

DEAR FELLOW SHAREHOLDERS,

This past March marked our 105th anniversary in business. As a traditional community bank, Katahdin Trust Company takes pride in our relationship-based business model focused on supporting local people and small businesses. As depicted in our financial results, we remain well-capitalized, diversified, and positioned to continue to serve our customers and communities for generations to come.

Industry Perspective

The industry entered turmoil in early March when Silicon Valley Bank (SVB) in California and Signature Bank in New York were declared insolvent and seized by the FDIC. These banks do not share similar characteristics with Katahdin Bankshares Corp., as we manage a traditional community bank model. We have no exposure to cryptocurrency and no high concentrations in any specific industry. We have access to various sources of liquidity which provide strength to our balance sheet. Management is careful with our credit offerings and was not overly aggressive in investing over the past few years. We feel that the industry in general, and Katahdin specifically, is strong and resilient to any future headwinds.

First Quarter Financial Results

Net income totaled \$2,515,000, exceeding the same timeframe last year by \$744,000 or 42%. Net interest income growth was the primary driver over 2022's results, offsetting a 7.9% expense growth year over year. Compared to the fourth quarter of 2022, net income is lower by \$688,000, mainly due to a one-time reserve reversal last quarter of \$500,000, as well as a slight drop in our net interest margin in the first quarter 2023.

Results have been bolstered over the last year because of the Federal Reserve raising rates at a historic pace. Our net interest margin expanded to a peak of 3.78% by the end of 2022 compared to 3.12% the prior year. Through the first quarter our margin has averaged 3.68% and ended March 31 at 3.65%. The limited drop has been accomplished by a steady increase in loan yields over the quarter offsetting the slightly faster clip of rising deposit costs. We do expect increased margin compression over the next few months, depending on market rates and future Federal Reserve monetary policy decisions.

Despite banking sector issues and deposit pricing pressures, our deposit balances have remained steady over the last quarter and year. Total deposits ended March at \$855,909,000 million, down from December 31, 2022, by only \$1.7 million. Deposits exceeded March 31, 2022 by \$5.99 million. Approximately 28% of deposit balances are classified as uninsured, a low percentage among the industry. We have sufficient liquidity coverage to more than account for the uninsured balances. We have not observed a funds outflow to date, but maintain liquidity plans for multiple scenarios. We continue to work with customers to build

relationships and should there be any concern regarding FDIC Insurance levels, we are able to offer customers 100% FDIC Insurance coverage through our participation with the IntraFi Network.

Total loans reached \$760,873,000, increasing \$11,351,000 or 1.5% over last quarter. Total loans are over last year by \$30,267,000 or 4.1%. Our growth over the last year has primarily been from the commercial area as residential real estate lending has softened. We are focused on growing relationships profitably and with our traditional credit standards. Yields on new loans have been solid.

Beginning in 2023, we adopted the required Current Expected Credit Losses (CECL) Methodology for calculating the allowance for loan and unfunded commitment losses. This calculation method created a one-time allowance increase of \$603,000 through equity as of January 1, 2023. For the quarter, there was a credit of \$33,000 through earnings representing a slight easing of the reserve. The allowance for loan losses to period end loans totaled 1.02% as of March 31. Non-Performing loans to period end loans continue to be at a low level of 0.30%. Management feels that our allowance for loan loss allocation is appropriate, considering the quality of our portfolio and potential future economic conditions that may unfold.

Much attention has focused on bank security portfolios throughout the industry. Our securities portfolio consists predominantly of low-risk government-guaranteed mortgage-backed bonds. Since most of the \$146,761,000 portfolio was purchased at a time of very low rates, the market value on these securities is below book value. Although we have the ability and intent to hold the securities to maturity, our securities are classified as available-for-sale and therefore the changes in value flow through shareholders' equity. The current after-tax impact of the negative market values, already shown in shareholders equity, equaled \$12,774,000 as of March 31. While this does not represent a loss that we would want to absorb, it is relatively minimal, and we would remain well capitalized. We continue to invest as appropriate and expect unrealized losses to decline as the bonds move towards maturity.

Shareholders equity remains strong at \$82,369,000, increasing this quarter from \$79,664,000. This was due to solid quarterly earnings and an increase in our securities portfolio value since year end. Tangible book value totaled \$23.57 per share at quarter end and earnings produced a 12.46% return on equity.

