

A MESSAGE FROM THE PRESIDENT

At the conclusion of 2020, net income available to common shareholders totaled \$9,519,000, which was an increase of \$1,834,000 over 2019. This represented record earnings for the Company. Return on Average Assets ended at 1.02%, while Return on Average Equity finished the year at 13.26%. Earnings per share increased to \$2.88, growing 24.7% over last year. We are pleased with the results of the Company. However, it is important to note that 2020 was a unique year, with several non-recurring items that bear discussion.

Total Assets rose to \$937,007,000 representing growth of \$86.1 million over 2019. This was driven in large part by the Bank originating \$73,300,000 in SBA Paycheck Protection Program (PPP) loans during the year. As of December 31st, \$46,095,000 remain outstanding. We expect most PPP loans to be forgiven and removed from Loans in 2021.

Net interest income increased \$2,488,000 year over year, while our net interest margin dropped from a 3.44% average in 2019 to an average of 3.18% in 2020. Making up for margin shrinkage was continued new business in many areas of loans including the previously mentioned PPP loans. PPP loans contributed \$1.99 million to net interest income through fees and interest in 2020. We are very pleased with results in net interest income in 2020 and will continue to focus on ways to offset margin compression in the year ahead as much as possible.

2020 non-interest income exceeded 2019's total by \$744,000 because of solid fee income, particularly from interest rate swap revenue on commercial loans, as well as greater consumer real estate loan business. Total non-interest expense rose by a manageable percentage of 3.3%.

Deposit growth was very strong, increasing \$94,606,000 to \$809,024,000. We were pleased with business development over the last year. Additionally, government stimulus programs supplemented both commercial and consumer balances in 2020.

Credit quality continues at solid levels, with non-performing loans to period end loans at 0.64% as opposed to 0.77% at the conclusion of 2019. Since the beginning of the COVID-19 pandemic in the spring, Katahdin has worked with customers displaying financial difficulties by deferring loan payments. At the peak, the Bank deferred payments for approximately 170 borrowers having an aggregate principal amount of \$99.8 million. As of year-end, only 7 borrowers remained deferred with total principal balances of \$1.9 million. Loans that have been deferred may bear a higher risk going forward as dictated by the economic circumstances faced both locally and nationally. We are pleased that most are currently back on track, and we continue to work with customers when possible.

The provision for loan loss in 2020 was funded by \$1,260,000, an increase of \$800,000 over the prior year. Management believes the provision is adequately funded at this time and this item is continuously assessed.

Total shareholders' equity stood at \$76,202,000 at year-end, an improvement of \$7,323,000 over 2019. Tangible Book Value Per Share at period end stood at \$21.43.

Our complete audited financials will be published online at otcmarkets.com in early February and distributed in our 2020 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. As I write this letter, we are finalizing plans for the Annual Shareholders' Meeting which will most likely look different again this year. Be on the lookout for details coming soon.

The Board has approved a Stock Buyback Program which authorizes the purchase up to \$2,000,000 of the Company's outstanding shares of

Common Stock over the next 12-month period. Shares may be repurchased by the Company and may be purchased by Katahdin Trust Company's Employee Stock Ownership Plan. All such transactions may be initiated in the discretion of the Company or the ESOP, subject to market conditions and other considerations. Repurchases or ESOP purchases may be made in the open market, through block trades, or through privately negotiated transactions. Share purchases may be commenced or suspended at any time without prior notice, and there can be no assurances as to how many shares the Company will repurchase, if any, or at what prices any purchases will be made. The Board of Directors may, without prior notice, alter the terms of this Program at any time, including to change the announced share authorization level or to extend or terminate this Stock Buyback Program. During the 4th quarter of 2020, under the previous authorization, the Company purchased 17,300 shares at an average price of \$17.99 per share.

We continue to limit open access to our branches during the coronavirus pandemic. We have been able to maintain our commitment to serving our customers through our online and mobile banking channels, our drive-thrus, walk-up windows and ATMs where available, and with Call-Ahead Banking for in-person transactions.

I am very proud of what we have been able to accomplish in 2020. In addition to adjusting the way we serve customers at the branch, we have been able to assist hundreds of our community's small businesses with Paycheck Protection Program (PPP) loans and work with individuals to process their stimulus payments.

Our employees continue to learn and grow professionally. I want to congratulate several employees on well-deserved promotions: Sarah Gardiner to Assistant Vice President, Senior Credit Analyst; Cindy Boot to Assistant Vice President, Commercial Services Officer; Sam Clockedile to Assistant Vice President, Marketing Officer; Patricia Hersey to Vice President, Cash Management and Business Development Officer; and Sue Fox to Appraisal Department Manager and Officer.

