patten, ME/USA
2. Principal Occupation:	Businessman – Retail Store Owner
3. Title/Position:	a. Chairman of the Board & Director of Katahdin Bankshares Corp., b. Chairman of the Board & Director of Katahdin Trust Company, c. Partner in Richardson's Hardware.
4. % of each class:	a. Owner of 2.83% of stock in Katahdin Bankshares Corp., c. Owner of 75% of stock in Richardson's Hardware.

1. Name & Address:	**Richard B. Harnum, Jr.** Bangor, ME/USA
2. Principal Occupation:	Commercial Real Estate Development and Management
3. Title/Position:	a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Co-owner and Managing Member of Harnum Family, LLC, e. Co-owner and Managing Member of M&H Family, LLC, f. owner and manager of RBH Enterprises, LLC, g. owner and manager of Lucerne Properties, LLC
4. % of each class:	a. Owner of 0.09% of stock in Katahdin Bankshares Corp.; c. owner of 50% of stock in Harnum Family, LLC, e. owner of 50% of stock in M&H Family, LLC, f. owner of 100% of stock in RBH Enterprises, LLC, g. owner of 100% of stock in Lucerne Properties, LLC.

1. Name & Address: **<u>Paul R. Powers</u>,** Caribou, ME/USA
2. Principal Occupation: Contractor
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Owner of Powers Roofing & Sheet Metal, Inc. d. Owner of B.J.J. Powers Enterprises, LLC, e. Partner in Aroostook County Redevelopment Association, f. Partner in Northern Maine Brewing Company.
4. % of each class: a. Owner of 1.29% of stock in Katahdin Bankshares Corp. c. Owner of 50% stock in Powers Roofing & Sheet Metal, Inc., d. Owner of 100% of stock in B.J.J. Powers Enterprises; e. Owner of 6.0 % stock in Aroostook County Redevelopment Association; f. Owner of 16% stock in Northern Maine Brewing Company.

1. Name & Address: **<u>Peter F. Briggs</u>,** Kennebunk, ME/USA
2. Principal Occupation: Retired, Wholesale Beverage Industry
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company
4. % of each class: a. Owner of 1.44% of stock in Katahdin Bankshares Corp.

1. Name & Address: **<u>Richard J. York</u>,** Houlton, ME/USA
2. Principal Occupation: Businessman – Owner of Automobile Dealership
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Owner of York Ford Sales, d. Owner of York Leasing, Inc., e. Owner of Freshstart Finance Company, f. Owner of York Reinsurance Ltd. g. Owner of Nature's Circle Farm
4. % of each class a. Owner of 1.08% of stock in Katahdin Bankshares Corp., c. Owner of 35% of stock in York's of Houlton, d. Owner of 35% of stock in York Leasing Inc., e. Owner of 35% of stock in Freshstart Finance Company, f. Owner of 47.50% of stock in York Reinsurance Ltd., g. Owner of 65% of stock in Nature's Circle Farm.

1. Name & Address: **<u>Kimberley A. Niles</u>,** Atkinson, NH/USA
2. Principal Occupation: Business Owner
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Managing Director of State of Granite, LLC, d. Managing Director of MRMT, LLC
4. % of each class: a. Owner of 0.06% of stock in Katahdin Bankshares Corp.; c. Owner of 100% of stock in State of Granite, LLC. d. Owner of 100% stock in MRMT, LLC

1. Name & Address: **<u>Marianna (Molly) Putnam Liddell</u>,** Yarmouth, ME/USA
2. Principal Occupation: Attorney, Pierce Atwood LLP
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Partner Pierce Atwood LLP
4. % of each class: a. Owner of 0.06% of stock in Katahdin Bankshares Corp., c. Owner of <5% in Pierce Atwood LLP

1. Name & Address: **<u>Keith P. Bourgoin</u>** Hampden, ME/USA
2. Principal Occupation: CPA
3. Title/Position: a. Director of Katahdin Bankshares Corp., b. Director of Katahdin Trust Company, c. Owner and Managing Partner Haverlock, Estey & Curran LLC, d. Owner and Managing Partner HEC – Hampden
4. % of each class: a. Owner of 0.06% of stock in Katahdin Bankshares Corp., c. Partnership Interest of 16.66% in Haverlock, Estey & Curran CPA's, d. Partnership Interest of 16.66% in HEC- Hampden.

1. Name & Address: **<u>Jon J. Prescott</u>,** Houlton, ME/USA
2. Principal Occupation: Bank Executive
3. Title/Position: a. President & CEO, and Director of Katahdin Bankshares Corp., b. Director, President & CEO of Katahdin Trust Company, c. Director of MMG Insurance & Holding Company, d. Director of Houlton Water Company
4. % of each class: a. Owner of 2.06% of stock in Katahdin Bankshares Corp.

Officers:

1. Name & Address: **William P. Lucy**, Verona Island, ME/USA
2. Principal Occupation: Banker
3. Title/Position: No position with holding company, Executive Vice President, Commercial Services of Katahdin Trust Company.
4. % of each class: Owner of .33% of stock in Katahdin Bankshares Corp.

1. Name & Address: **Matthew M. Nightingale,** Houlton, ME/USA
2. Principal Occupation: Banker
3. Title/Position: a. Treasurer & Clerk of Katahdin Bankshares Corp., b. Executive Vice President, CFO, & Treasurer of Katahdin Trust Company
   c. Director Aroostook Partnership
4. % of each class: a. Owner of .18% of stock of Katahdin Bankshares Corp.

1. Name & Address: **Krista K. Putnam,** Houlton, ME/USA
2. Principal Occupation: Banker
3. Title/Position: No position with holding company, Executive Vice President, Chief Marketing Officer of Katahdin Trust Company
4. % of each class: Owner of .06% stock in Katahdin Bankshares Corp.

1. Name & Address: **Angela T. Butler**, Bangor, ME/USA
2. Principal Occupation: Banker
3. Title/Position: No position with holding company, Executive Vice President, Retail and Business Banking of Katahdin Trust Company
4. % of each class: Owner of .09% stock in Katahdin Bankshares Corp.

Results: A list of branches for your depository institution: KATAHDIN TRUST COMPANY (ID_RSSD: 327305).
This depository institution is held by KATAHDIN BANKSHARES CORPORATION (1140127) of PATTEN, ME.
The data are as of 12/31/2021. Data reflects information that was received and processed through 01/12/2022.

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

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

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

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

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	327305	KATAHDIN TRUST COMPANY	11 MAIN STREET	PATTEN	ME	04765	PENOBSCOT	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	114206	ASHLAND BRANCH	17 MAIN STREET	ASHLAND	ME	04732	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	4181457	BROADWAY BRANCH	609 BROADWAY	BANGOR	ME	04401	PENOBSCOT	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	4420491	SPRINGER DRIVE BRANCH	52 SPRINGER DRIVE	BANGOR	ME	04401	PENOBSCOT	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	3775569	CARIBOU BRANCH	105 BENNETT DRIVE	CARIBOU	ME	04736	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	150802	EAGLE LAKE OFFICE	3440 AROOSTOOK ROAD	EAGLE LAKE	ME	04739	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	307307	FORT FAIRFIELD OFFICE	290 MAIN STREET	FORT FAIRFIELD	ME	04742	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	4721031	FORT KENT BRANCH	79 WEST MAIN STREET	FORT KENT	ME	04743	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	4396103	HAMPDEN BRANCH	57 WESTERN AVENUE	HAMPDEN	ME	04444	PENOBSCOT	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	1189313	HOULTON BRANCH	65 NORTH STREET	HOULTON	ME	04730	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	139302	ISLAND FALLS BRANCH	1007 CRYSTAL ROAD	ISLAND FALLS	ME	04747	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	2524304	MARS HILL BRANCH	28 MAIN STREET	MARS HILL	ME	04758	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	290306	OAKFIELD BRANCH	200 OAKFIELD SMYRNA ROAD	OAKFIELD	ME	04763	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	1850556	PRESQUE ISLE BRANCH	6 NORTH STREET	PRESQUE ISLE	ME	04769	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	4556774	SCARBOROUGH BRANCH	144 US ROUTE 1	SCARBOROUGH	ME	04074	CUMBERLAND	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	
OK		Full Service	369109	VAN BUREN BRANCH	29 MAIN STREET	VAN BUREN	ME	04785	AROOSTOOK	UNITED STATES	Not Required	Not Required	KATAHDIN TRUST COMPANY	327305	


2021
ANNUAL
K
REPORT
KATAHDIN BANKSHARES CORP.

DEAR FELLOW SHAREHOLDERS,

Overall, Katahdin Bankshares Corp. had an exceptional year. Despite the many challenges that carried over in 2021 caused by the ongoing coronavirus pandemic, we made it through the year and have some solid results to show for it.

2021 Financial Recap

Net income for the year totaled $9,473,000, down only slightly from 2020 but a 23% increase when compared to 2019. Earnings per common share stayed level at $2.88. Return on average assets was 1.00% and return on average equity was 11.75%. Both remain solid numbers. Tangible book value per share increased to $23.63. We were pleased to again be able to pay record dividends to shareholders.

Over the past two years, we have communicated extensively about the Paycheck Protection Program (PPP) loan program from the U.S. Small Business Administration and the effects it had on our employees, customers, and our earnings and balance sheet. As you may recall, it required a huge bank-wide effort to participate in this program. During 2021 we realized $2,357,000 in income from PPP loan origination, which greatly added to our profitability. You can find more details on the PPP program later in this report.

Our asset growth was minimal as PPP loans were paid down and came off our asset total. Loan growth, apart from PPP, was strong at $24,341,000. Core deposit growth was strong and the changes we experienced in deposit mix were beneficial. As we head into 2022, we'll continue to focus on growing core deposit relationships at every opportunity as these accounts prove to be extremely valuable to us.

Bank capital ratios are robust and we remain well above regulatory requirements with a leverage ratio of 10.1% and a total risk-based capital ratio of 15.7%.

Net interest income increased $739,000, due mostly to lower funding costs. We were able to utilize excess liquidity to pay down more expensive wholesale funding, which contributed to the lower expense. Non-interest income was down $734,000 as we did not see the same significant income from back-to-back swaps for commercial customers as the previous year.

On the expense side, salaries and employee benefits rose by $911,000. We saw considerable wage inflation due to the shrinking labor market. Higher wages are often required to attract and retain talent at many levels throughout the Bank. Like many other financial institutions and industries across the country, we expect this trend to continue for the foreseeable future. All other major expense categories were in-line with our projections for the year and expense control will continue to be a primary goal.

Asset quality remains strong and only a minimal provision for loan losses of $135,000 was required in 2021. It is clear that many local businesses have done well through the pandemic, while some are benefiting greatly from federal stimulus funds. Asset quality numbers are as strong as we have seen and likely unsustainable over time. By the same token, we have fostered a strong credit culture and do not intend to lower our credit standards on loans, particularly on loan structure. The competition for desirable deals is extremely intense.

Further detailed commentary on our financials appears in the Company Overview and Results of Operations section of this report.

Shareholder Meeting & Voting

I am pleased that our Annual Shareholders' Meeting will be back in person this year. Join us on Monday, May 2, 2022, at 11:00 a.m. at our new meeting location at the Hilton Garden Inn in Bangor, Maine. If you prefer to attend remotely, we will have a listen only call-in number available, including a link to the presentation. Refer to your proxy card for instructions on how to access the meeting. Even if you cannot attend, I urge each shareholder to take part in important Company decisions and cast your proxy votes. Voting can be conveniently done online, by mail, or by telephone and only takes a few minutes of your time.

Supporting our Team and Communities

2021 was a difficult year for our entire staff and their families. Covid has made our work and personal lives more challenging. As mentioned in the fourth quarter report, each employee received a one-time stipend of 2% with a minimum of $750 to help ease the extra expenses related to the pandemic. This payment was in addition to their annual regular performance bonus payout. This is something we have not offered in the Company's history and I feel that it is very well deserved for our team.

Katahdin employees and directors volunteered more than 3,000 hours in 2021 to help many of our friends and neighbors in need and impacted 118 different organizations across Maine. In addition to volunteering their time, employees raised funds for various causes, including the Maine chapter of American Heart Association, American Cancer Society, Hope & Justice Project's Domestic Violence Awareness program, Maine Veterans Project, and United Way of Aroostook.

"**A LOT HAS CHANGED AND EVOLVED OVER THE PAST TWO YEARS, BUT ONE THING THAT WILL NEVER CHANGE IS OUR COMMITMENT TO OUR LOCAL COMMUNITIES AND HELPING OUR CUSTOMERS.**"

Jon J. Prescott
President & CEO

As a Company, we were proud to partner with several local non-profit organizations in 2021 to help enrich the local communities we serve. Causes include the Jefferson Cary Foundation to help purchase new mammography and imaging services equipment at Cary Medical Center, Northern Light Eastern Maine Medical Center Champion the Cure Challenge to support local cancer research and treatment, Penquis We've Got Your Back Campaign to help purchase backpacks and school supplies for families facing financial challenges, Preble Street Stuff the Bus to help feed hungry Mainers, and United Way of Aroostook Summer Slide Reading Program to encourage a love for books, and financial literacy.

Maine Bankers Association recently launched a new statewide campaign to raise awareness of the different career opportunities and benefits in banking, called "Find Yourself in Banking." We have joined other member banks to help promote our job openings from marketing to information technology and accounting to lending. The colorful and unique digital and social graphics are designed to help make banking attractive to those who may have never considered a career at a bank before. The campaign also includes information like 75% of banks promote from within their own company and that you don't need a college education to start a career in banking. Be on the lookout for more #FindYourselfInBanking promotions.

Moving Forward Together

In closing, I am amazed every day at the hard work of our employees. The entire team at Katahdin continues to rise to ongoing challenges. A lot has changed and evolved over the past two years, but one thing that will never change is our commitment to our local communities and helping our customers with their personal and business financial goals — now and for many more years to come.

Thank you for your investment in and continued support of Katahdin Trust. I encourage you to connect and follow along with us on Facebook, Twitter, LinkedIn, and Instagram for the latest on employee highlights, bank news, photos, and updates.

As always, if you have questions regarding the Company or this report, feel free to contact us.

Sincerely,

Jon J. Prescott
President & CEO

103 YEARS IN BUSINESS
1918–2021

FINANCIAL HIGHLIGHTS AS OF 12/31/21

KTHN STOCK
$25.55

TOTAL ASSETS
$940.5 MILLION

NET INCOME
$9.47 MILLION

RETURN ON AVG EQUITY
11.75%

EARNINGS PER SHARE
$2.88

TOTAL DEPOSITS
$820.2 MILLION

BOARD OF DIRECTORS

STEVEN L. RICHARDSON

CHAIRMAN
Partner,
Richardson's Hardware
Patten, Maine
Director since 1978

RICHARD J. YORK, SR.

