

A MESSAGE FROM THE PRESIDENT

At the conclusion of 2019, net income available to common shareholders totaled \$7,685,000, an increase of \$1,363,000 or 21.6% over the prior year. This represented record earnings for the Company. Net interest income increased \$1,177,000 over the prior year, while non-interest income exceeded 2018's total by \$680,000. Expense control was also critical to our results, as non-interest expense rose by only 2.6% during the 12-month period.

Total Assets rose to a record level of \$850,909,000, a 6.0% increase from 2018. Loans grew \$40,541,000 during the year, ending the year over \$700 million for the first time. We saw solid loan growth across most categories. We also added \$6,854,000 of investments over the year.

We were very pleased to also see good deposit growth, with local deposits funding all our loan growth. The total of local checking, savings, CDs, and money market accounts grew \$42.0 million. This has a positive effect on our balance sheet. A top priority of our staff continues to be building customer deposit relationships.

Credit quality continues at solid levels with non-performing loans to period end loans at 0.77% compared to 0.96% last year at this time. The provision for loan loss in 2019 was funded by \$460,000 compared to only \$180,000 in 2018. Management believes the provision is adequately funded at this time. We assess our allowance on an ongoing basis as the balance sheet changes.

Total Shareholders' Equity stood at \$68.9 million down by \$2.2 million. Solid earnings and asset appreciation in 2019 have made up a large portion of the \$10 million equity reduction resulting from the Preferred Stock retirement in the third quarter. Tangible Book Value Per Share at period end stood at \$19.05, an increase of \$2.46 per share representing growth over last year of 14.8%.

Return on Average Equity finished the year at 11.73%, while Return on Average Assets ended at 0.99%. The Company paid a quarterly dividend of \$0.1125 per share in the fourth quarter, an increase of 4.65% over the fourth quarter dividend from 2018.

The Company purchased and retired an additional 4,000 shares during the fourth quarter at a price of \$18.10, bringing the total shares purchased under the current Stock Buyback Program to 35,160 shares. If you have an interest in the Stock Buyback Program, please contact us.

Our complete audited financials will be published online at otcmkt.com in early February and distributed in our 2019 Annual Report, along with the proxy statement, in March. We encourage all shareholders to review the financial details and vote your shares. Your vote is important to the Company and can be done online, by mail, or by telephone.

Congratulations to Sarah Gardiner, on being promoted to Senior Credit Analyst. Sarah joined Katahdin Trust in 2007 as Commercial Services Assistant and was named Credit Analyst a year later. Based in Presque Isle, Sarah is now responsible for overseeing the general credit analysis process for the Bank, including the supervision and training of other credit analysts.

I am pleased to welcome Justin Jamison to our team as Vice President, Commercial Services Officer. Justin is based at our Springer Drive office in Bangor and is responsible for developing and managing new and existing business lending relationships. He brings nearly ten years of banking experience and will work closely with the commercial services team statewide to offer our customers a comprehensive banking relationship tailored to their business.

Katahdin Trust employees recently donated \$4,500 to Pine Tree Camp, a camp that has been transforming the lives of Maine people with disabilities since 1945. Known as our *Casual Because We Care* program, each employee can contribute a minimum of \$1 in exchange for the privilege to dress casually and wear jeans on select days throughout the year. The money raised is then donated to a local non-profit. We take great pride in giving back to our local communities, and I am proud of what we can accomplish together.

Thank you for your investment in and continued support of Katahdin Trust.

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

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

FOURTH QUARTER



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	Dec 31, 2019	Sept 30, 2019	Dec 31, 2018
ASSETS			
Cash & Due from Banks	\$ 17,397	\$ 22,094	\$ 17,376
Investments	103,173	92,878	96,319
Total Loans	701,016	700,554	660,475
Reserve for Loan Loss	(6,293)	(6,232)	(5,856)
Fixed Assets	10,202	10,168	10,558
Other Assets	25,414	25,689	24,247
Total Assets	\$ 850,909	\$ 845,151	\$ 803,119
LIABILITIES			
Deposits	\$ 714,418	\$ 704,324	\$ 657,074
Borrowings	37,986	38,354	59,201
Other Liabilities	29,626	35,411	15,787
Total Liabilities	\$ 782,030	\$ 778,089	\$ 732,062
SHAREHOLDERS' EQUITY			
Preferred Stock, Series D	\$ -	\$ -	\$ 9,953
Common Shareholders' Equity	68,637	67,073	63,080
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	661	859	(1,255)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	420	107	256
Unearned ESOP Shares	(839)	(977)	(977)
Total Shareholders' Equity	\$ 68,879	\$ 67,062	\$ 71,057
Total Liabilities & Shareholders' Equity	\$ 850,909	\$ 845,151	\$ 803,119
Letters of Credit	\$ 2,221	\$ 2,219	\$ 2,505

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)	For 3 Months Ended			For 12 Months Ended	
	Dec 31, 2019	Sept 30, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
Interest Income	\$ 9,085	\$ 9,389	\$ 8,644	\$ 36,315	\$ 33,172
Interest Expense	2,018	2,246	1,859	8,405	6,906
Senior Note Interest Expense ⁷	214	213	—	467	—
Net Interest Income	\$ 6,853	\$ 6,930	\$ 6,785	\$ 27,443	\$ 26,266
Less: Provision for Loan Losses	135	135	—	460	180
Net Interest Income After Provisions	\$ 6,718	\$ 6,795	\$ 6,785	\$ 26,983	\$ 26,086
Non-Interest Income	1,226	1,451	1,114	5,088	4,408
Non-Interest Expense	5,811	5,366	5,598	22,076	21,520
Net Operating Income	\$ 2,133	\$ 2,880	\$ 2,301	\$ 9,995	\$ 8,974
Less: Provision for Income Taxes	225	594	415	1,836	1,777
Net Income	\$ 1,908	\$ 2,286	\$ 1,886	\$ 8,159	\$ 7,197
Less: Dividends on Preferred Stock	—	36	219	474	875
Net Income Available to Common Shareholders	\$ 1,908	\$ 2,250	\$ 1,667	\$ 7,685	\$ 6,322
Earnings Per Common Share	\$ 0.58	\$ 0.68	\$ 0.50	\$ 2.31	\$ 1.89
Annualized Return on Average Assets	0.90%	1.08%	0.94%	0.99%	0.91%
Annualized Return on Average Common Equity	11.10%	13.38%	11.02%	11.73%	10.85%
Book Value Per Share at period end ¹				\$ 20.77	\$ 18.29
Tangible Book Value Per Share at period end ²				\$ 19.05	\$ 16.59
Weighted Average Common Shares Outstanding ³				3,326,912	3,345,012
Common Shares Outstanding period end				3,369,207	3,404,367
Adjusted Common Shares Outstanding period end ⁴				3,316,671	3,339,734
Allowance for Loan Losses to period end Loans				0.90%	0.89%
Non-Performing Loans to period end Loans ⁵				0.77%	0.96%
Non-Performing Assets to Total Assets ⁶				0.64%	0.79%

- 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.otcmart.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.

