

DEAR FELLOW SHAREHOLDERS,

Katahdin Bankshares Corp.'s third quarter financial performance remained solid. Good loan growth, a steady margin, and continuing strong asset quality helped offset rising expenses for operations and funding costs. While the operating environment remains challenging, we are pleased to demonstrate these results.

Financial Highlights

Net income in the third quarter was \$2,582,000, a small \$102,000 increase over the second quarter of 2023. Net income for the nine months ended September 30, 2023, was \$7,577,000, an increase of \$1,056,000 over the same period in 2022. Earnings per share increased 18.1% over the same nine-month period of 2022. Return on average assets so far in 2023 totaled 1.02%, while return on average equity stood at 12.32%.

Loan growth of \$10,680,000 during the third quarter was achieved primarily in the commercial sector. Higher rates have helped improve the yield on our portfolio. However, higher rates in the mortgage arena have slowed residential real estate lending to minimal activity. Non-interest income was flat over the linked quarter.

We maintain discipline in expense control; however, we remain subject to macroeconomic forces that have inflated our expense structure. Non-interest expense has increased substantially over the prior year by 7.3%. Salaries expense in a demanding job market has played a significant role in this increase, as has other inflationary pressure.

Total assets increased \$50,636,000 over the same period in 2022, all of which was in the loan portfolio. We feel good about the loan growth as we have been reasonably selective about which credits to add, and competition is very strong for good deals. Investment portfolio levels are similar to the same period last year due to a lack of profitable buying opportunities.

Customer deposits grew modestly by \$4,169,000 during the third quarter, with the balance of deposit growth in wholesale funding. Core deposit growth remains a top priority of our bank. We have continued to see a shift in customer deposits into higher-yielding money market and certificate of deposit products, which has led to a surge in deposit costs in general.

Credit quality indicators remain solid, although at levels not likely to be sustainable in the long-term. This is standard in the industry. We feel our balance sheet is strong and resilient.

Despite economic challenges such as potential "higher for longer" rates, and the stubbornly thin labor market for new employees, we remain dedicated to long-term profitable growth that will accrue to our shareholders, and a careful approach to risk management.

Shareholders' Equity stood at \$81,249,000, an increase over last year of 6.4%. Tangible book value on September 30, 2023, was \$23.72 per share.

During the third quarter, the Company paid a dividend of \$0.152 per share, representing an increase of 10.1% over the third quarter of 2022. Under the 2023 Stock Buyback Program, we purchased 35,715 shares of Katahdin stock during the quarter at an average price of \$21.00.

Awards

I am honored to share that Katahdin Trust has been named one of American Banker's Top 200 Community Banks, making it the fourth consecutive year. The top 200 rating is based on a three-year average return on average equity (ROAE) of all publicly traded banks and thrifts in the United States with less than \$2 billion in assets. Katahdin Trust ranked #105 on the list of top performers with an average ROAE for 2020-2022 of 12.48%.

In addition to our solid financial performance, we were designated as a 2023 Best Places to Work in Maine for the sixth straight year. This recognition demonstrates how much we care about creating a working environment dedicated to individual growth, teamwork, and collaboration. In addition to our culture centered around community involvement, Katahdin also offers an excellent employee benefits package and family-friendly policies.

Employee Spotlight

Tory Delano was promoted to Credit Analyst III. Based in Presque Isle, Tory is responsible for managing and analyzing credit data and financial information for all new and existing commercial loan relationships at the Bank. She has been with Katahdin Trust for 17 years.

Justin Jamison was promoted to Senior Vice President, Commercial Services Officer. Justin joined Katahdin Trust in 2019 and is based in the Bangor office on Springer Drive.

