

DEAR FELLOW SHAREHOLDERS,

2022 began on an encouraging note, coming after a year in which we achieved extraordinary results in both financial and non-financial aspects. In this report, I will discuss our areas of success and several factors that attributed to a decline in results from both the first quarter of 2021 and the linked quarter.

First Quarter Financial Results

Net income for the first quarter totaled \$1,771,000. Even though income was down from the previous quarter by \$169,000, and lower than the exceptional first quarter we experienced in 2021 by \$603,000, much of the drop was anticipated. As the SBA Paycheck Protection Program (PPP) loans and related fee income has drawn to a close, PPP interest and fees dropped by \$590,000 in the quarter when comparing year over year. We also saw a reduction in back-to-back swap fees on commercial loans of \$218,000 along with a combined decrease in secondary market sales and overall loan fees of \$137,000. Lastly, non-interest expenses were higher due to increased salary and occupancy costs, mostly related to the tighter labor market and inflationary impacts on our overall operating costs.

Offsetting a large portion of the lower fee income and higher costs was strong growth in net interest income. Net interest income totaled \$7.2 million in the first quarter. On the surface, this shows a reduction of \$283,000 from 2021. However, that included the \$590,000 in reduced interest and fees from PPP previously mentioned. When adjusting for this, the net interest income growth totaled 6.5%.

Total assets reached \$963.0 million, growing \$22.5 million over year end 2021. This growth included the addition of investments and a steady loan pipeline.

Total investments at quarter end reached \$145.3 million, an increase of approximately \$33.5 million over both the prior quarter and last year at this time. With increasing yields, the portfolio has contributed to net interest income growth over 2021.

Lending activity has been steady over the quarter, ending at \$730.6 million. With the influence of PPP loans moving off the balance sheet, the total portfolio remained close to year end numbers while being down by \$39.9 million from the first quarter last year. Considering our regular loan portfolio numbers, consumer loan balances were relatively flat over December 31, 2021, while commercial loans grew \$3.0 million from year end. Year over year, each of these categories grew by \$5.0 million and \$7.3 million, respectively.

Deposits totaled \$849.9 million, increasing by \$29.7 million over year end and \$34.1 million over the first quarter of 2021. We have not seen a meaningful drop in overall deposits that accumulated from stimulus funding over the last two years.

As I write this letter, inflation has set a 40-year record high, and interest rates have risen substantially across the yield curve. The Federal Reserve has set expectations for significant interest rate increases. Our balance sheet is well positioned for future rising rates. Considering the higher expected interest rates, we question whether loan demand overall can strengthen. In particular, consumer real estate loan demand has waned as the average 30-year mortgage rate is now over 5.0%. Management has navigated swiftly changing interest rates in the past and will adjust as circumstances dictate.

Non-performing loans and past due numbers continue to be historically low. However, multiple Fed rate increases may slow the economy. As in the past during any economic slowdown, we will assist borrowers when prudent and feasible.

Shareholders' equity ended the quarter at \$80,442,000, down from the prior quarter due to unrealized depreciation on securities available-for-sale as rates have risen. While shareholder equity increases with earnings, security valuations will fluctuate as interest rates move over time. Tangible book value per share ended the quarter at \$22.71 per share.

During the first quarter, the Company paid a quarterly dividend of \$0.138 per share, representing an increase of 10.4% over the first quarter of last year. Under the 2022 Stock Buyback Program, the Company purchased 8,700 shares of Katahdin stock during the quarter at an average price of \$24.87.

Giving Back to Local Communities

In March, we were pleased to contribute \$50,000 to BigRock Mountain in Mars Hill toward replacing their current double chairlift with a quad chairlift. The new lift will help reduce lift lines and ride time for downhill skiers and snowboarders. It will also help attract more people to the central Aroostook County area and support the local economy by providing a place where people want to work, live, and stay. I look forward to seeing the new chairlift up and running.

Employee and Director News

Barrett Potter, CPA, CIA, has recently joined our Information Security Department as Vice President, Information Security and Vendor Risk Administration. He is based in Houlton at our Operations Center and is responsible for developing and maintaining our information security, continuity, and vendor management programs. As a former Commercial Services Officer at our Houlton branch, Barrett previously worked directly with local businesses in southern Aroostook County from 2006 to 2016.

