

# A MESSAGE FROM THE PRESIDENT

I am very pleased with our team's performance and overall financial results for 2021. As a token of appreciation for what our employees have been going through both in and out of the workplace, Katahdin's management team and board of directors approved the Bank to provide every non-senior level employee with a one-time salary stipend of 2%, with a minimum of \$750. Provided in December, when financial strains tend to be at their greatest, this reward was given to help ease increased costs related to the pandemic, such as heating, food, and travel expenses. This extra payment was in addition to the regular performance bonus payout that employees receive at the beginning of each year.

Financial results for 2021 were solid, with the Company earning \$9,473,000, or \$2.88 per share, which equaled 2020's Earnings Per Share. Fourth quarter results of \$1,940,000 were below last year's fourth quarter, due in part to lower SBA Paycheck Protection Program (PPP) income and other non-recurring items last year. Comparing 2021 fourth quarter earnings to the third quarter, net income fell by \$724,000. Much of this difference is within both Net Interest Income and Non-Interest Expense. We'll cover each:

Net Interest Income in the fourth quarter totaled \$7,548,000, lower than the third quarter by \$351,000. This was caused by two items: 1) A reduction in PPP loans lowered fee and interest recognition during the fourth quarter by \$389,000. 2) A net restructure charge of \$112,000 from the early termination of \$5,000,000 of Federal Home Loan Bank borrowings.

Non-Interest Expense totaled \$6,409,000, exceeding the third quarter by \$588,000. The special payment noted in paragraph one totaled \$184,000. Additional salaries and one-time performance bonus accrual adjustments accounted for \$100,000 over third quarter levels. Lastly, the third quarter included a non-recurring collection-related expense recovery of \$175,000. In addition to these items, we've observed general wage inflation, pushing salaries to a greater expected level than a year ago. Competition for talent remains extremely high.

Asset quality remains strong, and we did not add to the Allowance for Loan Losses in the fourth quarter, and only \$135,000 for 2021.

Katahdin Bankshares' Return on Average Equity reached 11.75%, while Return on Average Assets ended at 1.00%.

Total assets were relatively flat over December 31, 2020, ending at \$940,499,000. Total loans ended at \$730,303,000, a

reduction of \$16,290,000. However, netting out expected PPP loan reductions of \$40,600,000, the remaining categories of loans grew by \$24,310,000 or 3.4% over 2020 year-end.

Total Deposit levels remained high, totaling \$820,187,000. Customer deposits grew by \$58,000,000 year over year. These deposit levels are not likely to stay as inflated, mainly due to the increase coming from customer federal stimulus funds. Management carefully tracks this situation as the future timing of any deposit reductions is unknown. Our liquidity position is strong and capital levels remain solid.

During the third quarter, the Company bought back 3,579 shares at an average price of \$22.45 per share. The Board of Directors recently reauthorized a Stock Buyback Program. The Program authorizes the purchase of up to \$2,000,000 of the Company's outstanding shares of Common Stock through December 31, 2022. You can find more information about this Program on our website under Shareholder Relations.

I encourage you to read the additional discussion of our audited financial statements in our forthcoming 2021 Annual Report.

To help raise awareness and educate consumers about the persistent threat of scams, we joined the American Bankers Association and other banks across the nation to promote an ongoing industry-wide campaign called #BanksNeverAskThat. According to the Federal Trade Commission, Americans lost \$3.3 billion to phishing scams and other types of fraud in 2020, a 2x increase from the prior year. Every day, thousands of people continue to fall victim to fraudulent calls, emails, and texts from scammers pretending to be from their bank. We want to help change that.

Last fall, we held a bank-wide employee wellness challenge to run or walk a 5k. Not only was this a great way to promote healthy living, but it was also an opportunity to help give back. Participants had their names entered into a drawing to donate \$250 to a local charity of their choice. Winners, Danelle Weston and Jacob Weston, a mother-son team from our Hampden office, chose to support Sarah's House - a place in the greater Bangor area for cancer patients to stay as they travel to and from receiving treatments. I applaud everyone who participated in this challenge.

