

DEAR FELLOW SHAREHOLDERS,

Katahdin Bankshares Corp.'s financial performance remained consistent for the second quarter of 2024. While our net interest margin contracted during the quarter, solid loan growth and continuing strong asset quality allowed us to nearly duplicate our results from the first quarter.

Net income for the quarter was \$2,001,000, lower by 2.1% from the quarter ended March 31, 2024, and down 19.3% or \$479,000 from the second quarter of 2023. Year to date, net income reached \$4,044,000, below last year by \$951,000 or 19.0%. The primary reason for lower income is a contraction in our net interest margin, resulting in lower net interest income.

Net interest income before credit loss expense remained consistent from the prior quarter, off by \$66,000 or 0.79%. Compared to 2023, net interest income is down \$321,000 for the second quarter, and \$559,000 year to date. While we have had success pricing loans in the 7.7% area this year and saw solid loan growth in the second quarter totaling \$17,785,000, funding costs both within our customer base and from wholesale funding have outpaced interest income growth. Reasons for increased funding costs include customer shifts from low-cost checking and savings accounts to higher-cost money markets and certificates of deposit. In addition, total deposits declined year over year by 1.96% or \$17,221,000, which we replaced with higher-cost wholesale funds during the quarter.

Non-interest income rose \$246,000 over the first quarter, leading to year-to-date growth in this area by \$228,000 or 9.6%. The primary boost was from fees earned in the quarter from customer interest rate swap agreements in addition to overall service charge growth across several categories. Year to date, non-interest expense grew by \$779,000 or 5.8% over 2023, concentrated mostly in the salary and benefit areas. Succession planning, salary inflation, and health insurance usage are the main drivers of this increase. Management continues to balance our company's long-term needs with the short-term costs associated with staffing.

Total assets increased by \$12,412,000 over the first three months of 2024 and year over year by \$36,324,000. Growth was primarily in loans across both our consumer and commercial portfolios.

Like many banks, Katahdin is experiencing a declining net interest margin, coupled with mostly expected expense growth. This leads to decreased profits. As the interest rate landscape changes, we feel a return to prior profitability levels is likely in time. We are focused on core deposit growth, which will improve funding costs, along with increasing loans within sound structures and at acceptable rates. Profitable growth has been, and will continue to be, our goal.

Strong asset quality continues at the Bank. Credit quality indicators remain solid. Benefits from this are evident not only in the allowance for credit losses, but in related categories such as low collection costs and management time saved. Although this trend is bound to moderate over time, we do feel our balance sheet remains strong.

The Company remains well-capitalized with total shareholders' equity of \$89,663,000 on June 30, 2024. Return on average assets on June 30, 2024, was 0.79%, which is down year over year. Return on average equity stood at 9.30% for the six-month period. During the quarter, the Company paid a shareholder dividend totaling \$0.175 per share, and the Company purchased 5,997 shares at an average price of \$22.50 per share under the 2024 stock buyback program.

Employee Spotlight

We recently celebrated all our dedicated staff at a bank-wide employee appreciation event. More than 150 team members gathered for an evening of recognition and celebration, which included years of service awards, a delicious meal, and exciting prizes. I always enjoy getting our employees together under one roof.

I also had the honor of presenting **Lindsay Corey** with this year's Top of the Mountain Commitment to Community Award for her outstanding volunteer efforts. Lindsay has been with the Bank since 2005 and serves as a Client Services Support Specialist based at our Operations Center. She has spent many hours helping kids on the Houlton Little League and BigRock ski teams in Mars Hill.

Additionally, I would like to acknowledge the outstanding achievement of **Tory Delano** who has been promoted to Senior Credit Analyst and Department Manager. Tory has been with the Bank for 17 years and is based in Presque Isle. Her years of experience help our organization to make wise decisions quickly when working with new and existing commercial loan relationships.

In May, we had two employees retire, **Valerie Maynard** and **Vicki Bessette**. Valerie was an employee for 30 years and based in Presque Isle. Throughout her career, she advanced within the company from part-time Teller to her most recent role in commercial services as Senior Credit Administration Assistant and Officer. Vicki began in 2014 and served as Vice President, Commercial Services Officer in Scarborough where she was devoted to helping businesses in the greater Portland area grow. We hope you both are having a wonderful retirement!

Continued on inside

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.



