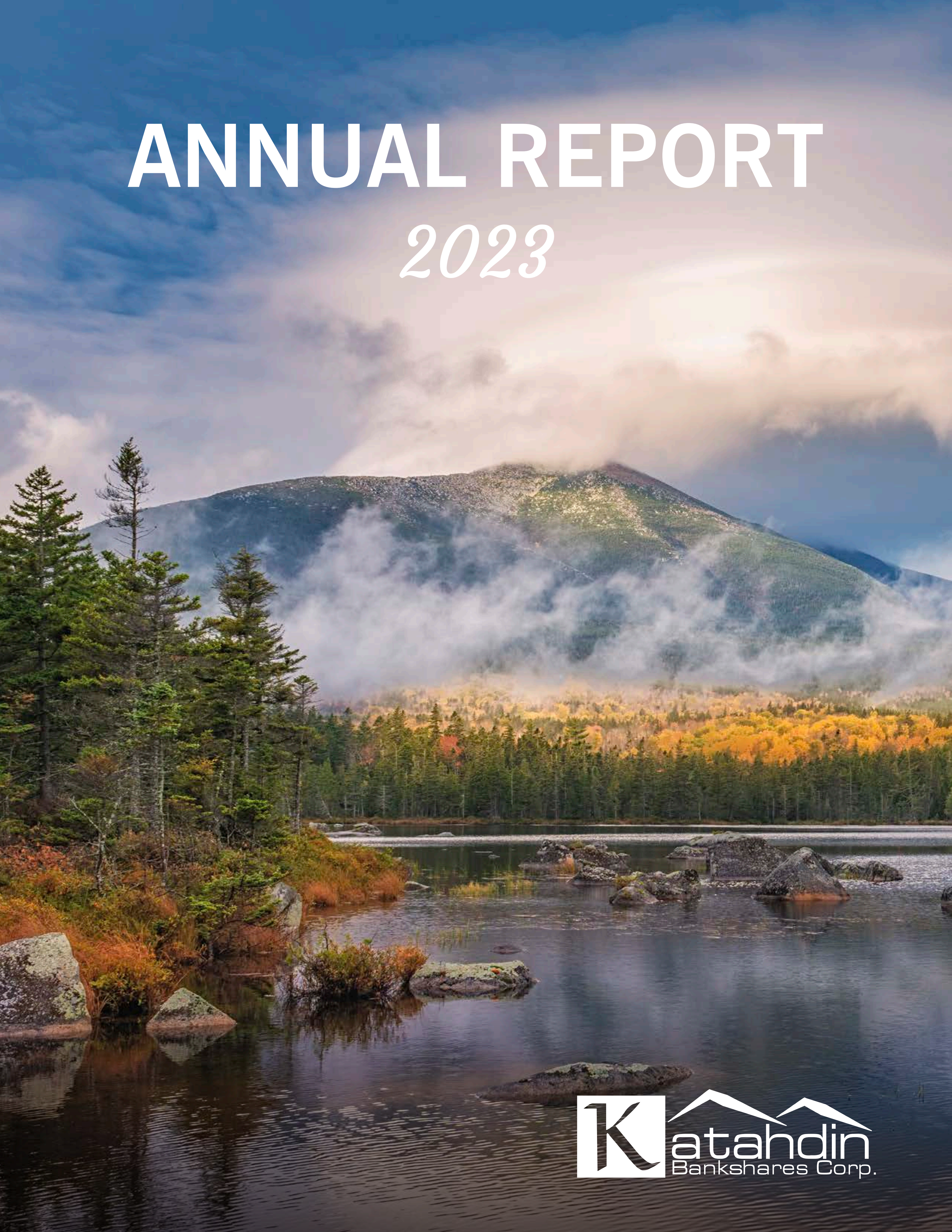
ANNUAL REPORT

2023



Katahdin
Bankshares Corp.

DEAR FELLOW SHAREHOLDERS,

It is with pleasure that I share this update on the progress we've made, the milestones we have achieved, and the success that has shaped our Company.

2023 Financial Recap

The dedication and hard work of our team, coupled with strategic decisions, have propelled us to new heights and are reflected in the following financial results.

Net income for 2023 totaled $9,907,000, or $3.08 per share. Earnings per share increased 3.7% over 2022. Return on average assets was 0.99% and return on average equity was 11.99%. Both are solid numbers. Tangible book value per share improved to $25.76 per share.

Net interest income rose by $2,433,000, or 7.6%, despite higher deposit costs after the Federal Reserve hiked interest rates eleven times since spring of 2022.

Non-interest income remained flat in total and across most categories. Noninterest expense continued to rise and is mostly attributed to a $820,000 salary and employee benefits increase as salary inflation continues to work its way through the tight labor market. A slowing of the national rate of inflation is welcome news, and only time will tell if this trend continues.

The balance sheet showed modest growth, with total assets rising 5.2%, or $50,708,000. Loans increased $49,471,000 year over year. Most of the growth was in the commercial portfolio while residential production was slowed due to higher interest rates. We continued to be cautious in growing our loan portfolio due to economic uncertainty, competitor pricing, or terms we did not always feel met our credit standards. Our strong asset quality has continued, but we know that it will not indefinitely remain as good as we have seen over the prior four years. The Bank currently maintains an adequate allowance for credit losses on loans and strong capital levels to protect against potential losses.

We continue our practice of prospecting for core deposit growth and actively call on both existing customers and prospects to gain new business. Competition for deposits is intense, and yields on deposit accounts have risen with customer demand for higher rates. The Bank's ability to grow loans in the State of Maine has traditionally been much less difficult than growing deposits. We emphasize to all staff the importance of attaining new deposit relationships to maintain a strong balance sheet and asset-liability position. Our task continues to be achieving growth in earning assets at profitable yields, while maintaining an adequate net interest margin.

In addition to returning increased dividends to shareholders in 2023 over 2022, our capital levels remain strong, and we are well-capitalized by regulatory authorities. Our present goal is to increase dividends in 2024 as well.

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

Operating Environment

We find that operating under current circumstances for community banks is challenging on several fronts. Asset-liability management (ALM) in today's higher interest rate environment is difficult, as the rate hikes seen in 2022 and 2023 caused bank balance sheets to "reset" in nearly real-time. We have followed a somewhat conservative path and have stuck to our ALM process throughout the interest rate increases. This disciplined approach to pricing and structure has served us well so far. No one knows what the future holds regarding interest rates, and we try to maintain a balanced position.

The regulatory environment is demanding, with the failure of three banks early last year intensifying regulatory scrutiny in general. New rules such as extensive collection of data from commercial customers and a rewrite of Community Reinvestment Act (CRA) regulations lead several additional regulatory initiatives. Having to give more attention to regulatory matters takes time away from our core business of serving our customers.

Staffing and the labor market remain a challenge, particularly for certain positions. Higher wages are required to attract talent and the availability of workers is constrained in some geographic areas. We hope that this situation improves.

Despite headwinds, we have found that many consumers and small businesses respond favorably to our brand of community-invested, responsive, locally owned and managed banking. We see exciting potential to tap into markets where we currently have a small presence, while maintaining our excellent market position in northern Maine. Each and every employee on our team is committed to delivering a great customer experience that exceeds expectations.

Shareholder Meeting & Voting

We invite you to join us at the Annual Shareholders' Meeting on Monday, May 6, 2024, at 11:00 a.m. The meeting will return to the Center for Community Health Education at Houlton Regional Hospital. Even if you cannot attend the meeting, I encourage every shareholder to participate by submitting their proxy votes. You can conveniently vote online, by mail, or by telephone, and it will only require a few minutes of your time.

Achievements

In addition to our financial success, I am also pleased to report that our Company received several notable recognitions over the past year. We were named one of the Top 200 publicly traded community banks in the United States by American Banker Magazine for the fourth consecutive year. Our family-friendly policies, employee benefits package, and company culture helped us to receive the 2023 Best Place for Working Parents® designation as well as being named one of the Best Places to Work in Maine for the sixth consecutive year.

Supporting our Team and Communities

It brings me great joy to recount the number of employee advancements. Throughout 2023, we promoted ten employees to advanced roles within the Company and welcomed three new commercial services officers.

As part of our commitment to helping our friends and neighbors in need, Katahdin employees and directors donated their time to support 186 unique organizations across Maine for a total of 6,700 hours. A portion of those hours was spent teaching financial literacy, reaching nearly 1,300 unique learners in 2023.

Moving Forward Together

Goals for 2024 include expansion of our franchise throughout Maine by focusing on assisting customers with their personal and business financial goals. I am confident we can continue to grow our market share and move our Company forward.

Thank you for your investment in and support of Katahdin Trust. I encourage you to connect and follow along with us on social media 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

105 YEARS IN BUSINESS
1918–2023

FINANCIAL HIGHLIGHTS AS OF 12/31/23

KTHN STOCK
$22.15

TOTAL ASSETS
$1.03 BILLION

NET INCOME
$9.91 MILLION

RETURN ON AVG EQUITY
11.99%

EARNINGS PER SHARE
$3.08

TOTAL DEPOSITS
$893.4 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

BENJAMIN D. CARLISLE
President,
Prentiss & Carlisle
Bangor, Maine
Director since 2023

RICHARD B. HARNUM, JR.
President,
Harnum Holdings
Hampden, Maine
Director since 2017

JULIE A. LIBBY
Retired from the asset
management industry
Presque Isle, Maine
Director since 2023

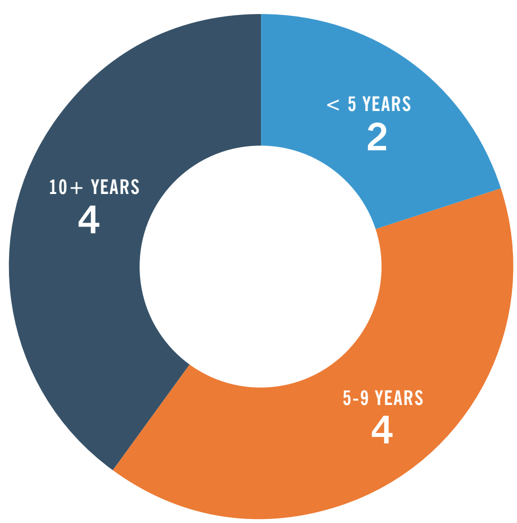
MARIANNA PUTNAM LIDDELL, ESQ.
Partner,
Pierce Atwood LLP
Yarmouth, Maine
Director since 2018

KIMBERLEY A. NILES
Owner and Director,
State of Granite, LLC
Atkinson, New Hampshire
Director since 2015

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

ABOUT THE BOARD

Our ten 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 an average tenure of 14.5 years.



EXECUTIVE MANAGEMENT TEAM

JON J. PRESCOTT
President
Chief Executive Officer

ANGELA TENNETT BUTLER
Executive Vice President
Chief Banking Officer

NATASHA R. McCARTHY, SHRM-CP
Executive Vice President
Chief Human Resources Officer

MATTHEW M. NIGHTINGALE
Executive Vice President
Treasurer & Chief Financial Officer

KRISTA K. PUTNAM, CFMP
Executive Vice President
Chief Marketing Officer

OUR CULTURE

Our 177 employees work together across various departments, including accounting, commercial, customer service, data processing, human resources, information technology, lending, marketing, retail, and operations. Each department strives for a common goal of helping our customers with their financial goals while achieving the highest level of customer satisfaction possible.

We are committed to supporting our employees' professional and personal needs by promoting from within and providing an excellent benefits package and family-friendly policies. It was an honor to be named one of the 2023 Best Places to Work in Maine and Best Place for Working Parents®.

Whether through direct financial support, in-kind donations, or volunteer time by our employees and board of directors, our support of charitable initiatives focuses on programs that we believe can have a meaningful impact on our communities.

Work with us | Bank with us

We're proud to be recognized for our company spirit, benefits package, and family-friendly policies that support our employees and their families.

