

DEAR FELLOW SHAREHOLDERS,

I am pleased to present our financial results for the first quarter of 2024, highlighting the performance and achievements of Katahdin Trust during this period. As I reflect on the past three months, it is evident that our Company has continued to uphold its commitment to excellence, resilience, and innovation in the face of evolving market dynamics and economic challenges.

First Quarter Financial Results

Interest rates remained at elevated levels because of restrictive Federal Reserve policy including rate hikes in recent years. Due to depositors converting low-cost deposits to higher-yielding accounts, our cost of funds has increased. Year over year, approximately \$48 million of customer deposits shifted into higher rate money market and certificate of deposit accounts. As discussed in prior reports, this was an expected transition. In addition, we have not experienced corresponding growth in the loan portfolio to offset the higher cost deposits. These factors resulted in a contraction of our net interest income over the prior year. However, we are not willing to take excessive risks in the loan portfolio or investment markets for the sake of growth that may not lead to positive long-term results.

Net income totaled \$2,043,000 for the first quarter, lagging the same time frame in 2023 by \$472,000. Net interest income, as described above, declined by \$238,000 compared to last year. Compared to the fourth quarter of 2023, net income was off \$287,000. Non-interest income was relatively flat at \$1,175,000. Non-interest expense continued to increase, by \$415,000 over the prior year and \$349,000 over the linked quarter. Expense increases are due largely to wage and other inflationary pressures. Management monitors expenses carefully and feels that this increase, while not sustainable, is necessary for the current environment and within our projections.

On the balance sheet, total assets remained above the \$1 billion mark, although slipping modestly from the fourth quarter's result. We feel moderate growth will be achieved in the current year, although the timing is uncertain. Total loans increased nearly \$37 million over the prior year, which is a solid result based on demand, aggressive pricing, and structure for strong deals. The securities portfolio grew modestly over the prior year by 2.75%. A lack of buying opportunities has led to us mainly replacing cash flows in the portfolio during the last year.

Deposits from local customers, including their reciprocal funds, remained relatively even over the prior year, with some seasonal slippage during the first quarter. We are not currently borrowing extensively in the wholesale market, as loan demand and pricing has not justified that action. Borrowings are a relatively low \$20 million at the end of March 31, 2024.

Shareholders equity remains strong at \$87,800,000, increasing from the first quarter of 2023 by \$5,431,000. Tangible book value totaled \$25.75 at quarter's end, an increase of 9.25% over the prior year. The board increased the shareholder dividend by 15% for the first quarter, for a total of \$0.175 per share. The Company continues to repurchase stock from time to time when the opportunity presents itself and we deem it is in the best interest of the shareholders. During the quarter, the Company purchased 9,506 shares at a price of \$22.84 under the 2024 stock buyback program.

In summary, earnings are lower than in 2023 due to the factors noted above. Asset quality remains strong. We believe the Company has excellent prospects for long-term prosperity and are focused on that goal. It is likely that for the near-term, margin contraction will continue and short-term results may be down. However, we continue to invest in people, technology, and training to improve our operations and will continue to be flexible in seizing opportunities.

Looking ahead, we remain cautiously optimistic about the economic landscape and are well-positioned to navigate any challenges that may arise. With a strong capital position, a talented team, and a clear strategic vision, we are confident in our ability to continue delivering value to our shareholders and stakeholders.

Shareholder Meeting

I hope to see you at the Annual Shareholders' Meeting in Houlton on Monday, May 6, 2024, at 11:00 a.m. The meeting will be held at the Center for Community Health Education located at the Houlton Regional Hospital. Even if you cannot attend the meeting, I urge each shareholder to cast their proxy votes. Voting can be conveniently done online, by mail, or by telephone and only takes a few minutes of your time.

Employee Spotlight

I am thrilled to announce the addition of a new member to our team, Russ Johnston, who joins us as Vice President, Commercial Services Officer. With his extensive experience and proven track record in commercial lending, we are confident that he will play a pivotal role in driving our commercial banking growth strategy in southern Maine forward.

Furthermore, I am proud to recognize the outstanding achievements of 17 employees who have been promoted across various departments within the Bank. These individuals have demonstrated exceptional leadership, dedication, and commitment to our core values, and their promotions reflect our ongoing investment in talent development and recognition of merit.

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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.