2024
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, 2024	Mar 31, 2024	Jun 30, 2023
ASSETS			
Cash & Due from Banks	\$ 15,052	\$ 23,273	\$ 18,654
Investments	153,120	150,797	146,423
Total Loans	815,377	797,592	781,031
Allowance for Credit Losses	(8,029)	(7,895)	(7,677)
Fixed Assets	17,095	17,178	16,946
Other Assets	45,946	45,204	46,860
Total Assets	\$1,038,561	\$1,026,149	\$1,002,237
LIABILITIES			
Deposits	\$ 859,626	\$ 874,743	\$ 876,847
Borrowings	46,000	20,000	109
Other Liabilities	43,272	43,606	42,593
Total Liabilities	\$ 948,898	\$ 938,349	\$ 919,549
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 99,303	\$ 97,993	\$ 93,346
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(13,023)	(13,658)	(14,607)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	4,143	4,273	4,802
Unearned ESOP Shares	(254)	(254)	(406)
Unearned Comp – Restricted Stock	(506)	(554)	(447)
Total Shareholders' Equity	\$ 89,663	\$ 87,800	\$ 82,688
Total Liabilities & Shareholders' Equity	\$ 1,038,561	\$1,026,149	\$1,002,237
Letters of Credit	\$ 4,022	\$ 3,867	\$ 3,939

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 6 Months Ended	
	Jun 30, 2024	Mar 31, 2024	Jun 30, 2023	Jun 30, 2024	June 30, 2023
Interest Income	\$ 12,945	\$ 12,511	\$ 11,267	\$ 25,456	\$ 21,843
Interest Expense	4,517	4,018	2,518	8,535	4,363
Senior Notes Interest Expense	214	213	214	427	427
Net Interest Income	\$ 8,214	\$ 8,280	\$ 8,535	\$ 16,494	\$ 17,053
Credit Loss Expense (Benefit)	155	(129)	(45)	26	(78)
Net Interest Income after Credit Loss Expense (Benefit)	\$ 8,059	\$ 8,409	\$ 8,580	\$ 16,468	\$ 17,131
Non-Interest Income	1,421	1,175	1,143	2,596	2,368
Non-Interest Expense	7,026	7,079	6,662	14,105	13,326
Amortization of Investments in Limited Partnerships ⁷	33	32	59	65	118
Net Operating Income	\$ 2,421	\$ 2,473	\$ 3,002	\$ 4,894	\$ 6,055
Less: Provision for Income Taxes ⁷	420	430	522	850	1,060
Net Income Available to Common Shareholders	\$ 2,001	\$ 2,043	\$ 2,480	\$ 4,044	\$ 4,995
Earnings Per Common Share	\$ 0.63	\$ 0.64	\$ 0.77	\$ 1.27	\$ 1.54
Annualized Return on Average Assets	0.78%	0.80%	1.01%	0.79%	1.03%
Annualized Return on Average Common Equity	9.16%	9.44%	12.08%	9.30%	12.27%
Book Value Per Share at period end ¹				\$ 28.19	\$ 25.70
Tangible Book Value Per Share at period end ²				\$ 26.38	\$ 23.90
Weighted Average Common Shares Outstanding ³				3,185,613	3,241,407
Common Shares Outstanding period end				3,194,370	3,240,960
Adjusted Common Shares Outstanding period end ⁴				3,180,723	3,217,757
Allowance for Credit Losses to period end Loans				0.98%	0.98%
Non-performing Loans to period end Loans ^{5,8}				0.19%	0.25%
Non-Performing Assets to Total Assets ^{6,8}				0.15%	0.22%

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.

8) As of January 1, 2023, the Company adopted ASU No. 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures which eliminates the accounting guidance for troubled debt restructurings. Troubled debt restructured loans are included in the numbers for March 2023.

Awards

I am proud of our designation as a 2024 Best Place for Working Parents®, marking the third consecutive year we have received this prestigious recognition. This achievement is a testament to our unwavering commitment to supporting working parents through family-friendly policies, benefits, and practices. It speaks volumes about our dedication to creating a culture that values work-life balance, ensuring that our employees can thrive both professionally and personally.

Customer Experience

As we continue to look for ways to improve the community banking experience, we are pleased to introduce four new consumer checking accounts, including Totally Free Checking. Every new checking account includes a free thank you gift and free gifts for referring others.

Thank You

As we reflect on this past quarter's achievements, we remain committed to fostering a supportive and dynamic workplace while delivering exceptional service to our customers and value to our shareholders. Your trust and support are the driving forces behind our continued success. We look forward to building on these accomplishments in the months ahead and remain dedicated to upholding the high standards that define our organization. Thank you for your continued confidence in our vision and mission.

If you would like to keep up on the latest bank news, I encourage you to connect and follow along with us on social media.

As always, your comments or questions are welcome. Feel free to contact us at any time.

Sincerely,



Jon J. Prescott
President & CEO