

DEAR FELLOW SHAREHOLDERS,

I am happy to announce that Katahdin Bankshares Corp. and its subsidiary, Katahdin Trust Company, experienced solid results in the fourth quarter and for all of 2022. A widening net interest margin and continued excellent asset quality were the primary drivers of results, which were improved over 2021.

Net income for 2022 totaled \$9,724,000, an increase over last year of \$251,000 or 2.6%. Total Assets reached \$983,538,000, representing growth over last quarter of \$16,662,000 and last year of \$43,039,000. Making up most of the growth in the quarter was an increase in Total Loans of \$15,140,000. Deposit balances totaled \$857,566,000, an increase of \$10,099,000 over last quarter and \$37,379,000 over 2022.

2022 saw a year of spiking interest rates stemming from seven Federal Reserve Fed Funds rate hikes, moving the Fed Funds Target Rate from a range of 0%-0.25% to 4.25%-4.50%. The last time the Fed moved rates this high was in 2006, yet nowhere near this quickly. The rapidity of the hikes was a challenge to manage through and continues to be in 2023. Our interest income, led by variable rate loans, increased year over year by \$1,428,000, while funding costs did not rise as rapidly. Total interest expense increased by only \$104,000 for the year. This led to a gain in net interest income of \$1,324,000, or 4.32%. During the fourth quarter, deposit rates began to climb due to competitive forces, and the rate of increase in the net interest margin slowed dramatically. We expect 2023 to remain challenging as we navigate higher rates.

Non-interest expense rose over the prior year by 5.76%. Much of this can be attributed to rising employee wages, increased costs associated with our new location in Scarborough, and overall inflationary pressures. Salaries rose as we competed for talent as well as tried to ease employees' exposure to higher living costs. We expect wage inflation to continue. We continue to manage overall expenses closely while remaining committed to growing the Company.

Asset quality, as at most banks, remained very strong. Our analysis of our Allowance for Loan Losses showed that we had a surplus of accrued funds; therefore, we reversed \$500,000 in the fourth quarter, creating an increase to net income. Management monitors the Allowance on a careful and continuous basis and feels the balance is appropriate. Should conditions change, we will respond accordingly.

Return on Average Assets totaled 1.02%, while Return on Average Equity reached 12.39%, both solid numbers. During the fourth quarter, the Company purchased a total of 23,200 shares of Katahdin stock at an average price of \$22.86 per

share. The Board of Directors recently approved a Stock Buyback Program for 2023. The Program authorizes the purchase of up to \$2,000,000 of the Company's outstanding shares of Common Stock through December 31, 2023. You can find more information about this Program on our website under Shareholder Relations.

For a more detailed analysis of 2022, please see our Annual Report, which will be delivered in a few weeks.

New Board Members

It is with great pleasure that in January 2023, the Board appointed Benjamin D. Carlisle of Bangor and Julie A. Libby of Presque Isle to the Bank's Board of Directors.

Ben is the President of Prentiss & Carlisle, a family-owned forest resource and timberland management firm serving landowners throughout the northeastern United States and Canada, headquartered in Bangor. He oversees all operations for P&C, including corporate strategy, client management, transaction negotiation, and technology. Julie is retired from the asset management industry. Her most recent roles include Senior Vice President, Head of Marketing Operations and Program Management at OppenheimerFunds, Inc. (OFI), and President and Chief Operating Officer of OFI Private Investments LLC in New York, New York. Julie now spends her time between Florida and her native City of Presque Isle.

As we continue to grow our Company, Ben and Julie's business management and financial backgrounds will be tremendous assets to our Board.

Giving Back to Local Communities

As part of our Casual Because We Care Program, each employee that participates can donate \$1 or more in exchange for the privilege to dress casually and wear jeans on select days at work. Employees collectively raised \$2,400 and donated those funds to the Aroostook House of Comfort, an in-patient hospice and respite care facility located in Presque Isle.

We also participated in United Way of Aroostook's annual fundraising campaign. Together with our corporate pledge and our employee's personal pledges, we raised a total of \$15,440. Our contribution will help support several local non-profit agencies that provide solutions for our community's most pressing problems.