VICE CHAIRMAN
Owner,
York's of Houlton
Houlton, Maine
Director since 1997

JON J. PRESCOTT

PRESIDENT & CEO
Katahdin Bankshares Corp.
and Katahdin Trust Company
Houlton, Maine
Director since 1997

KEITH P. BOURGOIN, CPA

Managing Partner,
Haverlock, Estey & Curran, LLC
Hampden, Maine
Director since 2018

PETER F. BRIGGS

Retired from the
wholesale beverage industry.
Kennebunk, Maine and
Green Valley, Arizona
Director since 1995

RICHARD B. HARNUM, JR.

President,
Harnum Holdings
Bangor, Maine
Director since 2017

MARIANNA PUTNAM LIDDELL, ESQ.

Partner,
Pierce Atwood LLP
Yarmouth, Maine
Director since 2018

KIMBERLEY A. NILES

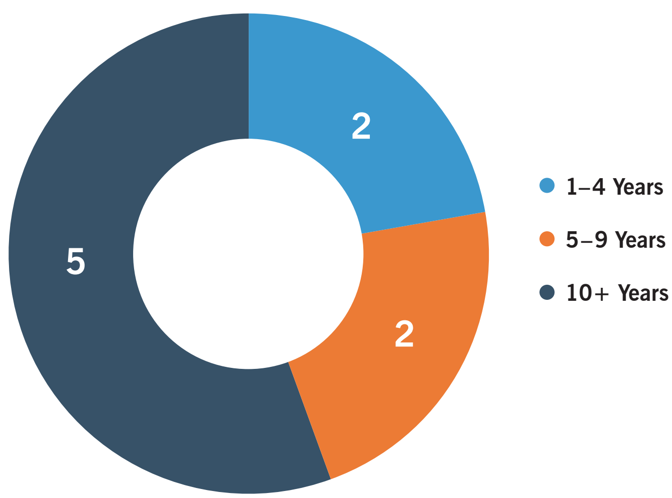
Owner and Director,
State of Granite, LLC
Atkinson, New Hampshire
Director since 2015

PAUL R. POWERS

Owner,
Powers Roofing & Sheet Metal, Inc.
Owner,
B.J.J. Powers Enterprises
Caribou, Maine
Director since 2000

BOARD TENURE

The Katahdin Board of Directors are local leaders committed to the success of our Company. Each one cares deeply about the communities we serve because they live, work, and enjoy our region just like we do. Their diverse backgrounds help provide insight and leadership in the oversight of our Bank with tenure ranging from 3 years to 43 years.



OUR PROMISE

To provide community banking at its best and exceed customer expectations by offering personalized financial solutions to help individuals, businesses, and local communities manage their money and reach their goals.

WE ARE COMMITTED TO:

- Providing quality financial service by giving each and every customer courteous, personal and professional attention. Our employees will be well trained; knowledgeable and motivated at all times to fulfill our customers' financial needs.
- Continued growth and increased shareholder value at levels in line with maintaining a strong capital position.
- Helping businesses grow and prosper.
- Treating all people fairly and equally.
- Meeting the financial needs of the communities we serve, consistent with maintaining safe and sound banking practices.
- Remaining an independent, locally owned and managed community bank that adds to the quality of life of the communities we serve.

"The account I have now with Katahdin Trust I've had since high school. I've stayed with them ever since. They can do all the bells and whistles of the big corporations, but they're small enough they know who I am and they know what my needs are.

We do pride ourselves on customer service and I think that means a lot to people. They know they can count on us, just like we can count on Katahdin Trust."

Josh Tweedie
Mars Hill IGA, Hillside IGA, and Star City IGA

EXECUTIVE MANAGEMENT TEAM

JON J. PRESCOTT
President & CEO

ANGELA T. BUTLER
Executive Vice President
Retail & Business Banking

WILLIAM P. LUCY
Executive Vice President
Commercial Services

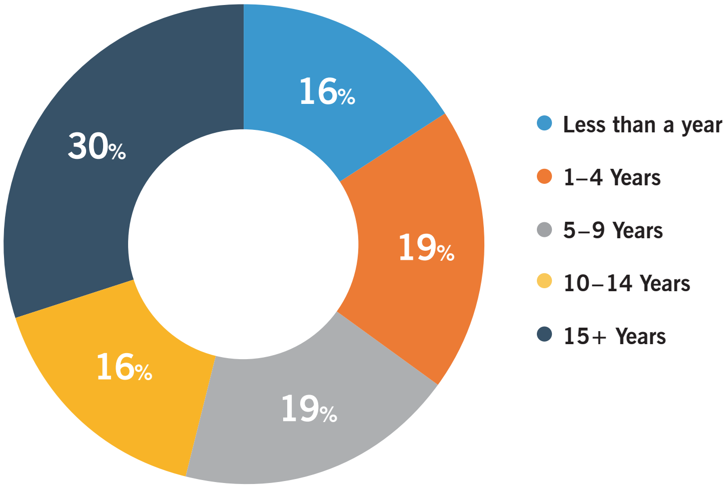
MATTHEW M. NIGHTINGALE
Executive Vice President
Treasurer & CFO

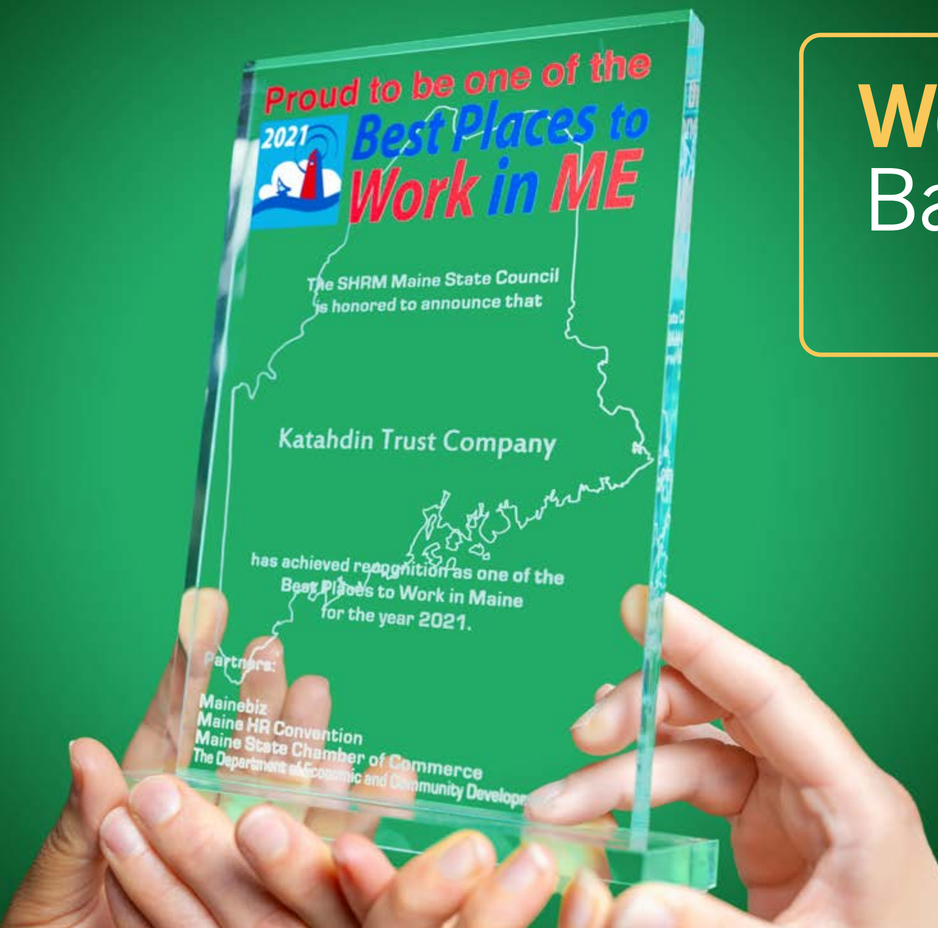
KRISTA K. PUTNAM
Executive Vice President
Chief Marketing Officer

EMPLOYEE TENURE

In 2021, we were named one of the Best Places to Work in Maine for the fourth consecutive year. Our 177 employees work across various departments such as accounting, customer service, data processing, human resources, information technology, lending, marketing, and operations to help our customers with their financial goals.

We pride ourselves on the experience and knowledge of our staff with 46% having been with us for ten or more years.





Work with us.
Bank with us.

177
Employees

OFFICERS

NORTHERN MAINE

Tori A. Barber, AVP
Training Manager

Annette J. Beaton, VP
Community Banking Officer

Bradley A. Berthiaume, SVP
Financial Consultant
Katahdin Financial Services

Cindy L. Boot, AVP
Commercial Services Officer

David H. Cambridge, SVP
Commercial Services Officer

Samuel S. Clockedile, AVP
Marketing Officer

Albert "Joe" Clukey II, VP
Community Banking Officer

Melissa A. Dahlgren, AVP
Branch Manager
Fort Fairfield & Mars Hill

Janet M. Doak, AVP
Branch Manager
Ashland & Presque Isle

Sue A. Fox
Appraisal Department Manager

Angela M. Franck, AVP
Branch Manager
Eagle Lake & Fort Kent

Brian Gardiner
Managed Assets Officer

Sarah J. Gardiner, AVP
Senior Credit Analyst

Leslie M. Gardner, VP
Retail Loans

Allissa M. Given, AVP
Branch Manager
Island Falls, Oakfield & Patten

Alison N. Gould, AVP
Commercial Services Officer

Billi B. Griffeth, RVP
Retail Banking

Patricia A. Hersey, VP
Cash Management &
Business Development Officer

Katherine H. Hill, VP
Bank Operations Manager

Teresa S. Lincoln
Executive Assistant

Susan B. Lunn, VP
Compliance Officer

Valerie J. Maynard
Senior Credit Administration
Assistant

Natasha R. McCarthy, VP
Human Resources Director

Jean E. Noyes, VP
Information Security Officer

Kevin B. Plourde, SVP
Credit Administrator

Joseph M. Porter, VP
Controller

Barrett Potter, VP
Information Security & Vendor Risk

Andrew L. Putnam, VP
Chief Information Officer

Sarah S. Silliboy, AVP
BSA Officer

Peggy S. Smith, VP
Branch Manager
Caribou & Van Buren

Craig C. Staples, VP
Commercial Services Officer

Pamela J. Ward, AVP
Credit Control

Miranda Wotton, AVP
Electronic Banking Manager

GREATER BANGOR

Cale L. Burger, VP
Commercial Services Officer

Sunny G. Flannery, AVP
Branch Manager
Hampden

Jonathan P. Glazier
Community Banking Officer

Justin K. Jamison, VP
Commercial Services Officer

Rebecca J. Kord, AVP
Branch Manager
Broadway & Springer Dr., Bangor

Rebecca L. Potter, AVP
Commercial Services Officer

Jessica Weeks, AVP
Deposit Operations Manager

Danelle L. Weston
Retail Underwriting Officer

GREATER PORTLAND

James P. Amabile, VP
Commercial Services Officer
Maine Financial Group

Vicki L. Bessette, VP
Commercial Services Officer

Aaron J. Cannan, SVP
Commercial Services Officer

Lauren Carpenter
Branch Manager
Scarborough

Blake R. Hamel
Commercial Services Officer
Maine Financial Group

Karyn L. MacLeod, VP
Commercial Services Officer

Susan L. McCarthy, VP
Commercial Services Officer
Manager, Maine Financial Group

Craig Robinson, AVP
Commercial Services Officer

2021 EMPLOYEE & COMMUNITY IMPACT

$315k
Total Giving

302
Local Non-Profit Organizations Supported

$2,250
Raised through employee donations for the Maine Veterans Project

$122k
Total Down Payment Assistance to 10 First-Time Homebuyers

3,084
Volunteer Hours

635
First-grade students benefited from the Summer Slide Reading Program

2021 COMMITMENT TO COMMUNITY

Top of the Mountain Award

Melissa Dahlgren

Melissa has been with Katahdin since 2008. She currently serves as Assistant Vice President, Retail Services Officer and manages both the Fort Fairfield and Mars Hill branch offices in northern Maine. Melissa spends her time volunteering with organizations such as Momentum Aroostook, United Way of Aroostook, and the Central Aroostook Chamber of Commerce.

Congratulations, Melissa, on receiving this award and for your commitment to making a positive impact in your local community.

SELECTED FINANCIAL DATA

The summary consolidated financial and other data should be read in conjunction with, and is qualified in its entirety by, the Company's current and prior years' annual reports and regulatory filings. Dollars in thousands, except share and per share data.

As of or for the Years Ended December 31,	2021	2020	2019	2018	2017
Balance Sheet Data					
Total assets	$ 940,499	$ 937,007	$ 850,909	$ 803,119	$ 794,638
Total investments [1]	111,739	95,973	103,173	96,319	90,445
Total loans	730,303	746,593	701,016	660,475	661,636
Allowance for loan losses	(7,803)	(7,454)	(6,293)	(5,856)	(6,048)
Total deposits	820,187	809,024	714,418	657,074	647,752
Shareholders' equity	83,604	76,202	68,879	71,057	66,799
Summary of Operations					
Interest and dividend income	$ 34,735	$ 36,373	$ 36,314	$ 33,172	$ 30,803
Interest expense	4,066	6,443	8,872	6,906	5,341
Net interest income	30,669	29,930	27,442	26,266	25,462
Provision for loan losses	135	1,260	460	180	1,225
Net interest income after the provision for loan losses	30,534	28,670	26,982	26,086	24,237
Non-interest income	5,099	5,833	5,089	4,408	4,416
Amortization of investments in limited partnerships [11]	236	1,166	107	–	–
Non-interest expense	23,856	22,803	21,969	21,520	21,529
Income before income taxes	11,541	10,534	9,995	8,974	7,124
Income taxes [11]	2,068	1,015	1,836	1,777	2,771
Net income	$ 9,473	$ 9,519	$ 8,159	$ 7,197	$ 4,353
Less dividends on preferred stock	-	-	474	875	875
Net income available to common shareholders	$ 9,473	$ 9,519	$ 7,685	$ 6,322	$ 3,478
Per Common Shares and Common Shares Outstanding					
Net income, basic [2]	$ 2.88	$ 2.88	$ 2.31	$ 1.89	$ 1.03
Net income, diluted [2]	2.88	2.88	2.31	1.89	1.03
Book value [3]	25.41	23.16	20.77	18.29	16.94
Tangible book value [3]	23.63	21.43	19.05	16.59	15.24
Weighted average common shares outstanding: [4]					
Basic	3,290,788	3,299,905	3,326,912	3,345,012	3,373,220
Diluted	3,290,788	3,299,905	3,326,912	3,345,012	3,373,220
Common shares outstanding at period end	3,323,450	3,332,638	3,369,207	3,404,367	3,404,367
Adjusted common shares outstanding at period end [5]	3,290,605	3,290,151	3,316,671	3,339,734	3,361,298
Selected Performance Ratios					
Return on average assets	1.00%	1.02%	0.99%	0.91%	0.55%
Return on average common shareholders' equity	11.75	13.26	11.73	10.85	6.17
Net interest spread [6]	3.22	3.18	3.44	3.40	3.33
Net interest margin [7]	3.52	3.45	3.51	3.50	3.42
Efficiency ratio [8]	66.70	63.78	67.87	70.16	72.06
Asset Quality Ratios					
Allowance for loan losses to period end loans	1.07%	1.00%	0.90%	0.89%	0.91%
Allowance for loan losses to non-performing loans [9]	278.39	155.43	117.05	92.72	84.76
Non-performing loans to period end loans [9]	0.38	0.64	0.77	0.96	1.08
Non-performing assets to total assets [10]	0.30	0.52	0.64	0.79	0.95
Capital Ratios (Katahdin Trust Company)					
Total risk-based capital ratio	15.67%	14.98%	13.75%	13.40%	12.64%
Tier 1 risk-based capital ratio	14.50	13.81	12.75	12.42	11.63
Common equity tier 1 risk-based capital ratio	14.50	13.81	12.75	12.42	11.63
Tier 1 capital ratio (Leverage ratio)	10.14	9.52	9.65	9.42	8.88
Other Data					
Number of full and limited service banking offices	16	16	16	16	16
Number of full-time equivalent employees	162	161	171	173	174
Katahdin Financial Services Assets Under Management	$ 191,140	$ 159,970	$ 135,063	$ 106,190	$ 105,280