2018-2023 Best Places to Work in ME

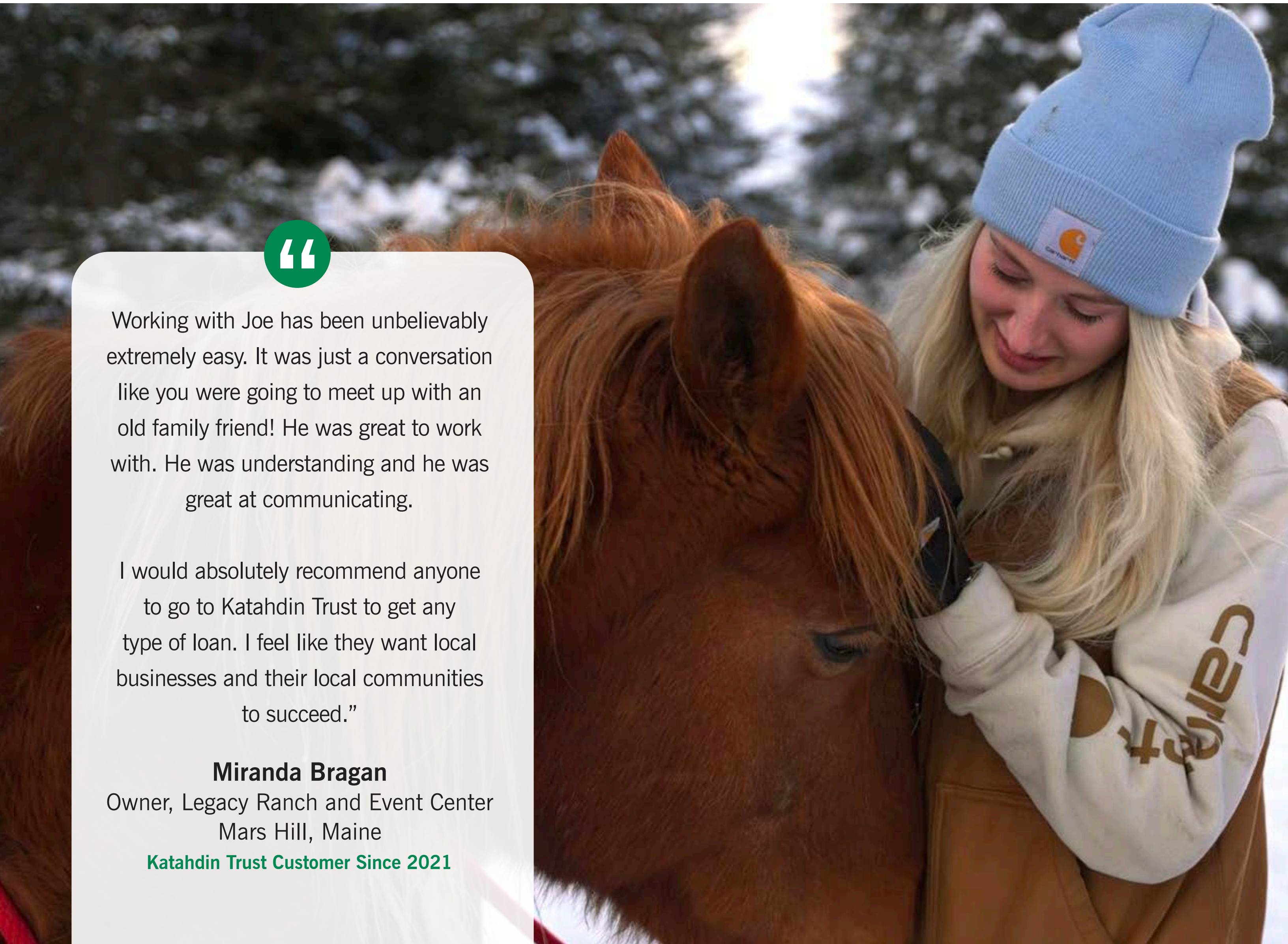
BEST PLACE FOR WORKING PARENTS™ 2023

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.



Working with Joe has been unbelievably extremely easy. It was just a conversation like you were going to meet up with an old family friend! He was great to work with. He was understanding and he was great at communicating.

I would absolutely recommend anyone to go to Katahdin Trust to get any type of loan. I feel like they want local businesses and their local communities to succeed."

Miranda Bragan
Owner, Legacy Ranch and Event Center
Mars Hill, Maine
Katahdin Trust Customer Since 2021

OFFICERS

As of 1/31/2024

James Amabile, VP
Maine Financial Group
Commercial Services Officer

Tori Barber, VP
Training Manager

Annette Beaton, VP
Community Banking Officer

Bradley Berthiaume, SVP
Financial Consultant
Katahdin Financial Services

Vicki Bessette, VP
Commercial Services Officer

Adam Bither, VP
Financial Consultant
Katahdin Financial Services

Cindy Boot, AVP
Commercial Services Officer

Alexis Brown
Branch Manager &
Community Banking Officer

David Cambridge, SVP
Commercial Services Officer

Aaron Cannan, SVP
Commercial Services Officer

Lauren Carpenter
Branch Manager &
Community Banking Officer

Samuel Clockedile, VP
Marketing Officer

Albert "Joe" Clukey II, VP
Community Banking Officer

Tabitha Corey, AVP
Quality Control Loan Analyst

Melissa Dahlgren, VP
Community Banking Team Leader

Jessica Dahms, AVP
Commercial Loan Processing Manager

Nicholas DiMatteo, SVP
Commercial Services Officer

Janet Doak, AVP
Branch Manager &
Community Banking Officer

Eunice Fish
Branch Manager &
Community Banking Officer

Sue Fox, AVP
Appraisal Department Manager

Whitney Francis
Bank Operations Officer

Angela Franck, AVP
Branch Manager &
Community Banking Officer

Sarah Gardiner, AVP
Senior Credit Analyst

Leslie Gardner, SVP
Retail Lending

Allissa Given, AVP
Branch Manager &
Community Banking Officer

Candice Glover
Technical Training & Software Officer

Alison Gould, AVP
Commercial Services Officer

Casey Gove
Data Security Officer

Billi Griffeth, SVP
Community Banking

Blake Hamel
Maine Financial Group
Commercial Services Officer

Searra Herbert
Community Banking Officer &
Cash Management Specialist

Katherine Hill, SVP
Bank Operations Manager

Justin Jamison, SVP
Commercial Services Officer

Russell Johnston, VP
Commercial Services Officer

Michaela King
Community Banking Officer &
Cash Management Specialist

Rebecca Kord, VP
Community Banking Team Leader

Teresa Lincoln
Executive Assistant

Willian Lucy, VP
Managed Assets

Tannis Lundin
Bank Operations Officer

Susan Lunn, SVP
Compliance Officer

Jeremy MacArthur
Network Administration Officer

Karyn MacLeod, VP
Commercial Services Officer

Valerie Maynard
Senior Credit Administration
Assistant

Susan McCarthy, VP
Maine Financial Group Manager
& Commercial Services Officer

James Nelson, VP
Commercial Services Officer

Kevin Plourde, SVP
Credit Administrator

Joseph Porter, SVP
Controller

Barrett Potter, VP
Internal Control &
Information Security Officer

Andrew Putnam, SVP
Chief Information Officer

Craig Robinson, AVP
Commercial Services Officer

Jasmine Rockwell, AVP
Loan Operations Manager

Scott Rossignol, AVP
System Administrator

Sarah Silliboy, VP
BSA Officer

Peggy Smith, VP
Branch Manager &
Community Banking Officer

Craig Staples, VP
Commercial Services Officer

Pamela Ward, VP
Credit Control

Jessica Weeks, AVP
Deposit Operations Manager

Danelle Weston, VP
Retail Underwriting Manager

Miranda Wotton, VP
Electronic Banking &
Cash Management

2023 EMPLOYEE & COMMUNITY IMPACT

$248k
Total Giving

385
Local Non-Profit Organizations Supported

$3,000
Raised through employee donations for St. Apollonia Dental Clinic

$118k
Total Down Payment Assistance for 5 First-Time Homebuyers

6,500+
Volunteer Hours

1,294
Students learned about financial literacy and good money habits from our employees

2023 COMMITMENT TO COMMUNITY

Top of the Mountain Award

Ruba Haddad

Ruba joined Katahdin Trust in 2021 as a Digital Marketing Specialist. In addition to leading Katahdin's Financial Literacy initiative, she is actively involved with The Houlton Rotary Club, Mill Pond School PTO, Nickerson Lake Wilderness Preservation, and Jobs for Maine's Grads.

Congratulations, Ruba, 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,	2023	2022	2021	2020	2019
Balance Sheet Data					
Total assets	$ 1,034,246	$ 983,538	$ 940,499	$ 937,007	$ 850,909
Total investments (1)	156,070	147,736	111,739	95,973	103,173
Total loans	798,993	749,522	730,303	746,593	701,016
Allowance for credit losses on loans	(7,975)	(7,428)	(7,803)	(7,454)	(6,293)
Total deposits	893,381	857,566	820,187	809,024	714,418
Shareholders' equity	87,806	79,664	83,604	76,202	68,879
Summary of Operations					
Interest and dividend income	$ 46,468	$ 36,163	$ 34,735	$ 36,373	$ 36,314
Interest expense	12,041	4,169	4,066	6,443	8,872
Net interest income	34,427	31,994	30,669	29,930	27,442
Credit loss expense (benefit)	106	(500)	135	1,260	460
Net interest income after the provision for loan losses	34,321	32,494	30,534	28,670	26,982
Non-interest income	4,757	4,786	5,099	5,833	5,089
Amortization of investments in limited partnerships (11)	236	236	236	1,166	107
Non-interest expense	26,769	25,233	23,856	22,803	21,969
Income before income taxes	12,073	11,811	11,541	10,534	9,995
Income taxes (11)	2,166	2,087	2,068	1,015	1,836
Net income	$ 9,907	$ 9,724	$ 9,473	$ 9,519	$ 8,159
Less dividends on preferred stock	-	-	-	-	474
Net income available to common shareholders	$ 9,907	$ 9,724	$ 9,473	$ 9,519	$ 7,685
Per Common Shares and Common Shares Outstanding					
Net income, basic (2)	$ 3.08	$ 2.97	$ 2.88	$ 2.88	$ 2.31
Net income, diluted (2)	3.08	2.97	2.88	2.88	2.31
Book value (3)	27.57	24.49	25.41	23.16	20.77
Tangible book value (3)	25.76	22.70	23.63	21.43	19.05
Weighted average common shares outstanding: (4)					
Basic	3,217,650	3,276,837	3,290,788	3,299,905	3,326,912
Diluted	3,217,650	3,276,837	3,290,788	3,299,905	3,326,912
Common shares outstanding at period end	3,198,393	3,276,492	3,323,450	3,332,638	3,369,207
Adjusted common shares outstanding at period end (5)	3,184,746	3,253,289	3,290,605	3,290,151	3,316,671
Selected Performance Ratios					
Return on average assets	0.99%	1.02%	1.00%	1.02%	0.99%
Return on average common shareholders' equity	11.99	12.39	11.75	13.26	11.73
Net interest spread (6)	3.56	3.50	3.22	3.18	3.44
Net interest margin (7)	3.73	3.63	3.52	3.45	3.51
Efficiency ratio (8)	68.93	69.09	66.70	63.78	67.87
Asset Quality Ratios					
Allowance for credit losses to period end loans	1.00%	0.99%	1.07%	1.00%	0.90%
Allowance for credit losses to non-performing loans (9)	1,115.98	351.11	278.39	155.43	117.05
Non-performing loans to period end loans (9) (12)	0.09	0.28	0.38	0.64	0.77
Non-performing assets to total assets (10) (12)	0.07	0.22	0.30	0.52	0.64
Capital Ratios (Katahdin Trust Company)					
Total risk-based capital ratio	15.89%	15.45%	15.67%	14.98%	13.75%
Tier 1 risk-based capital ratio	14.81	14.42	14.50	13.81	12.75
Common equity tier 1 risk-based capital ratio	14.81	14.42	14.50	13.81	12.75
Tier 1 capital ratio (Leverage ratio)	10.80	10.99	10.14	9.52	9.65
Other Data					
Number of full and limited service banking offices	16	16	16	16	16
Number of full-time equivalent employees	167	165	162	161	171
Katahdin Financial Services Assets Under Management	$ 184,757	$ 195,446	$ 191,140	$ 159,970	$ 135,063

(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. Ammortization of the corresponding investment was accounted for in other expenses through Amortizaton of Investments in Limited Partnerships. (12) As of January 1, 2023, the Company adopted *ASU No. 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* which eliminates the accounting guidance for troubled debt restructurings. Troubled debt restructured loans are included in the numbers for 2019-2022.

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 Services LLC, a registered broker-dealer and unaffiliated with Katahdin Trust Company), with assets under management of approximately $184.8 million as of December 31, 2023.

Following is an overview of the results of 2023 operations.

Assets

Total assets reached $1,034.2 million, up $50.7 million over the prior year. Cash and cash equivalents ended the year at $26.5 million, essentially flat as compared to the prior year. The investment portfolio which grew $8.3 million, ended the year at $156.1 million.