2024
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, 2024	Dec 31, 2023	Mar 31, 2023
ASSETS			
Cash & Due from Banks	\$ 23,273	\$ 26,529	\$ 22,928
Investments	150,797	156,070	146,761
Total Loans	797,592	798,993	760,873
Allowance for Credit Losses	(7,895)	(7,975)	(7,787)
Fixed Assets	17,178	17,078	17,064
Other Assets	45,204	43,551	42,273
Total Assets	\$1,026,149	\$1,034,246	\$ 982,112
LIABILITIES			
Deposits	\$ 874,743	\$ 893,381	\$ 855,909
Borrowings	20,000	10,000	1,517
Other Liabilities	43,606	43,059	42,317
Total Liabilities	\$ 938,349	\$ 946,440	\$ 899,743
SHAREHOLDERS' EQUITY			
Common Shareholders' Equity	\$ 97,993	\$ 96,471	\$ 91,826
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(13,658)	(11,995)	(12,774)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	4,273	3,958	4,226
Unearned ESOP Shares	(254)	(254)	(406)
Unearned Comp—Restricted Stock	(554)	(374)	(503)
Total Shareholders' Equity	\$ 87,800	\$ 87,806	\$ 82,369
Total Liabilities & Shareholders' Equity	\$ 1,026,149	\$ 1,034,246	\$ 982,112
Letters of Credit	\$ 3,867	\$ 4,170	\$ 3,280

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months, Ended		
	Mar 31, 2024	Dec 31, 2023	Mar 31, 2023
Interest Income	\$ 12,511	\$ 12,584	\$ 10,576
Interest Expense	4,018	3,576	1,845
Senior Notes Interest Expense	213	214	213
Net Interest Income	\$ 8,280	\$ 8,794	\$ 8,518
Credit Loss Expense (Benefit)	(129)	309	(33)
Net Interest Income After Credit Loss Expense (Benefit)	\$ 8,409	\$ 8,485	\$ 8,551
Non-Interest Income	1,175	1,202	1,225
Non-Interest Expense	7,079	6,730	6,664
Amortization of Investments in Limited Partnerships ⁷	32	59	59
Net Operating Income	\$ 2,473	\$ 2,898	\$ 3,053
Less: Provision for Income Taxes ⁷	430	568	538
Net Income Available to Common Shareholders	\$ 2,043	\$ 2,330	\$ 2,515
Earnings Per Common Share	\$ 0.64	\$ 0.73	\$ 0.77
Annualized Return on Average Assets	0.80%	0.90%	1.05%
Annualized Return on Average Common Equity	9.44%	11.01%	12.46%
Book Value Per Share at period end ¹	\$ 27.55	\$ 27.57	\$ 25.35
Tangible Book Value Per Share at period end ²	\$ 25.75	\$ 25.76	\$ 23.57
Weighted Average Common Shares Outstanding ³	3,189,053	3,217,650	3,250,778
Common Shares Outstanding period end	3,200,367	3,198,393	3,269,917
Adjusted Common Shares Outstanding period end ⁴	3,186,720	3,184,746	3,246,714
Allowance for Loan Losses to period end Loans	0.99%	1.00%	1.02%
Non-Performing Loans to period end Loans ^{5,8}	0.24%	0.09%	0.30%
Non-Performing Assets to Total Assets ^{6,8}	0.19%	0.07%	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.

8) As of January 1, 2023, the Company adopted ASU No. 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures which eliminates the accounting guidance for troubled debt restructurings. Troubled debt restructured loans are included in the numbers for March 2023.

Congratulations to the following employees on their promotions:

Tori Barber Vice President, Training Manager

Angela Tennett Butler Executive Vice President, Chief Banking Officer

Sam Clockedile Vice President, Marketing Officer

Tabitha Corey Assistant Vice President, Quality Control Loan Analyst

Jessica Dahms Assistant Vice President, Commercial Loan Processing Manager

Sue Fox Assistant Vice President, Appraisal Department Manager

Whitney Francis Bank Operations Officer

Candice Glover Technical Training & Implementation Officer

Casey Gove Data Security Officer

Katie Hill Senior Vice President, Bank Operations Manager

Tannis Lundin Banking Operations Officer

Jeremy MacArthur Network Administration Officer

Joe Porter Senior Vice President, Controller

Andrew Putnam Senior Vice President, Chief Information Officer

Jasmine Rockwell Assistant Vice President, Loan Operations Manager

Sarah Silliboy Vice President, BSA Officer

Miranda Wotton Vice President, Electronic Banking & Cash Management

Thank You

As we continue to navigate the dynamic landscape of the financial services industry, I want to express my gratitude to our employees, customers, and shareholders for their continued support and trust in our Company. Together, we will build on our successes and pursue our shared vision of sustainable growth and prosperity.

If you would like to keep up on the latest bank news, I encourage you to connect and follow along with us on social media.

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

Sincerely,



Jon J. Prescott
President & CEO