

# DEAR FELLOW SHAREHOLDERS,

I am happy to report that our financial performance remained strong for the second quarter of 2023. Due to solid loan growth during the quarter, we made history and eclipsed the \$1 billion mark in total assets.

Net income for the quarter was \$2,480,000, almost on par with the quarter ended March 31, 2023. Net income for the first six months reached \$4,995,000, an increase of \$1,083,000 over the first six months of 2022.

Loan growth and higher yielding loan renewals helped offset increased interest expense during the second quarter, as net interest income grew \$17,000. For the six-month period, net interest income rose \$2,256,000. Non-interest income reached \$2,368,000 as of June 30, 2023, a \$15,000 decrease over the same period in 2022.

Non-interest expenses have increased significantly over the first six months of 2023, rising \$980,000 year over year. Fifty-four percent of the year-over-year increase can be attributed to wage inflation, with the remaining costs attributable to other inflationary pressures. Management is striving to control expenses going forward, and we feel most of the growth in this area was not preventable.

Total assets increased \$36,603,000, ending the quarter at \$1,002,237,000 compared to June 30, 2022. As mentioned, we have benefited from good loan growth that is taking place throughout the state. Yields across the portfolio are rising, though not as fast as deposit costs. Our net interest margin was on budget for the first six months of 2023. Investment levels have remained consistent.

Return on average assets ended June 30, 2023, at 1.01%, while return on average equity was solid at 12.08%. We are pleased with both indicators.

Deposits grew by \$20,938,000 during the second quarter. Customer deposits increased by \$7.5 million, while wholesale deposits grew by \$13.4 million. Year over year, total deposits grew by \$26,752,000. Breaking this number down, customer deposits increased by \$15.7 million over this time last year while the remaining growth came from wholesale funding. With increased rates, we have seen shifting within the portfolio to higher-yield products over the last nine months. We're pleased with continued deposit growth during this past year.

Strong asset quality continues at Katahdin Trust. All credit quality indicators remain solid. This has benefited the bank not only in our allowance for loan losses, but in related ways, such as low collection costs and management time spent on special assets. This trend is widespread in the industry and will change at some point; however, we feel our balance sheet is strong.

Total shareholders' equity stood at \$82,688,000. Capital levels remain strong. Tangible book value for the period end stood at \$23.90. During the second quarter, the Company paid a dividend of \$0.152 per share, representing an increase of 10.1% over the second quarter of 2022.

The banking industry remains challenging. Further interest rate hikes, an uncertain economy, labor market challenges, and other factors could impact future operations. However, we are taking a conservative approach to managing for the long term, and creating shareholder value remains foremost in our plans.

As we enter the second half of the year, funding cost challenges remain a difficult obstacle to earnings growth, as does booking quality assets at necessary yields. We are dedicated to profitable growth to benefit shareholders and attempt to mitigate excessive risk-taking through prudent practices.

As we continue to invest in new technology to enhance our customer experience, we were pleased to upgrade to a new online loan application provider. First-time homebuyers, experienced buyers, or those looking to refinance, can visit our online mortgage center to submit a loan application. Completing an application takes an average of twenty minutes. Furthermore, customers will still be able to work with a local lender that can walk them through the loan process.

In May, nearly 150 employees attended our annual appreciation event. The celebration recognized several employees for their years of service milestones, ranging from five to forty years. Additionally, Ruba Haddad was recognized as this year's Top of the Mountain Commitment to Community Award winner. It was a pleasure to present this award to Ruba for her outstanding volunteer efforts, especially for leading our financial literacy program. Ruba works in our marketing department and is actively involved with The Houlton Rotary Club, Mill Pond School PTO, Nickerson Lake Wilderness Preservation, and Jobs for Maine's Grads.

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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](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.



2023  
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,<br>2023    | Mar 31,<br>2023   | Jun 30,<br>2022   |
|--|--------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                    |                   |                   |
| Cash & Due from Banks  | \$ 18,654          | \$ 22,928         | \$ 31,774         |
| Investments  | 146,423            | 146,761           | 148,706           |
| Total Loans  | 781,031            | 760,873           | 738,584           |
| Reserve for Loan Loss  | (7,677)            | (7,787)           | (7,817)           |
| Fixed Assets   | 16,946             | 17,064            | 16,329            |
| Other Assets   | 46,860             | 42,273            | 38,058            |
| <b>Total Assets</b>  | <b>\$1,002,237</b> | <b>\$ 982,112</b> | <b>\$ 965,634</b> |
| <b>LIABILITIES</b>   |                    |                   |                   |
| Deposits   | \$ 876,847         | \$ 855,909        | \$ 850,095        |
| Borrowings   | 109                | 1,517             | 1,525             |
| Other Liabilities  | 42,593             | 42,317            | 36,861            |
| Total Liabilities  | \$ 919,549         | \$ 899,743        | \$ 888,481        |
| <b>SHAREHOLDERS' EQUITY</b>  |                    |                   |                   |
| Common Shareholders' Equity  | \$ 93,346          | \$ 91,826         | \$ 86,319         |
| Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax        | (14,607)           | (12,774)          | (11,889)          |
| Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax | 4,802              | 4,226             | 3,684             |
| Unearned ESOP Shares   | (406)              | (406)             | (554)             |
| Unearned Comp—Restricted Stock   | (447)              | (503)             | (407)             |
| Total Shareholders' Equity   | \$ 82,688          | \$ 82,369         | \$ 77,153         |
| <b>Total Liabilities &amp; Shareholders' Equity</b>  | <b>\$1,002,237</b> | <b>\$ 982,112</b> | <b>\$ 965,634</b> |
| Letters of Credit  | \$ 3,939           | \$ 3,280          | \$ 3,466          |

## CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

|  | For 3 Months Ended |                 |                 | For 6 Months Ended |                 |
|--|--------------------|-----------------|-----------------|--------------------|-----------------|
|  | Jun 30,<br>2023    | Mar 31,<br>2023 | Jun 30,<br>2022 | Jun 30,<br>2023    | Jun 30,<br>2022 |
| Interest Income  | \$ 11,267          | \$ 10,576       | \$ 8,430        | \$ 21,843          | \$ 16,435       |
| Interest Expense   | 2,518              | 1,845           | 629             | 4,363              | 1,211           |
| Senior Notes Interest Expense                                    | 214                | 213             | 214             | 427                | 427             |
| Net Interest Income  | \$ 8,535           | \$ 8,518        | \$ 7,587        | \$ 17,053          | \$ 14,797       |
| Less: Provision (Credit) for Loan Losses                         | (45)               | (33)            | —               | (78)               | —               |
| Net Interest Income After Provisions                             | \$ 8,580           | \$ 8,551        | \$ 7,587        | \$ 17,131          | \$ 14,797       |
| Non-Interest Income  | 1,143              | 1,225           | 1,230           | 2,368              | 2,383           |
| Non-Interest Expense   | 6,662              | 6,664           | 6,168           | 13,326             | 12,346          |
| Amortization of Investments in Limited Partnerships <sup>7</sup> | 59                 | 59              | 59              | 118                | 118             |
| Net Operating Income   | \$ 3,002           | \$ 3,053        | \$ 2,590        | \$ 6,055           | \$ 4,716        |
| Less: Provision for Income Taxes <sup>7</sup>                    | 522                | 538             | 449             | 1,060              | 804             |
| <b>Net Income Available to Common Shareholders</b>               | <b>\$ 2,480</b>    | <b>\$ 2,515</b> | <b>\$ 2,141</b> | <b>\$ 4,995</b>    | <b>\$ 3,912</b> |
| Earnings Per Common Share  | \$ 0.77            | \$ 0.77         | \$ 0.65         | \$ 1.54            | \$ 1.19         |
| Annualized Return on Average Assets                              | 1.01%              | 1.05%           | 0.91%           | 1.03%              | 0.83%           |
| Annualized Return on Average Common Equity                       | 12.08%             | 12.46%          | 11.15%          | 12.27%             | 9.95%           |
| Book Value Per Share at period end <sup>1</sup>                  |                    |                 |                 | \$ 25.70           | \$ 23.55        |
| Tangible Book Value Per Share at period end <sup>2</sup>         |                    |                 |                 | \$ 23.90           | \$ 21.77        |
| Weighted Average Common Shares Outstanding <sup>3</sup>          |                    |                 |                 | 3,241,407          | 3,287,845       |
| Common Shares Outstanding period end                             |                    |                 |                 | 3,240,960          | 3,308,692       |
| Adjusted Common Shares Outstanding period end <sup>4</sup>       |                    |                 |                 | 3,217,757          | 3,275,847       |
| Allowance for Loan Losses to period end Loans                    |                    |                 |                 | 0.98%              | 1.06%           |
| Non-Performing Loans to period end Loans <sup>5</sup>            |                    |                 |                 | 0.25%              | 0.34%           |
| Non-Performing Assets to Total Assets <sup>6</sup>               |                    |                 |                 | 0.22%              | 0.26%           |

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)

In addition, please join me in congratulating Casey Gove on his CompTIA Cybersecurity Analyst (CySA+) certification. Casey is the bank's Data Security Administrator and works in our IT department. With this certification, Casey has gained additional knowledge in monitoring cybersecurity threats to the bank and handling any incident detection, prevention, and response.

I would also like to take this opportunity to welcome Nick DiMatteo to our commercial team in Scarborough as Senior Vice President, Commercial Services Officer. Concurrently, Aaron Cannan will shift to a different position at Katahdin Trust and turn his focus away from managerial activities. Aaron will continue to serve as a commercial lender and provide excellent customer service while Nick will assume the daily management responsibilities of the Scarborough commercial team.

As always, we are interested in your feedback and questions. Feel free to contact us at any time.

Sincerely,



Jon J. Prescott  
President & CEO