

A MESSAGE FROM THE PRESIDENT

I am pleased to report solid results for Katahdin Bankshares Corp. Third quarter net income available to common shareholders totaled \$2,450,000, bringing year to date earnings to \$6,168,000. Earnings per common share of \$1.87 through September 30 were 8.1% above 2019. Return on Average Equity for the nine months equaled 11.63%, representing consistent results over the past several quarters. Return on Average Assets through September 30 was 0.89%.

Interest rates remain at the lowest possible levels due to Federal Reserve actions taken in response to the COVID-19 pandemic and its effects on businesses and consumers. This is causing tremendous stress on Net Interest Margins at Katahdin Trust and across the banking industry. Despite the margin pressure, we're pleased that net interest income increased by \$148,000 over the linked quarter and \$427,000 over the same period in 2019. It will continue to be necessary to take all measures to increase net interest income through profitable earning asset growth and lowering funding costs to the extent possible.

Non-interest income increased \$595,000 year over year. The bulk of this increase was \$519,000 earned on fees from the Small Business Administration's Paycheck Protection Program (PPP).

Expenses remain within our expectations totaling \$17 million through three quarters, representing an increase of 4.5% over this period in 2019.

Past due and non-performing loan numbers remain low; however, loan deferrals and extensions due to COVID-19 must also be factored in. As of September 30, total loans that have been deferred and have yet to resume their newly schedule payments totaled \$35.8 million, or 5.1% of total loans (excluding PPP loans). Most of the deferrals come from the hotel/motel industry, with the remainder well diversified among many industry classes. The number of total relationships is manageable, and our staff is following the affected relationships very closely. While we have added \$1,010,000 to the Reserve for Loan Loss this year, up from \$325,000 at this time in 2019, additional funding may be necessary if credit deteriorates. However, at this time management feels the Reserve is adequately funded.

Total Assets reached \$939.2 million, which is down from the second quarter and over last year by \$94 million or 11.1%. We continue to manage the investment portfolio as necessary for liquidity purposes while monitoring opportunities for purchases or portfolio adjustments over time. On the loan front, we've had good success over the last year bringing new relationships to the bank both on the commercial and consumer real estate portfolios. Second quarter loans dropped; however, this was primarily due to the expected payoffs of three large commercial loans during the quarter, totaling approximately \$25 million. Year over year, total loans increased by \$72.4 million including the \$73.3 million in PPP loans. We expect the PPP loans to begin to move off the balance sheet in the first quarter of next year. As for regular loan development, we continue seeking opportunities for growth in profitable customer relationships.

Deposits have grown by \$104.2 million year over year, a substantial increase. Customer deposits over this time grew by \$131.6 million while wholesale deposits and borrowings were paid down by \$49.7 million. Deposits dropped from the second quarter, in part because of steps taken to manage balance sheet size and funding costs. Overall, we've continued to see a surge in deposits from Government stimulus programs across the deposit portfolio. We monitor this closely and are prepared for any long-term reductions in balances.

As I write this letter, we continue to limit open access to all our branches. Lobbies are available with call-ahead banking or by appointment. We encourage our customers to use our digital banking channels or drive-up windows to conduct their transactions when possible. We are monitoring the COVID-19 situation daily and anticipate opening our lobby doors soon.

It was my honor to present the Top of the Mountain Commitment to Community Award to Craig Staples. Craig joined Katahdin Trust in 2005 and serves as Vice President, Commercial Services Officer in Presque Isle and Caribou. We thank him for his continued dedication to the community.

I want to congratulate Jonathan Glazier and Melissa Dahlgren on their recent promotions. Jonathan Glazier was promoted to Business Development Officer for the greater Bangor market and is based at our Springer Drive location. He is responsible for business development of all types, concentrating on residential mortgages and deposit services for small business, commercial, and non-profit entities. Melissa Dahlgren was promoted to Assistant Vice President, Retail Services Officer and Branch Manager of our Mars Hill and Fort Fairfield offices. She is responsible for retail lending, business development, and daily branch management.

In August, we welcomed Ruth Martin as Vice President, Retail Services Officer and Branch Manager of our Scarborough office. Ruth will play a vital role as we continue to grow in southern Maine and will be responsible for retail lending, business development, and daily branch management. She brings more than 25 years of banking experience, having worked at various financial institutions over the years.