During the first quarter, we paid a quarterly dividend of \$0.152 per share, representing an increase of 10.1% over the first quarter of last year. Under the 2023 Stock Buyback Program, we purchased 14,555 shares of Katahdin stock during the quarter at an average price of \$21.78.

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
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(207) 521-3200
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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.



2023

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, 2023	Dec 31, 2022	Mar 31, 2022
ASSETS			
Cash & Due from Banks	\$ 22,928	\$ 30,511	\$ 48,831
Investments	146,761	147,736	145,296
Total Loans	760,873	749,522	730,606
Reserve for Loan Loss	(7,787)	(7,428)	(7,808)
Fixed Assets	17,064	17,220	11,718
Other Assets	42,273	45,977	34,380
Total Assets	\$ 982,112	\$ 983,538	\$ 963,023
LIABILITIES			
Deposits	\$ 855,909	\$ 857,566	\$ 849,924
Borrowings	1,517	1,519	1,527
Other Liabilities	42,317	44,789	31,130
Total Liabilities	\$ 899,743	\$ 903,874	\$ 882,581
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 91,826	\$ 90,547	\$ 84,999
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(12,774)	(15,033)	(6,301)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	4,226	4,895	2,740
Unearned ESOP Shares	(406)	(406)	(554)
Unearned Comp—Restricted Stock	(503)	(339)	(442)
Total Shareholders' Equity	\$ 82,369	\$ 79,664	\$ 80,442
Total Liabilities & Shareholders' Equity	\$ 982,112	\$ 983,538	\$ 963,023
Letters of Credit	\$ 3,280	\$ 3,504	\$ 3,065

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months, Ended		
	Mar 31, 2023	Dec 31, 2022	Mar 31, 2022
Interest Income	\$ 10,576	\$ 10,249	\$ 8,005
Interest Expense	1,845	1,258	582
Senior Notes Interest Expense	213	214	213
Net Interest Income	\$ 8,518	\$ 8,777	\$ 7,210
Less: Provision for Loan Losses	(33)	(500)	—
Net Interest Income After Provisions	\$ 8,551	\$ 9,277	\$ 7,210
Non-Interest Income	1,225	1,253	1,153
Non-Interest Expense	6,664	6,555	6,178
Amortization of Investments in Limited Partnerships ⁷	59	59	59
Net Operating Income	\$ 3,053	\$ 3,916	\$ 2,126
Less: Provision for Income Taxes ⁷	538	713	355
Net Income Available to Common Shareholders	\$ 2,515	\$ 3,203	\$ 1,771
Earnings Per Common Share	\$ 0.77	\$ 0.98	\$ 0.54
Annualized Return on Average Assets	1.05%	1.31%	0.76%
Annualized Return on Average Common Equity	12.46%	16.48%	8.81%
Book Value Per Share at period end ¹	\$ 25.35	\$ 24.49	\$ 24.44
Tangible Book Value Per Share at period end ²	\$ 23.57	\$ 22.70	\$ 22.71
Weighted Average Common Shares Outstanding ³	3,250,778	3,276,837	3,294,240
Common Shares Outstanding period end	3,269,917	3,276,492	3,324,492
Adjusted Common Shares Outstanding period end ⁴	3,246,714	3,253,289	3,291,647
Allowance for Loan Losses to period end Loans	1.02%	0.99%	1.07%
Non-Performing Loans to period end Loans ⁵	0.30%	0.28%	0.38%
Non-Performing Assets to Total Assets ⁶	0.23%	0.22%	0.29%

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.

Shareholder Meeting

I hope you will join us at the Annual Shareholders' Meeting on Monday, May 1, 2023, at 11:00 a.m. at the Houlton Higher Education Center. Even if you cannot attend the meeting, I urge each shareholder to cast their proxy votes. Voting can be done online, by mail, or by telephone and only takes a few minutes of your time.

Employee News

I am proud to announce several recent promotions. In the retail loan department, Leslie Gardner has been promoted to Senior Vice President, Retail Lending, and Danelle Weston has been promoted to Retail Underwriting Manager, Vice President. In the branch administration area, Billi Griffith has been promoted to Senior Vice President, Community Banking, and Melissa Dahlgren and Rebecca Kord to Community Banking Team Leader, Vice President. These individuals have demonstrated exceptional leadership and commitment to excellence, and I have no doubt that they will excel in their new roles.

I would also like to take this opportunity to recognize our recent designation as a 2023 Best Place for Working Parents®. This award was made possible by the family-friendly policies and benefits package we offer our employees, particularly for working parents.

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