

A MESSAGE FROM THE PRESIDENT

Second quarter net income available to common shareholders totaled \$2,462,000, an increase over last quarter of \$1,206,000 and \$564,000 over the second quarter of 2019. Year to date, net income available to common shareholders totaled \$3,718,000, exceeding the first six months of 2019 by \$191,000 or 5.4%. The following four key factors contributed to these positive results:

1. Balance sheet growth which helped offset a lower net interest margin caused by lower rates.
2. Solid non-interest income growth, with income generated from interest rate swap fees in conjunction with commercial loans, and fees generated from administering the Small Business Administration's Paycheck Protection Program (PPP) loans. Of the \$2,293,000 that Katahdin Trust received in fee income from PPP loan administration, a total of \$228,000 was recognized in the second quarter. The remainder will accrue into income over the life of the PPP loans.
3. Maintaining operating expenses within budget tolerances.
4. Solid asset quality thus far this year.

Total assets reached \$981,750,000 as of June 30, 2020, which is an increase of \$78 million over the end of the first quarter and \$143.6 million over June 30, 2019. The Bank originated approximately \$72.7 million of 100% SBA guaranteed PPP loans for customers during the second quarter. We were pleased to help our customers and communities access the PPP funding during these times. When factoring out the PPP loans, year over year total assets are up 8.5% with growth in both investments and loans.

Total loans reached \$803.4 million as of quarter end, increasing \$87.1 million in the second quarter. As mentioned, \$72.7 million of that was related to PPP. Year over year, loans grew \$32.2 million or 4.6% (excluding PPP). During this uncertain time, we have been very selective on what we add to the portfolio. While we've been cautious, we're pleased with the opportunities to build on existing and new relationships over this past year.

Deposit growth has been extraordinary. Deposits from customers (excluding wholesale funding) grew \$184.9 million year over year and \$144.3 million in the second quarter. Some of this growth was predictable, as small businesses received PPP money and placed those funds on deposit with Katahdin Trust. These deposits will likely be spent over time on payroll or operating expenses. Further, we've seen influxes of what we'd consider temporary stimulus funding throughout the Bank. However, even excluding these factors, overall deposit growth from new and existing relationships throughout our market areas has been excellent over the past year.

The Bank added \$250,000 to the provision for loan loss in the second quarter, bringing the total provision for the year to \$810,000. The reserve for loan loss now stands at \$7,123,000, an increase of \$1,084,000 over last year at this time. Customarily, most of the reserve total is assigned to pools of loans or specific credits. However, our current reserve total includes an unallocated balance of \$1,126,000. As mentioned at the end of the first quarter, asset quality was very solid entering the economic shut down. We continue to recognize

there will likely be loan losses in the foreseeable future and therefore we've continued to build reserves for both loan growth and potential unspecified credit losses. The effects of the business shutdowns by our state and federal government quickly led to customers requesting payment deferrals or extensions. Like many financial institutions we were quick to initially grant these requests. During the second quarter, we began to individually assess each of these relationships to gain a better understanding of how we could best assist each customer or perhaps gain a better understanding of the impacts relating to specific customers. While we know that not every customer will be able to withstand the economic burden and there may be losses down the road, our close due diligence over the past few months leads us to believe that we'll be able to work with customers and help them through their individual situations.

While past due numbers remain low, deferrals and extension balances due to COVID-19 should be considered. As of June 30th, total loans that have been deferred and have yet to resume their newly scheduled payments totaled \$70.9 million, or 7.8% of total assets, when excluding the effect of PPP loans. Of those loans, we're pleased that only \$26.9 million, or 2.96% of total assets, requested both principal and interest deferments while the remaining \$43.9 million of loans continue to pay monthly interest but needed relief from the principal portion of the loans. For further context, \$32.5 million of the deferred loans are within the hotel/motel industry. The next largest sector is lessors of residential and non-residential buildings totaling deferments of \$21.9 million. The remaining deferred loans are diversified among many different industry groups. Katahdin Trust has worked to maintain strength in earnings and capital in order to withstand any forthcoming impacts that may unfold depending on whether the economy recovers more quickly than expected or whether sectors of the economy are impacted for a much longer time.

Total shareholders' equity stood at \$70.9 million, up from \$68.5 million at the end of the first quarter. Tangible book value per share at period end stood at \$19.79, an increase of \$1.84 per share representing growth over last year of 10.3%. Return of average equity for the first six months totaled 10.70% compared to 11.19% last year. The Company purchased and retired an additional 1,813 shares during the second quarter at an average price of \$15.97 per share. The Company paid a quarterly dividend of \$0.1185 per share, an increase of 5.33% over the second quarter dividend of 2019.

In May, we were excited to have been named to American Banker magazine's Top 200 Publicly Traded Community Banks. The rating is based on the Bank's three-year average return on equity (ROE). The review included public banks and thrifts with less than two billion dollars in total assets as of December 31, 2019. This honor reflects our financial strength and commitment to the local communities we serve. We are proud of our team of talented bankers across Maine whose commitment to excellence made this distinction possible.

June is when we typically host our company-wide employee appreciation event. While we were not able to get together, management wanted to reward employees for all their hard work this year. To show our appreciation and give employees extra time to spend with their families, we closed all offices early on June 19th and provided each employee with a \$50 gift card. This special gesture was very well received and appreciated by everyone.

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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.



