

A MESSAGE FROM THE PRESIDENT

As I sit down to write the quarterly update, we are several weeks into a global pandemic that has halted the economy and greatly altered our way of life. As you know, the new coronavirus (COVID-19) has led to executive orders effectively closing most businesses deemed “non-essential.” The ability for both consumers and businesses to repay debt has been affected by a significant spike in unemployment and loss of business income. At this time, we do not know when companies will be allowed to reopen. These developments, which have occurred in just a few short weeks, have caused our performance to decrease from the prior year, although, as you will see at this stage some of the decrease is precautionary. In this letter, I will summarize the major events and their effect on operations.

Total Assets reached \$903.7 million on March 31, 2020. This was an increase of \$52.8 million over year-end and \$103.6 million over the first quarter of 2019. We’ve had solid loan and investment growth year over year, with three reasons for the 2020 growth. First, cash and due from banks is higher than normal as we have increased both our overall cash reserves for potential customer needs, as well as reserve balances pledged at correspondent banks. These two areas grew nearly \$13 million during the quarter. Second, Investments grew \$21.5 million in the first quarter and \$27.9 million year over year. This quarter, we took advantage of changes in interest rates to purchase \$25 million in guaranteed mortgage backed securities funded by wholesale deposits. Finally, the balance of the growth has been in Loans. Loans increased \$52.2 million or 7.9% year over year, with \$15.3 million of that growth in 2020. The largest percentage of growth has been in the commercial area. Subsequent to March 31, 2020, the Bank participated in the widely-publicized Small Business Administration’s Paycheck Protection Program (PPP). At the publishing of this report, we’ve helped over 420 businesses with more than \$70 million in SBA PPP loans. We’ll report how this has impacted our balance sheet and income statement in our next quarterly report.

We have continued to experience year over year local deposit growth, with balances increasing \$45 million. We customarily experience low or no growth in the first quarter and 2020 was consistent with previous experience as local customer deposits declined by 1.1%. Therefore, in the interim, the balance sheet was funded with a combination of brokered money market accounts and secured borrowings. We’re very comfortable with our balance sheet funding position at this time, but as always, we endeavor to build new or increase existing customer relationships as we grow.

Turning to the income statement, Net Income Available to Common Shareholders totaled \$1,256,000, down \$373,000 from 2019. The reduction was primarily caused by an increase to our provision for loan losses by \$560,000 over the same period in 2019. Asset quality has been sound, yet we recognize

that there will likely be loan losses in the foreseeable future and this action allowed us to begin to build reserves for these potential unspecified credit losses. The effects of the business shutdowns by the state and federal government have led to customers requiring payment deferrals or extensions. We are closely working with all customers affected by the current circumstances and believe we are making prudent decisions. Federal and state regulators have encouraged these actions in order to stabilize otherwise well-performing customers. Katahdin Trust has a long history of sticking with customers through good times and bad, and this will be no exception.

In 2019, the Company refinanced its outstanding preferred stock with Senior Notes at a much lower rate. This action has the effect of reporting \$213,000 in Senior Notes Interest Expense, while the previously shown Preferred Stock Dividend came below bottom-line numbers. Therefore, after accounting for this effect, core net interest income grew \$239,000 or 3.6% year over year. This is due to a larger balance sheet, as our net interest margin contracted over the last year, particularly in the first quarter of 2020. The Federal Reserve lowered the federal funds rate by 1.50% in March 2020, essentially leaving short-term interest rates at 0%. Consequently, variable rate loans dropped immediately, while our ability to quickly adjust funding rates was limited. Thus, our margin dropped 13 basis points in the first quarter. We’ve reacted by resetting deposit rates to offset this impact as much as possible. Management continues a long-term approach to avoiding excessive balance sheet interest rate risk. We will continue to work through this interest rate cycle as effectively as possible.

From an operational standpoint, our staff has done a remarkable job adjusting to the unique conditions. We continue to operate all but one branch, although on a by-appointment and drive-up or walk-up status. The branches continue to do roughly 70% of the transactional volume that they normally would do. Electronic banking methods have increased about 35% during this time to offset the in-person transactions. Our people, many of whom are working remotely, have displayed courage, ingenuity, teamwork, and an incredible work ethic in order to continue to serve our customers. I thank them for their amazing efforts.

We continue to open new accounts and develop new business, although at a reduced pace due to the current economic environment.

As we work through this situation, we have little information about the future with which to manage. However, capital and liquidity are strong, and earnings, while down, remain solid. I am optimistic that when conditions return to a more normal status, we will be well-positioned to return to the improved performance that we saw prior to this event. Our fundamentals remain strong.