(1) Consists of investment securities and FHLB stock. (2) Computed based on the weighted average number of common shares outstanding during each period. (3) Book Value and Tangible Book Value are calculated using Adjusted Common Shares Outstanding at period end. (4) Weighted Average Common Shares Outstanding less weighted average unallocated ESOP shares. Used for calculating Earnings per Common Share. (5) Common Shares Outstanding at period end less unallocated ESOP shares period end. Since unearned ESOP shares are deducted from capital, this adjustment deducts the unallocated shares from shares outstanding for calculating Book Value and Tangible Book Value. (6) Net interest spread is the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. (7) Net interest margin is the net interest income divided by the average interest-earning assets. (8) Efficiency ratio is non-interest expense (excluding Amortization of Investments in Limited Partnerships) divided by the sum of net interest income and non-interest income. (9) Non-performing loans consist of non-accrual loans and restructured loans, where applicable. (10) Non-performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable. (11) The Bank invested in federal historic tax credits which were recognized as a reduction of federal tax expense. Amortization of the corresponding investment was accounted for in other expenses through Amortization of Investments in Limited Partnerships.

COMPANY OVERVIEW AND RESULTS OF OPERATIONS

Katahdin Bankshares Corp. ("KBS" or the "Company") is a bank holding company incorporated under the laws of the State of Maine in 1986 for the purpose of becoming the parent holding company of Katahdin Trust Company (the "Bank"), which was established in 1918. The Bank serves individuals and businesses throughout Maine and online at KatahdinTrust.com.

The Bank conducts commercial and retail banking business that includes accepting deposits from the public and utilizing those funds to originate commercial loans, commercial and residential real estate loans, and consumer loans.

Securities and insurance products are made available to the Bank's customers through Katahdin Financial Services (a service of Cetera Investment Service LLC, a registered broker-dealer and unaffiliated with Katahdin Trust Company), with assets under management of approximately $191.1 million as of December 31, 2021.

Following is an overview of the results of 2021 operations.

Assets

Total assets reached $940.5 million, up $3.5 million over the prior year. Total assets exceed pre-pandemic asset levels of $850.9 million as of year-end 2019.

Asset levels continued to be elevated, with higher levels of cash and cash equivalents due to strong deposit growth throughout 2020 and 2021, outpacing loan growth. Cash and cash equivalents ended the year at continued high levels of $62.9 million as compared to $56.9 million at the same time last year. Our investment portfolio grew in 2021 by $16.0 million.

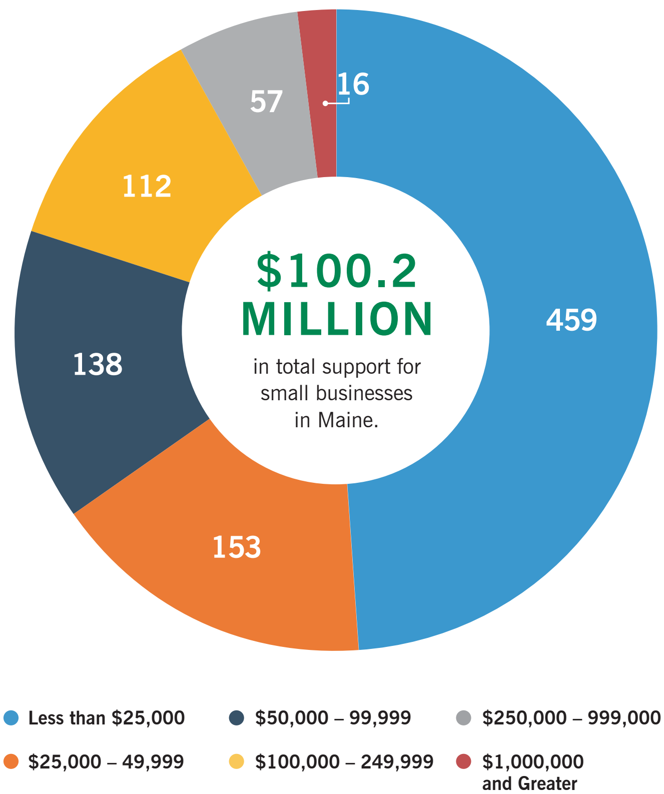
As of year-end 2021, SBA Paycheck Protection Program (PPP) loans outstanding totaled $5.4 million, down $40.6 million from year-end 2020. We originated 935 PPP loans totaling $100.2 million throughout 2020 and 2021 combined. Over 80% of the loans issued were less than $100,000 in size. We were very pleased with the number of our small business customers that directly benefited from this program.

Loans

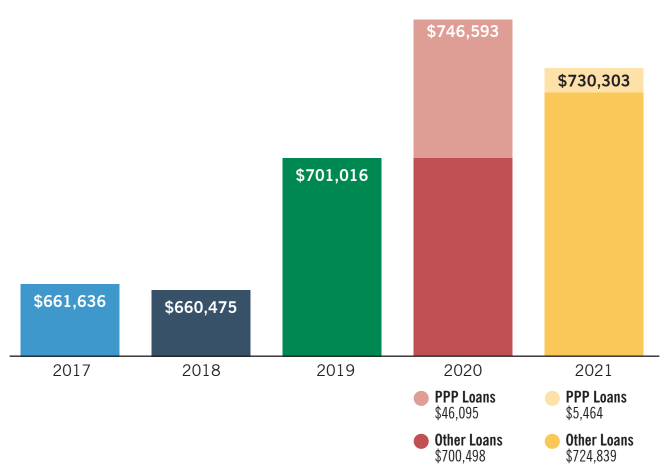
Also because of PPP balance fluctuations, total loan balances ended the year at $730.3 million, down by $16.3 million for 2021. Looking beyond the drop in PPP loans, the underlying customer portfolio increased by $24.3 million.

Real estate lending consisted of the largest growth split between 1-4 residential properties growing $6.0 million and commercial real estate growing $15.9 million in 2021. Excluding the reduction in PPP loans, commercial and industrial loans were flat year over year. Municipal lending grew by $3.0 million in 2021.

PPP LOANS



TOTAL LOANS ($000)



Securities and insurance products are offered through Cetera Investment Services LLC, member FINRA/SIPC. Advisory services are offered through Cetera Investment Advisers LLC. Cetera is not affiliated with the financial institution where investment services are offered. Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services. Investments: **1) Are not FDIC/NCUSIF insured 2) May lose value 3) Are not financial institution guaranteed 4) Are not a deposit 5) Are not insured by any federal government agency.** Cetera registered offices: 12 North St., Presque Isle, ME 04769 and 65 North St., Houlton, ME 04730.

COMPANY OVERVIEW AND RESULTS OF OPERATIONS

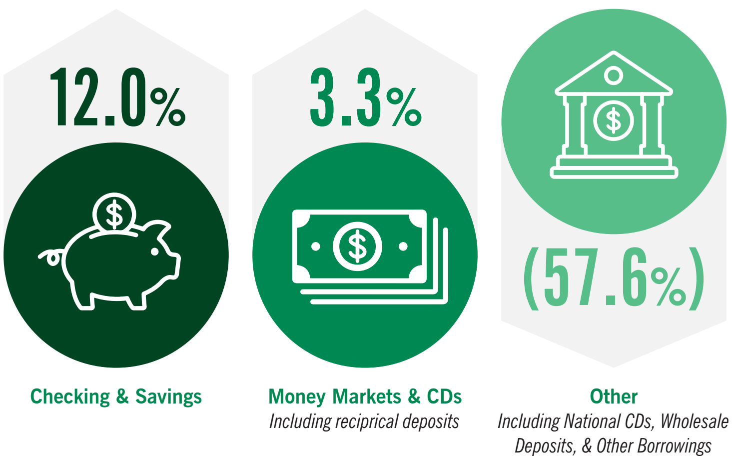
Loans (cont.)

Approximately 77.6% of the Bank's loan portfolio consists of municipal, commercial, and commercial real estate loans. Our loan officers continue to explore new loan opportunities throughout our market area with a focus on building profitable relationships. While growth was lighter than recent years, we were pleased with the new relationships developed throughout all areas of the Company.

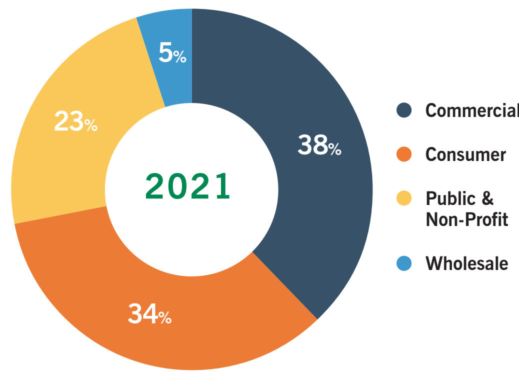
Deposits

Deposits, including both customer and wholesale, grew to $820.2 million, an increase of $11.2 million. Customer deposits grew $58.0 million in 2021, allowing us to pay down an equivalent amount of wholesale funding. Customer checking and savings grew by $47.0 million while money markets and certificates of deposit grew by $11.0 million year over year. New business development efforts continue to be strong and remain a priority. Should excess deposit funding begin to move off our balance sheet, we are well-positioned with both excess liquidity on- and off-balance sheet to continue asset growth into the future.

DEPOSIT TRENDS



DEPOSIT SOURCES



Net Interest Income

Net interest income in 2021 reached $30,669,000, exceeding the prior year by $739,000 or 2.5%. Net interest income reflects revenues generated through income from earning assets plus loan fees, less interest paid on interest-bearing deposits and borrowings. Both 2020 and 2021 have included one-time income from PPP loans and fees, totaling $1.99 million and $2.36 million, respectably. Additionally, our net interest spread grew year over year from 3.18% to 3.22%. Management continues to assess ways to improve net interest income, through both growth and pricing as we manage changes in interest rates over time.

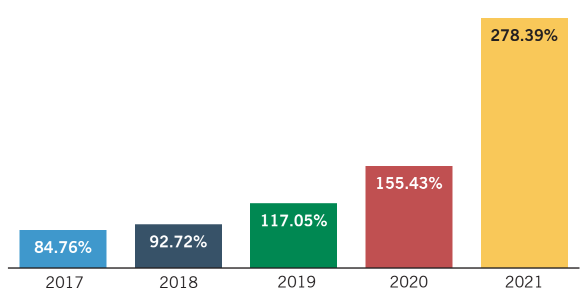
Provision and Asset Quality

Asset quality can be described as exceptional. Past due balances and non-performing loans have remained low throughout 2021. As of year-end, non-performing loans to period end loans dropped from 0.64% at the end of 2020 to 0.38%. Non-performing assets to total assets dropped from 0.52% to 0.30% year-over-year.

$135,000 was added to the allowance through the provision for loan loss expense in 2021 compared to $1,260,000 in 2020. In addition to low past dues, we worked through several non-performing assets during the year. As a result, our allowance for loan losses to period end loans ratio increased to 1.07% compared to 1.00% at year-end 2020. Further, the allowance to non-performing loan coverage reached 278.39% by year end 2021.

Management closely monitors the Bank's reserve for loan losses compared to asset quality to match our reserves with a reasonable estimate of risk. Detailed information regarding our allowance for loan loss can be found in footnote 4 of the audited financial statements.

ALLOWANCE FOR LOAN LOSSES TO NON-PERFORMING LOANS



COMPANY OVERVIEW AND RESULTS OF OPERATIONS

Non-Interest Income and Expense

Non-interest income totaled $5,099,000, down from 2020 by $734,000. Non-interest income consists largely of service charges on loans, deposits, and electronic banking activity. The largest reduction year over year can be attributed to $661,000 in lower revenue from back-to-back interest rate swap fees with customers. Additionally, the year-over-year reduction is partially attributed to lower secondary market activity and lower service charges on deposit accounts. Offsetting some of these reductions was increases in income derived from debit card activity in 2021.

When excluding amortization of investments in limited partnerships in each year, non-interest expense reached $23,856,000 in 2021, representing expense growth of $1,053,000 or 4.6% year-over-year. Expense growth was primarily increases in salaries and benefits and one-time employee performance bonus levels due to solid results. The efficiency ratio ended at 66.70% as of year-end 2021 from 63.78% last year and has ended below 70% the last three years. Management continues to look for opportunities to both grow revenue and operate more efficiently.

Net Income

Net Income available to common shareholders totaled $9,473,000, a reduction from last year of $46,000. Net income for the last two years was influenced significantly through administering PPP loans. While this has been beneficial for extra earnings over that period, we continue to work towards earnings growth over the long term.

Earnings per common share totaled $2.88, flat compared to 2020. Return on Average Assets ended at 1.00% compared to 1.02% in 2020. Return on Average Common Shareholders' Equity was 11.75% compared to 13.26% in 2020.

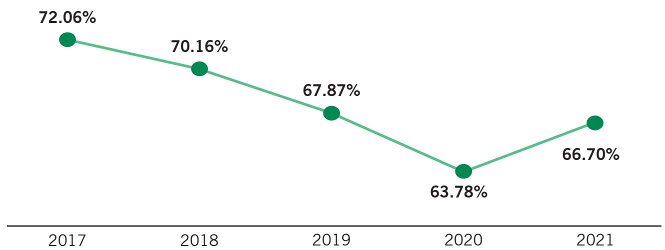
Capital

The additional earnings have directly contributed to Capital growth. Total Shareholders' Equity stood at $83.6 million, an increase of $7.4 million.

