

# A MESSAGE FROM THE PRESIDENT

I am pleased to share that we were recently named as one of the 2021 *Best Places to Work in Maine*. This marks the fourth consecutive year we have received this recognition. Many of our employees chose to participate in an anonymous survey that measures workplace experience, counting for 75% of the total evaluation. We plan to continue to build our corporate culture, which begins with making sure we provide our employees with a challenging and rewarding work environment.

Our financial results have remained solid. Net income for the first nine months reached \$7,533,000, exceeding 2020 by \$1,365,000 or 22.1%. Third quarter earnings were strong at \$2,664,000. We are pleased with these results.

Net interest income for the first nine months totaled \$23,121,000, an increase over 2020 of \$1,811,000.

Non-interest income reached \$3,861,000, a reduction of \$596,000 over the same period in 2020. This was mainly due to fewer back-to-back swaps. In addition, income from mortgage banking activities has slowed. Other categories of non-interest income have partially made up the difference.

Non-interest expense is up a modest 2.63% year over year, which is a testament to our employees' close management in this area. We will continue to make investments in our future when appropriate while carefully monitoring expenditures and streamlining processes.

Turning to the balance sheet, Total Assets equaled \$945,461,000 at quarter end. The reduction from the prior quarter of \$2,530,000 is mainly due to changes in categories, such as a reduction in forgiven Paycheck Protection Program (PPP) SBA loans. For the quarter, Total Loans were down by \$26,358,000, with the majority being PPP loans reduced by \$22,680,000 to a balance of \$11,205,000 at quarter end. Year over year, the Commercial portfolio (excluding PPP) grew by \$24,739,000, and the Consumer portfolio, including Secondary Market loans, increased by \$21,462,000.

Total deposits of \$823,328,000 dropped in the quarter by \$1,843,000. However, within that balance change, customer deposits continued to grow by \$21,372,000, offset by reductions in wholesale funding.

Strong asset quality continues. Past due balances at quarter end were .03% of total loans. Other indicators remain strong as well. Non-performing loans to period end loans were 0.45% at quarter end.

Total shareholder's equity stood at \$82,320,000, an increase of \$9,321,000 over the prior year. Tangible book value per share increased to \$23.28. Return on Average Assets was 1.07%, while Return on Average Equity reached 12.61%. During the third quarter, the Bank maintained the dividend at \$0.125 per share, which was an increase of 5.5% over 2020.

We hope to maintain our strong results through the remainder of 2021, although looking ahead the industry faces some headwinds. For one, even though we have benefited from the fees received for the immense effort undertaken processing PPP loans, these fees will taper off and not recur in 2022. Second, while improving significantly since the drop off in 2020, the economy remains a question mark and varies widely by region. We will continue our practice of pursuing the fundamentals of traditional banking, such as building customer relationships, enhancing profits through net interest and non-interest income, strong credit quality, and monitoring of expenses. Sticking to these should serve the Company and its shareholders well over the long term.

We now offer a Health Savings Account (HSA) option for our customers. An HSA is great way to help pay and save for qualified medical expenses. We can also assist businesses interested in contributing funds to their employee's health savings account as an added benefit. Please visit [KatahdinTrust.com](http://KatahdinTrust.com) or contact your local branch for details.

Please join me in wishing Debbie Schillinger a very happy retirement and congratulating Allissa Given, Jessica Weeks, and Miranda Wotton on their promotions to Assistant Vice President.

After working at Katahdin for nearly four decades, Debbie retired from banking on September 30. She started in 1983 as a Teller in Island Falls and was promoted to Branch Manager and Loan Officer in 1987. For the past four years, Debbie served as Assistant Vice President and Branch Manager in Island Falls and Oakfield. We wish her well in her retirement.

Allissa joined the Bank in 2006 as a Teller in Patten. After serving as Customer Service Representative for nine years, she was promoted to Branch Manager in 2017. In Allissa's new role, she will also be responsible for the daily management of our two most southern Aroostook County branches in Island Falls and Oakfield. I look forward to Allissa continuing to provide her excellent customer service to these three communities.

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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](mailto: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](http://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](http://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](http://KatahdinTrust.com)

