

# A MESSAGE FROM THE PRESIDENT

We are pleased to report continued excellent results for Katahdin Bankshares Corp. Third quarter net income available to common shareholders totaled \$2,250,000, bringing year to date earnings to \$5,777,000. Earnings increased 24.1% or \$1,122,000 over the first nine months of 2018.

On July 15th, we retired the full \$10 million of Preferred Stock Series D shares. This was refinanced with proceeds from the new \$14.5 million Senior Notes issued in the 2nd quarter. Refer to footnote 7 for information on how this is reported within the consolidated statement of income.

Net Interest Income totaled \$20,590,000 year to date, exceeding last year by \$1,109,000. If comparing net interest income without including the new Senior Note Interest Expense, the year over year net interest income is up by \$1,362,000 or 7.0% growth.

Two important components have led to net interest income growth this year. First, loan growth in the 2nd quarter this year has helped keep net interest income on target. Total Loans ended the 3rd quarter at \$700,554,000, up \$44.4 million or 6.8% over last year. While the 3rd quarter was flat, we continue to look at opportunities to grow the loan portfolio over time. Second, our net interest margin has held very strong year over year ending the quarter at 3.39%, 2 basis points over where September 2018 ended. Maintaining solid asset growth along with a stable margin so far this year has contributed to healthy net interest income growth.

Non-Interest Income totaled \$3,862,000 year to date, increasing \$568,000 over last year at this time. Two areas account for most of the difference. Last year, in Q1, the Bank booked nearly \$150,000 in a one-time fee from a Visa contract renegotiation. The key contributor to solid year over year growth is back to back interest rate swap revenue totaling \$730,000. Non-Interest Expense grew at a very manageable year over year rate of 2.15%. We're very pleased to continue to improve long term operating efficiencies without sacrificing growth initiatives.

The Company earned \$0.68 per share for the quarter and \$1.73 per share for the nine-month period. Return on average assets totaled 1.02% year to date and return on average equity stood at 11.96%.

Turning to the remainder of the balance sheet, total assets increased year over year by \$52,706,000. Most of this was concentrated in the loan portfolio, as discussed. Investments were down somewhat from the prior quarter due to our reluctance to purchase securities in the now extremely low interest rate environment. We envision maintaining the relative size of the portfolio over time.

The Bank has continued to have success growing local deposits. Year over year, customer deposits have increased by \$44.5 million or 8.3%. Deposits have grown with a mix of checking, savings, money markets and CD's. Overall, this allowed for a reduction in wholesale borrowings and brokered CD's combined of \$6 million from last year at this time. Building relationships through deposit product offerings continue to be an important growth strategy.

Total stockholders' equity stood at \$67,062,000, a decrease from the prior year. This was planned due to the previously mentioned retiring of the Preferred Stock. Tangible Book Value Per Share at period end stood at \$18.55, an increase of \$2.66 per share representing growth over last year of 16.8%.

As a follow-up regarding the announced Stock Buyback Program, Bankshares has purchased and retired a total of 31,160 shares

during the third quarter at an average price of \$17.49 per share. If you have an interest in the Stock Buyback Program, please contact us.

Credit quality remained solid as non-performing loans to period-end loans stood at 0.92%. The Bank elected to increase the provision for loan losses moderately; allocating \$325,000 for the nine-month period. It is management's view that the provision is adequately funded at this time. We assess our allowance on an ongoing basis.

In July, Katahdin Trust held a company-wide employee appreciation event where it was my honor to present the Top of the Mountain Commitment to Community Award to Joe Clukey, Vice President, Retail Services Officer in Presque Isle. Joe joined Katahdin Trust in 1991 and is well-known for his volunteer efforts in the Presque Isle area, giving more than 100 hours to many local organizations last year. We are fortunate to have Joe as a member of the Katahdin Trust family, and we thank him for his continued dedication to the community.

This summer, we welcomed Blake Hamel to the Maine Financial Group (MFG) team as a Commercial Services Officer. Before joining MFG, Blake worked for Androscoggin Bank in Lewiston. He received his B.S., Business Administration from the University of Maine and his Master of Business Administration from Thomas College. Blake is an excellent addition to MFG.

On July 31, 2020, and after 20 years of service in her role, Bonnie Foster will be stepping away from her executive position at the Bank. She will then transition to a part-time capacity with Katahdin Trust and will be responsible for the day-to-day functions of Facilities. With Bonnie's departure overseeing the retail area, I am pleased to announce new areas of oversight and the promotions of Angela Butler to Senior Vice President, Retail and Business Banking, and Billi Griffeth to Regional Vice President. With a 25-year background in developing commercial business, Angela will join the senior management team and assume the role of leader of all branch administration, retail lending, and small business development. Billi joined Katahdin Trust in 2011 and will oversee our northern Maine retail branch network ranging from Patten to Fort Kent. Danelle Weston, Regional Vice President of our central and southern Maine locations, will continue to oversee our greater Bangor and Scarborough branch network.

