

A MESSAGE FROM THE PRESIDENT

We are excited to have been named once again 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, 2020. The honor of placing 88th reflects our continued financial strength and commitment to the local communities we serve. I am proud of our team of talented bankers whose commitment to excellence made this distinction possible for two consecutive years.

Our solid financial results have continued into 2021. Net income for the first six months reached \$4,869,000, exceeding last year by \$1.2 million. Second quarter earnings were very strong, totaling \$2,495,000, and slightly exceeded the first quarter as well as the second quarter of 2020. We're very pleased with these results.

Net Interest Income for the first six months reached \$15,222,000, an increase over 2020 of \$1,269,000. In addition to continuing to grow core loans (excluding PPP) which we'll discuss below, we're pleased with efforts to maintain our Net Interest Margin. Net Interest Margin has averaged 3.16% in the first half of this year compared to 3.15% in the first half of 2020 and June 2021 stood at 3.19%. Maintaining a stable margin without sacrificing growth opportunities over the last year has been a benefit. Net Interest Income growth included one-time program income derived from the SBA Paycheck Protection Program (PPP) contributing \$1,214,000 in interest and fees in the first half of this year, compared to \$377,000 last year. As PPP loan balances are forgiven, future fee income remaining to be booked totals \$1.24 million.

Non-Interest Income reached \$2,614,000, lower than the first six months of last year by \$283,000. Included in last year's first half was \$582,000 in commercial interest rate swap fee income that was not repeated this year. Other categories have partially made up the difference, including mortgage loan origination and sales activity, as well as a 23% year over year increase in debit card interchange fees.

Non-Interest Expense growth is right at our target expectations for the year, reaching \$11,626,000. Year over year, expenses have grown \$272,000 or 2.4%. We continue to look for efficient ways to grow while continuing to invest in our future.

On the balance sheet, Total Assets stood at \$947,991,000, an increase over the prior quarter of \$6.6 million and a reduction from a stimulus-related inflated balance sheet of \$981.7 million last year. Investment levels have continued to be stable over the past year despite very low rates.

Total Loans stood at \$772,581,000, an increase of \$2.1 million for the quarter and a drop of \$30.8 million from last year at this time. Looking at the breakdown, SBA PPP significantly influenced loan balances over the last year. At the end of the quarter, PPP loans totaled \$33.9 million, down by \$15.6 million from the first quarter

2021 and down by \$38.9 million compared to the end of the second quarter 2020. Therefore, solid loan growth in the quarter and year over year is overshadowed by PPP moving off the balance sheet. Commercial loans grew \$16.3 million in the second quarter, while we're down year over year in commercial loans by \$5.4 million. Residential mortgage originations have been strong. Total consumer loan growth, including secondary market loans under management, increased \$3.1 million in the first quarter and \$28 million or 18.4% year over year. Over half of the consumer originations year over year were portfolio loans.

Deposits continue to exceed expectations. Total Deposits reached \$825.2 million, up \$9.3 in the quarter and down overall by \$20.6 million from last year. We've continued to pay down wholesale deposits as well as reduce Borrowings. Borrowings dropped from \$26.0 million last year to \$8.5 million at quarter end. This has significantly reduced funding costs. Looking closer at deposits, local customer deposits totaled \$753.6 million at the end of June, which is up from the first quarter by 2.5% or \$18.6 million and over last year by \$10.6 million or 1.4%. We continue to be pleased with the deposit levels on our balance sheet but are cognizant that these balances may eventually decline as stimulus funding diminishes. Everyone at Katahdin continues to strive to grow core deposit relationships.

Strong asset quality has continued throughout the banking industry and we are pleased to report this is the case at Katahdin. Our past due balances are very low. Credit quality indications remain solid, which is reducing collection costs and related expenses. Therefore, we did not add to the Provision for Loan Losses in the second quarter.

Total shareholder's equity stood at \$80.0 million, an increase of \$9.1 million over last year. Tangible book value per share at period end was \$22.54. Return on average assets for the quarter totaled 1.06% and return on average common equity reached 12.54%. During the second quarter, the Bank paid a quarterly dividend of \$0.125 per share, representing an increase of 5.5% over the first quarter of last year. Under the Stock Buyback Program, the bank purchased 14,650 shares during the second quarter at an average price of \$21.71 per share.

June is when we typically host our company-wide employee appreciation event. While we could not get together again this year, management wanted to reward employees for their hard work. To show our appreciation and give employees extra time to spend with their families, we closed all offices early on Friday, June 18, and provided each employee with a \$50 gift card. Everyone enjoyed this special gesture, and it is one of the many reasons we have been named one of the Best Places to Work in Maine for three consecutive years. As part of the appreciation event, it was my honor to present the Top of the Mountain Commitment to Community Award to Melissa Dahlgren. Melissa joined Katahdin in

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.