Katahdin Trust has once again been named as one of the Best Places to Work in Maine. 2020 marks the third straight year we have received this designation from our employees. I want to thank our team for everything they have done during these rapidly changing times. We continue to work hard to provide our customers with excellent customer service and maintain a positive environment that fosters personal and professional growth for every employee.

In closing, it is with great sadness that we acknowledge the passing of longtime Katahdin Trust director and supporter, Robert H. Anderson of Bangor. Bob served on the Board of Directors from 1997 to 2015.

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

DIRECTORS

Steven L. Richardson, Chairman
Richard J. York, Sr., 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
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

MAINE FINANCIAL GROUP

Scarborough
144 US Route One
885-5900



[KatahdinTrust.com](https://www.katahdintrust.com)

MEMBER FDIC EQUAL HOUSING LENDER

Your
**COMMUNITY
BANK**

THIRD QUARTER

2020



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	Sept 30, 2020	June 30, 2020	Sept 30, 2019
ASSETS			
Cash & Due from Banks	\$ 28,392	\$ 29,752	\$ 22,094
Investments	100,863	111,322	92,878
Total Loans	772,948	803,426	700,554
Reserve for Loan Loss	(7,217)	(7,123)	(6,232)
Fixed Assets	10,046	10,180	10,168
Other Assets	34,128	34,193	25,689
Total Assets	\$ 939,160	\$ 981,750	\$ 845,151
LIABILITIES			
Deposits	\$ 808,543	\$ 845,806	\$ 704,324
Borrowings	16,043	25,986	38,354
Other Liabilities	41,575	39,052	35,411
Total Liabilities	\$ 866,161	\$ 910,844	\$ 778,089
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 73,276	\$ 70,966	\$ 67,073
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	2,275	2,527	859
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,566)	(1,753)	107
Unearned ESOP Shares	(834)	(834)	(977)
Unearned Comp – Restricted Stock	(152)	–	–
Total Shareholders' Equity	\$ 72,999	\$ 70,906	\$ 67,062
Total Liabilities & Shareholders' Equity	\$ 939,160	\$ 981,750	\$ 845,151
Letters of Credit	\$ 4,224	\$ 4,150	\$ 2,219

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 9 Months Ended	
	Sept 30, 2020	June 30, 2020	Sept 30, 2019	Sept 30, 2020	Sept 30, 2019
Interest Income	\$ 8,704	\$ 8,897	\$ 9,389	\$ 26,553	\$ 27,230
Interest Expense	1,134	1,474	2,246	4,603	6,387
Senior Note Interest Expense	213	214	213	640	253
Net Interest Income	\$ 7,357	\$ 7,209	\$ 6,930	\$ 21,310	\$ 20,590
Less: Provision for Loan Losses	200	250	135	1,010	325
Net Interest Income After Provisions	\$ 7,157	\$ 6,959	\$ 6,795	\$ 20,300	\$ 20,265
Non-Interest Income	1,560	1,759	1,451	4,457	3,862
Non-Interest Expense	5,645	5,602	5,366	16,999	16,265
Net Operating Income	\$ 3,072	\$ 3,116	\$ 2,880	\$ 7,758	\$ 7,862
Less: Provision for Income Taxes	622	654	594	1,590	1,611
Net Income	\$ 2,450	\$ 2,462	\$ 2,286	\$ 6,168	\$ 6,251
Less: Dividends on Preferred Stock	–	–	36	–	474
Net Income Available to Common Shareholders	\$ 2,450	\$ 2,462	\$ 2,250	\$ 6,168	\$ 5,777
Earnings Per Common Share	\$ 0.75	\$ 0.74	\$ 0.68	\$ 1.87	\$ 1.73
Annualized Return on Average Assets	1.01%	1.03%	1.08%	0.89%	1.02%
Annualized Return on Average Common Equity	13.41%	13.99%	13.38%	11.63%	11.96%
Book Value Per Share at period end ¹				\$ 22.14	\$ 20.27
Tangible Book Value Per Share at period end ²				\$ 20.41	\$ 18.55
Weighted Average Common Shares Outstanding ³				3,303,333	3,333,985
Common Shares Outstanding period end				3,349,938	3,373,207
Adjusted Common Shares Outstanding period end ⁴				3,297,402	3,308,574
Allowance for Loan Losses to period end Loans				0.93%	0.89%
Non-Performing Loans to period end Loans ⁵				0.66%	0.92%
Non-Performing Assets to Total Assets ⁶				0.55%	0.78%

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 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.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.