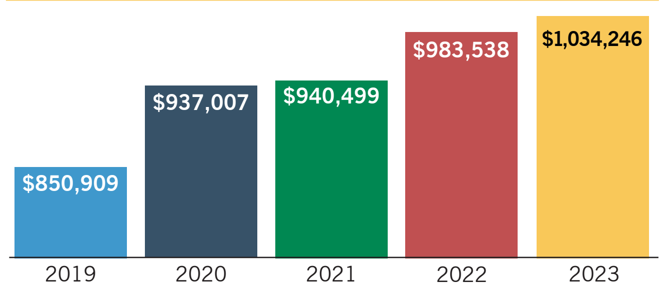
Interest rates continued to be elevated throughout 2023 along with shifts in the steepness of the yield curve. As a result of these changes over the year, the investment portfolio market value was less negative than last year causing a reduction in shareholder equity by $12.0 million in 2023 as compared to a reduction of $15.0 million in 2022, net-of-tax. The investment portfolio market value will continue to fluctuate as rates move and cash flows are reinvested. Offsetting a portion of reduced investment valuation is our interest rate swap derivatives that hedge against movements in interest rates. The net unrealized gain on derivative investments, net of tax, increased shareholder equity by $4.0 million in 2023.

Loans

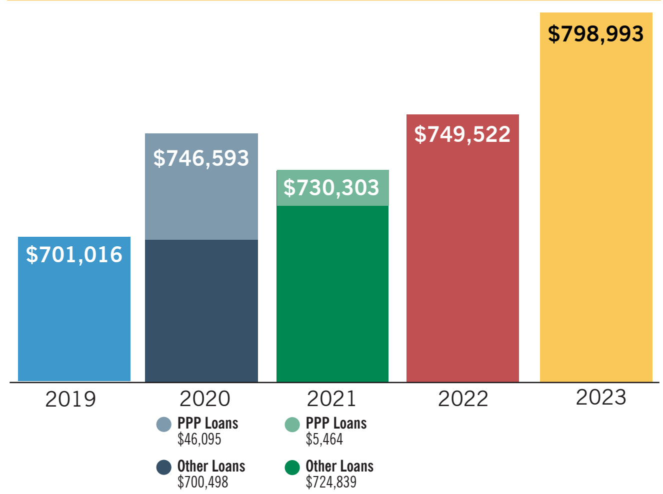
Total loan balances ended the year at $799.0 million, representing an increase of $49.5 million for 2023. Short term rates continued to rise during the first half of 2023 as the Federal Reserve increased the Fed Funds rate to a target of 5.25% to 5.50% in August. The longer part of the curve has fluctuated throughout the year. Our loan portfolio yield has increased throughout this time, moving from a December 2022 portfolio yield of 4.54% to 5.19% as of December 2023. Growth along with increasing loan rates helped offset rising funding costs throughout the year.

Approximately 79% of the Bank's loan portfolio consists of commercial and commercial real estate loans. Loan officers continue to explore new loan opportunities across our market area, with a focus on building profitable relationships. While we did grow in the second half of 2023, much of the growth last year was in the beginning of the year helping earnings throughout 2023.

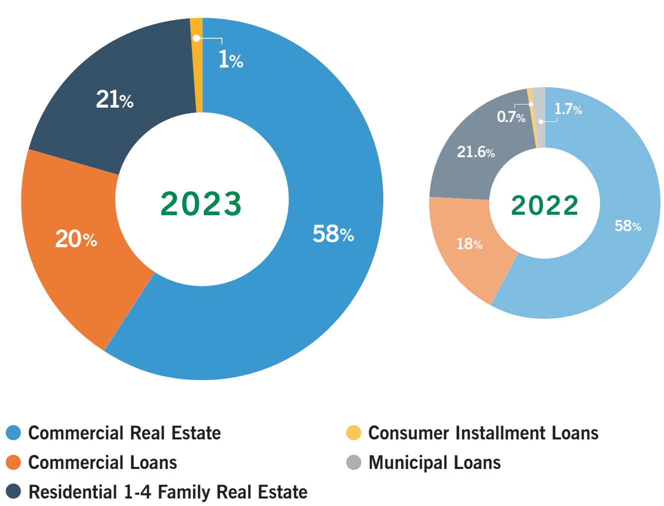
ASSETS ($000)



TOTAL LOANS ($000)



LOAN MIX



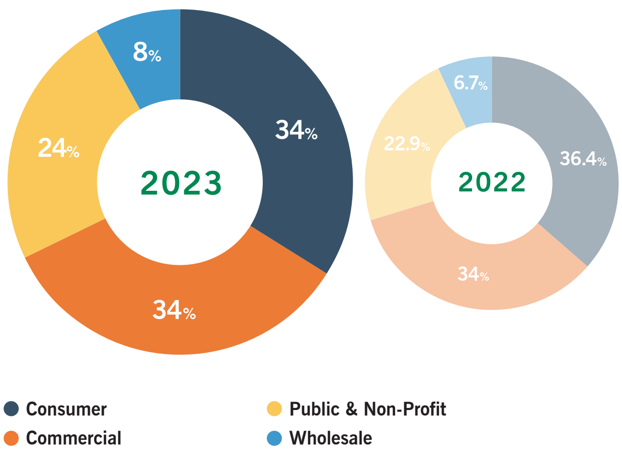
COMPANY OVERVIEW AND RESULTS OF OPERATIONS

Deposits

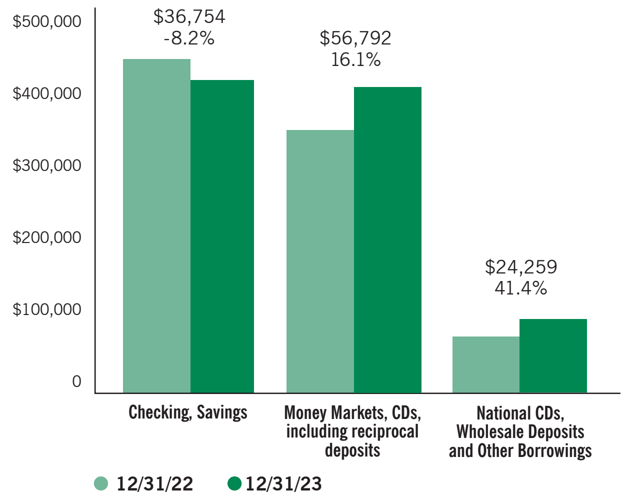
Deposits grew to $893.4 million, an increase of $35.8 million. Customer deposits grew $20.0 million in 2023. This allowed much of our new balance sheet growth to be funded with customer deposits vs. higher cost wholesale funding. Due to higher rates on money markets and CDs, customer checking and savings dropped by $36.8 million while money markets and certificate of deposits grew by $56.8 million year over year.

As rates have risen, we have seen our funding costs continue to increase throughout 2023. Our cost of funds totaled 1.72% in December 2023, compared to 0.76% in December 2022. We expect continued deposit shifts in 2024 as customers look to invest their funds in higher yielding products. Growing deposit relationships is a top priority. Should deposit levels diminish, the Bank is well-positioned with excess liquidity, both on- and off-balance sheet.

DEPOSIT SOURCES



DEPOSIT TREND ($000)



Net Interest Income

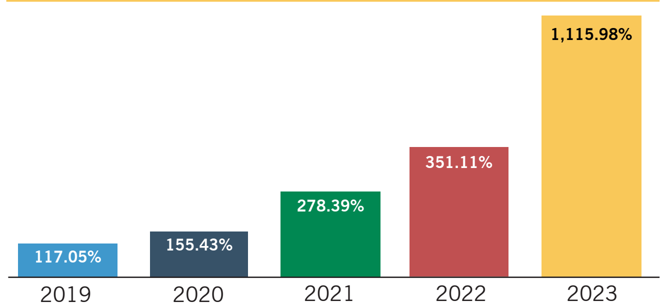
Net interest income in 2023 reached $34,427,000, exceeding the prior year by $2,433,000 or 7.6%. Net interest income reflects revenue generated from income on earning assets, plus loan fees, less interest paid on interest-bearing deposits and borrowings.The growth of our balance sheet and efforts to minimize the rising cost of funding in 2023 helped us maintain a steady and increasing net interest income. By managing our cost of funds during the year and increasing yields on the asset side, our net interest spread grew from 3.50% to 3.56% year over year. Should rates remain at these levels, it will be difficult to maintain this spread throughout 2024, as customers react to higher interest yielding options for their money.

Provision for Loan Losses and Asset Quality

Asset quality continued to be exceptional in 2023. Past due balances and non-performing loans have remained at extremely low levels. Non-performing loans to total period end loans totaled 0.09% in 2023 while non-performing assets to total assets was also low at 0.07% at year end.

On January 1, 2023, the Company adopted *Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, referred to as the current expected credit loss (CECL) methodology. Details regarding the CECL transition can be found in our 2023 Audited Financial Statements. As a result of this adoption as well as credit changes throughout 2023, our allowance for credit losses

ALLOWANCE FOR CREDIT LOSSES TO NON-PERFORMING LOANS



COMPANY OVERVIEW AND RESULTS OF OPERATIONS

stood at $8.0 million year-end 2023 compared to $7.4 million at year-end 2022. The allowance for credit losses to period end loan ratio stood at 1.0% as of year-end.

Management closely monitors the Bank's allowance for credit losses compared to asset quality to match our reserves with a reasonable estimate of risk.

Non-Interest Income and Expense

Non-interest income totaled $4,757,000, down from 2022 by $29,000. Non-interest income consists largely of service charges on loans, deposits, and electronic banking activity. The lower fee income can be attributed to fewer loan originations in 2023, while most other fee income sources remained on par with the prior year.

Non-interest expense reached $26,769,000 in 2023, increasing by $1,536,000 or 6.1% year-over-year. Salary and employee benefits amount to 60.3% of all non-interest expenses, increasing $820,000 or 5.4% over the prior year. While salaries and benefits accounted for most of the increase, inflationary pressures accounted for much of the operational costs increases year over year. The efficiency ratio ended at 68.93% as of year-end 2023 down slightly from 69.09% last year. Management continues to look for opportunities to both grow revenue and operate more efficiently while also positioning the Company for future growth.

Net Income

Net Income available to common shareholders totaled $9,907,000, an increase of $183,000 or 1.9% over 2022.

Earnings per common share totaled $3.08, up 11 cents from 2022. Return on average assets ended at 0.99% compared to 1.02% in 2022. Return on average common shareholders' equity was 11.99%, down from 12.39% in 2022.

Capital

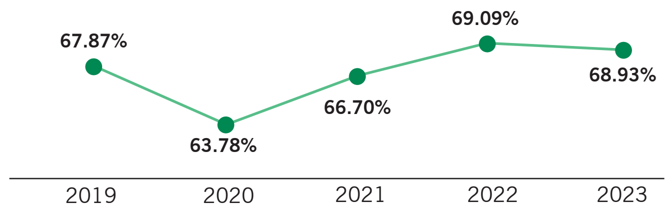
A solid earnings contribution and an improvement in security values have led to an increase in shareholders' equity of $8,142,000 in 2023, to a total of $87,806,000.

Capital ratios for the Bank remained solid in 2023 and continued to remain well above the minimums to be well-capitalized per regulatory capital requirements. The Bank's leverage ratio at year-end 2023 was 10.80%, compared to 10.99% at the end of 2022. Total risk-based capital stood at 15.89% compared to 15.45% in 2022.

Tangible book value was $25.76, an increase of $3.06 from year end 2022. The Company paid out common stock dividends of $0.608 per share, representing a 19.7% payout ratio. During the year, the Company repurchased 87,227 shares at an average price of $20.98 per share.

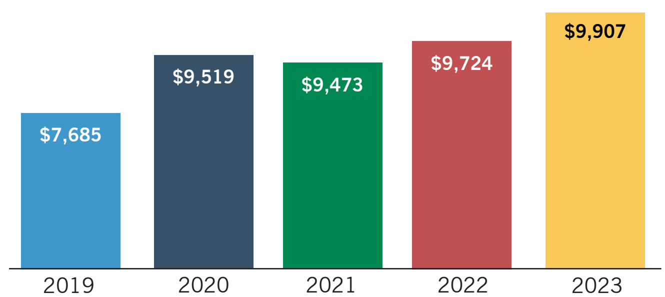
For detailed information, please also view our 2023 Audited Financial Statements found on our website at www.katahdintrust.com/shareholder-relations.

EFFICIENCY RATIO

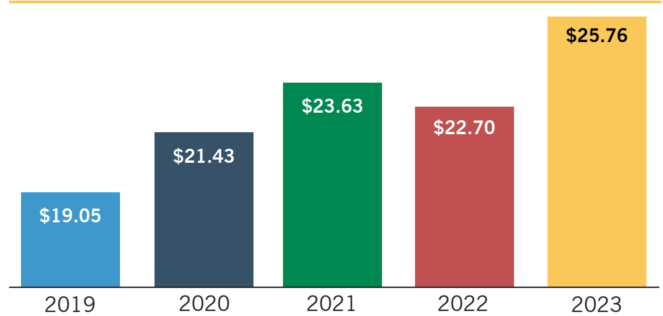


NET INCOME ($000)

Available to common shareholders



TANGIBLE BOOK VALUE



SHAREHOLDER INFORMATION

ANNUAL MEETING

We invite shareholders to join us on Monday, May 6, 2024, at the Center for Community Health Education at Houlton Regional Hospital at 11:00 a.m.

