

A MESSAGE FROM THE PRESIDENT

Third quarter results show solid bottom line earnings. Net Income before preferred stock dividends ended at \$1,381,000, slightly over the 3rd quarter of last year. However, key one-time factors contributed to the flat growth which we'll review below. For the full nine months, net income before preferred stock dividends totaled \$3,362,000, under last year by \$193,000.

Factors impacting year over year earnings consist of one-time interest recoveries totaling \$749,000 in 2016 which weren't repeated this year; higher FDIC Premiums of \$119,000 mainly due to a change in the calculation for assessing fees on brokered deposits; elevated debit card fraud costs earlier in the year of \$65,000; and, a one-time branch closure cost of \$285,000. Adjusting for these factors would show significant 'run-rate' growth in earnings over last year.

While non-interest expense is over last year for the first nine months by \$204,000, the 3rd quarter non-interest expense is under the same quarter last year by \$288,000. These reductions reflect lower salaries and benefits costs, lower occupancy costs, and other lower operating expenses in the 3rd quarter that partially offset the one-time branch closure costs and other increased expenses this year.

The Provision for Loan Loss totaled \$210,000 this quarter, bringing the year to date provision to \$800,000 as compared to \$848,000 last year. Non-Performing Assets to Total Assets stands at 1.59% as compared to 1.63% at the end of the second quarter and 1.37% last year. Nearly 42% of our current non-performing assets are tied to a single relationship which we're actively working to resolve.

On the balance sheet, investments increased from last year by \$6.4 million, with a total portfolio of \$91.5 million. Loan growth has been strong, reaching \$661,648,000, over last year by \$44,297,000 or 7.2%. This portfolio level is lower than where total loans ended in the 2nd quarter by \$3.8 million mainly due to both flat growth in the quarter and the sale of a \$4.0 million portion of a relationship, as we strategically look to diversify certain concentrations.

Total Deposits stand at \$646,939,000. Local deposits grew by \$36.1 million. At the same time, we also paid down \$42.5 million of wholesale brokered deposits within this line item and shifted those balances to borrowings at the Federal Home Loan Bank with more favorable pricing. Due to this shift, Total Borrowings have increased year over year by \$44.9 million.

Tangible Book Value per share continues to grow, totaling \$15.20 at quarter end, an increase of \$0.55 cents per share or 3.8%. The company paid out a dividend of \$0.10 per share to common shareholders in the 3rd quarter, representing an annualized dividend yield of 2.8% at the time of writing.

In August Richard B. "Rick" Harnum of Hampden was elected to the board of directors to fill the seat left vacant by the passing of Arthur L. Shur of Island Falls. As communicated in the 2nd quarter report, Arthur offered great guidance and insight for nearly 35 years.

We welcome Rick to the board of directors. Rick is the President of Webber Group in Bangor, Maine focusing on overseeing the Real Estate division and plumbing and HVAC division of Webber Supply, Inc. Rick is an energetic businessperson who encompasses sound business management and community involvement. His expertise and knowledge of marketing, finance, and real estate is a great addition to the depth of experience within our Board.

I am happy to announce the promotions of Billi Griffeth to Assistant Vice President, Retail Services, based in Presque Isle; Jennifer Craig to Manager and Retail Services Officer at our Fort Fairfield location; and, Allissa Given to Manager and Retail Services Officer at our Patten location. Billi will be responsible for various retail administration projects. She joined the Bank in 2011 and has held various positions of increasing responsibility, most recently as Retail Officer. Jennifer and Allissa will be responsible for the day-to-day management of activities at their respective branches, sales and business development, and retail lending. Jennifer joined the Bank in 2008 as a Customer Service Representative and has nearly 25 years of experience in the banking industry. Allissa started with Katahdin Trust in 2006 serving in a variety of positions, most recently as interim manager upon the retirement of Emily Hosford who had been with the Bank for 35 years.

Congratulations to Billi, Jennifer and Allissa on their well-deserved promotions.

We are pleased to welcome John Frohock as Vice President, Managed Assets Officer. John will be responsible for managing and directing the collection activity for all loans. He has over 35 years of experience in commercial and consumer collections, lending and retail banking, including positions with the FDIC (Federal Deposit Insurance Corporation).