Officer Promotions

I would like to congratulate Scott Rossignol on being promoted to Assistant Vice President, System Administrator. Scott joined the Bank's MIS Department in 2013 as a Technical Support

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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
FOURTH QUARTER



KatahdinTrust.com

MEMBER FDIC  EQUAL HOUSING LENDER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	Dec 31, 2022	Sept 30, 2022	Dec 31, 2021
ASSETS			
Cash & Due from Banks	\$ 30,511	\$ 34,038	\$ 62,915
Investments	147,736	144,843	111,739
Total Loans	749,522	734,382	730,303
Reserve for Loan Loss	(7,428)	(7,885)	(7,803)
Fixed Assets	17,220	17,175	11,418
Other Assets	45,977	44,323	31,927
Total Assets	\$ 983,538	\$ 966,876	\$ 940,499
LIABILITIES			
Deposits	\$ 857,566	\$ 847,467	\$ 820,187
Borrowings	1,519	1,522	1,530
Other Liabilities	44,789	41,548	35,178
Total Liabilities	\$ 903,874	\$ 890,537	\$ 856,895
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 90,547	\$ 88,255	\$ 83,651
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(15,033)	(16,142)	35
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	4,895	5,153	730
Unearned ESOP Shares	(406)	(554)	(554)
Unearned Comp – Restricted Stock	(339)	(373)	(258)
Total Shareholders' Equity	\$ 79,664	\$ 76,339	\$ 83,604
Total Liabilities & Shareholders' Equity	\$ 983,538	\$ 966,876	\$ 940,499
Letters of Credit	\$ 3,504	\$ 3,416	\$ 3,384

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 12 Months Ended	
	Dec 31, 2022	Sept 30, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021
Interest Income	\$ 10,249	\$ 9,479	\$ 8,551	\$ 36,163	\$ 34,735
Interest Expense	1,258	847	789	3,316	3,212
Senior Notes Interest Expense	214	213	214	854	854
Net Interest Income	\$ 8,777	\$ 8,419	\$ 7,548	\$ 31,993	\$ 30,669
Less: Provision for Loan Losses	(500)	–	–	(500)	135
Net Interest Income After Provisions	\$ 9,277	\$ 8,419	\$ 7,548	\$ 32,493	\$ 30,534
Non-Interest Income	1,253	1,149	1,238	4,785	5,099
Non-Interest Expense	6,555	6,330	6,409	25,231	23,856
Amortization of Investments in Limited Partnerships ⁷	59	59	59	236	236
Net Operating Income	\$ 3,916	\$ 3,179	\$ 2,318	\$ 11,811	\$ 11,541
Less: Provision for Income Taxes ⁷	713	570	378	2,087	2,068
Net Income Available to Common Shareholders	\$ 3,203	\$ 2,609	\$ 1,940	\$ 9,724	\$ 9,473
Earnings Per Common Share	\$ 0.98	\$ 0.80	\$ 0.59	\$ 2.97	\$ 2.88
Annualized Return on Average Assets	1.31%	1.07%	0.81%	1.02%	1.00%
Annualized Return on Average Common Equity	16.48%	13.22%	9.29%	12.39%	11.75%
Book Value Per Share at period end ¹				\$ 24.49	\$ 25.41
Tangible Book Value Per Share at period end ²				\$ 22.70	\$ 23.63
Weighted Average Common Shares Outstanding ³				3,276,837	3,290,788
Common Shares Outstanding period end				3,276,492	3,323,450
Adjusted Common Shares Outstanding period end ⁴				3,253,289	3,290,605
Allowance for Loan Losses to period end Loans				0.99%	1.07%
Non-Performing Loans to period end Loans ⁵				0.28%	0.38%
Non-Performing Assets to Total Assets ⁶				0.22%	0.30%

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)

Assistant. In 2016, he was named System Administrator. Scott works at our Operations Center in Houlton, holds various technology-related certifications, and is a graduate of the Northern New England School of Banking.

Protecting our Customers

Protecting customers from fraudulent activity remains a top priority for the bank. One way we can do that is to continuously educate our communities on common fraud red flags. Scams are very common and can come in many forms.

If you receive an unexpected email, text message, or phone call claiming to be from a company you know asking for your credentials, it is likely a “phishing” attempt looking to trick you into action. NEVER give out any personal information like your online banking username, password, passcode, debit card number, PIN, account number, or remote access to your device. Another red flag is if someone asks you to deposit money, send money in a specific way, or make an immediate payment. You should never move money for other people.

Thank You

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