

DEAR FELLOW SHAREHOLDERS,

I am pleased to report that Katahdin Bankshares Corp. experienced a solid third quarter financially. We ended the quarter with a return on average assets of 1.07% and return on average common equity of 13.22%. This increased the respective year to date numbers to 0.91% and 11.04%. Net income totaled \$2,609,000, exceeding second quarter income by \$468,000 or 21.8% and was similar to the third quarter of 2021. Year to date, net income reached \$6,521,000, below 2021 by \$1,012,000.

Net interest income totaled \$8,419,000, compared to \$7,899,000 last year. Beneath these numbers, the third quarter of 2021 included \$754,000 of Paycheck Protection Program (PPP) fee income that was not repeated in 2022. An increasing net interest margin has partially offset the lost PPP revenue this year as interest rates have risen over the last six months.

Our expenses have increased when compared to last year. We've continued to experience the effects of inflation and the tight labor market, though a portion of the expense growth is attributable to the exciting relocation of our new Scarborough office this year. Non-interest expenses grew to \$6,330,000, an increase of 8.7% over last year. Year to date, total non-interest expenses reached \$18,676,000, exceeding last year by \$1,229,000 or 7.0%.

Due to continued excellent credit quality and a stable balance sheet, we have not added to the provision for loan loss in 2022. The allowance to period end loans totaled 1.07% and non-performing loans to period end loans dropped to 0.30% as compared to 0.45% last year. We continue to monitor credit quality closely. Many observers fear a slowing economy as the Federal Reserve pushes to fight high inflation.

Turning to the balance sheet, total assets reached \$966.9 million. This exceeded last quarter by \$1.2 million and last year by \$21.4 million. The year over year asset growth is a result of an increased investment portfolio which totals \$144.8 million, over last year by \$30.7 million.

Total loans dropped by \$4.2 million to \$734.4 million. This was lower than last year by \$11.8 million. Looking closer, last year included \$11.2 million of PPP loans. PPP loans have been paid down to only \$305,000 as of September 30, 2022. Adjusting for that reduction, commercial and consumer loans were down in the third quarter by \$3.8 million and under last year at this time by \$941,000. We continue to look for new business relationships within our markets and have not loosened credit standards during the last year.

Total deposits reached \$847.5 million, down by \$2.6 million from last quarter but over last year by \$24.1 million.

Shareholder's equity totaled \$76.3 million. While we've had

solid earnings growth, increases in interest rates have caused our investment portfolio to have a negative impact on equity year over year of \$16.9 million. The credit quality of our investments is solid. Tangible book value totaled \$21.59 as compared to \$23.28 last year, impacted by the valuation mentioned above. During the third quarter, the holding company paid a dividend of \$0.138 per share representing a 10.4% increase over 2021. Under the Stock Buyback Program, the holding company purchased 9,000 shares during the third quarter at an average price of \$24.59 per share.

In addition to our solid financial performance, we received two designations for our commitment to supporting our employees and providing a positive workplace experience. Making the list for five years in a row, we were named one of the **2022 Best Places to Work in Maine** and, for the first time, a **2022 Best Place for Working Parents®** for our family-friendly policies and practices.

To celebrate our recent accomplishments together and recognize years of service milestones, we held an employee appreciation dinner in each of our different market areas. I enjoyed attending each event this fall and getting to visit with our team members throughout the state.

I am delighted to congratulate Eunice McAfee, Pamela Ward, Natasha McCarthy, Katherine Hill, and Patricia Hersey on their recent professional accomplishments:

- Eunice has been promoted to Branch Manager and Community Banking Officer of our Hampden branch. She joined the bank in 2012 and has worked in both Bangor area branch locations on Broadway and Springer Drive in roles including Customer Service Representative and Community Banker III. Eunice replaces Sunny Flannery, who retired in August after serving as the manager since the Hampden branch opened in 2011. I am thankful to have had Sunny on our team and wish her the best in retirement.
- Pam has more than 40 years of banking experience and has been promoted to Vice President, Credit Control. She joined us in 2011 as Assistant Vice President, Credit Control Officer and has played a vital role in our bankwide collection efforts.
- Natasha has joined our executive management team and was promoted to Executive Vice President, Chief Human Resources Officer. Natasha has worked in our HR department since joining the bank in 2009. She was recently named to the 2022 Independent Community Bankers of America's (ICBA) winners list of 40 Under 40: Emerging Community Bank Leaders. I appreciate all the hard work that Natasha gives to keep Katahdin Trust employees happy, healthy, and engaged at work.