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

PRINTED FINANCIAL INFORMATION

We will provide, without charge and upon written request, a printed copy of the Katahdin Bankshares Corp. Annual Report. We will also provide, upon request, a complete set of audited financial statements and accompanying notes. Please contact Shareholder Relations at the mailing or email address above.

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 .
Regular Mail: PO Box 43006 | Providence, RI 02940-3006
Overnight Delivery: 150 Royall St., Suite 101 | Canton, MA 02021
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.

FINANCIAL REPORT

Scan to view the full 2023 Financial Report
and Audited Finanical Statements

KatahdinTrust.com/Shareholder-Relations

BRANCH LOCATIONS

Ashland
17 Main Street
435-6461

Bangor
609 Broadway
942-3146

Bangor
52 Springer Drive
947-9674

Caribou
105 Bennett Drive
498-4200

Eagle Lake
3440 Aroostook Road
444-5543

Fort Fairfield
290 Main Street
472-3161

Fort Kent
79 West Main Street
834-2348

Hampden
57 Western Avenue
862-2211

Houlton
65 North Street
532-4277

Island Falls
1007 Crystal Road
463-2228

Mars Hill
28 Main Street
429-8400

Oakfield
200 Oakfield Smyrna Rd
757-8288

Patten
11 Main Street
528-2211

Presque Isle
6 North Street
764-8000

Scarborough
136 US Route One
510-7017

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

Maine Financial Group
144 US Route One
Scarborough
885-5900

KATAHDIN BANKSHARES CORP.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

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, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses.* Our opinion is not modified with respect to this matter.

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 2, 2024

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2023 and 2022

ASSETS

	2023	2022
Cash and cash equivalents		
Cash and due from banks	**$ 9,020,000**	$ 7,184,000
Interest bearing deposits in banks	**17,509,000**	23,327,000
Total cash and cash equivalents	**26,529,000**	30,511,000
Securities available-for-sale	**154,743,000**	146,809,000
Other investments, at fair value	**435,000**	378,000
Securities held-to-maturity	**1,000**	2,000
Federal Home Loan Bank stock, at cost	**891,000**	547,000
Loans receivable, net of allowance for credit losses of $7,975,000 in 2023 and $7,428,000 in 2022	**791,018,000**	742,094,000
Bank premises and equipment, net	**17,078,000**	17,220,000
Goodwill	**5,559,000**	5,559,000
Other assets	**37,992,000**	40,418,000
	$1,034,246,000	$983,538,000

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	2023	2022
Deposits		
Demand deposits	**$ 205,222,000**	$ 219,565,000
NOW and money market deposits	**423,969,000**	412,912,000
Savings deposits	**89,949,000**	105,502,000
Certificates of deposit	**174,241,000**	119,587,000
Total deposits	**893,381,000**	857,566,000
Advances from Federal Home Loan Bank	**10,000,000**	1,519,000
Accrued expenses and other liabilities	**21,525,000**	23,329,000
Senior notes 5.375%, net of unamortized debt issuance costs	**14,317,000**	14,243,000
Junior subordinated debentures	**7,217,000**	7,217,000
Total liabilities	**946,440,000**	903,874,000
Shareholders' equity		
Common stock, $.10 par value; 20,000,000 shares authorized, 3,198,393 and 3,276,492 shares issued and outstanding on December 31, 2023 and 2022, respectively	**320,000**	328,000
Surplus	**4,961,000**	6,512,000
Undivided profits	**91,190,000**	83,707,000
Accumulated other comprehensive (loss) income		
Net unrealized depreciation on securities available-for-sale, net of deferred income taxes	**(11,995,000)**	(15,033,000)
Net unrealized gain on derivative instruments, net of deferred income taxes	**3,958,000**	4,895,000
Unearned ESOP shares	**(254,000)**	(406,000)
Unearned compensation – restricted stock	**(374,000)**	(339,000)
Total shareholders' equity	**87,806,000**	79,664,000
	$1,034,246,000	$ 983,538,000

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

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Statements of Income

Years Ended December 31, 2023 and 2022

	2023	2022
Interest and dividend income		
Loans	**$ 42,091,000**	$ 32,583,000
Investment securities	**4,156,000**	3,301,000
Other interest-earning assets	**221,000**	279,000
Total interest and dividend income	**46,468,000**	36,163,000
Interest expense		
Deposits	**10,766,000**	3,067,000
Borrowed funds and junior subordinated debentures	**1,275,000**	1,102,000
Total interest expense	**12,041,000**	4,169,000
Net interest income	**34,427,000**	31,994,000
Credit loss expense (benefit) – loans	**142,000**	(500,000)
Credit loss benefit – off-balance sheet credit exposures	**(36,000)**	-
Credit loss expense (benefit)	**106,000**	(500,000)
Net interest income after credit loss expense (benefit)	**34,321,000**	32,494,000
Noninterest income		
Service charges and fees on deposit accounts	**1,276,000**	1,179,000
Other	**3,481,000**	3,607,000
Total noninterest income	**4,757,000**	4,786,000
Noninterest expenses		
Salaries and employee benefits	**16,139,000**	15,319,000
Occupancy and equipment expense	**3,048,000**	3,073,000
Data processing	**2,874,000**	2,680,000
Marketing and donations	**1,023,000**	957,000
FDIC and state assessments	**518,000**	313,000
Amortization of investments in limited partnerships	**236,000**	236,000
Net realized loss on securities available-for-sale	**12,000**	-
Other general and administrative	**3,155,000**	2,891,000
Total noninterest expenses	**27,005,000**	25,469,000
Income before income taxes	**12,073,000**	11,811,000
Income tax expense	**2,166,000**	2,087,000
Net income	**$ 9,907,000**	$ 9,724,000
Basic earnings per common share	**$ 3.08**	$ 2.97
Diluted earnings per common share	**$ 3.08**	$ 2.97

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

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
Net income	**$ 9,907,000**	$ 9,724,000
Other comprehensive income (loss), net of related tax effects		
Unrealized appreciation (depreciation) on securities available-for-sale		
Unrealized appreciation (depreciation) on securities available-for-sale arising during period	**3,834,000**	(19,074,000)
Reclassification adjustment for losses realized in net income	**12,000**	-
Tax effect	**(808,000)**	4,006,000
Net change in unrealized appreciation (depreciation) on securities available-for-sale, net of tax	**3,038,000**	(15,068,000)
Unrealized (loss) gain on derivative instruments, net of tax	**(937,000)**	4,165,000
Total other comprehensive income (loss)	**2,101,000**	(10,903,000)
Comprehensive income (loss)	**$ 12,008,000**	$ (1,179,000)

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

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock	Surplus	Undivided Profits	Net Unrealized Appreciation (Depreciation) on Securities	Net Unrealized Gain on Derivative Instruments	Unearned ESOP Shares	Unearned Compensation - Restricted Stock	Total
Balance, December 31, 2021	$332,000	$ 7,528,000	$75,791,000	$ 35,000	$ 730,000	$(554,000)	$ (258,000)	$ 83,604,000
Net income	-	-	9,724,000	-	-	-	-	9,724,000
Change in net unrealized appreciation on securities available-for-sale, net of taxes of ($4,006,000)	-	-	-	(15,068,000)	-	-	-	(15,068,000)
Change in net unrealized gain on derivative instruments, at fair value, net of taxes of $1,107,000	-	-	-	-	4,165,000	-	-	4,165,000
Total comprehensive income (loss)	-	-	9,724,000	(15,068,000)	4,165,000	-	-	(1,179,000)
Cash dividends declared on common stock, $0.552 per share	-	-	(1,808,000)	-	-	-	-	(1,808,000)
Common stock purchased and retired under the Company buyback program (56,700 shares)	(6,000)	(1,333,000)	-	-	-	-	-	(1,339,000)
Issuance of 8,506 shares of restricted stock	1,000	216,000	-	-	-	-	(217,000)	-
Restricted stock award compensation	-	-	-	-	-	-	136,000	136,000
Director stock compensation (1,236 shares)	1,000	31,000	-	-	-	-	-	32,000
Common stock held by ESOP committed to be released (9,642 shares)	-	70,000	-	-	-	148,000	-	218,000
Balance, December 31, 2022	$328,000	$ 6,512,000	$83,707,000	$(15,033,000)	$ 4,895,000	$(406,000)	$ (339,000)	$ 79,664,000
Net income	**-**	**-**	**9,907,000**	**-**	**-**	**-**	**-**	**9,907,000**
Change in net unrealized depreciation on securities available-for-sale, net of taxes of $808,000	**-**	**-**	**-**	**3,038,000**	**-**	**-**	**-**	**3,038,000**
Change in net unrealized loss on derivative instruments, at fair value, net of taxes of ($249,000)	**-**	**-**	**-**	**-**	**(937,000)**	**-**	**-**	**(937,000)**
Total comprehensive income (loss)	**-**	**-**	**9,907,000**	**3,038,000**	**(937,000)**	**-**	**-**	**12,008,000**
Impact of adoption of ASU No. 2016-13	**-**	**-**	**(476,000)**	**-**	**-**	**-**	**-**	**(476,000)**
Cash dividends declared on common stock, $0.608 per share	**-**	**-**	**(1,948,000)**	**-**	**-**	**-**	**-**	**(1,948,000)**
Common stock purchased and retired under the Company buyback program (87,227 shares)	**(10,000)**	**(1,825,000)**	**-**	**-**	**-**	**-**	**-**	**(1,835,000)**
Issuance of 9,980 shares of restricted stock, net of 1,829 shares returned to cover taxes	**1,000**	**183,000**	**-**	**-**	**-**	**-**	**(220,000)**	**(36,000)**
Restricted stock award compensation	**-**	**-**	**-**	**-**	**-**	**-**	**185,000**	**185,000**
Director stock compensation (977 shares)	**1,000**	**21,000**	**-**	**-**	**-**	**-**	**-**	**22,000**
Common stock held by ESOP committed to be released (9,556 shares)	**-**	**70,000**	**-**	**-**	**-**	**152,000**	**-**	**222,000**
Balance, December 31, 2023	**$320,000**	**$ 4,961,000**	**$91,190,000**	**$(11,995,000)**	**$ 3,958,000**	**$ (254,000)**	**$(374,000)**	**$87,806,000**

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

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Net income	**$ 9,907,000**	$ 9,724,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,183,000**	1,153,000
Net (accretion) amortization of premiums and discounts on securities	**(11,000)**	232,000
Noncash lease expense	**216,000**	238,000
Credit loss expense (benefit)	**106,000**	(500,000)
Amortization of investments in limited partnerships	**319,000**	296,000
Restricted stock award compensation	**185,000**	136,000
Director stock compensation	**22,000**	32,000
(Gain) loss on sale of premises and equipment	**(19,000)**	70,000
Unrealized (gain) loss on other investments	**(57,000)**	129,000
Loss on sale of securities available-for-sale	**12,000**	-
Deferred income tax expense (benefit)	**(118,000)**	297,000
Increase in cash value of life insurance	**(423,000)**	(394,000)
Loss on sale of other real estate and property owned	**174,000**	-
ESOP compensation expense	**222,000**	218,000
Increase in other assets	**(390,000)**	(372,000)
(Decrease) increase in accrued expenses and other liabilities	**(226,000)**	282,000
Net cash provided by operating activities	**11,102,000**	11,541,000
Cash flows from investing activities		
Additions to premises and equipment	**(1,136,000)**	(3,429,000)
Loan originations and principal collections, net	**(49,947,000)**	(19,094,000)
Purchase of securities available-for-sale	**(23,401,000)**	(77,702,000)
Maturities of securities available-for-sale	**19,256,000**	22,111,000
Maturities of securities held-to-maturity	**1,000**	1,000
Proceeds from sales of securities available-for-sale	**56,000**	-
Investment in limited partnerships	**(166,000)**	(211,000)
Proceeds from sale of other real estate and property owned	**101,000**	-
Proceeds from sale of premises and equipment	**19,000**	-
Redemption of Federal Home Loan Bank stock	**2,960,000**	575,000
Purchase of Federal Home Loan Bank stock	**(3,304,000)**	(417,000)
Net cash used by investing activities	**(55,561,000)**	(78,166,000)
Cash flows from financing activities		
Net increase in deposits	**35,815,000**	37,379,000
Net decrease in short-term borrowings	**(114,000)**	(11,000)
Repayment of long-term debt	**(1,405,000)**	-
Proceeds from long-term debt	**10,000,000**	-
Purchase of common stock under Company buyback program	**(1,835,000)**	(1,339,000)
Purchase of restricted stock	**(36,000)**	-
Cash dividends paid on common stock	**(1,948,000)**	(1,808,000)
Net cash provided by financing activities	**40,477,000**	34,221,000
Net decrease in cash and cash equivalents	**(3,982,000)**	(32,404,000)
Cash and cash equivalents, beginning of year	**30,511,000**	62,915,000
Cash and cash equivalents, end of year	**$ 26,529,000**	$ 30,511,000

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

KATAHDIN BANKSHARES CORP. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Supplementary cash flow information:		
Interest paid on deposits and borrowed funds	**$ 11,647,000**	$ 4,091,000
Income taxes paid	**1,842,000**	1,381,000
Noncash transactions		
Transfer from loans to other real estate and property owned	**287,000**	-
Unfunded commitment in Low Income Housing Tax Credit Partnership	**-**	339,000
Right-of-use assets	**-**	3,708,000
Lease liabilities	**-**	(3,708,000)
(Decrease) increase in fair value of interest rate swap assets	**(2,610,000)**	9,372,000
(Decrease) increase in fair value of interest rate swap liabilities	**(1,579,000)**	5,207,000

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

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), a consolidated 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 credit losses (ACL) and the valuation of other real estate and property owned. In connection with the determination of the ACL and the carrying value of other real estate and property owned, management obtains independent appraisals.