Capital ratios grew in 2021 and continue to remain well above the minimums to be well-capitalized per regulatory capital requirements. The Bank's leverage ratio at year-end 2021 was 10.14%, compared to 9.52% at the end of 2020. Total risk-based capital stood at 15.67% compared to 14.98% in 2020.

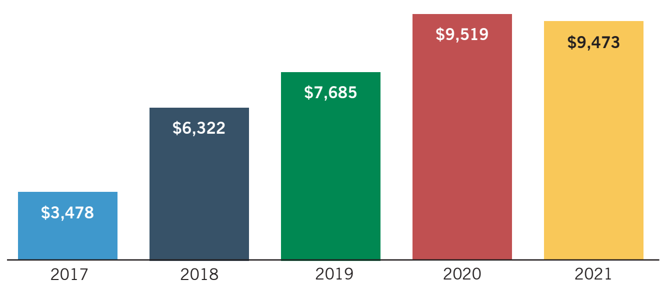
Tangible book value of $23.63 increased by $2.20 or 10.3% over year-end 2020. The Company paid out common stock dividends of $0.50 per share, representing a 17.4% payout ratio. During the year, the Company repurchased 22,771 shares at an average price of $22.07 per share.

EFFICIENCY RATIO

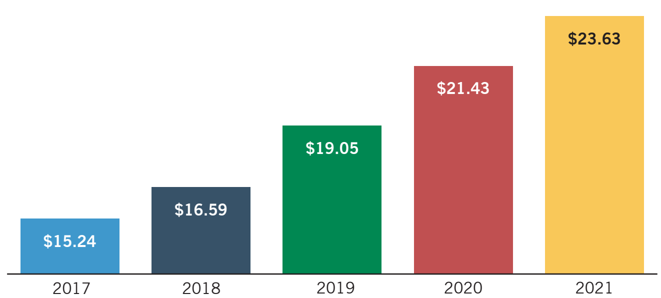


NET INCOME ($000)

Available to common shareholders



TANGIBLE BOOK VALUE



INDEPENDENT AUDITOR'S REPORT

Berry Dunn

Board of Directors and Shareholders
Katahdin Bankshares Corp. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Katahdin Bankshares Corp. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Katahdin Bankshares Corp. and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities
for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with U.S. generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
February 3, 2022

CONSOLIDATED BALANCE SHEETS

December 31, 2021 and 2020

ASSETS	2021	2020
Cash and cash equivalents		
Cash and due from banks	$ 7,159,000	$ 6,362,000
Interest bearing deposits in banks	55,756,000	50,579,000
Total cash and cash equivalents	62,915,000	56,941,000
Securities available-for-sale	110,524,000	94,247,000
Other investments, at fair value	507,000	498,000
Securities held-to-maturity	3,000	4,000
Federal Home Loan Bank stock, at cost	705,000	1,224,000
Loans receivable, net of allowance for loan losses of $7,803,000 in 2021 and $7,454,000 in 2020	722,500,000	739,139,000
Bank premises and equipment, net	11,418,000	9,946,000
Goodwill	5,559,000	5,559,000
Other assets	26,368,000	29,449,000
	$ 940,499,000	$ 937,007,000

LIABILITIES AND SHAREHOLDERS' EQUITY	2021	2020
Deposits		
Demand deposits	$ 221,355,000	$ 197,148,000
NOW and money market deposits	389,825,000	389,410,000
Savings deposits	98,804,000	80,692,000
Certificates of deposit	110,203,000	141,774,000
Total deposits	820,187,000	809,024,000
Advances from Federal Home Loan Bank	1,530,000	13,041,000
Accrued expenses and other liabilities	13,793,000	17,429,000
Senior notes 5.375%, net of unamortized debt issuance costs	14,168,000	14,094,000
Junior subordinated debentures	7,217,000	7,217,000
Total liabilities	856,895,000	860,805,000
Shareholders' equity		
Common stock, $.10 par value; 20,000,000 shares authorized, 3,323,450 and 3,332,638 shares issued and outstanding on December 31, 2021 and 2020, respectively	332,000	333,000
Surplus	7,528,000	7,669,000
Undivided profits	75,791,000	67,963,000
Accumulated other comprehensive income (loss)		
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	35,000	2,120,000
Net unrealized gain (loss) on derivative instruments, net of deferred income taxes	730,000	(1,043,000)
Unearned ESOP shares	(554,000)	(697,000)
Unearned compensation – restricted stock	(258,000)	(143,000)
Total shareholders' equity	83,604,000	76,202,000
	$ 940,499,000	$ 937,007,000

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

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2021 and 2020

	2021	2020
Interest and dividend income		
Loans	$ 32,687,000	$ 33,945,000
Investment securities	2,000,000	2,373,000
Other interest-earning assets	48,000	55,000
Total interest and dividend income	34,735,000	36,373,000
Interest expense		
Deposits	2,689,000	4,787,000
Borrowed funds and junior subordinated debentures	1,377,000	1,656,000
Total interest expense	4,066,000	6,443,000
Net interest income	30,669,000	29,930,000
Provision for loan losses	135,000	1,260,000
Net interest income after provision for loan losses	30,534,000	28,670,000
Noninterest income		
Service charges and fees	1,563,000	1,787,000
Net realized gain on securities available-for-sale	137,000	116,000
Other	3,419,000	3,932,000
Total noninterest income before impairment of investment securities	5,119,000	5,835,000
Total other-than-temporary impairment losses	(29,000)	(18,000)
Portion of loss recognized in other comprehensive income	9,000	16,000
Net impairment losses recognized in net income	(20,000)	(2,000)
Net noninterest income	5,099,000	5,833,000
Noninterest expenses		
Salaries and employee benefits	14,877,000	13,966,000
Occupancy and equipment expense	2,753,000	2,613,000
Data processing	2,499,000	2,303,000
Marketing and donations	878,000	829,000
FDIC and state assessments	305,000	461,000
Amortization of investments in limited partnerships	236,000	1,166,000
Other general and administrative	2,544,000	2,631,000
Total noninterest expenses	24,092,000	23,969,000
Income before income taxes	11,541,000	10,534,000
Income tax expense	2,068,000	1,015,000
Net income	$ 9,473,000	$ 9,519,000
Basic earnings per common share	$ 2.88	$ 2.88
Diluted earnings per common share	$ 2.88	$ 2.88

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2021 and 2020

	2021	2020
Net Income	$ 9,473,000	$ 9,519,000
Other comprehensive (loss) income, net of related tax effects		
Unrealized (depreciation) appreciation on available-for-sale securities		
Unrealized (depreciation) appreciation on available-for-sale securities arising during period	(2,522,000)	1,961,000
Reclassification adjustment for gains realized in net income	(154,000)	(158,000)
Reclassification adjustment for losses realized in net income	37,000	44,000
Tax effect	554,000	(388,000)
Net change in unrealized (depreciation) appreciation on available-for-sale securities, net of tax	(2,085,000)	1,459,000
Unrealized gain (loss) on derivative instruments, net of tax	1,773,000	(1,463,000)
Total other comprehensive (loss) income	(312,000)	(4,000)
Comprehensive income	$ 9,161,000	$ 9,515,000

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2021 and 2020

	Common Stock	Surplus	Undivided Profits	Net Unrealized Appreciation (Depreciation) on Securities	Net Unrealized (Loss) Gain on Derivative Instruments	Unearned ESOP Shares	Unearned Compensation - Restricted Stock	Total
Balance, December 31, 2019	$ 336,000	$ 8,294,000	$ 60,007,000	$ 661,000	$ 420,000	$ (839,000)	$ –	$ 68,879,000
Net income	–	–	9,519,000	–	–	–	–	9,519,000
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes of $388,000	–	–	–	1,459,000	–	–	–	1,459,000
Change in net unrealized gain on derivative instruments, at fair value, net of taxes of ($389,000)	–	–	–	–	(1,463,000)	–	–	(1,463,000)
Total comprehensive income	–	–	9,519,000	1,459,000	(1,463,000)	–	–	9,515,000
Cash dividends declared on common stock, $0.474 per share	–	–	(1,563,000)	–	–	–	–	(1,563,000)
Common stock purchased and retired under the Company buyback program (49,095 shares)	(5,000)	(912,000)	–	–	–	–	–	(917,000)
Issuance of 8,849 shares of restricted stock	1,000	180,000	–	–	–	–	(181,000)	–
Restricted stock award compensation	–	–	–	–	–	–	38,000	38,000
Director stock compensation (3,677 shares)	1,000	69,000	–	–	–	–	–	70,000
Common stock held by ESOP committed to be released (10,050 shares)	–	38,000	–	–	–	142,000	–	180,000
Balance, December 31, 2020	$ 333,000	$ 7,669,000	$ 67,963,000	$ 2,120,000	$ (1,043,000)	$ (697,000)	$ (143,000)	$ 76,202,000
Net income	–	–	9,473,000	–	–	–	–	9,473,000
Change in net unrealized appreciation on securities available-for-sale, net of deferred income taxes of ($554,000)	–	–	–	(2,085,000)	–	–	–	(2,085,000)
Change in net unrealized gain on derivative instruments, at fair value, net of taxes of $471,000	–	–	–	–	1,773,000	–	–	1,773,000
Total comprehensive income	–	–	9,473,000	(2,085,000)	1,773,000	–	–	9,161,000
Cash dividends declared on common stock, $0.50 per share	–	–	(1,645,000)	–	–	–	–	(1,645,000)
Common stock purchased and retired under the Company buyback program (22,771 shares)	(3,000)	(501,000)	–	–	–	–	–	(504,000)
Issuance of 10,677 shares of restricted stock	1,000	196,000	–	–	–	–	(197,000)	–
Restricted stock award compensation	–	–	–	–	–	–	82,000	82,000
Director stock compensation (2,906 shares)	1,000	61,000	–	–	–	–	–	62,000
Common stock held by ESOP committed to be released (9,642 shares)	–	103,000	–	–	–	142,000	–	246,000
Balance, December 31, 2021	$ 332,000	$ 7,528,000	$ 75,791,000	$ 35,000	$ 730,000	$ (554,000)	$ (258,000)	$ 83,604,000

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	$ 9,473,000	$ 9,519,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,241,000	1,093,000
Net amortization of premiums and discounts on securities	443,000	612,000
Provision for loan losses	135,000	1,260,000
Amortization of investments in limited partnerships	285,000	1,177,000
Impairment of investment securities	20,000	2,000
Restricted stock award compensation	82,000	38,000
Director stock compensation	62,000	70,000
Gain on sale of premises and equipment	(19,000)	–
Unrealized gain on other investments	(9,000)	(17,000)
Gain on sale of securities available-for-sale	(137,000)	(116,000)
Deferred income tax benefit	(28,000)	(186,000)
Increase in cash value of life insurance	(391,000)	(389,000)
(Gain) loss on sale of other real estate and property owned	(8,000)	7,000
ESOP compensation expense	246,000	180,000
Decrease (increase) in other assets	495,000	(819,000)
(Decrease) increase in accrued expenses and other liabilities	(247,000)	1,143,000
Net cash provided by operating activities	11,643,000	13,574,000
Cash flows from investing activities		
Additions to premises and equipment	(794,000)	(737,000)
Loan originations and principal collections, net	16,462,000	(45,676,000)
Purchase of securities available-for-sale	(57,659,000)	(45,857,000)
Maturities of securities available-for-sale	27,948,000	39,844,000
Maturities of securities held-to-maturity	1,000	2,000
Proceeds from sales of securities available-for-sale	10,469,000	13,490,000
Investment in limited partnerships	(225,000)	(2,037,000)
Proceeds from sales of other real estate and property owned	88,000	24,000
Proceeds from sales of bank premises and equipment	19,000	–
Purchase of bank-owned life insurance	–	(1,350,000)
Redemption of Federal Home Loan Bank stock	519,000	2,813,000
Purchase of Federal Home Loan Bank stock	–	(1,727,000)
Net cash used by investing activities	(3,172,000)	(41,211,000)
Cash flows from financing activities		
Net increase in deposits	11,163,000	94,606,000
Net decrease in short-term borrowings	(11,000)	(7,445,000)
Repayment of long-term debt	(11,500,000)	(17,500,000)
Purchase of common stock under Company buyback program	(504,000)	(917,000)
Cash dividends paid on common stock	(1,645,000)	(1,563,000)
Net cash (used) provided by financing activities	(2,497,000)	67,181,000
Net increase in cash and cash equivalents	5,974,000	39,544,000
Cash and cash equivalents, beginning of year	56,941,000	17,397,000
Cash and cash equivalents, end of year	$ 62,915,000	$ 56,941,000
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	$ 4,138,000	$ 6,732,000
Income taxes paid	1,199,000	1,874,000
Noncash transactions		
Transfer from loans to other real estate and property owned	42,000	–
Unfunded commitment in Low Income Housing Tax Credit Partnership	–	185,000
Right-of-use assets	1,795,000	–
Lease liabilities	(1,795,000)	–
(Decrease) increase in fair value of interest rate swap assets	(3,226,000)	6,249,000
Increase (decrease) in fair value of interest rate swap liabilities	4,999,000	(7,712,000)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

Nature of Business

Katahdin Bankshares Corp. (the Company) is a bank holding company. Its subsidiary, Katahdin Trust Company (the Bank), is a state chartered commercial bank with deposits insured by the Federal Deposit Insurance Corporation (FDIC). As a locally owned and managed community bank, the Bank's primary mission is to provide a broad range of banking services to individuals and small businesses throughout Maine while adding to the quality of life in the communities they serve. The Bank has 16 full-service branches throughout northern Maine and the greater Bangor and Portland regions. Maine Financial Group (MFG), an affiliate of the Bank, provides heavy equipment financing in the trucking, construction, forest products, and marine industries located around northern New England. The Company and its subsidiary are subject to regulation and periodic examination by the FDIC, the Maine Bureau of Financial Institutions, and the Federal Reserve System.

1. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of Katahdin Bankshares Corp. and its wholly owned subsidiary, Katahdin Trust Company. All significant intercompany balances and transactions have been eliminated in consolidation.

Pursuant to the criteria established by U.S. generally accepted accounting principles (GAAP), the Company has not consolidated the trusts which it formed for the purposes of issuing trust preferred securities to unaffiliated parties and investing the proceeds from the issuance thereof and the common securities of the trust in junior subordinated debentures issued by the Company. The trusts are considered affiliates (see Note 9).

Use of Estimates

In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ 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 and the valuation of other real estate and property owned. In connection with the determination of the allowance for loan losses and the carrying value of other real estate and property owned, management obtains independent appraisals for significant properties.

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 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 the examination. Because of these factors, it is reasonably possible that the allowance for loan losses may change materially in the near term.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks and interest-bearing deposits in banks.

The Company's due from bank accounts and interest-bearing deposits in banks, 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 on cash and cash equivalents.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income or loss. Other investments are carried at estimated fair value with changes in fair value and realized gains or losses reported in noninterest income.

