

DEAR FELLOW SHAREHOLDERS,

I am happy to report that our financial results have improved in the second quarter of 2022. Net income totaled \$2,141,000, exceeding the first quarter by \$370,000 or 21%. Net income for the first six months reached \$3,912,000. Despite trailing last year at this time by \$957,000, we are pleased with these results as they are primarily attributable to expected lower Paycheck Protection Program loan fees and interest income.

Net interest income reached \$7,587,000, which rose from the first quarter's level of \$7,210,000. Although total loans are below budget so far this year, we are seeing an improving net interest margin. Net interest margin has averaged 3.31% in the first half of this year compared to 3.16% in the first half of 2021. As interest rates have continued to increase, June stood at 3.41%. The Bank is well-positioned to appropriately respond to changing interest rate cycles.

Non-interest income reached \$2,383,000, lower than the first six months of last year by \$231,000. A decrease in loan production has led to reduced loan fees related to both commercial and consumer banking activities.

Non-interest expenses have grown 6.2%, year over year. Expense growth during 2022 has been affected by costs related to our new Scarborough facility, as well as increased costs for salaries, fuel, electricity, and other items affected by inflation. We remain committed to looking for efficient ways to grow while continuing to invest in our future.

On the balance sheet, total assets stood at \$965,634,000, an increase over the prior year of \$17.6 million. Investment levels have continued to rise as buying opportunities due to higher rates have emerged.

Total loans stood at \$738,584,000, an increase of \$8.0 million for the quarter. Residential mortgage originations are lower than last year, as borrowers face higher rates to purchase, build, or refinance. Commercial lending opportunities improved in the second quarter, though we remain conservative in our underwriting in an uncertain economy while maintaining our focus on relationship banking.

Deposits stood at \$850 million on June 30, almost flat for the quarter and up \$24.9 million from last year. The year-over-year growth is a result of checking and savings accounts expanding by \$30.1 million over last year at this time. Everyone at Katahdin Trust 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 Trust. Our past due balances are extremely low. All other credit quality indicators remain solid, which has reduced collection costs and related expenses. A deteriorating economy could cause changes to asset quality, although we believe our balance sheet is sound.

Total shareholders' equity stood at \$77.2 million, down slightly from last year due to unrealized depreciation on securities due to upward interest rate movements. Overall, capital remains strong. Tangible book value per share at period end was \$21.77. Return on average assets for the quarter totaled 0.91% and return on average common equity reached 11.15%. During the second quarter, the Bank paid a quarterly dividend of \$0.138 per share, representing an increase of 10.4% over the second quarter of last year.

As we navigate these uncertain times, we are closely monitoring the economy, interest rate movements, labor market issues, and other factors that could impact our performance. Our employees are working extremely hard to create value for our shareholders, and we will remain dedicated to that end.

In April, we celebrated Financial Literacy Month and National Teach Children to Save Day. Our employees reached seven hundred local students and adults to talk about money management skills. New this year, we expanded our financial literacy program and now offer virtual sessions on Smart Budgeting and Identity Theft. If you are interested in learning more, visit KatahdinTrust.com/Financial-Literacy.

Earlier this year, we welcomed Alexis Brown as the new Branch Manager in Houlton. She is responsible for retail lending, business development, and branch oversight. Lexy's prior banking experience, customer-focused approach, and attention to detail have made her a great fit for Katahdin Trust and the Houlton community. The branch also has a new look after a major remodeling project. I invite you to stop by the next time you are in the area.

I would also like to congratulate Adam Bither, CFP® on his Certified Financial Planner designation and promotion to Vice President, Financial Consultant. Adam joined Katahdin Financial Services* (a service of Cetera Investment Services LLC, a registered broker-dealer and unaffiliated with Katahdin Trust Company) in 2011 and has more than 15 years of financial planning experience. He assists customers throughout Aroostook County and the greater Bangor area specializing in financial planning, stocks, bonds, mutual funds, annuities, IRAs, life insurance, and more.

I am honored that we have been named one of American Banker's Top 200 Community Banks for the third consecutive year. The rating is based on a three-year average return on average equity (ROAE) of all publicly traded banks and thrifts in the United States with less than \$2 billion in assets during 2019-2021. We ranked 91st on the list of top performers with an ROAE of 12.18%.

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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.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.