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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 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.otcmarkets.com/stock/KTHN/quote



TRANSFER AGENT

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

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



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KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	Mar 31, 2020	Dec 31, 2019	Mar 31, 2019
ASSETS			
Cash & Due from Banks	\$ 29,412	\$ 17,397	\$ 12,133
Investments	124,702	103,173	96,784
Total Loans	716,312	701,016	664,123
Reserve for Loan Loss	(6,866)	(6,293)	(5,864)
Fixed Assets	10,325	10,202	10,435
Other Assets	29,822	25,414	22,520
Total Assets	\$ 903,707	\$ 850,909	\$ 800,131
LIABILITIES			
Deposits	\$ 738,385	\$ 714,418	\$ 647,701
Borrowings	60,549	37,986	66,419
Other Liabilities	36,288	29,626	13,090
Total Liabilities	\$ 835,222	\$ 782,030	\$ 727,210
SHAREHOLDERS' EQUITY			
Preferred Stock, Series D	\$ —	\$ —	\$ 9,977
Common Shareholders' Equity	68,930	68,637	64,242
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	1,685	661	(507)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,296)	420	186
Unearned ESOP Shares	(834)	(839)	(977)
Total Shareholders' Equity	\$ 68,485	\$ 68,879	\$ 72,921
Total Liabilities & Shareholders' Equity	\$ 903,707	\$ 850,909	\$ 800,131
Letters of Credit	\$ 2,133	\$ 2,221	\$ 2,353

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	Ended Mar 31, 2020	For 3 Months Ended Dec 31, 2019	Ended Mar 31, 2019
Interest Income	\$ 8,952	\$ 9,085	\$ 8,690
Interest Expense	1,995	2,018	1,972
Senior Notes Interest Expense ⁷	213	214	—
Net Interest Income	\$ 6,744	\$ 6,853	\$ 6,718
Less: Provision for Loan Losses	560	135	—
Net Interest Income After Provisions	\$ 6,184	\$ 6,718	\$ 6,718
Non-Interest Income	1,138	1,226	987
Non-Interest Expense	5,752	5,811	5,380
Net Operating Income	\$ 1,570	\$ 2,133	\$ 2,325
Less: Provision for Income Taxes	314	225	477
Net Income	\$ 1,256	\$ 1,908	\$ 1,848
Less: Dividends on Preferred Stock	—	—	219
Net Income Available to Common Shareholders	\$ 1,256	\$ 1,908	\$ 1,629
Earnings Per Common Share	\$ 0.38	\$ 0.58	\$ 0.49
Annualized Return on Average Assets	0.59%	0.90%	0.93%
Annualized Return on Average Common Equity	7.32%	11.10%	10.59%
Book Value Per Share at period end ¹	\$ 20.76	\$ 20.77	\$ 18.85
Tangible Book Value Per Share at period end ²	\$ 19.04	\$ 19.05	\$ 17.14
Weighted Average Common Shares Outstanding ³	3,317,812	3,326,912	3,339,734
Common Shares Outstanding period end	3,350,275	3,369,207	3,404,367
Adjusted Common Shares Outstanding period end ⁴	3,297,739	3,316,671	3,339,734
Allowance for Loan Losses to period end Loans	0.96%	0.90%	0.88%
Non-Performing Loans to period end Loans ⁵	0.84%	0.77%	1.10%
Non-Performing Assets to Total Assets ⁶	0.68%	0.64%	0.91%

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 Notes Interest Expense.

MESSAGE FROM THE PRESIDENT CONTINUED

As you have been notified, we were forced to alter our Annual Meeting to a remote delivery. At the meeting, only the matters already voted on by proxy will be taken up. We invite any shareholder to contact Matt Nightingale or me to discuss information regarding this report or any other pertinent topic. We look forward to a typical meeting in 2021.

The Company purchased and retired an additional 29,629 shares during the first quarter at an average price of \$19.19 per share. The Company paid a quarterly dividend of \$0.1185 per share, an increase of 5.33% over the first quarter dividend of 2019.

I'd also like to take this opportunity to congratulate Rebecca Smith on her promotion to Assistant Vice President. She joined Katahdin Trust in 2014. With more than 20 years of banking experience, Rebecca will continue to serve as Retail Services Officer and Branch Manager of our Broadway Shopping Center branch in Bangor. In her new role, Rebecca will add responsibility for the daily management of the Springer Drive branch at the Christmas Tree Shops Plaza in Bangor, replacing Danelle Weston. Danelle will continue to serve as Regional Vice President and oversee the Bangor, Hampden, and Scarborough branch network.

After more than 40 years in banking, I would like to wish Brian Gardiner a very happy retirement. Brian joined Katahdin Trust in 2002 as Vice President and Commercial Services Officer in Houlton and was promoted to Senior Vice President in 2010. It is also thanks to his business development efforts over the past 18 years that we have established a substantial commercial customer base in the greater Bangor area. Thank you, Brian, for all your hard work and dedication. You will be missed.

Thank you for your investment and continued support. As always, if you have questions regarding the Company or this report, feel free to contact us. We hope you are staying healthy and safe.

Sincerely,



Jon J. Prescott
President & CEO