Purchase premiums and discounts are recognized in interest income using a method approximating the interest method over the terms of the securities. Declines in the fair value of individual debt securities that are deemed to be other-than-temporary are reflected in earnings when identified. For individual debt securities where the Company does not intend to sell the security and it is more-likely-than-not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary decline in the fair value of the debt security related to 1) credit loss is recognized in earnings and 2) other factors are recognized in other comprehensive income or loss. Credit loss is deemed to exist if the present value of expected future cash flows is less than the amortized cost basis of the debt security. For individual debt securities where the Company intends to sell the security or more-likely-than-not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and deferred loan fees and costs. Interest on loans is calculated by applying the simple interest method to daily balances of the principal amount outstanding.

The allowance for loan losses is established through a provision for loan losses charged to expense. The allowance for loan losses is reviewed periodically throughout the year to determine the appropriate level based on factors such as the methodology of allocating standard reserves to categories of loans, assigning specific reserves based on valuations of certain credits and a review of the appropriateness of the unallocated reserve.

There are several factors related to the allowance for loan losses that are individually reviewed to determine the level of specific reserves, such as the economic condition and outlook for certain industry or loan type concentrations, non-accrual loans, impaired loans, real estate under foreclosure, and classified loans. These reserves are assigned to meet the probable losses related to specific loans that have been identified as impaired.

The standard reserve is determined through an analysis of past performance including historical loan losses within groups of loans. Consideration is given to adjusting formulas based on an assessment of various qualitative factors related to the loan portfolio, including but not limited to performance of the portfolio, lender experience, new loan products or strategies, and economic factors. Management follows a similar process to estimate its liability for off-balance-sheet commitments to extend credit. The unallocated reserve position represents the margin of imprecision of the allowance after the standard and specific reserve allocations have been met.

Loans past due more than 30 days are considered delinquent. Loans are charged against the allowance for loan losses when management believes that the collection of the principal is unlikely. The allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the loans, the estimated value of underlying collateral, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. The allowance is an amount that management believes is appropriate to absorb possible losses on existing loans.

Management considers loans to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the fair value of the underlying collateral if the loan is collateral-dependent. Small balance homogenous loans are collectively evaluated for impairment.

The accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Interest income on nonaccrual loans is recognized only to the extent that interest payments are received. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements and letters-of-credit. Such financial instruments are recorded when they are funded.

1. Summary of Significant Accounting Policies (cont.)

Loan Servicing

The Company capitalizes mortgage servicing rights at their fair value upon sale of the related loans. Capitalized servicing rights are reported in other assets and are amortized into other general and administrative expenses in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost.

Other Real Estate and Property Owned (OREO)

Assets acquired through, or in lieu of, loan foreclosure or repossession are held for sale and are initially recorded at fair value at the date of foreclosure or repossession. Subsequent to foreclosure or repossession, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate and property owned.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation computed on the straight-line and declining balance methods over the estimated useful lives of the assets.

Bank Owned Life Insurance (BOLI)

The Bank purchased life insurance policies insuring the lives of certain officers of the Bank. Consent was obtained from the employees prior to the purchase. The fee income stream related to the BOLI assets is reported in other noninterest income.

Goodwill

Goodwill related to branch acquisitions and MFG is not amortizable and is reviewed for impairment annually, or more frequently upon the occurrence of certain events.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company releases income tax effects from accumulated other comprehensive income when the associated transaction is recognized in earnings.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. ASC Topic 740 prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2018 through 2021.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and derivative investments, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income..

Employee Stock Ownership Plan

Shares of the Company's common stock purchased by the Katahdin Trust Company Employee Stock Ownership Plan (ESOP) are held in a suspense account until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each participant's compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from suspense, the Company recognizes compensation expense equal to the fair value of the ESOP shares committed to be released during the period. To the extent that the fair value of the ESOP shares differs from the cost of such shares, the difference is charged or credited to equity as surplus. Allocated and committed-to-be-released ESOP shares are considered outstanding for earnings per share calculations based on debt service payments. Other ESOP shares are excluded from earnings per share. The cost of unearned shares to be allocated to ESOP participants for future services not yet performed is reflected as a reduction of stockholders' equity.

Earnings Per Share

Basic and diluted earnings per share data is computed based on the weighted average number of the Company's common shares outstanding during the year, which excludes the unallocated shares of the ESOP. Common stock related to unvested restricted stock awards is considered in the calculation of weighted average shares outstanding for basic and diluted earnings per share.

Derivative Financial Instruments Designated as Hedges

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

Recently Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-04, *Intangibles, Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU was issued to reduce the cost and complexity of the goodwill impairment test. To simplify the subsequent measurement of goodwill, step two of the goodwill impairment test was eliminated. Instead, a company will recognize an impairment of goodwill should the carrying value of a reporting unit exceed its fair value (i.e. step one). The ASU is effective for fiscal years beginning after December 15, 2020 and has been applied prospectively. The ASU did not have a material effect on the Company's consolidated financial statements.

In June 2016, FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Under the new guidance, which will replace the existing incurred loss model for recognizing credit losses, banks, and other lending institutions will be required to recognize the full amount of expected credit losses. The new guidance, which is referred to as the current expected credit loss model, requires that expected credit losses for financial assets held at the reporting date that are accounted for at amortized cost be measured and recognized based on historical experience and current and reasonably supportable forecasted conditions to reflect the full amount of expected credit losses. A modified version of these requirements also applies to debt securities classified as available-for-sale. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Management is evaluating the potential impact of the ASU and anticipates that it may have a material impact on the Company's consolidated financial statements. The Company has formed an implementation committee for ASU No. 2016-13. To date, a third-party vendor has been selected and the committee is working through modeling and calculations.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and has issued subsequent amendments thereto, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying GAAP to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company adopted ASU No. 2020-04 as of January 1, 2021 and has applied the ASU to its transition away from LIBOR for its financial instruments.

Risks and Uncertainties

Significant progress has been made to combat the outbreak of the coronavirus disease (COVID-19); however, the global pandemic has adversely impacted a broad range of industries in which the Company's customers operate and could still impair their ability to fulfill their financial obligations to the Company. The Company's business is dependent upon the willingness and ability of its employees and customers to conduct

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

1. Summary of Significant Accounting Policies (cont.)

banking and other financial transactions. While it appears that health and economic conditions are trending in a positive direction as of December 31, 2021, a resurgence in COVID-19 or its variants could have an adverse effect on the Company's business, financial condition, results of operations and cash flows. Given it is not possible to know the full impact of COVID-19 and any potential measures to curtail its spread, such potential impact cannot be reasonably estimated.

2. Cash and Due from Banks

The Bank may be required to maintain certain reserves of vault cash or deposits per Federal Reserve Bank policy. The Bank had no reserve requirement as of December 31, 2021 and 2020.

3. Securities

Securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost and fair value of debt securities, with gross unrealized gains and losses, follow:

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
State and municipal	$ 9,401,000	$ 378,000	$ (3,000)	$ 9,776,000
Corporate bonds	1,200,000	–	(85,000)	1,115,000
Mortgage-backed and collateralized mortgage obligations (CMOs)	99,878,000	887,000	(1,132,000)	99,633,000
Total securities available-for-sale	$110,479,000	$1,265,000	$ (1,220,000)	$110,524,000
Securities Held-to-Maturity				
Mortgage-backed and CMO's	$ 3,000	$ –	$ –	$ 3,000
Total securities held-to-maturity	$ 3,000	$ –	$ –	$ 3,000
2020				
Securities Available-for-Sale				
State and municipal	$ 5,774,000	$ 456,000	$ –	$ 6,230,000
Corporate bonds	2,000,000	–	(70,000)	1,930,000
Mortgage-backed and CMO's	83,789,000	2,364,000	(66,000)	86,087,000
Total securities available-for-sale	$ 91,563,000	$2,820,000	$ (136,000)	$ 94,247,000
Securities Held-to-Maturity				
Mortgage-backed and CMO's	$ 4,000	$ –	$ –	$ 4,000
Total securities held-to-maturity	$ 4,000	$ –	$ –	$ 4,000

The following summarizes the Company's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2021:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	$ 1,318,000	$ (3,000)	$ –	$ –	$ 1,318,000	$ (3,000)
Corporate bonds	674,000	(26,000)	441,000	(59,000)	1,115,000	(85,000)
Mortgage-backed and CMO's	63,115,000	(1,132,000)	–	–	63,115,000	(1,132,000)
Total temporarily impaired securities	$65,107,000	$ (1,161,000)	$ 441,000	$ (59,000)	$65,548,000	$(1,220,000)

At December 31, 2021, unrealized losses within the mortgage-backed and CMOs category relate to 39 individual securities of which none had continuous losses for more than one year. Unrealized losses within the state and municipal bond category relate to three bonds of which none had a continuous loss position for more than one year. Unrealized losses within the corporate bond category relate to two bonds of which one had a continuous loss position for more than one year. The primary cause for unrealized losses within the debt securities is the impact movements in interest rates have had in comparison to the underlying yields on these securities.

The following summarizes the Company's gross unrealized losses and fair values aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2020:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate bonds	$ –	$ –	$ 430,000	$ (70,000)	$ 430,000	$ (70,000)
Mortgage-backed and CMO's	3,365,000	(46,000)	99,000	(20,000)	3,464,000	(66,000)
Total temporarily impaired securities	$ 3,365,000	$ (46,000)	$ 529,000	$ (90,000)	$ 3,894,000	$ (136,000)

At December 31, 2020, unrealized losses within the mortgage-backed and CMOs category relate to four individual securities of which two had continuous losses for more than one year. Unrealized losses within the corporate bond category relate to one bond which had a continuous loss position for more than one year. The primary cause for unrealized losses within the debt securities is the impact movements in interest rates have had in comparison to the underlying yields on these securities.

Management evaluates investments for other-than-temporary impairment (OTTI) based on the type of investment and the period the investment has been in an unrealized loss position. As of December 31, 2021 and 2020, management has determined that the current unrealized losses on these securities are consistent with changes in the overall bond markets caused by an increase in market yields and spread levels and the securities are not other-than-temporarily impaired. The exception to this is a mortgage-backed security at Banc of America Funding Corporation (BAFC). Management performed an internal analysis on the market value of its investment at BAFC as of December 31, 2021 and 2020, and recognized OTTI write-downs related to credit loss of the security of $20,000 and $2,000 for the years ended December 31, 2021 and 2020, respectively.

The following table presents gross realized gains and losses on available-for-sale securities during the years ended December 31:

	2021	2020
Proceeds from sales	$ 10,469,000	$ 13,490,000
Gross realized gains	$ 154,000	$ 158,000
Gross realized losses	$ (17,000)	$ (42,000)
Net realized gain	$ 137,000	$ 116,000
Related income tax expense	$ 29,000	$ 24,000

At December 31, 2021 and 2020, securities with a fair value of $53,776,000 and $59,696,000, respectively, were pledged to secure certain borrowings and municipal deposits as required or permitted by law.

The amortized cost and fair value of securities by contractual maturity at December 31, 2021 follow:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 3,497,000	$ 3,526,000	$ –	$ –
Over 1 year through 5 years	10,111,000	10,334,000	3,000	3,000
Over 5 years through 10 years	16,378,000	16,847,000	–	–
Over 10 years	80,493,000	79,817,000	–	–
	$110,479,000	$110,524,000	$ 3,000	$ 3,000

Mortgage-backed securities and CMOs are allocated among the above maturity groupings based on their final maturity dates.

The Bank's investment in Federal Home Loan Bank (FHLB) stock is stated at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee.

Other Investments

The following table summarizes the cost and estimated fair value of the Company's other investments at December 31, 2021:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Other investments	$ 500,000	$ 7,000	$ –	$ 507,000

3. Securities (cont.)

The following table summarizes the cost and estimated fair value of the Company's other investments at December 31, 2020:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Other investments	$ 500,000	$ –	$ (2,000)	$ 498,000

For the years ended December 31, 2021 and 2020, the Company recognized unrealized gains of $9,000 and $17,000, respectively, due to the change in the fair value of its other investments. These gains have been presented within other noninterest income on the consolidated statements of income.

4. Loans

A summary of the loan balances are as follows:

	2021	2020
Mortgage loans on real estate		
Residential 1-4 family	$ 157,814,000	$ 151,779,000
Commercial	415,116,000	399,234,000
	572,930,000	551,013,000
Commercial		
Commercial and industrial	139,309,000	179,845,000
Municipal loans	11,207,000	8,249,000
Business credit cards	496,000	459,000
	151,012,000	188,553,000
Consumer installment loans	5,680,000	6,391,000
Subtotal	729,622,000	745,957,000
Less: Allowance for loan losses	7,803,000	7,454,000
Add: Net deferred loan costs	681,000	636,000
Loans, net	$ 722,500,000	$ 739,139,000

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted to provide emergency assistance for individuals, families and businesses affected by the COVID-19 pandemic. Amongst other programs, the CARES Act created the Paycheck Protection Program (PPP) designed to incentivize small businesses to keep their workers on the payroll. In January 2021, the PPP was reopened under the Consolidated Appropriations Act (CAA). During 2021 and 2020, the Bank had received approval from the U.S. Small Business Administration (SBA) for 341 and 585 applications, for PPP loans under the CARES Act and CAA with respect to $24,770,000 and $73,300,000 in loans, respectively. As of December 31, 2021, $92,606,000 of the Bank's PPP loans had been forgiven by the SBA with $5,464,000 in principal remaining outstanding. PPP loans are classified as commercial and industrial loans.

The SBA paid the Bank a 1% to 5% origination fee on the principal balance of PPP loans depending on the size of loan. As of December 31, 2021 and 2020, the Bank had PPP deferred loan origination fees of $189,000 and $828,000, respectively, recorded in accrued expenses and other liabilities on the consolidated balance sheets. In 2021 and 2020, the Bank recognized in income $2,024,000 and $1,491,000 of PPP loan origination fees, respectively. This income is recorded in loans interest income on the consolidated statements of income.