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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
THIRD QUARTER



KatahdinTrust.com

MEMBER FDIC EQUAL HOUSING LENDER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	Sept 30, 2022	June 30, 2022	Sept 30, 2021
ASSETS			
Cash & Due from Banks	\$ 34,038	\$ 31,774	\$ 52,512
Investments	144,843	148,706	114,129
Total Loans	734,382	738,584	746,223
Reserve for Loan Loss	(7,885)	(7,817)	(7,800)
Fixed Assets	17,175	16,329	11,465
Other Assets	44,323	38,058	28,932
Total Assets	\$ 966,876	\$ 965,634	\$ 945,461
LIABILITIES			
Deposits	\$ 847,467	\$ 850,095	\$ 823,328
Borrowings	1,522	1,525	6,533
Other Liabilities	41,548	36,861	33,280
Total Liabilities	\$ 890,537	\$ 888,481	\$ 863,141
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 88,255	\$ 86,319	\$ 82,098
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(16,142)	(11,889)	781
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	5,153	3,684	417
Unearned ESOP Shares	(554)	(554)	(697)
Unearned Comp – Restricted Stock	(373)	(407)	(279)
Total Shareholders' Equity	\$ 76,339	\$ 77,153	\$ 82,320
Total Liabilities & Shareholders' Equity	\$ 966,876	\$ 965,634	\$ 945,461
Letters of Credit	\$ 3,416	\$ 3,466	\$ 2,469

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 9 Months Ended	
	Sept 30, 2022	June 30, 2022	Sept 30, 2021	Sept 30, 2022	Sept 30, 2021
Interest Income	\$ 9,479	\$ 8,430	\$ 8,949	\$ 25,914	\$ 26,184
Interest Expense	847	629	837	2,058	2,423
Senior Notes Interest Expense	213	214	213	640	640
Net Interest Income	\$ 8,419	\$ 7,587	\$ 7,899	\$ 23,216	\$ 23,121
Less: Provision for Loan Losses	—	—	—	-	135
Net Interest Income After Provisions	\$ 8,419	\$ 7,587	\$ 7,899	\$ 23,216	\$ 22,986
Non-Interest Income	1,149	1,230	1,247	3,532	3,861
Non-Interest Expense	6,330	6,168	5,821	18,676	17,447
Amortization of Investments in Limited Partnerships ⁷	59	59	59	177	177
Net Operating Income	\$ 3,179	\$ 2,590	\$ 3,266	\$ 7,895	\$ 9,223
Less: Provision for Income Taxes ⁷	570	449	602	1,374	1,690
Net Income Available to Common Shareholders	\$ 2,609	\$ 2,141	\$ 2,664	\$ 6,521	\$ 7,533
Earnings Per Common Share	\$ 0.80	\$ 0.65	\$ 0.81	\$ 1.99	\$ 2.29
Annualized Return on Average Assets	1.07%	0.91%	1.12%	0.91%	1.07%
Annualized Return on Average Common Equity	13.22%	11.15%	12.88%	11.04%	12.61%
Book Value Per Share at period end ¹				\$ 23.37	\$ 25.06
Tangible Book Value Per Share at period end ²				\$ 21.59	\$ 23.28
Weighted Average Common Shares Outstanding ³				3,282,930	3,293,878
Common Shares Outstanding period end				3,299,692	3,327,029
Adjusted Common Shares Outstanding period end ⁴				3,266,847	3,284,542
Allowance for Loan Losses to period end Loans				1.07%	1.05%
Non-Performing Loans to period end Loans ⁵				0.30%	0.45%
Non-Performing Assets to Total Assets ⁶				0.23%	0.35%

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)

- Katie has been named to the *Mainebiz 2022 Next Up: 40 Under 40* list, Maine's next generation of leaders. Katie serves as Vice President, Bank Operations Manager and oversees all bank operations for our deposit, loan, and electronic banking departments. She has been with the bank for nearly twenty years and has served in multiple positions including teller, customer service representative, and operations supervisor.
- Patty is our latest *Top of the Mountain - Commitment to Community Award* recipient. This annual award recognizes one employee for their outstanding volunteer efforts and community commitment. Patty has been involved with several non-profits over the years including the Houlton Regional Health Services Foundation and Houlton Lodge of Elks. She has been with the bank for 23 years and currently serves as Vice President, Cash Management and Business Development Officer.

In September, we held a ribbon cutting and open house to celebrate the relocation of our Scarborough branch from 144 US Route One to a larger facility located at 136 US Route One. The newly renovated building has allowed us to expand our services and provide additional room for employees to support our growth in Cumberland County.

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