In December, we provided each employee with a gift card to go out into the community to perform random acts of kindness for neighbors and community members in need. The outcome left some participants speechless, others full of smiles, and some teary-eyed. Another way we gave back was through our Casual Because We Care program where each employee can donate money to a local non-profit in exchange for the privilege to dress casually and wear jeans on select days throughout the year. Funds raised in 2020 totaled \$2,000 and were donated to Ronald McDonald House Charities of Maine, a place of comfort, care, compassion, and hope since 1983 for thousands of families on the medical journey of their child's illness. 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. 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

MEMBER FDIC EQUAL HOUSING LENDER

Your
COMMUNITY
BANK

FOURTH QUARTER

2020



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	Dec 31, 2020	Sept 30, 2020	Dec 31, 2019
ASSETS			
Cash & Due from Banks	\$ 56,941	\$ 28,392	\$ 17,397
Investments	95,973	100,863	103,173
Total Loans	746,593	772,948	701,016
Reserve for Loan Loss	(7,454)	(7,217)	(6,293)
Fixed Assets	9,946	10,046	10,202
Other Assets	35,008	34,128	25,414
Total Assets	\$ 937,007	\$ 939,160	\$ 850,909
LIABILITIES			
Deposits	\$ 809,024	\$ 808,543	\$ 714,418
Borrowings	13,041	16,043	37,986
Other Liabilities	38,740	41,575	29,626
Total Liabilities	\$ 860,805	\$ 866,161	\$ 782,030
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 75,965	\$ 73,276	\$ 68,637
Net Unrealized Appreciation on Securities Available-for-Sale, Net of Tax	2,120	2,275	661
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,043)	(1,566)	420
Unearned ESOP Shares	(697)	(834)	(839)
Unearned Comp – Restricted Stock	(143)	(152)	–
Total Shareholders' Equity	\$ 76,202	\$ 72,999	\$ 68,879
Total Liabilities & Shareholders' Equity	\$ 937,007	\$ 939,160	\$ 850,909
Letters of Credit	\$ 2,889	\$ 4,224	\$ 2,221

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 12 Months Ended	
	Dec 31, 2020	Sept 30, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Interest Income	\$ 9,820	\$ 8,704	\$ 9,085	\$ 36,373	\$ 36,314
Interest Expense	986	1,134	2,018	5,589	8,405
Senior Note Interest Expense	214	213	214	854	467
Net Interest Income	\$ 8,620	\$ 7,357	\$ 6,853	\$ 29,930	\$ 27,442
Less: Provision for Loan Losses	250	200	135	1,260	460
Net Interest Income After Provisions	\$ 8,370	\$ 7,157	\$ 6,718	\$ 28,670	\$ 26,982
Non-Interest Income	1,376	1,560	1,226	5,833	5,089
Non-Interest Expense	5,804	5,645	5,811	22,803	22,076
Tax Investment Amortization Expense ⁷	1,166	–	–	1,166	–
Net Operating Income	\$ 2,776	\$ 3,072	\$ 2,133	\$ 10,534	\$ 9,995
Less: Provision for Income Taxes ⁷	(575)	622	225	1,015	1,836
Net Income	\$ 3,351	\$ 2,450	\$ 1,908	\$ 9,519	\$ 8,159
Less: Dividends on Preferred Stock	–	–	–	–	474
Net Income Available to Common Shareholders	\$ 3,351	\$ 2,450	\$ 1,908	\$ 9,519	\$ 7,685
Earnings Per Common Share	\$ 1.01	\$ 0.75	\$ 0.58	\$ 2.88	\$ 2.31
Annualized Return on Average Assets	1.42%	1.01%	0.90%	1.02%	0.99%
Annualized Return on Average Common Equity	17.82%	13.41%	11.10%	13.26%	11.73%
Book Value Per Share at period end ¹				\$ 23.16	\$ 20.77
Tangible Book Value Per Share at period end ²				\$ 21.43	\$ 19.05
Weighted Average Common Shares Outstanding ³				3,299,905	3,326,912
Common Shares Outstanding period end				3,332,638	3,369,207
Adjusted Common Shares Outstanding period end ⁴				3,290,151	3,316,671
Allowance for Loan Losses to period end Loans				1.00%	0.90%
Non-Performing Loans to period end Loans ⁵				0.64%	0.77%
Non-Performing Assets to Total Assets ⁶				0.52%	0.64%

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) The Bank invested in federal historic tax credits which were recognized as a reduction of federal tax expense. Amortization of the corresponding investment was accounted for in other expenses through Tax Investment Amortization 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

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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.