MEMBER FDIC EQUAL HOUSING LENDER



THIRD  
QUARTER

2021



# KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

MESSAGE FROM THE PRESIDENT CONTINUED

## CONSOLIDATED STATEMENT OF CONDITION

| (UNAUDITED)  | Sept 30, 2021     | June 30, 2021     | Sept 30, 2020     |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |                   |
| Cash & Due from Banks  | \$ 52,512         | \$ 30,297         | \$ 28,392         |
| Investments  | 114,129           | 112,508           | 100,863           |
| Total Loans  | 746,223           | 772,581           | 772,948           |
| Reserve for Loan Loss  | (7,800)           | (7,684)           | (7,217)           |
| Fixed Assets   | 11,465            | 11,568            | 10,046            |
| Other Assets   | 28,932            | 28,721            | 34,128            |
| <b>Total Assets</b>  | <b>\$ 945,461</b> | <b>\$ 947,991</b> | <b>\$ 939,160</b> |
| <b>LIABILITIES</b>   |                   |                   |                   |
| Deposits   | \$ 823,328        | \$ 825,171        | \$ 808,543        |
| Borrowings   | 6,533             | 8,535             | 16,043            |
| Other Liabilities  | 33,280            | 34,317            | 41,575            |
| Total Liabilities  | \$ 863,141        | \$ 868,023        | \$ 866,161        |
| <b>SHAREHOLDERS' EQUITY</b>  |                   |                   |                   |
| Common Shareholders' Equity  | \$ 82,098         | \$ 79,913         | \$ 73,276         |
| Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax        | 781               | 859               | 2,275             |
| Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax | 417               | 192               | (1,566)           |
| Unearned ESOP Shares   | (697)             | (697)             | (834)             |
| Unearned Comp—Restricted Stock   | (279)             | (299)             | (152)             |
| Total Shareholders' Equity   | \$ 82,320         | \$ 79,968         | \$ 72,999         |
| <b>Total Liabilities &amp; Shareholders' Equity</b>  | <b>\$ 945,461</b> | <b>\$ 947,991</b> | <b>\$ 939,160</b> |
| Letters of Credit  | \$ 2,469          | \$ 2,492          | \$ 4,224          |

## CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

|  | For 3 Months Ended |                 |                 | For 9 Months Ended |                 |
|--|--------------------|-----------------|-----------------|--------------------|-----------------|
|  | Sept 30, 2021      | June 30, 2021   | Sept 30, 2020   | Sept 30, 2021      | Sept 30, 2020   |
| Interest Income  | \$ 8,949           | \$ 8,697        | \$ 8,704        | \$ 26,184          | \$ 26,553       |
| Interest Expense   | 837                | 754             | 1,134           | 2,423              | 4,603           |
| Senior Note Interest Expense                                     | 213                | 214             | 213             | 640                | 640             |
| Net Interest Income  | \$ 7,899           | \$ 7,729        | \$ 7,357        | \$ 23,121          | \$ 21,310       |
| Less: Provision for Loan Losses                                  | —                  | —               | 200             | 135                | 1,010           |
| Net Interest Income After Provisions                             | \$ 7,899           | \$ 7,729        | \$ 7,157        | \$ 22,986          | \$ 20,300       |
| Non-Interest Income  | 1,247              | 1,191           | 1,560           | 3,861              | 4,457           |
| Non-Interest Expense   | 5,821              | 5,794           | 5,645           | 17,447             | 16,999          |
| Amortization of Investments in Limited Partnerships <sup>7</sup> | 59                 | 59              | —               | 177                | —               |
| Net Operating Income   | \$ 3,266           | \$ 3,067        | \$ 3,072        | \$ 9,223           | \$ 7,758        |
| Less: Provision for Income Taxes <sup>7</sup>                    | 602                | 572             | 622             | 1,690              | 1,590           |
| <b>Net Income Available to Common Shareholders</b>               | <b>\$ 2,664</b>    | <b>\$ 2,495</b> | <b>\$ 2,450</b> | <b>\$ 7,533</b>    | <b>\$ 6,168</b> |
| Earnings Per Common Share  | \$ 0.81            | \$ 0.76         | \$ 0.75         | \$ 2.29            | \$ 1.87         |
| Annualized Return on Average Assets                              | 1.12%              | 1.06%           | 1.01%           | 1.07%              | 0.89%           |
| Annualized Return on Average Common Equity                       | 12.88%             | 12.54%          | 13.41%          | 12.61%             | 11.63%          |
| Book Value Per Share at period end <sup>1</sup>                  |                    |                 |                 | \$ 25.06           | \$ 22.14        |
| Tangible Book Value Per Share at period end <sup>2</sup>         |                    |                 |                 | \$ 23.28           | \$ 20.41        |
| Weighted Average Common Shares Outstanding <sup>3</sup>          |                    |                 |                 | 3,293,878          | 3,303,333       |
| Common Shares Outstanding period end                             |                    |                 |                 | 3,327,029          | 3,349,938       |
| Adjusted Common Shares Outstanding period end <sup>4</sup>       |                    |                 |                 | 3,284,542          | 3,297,402       |
| Allowance for Loan Losses to period end Loans                    |                    |                 |                 | 1.05%              | 0.93%           |
| Non-Performing Loans to period end Loans <sup>5</sup>            |                    |                 |                 | 0.45%              | 0.66%           |
| Non-Performing Assets to Total Assets <sup>6</sup>               |                    |                 |                 | 0.35%              | 0.55%           |

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.

Jessica has been with Katahdin since 2007 when she joined as a Teller in Presque Isle. She has held multiple positions in Retail and Commercial before transferring to Operations eight years ago. In her new role as AVP, Deposit Operations Manager, Jessica will continue the daily management of our Deposit Operations team.

Miranda joined the Bank in 2006 in our Proof Department and has served in a variety of positions over the years. In her new role as AVP, Electronic Banking Manager, Miranda will continue to manage the Electronic Banking team. Miranda and Jessica also help support various digital and electronic payment solutions along with implementing mobile and online banking features to help enhance the customer experience.

I am proud of our employee development stories and enjoy watching our staff grow professionally.

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