The following tables present the allowance for loan losses and select loan information for the years ended December 31, 2021 and 2020:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	2021 Total
Allowance for loan losses						
Beginning balance	$ 1,445,000	$ 4,666,000	$ 261,000	$ 26,000	$1,056,000	$ 7,454,000
Provision for (reduction of) loan losses	(226,000)	81,000	145,000	(7,000)	142,000	135,000
Loans charged off	–	(72,000)	(1,000)	–	–	(73,000)
Recoveries of loans previously charged off	162,000	64,000	58,000	3,000	–	287,000
Ending balance	$ 1,381,000	$ 4,739,000	$ 463,000	$ 22,000	$1,198,000	$ 7,803,000
Individually evaluated for impairment	$ 70,000	$ 218,000	$ –	$ –	$ –	$ 288,000
Collectively evaluated for impairment	$ 1,311,000	$ 4,521,000	$ 463,000	$ 22,000	$1,198,000	$ 7,515,000
Loans						
Ending balance	$151,012,000	$ 415,116,000	$157,814,000	$ 5,680,000		$729,622,000
Individually evaluated for impairment	$ 769,000	$ 1,301,000	$ 775,000	$ 43,000		$ 2,888,000
Collectively evaluated for impairment	$150,243,000	$ 413,815,000	$157,039,000	$ 5,637,000		$726,734,000

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	2020 Total
Allowance for loan losses						
Beginning balance	$ 1,747,000	$ 3,729,000	$ 217,000	$ 53,000	$ 547,000	$ 6,293,000
Provision for (reduction of) loan losses	(308,000)	1,020,000	55,000	(16,000)	509,000	1,260,000
Loans charged off	(33,000)	(85,000)	(13,000)	(19,000)	–	(150,000)
Recoveries of loans previously charged off	39,000	2,000	2,000	8,000	–	51,000
Ending balance	$ 1,445,000	$ 4,666,000	$ 261,000	$ 26,000	$1,056,000	$ 7,454,000
Individually evaluated for impairment	$ 100,000	$ 666,000	$ –	$ –	$ –	$ 766,000
Collectively evaluated for impairment	$ 1,345,000	$ 4,000,000	$ 261,000	$ 26,000	$1,056,000	$ 6,688,000
Loans						
Ending balance	$188,553,000	$ 399,234,000	$151,779,000	$ 6,391,000		$745,957,000
Individually evaluated for impairment	$ 1,336,000	$ 2,748,000	$ 648,000	$ 76,000		$ 4,808,000
Collectively evaluated for impairment	$187,217,000	$ 396,486,000	$151,131,000	$ 6,315,000		$741,149,000

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.

Commercial: Commercial and Commercial Real Estate

The commercial portfolio is closely monitored for quality and the likelihood of loss. Based on the current information surrounding the facts and circumstances of the loan, an internal credit rating is assigned. Credit ratings 1-5 are deemed to be a performing loan with no significant likelihood of loss, and is considered pass. The ratings are further measured with a 6 – special mention, 7 – substandard, 8 – doubtful, and 9 – loss. Each of these ratings are supported by the facts and circumstances surrounding the loan that would cause a higher probability of some loss and thus as the rating progresses down the scale a higher reserve for loan loss is allocated to the particular group mentioned.

Loans rated 1: Loans in this category include municipalities or other government establishments primarily engaged in providing general support for government or administration of education programs.

Loans rated 2: Loans in this category include borrowers of unquestioned credit standing and a consistently strong financial condition as evidenced by earnings, liquidity, leverage, and cash flow. Additionally, loans secured by cash collateral or properly margined marketable securities are considered rated 2.

Loans rated 3: These loans include borrowers that have most of the characteristics of a loan rated 2, but either the financial condition, management, or industry is not quite as strong.

Loans rated 4: These loans include borrowers that have a reasonable financial condition. While loans in this category are sound, they do carry a higher risk. The borrower is generally profitable with occasional moderate losses.

Loans rated 5: These loans are considered "watch list." These loans are those commercial loans that, while creditworthy, exhibit some characteristics which require special attention by the loan officer. This is the lowest permissible rating for a new loan. Loans rated 5 must be closely monitored as any deterioration may be cause for prompt re-rating to 6 or lower. Principal areas of concern may be management problems, industry stress, financial deterioration, operating losses, inadequate cash flow, highly cyclical industries, or any other area that would negatively affect the borrower's ability to repay the obligation in full on a timely basis.

Loans rated 6: Loans in this category are considered "special mention." These loans are considered protected but may have potential weaknesses, which may weaken the asset or inadequately protect the Bank's credit position at some future date.

Loans rated 7: Loans in this category are considered "substandard." These loans might be inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified often have well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

4. Loans (cont.)

Loans rated 8: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses may make collection or liquidation in full highly questionable and improbable based on currently existing facts, conditions, and values. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage of strengthening of the asset, its rating as 9 is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loans rated 9: Loans in this category are considered "loss" or uncollectible. For these loans it is not practical or desirable to defer writing off the basically worthless loan even though partial recovery may be affected in the future.

Consumer and Residential 1–4 Family

These loans are broken out as either pass or substandard. A loan is typically marked as substandard when it becomes 90 days past due or under certain circumstances such as bankruptcy or excessive tax liens. Higher reserves are allocated to substandard consumer loans as there would be a higher probability of loss.

The following tables summarize credit risk indicators by portfolio as of December 31, 2021 and 2020:

Commercial Credit Risk Exposure
Credit Risk Profile by Internally Assigned Grade

2021	Commercial	Commercial Real Estate
Pass	$ 148,588,000	$ 391,528,000
Special mention	1,116,000	20,846,000
Substandard	1,308,000	2,742,000
Doubtful	–	–
Loss	–	–
2021 Total	$ 151,012,000	$ 415,116,000
2020		
Pass	$ 184,630,000	$ 378,700,000
Special mention	1,196,000	15,635,000
Substandard	2,727,000	4,899,000
Doubtful	–	–
Loss	–	–
2020 Total	$ 188,553,000	$ 399,234,000

Consumer Credit Risk Exposure
Credit Risk Profile by Internally Assigned Grade

2021	Residential Real Estate	Consumer
Pass	$ 157,239,000	$ 5,660,000
Substandard	575,000	20,000
2021 Total	$ 157,814,000	$ 5,680,000
2020		
Pass	$ 151,114,000	$ 6,350,000
Substandard	665,000	41,000
2020 Total	$ 151,779,000	$ 6,391,000

The Bank takes a conservative approach in credit risk management and remains focused on community lending and reinvesting, working closely with borrowers experiencing credit problems to assist in loan repayment or term modifications when appropriate. Troubled debt restructured loans (TDRs) consist of loans where the Bank, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower that it would not otherwise consider. TDRs involve term modifications or a reduction of either interest or principal that the Bank would not normally make for other borrowers with similar risk characteristics. Once such an obligation has been restructured, it will continue to remain in restructured status until paid in full. Current balances of loan modifications qualifying as TDRs during the years ended December 31, 2021 and 2020 were $2,000 and $722,000, respectively. Loans restructured due to credit difficulties that are now performing were $1,599,000 and $1,229,000 at December 31, 2021 and 2020, respectively.

At December 31, 2021 and 2020, the allowance related to TDRs was $235,000 and $734,000, respectively. The specific reserve component was determined by using the fair value of the underlying collateral, which was obtained through independent appraisals and internal evaluations, or by discounting the total expected future cash flows from the borrower. There were no commitments to lend additional funds to borrowers with loans classified as TDRs at December 31, 2021 and 2020.

In 2021, there was one commercial real estate loan that did not perform according to the TDR terms and was subsequently charged off for $72,000. In 2020, there were no loans that did not perform according to the TDR terms and were subsequently charged off or transferred to OREO.

The following presents an aging analysis of past due loans as of December 31, 2021 and 2020:

2021	31–60 Days Past Due	61–90 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans on Nonaccrual	Recorded Investment Loans > 90 Days and Accruing
Commercial	$ 25,000	$ –	$ 42,000	$ 67,000	$ 150,945,000	$ 151,012,000	$ 148,000	$ –
Commercial real estate	–	–	8,000	8,000	415,108,000	415,116,000	497,000	–
Residential real estate	28,000	56,000	268,000	352,000	157,462,000	157,814,000	427,000	–
Consumer	–	–	–	–	5,680,000	5,680,000	5,000	–
2021 Total	$ 53,000	$ 56,000	$ 318,000	$ 427,000	$ 729,195,000	$ 729,622,000	$ 1,077,000	$ –
2020								
Commercial	$ 396,000	$ 11,000	$ 125,000	$ 532,000	$ 188,021,000	$ 188,553,000	$ 1,221,000	$ –
Commercial real estate	376,000	668,000	349,000	1,393,000	397,841,000	399,234,000	1,730,000	–
Residential real estate	191,000	–	136,000	327,000	151,452,000	151,779,000	506,000	–
Consumer	10,000	21,000	–	31,000	6,360,000	6,391,000	31,000	–
2020 Total	$ 973,000	$ 700,000	$ 610,000	$ 2,283,000	$ 743,674,000	$ 745,957,000	$ 3,488,000	$ –

4. Loans (cont.)

The following is a summary of new TDRs (accruing and non-accruing) by portfolio segment during the years ended December 31, 2021 and 2020:

2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Balance
Commercial	1	$ 3,000	$ 3,000	$ 2,000
2021 Total	1	$ 3,000	$ 3,000	$ 2,000
2020				
Commercial	7	$ 800,000	$ 784,000	$ 722,000
2020 Total	7	$ 800,000	$ 784,000	$ 722,000

The following is a summary of TDRs (accruing and non-accruing) by portfolio segment as of December 31, 2021 and 2020:

2021	Number of Contracts	Current Balance	Related Allowance
Commercial	22	$ 722,000	$ 70,000
Commercial real estate	19	1,085,000	165,000
Residential real estate	3	479,000	–
Consumer	2	29,000	–
2021 Total	46	$ 2,315,000	$ 235,000
2020			
Commercial	31	$ 1,222,000	$ 100,000
Commercial real estate	27	2,156,000	634,000
Residential real estate	3	511,000	–
Consumer	2	39,000	–
2020 Total	63	$ 3,928,000	$ 734,000

On March 22, 2020, federal banking regulators issued an interagency statement providing guidance on accounting for loan modifications considering the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not experiencing financial difficulty if short-term (that is, six months or less) modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant, provided that the loan is less than 30 days past due at the time a modification program is implemented. The banking agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs under GAAP.

Additionally, a provision of the CARES Act enacted in March 2020 provides that COVID-19 related loan modifications (including modifications that are not short-term) made to a loan between March 1, 2020 and the earlier of December 31, 2020 or the 60th day after the end of the COVID-19 emergency declared by the President will not require the loan to be treated as a TDR under GAAP, so long as the modified loan was not past due as of December 31, 2019. On December 27, 2020, the CAA amended section 4013 of the CARES Act to extend the date for loan modifications from December 31, 2020 to January 1, 2022.

The Company has adopted the TDR guidance issued by the federal banking agencies and section 4013 of the CARES Act. During 2020, the Bank had granted loan concessions and/or modifications within the terms of this guidance to approximately 170 borrowers having an aggregate principal amount of $99,805,000. As of December 31, 2021 and 2020, two and seven of these borrowers remained on deferral status with a principal amount of $221,000 and $1,872,000, respectively. These loans may bear a higher risk of default in future periods.

Impaired loans mainly consist of non-accrual loans and TDRs. All impaired loans are allocated a portion of the allowance to cover potential losses.

The following table presents a summary of information pertaining to impaired loans by loan category as of December 31, 2021 and 2020:

2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no related allowance recorded:				
Commercial	$ 698,000	$ 698,000	$ –	$ 41,000
Commercial real estate	724,000	724,000	–	39,000
Residential real estate	775,000	775,000	–	30,000
Consumer	43,000	43,000	–	4,000
With an allowance recorded:				
Commercial	$ 71,000	$ 71,000	$ 70,000	$ –
Commercial real estate	577,000	577,000	218,000	17,000
Residential real estate	–	–	–	–
Consumer	–	–	–	–
2021 Total:				
Commercial	$ 769,000	$ 769,000	$ 70,000	$ 41,000
Commercial real estate	1,301,000	1,301,000	218,000	56,000
Residential real estate	775,000	775,000	–	30,000
Consumer	43,000	43,000	–	4,000

2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With no related allowance recorded:				
Commercial	$ 1,189,000	$ 1,189,000	$ –	$ 22,000
Commercial real estate	1,421,000	1,421,000	–	55,000
Residential real estate	648,000	648,000	–	32,000
Consumer	76,000	76,000	–	6,000
With an allowance recorded:				
Commercial	$ 147,000	$ 147,000	$ 100,000	$ 2,000
Commercial real estate	1,327,000	1,327,000	666,000	12,000
Residential real estate	–	–	–	–
Consumer	–	–	–	–
2020 Total:				
Commercial	$ 1,336,000	$ 1,336,000	$ 100,000	$ 24,000
Commercial real estate	2,748,000	2,748,000	666,000	67,000
Residential real estate	648,000	648,000	–	32,000
Consumer	76,000	76,000	–	6,000

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

	2021	2020
Impaired loans without a valuation allowance	$ 2,240,000	$ 3,334,000
Impaired loans with a valuation allowance	648,000	1,474,000
Total impaired loans	$ 2,888,000	$ 4,808,000
Valuation allowance related to impaired loans	$ 288,000	$ 766,000
Average investment in impaired loans	$ 3,772,000	$ 5,455,000

As of December 31, 2021 and 2020, there were three and eight mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $250,000 and $133,000, respectively.

The Bank was servicing for others mortgage loans of approximately $20,147,000 and $16,507,000 at December 31, 2021 and 2020, respectively.

The balance of mortgage servicing rights included in other assets at December 31, 2021 was $160,000. Mortgage servicing rights of $59,000 were capitalized and mortgage servicing rights of $51,000 were amortized during 2021. The balance of mortgage servicing rights included in other assets at December 31, 2020 was $152,000. Mortgage servicing rights of $178,000 were capitalized and mortgage servicing rights of $26,000 were amortized during 2020.

5. Bank Premises and Equipment

A summary of the cost and accumulated depreciation of bank premises and equipment follows:

	2021	2020
Land	$ 2,937,000	$ 2,848,000
Buildings	11,594,000	11,499,000
Construction in process	128,000	–
Right-of-use assets	1,671,000	–
Equipment	15,039,000	14,627,000
Leasehold improvements	1,112,000	1,112,000
	32,481,000	30,086,000
Accumulated depreciation	(21,063,000)	(20,140,000)
	$ 11,418,000	$ 9,946,000

6. Leases

The Company has operating leases pertaining to bank premises with remaining lease terms of six to ten years. Leases are classified as operating or finance leases at the lease commencement date. The Company does not have any finance leases. Lease expense for the operating leases are recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The weighted average discount rate for operating leases at December 31, 2021 was 3.00%.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications, as of December 31 were as follows:

	Balance Sheet Classification	2021
Right-of-use assets:		
Operating leases	Bank premises and equipment	$ 1,671,000
Lease liabilities:		
Operating leases	Accrued expenses and other liabilities	$ 1,685,000

The components of lease expense were as follows for the years ended December 31:

	2021	2020
Operating lease cost	$ 224,000	$ 201,000

The weighted average remaining lease term for operating leases was 9.13 years at December 31, 2021.

Future lease payments for operating leases with initial terms of one year or more as of December 31, 2021 are as follows:

2022	$ 207,000
2023	210,000
2024	212,000
2025	214,000
2026	217,000
Thereafter	873,000
Total undiscounted lease payments	1,933,000
Less: Imputed interest	248,000
Net lease liability	$ 1,685,000

7. Deposits

At December 31, 2021, the scheduled maturities of certificates of deposit are as follows:

2022	$ 73,301,000
2023	14,318,000
2024	11,849,000
2025	5,519,000
2026 and thereafter	5,216,000
	$ 110,203,000

Certificates of deposit accounts in denominations that met or exceeded the insured limit were $24,608,000 and $26,292,000 at December 31, 2021 and 2020, respectively.