While management uses all available information to recognize losses on loans, future additions to the ACL 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 ACL based on judgments about information available to them at the time of the examination. Because of these factors, it is reasonably possible that the ACL may change materially in the near term.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and securities held-to-maturity. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, Accounting Standards Codification (ASC) 326 made changes to the accounting for securities available-for-sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on securities available-for-sale management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP, including disclosures. The Company recorded a net decrease to retained earnings of $476,000 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The retained earnings impact resulted from an increase in the allowance for loan losses (now called the ACL on loans) of $439,000, an increase in the ACL on off-balance sheet credit exposures of $164,000, and an increase in deferred tax assets of $127,000.

The following table illustrates the impact of ASC 326 at January 1, 2023.

	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans			
Residential 1-4 family	$161,499,000	$161,499,000	$ -
Commercial real estate	434,165,000	434,165,000	-
Commercial and industrial	147,529,000	134,329,000	13,200,000
Municipal	-	12,621,000	(12,621,000)
Business credit cards	-	579,000	(579,000)
Consumer	5,480,000	5,480,000	-
Allowance for credit losses on loans	7,867,000	7,428,000	439,000
Liabilities:			
Allowance for credit losses on off-balance sheet credit exposures	197,000	33,000	164,000

In March 2022, the Financial Accounting Standards Board (FASB) issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* which eliminates the accounting guidance for troubled debt restructurings (TDRs), while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The ASU also requires disclosure of current period charge-offs by year of origination for loans and leases. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. This ASU was adopted January 1, 2023, and it did not have a material impact on the Company's consolidated financial statements.

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 the London Interbank Offered Rate (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, 2024. 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.

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.

Debt securities that are past due 30 days or more are considered delinquent. A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Purchase premiums and discounts are recognized in interest income using a method approximating the interest method over the terms of the securities.

Nonmarketable equity securities, such as Federal Home Loan Bank of Boston (FHLB) stock, are stated at cost, subject to adjustments for any observable market transactions on the same or similar instruments of the investee. The investment in FHLB stock is required for membership.

Allowance for Credit Losses – Securities Available-for-Sale

Prior to January 1, 2023, declines in the fair value of individual debt securities that were deemed to be other-than-temporary were reflected in earnings when identified. For individual debt securities where the Company did not intend to sell the security and was more-likely-than-not that the Company would 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 was recognized in earnings and 2) other factors were recognized in other comprehensive income. Credit loss was deemed to exist if the present value of expected future cash flows was less than the amortized cost basis of the debt security. For individual debt securities where the Company intended to sell the security or more-likely-than-not would be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment was recognized in earnings equal to the entire difference between the security's cost basis and its fair value at the balance sheet date.

Effective January 1, 2023, for securities available-for-sale in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings. For securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of a security available-for-sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay off are stated at the amount of unpaid principal, adjusted by net deferred loan costs, the ACL, and fair value hedge accounting adjustments.

All loans past due more than 30 days are considered delinquent. Management is responsible to initiate immediate collection efforts to minimize delinquency and any eventual adverse impact on the Company.

Interest on loans is calculated by applying the simple interest method to daily balances of the principal amount outstanding. 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. Any unpaid interest previously accrued on those loans is reversed from income. 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.

Allowance for Credit Losses – Loans

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Management evaluates the appropriateness of the ACL on loans monthly. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change from period to period.

Prior to January 1, 2023, the allowance consisted of general, allocated and unallocated components, as further described below.

General Component

The general component of the allowance for loan losses was based on historical loss experience adjusted for qualitative factors stratified by the following portfolio segments: commercial, commercial real estate, residential real estate, and consumer. Management used an average of historical losses based on a time frame appropriate to capture relevant loss data for each portfolio segment. Management deemed seven years to be an appropriate time frame on which to base historical losses for each portfolio segment. This historical loss factor was adjusted by various qualitative factors for each portfolio segment, including but not limited to performance of the portfolio segment, lender experience, new loan products or strategies, and economic factors. Management followed a similar process to estimate its liability for off-balance-sheet commitments to extend credit.

The qualitative factors were determined based on the various risk characteristics of each portfolio segment. Risk characteristics relevant to each portfolio segment were as follows:

Commercial – Loans in this segment are made to businesses and municipalities and are generally secured by assets of the entity. For loans made to businesses, repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality of these loans. For loans made to municipalities, repayment is primarily dependent on taxes or other funds collected by the municipalities. Management considers there to be minimal risk surrounding the credit quality of these loans.

Commercial real estate – Loans in this segment are primarily income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which, in turn, will have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Consumer – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

Allocated Component

The allocated component related to loans that are classified as impaired. Impairment was measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan was collateral dependent. An allowance was established when the discounted cash flows or collateral value of the impaired loan was lower than the carrying value of that loan. The Bank recognized the change in present value attributable to the passage of time as provision for loan losses. Large groups of smaller balance homogenous loans were collectively evaluated for impairment, and the allowance resulting therefrom was reported as the general component, as described above.

A loan was considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The Bank periodically may agree to modify the contractual terms of loans. When a loan was modified and a concession was made to a borrower experiencing financial difficulty, the modification was considered a TDR. All TDRs were classified as impaired and measured using the present value of expected future cash flows, or the fair value of the collateral less cost to sell if the TDR is collateral dependent.

Unallocated Component

An unallocated component was maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflected the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Effective January 1, 2023, management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. A reversion methodology is applied beyond the reasonable and supportable forecasts. Qualitative adjustments are then considered for differences in current loan-specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors, that may include, but are not limited to, results of internal loan reviews, examinations by bank regulatory agencies, or other such events such as a natural disaster.

The ACL on loans represents the Company's estimated risk of loss within its loan portfolio as of the reporting date. To appropriately measure expected credit losses, management disaggregates the loan portfolio into pools based on similar risk characteristics. The Company's loan portfolio is segmented as follows based on the various risk profiles of the Company's loans:

- The commercial loan portfolio is segmented into two categories: (i) commercial, which is typically utilized for general business purposes and (ii) commercial real estate, which is collateralized by real estate.

- Retail loans are a homogenous group, generally consisting of standardized products that are smaller in amount and distributed over a larger number of individual borrowers. Retail loans are segmented into two categories: (i) residential real estate, which is collateralized by real estate, and (ii) consumer, which is collateralized by autos and other chattel.

The Company uses the weighted average remaining maturity (WARM) method to estimate expected credit losses for all portfolio segments. Under the WARM method, the Company establishes a historical loss rate for each portfolio segment, utilizing either its own historical loss data, peer loss data, or a combination of the two data sources. This historical loss rate is then adjusted for management's reasonable and supportable forecast. For all portfolio segments utilizing the WARM method, management utilizes and forecasts national unemployment as a loss driver. Management monitors and assesses its macroeconomic driver regularly to determine if or that it continues to be the most predictive indicator of losses within the Company's loan portfolio, and this macroeconomic driver may change from time to time.

Management has determined that six quarters represents a reasonable and supportable forecast period and reverts back to its historical loss rate over two quarters on a straight-line basis. This determination is based on the facts and circumstances of the current state of the economy, portfolio segment, and management's judgement of what can be reasonably supported. Management leverages economic projections from a reputable and independent third party to inform its loss driver forecasts over the six-quarter forecast period. Management monitors and assesses the forecast and reversion techniques regularly.

The resulting loss rate is then applied to the portfolio segment over its estimated remaining life. A portfolio segment's estimated remaining life is determined by calculating an annual attrition rate on a quarterly basis using the Company's loan-level data. The estimated remaining life is then calculated as the average of the quarterly annual attrition rates. The principal balance of the portfolio segment is then paid down on a straight-line basis over the estimated remaining life. Any qualitative adjustments, as described above, are then applied to the portfolio segment, to derive the Company's expected credit losses for the portfolio segment.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. In general, loans considered for individual evaluation are loans rated substandard or lower, nonaccrual loans, loan modifications to borrowers experiencing financial difficulty, and loans 90 days or greater past due that are still on accrual. If management determines such loans have unique characteristics differing from the portfolio segment, the loan will be individually evaluated. Specific reserves are established when appropriate for such loans based on the present value of expected future cash flows of the loan. However, when management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Management may also adjust its assumptions to account for differences between expected and actual losses from period-to-period. The variability of management's assumptions could alter the ACL on loans materially and impact future results of operations and financial condition. The loss estimation models and methods used to determine the ACL are continually refined and enhanced.

<u>Off-Balance Sheet Credit Exposure</u>

In the ordinary course of business, the Company enters into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are recorded as loans when they are funded.

<u>Allowance for Credit Losses on Off-Balance Sheet Credit Exposures</u>

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is adjusted through credit loss expense. To appropriately measure expected credit losses, management disaggregates the off-balance sheet credit exposures into similar risk characteristics, identical to those determined for the loan portfolio. An estimated funding rate is then applied to the qualifying unfunded loan commitments and letters of credit using historical information to estimate the expected funded amount for each portfolio segment as of the reporting date. Once the expected funded amount for each portfolio segment is determined, the loss rate, which is the calculated expected loan loss as a percent of the amortized cost basis for each portfolio segment, is applied to calculate the ACL on off-balance sheet credit exposures as of the reporting date. As of December 31, 2023, the Company had recognized an ACL on off-balance sheet credit exposures of $160,000, which is recorded in accrued expenses and other liabilities on the consolidated balance sheets.

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.

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 and the cash surrender value of the life insurance policies is reported in other assets.

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.

FASB ASC Topic 740, *Income Taxes*, defines the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. 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, 2020 through 2023.

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 securities available-for-sale and derivative instruments, 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

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

The Company utilizes interest rate swap agreements to provide an effective hedge against changes in the LIBOR, Secured Overnight Financing Rate (SOFR), and federal funds rate swap curves. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

At the inception of a derivative contract, the Company designates the derivative as one of two types based on the Company's intentions and belief as to likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), or (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated or that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives not designated or that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparty will be able to fully satisfy its obligations under the agreements. All the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives with the counterparty based upon its credit standing.

Revenue from Contracts with Customers

All of the Company’s revenue from contracts with customers in the scope of ASC Topic 606 is recognized within noninterest income. A description of the Company’s revenue streams accounted for under ASC Topic 606 follows:

Service charges and fees on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH/wire transfer fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer’s request, or the fee has been earned. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges and fees on deposits are withdrawn from the customer’s account balance.

Interchange income: The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. Interchange income is included in other noninterest income and was $1,574,000 and $1,568,000 in 2023 and 2022, respectively.

Investment brokerage fees: The Company earns investment brokerage fees from its contracts with trust and brokerage customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end. Fees that are transaction-based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Other related services provided include financial planning services and the fees the Company earns, which are based on a fixed fee schedule, are recognized when the services are rendered. Investment brokerage fees are included in other noninterest income and was $861,000 and $819,000 in 2023 and 2022, respectively.

Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Improvements to Income Tax Disclosures.* The ASU provides more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information, such as requiring the disclosure of specific categories in the rate reconciliation and the disaggregation of income tax expense and income taxes paid by federal, state, and foreign taxes. The ASU is effective for annual periods beginning after December 15, 2024. The Company does not believe the ASU will have a material impact on the Company's consolidated financial statements.

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, 2023 and 2022.