2022
SECOND QUARTER



KatahdinTrust.com

MEMBER FDIC  EQUAL HOUSING LENDER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	Jun 30, 2022	Mar 31, 2022	Jun 30, 2021
ASSETS			
Cash & Due from Banks	\$ 31,774	\$ 48,831	\$ 30,297
Investments	148,706	145,296	112,508
Total Loans	738,584	730,606	772,581
Reserve for Loan Loss	(7,817)	(7,808)	(7,684)
Fixed Assets	16,329	11,718	11,568
Other Assets	38,058	34,380	28,721
Total Assets	\$ 965,634	\$ 963,023	\$ 947,991
LIABILITIES			
Deposits	\$ 850,095	\$ 849,924	\$ 825,171
Borrowings	1,525	1,527	8,535
Other Liabilities	36,861	31,130	34,317
Total Liabilities	\$ 888,481	\$ 882,581	\$ 868,023
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 86,319	\$ 84,999	\$ 79,913
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(11,889)	(6,301)	859
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	3,684	2,740	192
Unearned ESOP Shares	(554)	(554)	(697)
Unearned Comp – Restricted Stock	(407)	(442)	(299)
Total Shareholders' Equity	\$ 77,153	\$ 80,442	\$ 79,968
Total Liabilities & Shareholders' Equity	\$ 965,634	\$ 963,023	\$ 947,991
Letters of Credit	\$ 3,466	\$ 3,065	\$ 2,492

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 6 Months Ended	
	Jun 30, 2022	Mar 31, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
Interest Income	\$ 8,430	\$ 8,005	\$ 8,697	\$ 16,435	\$ 17,235
Interest Expense	629	582	754	1,211	1,586
Senior Notes Interest Expense	214	213	214	427	427
Net Interest Income	\$ 7,587	\$ 7,210	\$ 7,729	\$ 14,797	\$ 15,222
Less: Provision for Loan Losses	–	–	–	–	135
Net Interest Income After Provisions	\$ 7,587	\$ 7,210	\$ 7,729	\$ 14,797	\$ 15,087
Non-Interest Income	1,230	1,153	1,191	2,383	2,614
Non-Interest Expense	6,168	6,178	5,794	12,346	11,626
Amortization of Investments in Limited Partnerships ⁷	59	59	59	118	118
Net Operating Income	\$ 2,590	\$ 2,126	\$ 3,067	\$ 4,716	\$ 5,957
Less: Provision for Income Taxes ⁷	449	355	572	804	1,088
Net Income Available to Common Shareholders	\$ 2,141	\$ 1,771	\$ 2,495	\$ 3,912	\$ 4,869
Earnings Per Common Share	\$ 0.65	\$ 0.54	\$ 0.76	\$ 1.19	\$ 1.48
Annualized Return on Average Assets	0.91%	0.76%	1.06%	0.83%	1.05%
Annualized Return on Average Common Equity	11.15%	8.81%	12.54%	9.95%	12.47%
Book Value Per Share at period end ¹				\$ 23.55	\$ 24.32
Tangible Book Value Per Share at period end ²				\$ 21.77	\$ 22.54
Weighted Average Common Shares Outstanding ³				3,287,845	3,296,933
Common Shares Outstanding period end				3,308,692	3,330,005
Adjusted Common Shares Outstanding period end ⁴				3,275,847	3,287,518
Allowance for Loan Losses to period end Loans				1.06%	0.99%
Non-Performing Loans to period end Loans ⁵				0.34%	0.48%
Non-Performing Assets to Total Assets ⁶				0.26%	0.39%

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.

DEAR FELLOW SHAREHOLDERS (CONTINUED)

We also were presented with the 2022 Master Logger Supporter Award from the Trust to Conserve Northeast Forestlands, a non-profit organization focused on making Maine's working forests more sustainable and healthier through proper forest management and timber harvesting. This award recognizes our work with not only the Maine Forestry Direct Link Loan Program but also our sponsorship support for the past several years.

Lastly, I am excited about our new branch in Scarborough. As I write this letter, we are only days away from opening day. Our staff at the current 144 US Route One location will be relocating less than one mile to 136 US Route One. As I have shared in the past, this new location features increased office space, two drive-up lanes, and will have an ATM. I look forward to expanding our commitment to community banking as we continue to grow in southern Maine.

Thank you for your investment in and continued support of Katahdin Trust Company. I encourage you to connect and follow along with us on Facebook, Twitter, LinkedIn, and Instagram for the latest on employee highlights, bank news, photos, and updates.

As always, if you have questions regarding the Company or this report, feel free to contact us.

Sincerely,



Jon J. Prescott
President & CEO

*About Katahdin Financial Services Securities and insurance products are offered through Cetera Investment Services LLC, member FINRA/SIPC. Advisory services are offered through Cetera Investment Advisers LLC. Cetera is not affiliated with the financial institution where investment services are offered. Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Advisor Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services. Investments: 1) Are not FDIC/NCUSIF insured 2) May lose value 3) Are not financial institution guaranteed 4) Are not a deposit 5) Are not insured by any federal government agency. Cetera registered offices: 12 North Street, Presque Isle, ME 04769 and 65 North Street, Houlton, ME 04730.