8. Advances from Federal Home Loan Bank and Other Borrowings

Pursuant to collateral agreements with the FHLB, advances are collateralized by all stock in the FHLB, qualifying first mortgages and securities available-for-sale.

Fixed-rate advances of $1,530,000 and $13,041,000 at December 31, 2021 and 2020, respectively, mature through August 2023. At December 31, 2021, the interest rates on fixed rate advances ranged from 0.00 to 1.00 percent. At December 31, 2020, the interest rates on fixed rate advances ranged from 0.00 to 2.87 percent. At December 31, 2021 and 2020, the weighted-average interest rates on fixed rate advances were 0.92 percent and 2.27 percent, respectively. The fixed-rate advances contractually mature in 2023.

At December 31, 2021 and 2020, the Company also had $1,000,000 available under a long-term line of credit with the FHLB. There were no advances outstanding on this line of credit as of December 31, 2021 and 2020.

At December 31, 2021 and 2020, the Company also had $27,000,000, respectively, available under lines of credit with other banks which were in addition to the FHLB line of credit. There were no advances outstanding under these lines of credit with other banks as of December 31, 2021 or 2020.

The Bank also has a line of credit with the Federal Reserve Bank's Borrower-In-Custody Program (the Program). The Program offers overnight collateralized advances secured by certain loan assets. At December 31, 2021 and 2020, the amounts of available borrowing were $37,300,000 and $45,200,000, respectively. There were no funds outstanding on the Program as of December 31, 2021 and 2020.

9. Capital Trust Securities

On October 14, 2003, the Company sponsored the creation of Katahdin Capital Trust II (the Trust II), a statutory business trust created under the laws of Delaware. The Company is the owner of all of the common securities of the Trust II. On October 16, 2003, the Trust II issued $3,000,000 of London Interbank Offered Rate (LIBOR) floating rate plus 3.05% margin Capital Securities (the Capital Securities II, and with the common securities, the Trust Securities II), the proceeds from which were used by the Trust II, along with the Company's $93,000 capital contribution for the Common Securities II, to acquire $3,093,000 aggregate principal amount of the Company's LIBOR floating rate plus 3.05% Junior Subordinated Deferrable Interest Debentures due October 7, 2033 (the Debentures), which constitute the sole assets of the Trust II. The Company has, through the Declaration of Trust which established the Trust II, the Common Securities II and Capital Securities II Guarantee Agreements, the Debentures and a related Indenture, taken together, fully, irrevocably and unconditionally guaranteed all of the Trust II's obligations under the Trust Securities II.

On December 20, 2005, the Company sponsored the creation of Katahdin Capital Trust III (the Trust III), a statutory business trust created under the laws of Delaware. The Company is the owner of all of the common securities of the Trust III. On December 22, 2005, the Trust III issued $4,000,000 of LIBOR floating rate plus 1.50% margin Capital Securities (the Capital Securities III, and with the common securities, the Trust Securities III), the proceeds from which were used by the Trust III, along with the Company's $124,000 capital contribution for the Common Securities III, to acquire $4,124,000 aggregate principal amount of the Company's LIBOR floating rate plus 1.50% Junior Subordinated Deferrable Interest Debentures due January 7, 2036 (the Debentures), which constitute the sole assets of the Trust III. The Company has, through the Declaration of Trust which established the Trust III, the Common Securities III and Capital Securities III Guarantee Agreements, the Debentures and a related Indenture, taken together, fully, irrevocably and unconditionally guaranteed all of the Trust III's obligations under the Trust Securities III.

10. Income Taxes

Allocation of federal and state income taxes between current and deferred portions is as follows:

	2021	2020
Current tax provision		
Federal	$ 1,916,000	$ 1,022,000
State	180,000	179,000
	2,096,000	1,201,000
Deferred federal tax benefit	(28,000)	(186,000)
	$ 2,068,000	$ 1,015,000

The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes, as follows:

	2021	2020
Computed tax expense	$ 2,424,000	$ 2,212,000
Increase (reduction) in income taxes resulting from:		
Tax exempt interest	(102,000)	(106,000)
State taxes, net of federal benefit	142,000	141,000
Income from life insurance	(82,000)	(82,000)
Preferred stock dividends	(2,000)	(2,000)
Tax credits	(363,000)	(1,214,000)
Fair value adjustment of unearned ESOP shares	22,000	8,000
Other	29,000	58,000
	$ 2,068,000	$ 1,015,000

10. Income Taxes (cont.)

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

	2021	2020
Deferred tax assets		
Other-than-temporary impairment of investment securities	$ 52,000	$ 47,000
Allowance for loan losses	1,639,000	1,565,000
Employee benefit plans	728,000	668,000
Net unrealized loss on derivative instruments	–	277,000
Net unrealized loss on other investments	–	1,000
Restricted stock awards	25,000	8,000
Other	9,000	18,000
	2,453,000	2,584,000
Deferred tax liabilities		
Depreciation	422,000	423,000
Amortization of goodwill	1,165,000	1,133,000
Prepaid expenses	149,000	126,000
Mortgage servicing rights	34,000	–
Net unrealized gain on derivative instruments	194,000	–
Investment in pass-through entities	79,000	64,000
Net unrealized gain on securities available-for-sale	9,000	563,000
Other	30,000	14,000
	2,082,000	2,323,000
Net deferred tax asset	$ 371,000	$ 261,000

No valuation allowance is deemed necessary for the deferred income tax asset. The net deferred income tax asset is included in other assets on the consolidated balance sheets.

The Company invests in qualified affordable housing projects. At December 31, 2021 and 2020, the balance of the investment for qualified affordable housing projects was $440,000 and $489,000, respectively, and is included in other assets on the consolidated balance sheets. The Company amortizes these investments using the proportional amortization method and recognized amortization expense of $49,000 and $11,000 in 2021 and 2020, respectively, which was included within income tax expense on the consolidated statements of income. Additionally, during the years ended December 31, 2021 and 2020, the Company recognized tax credits from its investments in affordable housing tax projects of $53,000 and $7,000, respectively.

The Company also invests in limited partnerships that generate historic tax credits. At December 31, 2021 and 2020, the balance of the investment in these limited partnerships was $766,000 and $1,003,000, respectively, and is included in other assets on the consolidated balance sheets. The Company amortizes these investments on an effective yield basis resulting in amortization expense of $236,000 and $1,166,000 in 2021 and 2020, respectively, which was included as amortization of investments in limited partnerships on the consolidated statements of income. Additionally, during the years ended December 31, 2021 and 2020, the Company recognized tax credits from its investment in these limited partnerships of $306,000 and $1,444,000, respectively.

11. Earnings Per Share

The following sets forth the computation of basic and diluted earnings per common share for 2021 and 2020:

	2021	2020
Net income available to common shareholders, as reported	$ 9,473,000	$ 9,519,000
Weighted-average common shares outstanding	3,290,788	3,299,905
Effect of possible sources of options or conversions	–	–
Diluted weighted-average common shares outstanding	3,290,788	3,299,905
Basic earnings per common share	$ 2.88	$ 2.88
Diluted earnings per common share	$ 2.88	$ 2.88

12. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to credit related 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 and commercial letters-of-credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk more than the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. The contractual or notional amounts of financial instruments reflect the extent of involvement the Company has in particular classes of financial instruments. See Note 23 for further discussion of derivative financial instruments.

At December 31, 2021 and 2020, the contractual amounts of the Company's financial instruments were as follows:

	Contract Amount	
	2021	2020
Lending-related instruments:		
Home equity lines-of-credit	$ 30,931,000	$ 26,734,000
Other lines-of-credit	89,975,000	86,588,000
Credit card arrangements	2,882,000	2,871,000
Letters-of-credit	3,384,000	2,889,000
Derivative financial instruments:		
Notional amounts of interest rate swaps	235,281,000	282,774,000

Commitments to extend credit are agreements to lend to a customer as long as 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. The commitments for lines-of-credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements.

Unfunded commitments under commercial lines-of-credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized, usually do not contain a specified maturity date, and may not be drawn upon to the total extent to which the Company is committed.

Commercial letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Substantially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate.

13. Significant Group Concentrations of Credit Risk

A large portion of the Company's loan portfolio consists of single-family residential loans and commercial real estate loans in Maine. The local economy depends heavily on Maine industries including the agricultural and forest industries, which are subject to annual variations. Accordingly, the collectability of a substantial portion of the Company's loan portfolio is dependent on the health of Maine's economy.

The Company's policy for requiring collateral is to obtain security in excess of the amount borrowed. The amount of collateral obtained is based on management's credit evaluation of the borrower. The Company requires appraisals of real property held as collateral. For consumer loans, the Company will accept security which has a title certificate. Collateral held for commercial loans may include accounts receivable, inventory, property and equipment, and income-producing properties. The contract or notional amounts of these instruments reflect the extent of the Company's involvement in particular classes of financial instruments.

The contractual amount of credit related financial instruments such as commitments to extend credit and letters-of-credit represents the amount of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

14. Legal Contingencies

Various legal claims 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.

15. Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities,

15. Minimum Regulatory Capital Requirements (cont.)

and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

Regulatory capital requirements limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% above its minimum risk-based capital requirements. As of December 31, 2021, the Bank had a capital conservation buffer of 7.7% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%. As of December 31, 2020, the Bank had a capital conservation buffer of 7.0% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%. Management believes, as of December 31, 2021 and 2020, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2021, the Bank is well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1, and Tier 1 leverage ratios as set forth in the following tables. The Bank's actual capital amounts and ratios as of December 31, 2021 and 2020 are also presented in the table.

As of December 31, 2021	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets Bank	$104,157,000	15.7%	$ 53,153,000	8.0%	$ 66,441,000	10.0%
Tier 1 Capital to Risk-Weighted Assets Bank	96,321,000	14.5	39,865,000	6.0	53,153,000	8.0
Common Equity Tier 1 Capital to Risk-Weighted Assets Bank	96,321,000	14.5	29,898,000	4.5	43,187,000	6.5
Tier 1 Capital to Average Assets Bank	96,321,000	10.1	37,978,000	4.0	47,473,000	5.0
As of December 31, 2020						
Total Capital to Risk-Weighted Assets Bank	$ 95,909,000	15.0%	$ 51,216,000	8.0%	$ 64,021,000	10.0%
Tier 1 Capital to Risk-Weighted Assets Bank	88,422,000	13.8	38,412,000	6.0	51,216,000	8.0
Common Equity Tier 1 Capital to Risk-Weighted Assets Bank	88,422,000	13.8	28,809,000	4.5	41,613,000	6.5
Tier 1 Capital to Average Assets Bank	88,422,000	9.5	37,164,000	4.0	46,455,000	5.0

The actual and minimum capital amounts and ratios for the Company do not materially differ from those presented for the Bank in the table above.

Dividends paid by the Bank are the primary source of funds available to the Company for payment of dividends to its shareholders. The Bank is subject to certain requirements imposed by federal banking laws and regulations, which among other things, establish minimum levels of capital and restrict the amount of dividends that may be distributed by the Bank to the Company.

16. Employee Benefit Plans

The Company has a safe harbor 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Company makes safe harbor matching contributions equal to 100% of the first 3% of an employee's compensation plus 50% of the next 2% of an employee's compensation in addition to a discretionary contribution. For the Years Ended December 31, 2021 and 2020, expense attributable to the plan amounted to $393,000 and $376,000, respectively.

The Company has established a nonqualified supplemental executive retirement plan for the benefit of key employees. The amount of each benefit is guaranteed contingent upon employee vesting schedules. As of December 31, 2021, and 2020, the accrued liability of the plan was $3,468,000 and $3,180,000, respectively, and is recorded in accrued expenses and other liabilities. The present value of these benefits is expensed over the employment service period. The benefit expense amounted to $395,000 and $375,000 for 2021 and 2020, respectively. Life insurance policies were acquired for the purpose of serving as the primary funding source. The cash value of these policies was $14,517,000 and $14,126,000 at December 31, 2021 and 2020, respectively, and is included in other assets.

17. Restricted Stock Plan

The Company established a restricted stock plan during 2010 with 100,000 shares currently authorized by the Board of Directors for the compensation committee of the Board to administer. The holders of restricted stock, regardless of vesting status, shall have all the rights of a shareholder, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon. On January 1, 2021 and 2020, the compensation committee granted 10,677 and 8,849 shares with a fair value on the grant date of $18.49 and $20.425, respectively. A total of 31,423 shares have been issued under the restricted stock plan since inception, 11,897 of which are vested.

The unvested restricted stock shares will cliff-vest as follows:

2023	2,249
2024	—
2025	7,806
2026	9,471
Total	19,526

18. Other Noninterest Income and Expenses

The components of other noninterest income and expenses which are in excess of 1% of total revenues (total interest and dividend income and noninterest income) and not shown separately on the consolidated statements of income are as follows for the years ended December 31:

	2021	2020
Other noninterest income		
Interchange and ATM fees	$ 1,680,000	$ 1,437,000
Investment advisor fees and commissions	731,000	575,000
Swap fee income	226,000	887,000
Other general and administrative noninterest expenses		
Legal, audit, examination and consulting	564,000	637,000
Account servicing	631,000	597,000

19. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to $20,427,000 and $16,501,000 at December 31, 2021 and 2020, respectively. Deposits from related parties held by the Company at December 31, 2021 and 2020 amounted to $9,306,000 and $5,423,000, respectively.

20. Employee Stock Ownership Plan

Any employee who is not 1) an independent contractor; 2) a leased employee; 3) an employee covered by a collective bargaining agreement; or 4) a nonresident alien who receives no U.S. income is eligible to participate in the ESOP. An employee is eligible on his or her first day of employment, with enrollment dates on a quarterly basis.

The Bank's ESOP purchased shares of Katahdin Bankshares Corp. common stock that include outstanding debt as follows:

Date	Shares	Net Price Per Share	Original Debt	Principal Balance Dec. 31, 2021
September 2017	27,000	$ 13.99	$ 371,000	$ 191,000

The September 2017 loan is from Katahdin Bankshares Corp. and is repayable annually with an interest rate of 3.30% for a term of 6 years and 3 months. The loan was interest only for the first two years.

June 2018	32,300	$ 16.38	$ 529,000	$ 363,000

20. Employee Stock Ownership Plan (cont.)

The June 2018 loan is from Katahdin Bankshares Corp. and is repayable annually with an interest rate of 5.0% for a term of 9 years and 6 months.

The Bank's ESOP had also purchased 25,500 shares in October 2016 for $11.25 per share. There was no outstanding debt on this share purchase as of December 31, 2021 and 2020.

