

A MESSAGE FROM THE PRESIDENT

Unaudited results for the period ending June 30, 2019 show net income before preferred stock dividends of \$3,965,000, an increase over the prior year of 15.3%. Earnings per common share improved 18% to \$1.05 per share over the same period in 2019. There were many positive contributions to net income, including increased net interest income, higher fee income, continuing solid expense control, and good asset quality requiring moderate provisioning. Earnings for the second quarter of \$2,117,000 represented the best quarter in our history. Return on average assets for the first six months of 2019 was .99%, while return on average equity reached 11.19% for the same period.

Net interest income for the six month period increased \$774,000 or 6.0%. This was due in part to loan growth of \$27,515,000. The loan growth was concentrated entirely in the second quarter of 2019, due to the timing of several transactions occurring in that period. Also, our net interest margin of 3.47% increased 12 basis points over 2018. This pace of margin growth may not continue with current rate pressures, but we will continue to place the highest importance on managing this aspect of our business.

Customer deposits grew \$28.7 million year over year, mainly in the area of money market and CDs as checking balances contracted slightly. Emphasis on building customer relationships that include a full offering of deposit accounts continues to be an ongoing bank-wide priority.

Non-interest income improved by \$220,000 over the same six months in 2018. Two main areas account for the differences. Last year, in Q1, the bank booked nearly \$150,000 in a one-time fee from a Visa contract renegotiation. Second, non-interest income was primarily similar among most other categories this year, with the exception of back to back swaps revenue of \$369,000 in the second quarter of 2019. Non-interest expense remained manageable at a 3.1% increase over the prior six month period. Management remains committed to expense control with the goal of balancing strategic growth with long term operating efficiency.

We added \$190,000 to the allowance for loan losses, which was only \$10,000 more than the first six months of 2018. Asset quality remained stable.

Total assets as of June 30, 2019 stood at \$838,175,000. Total consolidated equity increased to \$75,636,000. A dividend for the second quarter of \$0.1125 per share was paid, which represented an increase of 4.65% over the second quarter of 2018.

During the second quarter Katahdin Bankshares Corp. completed the private placement of \$14.5 million in fixed rate senior notes priced at 5.375% due in June, 2026. This new debt is included in Other Liabilities. On July 15, 2019, the proceeds were utilized to redeem the entire \$10 million issuance of Preferred Stock Series D shares of Katahdin Bankshares Corp. while the balance will be used for general corporate purposes.

In addition, our Board of Directors approved a Stock Buyback Program. The Program authorizes the purchase of up to \$2,000,000 of the Company's outstanding shares of Common Stock through December 31, 2020. Shares may be repurchased by the Company or may be purchased by Katahdin Trust's Employee Stock Ownership Plan (ESOP). All such transactions may be initiated in the discretion of the Company or the ESOP, subject to market conditions and other considerations. The Board of Directors may, without prior notice, alter the terms of this Program at any time, including changing the announced share

authorization level or to extend or terminate this Stock Buyback Program. If you have interest in this program, please contact us.

In April, Katahdin Trust held a retirement dinner in honor of Robert "Bob" E. Anderson, who joined our Board of Directors in 1989. During that time Bob served on every board committee at one time or another. His knowledge and expertise has been invaluable and we thank him for his 30 years of service.

I am pleased to announce the following promotions. Susan L. McCarthy is now Vice President and Manager for Maine Financial Group (MFG), an affiliate located in Scarborough and specializing in equipment financing. Sue joined MFG in 1993 and is now responsible for business development and assisting customers in Maine and New Hampshire as well as management of day-to-day operations and oversight of sales and servicing of loan accounts.

Teresa Lincoln has been promoted to Executive Assistant. She joined Katahdin Trust in 1998 and served in the Credit Control Department for 21 years. In her new position as an officer of the Bank, Teresa is responsible for assisting the President & CEO, coordinating meetings and committee work for the Board of Directors and managing communications to Shareholders.

Teresa replaces Vicki Smith who has served Katahdin Trust for 22 years. Vicki joined the Bank in 1997 and continued to advance her leadership roles, ultimately being promoted to Senior Vice President, Marketing and Communications in 2009. She assumed the duties of Executive Assistant in 2014. We wish Vicki the best in her retirement.

It is my pleasure to welcome Karyn MacLeod as Vice President, Commercial Services Officer to our Scarborough office. She comes to Katahdin Trust with 22 years of banking experience and will be responsible for business lending and development.

This spring our employees were actively involved in Teach Children to Save Day and United Way of Aroostook's Summer Slide Reading program. In total we had 60 employees reach 1,400 children through these financial literacy efforts.

I couldn't be more proud to announce that employees of Katahdin Trust were the recipients of the 2019 United Way of Aroostook Volunteers of the Year Award. Employees were noted for more than 300 volunteer hours to a number of United Way of Aroostook events and service projects.

In June we held our company-wide employee appreciation event. More than 155 employees attended and we recognized twenty-four employees for milestone anniversaries ranging from five to forty years.

As always, please don't hesitate to contact us if you have questions regarding the Company or this report.