As always, if you have questions regarding the company or this report, please don't hesitate to contact us.

Sincerely,



Jon J. Prescott
President & CEO

DIRECTORS

Steven L. Richardson, Chairman
Richard J. York, Vice Chairman
Jon J. Prescott
Robert E. Anderson

Peter F. Briggs
Richard B. Harnum, Jr.
Kimberley A. Niles
Paul R. Powers

SENIOR MANAGEMENT

Jon J. Prescott, President & CEO
Peter P. St. John, Executive Vice President, Commercial Services
Bonnie C. Foster, Senior Vice President, Retail Services
William P. Lucy, Senior Vice President, Commercial Services
Matthew M. Nightingale, Senior Vice President, Treasurer & CFO

LOCATIONS

BRANCH OFFICES

Ashland ATM 17 Main Street 435-6461	Fort Fairfield ATM 290 Main Street 472-3161	Oakfield ATM 200 Oakfield Smyrna Rd 757-8288
Bangor ATM 609 Broadway 942-3146	Fort Kent ATM 79 West Main Street 834-2348	Patten ATM 11 Main Street 528-2211
Bangor ATM 52 Springer Drive 947-9674	Hampden ATM 57 Western Avenue 862-2211	Presque Isle ATM 6 North Street 764-8000
Caribou ATM 105 Bennett Drive 498-4200	Houlton ATM 65 North Street 532-4277	Scarborough 144 US Route One 510-7017
Eagle Lake 3440 Aroostook Road 444-5543	Island Falls ATM 1007 Crystal Road 463-2228	Van Buren ATM 29 Main Street, Ste.105 868-2728
	Mars Hill ATM 28 Main Street 429-8400	