The Maine Veterans Project (MVP) also benefited from employee kindness. Throughout 2021, Bank employees raised a total of \$2,250 as part of our Casual Because We Care Program. Each employee who participates donates \$1 or more in exchange for

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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](http://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](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



FOURTH  
QUARTER

2021

# KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

## CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)	Dec 31, 2021	Sept 30, 2021	Dec 31, 2020
<b>ASSETS</b>			
Cash & Due from Banks	\$ 62,915	\$ 52,512	\$ 56,941
Investments	111,739	114,129	95,973
Total Loans	730,303	746,223	746,593
Reserve for Loan Loss	(7,803)	(7,800)	(7,454)
Fixed Assets	11,418	11,465	9,946
Other Assets	31,927	28,932	35,008
<b>Total Assets</b>	<b>\$ 940,499</b>	<b>\$ 945,461</b>	<b>\$ 937,007</b>
<b>LIABILITIES</b>			
Deposits	\$ 820,187	\$ 823,328	\$ 809,024
Borrowings	1,530	6,533	13,041
Other Liabilities	35,178	33,280	38,740
Total Liabilities	\$ 856,895	\$ 863,141	\$ 860,805
<b>SHAREHOLDERS' EQUITY</b>			
Common Shareholders' Equity	\$ 83,651	\$ 82,098	\$ 75,965
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	35	781	2,120
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	730	417	(1,043)
Unearned ESOP Shares	(554)	(697)	(697)
Unearned Comp—Restricted Stock	(258)	(279)	(143)
Total Shareholders' Equity	\$ 83,604	\$ 82,320	\$ 76,202
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 940,499</b>	<b>\$ 945,461</b>	<b>\$ 937,007</b>
Letters of Credit	\$ 3,384	\$ 2,469	\$ 2,889

## CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 12 Months Ended	
	Dec 31, 2021	Sept 30, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Interest Income	\$ 8,551	\$ 8,949	\$ 9,820	\$ 34,735	\$ 36,373
Interest Expense	789	837	986	3,212	5,589
Senior Note Interest Expense	214	213	214	854	854
Net Interest Income	\$ 7,548	\$ 7,899	\$ 8,620	\$ 30,669	\$ 29,930
Less: Provision for Loan Losses	—	—	250	135	1,260
Net Interest Income After Provisions	\$ 7,548	\$ 7,899	\$ 8,370	\$ 30,534	\$ 28,670
Non-Interest Income	1,238	1,247	1,376	5,099	5,833
Non-Interest Expense	6,409	5,821	5,804	23,856	22,803
Amortization of Investments in Limited Partnerships <sup>7</sup>	59	59	1,166	236	1,166
Net Operating Income	\$ 2,318	\$ 3,266	\$ 2,776	\$ 11,541	\$ 10,534
Less: Provision for Income Taxes <sup>7</sup>	378	602	(575)	2,068	1,015
<b>Net Income Available to Common Shareholders</b>	<b>\$ 1,940</b>	<b>\$ 2,664</b>	<b>\$ 3,351</b>	<b>\$ 9,473</b>	<b>\$ 9,519</b>
Earnings Per Common Share	\$ 0.52	\$ 0.81	\$ 1.01	\$ 2.88	\$ 2.88
Annualized Return on Average Assets	0.81%	1.12%	1.42%	1.00%	1.02%
Annualized Return on Average Common Equity	9.29%	12.88%	17.82%	11.75%	13.26%
Book Value Per Share at period end <sup>1</sup>				\$ 25.41	\$ 23.16
Tangible Book Value Per Share at period end <sup>2</sup>				\$ 23.63	\$ 21.43
Weighted Average Common Shares Outstanding <sup>3</sup>				3,290,788	3,299,905
Common Shares Outstanding period end				3,323,450	3,332,638
Adjusted Common Shares Outstanding period end <sup>4</sup>				3,290,605	3,290,151
Allowance for Loan Losses to period end Loans				1.07%	1.00%
Non-Performing Loans to period end Loans <sup>5</sup>				0.38%	0.64%
Non-Performing Assets to Total Assets <sup>6</sup>				0.30%	0.52%

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

the privilege of dressing casually on select days at work. We are pleased to be able to directly support Maine veterans, specifically through MVP's heating fuel program.

Management continues to monitor the coronavirus pandemic daily. Since September, we have seen an uptick in covid cases, causing staffing shortages at various branch locations. In response, we have had to limit lobby access on occasion. However, even with limited lobby access, we have maintained our commitment to customers by assisting them through the drive-up, walk-up window, by appointment, and as always, through our online and mobile banking channels.

I am happy to share that construction is officially underway inside the new Scarborough branch location at 136 US Route One. Currently, we plan to open in late summer 2022. We are looking forward to the new space that will be roomier, more accessible, and contain additional offices. It will also allow us to add new services for customers that we currently do not have, such as drive-up lanes and an ATM.

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