In addition to this great news, Katahdin Trust has been named one of the *Best Places to Work in Maine* two years in a row. A heartfelt thank you to all of our employees for everything they have done and continue to do to make Katahdin Trust a great place to work. We are fortunate to have such an incredible team.

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  
Angela T. Butler, Senior Vice President, Retail and Business Banking  
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

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

MEMBER FDIC EQUAL HOUSING LENDER

# 2019

THIRD QUARTER



# KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

# SHAREHOLDER INFORMATION

## CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	Sept 30, 2019	June 30, 2019	Sept 30, 2018
<b>ASSETS</b>			
Cash & Due from Banks	\$ 22,094	\$ 13,816	\$ 15,464
Investments	92,878	98,275	90,170
Total Loans	700,554	698,498	656,137
Reserve for Loan Loss	(6,232)	(6,039)	(5,873)
Fixed Assets	10,168	10,303	10,612
Other Assets	25,689	23,322	25,935
<b>Total Assets</b>	<b>\$ 845,151</b>	<b>\$ 838,175</b>	<b>\$ 792,445</b>
<b>LIABILITIES</b>			
Deposits	\$ 704,324	\$ 676,399	\$ 632,483
Repurchase Agreements	—	—	—
Borrowings	38,354	56,857	71,754
Other Liabilities	35,411	29,283	19,670
Total Liabilities	\$ 778,089	\$ 762,539	\$ 723,907
<b>SHAREHOLDERS' EQUITY</b>			
Preferred Stock, Series D	\$ —	\$ 10,000	\$ 9,930
Common Shareholders' Equity	67,073	65,742	61,761
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	859	758	(2,383)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	107	113	316
Unearned ESOP Shares	(977)	(977)	(1,086)
Total Shareholders' Equity	\$ 67,062	\$ 75,636	\$ 68,538
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 845,151</b>	<b>\$ 838,175</b>	<b>\$ 792,445</b>
Letters of Credit	\$ 2,219	\$ 2,232	\$ 2,989

## CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)	For 3 Months Ended			For 9 Months Ended	
	Sept 30, 2019	June 30, 2019	Sept 30, 2018	Sept 30, 2019	Sept 30, 2018
Interest Income	\$ 9,389	\$ 9,151	\$ 8,416	\$ 27,230	\$ 24,528
Interest Expense	2,246	2,169	1,821	6,387	5,047
Senior Note Interest Expense <sup>7</sup>	213	40	—	253	—
Net Interest Income	\$ 6,930	\$ 6,942	\$ 6,595	\$ 20,590	\$ 19,481
Less: Provision for Loan Losses	135	190	—	325	180
Net Interest Income After Provisions	\$ 6,795	\$ 6,752	\$ 6,595	\$ 20,265	\$ 19,301
Non-Interest Income	1,451	1,424	1,103	3,862	3,294
Non-Interest Expense	5,366	5,519	5,348	16,265	15,922
Net Operating Income	\$ 2,880	\$ 2,657	\$ 2,350	\$ 7,862	\$ 6,673
Less: Provision for Income Taxes	594	540	478	1,611	1,362
<b>Net Income</b>	<b>\$ 2,286</b>	<b>\$ 2,117</b>	<b>\$ 1,872</b>	<b>\$ 6,251</b>	<b>\$ 5,311</b>
Less: Dividends on Preferred Stock <sup>7</sup>	36	219	218	474	656
<b>Net Income Available to Common Shareholders</b>	<b>\$ 2,250</b>	<b>\$ 1,898</b>	<b>\$ 1,654</b>	<b>\$ 5,777</b>	<b>\$ 4,655</b>
Earnings Per Common Share	\$ 0.68	\$ 0.56	\$ 0.50	\$ 1.73	\$ 1.39
Annualized Return on Average Assets	1.08%	1.04%	0.94%	1.02%	0.90%
Annualized Return on Average Common Equity	13.38%	11.77%	11.19%	11.96%	10.79%
Book Value Per Share at period end <sup>1</sup>				\$ 20.27	\$ 17.61
Tangible Book Value Per Share at period end <sup>2</sup>				\$ 18.55	\$ 15.89
Weighted Average Common Shares Outstanding <sup>3</sup>				3,333,985	3,350,217
Common Shares Outstanding period end				3,373,207	3,404,367
Adjusted Common Shares Outstanding period end <sup>4</sup>				3,308,574	3,329,455
Allowance for Loan Losses to period end Loans				0.89%	0.90%
Non-Performing Loans to period end Loans <sup>5</sup>				0.92%	1.05%
Non-Performing Assets to Total Assets <sup>6</sup>				0.78%	0.90%

- 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.
- 7) Preferred Stock Series D was retired on July 15, 2019. The 8.75% preferred dividend rate was recognized in Dividends on Preferred Stock. The new Senior Note with a 5.375% tax deductible interest rate is now recognized in Senior Note Interest Expense.

## SHAREHOLDER RELATIONS

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

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

## STOCK

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

