

DEAR FELLOW SHAREHOLDERS,

I am pleased to announce that Katahdin Bankshares Corp. and its subsidiary, Katahdin Trust Company, once again posted solid results for the fourth quarter of 2023 and for the full year as well. Good loan growth, a widening of the net interest margin, and continuing asset quality were the main reasons for the results.

Financial Highlights

Net income for 2023 totaled \$9,907,000, an increase over 2022 of 1.9%. Total assets reached \$1,034,246,000 at year end, representing growth over last quarter of \$16,734,000 and over 2022 of \$50,708,000. Total loans rose \$49,471,000 year over year, with most growth coming earlier in 2023, which helped earnings. During the fourth quarter, we added \$7.3 million in loans, split between the consumer and commercial loan portfolios.

Deposit balances totaled \$893,381,000 at year end, increasing \$35,815,000 or 4.2% over 2022. While 2023 was a competitive environment for attracting deposits, the deposit growth included local customer deposits increasing \$20 million year over year, and \$7.6 million during the fourth quarter. Wholesale deposits made up the remaining increase of \$15.8 million.

Net interest income exceeded that of the prior year by 7.6%, including exceeding the linked quarter by 2.5%. 2023 loan growth contributed to the results. The Federal Reserve interest rate increases have led to rising interest expense across our deposit base. We have tried to remain responsive to customers as well as disciplined in pricing to preserve our net interest margin.

Non-interest income was flat for the quarter and for 2023. Non-interest expense rose year over year by 6.1% and is attributable to higher personnel costs as well as overall inflationary pressures.

Asset quality remained strong, as it did at most banks. During the fourth quarter, we added \$309,000 in credit loss expense related to the allowance for credit losses. The allowance, in our judgment, is adequate for the present time. We continue to take a conservative approach in lending which we hope will yield solid asset quality while allowing for growth opportunities. Total shareholders' equity improved to \$87,806,000, with the Company remaining well-capitalized for regulatory standards. The Board increased dividends to shareholders again in 2023, with the dividend representing a meaningful portion of total

shareholder return. The annualized return on average common equity reached 11.99% for the year.

During the quarter, the Company purchased 6,000 shares at a price of \$21.55 under the 2023 stock buyback program. For 2024, the Board also approved a continuation of our stock buyback program, authorizing the purchase of up to \$2,000,000 of the Company's outstanding shares of common stock through December 31, 2024. More information regarding the program can be found on our website at, katahdintrust.com/shareholder-relations.

For a more detailed analysis of 2023, please see our Annual Report, which will be delivered in mid-March.

Employee Spotlight

After seven years of service at Katahdin Trust and more than forty years in banking, William "Bill" Lucy has stepped away from his executive position at the Bank as of December 31, 2023. Happily, he has since transitioned to a part-time capacity as Vice President, Managed Assets, and is responsible for customer collection activity. With Bill's role change, Angela Tennett Butler, Executive Vice President, Chief Banking Officer, has assumed oversight of the commercial lending area, while continuing oversight of our branch network and retail lending.

With mixed emotions, we recently recognized two long-tenured employees on their retirements, Virginia Hartin and Patricia Hersey. Virginia ("Ginny") dedicated twenty-seven years to Katahdin Trust, beginning as a Teller in Patten before joining the commercial team a year later as a Commercial Services Assistant. She was named Commercial Services Specialist in 2014 and served in that role until her retirement. Patricia ("Patty") retired after twenty-four years as Vice President, Cash Management and Business Development Officer. She began in 1999 as an Electronic Banking Clerk in Houlton and served in many roles including Deposit Operations Supervisor, Operations Officer, and Corporate Services Officer. On behalf of everyone at Katahdin Trust, I would like to wish them both all the best.

I am delighted to congratulate two new officers on their promotions, Searra Herbert and Michaela King. In their new roles as Community Banking Officers and Cash Management Specialists, Searra and Michaela will be responsible for business development, community engagement, and working closely with businesses, non-profits, and municipalities in