3. Securities

Securities have been classified on 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:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasury	**$ 5,949,000**	**$ 1,000**	**$ (84,000)**	**$ 5,866,000**
State and municipal	**18,390,000**	**195,000**	**(1,235,000)**	**17,350,000**
Corporate bonds	**2,200,000**	**-**	**(343,000)**	**1,857,000**
Mortgage-backed and collateralized mortgage obligations (CMOs)	**143,388,000**	**422,000**	**(14,140,000)**	**129,670,000**
Total securities available-for-sale	**$169,927,000**	**$ 618,000**	**$(15,802,000)**	**$154,743,000**
Securities Held-to-Maturity				
Mortgage-backed and CMOs	**$ 1,000**	**$ -**	**$ -**	**$ 1,000**
Total securities held-to-maturity	**$ 1,000**	**$ -**	**$ -**	**$ 1,000**

There was no ACL on securities available-for-sale or held-to-maturity as of December 31,2023.

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. Treasury	$ 1,934,000	$ -	$ (126,000)	$ 1,808,000
State and municipal	18,416,000	73,000	(1,799,000)	16,690,000
Corporate bonds	2,200,000	-	(320,000)	1,880,000
Mortgage-backed and CMOs	143,289,000	51,000	(16,909,000)	126,431,000
Total securities available-for-sale	$165,839,000	$ 124,000	$(19,154,000)	$146,809,000
Securities Held-to-Maturity				
Mortgage-backed and CMOs	$ 2,000	$ -	$ -	$ 2,000
Total securities held-to-maturity	$ 2,000	$ -	$ -	$ 2,000

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 for which an ACL has not been recorded at December 31, 2023:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury	**$ -**	**$ -**	**$ 1,875,000**	**$ (84,000)**	**$ 1,875,000**	**$ (84,000)**
State and municipal	**2,165,000**	**(16,000)**	**8,299,000**	**(1,219,000)**	**10,464,000**	**(1,235,000)**
Corporate bonds	**-**	**-**	**1,857,000**	**(343,000)**	**1,857,000**	**(343,000)**
Mortgage-backed and CMOs	**5,728,000**	**(24,000)**	**104,723,000**	**(14,116,000)**	**110,451,000**	**(14,140,000)**
Total	**$ 7,893,000**	**$ (40,000)**	**$116,754,000**	**$(15,762,000)**	**$124,647,000**	**$(15,802,000)**

The unrealized losses on the Company's securities available-for-sale have not been recognized into income because management does not intend to sell and it is not more-likely-than-not it will be required to sell any of the securities available-for-sale before recovery of its amortized cost basis. Furthermore, the unrealized losses were due to changes in interest rates and other market conditions, were not reflective of credit events and the issuers continue to make timely principal and interest payments on the bonds. The Company's securities available-for-sale are state and municipal, corporate, agency-backed, or government-sponsored enterprise securities. State and municipal, agency-backed, and government-sponsored enterprise securities have a long history with no credit losses, including during times of severe stress. The principal and interest payments on agency-guaranteed debt is backed by the U.S. government. Government-sponsored enterprises similarly guarantee principal and interest payments and carry an implicit guarantee from the U.S. Department of the Treasury. Additionally, government-sponsored enterprise securities are exceptionally liquid, readily marketable, and provide a substantial amount of price transparency and price parity, indicating a perception of zero credit losses. Corporate bonds are with other banking organizations in which the Company has historically not had credit losses.

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, 2022:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S Treasury	$ 1,808,000	$ (126,000)	$ -	$ -	$ 1,808,000	$ (126,000)
State and municipal	10,426,000	(808,000)	2,647,000	(991,000)	13,073,000	(1,799,000)
Corporate bonds	891,000	(109,000)	989,000	(211,000)	1,880,000	(320,000)
Mortgage-backed and CMOs	63,810,000	(5,685,000)	55,898,000	(11,224,000)	119,708,000	(16,909,000)
Total	$ 76,935,000	$ (6,728,000)	$ 59,534,000	$(12,426,000)	$136,469,000	$(19,154,000)

At December 31, 2022, unrealized losses within the U.S. Treasury category relate to two individual securities of which none had continuous losses for more than one year. Unrealized losses within the mortgage-backed and CMOs category relate to 144 individual securities of which 53 had continuous losses for more than one year. Unrealized losses within the state and municipal bond category relate to 30 bonds of which eight had a continuous loss position for more than one year. Unrealized losses within the corporate bond category relate to four bonds of which two 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.

Prior to January 1, 2023, management evaluated 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, 2022, management had determined that the current unrealized losses on these securities were consistent with changes in the overall bond markets caused by an increase in market yields and spread levels and the securities were not other-than-temporarily impaired. The exception to this was a mortgage-backed security at Banc of America Funding

Corporation (BAFC) which was sold in 2023. Management performed an internal analysis on the market value of its investment at BAFC as of December 31, 2022 and recognized no OTTI write-downs related to credit loss of the security. The bank recorded a loss of $12,000 for the year ended December 31, 2023 due to the sale of this security.

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

	2023	2022
Proceeds from sales	**$ 56,000**	$ -
Gross realized gains	**$ -**	$ -
Gross realized losses	**(12,000)**	-
Net realized loss	**$ (12,000)**	$ -

At December 31, 2023 and 2022, securities with a fair value of $51,872,000 and $52,871,000, 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, 2023 follow:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$ 5,780,000	$ 5,743,000	$ -	$ -
Over 1 year through 5 years	23,853,000	23,053,000	1,000	1,000
Over 5 years through 10 years	25,030,000	23,498,000	-	-
Over 10 years	115,264,000	102,449,000	-	-
	$169,927,000	$ 154,743,000	$ 1,000	$ 1,000

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

Other Investments

The following table summarizes the cost and estimated fair value of the Company's other investments at December 31, 2023:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Other investments	**$ 500,000**	**$ -**	**$ (65,000)**	**$ 435,000**

The following table summarizes the cost and estimated fair value of the Company's other investments at December 31, 2022:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Other investments	$ 500,000	$ -	$ (122,000)	$ 378,000

For the years ended December 31, 2023 and 2022, the Company recognized unrealized losses of $65,000 and $122,000, respectively, due to the change in the fair value of its other investments. These losses and 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:

	2023	2022
Mortgage loans on real estate		
Residential 1-4 family	**$ 164,264,000**	$ 161,499,000
Commercial	**464,987,000**	434,165,000
	629,251,000	595,664,000
Commercial	**162,802,000**	147,529,000
Consumer	**5,989,000**	5,480,000
Subtotal	**798,042,000**	748,673,000
Less: Allowance for credit losses	**7,975,000**	7,428,000
Add: Net deferred loan costs	**951,000**	849,000
Loans, net	**$ 791,018,000**	$ 742,094,000

The Company manages its loan portfolio proactively to effectively identify problem credits and assess trends early, implement effective work-out strategies, and take charge-offs as promptly as practical. In addition, the Company continuously reassesses its underwriting standards in response to credit risk posed by changes in economic conditions. For purposes of determining the ACL on loans, the Company disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. As of December 31, 2023, the Company's loan portfolio segments, as determined based on the unique risk characteristics of each, included the following:

Commercial – Loans in this segment are made to businesses and municipalities and are generally secured by assets of the entity. For loans made to businesses, repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality of these loans. For loans made to municipalities, repayment is primarily dependent on taxes or other funds collected by the municipalities. Management considers there to be minimal risk surrounding the credit quality of municipal loans.

Commercial real estate – Loans in this segment are primarily income-producing properties or properties occupied by businesses. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates or a general slowdown in business which, in turn, will have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Consumer – Repayment of loans in this segment is generally dependent on the credit quality of the individual borrower.

The following table summarizes changes in the ACL, by portfolio segment, for the year ended December 31, 2023:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	2023 Total
Allowance for credit losses						
Beginning balance, prior to adoption of ASU No. 2016-13	$ 1,319,000	$ 4,241,000	$ 882,000	$ 38,000	$ 948,000	$ 7,428,000
Impact of adopting ASU No. 2016-13	(20,000)	1,483,000	(69,000)	(7,000)	(948,000)	439,000
Provision for (reduction of) loan losses	127,000	(104,000)	100,000	19,000	-	142,000
Loans charged off	(42,000)	-	-	(1,000)	-	(43,000)
Recoveries of loans previously charged off	5,000	1,000	3,000	-	-	9,000
Ending balance	$ 1,389,000	$ 5,621,000	$ 916,000	$ 49,000	$ -	$ 7,975,000

The following tables present the allowance for loan losses and select loan information for the year ended December 31, 2022:

	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	2022 Total
Allowance for loan losses						
Beginning balance	$ 1,381,000	$ 4,739,000	$ 463,000	$ 22,000	$ 1,198,000	$ 7,803,000
Provision for (reduction of) loan losses	(119,000)	(571,000)	418,000	22,000	(250,000)	(500,000)
Loans charged off	-	-	-	(8,000)	-	(8,000)
Recoveries of loans previously charged off	57,000	73,000	1,000	2,000	-	133,000
Ending balance	$ 1,319,000	$ 4,241,000	$ 882,000	$ 38,000	$ 948,000	$ 7,428,000
Individually evaluated for impairment	$ 15,000	$ 79,000	$ 19,000	$ -	$ -	$ 113,000
Collectively evaluated for impairment	$ 1,304,000	$ 4,162,000	$ 863,000	$ 38,000	$ 948,000	$ 7,315,000
Loans						
Ending balance	$147,529,000	$ 434,165,000	$161,499,000	$ 5,480,000		$ 748,673,000
Individually evaluated for impairment	$ 623,000	$ 978,000	$ 503,000	$ 21,000		$ 2,125,000
Collectively evaluated for impairment	$ 146,906,000	$ 433,187,000	$160,996,000	$ 5,459,000		$ 746,548,000

To further identify loans with similar risk profiles, the Company categorizes each portfolio segment into classes by credit risk characteristic and applies a credit quality indicator to each portfolio segment. In general, risk ratings are adjusted periodically throughout the year as updated analysis and review warrants. This process may include, but is not limited to, annual credit and loan reviews, periodic reviews of loan performance metrics, such as delinquency rates, and quarterly reviews of adversely risk rated loans.

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.

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: 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.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows as of December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial real estate:							
Risk rating							
Pass (Graded 1-5)	$ 58,890,000	$ 86,162,000	$ 99,510,000	$210,000,000	$ 3,888,000	$ -	$458,450,000
Special mention (6)	1,618,000	36,000	1,179,000	2,921,000	115,000	-	5,869,000
Substandard (7)	-	-	-	668,000	-	-	668,000
Doubtful (8)	-	-	-	-	-	-	-
Loss (9)	-	-	-	-	-	-	-
Total commercial real estate	$ 60,508,000	$ 86,198,000	$100,689,000	$213,589,000	$ 4,003,000	$ -	$464,987,000
Commercial real estate: Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial:							
Risk rating							
Pass (Graded 1-5)	$ 57,987,000	$ 36,626,000	$ 18,579,000	$ 24,355,000	$ 22,233,000	$ -	$159,780,000
Special mention (6)	75,000	143,000	-	314,000	1,223,000	-	1,755,000
Substandard (7)	469,000	53,000	210,000	535,000	-	-	1,267,000
Doubtful (8)	-	-	-	-	-	-	-
Loss (9)	-	-	-	-	-	-	-
Total commercial	$ 58,531,000	$ 36,822,000	$ 18,789,000	$ 25,204,000	$ 23,456,000	$ -	$162,802,000
Commercial: Current period gross write offs	$ 42,000	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Residential real estate:							
Pass	$ 18,344,000	$ 19,621,000	$ 30,962,000	$ 73,151,000	$ 19,800,000	$ 1,509,000	$163,387,000
Substandard	69,000	184,000	-	505,000	8,000	111,000	877,000
Total residential real estate	$ 18,413,000	$ 19,805,000	$ 30,962,000	$ 73,656,000	$ 19,808,000	$ 1,620,000	$164,264,000
Residential real estate: Current period gross write offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	Term Loans Amortized Cost Basis by Origination Year						
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Consumer:							
Pass	$ 2,845,000	$ 1,179,000	$ 453,000	$ 1,311,000	$ 167,000	$ -	$ 5,955,000
Substandard	32,000	-	-	2,000	-	-	34,000
Total consumer	$ 2,877,000	$ 1,179,000	$ 453,000	$ 1,313,000	$ 167,000	$ -	$ 5,989,000
Consumer: Current period gross write offs	$ -	$ -	$ -	$ -	$ 1,000	$ -	$ -

The following tables summarize credit risk indicators by portfolio as of December 31, 2022:

Commercial Credit Risk Exposure
Credit Risk Profile by Internally Assigned Grade

	Commercial	Commercial Real Estate
2022		
Pass	$ 144,592,000	$ 419,890,000
Special mention	2,061,000	12,381,000
Substandard	876,000	1,894,000
Doubtful	-	-
Loss	-	-
2022 Total	$ 147,529,000	$ 434,165,000

Consumer Credit Risk Exposure
Credit Risk Profile by Internally Assigned Grade

	Residential Real Estate	Consumer
2022		
Pass	$ 160,962,000	$ 5,475,000
Substandard	537,000	5,000
2022 Total	$ 161,499,000	$ 5,480,000

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2023:

	Nonaccrual with No Allowance for Credit Loss	Total Nonaccrual		Past Due 90 Days or Greater and Accruing
	Dec 31, 2023	Jan 1, 2023	Dec 31, 2023	Dec 31, 2023
Commercial	$ 41,000	$ 98,000	$ 65,000	$ -
Commercial real estate	-	202,000	145,000	-
Residential real estate	125,000	205,000	428,000	-
Consumer	-	-	32,000	-
Total	$ 166,000	$ 505,000	$ 670,000	$ -

The Company recognized $3,000 of interest income on nonaccrual loans during the year ended December 31, 2023 on residential real estate loans.