SECOND
QUARTER

2021

KatahdinTrust.com

MEMBER FDIC EQUAL HOUSING LENDER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	June 30, 2021	Mar 31, 2021	June 30, 2020
ASSETS			
Cash & Due from Banks	\$ 30,297	\$ 25,080	\$ 29,752
Investments	112,508	111,645	111,322
Total Loans	772,581	770,504	803,426
Reserve for Loan Loss	(7,684)	(7,598)	(7,123)
Fixed Assets	11,568	11,804	10,180
Other Assets	28,721	30,005	34,193
Total Assets	\$ 947,991	\$ 941,440	\$ 981,750
LIABILITIES			
Deposits	\$ 825,171	\$ 815,870	\$ 845,806
Borrowings	8,535	11,038	25,986
Other Liabilities	34,317	35,696	39,052
Total Liabilities	\$ 868,023	\$ 862,604	\$ 910,844
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 79,913	\$ 78,149	\$ 70,966
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	859	918	2,527
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	192	786	(1,753)
Unearned ESOP Shares	(697)	(697)	(834)
Unearned Comp—Restricted Stock	(299)	(320)	—
Total Shareholders' Equity	\$ 79,968	\$ 78,836	\$ 70,906
Total Liabilities & Shareholders' Equity	\$ 947,991	\$ 941,440	\$ 981,750
Letters of Credit	\$ 2,492	\$ 2,700	\$ 4,150

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 6 Months Ended	
	June 30, 2021	Mar 31, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Interest Income	\$ 8,697	\$ 8,538	\$ 8,897	\$ 17,235	\$ 17,849
Interest Expense	754	832	1,474	1,586	3,469
Senior Note Interest Expense	214	213	214	427	427
Net Interest Income	\$ 7,729	\$ 7,493	\$ 7,209	\$ 15,222	\$ 13,953
Less: Provision for Loan Losses	—	135	250	135	810
Net Interest Income After Provisions	\$ 7,729	\$ 7,358	\$ 6,959	\$ 15,087	\$ 13,143
Non-Interest Income	1,191	1,423	1,759	2,614	2,897
Non-Interest Expense	5,794	5,832	5,602	11,626	11,354
Amortization of Investments in Limited Partnerships ⁷	\$ 59	\$ 59	\$ —	\$ 118	\$ —
Net Operating Income	\$ 3,067	\$ 2,890	\$ 3,116	\$ 5,957	\$ 4,686
Less: Provision for Income Taxes ⁷	572	516	654	1,088	968
Net Income Available to Common Shareholders	\$ 2,495	\$ 2,374	\$ 2,462	\$ 4,869	\$ 3,718
Earnings Per Common Share	\$ 0.76	\$ 0.72	\$ 0.74	\$ 1.48	\$ 1.12
Annualized Return on Average Assets	1.06%	1.03%	1.03%	1.05%	0.82%
Annualized Return on Average Common Equity	12.54%	12.40%	13.99%	12.47%	10.70%
Book Value Per Share at period end ¹				\$ 24.32	\$ 21.52
Tangible Book Value Per Share at period end ²				\$ 22.54	\$ 19.79
Weighted Average Common Shares Outstanding ³				3,296,933	3,306,783
Common Shares Outstanding period end				3,330,005	3,348,109
Adjusted Common Shares Outstanding period end ⁴				3,287,518	3,295,573
Allowance for Loan Losses to period end Loans				0.99%	0.89%
Non-Performing Loans to period end Loans ⁵				0.48%	0.71%
Non-Performing Assets to Total Assets ⁶				0.39%	0.59%

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.

MESSAGE FROM THE PRESIDENT CONTINUED

2008 and serves as Assistant Vice President, Branch Manager & Retail Services Officer in Fort Fairfield and Mars Hill. We thank her for her continued dedication to the community.

I want to congratulate Lauren Carpenter on being promoted to Branch Manager and Retail Services Officer in Scarborough. Lauren is responsible for the daily management of the Scarborough branch, including retail lending and business development in the greater Portland area. She joined Katahdin in 2020 as a Community Banker and has served as Interim Manager since February of 2021. In addition, we recently expanded our commercial services team in Scarborough and welcomed Craig Robinson as Assistant Vice President, Commercial Services Officer. Lauren and Craig will both help play an integral role in our growth in southern Maine.

Also happening in Scarborough, I am pleased to share that we recently announced plans to relocate our current branch at 144 US Route One to 136 US Route One in the spring of 2022. By moving the retail branch and commercial staff, we will be able to expand the services we offer and better enhance the community banking experience.

Lastly, I am excited about the new look for our personal mobile banking app and debit cards. In addition to a new design, the debit cards are now contactless and allow you to tap to pay at the checkout terminal. The new look for our business app and debit cards is coming soon.

Sincerely,



Jon J. Prescott
President & CEO