KatahdinTrust.com

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SECOND QUARTER

2020



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	June 30, 2020	Mar 31, 2020	June 31, 2019
ASSETS			
Cash & Due from Banks	\$ 29,752	\$ 29,412	\$ 13,816
Investments	111,322	124,702	98,275
Total Loans	803,426	716,312	698,498
Reserve for Loan Loss	(7,123)	(6,866)	(6,039)
Fixed Assets	10,180	10,325	10,303
Other Assets	34,193	29,822	23,322
Total Assets	\$ 981,750	\$ 903,707	\$ 838,175
LIABILITIES			
Deposits	\$ 845,806	\$ 738,385	\$ 676,399
Borrowings	25,986	60,549	56,857
Other Liabilities	39,052	36,288	29,283
Total Liabilities	\$ 910,844	\$ 835,222	\$ 762,539
SHAREHOLDERS' EQUITY			
Preferred Stock, Series D	\$ —	\$ —	\$ 10,000
Common Shareholders' Equity	70,966	68,930	65,742
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	2,527	1,685	758
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,753)	(1,296)	113
Unearned ESOP Shares	(834)	(834)	(977)
Total Shareholders' Equity	\$ 70,906	\$ 68,485	\$ 75,636
Total Liabilities & Shareholders' Equity	\$ 981,750	\$ 903,707	\$ 838,175
Letters of Credit	\$ 4,150	\$ 2,133	\$ 2,232

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 6 Months Ended	
	June 30, 2020	Mar 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Interest Income	\$ 8,897	\$ 8,952	\$ 9,151	\$ 17,849	\$ 17,841
Interest Expense	1,474	1,995	2,169	3,469	4,141
Senior Note Interest Expense ⁷	214	213	40	427	40
Net Interest Income	\$ 7,209	\$ 6,744	\$ 6,942	\$ 13,953	\$ 13,660
Less: Provision for Loan Losses	250	560	190	810	190
Net Interest Income After Provisions	\$ 6,959	\$ 6,184	\$ 6,752	\$ 13,143	\$ 13,470
Non-Interest Income	1,759	1,138	1,424	2,897	2,411
Non-Interest Expense	5,602	5,752	5,519	11,354	10,899
Net Operating Income	\$ 3,116	\$ 1,570	\$ 2,657	\$ 4,686	\$ 4,982
Less: Provision for Income Taxes	654	314	540	968	1,017
Net Income	\$ 2,462	\$ 1,256	\$ 2,117	\$ 3,718	\$ 3,965
Less: Dividends on Preferred Stock	—	—	219	—	438
Net Income Available to Common Shareholders	\$ 2,462	\$ 1,256	\$ 1,898	\$ 3,718	\$ 3,527
Earnings Per Common Share	\$ 0.74	\$ 0.38	\$ 0.56	\$ 1.12	\$ 1.05
Annualized Return on Average Assets	1.03%	0.59%	1.04%	0.82%	0.99%
Annualized Return on Average Common Equity	13.99%	7.32%	11.77%	10.70%	11.19%
Book Value Per Share at period end ¹				\$ 21.52	\$ 19.65
Tangible Book Value Per Share at period end ²				\$ 19.79	\$ 17.95
Weighted Average Common Shares Outstanding ³				3,306,783	3,339,734
Common Shares Outstanding period end				3,348,109	3,404,367
Adjusted Common Shares Outstanding period end ⁴				3,295,573	3,339,734
Allowance for Loan Losses to period end Loans				0.89%	0.86%
Non-Performing Loans to period end Loans ⁵				0.71%	1.08%
Non-Performing Assets to Total Assets ⁶				0.59%	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 Note Interest Expense.

MESSAGE FROM THE PRESIDENT CONTINUED

Although COVID-19 disrupted normal routines for businesses and schools this spring, Katahdin Trust continued its commitment to community and financial literacy efforts. Education has always served as a fundamental objective of ours. Now, more than ever, children need to maintain reading skills and be engaged in learning remotely. That's why we were pleased to have partnered with United Way of Aroostook's Summer Slide program to bring approximately 650 first-graders additional reading materials at home.

Our staff continues to develop and excel. I am pleased to announce the promotion of Janet Doak to Assistant Vice President, Retail Services Officer and Branch Manager of the Presque Isle and Ashland locations. Janet has been in the banking industry for more than 30 years and has held several positions with Katahdin Trust since joining in 2005 as Retail Services Assistant. In 2007, she was named Customer Service Representative in Presque Isle and was promoted to Ashland Branch Manager in 2015.

Janet replaces Diane Green, who served Katahdin Trust for 28 years. Diane worked in a variety of positions at the Bank, including Branch Manager in Mars Hill from 1995–1999 and, for the past 21 years, as Branch Manager in Presque Isle. I would also like to wish Carol Dow a very happy retirement after 10 years with Katahdin Trust. Carol joined in 2010 as a Retail Loan Assistant in Patten and has served as Retail Mortgage Processor since 2013.

Rebecca Potter has been promoted to Assistant Vice President, Commercial Services Officer and is based in Bangor. Rebecca started her career with Katahdin Trust in 2008 as a Commercial Services Assistant. In 2012, she worked as a Customer Service Representative before returning to her role as Commercial Services Assistant in 2013. Most recently, Rebecca was promoted to Commercial Services Officer in 2018.

I am happy to share that Tori Barber has been named Assistant Vice President, Training Manager and Danelle Weston has assumed a new position with the Bank as Retail Underwriting Officer. With Danelle's transition from Regional Vice President of Bangor, Hampden, and Scarborough, Billi Griffeth, who oversees our northern Maine retail branch network, has assumed managerial oversight of all branches throughout our footprint.

Thank you for your investment in and continued support of Katahdin Trust. As always, if you have questions regarding the Company or this report, feel free to contact us.

Sincerely,



Jon J. Prescott
President & CEO