A loan is considered to be past due once it is 30 days contractually past due under the terms of the agreement. The following table presents an aging analysis of loans as of December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans
Commercial	**$ 416,000**	**$ 275,000**	**$ 20,000**	**$ 711,000**	**$ 162,091,000**	**$ 162,802,000**
Commercial real estate	**1,325,000**	**37,000**	**-**	**1,362,000**	**463,625,000**	**464,987,000**
Residential real estate	**66,000**	**164,000**	**117,000**	**347,000**	**163,917,000**	**164,264,000**
Consumer	**-**	**32,000**	**-**	**32,000**	**5,957,000**	**5,989,000**
Total	**$ 1,807,000**	**$ 508,000**	**$ 137,000**	**$ 2,452,000**	**$ 795,590,000**	**$ 798,042,000**

The following presents an aging analysis of past due loans as of December 31, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater	Total Past Due	Current	Total Loans	Loans on Nonaccrual	Recorded Investment Loans > 90 Days and Accruing
2022								
Commercial	$ 236,000	$ 6,000	$ 38,000	$ 280,000	$ 147,249,000	$ 147,529,000	$ 98,000	$ -
Commercial real estate	-	3,000	-	3,000	434,162,000	434,165,000	202,000	-
Residential real estate	127,000	39,000	36,000	202,000	161,297,000	161,499,000	205,000	-
Consumer	1,000	-	-	1,000	5,479,000	5,480,000	-	-
2022 Total	$ 364,000	$ 48,000	$ 74,000	$ 486,000	$ 748,187,000	$ 748,673,000	$ 505,000	$ -

The following table presents the amortized cost basis of collateral-dependent loans as of December 31, 2023 by collateral type:

	Real Estate	Other	Total
Commercial	$ 20,000	$ 20,000	$ 40,000
Commercial real estate	-	-	-
Residential real estate	282,000	-	282,000
Consumer	-	32,000	32,000
Total	$ 302,000	$ 52,000	$ 354,000

Collateral-dependent loans are loans for which the repayment is expected to be provided substantially by the underlying collateral and there are no other available and reliable sources of repayment.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the ACL.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the “combination” column below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, an other-than-insignificant payment delay, and/or an interest rate reduction.

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	Combination Payment Delay and Term Extension	Total Class of Financing Receivable
Commercial	$ 40,000	-%
Commercial real estate	-	-
Residential real estate	-	-
Consumer	-	-
Total	$ 40,000	-%

The Company has not committed to lend additional amounts to the borrowers included in the previous table.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. No borrowers that were modified in the last 12 months were past due as of December 31, 2023 and there have been no payment defaults since the modifications.

The following table presents the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2023:

	Weighted-Average Term Extension	Weighted-Average Payment Delay
Commercial	8 months	5 months
Commercial real estate	-	-
Residential real estate	-	-
Consumer	-	-

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the ACL is adjusted by the same amount.

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. Prior to the adoption of ASU No.

2022-02, TDRs consisted 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 involved 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 had been restructured, it continued to remain in restructured status until paid in full. Current balances of loan modifications qualifying as TDRs during the year ended December 31, 2022 were $78,000. Loans restructured due to credit difficulties that are now performing were $1,395,000 at December 31, 2022.

At December 31, 2022, the allowance related to TDRs was $94,000. 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, 2022.

A loan is considered to be in payment default once it is greater than 30 days contractually past due under the modified terms. There were no TDRs restructured within the previous 12 months that subsequently defaulted during the year ended December 31, 2022.

The following is a summary of new TDRs (accruing and non-accruing) by portfolio segment during the year ended December 31, 2022:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Balance
2022				
Commercial real estate	1	$ 83,000	$ 83,000	$ 78,000
2022 Total	1	$ 83,000	$ 83,000	$ 78,000

The following is a summary of TDRs (accruing and non-accruing) by portfolio segment as of December 31, 2022:

	Number of Contracts	Current Balance	Related Allowance
2022			
Commercial	14	$ 586,000	$ 15,000
Commercial real estate	17	999,000	79,000
Residential real estate	3	434,000	-
Consumer	1	22,000	-
2022 Total	35	$ 2,041,000	$ 94,000

Prior to the adoption of ASU No. 2016-13, impaired loans mainly consisted of nonaccrual loans and TDRs. All impaired loans were 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, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
2022				
With no related allowance recorded:				
Commercial	$ 579,000	$ 579,000	$ -	$ 38,000
Commercial real estate	891,000	891,000	-	56,000
Residential real estate	484,000	484,000	-	16,000
Consumer	21,000	21,000	-	2,000
With an allowance recorded:				
Commercial	$ 44,000	$ 44,000	$ 15,000	$ -
Commercial real estate	87,000	87,000	79,000	-
Residential real estate	19,000	19,000	19,000	1,000
Consumer	-	-	-	-
2022 Total:				
Commercial	$ 623,000	$ 623,000	$ 15,000	$ 38,000
Commercial real estate	978,000	978,000	79,000	56,000
Residential real estate	503,000	503,000	19,000	17,000
Consumer	21,000	21,000	-	2,000

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

	2022
Impaired loans without a valuation allowance	$ 1,975,000
Impaired loans with a valuation allowance	150,000
Total impaired loans	$ 2,125,000
Valuation allowance related to impaired loans	$ 113,000
Average investment in impaired loans	$ 2,474,000

There were no mortgage loans collateralized by residential real estate in the process of foreclosure as of December 31, 2023. As of December 31, 2022, there were three mortgage loans collateralized by residential real estate in the process of foreclosure with a total balance of $14,000.

The Bank was servicing for others mortgage loans of approximately $15,902,000 and $18,144,000 at December 31, 2023 and 2022, respectively.

The balance of mortgage servicing rights included in other assets at December 31, 2023 and 2022 was $66,000 and $113,000, respectively. Mortgage servicing rights of $0 and $4,000 were capitalized and mortgage servicing rights of $47,000 and $51,000 were amortized during 2023 and 2022, respectively.

5. Bank Premises and Equipment

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

	2023	2022
Land	**$ 3,217,000**	$ 3,106,000
Buildings	**11,990,000**	11,777,000
Right-of-use assets	**4,925,000**	5,141,000
Equipment	**16,681,000**	15,966,000
Leasehold improvements	**3,236,000**	3,193,000
	40,049,000	39,183,000
Accumulated depreciation	**(22,971,000)**	(21,963,000)
	$ 17,078,000	$ 17,220,000

6. Leases

The Company has operating leases pertaining to bank premises with remaining lease terms of 7 to 28 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, including renewal options that are reasonably certain to be exercised.

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, 2023 and 2022 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	**2023**	2022
Right-of-use assets:			
Operating leases	Bank premises and equipment	**$ 4,925,000**	$ 5,141,000
Lease liabilities:			
Operating leases	Accrued expenses and other liabilities	**$ 5,077,000**	$ 5,226,000

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

	2023	2022
Operating lease cost	**$ 385,000**	$ 453,000

Cash paid for amounts included in the measurement of lease liabilities was $304,000 and $326,000 for the years ended December 31, 2023 and 2022, respectively.

The weighted average remaining lease term for operating leases was 22.60 and 24.67 years at December 31, 2023 and 2022, respectively.

Future lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

2024	$ 305,000
2025	306,000
2026	309,000
2027	348,000
2028	351,000
Thereafter	5,635,000
Total undiscounted lease payments	7,254,000
Less: Imputed interest	2,177,000
Net lease liability	$ 5,077,000

7. Deposits

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

2024	$142,269,000
2025	13,864,000
2026	4,377,000
2027	7,141,000
2028	6,551,000
Thereafter	39,000
	$174,241,000

Certificates of deposit accounts in denominations that met or exceeded the insured limit of $250,000 were $31,018,000 and $23,334,000 at December 31, 2023 and 2022, respectively.

8. Advances from FHLB and Other Borrowings

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

Fixed rate advances of $10,000,000 and $1,519,000 on December 31, 2023 and 2022, respectively, mature through December 2026. On December 31, 2023, the interest rates on fixed rate advances ranged from 4.24 to 4.26 percent. On December 31,2022, the interest rates on fixe rate advances ranged from 0.00 to 1.00 percent. On December 31, 2023 and 2022, the weighted-average interest rates on fixed rate advances was 4.25 and 0.92 percent.

The contractual maturities of advances on December 31, 2023 are as follows:

2025	$ 5,000,000
2026	5,000,000

On December 31, 2023 and 2022, 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, 2023 and 2022.

On December 31, 2023 and 2022, the Company also had $27,000,000 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, 2023 or 2022.

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, 2023 and 2022, the amounts of available borrowing were $119,671,000 and $36,034,000, respectively. There were no funds outstanding on the Program as of December 31, 2023 and 2022.

Starting in 2023, the Company also has an arrangement with the Federal Reserve Bank's Bank Term Funding Program (the BTFP). The BTFP offers loans of up to one year in length secured by certain investment securities. At December 31, 2023, the amounts of available borrowing were $1,638,000. There were no funds outstanding on the BTFP as of December 31, 2023.

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 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.

The Trust II and Trust III both converted to the equivalent term SOFR as per the LIBOR Act on July 1, 2023 while maintaining the same margin.

10. Income Taxes

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

	2023	2022
Current tax provision		
Federal	**$ 2,088,000**	$ 1,606,000
State	**196,000**	184,000
	2,284,000	1,790,000
Deferred federal tax benefit	**(118,000)**	297,000
	$ 2,166,000	$ 2,087,000

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

	2023	2022
Computed tax expense	**$ 2,535,000**	$ 2,480,000
Increase (reduction) in income taxes resulting from:		
Tax exempt interest	**(184,000)**	(153,000)
State taxes, net of federal benefit	**155,000**	146,000
Income from life insurance	**(89,000)**	(82,000)
Preferred stock dividends	**(3,000)**	(2,000)
Tax credits	**(404,000)**	(372,000)
Fair value adjustment of unearned ESOP shares	**15,000**	15,000
Other	**141,000**	55,000
	$ 2,166,000	$ 2,087,000

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

	2023	2022
Deferred tax assets		
Other-than-temporary impairment of investment securities	**$ -**	$ 52,000
Allowance for credit losses	**1,675,000**	1,560,000
Employee benefit plans	**848,000**	790,000
Net unrealized loss on other investments	**14,000**	26,000
Net unrealized loss on securities available-for-sale	**3,188,000**	3,997,000
Operating leases	**32,000**	-
Restricted stock awards	**73,000**	54,000
Other	**7,000**	7,000
	5,837,000	6,486,000

	2023	2022
Deferred tax liabilities		
Depreciation	**774,000**	747,000
Amortization of goodwill	**1,167,000**	1,167,000
Prepaid expenses	**173,000**	154,000
Mortgage servicing rights	**14,000**	24,000
Net unrealized gain on derivative instruments	**1,085,000**	1,301,000
Investment in pass-through entities	**95,000**	90,000
Other	**24,000**	29,000
	3,332,000	3,512,000
Net deferred tax asset	**$ 2,505,000**	$ 2,974,000

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, 2023 and 2022, the balance of the investment for qualified affordable housing projects was $798,000 and $880,000, 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 $83,000 and $60,000 in 2023 and 2022, respectively, which was included within income tax expense on the consolidated statements of income. Additionally, during the years ended December 31, 2023 and 2022, the Company recognized tax credits from its investments in affordable housing tax projects of $93,000 and $66,000, respectively. As of December 31, 2023 and 2022, the Company was committed to making additional contributions of $172,000 and $339,000, respectively. These commitments are recorded in accrued expenses and other liabilities on the consolidated balance sheets.

The Company also invests in limited partnerships that generate historic tax credits. At December 31, 2023 and 2022, the balance of the investment in these limited partnerships was $236,000 and

$491,000, 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 in 2023 and 2022, which was included as amortization of investments in limited partnerships on the consolidated statements of income. Additionally, during the years ended December 31, 2023 and 2022, the Company recognized tax credits from its investment in these limited partnerships of $306,000.