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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
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, 2023	Sept 30, 2023	Dec 31, 2022
ASSETS			
Cash & Due from Banks	\$ 26,529	\$ 22,362	\$ 30,511
Investments	156,070	143,694	147,736
Total Loans	798,993	791,711	749,522
Allowance for Credit Losses	(7,975)	(7,665)	(7,428)
Fixed Assets	17,078	17,111	17,220
Other Assets	43,551	50,299	45,977
Total Assets	\$1,034,246	\$1,017,512	\$ 983,538
LIABILITIES			
Deposits	\$ 893,381	\$ 890,515	\$ 857,566
Borrowings	10,000	-	1,519
Other Liabilities	43,059	45,748	44,789
Total Liabilities	\$ 946,440	\$ 936,263	\$ 903,874
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 96,471	\$ 94,679	\$ 90,547
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(11,995)	(17,839)	(15,033)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	3,958	5,226	4,895
Unearned ESOP Shares	(254)	(406)	(406)
Unearned Comp—Restricted Stock	(374)	(411)	(339)
Total Shareholders' Equity	\$ 87,806	\$ 81,249	\$ 79,664
Total Liabilities & Shareholders' Equity	\$1,034,246	\$1,017,512	\$ 983,538
Letters of Credit	\$ 4,170	\$ 3,416	\$ 3,504

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended			For 12 Months Ended	
	Dec 31, 2023	Sept 30, 2023	Dec 31, 2022	Dec 31, 2023	Dec 31, 2022
Interest Income	\$ 12,584	\$ 12,041	\$ 10,249	\$ 46,468	\$ 36,163
Interest Expense	3,576	3,248	1,258	11,187	3,316
Senior Notes Interest Expense	214	213	214	854	854
Net Interest Income	\$ 8,794	\$ 8,580	\$ 8,777	\$ 34,427	\$ 31,993
Credit Loss Expense (Benefit)	309	(125)	(500)	106	(500)
Net Interest Income after Credit Loss Expense (Benefit)	\$ 8,485	\$ 8,705	\$ 9,277	\$ 34,321	\$ 32,493
Non-Interest Income	1,202	1,187	1,253	4,757	4,785
Non-Interest Expense	6,730	6,713	6,555	26,769	25,231
Amortization of Investments in Limited Partnerships ⁷	59	59	59	236	236
Net Operating Income	\$ 2,898	\$ 3,120	\$ 3,916	\$ 12,073	\$ 11,811
Less: Provision for Income Taxes ⁷	568	538	713	2,166	2,087
Net Income Available to Common Shareholders	\$ 2,330	\$ 2,582	\$ 3,203	\$ 9,907	\$ 9,724
Earnings Per Common Share	\$ 0.73	\$ 0.81	\$ 0.98	\$ 3.08	\$ 2.97
Annualized Return on Average Assets	0.90%	1.01%	1.31%	0.99%	1.02%
Annualized Return on Average Common Equity	11.01%	12.43%	16.48%	11.99%	12.39%
Book Value Per Share at period end ¹				\$ 27.57	\$ 24.49
Tangible Book Value Per Share at period end ²				\$ 25.76	\$ 22.70
Weighted Average Common Shares Outstanding ³				3,217,650	3,276,837
Common Shares Outstanding period end				3,198,393	3,276,492
Adjusted Common Shares Outstanding period end ⁴				3,184,746	3,253,289
Allowance for Credit Losses to period end Loans				1.00%	0.99%
Non-performing Loans to period end Loans ^{5,8}				0.09%	0.28%
Non-Performing Assets to Total Assets ^{6,8}				0.07%	0.22%

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 Amortization of Investments in Limited Partnerships.

8) As of January 1, 2023, the Company adopted ASU No. 2022-02 *Financial Instruments – Credit Losses: Troubled Debt Restructurings and Vintage Disclosures* which eliminates the accounting guidance for troubled debt restructurings. Troubled debt restructured loans are included in the numbers for 2022.

their respective markets. Searra joined the Bank in 2021 as a Community Banker II at our Springer Drive location in Bangor and later added the Cash Management Specialist role in 2022. Michaela started in 2018 as a Teller in Mars Hill. After a year, she was named Community Banker II and has served as a Cash Management Specialist since 2021. Searra and Michaela are both active in their local communities, volunteering and spending their time and energy to help others.

Community

Once again, we partnered with the United Way of Aroostook for their annual workplace fund-raising campaign to help give back to our local communities. The Bank and our employees together raised a total of \$14,000 to benefit those who are experiencing challenges or hardships in Aroostook County.

Thank You

Thank you for your investment in and support of Katahdin Trust. I encourage you to connect and follow along with us on Facebook, X (formerly Twitter), LinkedIn, and Instagram for the latest on employee highlights, bank news, photos, and updates.

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

Sincerely,



Jon J. Prescott
President & CEO