The loans are secured by the shares purchased by the ESOP. Participants' benefits become fully vested after five years of service. The Bank's contributions are the primary source of funds for the ESOP's repayment of the loans. Shares are released and allocated to participants' accounts as the ESOP repays the loans. Principal and interest payments for the years ended December 31, 2021 and 2020 totaled $173,000 and $178,000, respectively. ESOP expense was $267,000 and $205,000 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, the remaining principal balance of the loans are scheduled to be paid as follows:

2022	$ 148,000
2023	152,000
2024	59,000
2025	62,000
2026	65,000
2027	68,000
	$ 554,000

Shares held by the ESOP include the following at December 31:

	2021	2020
Allocated	51,955	42,313
Unallocated	32,845	42,487
	84,800	84,800

The fair value of the unallocated shares as of December 31, 2021 and 2020 was approximately $839,000 and $786,000, respectively.

21. 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.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon model-based techniques incorporating various assumptions including interest rates, prepayment speeds, and credit losses. Assets and liabilities valued using model-based techniques are classified as either Level 2 or Level 3, depending on the lowest level classification of an input that is considered significant to the overall valuation. A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Securities available-for-sale: Fair values for securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. The fair values of securities available-for-sale are classified as Level 2.

Other investments: Other investments consist of preferred stock. Other investments are reported at fair value utilizing the closing price reported in the active market in which the individual securities are traded.

Derivatives: The fair value of the Company's and Bank's interest rate swaps is determined using inputs that are observable in the market place obtained from third parties including yield curves, publicly available volatilities, and floating indexes and, accordingly, are classified as Level 2 inputs. The valuation of interest rate swap agreements executed with commercial banking customers is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves.

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

		Fair Value Measurements at December 31, 2021 and 2020, Using		
December 31, 2021	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities available-for-sale				
State and municipal	$ 9,776,000	$ –	$ 9,776,000	$ –
Corporate bonds	1,115,000	–	1,115,000	–
Mortgage-backed and CMO's	99,633,000	–	99,633,000	–
Total securities available-for-sale	110,524,000	–	110,524,000	–
Other investments	507,000	507,000	–	–
Derivative instruments	5,736,000	–	5,736,000	–
Total assets	$ 116,767,000	$ 507,000	$ 116,260,000	$ –
Liabilities				
Derivative instruments	$ 4,812,000	$ –	$ 4,812,000	$ –
December 31, 2020				
Assets				
Securities available-for-sale				
State and municipal	$ 6,230,000	$ –	$ 6,230,000	$ –
Corporate bonds	1,930,000	–	1,930,000	–
Mortgage-backed and CMO's	86,087,000	–	86,087,000	–
Total securities available-for-sale	94,247,000	–	94,247,000	–
Other investments	498,000	498,000	–	–
Derivative instruments	8,491,000	–	8,491,000	–
Total assets	$ 103,236,000	$ 498,000	$ 102,738,000	$ –
Liabilities				
Derivative instruments	$ 9,812,000	$ –	$ 9,812,000	$ –

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

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. The fair value of collateral-dependent impaired loans is primarily based upon the fair value of the underlying collateral as determined by appraisals of the collateral by third-party appraisers and brokers' opinions by third-party brokers. The appraisals and opinions are based upon comparable prices for similar assets in active markets for residential real estate loans, and less active markets for commercial loans. The fair values of collateral-dependent impaired loans are classified as Level 2.

Other real estate and property owned: Real estate acquired through foreclosure is recorded at fair value. The fair value of other real estate and property owned is based on property appraisals and an analysis of similar properties currently available. The fair values of other real estate and property owned are classified as Level 2.

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

		Fair Value Measurements at December 31, 2021 and 2020, Using		
December 31, 2021	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Impaired loans (market approach)	$ 58,000	$ -	$ 58,000	$ -
December 31, 2020				
Assets				
Impaired loans (market approach)	$ 572,000	$ -	$ 572,000	$ -
Other real estate and property owned (market approach)	38,000	-	38,000	-

21. Fair Value (cont.)

Certain impaired loans were written down to their value of $58,000 and $572,000 at December 31, 2021 and 2020, respectively, resulting in an impairment charge through the allowance for loan losses.

Fair Value of Financial Instruments

GAAP 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. 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 Company.

This summary excludes financial assets and liabilities for which carrying value approximates fair values and financial instruments that are recorded at fair value on a recurring basis. Financial instruments for which carrying values approximate fair value include cash equivalents (Level 1), interest bearing deposits in banks (Level 2), FHLB stock (Level 2), accrued interest (Level 2), junior subordinated debentures (Level 2), and demand, savings, NOW and money market deposits (Level 1). The estimated fair value of demand, savings, NOW and money market deposits is the amount payable on demand at the reporting date. Carrying value is used because the accounts have no stated maturity and the customer has the ability to withdraw funds immediately.

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

Securities held-to-maturity: Fair values for securities held-to-maturity are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The fair value of collateral-dependent impaired loans is primarily based upon the fair value of the underlying collateral as determined by appraisals of the collateral by third-party appraisers and brokers' opinions by third-party brokers. The appraisals and opinions are based upon comparable prices for similar assets in active markets for residential real estate loans, and less active markets for commercial loans.

Certificates of deposit: Fair values for maturity deposits are based on a replacement cost of funds approach, discounted to an 11 district FHLB average advances yield curve for the as of date in conjunction with the other cash flows associated with each account.

Advances from FHLB: The fair values of these borrowings are based on a replacement cost of funds approach. The borrowings are discounted to an 11 district FHLB average advances yield curve for the as of date.

Senior Notes: The fair value of the senior notes is estimated by indicative bid prices generally based upon market pricing observations in the current market.

The estimated fair values, and related carrying amounts, of these financial instruments are as follows:

	Fair Value Measurement at December 31, 2021				
	Carrying Amount	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Securities held-to-maturity	$ 3,000	$ 3,000	$ –	$ 3,000	$ –
Loans receivable, net:					
Commercial	149,524,000	151,127,000	–	–	151,127,000
Commercial real estate	410,082,000	411,476,000	–	58,000	411,418,000
Residential real estate	157,239,000	156,108,000	–	–	156,108,000
Consumer	5,655,000	5,617,000	–	–	5,617,000
Loan receivable, net	722,500,000	724,328,000	–	58,000	742,270,000
Financial liabilities					
Certificates of deposit	110,203,000	110,291,000	–	110,291,000	–
Advances from FHLB	1,530,000	1,560,000	–	1,560,000	–
Senior Notes	14,168,000	15,298,000	–	15,298,000	–

	Fair Value Measurement at December 31, 2020				
Financial assets					
Securities held-to-maturity	$ 4,000	$ 4,000	$ –	$ 4,000	$ –
Loans receivable, net:					
Commercial	187,002,000	188,503,000	–	38,000	188,465,000
Commercial real estate	394,344,000	396,864,000	–	482,000	396,382,000
Residential real estate	151,432,000	150,987,000	–	52,000	150,935,000
Consumer	6,361,000	6,232,000	–	–	6,232,000
Loan receivable, net	739,139,000	742,586,000	–	572,000	742,014,000
Financial liabilities					
Certificates of deposit	141,774,000	143,277,000	–	143,277,000	–
Advances from FHLB	13,041,000	13,320,000	–	13,320,000	–
Senior Notes	14,094,000	14,826,000	–	14,826,000	–

22. Senior Notes

On June 13, 2019, the Company entered into a Senior Note Purchase Agreement (the Agreement) by and among the Company and several purchasers of Senior Notes (collectively, the Purchasers), pursuant to which the Company agreed to sell to the Purchasers, severally and not jointly, $14,500,000 in aggregate principal Senior Notes. Debt issuance costs of $521,000 were incurred in conjunction with the issuance of the Senior Notes which are being amortized over 84 months. Amortization expense was $74,000 for the years ended December 31, 2021 and 2020.

The Senior Notes bear interest at 5.375% per annum and will mature on June 15, 2026, unless earlier made payable in accordance with the terms of the Agreement. Interest on the Senior Notes is payable semi-annually in arrears on each annual and semi-annual anniversary of the date of the Senior Notes. The Company used the proceeds to redeem preferred stock and for general corporate purposes. The obligations under the Agreement are unsecured.

23. Preferred Stock

The Company has authorized the issuance of up to 20,000 shares of preferred stock at any one time. As of December 31, 2021 and 2020, there were no issued and outstanding shares of preferred stock.

24. Interest Rate Swaps

The Company uses derivative instruments as partial hedges against large fluctuations in interest rates. At least quarterly, all financial instruments are reviewed as part of the asset/liability management process. The financial instruments are factored into the Company's overall interest rate risk position. The Company regularly reviews the credit quality of the counterparty from which the instruments have been purchased. The Company uses derivative financial instruments for risk management purposes and not for trading or speculative purposes. The Company controls the credit risk of these instruments through collateral, credit approvals, and monitoring procedures. The derivative instruments contain provisions that require the Company to post collateral with the counterparty for its contracts that are in a net loss position based on their fair value and the Company's credit rating. At December 31, 2021 and 2020, the Company had posted $6,611,000 and $11,635,000, respectively, in cash and securities collateral for the benefit of the counterparty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021 and 2020

24. Interest Rate Swaps (cont.)

The following table presents the details of the outstanding interest rate swap agreements:

Party	Notional Amount	Effective Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Fair Value As of December 31, 2021	Fair Value As of December 31, 2020
*Bank	$ 25,000,000	Sept 9, 2019	Sept 9, 2026	USD-Federal Funds H.15	1.360%	$ (315,000)	$(1,340,000)
Bank	$ 15,000,000	July 24, 2020	July 24, 2027	USD-Federal Funds H.15	0.260%	$ 717,000	$ 173,000
Company	$ 3,000,000	July 7, 2021	October 7, 2033	3-Month USD LIBOR	0.990%	$ 206,000	$ 45,000
Company	$ 4,000,000	July 7, 2021	January 7, 2036	3-Month USD LIBOR	1.040%	$ 316,000	$ 96,000

*On September 9, 2021, the Bank amended the variable index received on this interest rate swap arrangement from 1-month USD LIBOR to USD-Federal Funds H.15. As a result of the amendment, the counterparty paid $59,000 to the Bank for the anticipated difference in the variable indexes. This payment was recorded as a reduction of deposits interest expense on the consolidated statements of income.

The Bank's and Company's interest rate swap agreements were designated as cash flow hedges of certain variable rate deposits and borrowings, respectively. As these instruments qualify as highly effective cash flow hedges, changes in fair value are recorded in other comprehensive income (loss), net of tax. The fair value of the cash flow hedges is recorded in other assets (liabilities) on the consolidated balance sheets.

The following table presents the details of interest rate swap agreements terminated early in September 2021:

Party	Notional Amount	Effective Date	Maturity Date	Variable Index Received	Fixed Rate Paid	Fair Value As of December 31, 2021	Fair Value As of December 31, 2020
Bank	$ 12,500,000	March 6, 2020	March 6, 2023	1-Month USD LIBOR	0.588%	$ –	$ (122,000)
Bank	$ 12,500,000	March 6, 2020	March 6, 2024	1-Month USD LIBOR	0.619%	$ –	$ (173,000)

Early termination payments were made to the counterparty of $88,000 and $96,900 for each of the $12,500,000 swaps, respectively. Given these interest rate swap agreements were designated as cash flow hedges of certain variable rate deposits, the early termination payments were recorded as deposits interest expense on the consolidated statements of income. There were no gains or losses reclassified from other comprehensive income into income for the year ended December 31, 2020.

The Bank enters into interest rate swap agreements executed with commercial banking customers to facilitate customers' risk management strategies. In addition to the swap agreement with the borrower, the Bank enters into a second "back-to-back" swap agreement with a third party; the general terms of the swap mirror those of the first swap agreement. In entering this transaction, the Bank has offset its interest rate risk exposure to the swap agreement with the borrower. All interest rate swaps are valued at observable market prices for similar instruments or valued using observable market interest rates.

The following table presents summary information regarding the fair value of customer related interest rate swaps, which are included in other assets (liabilities) as of December 31:

	2021 Asset (Liability)	2020 Asset (Liability)
Swaps receive fixed	$ 4,497,000	$ 8,350,000
Swaps pay fixed	(4,497,000)	(8,350,000)
Net customer related swaps	$ –	$ –

The outstanding notional amounts of interest rate swaps entered into on behalf of customers at December 31 were as follows:

	2021	2020
Swaps receive fixed	$ 94,140,000	$ 105,387,000
Swaps pay fixed	(94,140,000)	(105,387,000)

25. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about the conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date. Management has evaluated subsequent events occurring through February 3, 2022, the date the financial statements were available to be issued.

SHAREHOLDER INFORMATION

ANNUAL MEETING

We invite shareholders to join us on Monday, May 2, 2022, at 11:00 a.m. E.T. in person at the Bangor Hilton Garden Inn or by calling in. Please refer to your shareholder proxy card for meeting details.

SHAREHOLDER RELATIONS

Katahdin Bankshares Corp. and Katahdin Trust Company welcome shareholder and public interest in our services and activities. Questions or comments pertaining to this report and requests for other information should be directed to:

Matthew M. Nightingale
Executive Vice President, Treasurer & CFO
PO Box 36 | Houlton, ME 04730
(207) 521-3200
m.nightingale@katahdintrust.com

STOCK

Katahdin Bankshares Corp. stock is quoted on the OTC Markets quote board OTCQX under the symbol KTHN. Current stock information can be found at otcmarkets.com/stock/KTHN/quote.

TRANSFER AGENT

For shareholder inquiries regarding change of address or title, please contact:

Computershare Trust Company, N.A .
PO Box 30170 | College Station, TX 77842-3170
1-800-368-5948 (U.S. or Canada)
1-781-575-4223 (outside the U.S. or Canada)
computershare.com/investor

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

Katahdin's transfer agent, Computershare Trust Company, N.A. ("Computershare"), sponsors and administers the Computershare Investment Plan (CIP) for Katahdin Bankshares Corp. Common Stock. This plan offers direct stock purchase and dividend reinvestment options and is available to current Katahdin Bankshares Corp. shareholders as well as new investors. For more information, you may contact Computershare.

BRANCH LOCATIONS

NORTHERN MAINE

Ashland
17 Main Street
435-6461

Island Falls
1007 Crystal Road
463-2228

Caribou
105 Bennett Drive
498-4200

Mars Hill
28 Main Street
429-8400

Eagle Lake
3440 Aroostook Road
444-5543

Oakfield
200 Oakfield Smyrna Rd
757-8288

Fort Fairfield
290 Main Street
472-3161

Patten
11 Main Street
528-2211

Fort Kent
79 West Main Street
834-2348

Presque Isle
6 North Street
764-8000

Houlton
65 North Street
532-4277

Van Buren
29 Main Street, Ste.105
868-2728

GREATER BANGOR

Bangor
609 Broadway
942-3146

Hampden
57 Western Avenue
862-2211

Bangor
52 Springer Drive
947-9674

GREATER PORTLAND

Scarborough
US Route One
510-7017