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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
FIRST QUARTER



KatahdinTrust.com

MEMBER FDIC  EQUAL HOUSING LENDER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

| | Mar 31, 2022 | Dec 31, 2021 | Mar 31, 2021 |
|--|-------------------|-------------------|-------------------|
| ASSETS | | | |
| Cash & Due from Banks | \$ 48,831 | \$ 62,915 | \$ 25,080 |
| Investments | 145,296 | 111,739 | 111,645 |
| Total Loans | 730,606 | 730,303 | 770,504 |
| Reserve for Loan Loss | (7,808) | (7,803) | (7,598) |
| Fixed Assets | 11,718 | 11,418 | 11,804 |
| Other Assets | 34,380 | 31,927 | 30,005 |
| Total Assets | \$ 963,023 | \$ 940,499 | \$ 941,440 |
| LIABILITIES | | | |
| Deposits | \$ 849,924 | \$ 820,187 | \$ 815,870 |
| Borrowings | 1,527 | 1,530 | 11,038 |
| Other Liabilities | 31,130 | 35,178 | 35,696 |
| Total Liabilities | \$ 882,581 | \$ 856,895 | \$ 862,604 |
| SHAREHOLDERS' EQUITY | | | |
| Common Shareholders' Equity | \$ 84,999 | \$ 83,651 | \$ 78,149 |
| Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax | (6,301) | 35 | 918 |
| Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax | 2,740 | 730 | 786 |
| Unearned ESOP Shares | (554) | (554) | (697) |
| Unearned Comp—Restricted Stock | (442) | (258) | (320) |
| Total Shareholders' Equity | \$ 80,442 | \$ 83,604 | \$ 78,836 |
| Total Liabilities & Shareholders' Equity | \$ 963,023 | \$ 940,499 | \$ 941,440 |
| Letters of Credit | \$ 3,065 | \$ 3,384 | \$ 2,700 |

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

| | For 3 Months, Ended | | |
|--|---------------------|-----------------|-----------------|
| | Mar 31, 2022 | Dec 31, 2021 | Mar 31, 2021 |
| Interest Income | \$ 8,005 | \$ 8,551 | \$ 8,538 |
| Interest Expense | 582 | 789 | 832 |
| Senior Notes Interest Expense | 213 | 214 | 213 |
| Net Interest Income | \$ 7,210 | \$ 7,548 | \$ 7,493 |
| Less: Provision for Loan Losses | — | — | 135 |
| Net Interest Income After Provisions | \$ 7,210 | \$ 7,548 | \$ 7,358 |
| Non-Interest Income | 1,153 | 1,238 | 1,423 |
| Non-Interest Expense | 6,178 | 6,409 | 5,832 |
| Amortization of Investments in Limited Partnerships ⁷ | 59 | 59 | 59 |
| Net Operating Income | \$ 2,126 | \$ 2,318 | \$ 2,890 |
| Less: Provision for Income Taxes ⁷ | 355 | 378 | 516 |
| Net Income Available to Common Shareholders | \$ 1,771 | \$ 1,940 | \$ 2,374 |
| Earnings Per Common Share | \$ 0.54 | \$ 0.52 | \$ 0.72 |
| Annualized Return on Average Assets | 0.76% | 0.81% | 1.03% |
| Annualized Return on Average Common Equity | 8.81% | 9.29% | 12.40% |
| Book Value Per Share at period end ¹ | \$ 24.44 | \$ 25.41 | \$ 23.87 |
| Tangible Book Value Per Share at period end ² | \$ 22.71 | \$ 23.63 | \$ 22.08 |
| Weighted Average Common Shares Outstanding ³ | 3,294,240 | 3,290,788 | 3,301,449 |
| Common Shares Outstanding period end | 3,324,492 | 3,323,450 | 3,344,655 |
| Adjusted Common Shares Outstanding period end ⁴ | 3,291,647 | 3,290,605 | 3,302,168 |
| Allowance for Loan Losses to period end Loans | 1.07% | 1.07% | 0.99% |
| Non-Performing Loans to period end Loans ⁵ | 0.38% | 0.38% | 0.58% |
| Non-Performing Assets to Total Assets ⁶ | 0.29% | 0.30% | 0.48% |

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)

On April 27, 2022, Peter Briggs will retire from our Board of Directors after twenty-eight years of service. I would like to acknowledge his efforts and thank him for his commitment and outstanding dedication to Katahdin throughout the years. The Bank experienced remarkable growth during Peter's tenure. We increased the number of branch offices from five to sixteen and expanded into the greater Bangor and Portland regions. Following his retirement, the Board will be reduced to eight directors. It has been a pleasure working with Peter and we wish him the very best.

Customer Experience

As part of our long-term goal to become easier to do business with, our staff has been working to roll out a new online loan process for our business customers. The new lending software will enhance the business customer experience with quicker turnaround times while creating efficiencies and lowering operating costs.

Moving Forward Together

We end the first quarter of 2022 optimistically and proudly continue to assist our customers with their personal and business financial goals — now and into the future.

Thank you for your investment in and continued support of Katahdin Trust. 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