Sincerely,



Jon J. Prescott
President & CEO

DIRECTORS

Steven L. Richardson, Chairman
Richard J. York, Vice Chairman
Jon J. Prescott
Keith P. Bourgoin, CPA
Peter F. Briggs

Richard B. Harnum, Jr.
Marianna Putnam Liddell, Esq.
Kimberley A. Niles
Paul R. Powers

SENIOR MANAGEMENT

Jon J. Prescott, President & CEO
Bonnie C. Foster, Executive Vice President, Retail Services
William P. Lucy, Executive Vice President, Commercial Services
Matthew M. Nightingale, Executive Vice President, Treasurer & CFO
Krista K. Putnam, Senior Vice President, Marketing

LOCATIONS

BRANCH OFFICES

Ashland ATM 17 Main Street 435-6461	Fort Fairfield ATM 290 Main Street 472-3161	Oakfield ATM 200 Oakfield Smyrna Rd 757-8288
Bangor ATM 609 Broadway 942-3146	Fort Kent ATM 79 West Main Street 834-2348	Patten ATM 11 Main Street 528-2211
Bangor ATM 52 Springer Drive 947-9674	Hampden ATM 57 Western Avenue 862-2211	Presque Isle ATM 6 North Street 764-8000
Caribou ATM 105 Bennett Drive 498-4200	Houlton ATM 65 North Street 532-4277	Scarborough 144 US Route One 510-7017
Eagle Lake 3440 Aroostook Road 444-5543	Island Falls ATM 1007 Crystal Road 463-2228	Van Buren ATM 29 Main Street, Ste.105 868-2728
	Mars Hill ATM 28 Main Street 429-8400	

REMOTE ATM LOCATION

Limestone ATM ONLY
35 Main Street, Limestone

COMMERCIAL LOAN OFFICE

Maine Financial Group 885-5900
144 US Route One, Scarborough



KatahdinTrust.com

MEMBER FDIC  EQUAL HOUSING LENDER

2019

SECOND QUARTER



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	June 30, 2019	Mar 31, 2019	June 30, 2018
ASSETS			
Cash & Due from Banks	\$ 13,816	\$ 12,133	\$ 13,250
Investments	98,275	96,784	86,951
Total Loans	698,498	664,123	670,983
Reserve for Loan Loss	(6,039)	(5,864)	(6,009)
Fixed Assets	10,303	10,435	10,891
Other Assets	23,322	22,520	25,606
Total Assets	\$ 838,175	\$ 800,131	\$ 801,672
LIABILITIES			
Deposits	\$ 676,399	\$ 647,701	\$ 632,661
Repurchase Agreements	—	—	107
Borrowings	56,857	66,419	85,231
Other Liabilities	29,283	13,090	16,211
Total Liabilities	\$ 762,539	\$ 727,210	\$ 734,210
SHAREHOLDERS' EQUITY			
Preferred Stock, Series D	\$ 10,000	\$ 9,977	\$ 9,907
Common Shareholders' Equity	65,742	64,242	60,490
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	758	(507)	(2,138)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	113	186	289
Unearned ESOP Shares	(977)	(977)	(1,086)
Total Shareholders' Equity	\$ 75,636	\$ 72,921	\$ 67,462
Total Liabilities & Shareholders' Equity	\$ 838,175	\$ 800,131	\$ 801,672
Letters of Credit	\$ 2,232	\$ 2,353	\$ 3,496

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 6 Months Ended	
	June 30, 2019	Mar 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest Income	\$ 9,151	\$ 8,690	\$ 8,237	\$ 17,841	\$ 16,112
Interest Expense	2,209	1,972	1,735	4,181	3,226
Net Interest Income	\$ 6,942	\$ 6,718	\$ 6,502	\$ 13,660	\$ 12,886
Less: Provision for Loan Losses	190	—	—	190	180
Net Interest Income After Provisions	\$ 6,752	\$ 6,718	\$ 6,502	\$ 13,470	\$ 12,706
Non-Interest Income	1,424	987	1,053	2,411	2,191
Non-Interest Expense	5,519	5,380	5,287	10,899	10,574
Net Operating Income	\$ 2,657	\$ 2,325	\$ 2,268	\$ 4,982	\$ 4,323
Less: Provision for Income Taxes	540	477	465	1,017	884
Net Income	\$ 2,117	\$ 1,848	\$ 1,803	\$ 3,965	\$ 3,439
Less: Dividends on Preferred Stock	219	219	219	438	438
Net Income Available to Common Shareholders	\$ 1,898	\$ 1,629	\$ 1,584	\$ 3,527	\$ 3,001
Earnings Per Common Share	\$ 0.56	\$ 0.49	\$ 0.47	\$ 1.05	\$ 0.89
Annualized Return on Average Assets	1.04%	0.93%	0.91%	0.99%	0.88%
Annualized Return on Average Common Equity	11.77%	10.59%	11.04%	11.19%	10.58%
Book Value Per Share at period end ¹				\$ 19.65	\$ 17.29
Tangible Book Value Per Share at period end ²				\$ 17.95	\$ 15.58
Weighted Average Common Shares Outstanding ³				3,339,734	3,360,763
Common Shares Outstanding period end				3,404,367	3,404,367
Adjusted Common Shares Outstanding period end ⁴				3,339,734	3,328,998
Allowance for Loan Losses to period end Loans				0.86%	0.90%
Non-Performing Loans to period end Loans ⁵				1.08%	1.06%
Non-Performing Assets to Total Assets ⁶				0.91%	0.92%

1) Common equity per common share. Book Value shall be calculated using Adjusted Common Shares Outstanding period end.

2) Tangible common equity per common share. Tangible Book Value shall be calculated using Adjusted Common Shares Outstanding period end.

3) Weighted Average Common Shares Outstanding less weighted average unallocated ESOP shares. Used for calculating Earnings per Common Share.

4) Adjusted Common Shares Outstanding are Common Shares Outstanding 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.

5) Non-Performing loans consist of non-accrual loans and restructured loans, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

6) Non-Performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

SHAREHOLDER INFORMATION

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 450 | Patten, ME 04765
(207) 521-3200
m.nightingale@katahdintrust.com

STOCK

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

TRANSFER AGENT

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

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