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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.
Regular Mail:
PO Box 43006 | Providence, RI 02940-3006

Overnight Delivery:
150 Royall St., Suite 101 | Canton, MA 02021

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

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, 2023	Jun 30, 2023	Sept 30, 2022
ASSETS			
Cash & Due from Banks	\$ 22,362	\$ 18,654	\$ 34,038
Investments	143,694	146,423	144,843
Total Loans	791,711	781,031	734,382
Reserve for Loan Loss	(7,665)	(7,677)	(7,885)
Fixed Assets	17,111	16,946	17,175
Other Assets	50,299	46,860	44,323
Total Assets	\$1,017,512	\$1,002,237	\$ 966,876
LIABILITIES			
Deposits	\$ 890,515	\$ 876,847	\$ 847,467
Borrowings	-	109	1,522
Other Liabilities	45,748	42,593	41,548
Total Liabilities	\$ 936,263	\$ 919,549	\$ 890,537
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 94,679	\$ 93,346	\$ 88,255
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(17,839)	(14,607)	(16,142)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	5,226	4,802	5,153
Unearned ESOP Shares	(406)	(406)	(554)
Unearned Comp—Restricted Stock	(411)	(447)	(373)
Total Shareholders' Equity	\$ 81,249	\$ 82,688	\$ 76,339
Total Liabilities & Shareholders' Equity	\$1,017,512	\$1,002,237	\$ 966,876
Letters of Credit	\$ 3,416	\$ 3,939	\$ 3,416

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 9 Months Ended	
	Sept 30, 2023	Jun 30, 2023	Sept 30, 2022	Sept 30, 2023	Sept 30, 2022
Interest Income	\$ 12,041	\$ 11,267	\$ 9,479	\$ 33,884	\$ 25,914
Interest Expense	3,248	2,518	847	7,611	2,058
Senior Notes Interest Expense	213	214	213	640	640
Net Interest Income	\$ 8,580	\$ 8,535	\$ 8,419	\$ 25,633	\$ 23,216
Less: Provision (Credit) for Loan Losses	(125)	(45)	-	(203)	-
Net Interest Income After Provisions	\$ 8,705	\$ 8,580	\$ 8,419	\$ 25,836	\$ 23,216
Non-Interest Income	1,187	1,143	1,149	3,555	3,532
Non-Interest Expense	6,713	6,662	6,330	20,039	18,676
Amortization of Investments in Limited Partnerships ⁷	59	59	59	177	177
Net Operating Income	\$ 3,120	\$ 3,002	\$ 3,179	\$ 9,175	\$ 7,895
Less: Provision for Income Taxes ⁷	538	522	570	1,598	1,374
Net Income Available to Common Shareholders	\$ 2,582	\$ 2,480	\$ 2,609	\$ 7,577	\$ 6,521
Earnings Per Common Share	\$ 0.81	\$ 0.77	\$ 0.80	\$ 2.35	\$ 1.99
Annualized Return on Average Assets	1.01%	1.01%	1.07%	1.02%	0.91%
Annualized Return on Average Common Equity	12.43%	12.08%	13.22%	12.32%	11.04%
Book Value Per Share at period end ¹				\$ 25.54	\$ 23.37
Tangible Book Value Per Share at period end ²				\$ 23.72	\$ 21.59
Weighted Average Common Shares Outstanding ³				3,230,187	3,282,930
Common Shares Outstanding period end				3,204,393	3,299,692
Adjusted Common Shares Outstanding period end ⁴				3,181,190	3,266,847
Allowance for Loan Losses to period end Loans				0.97%	1.07%
Non-Performing Loans to period end Loans ⁵				0.24%	0.30%
Non-Performing Assets to Total Assets ⁶				0.21%	0.23%

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)

In his expanded role, Justin will lead a team of commercial lenders and continue developing new business lending relationships while managing his current commercial banking customers.

In September, we welcomed James Nelson to the team as Vice President, Commercial Services Officer. Joining Justin, James is also based in the Bangor office on Springer Drive. He is responsible for commercial lending and developing new business loan relationships in both the Bangor area and Aroostook County.

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

Sincerely,



Jon J. Prescott
President & CEO