11. Earnings Per Share

The following sets forth the computation of basic and diluted earnings per common share for 2023 and 2022:

	2023	2022
Net income available to common shareholders, as reported	**$ 9,907,000**	$ 9,724,000
Weighted-average common shares outstanding	**3,217,650**	3,276,837
Effect of possible sources of options or conversions	**-**	-
Diluted weighted-average common shares outstanding	**3,217,650**	3,276,837
Basic earnings per common share	**$ 3.08**	$ 2.97
Diluted earnings per common share	**$ 3.08**	$ 2.97

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 on 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 24 for further discussion of derivative financial instruments.

At December 31, 2023 and 2022, the contractual amounts of the Company's financial instruments were as follows:

	Contract Amount	
	2023	2022
Lending-related instruments:		
Home equity lines-of-credit	**$ 39,624,000**	$ 34,193,000
Other lines-of-credit	**86,642,000**	91,379,000
Credit card arrangements	**3,814,000**	3,928,000
Letters-of-credit	**4,170,000**	3,504,000
Derivative financial instruments:		
Notional amounts of interest rate swaps	**217,433,000**	218,660,000

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, 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, 2023, the Bank had a capital conservation buffer of 7.9% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%. As of December 31, 2022, the Bank had a capital conservation buffer of 7.5% of risk-weighted assets, which was in excess of the regulatory requirement of 2.5%. Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2023, 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, 2023 and 2022 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total Capital to Risk-Weighted Assets						
Bank	**$ 119,984,000**	**15.9 %**	**$ 60,423,000**	**8.0%**	**$ 75,528,000**	**10.0%**
Tier 1 Capital to Risk-Weighted Assets						
Bank	**111,849,000**	**14.8**	**45,317,000**	**6.0**	**60,423,000**	**8.0**
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Bank	**111,849,000**	**14.8**	**33,988,000**	**4.5**	**49,093,000**	**6.5**
Tier 1 Capital to Average Assets						
Bank	**111,849,000**	**10.8**	**41,431,000**	**4.0**	**51,789,000**	**5.0**

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total Capital to Risk-Weighted Assets						
Bank	$ 111,736,000	15.5%	$ 57,853,000	8.0%	$ 72,317,000	10.0%
Tier 1 Capital to Risk-Weighted Assets						
Bank	104,275,000	14.4	43,390,000	6.0	57,853,000	8.0
Common Equity Tier 1 Capital to Risk-Weighted Assets						
Bank	104,275,000	14.4	32,543,000	4.5	47,006,000	6.5
Tier 1 Capital to Average Assets						
Bank	104,275,000	11.0	37,941,000	4.0	47,427,000	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. The Company may also contribute discretionary profit sharing and additional matching contributions. For the years ended December 31, 2023 and 2022, expense attributable to the plan amounted to $440,000 and $422,000, 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, 2023, and 2022, the accrued liability of the plan was $4,036,000 and $3,763,000, 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 $391,000 and $403,000 for 2023 and 2022, respectively. Life insurance policies were acquired for the purpose of serving as the primary funding source. The cash value of these policies was $15,334,000 and $14,911,000 at December 31, 2023 and 2022, 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, 2023 and 2022, the compensation committee granted 9,980 and 8,507 shares with a fair value on the grant date of $22.05 and $25.55, respectively. A total of 49,910 shares have been issued under the restricted stock plan since inception, with 1,829 shares having been redeemed and 14,347 fully vested.

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

2025	7,806
2026	10,206
2027	7,256
2028	8,466
Total	33,734

A total of 4,279 restricted stock vested in 2023. Of those shares, 1,829 shares were redeemed back to the Company to satisfy the tax liability associated with the shares vesting.

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:

	2023	2022
Other noninterest income		
Interchange income	**$ 1,574,000**	$ 1,568,000
Investment brokerage fees	**861,000**	819,000
Other general and administrative noninterest expenses		
Legal, audit, examination and consulting	**806,000**	676,000
Account servicing	**759,000**	731,000

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 $20,728,000 and $20,394,000 at December 31, 2023 and 2022, respectively. Deposits from related parties held by the Company at December 31, 2023 and 2022 amounted to $13,061,000 and $10,570,000, 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 borrowed from the Company to purchase 84,800 shares of Katahdin Bankshares Corp. common stock at net share prices varying from $11.25 to $16.38.

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. Contributions for the years ended December 31, 2023 and 2022 totaled $171,000 and $173,000, respectively. ESOP expense was $256,000 and $236,000 for the years ended December 31, 2023 and 2022, respectively. Dividends paid by the Bank on allocated and unallocated shares are allocated to participant accounts.

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

	2023	2022
Allocated	71,153	61,597
Unallocated	13,647	23,203
	84,800	84,800

The fair value of the unallocated shares as of December 31, 2023 and 2022 was approximately $302,000 and $512,000, 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 marketplace 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, 2023 and 2022, Using:			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Assets				
Securities available-for-sale				
U.S. Treasury	**$ 5,866,000**	**$ -**	**$ 5,866,000**	**$ -**
State and municipal	**17,350,000**	**-**	**17,350,000**	**-**
Corporate bonds	**1,857,000**	**-**	**1,857,000**	**-**
Mortgage-backed and CMOs	**129,670,000**	**-**	**129,670,000**	**-**
Total securities available-for-sale	**154,743,000**	**-**	**154,743,000**	**-**
Other investments	**435,000**	**435,000**	**-**	**-**
Derivative instruments	**13,605,000**	**-**	**13,605,000**	**-**
Total assets	**$ 168,783,000**	**$ 435,000**	**$ 168,348,000**	**$ -**
Liabilities				
Derivative instruments	**$ 8,440,000**	**$ -**	**$ 8,440,000**	**$ -**

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Assets				
Securities available-for-sale				
U.S. Treasury	$ 1,808,000	$ -	$ 1,808,000	$ -
State and municipal	16,690,000	-	16,690,000	-
Corporate bonds	1,880,000	-	1,880,000	-
Mortgage-backed and CMOs	126,431,000	-	126,431,000	-
Total securities available-for-sale	146,809,000	-	146,809,000	-
Other investments	378,000	378,000	-	-
Derivative instruments	16,216,000	-	16,216,000	-
Total assets	$163,403,000	$ 378,000	$ 163,025,000	$ -
Liabilities				
Derivative instruments	$ 10,019,000	$ -	$ 10,019,000	$ -

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.

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

		Fair Value Measurements at December 31, 2023 and 2022, Using:		
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Assets				
Impaired loans (market approach)	**$ 66,000**	**$ -**	**$ 66,000**	**$ -**
December 31, 2022				
Assets				
Impaired loans (market approach)	$ 36,000	$ -	$ 36,000	$ -

Certain impaired loans were written down to their value of $66,000 and $36,000 at December 31, 2023 and 2022, respectively, resulting in an impairment charge through the ACL on loans.

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.

Junior subordinated debentures: The fair value of junior subordinated debentures is estimated by model-derived inputs generally based upon indicative 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, 2023		
	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	**$ 1,000**	**$ 1,000**	**$ -**	**$ 1,000**	**$ -**
Loans receivable, net:					
Commercial	**161,607,000**	**156,916,000**	**-**	**-**	**156,916,000**
Commercial real estate	**459,920,000**	**436,740,000**	**-**	**-**	**436,740,000**
Residential real estate	**163,544,000**	**141,685,000**	**-**	**44,000**	**141,641,000**
Consumer	**5,947,000**	**5,736,000**	**-**	**22,000**	**5,714,000**
Loan receivable, net	**791,018,000**	**741,077,000**	**-**	**66,000**	**741,011,000**
Financial liabilities					
Certificates of deposit	**174,241,000**	**170,373,000**	**-**	**170,373,000**	**-**
Advances from FHLB	**10,000,000**	**9,989,000**	**-**	**9,989,000**	**-**
Senior notes	**14,317,000**	**13,086,000**	**-**	**13,086,000**	**-**
Junior subordinated debentures	**7,217,000**	**6,141,000**	**-**	**-**	**6,141,000**

			Fair Value Measurement at December 31, 2022		
	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	$ 2,000	$ 2,000	$ -	$ 2,000	$ -
Loans receivable, net:					
Commercial	146,190,000	144,763,000	-	29,000	144,734,000
Commercial real estate	429,866,000	421,312,000	-	7,000	421,305,000
Residential real estate	160,596,000	142,651,000	-	-	142,651,000
Consumer	5,442,000	5,328,000	-	-	5,328,000
Loan receivable, net	742,094,000	714,054,000	-	36,000	714,018,000
Financial liabilities					
Certificates of deposit	119,587,000	115,306,000	-	115,306,000	-
Advances from FHLB	1,519,000	1,491,000	-	1,491,000	-
Senior notes	14,243,000	13,558,000	-	13,558,000	-
Junior subordinated debentures	7,217,000	6,583,000	-	-	6,583,000

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, 2023 and 2022.

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, 2023 and 2022, there were no issued and outstanding shares of preferred stock.

24. Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

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, 2023 and 2022, the Company had posted $0 and $4,979,000, respectively, in cash and securities collateral for the benefit of the counterparty.

Cash Flow Hedges: Interest rate swaps with notional amounts totaling $47,000,000 as of December 31, 2023 and 2022, were designated as cash flow hedges of variable rate deposits and borrowings and were determined to be effective during all periods presented. As such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets with changes in fair value recorded in other comprehensive income. The Company expects the hedges to remain fully effective during the remaining terms of the swaps. Interest income recorded on these swap transactions totaled $1,918,000 and $263,000 during 2023 and 2022, respectively, and is reported as a component of interest expense on deposits and borrowings.

Fair Value Hedges: Interest rate swaps with notional amounts totaling $15,000,000 as of December 31, 2023, were designated as fair value portfolio layer hedges of certain fixed rate residential loans. The hedges were determined to be effective during 2023. The Company expects the hedges to remain effective during the remaining terms of the swaps. Interest income recorded on these swap transactions totaled $171,000 during 2023. The Company did not have any interest rate swaps designated as fair value portfolio layer hedges as of December 31, 2022.

Derivatives Not Designated As Hedges: The Bank also enters into interest rate swaps with its loan customers. The notional amounts of interest rate swaps with its loan customers as of December 31, 2023 and 2022 were $80,894,000 and $85,830,000, respectively. The Bank enters into corresponding offsetting derivatives with third parties. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes. Because the derivatives have mirror-image contractual terms, their changes in fair value offset one another on the consolidated statements of income.

The following table presents the amounts recorded on the consolidated balance sheet related to cumulative basis adjustments for fair value hedges as of December 31, 2023:

Line item in the Balance Sheet in Which the Hedged Item is Included	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets
Loans receivable [a]	$60,877,000	($157,000)

[a]These amounts represent the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolios anticipated to be outstanding for the designated hedge period. At December 31, 2023, the amortized cost basis of the closed portfolios used in these hedging relationships was $61,034,000. The cumulative basis adjustments associated with these hedging relationships was $157,000 and the amounts of the designated hedged items were $60,877,000.

The Company presents derivative positions gross on the balance sheet. The following table reflects the derivatives recorded on the consolidated balance sheets as of December 31:

	2023		2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other assets:				
Derivatives designated as hedges:				
Interest rate swaps related to variable rate deposits and borrowings	**$ 47,000,000**	**$ 5,008,000**	$ 47,000,000	$ 6,197,000
Interest rate swaps related to fixed rate residential loans	**15,000,000**	**157,000**	-	-
Derivatives not designated as hedging instruments:				
Interest rate swaps related to customer loans	**80,894,000**	**8,440,000**	85,830,000	10,019,000
Total included in other assets		**$13,605,000**		$ 16,216,000
Included in other liabilities:				
Derivatives not designated as hedging instruments:				
Interest rate swaps related to customer loans	**$ 80,894,000**	**8,440,000**	$ 85,830,000	10,019,000
Total included in other liabilities		**$ 8,440,000**		$ 10,019,000

The effect of cash flow hedge accounting on accumulated other comprehensive income for the years ended December 31, net of tax, are as follows:

			2023		
		Amount of Loss Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income		Amount of Gain (Loss) Reclassified from OCI into Income
Interest rate contracts	**$**	**(937,000)**	**N/A**	**$**	**-**

			2022		
		Amount of Gain Recognized in OCI on Derivative	Location of Gain (Loss) Reclassified from OCI into Income		Amount of Gain (Loss) Reclassified from OCI into Income
Interest rate contracts	$	4,165,000	N/A	$	-

At December 31, 2023, the Company does not expect any of the unrealized gain to be reclassified as a reduction of interest expense during 2023.

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 2, 2024, the date the financial statements were available to be issued.