REMOTE ATM LOCATION

Limestone ATM ONLY
35 Main Street, Limestone

COMMERCIAL LOAN OFFICE

Maine Financial Group 885-5900
144 US Route One, Scarborough



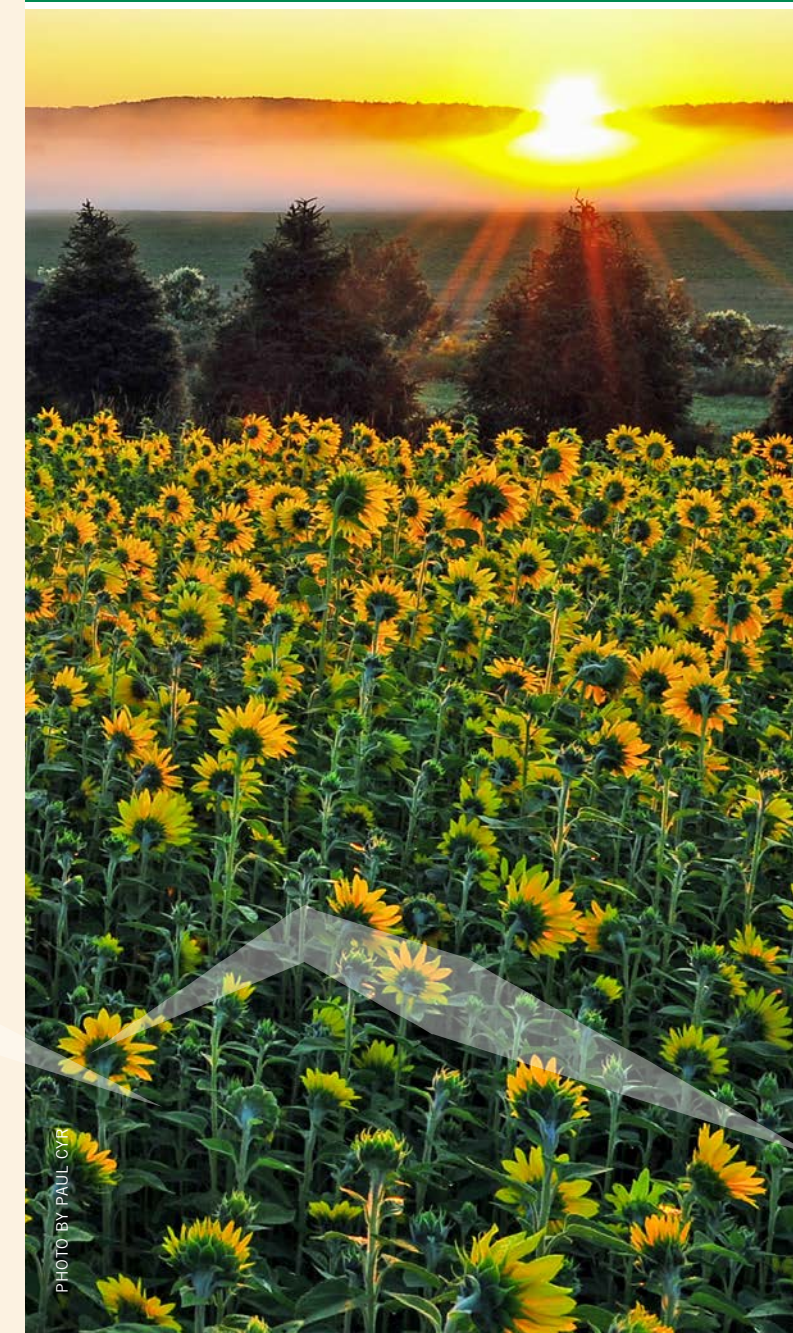
KatahdinTrust.com



PHOTO BY PAUL CYR



2017 THIRD QUARTER



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	September 30,	
	2017	2016
ASSETS		
Cash & Due from Banks	\$ 12,146	\$ 14,218
Investments	91,516	85,070
Total Loans	661,648	617,351
Reserve for Loan Loss	(6,627)	(5,719)
Fixed Assets	11,090	12,321
Other Assets	23,387	21,050
Total Assets	\$ 793,160	\$ 744,291

LIABILITIES

Deposits	\$ 646,939	\$ 644,425
Repurchase Agreements	135	694
Borrowings	65,045	20,180
Other Liabilities	14,548	13,689
Total Liabilities	\$ 726,667	\$ 678,988

SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,837	\$ 9,743
Common Shareholders' Equity	57,716	55,637
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(285)	735
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	(131)	(812)
Unearned ESOP Shares	(644)	-
Total Shareholders' Equity	\$ 66,493	\$ 65,303
Total Liabilities & Shareholders' Equity	\$ 793,160	\$ 744,291

Letters of Credit	\$ 3,049	\$ 2,840
-------------------	----------	----------

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended September 30,		For 9 Months Ended September 30,	
	2017	2016	2017	2016
Interest Income	\$ 7,923	\$ 7,433	\$ 22,812	\$ 22,130
Interest Expense	1,465	1,044	3,941	3,168
Net Interest Income	\$ 6,458	\$ 6,389	18,871	\$ 18,962
Less: Provision for Loan Losses	210	118	800	848
Net Interest Income After Provisions	\$ 6,248	\$ 6,271	\$ 18,071	\$ 18,114
Non-Interest Income	1,025	1,278	3,265	3,315
Non-Interest Expense ⁷	5,221	5,509	16,350	16,146
Net Operating Income	\$ 2,052	\$ 2,040	\$ 4,986	\$ 5,283
Less: Provision for Income Taxes	671	668	1,624	1,728
Net Income	\$ 1,381	\$ 1,372	\$ 3,362	\$ 3,555
Less: Dividends on Preferred Stock	218	218	656	656
Net Income Available to Common Shareholders	\$ 1,163	\$ 1,154	\$ 2,706	\$ 2,899
Earnings Per Common Share	\$ 0.34	\$ 0.34	\$ 0.80	\$ 0.85
Annualized Return on Average Assets	0.68%	0.74%	0.57%	0.66%
Annualized Return on Average Common Equity	8.11%	8.30%	6.45%	7.14%
Book Value Per Share at period end ¹			\$ 16.90	\$ 16.32
Tangible Book Value Per Share at period end ²			\$ 15.20	\$ 14.65
Weighted Average Common Shares Outstanding ³			3,379,975	3,404,367
Common Shares Outstanding period end			3,404,367	3,404,367
Adjusted Common Shares Outstanding period end ⁴			3,353,173	3,404,367
Allowance for Loan Losses to period end Loans			1.00%	0.93%
Non-Performing Loans to period end Loans ⁵			1.82%	1.54%
Non-Performing Assets to Total Assets ⁶			1.59%	1.37%

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) Non-Interest Expense for 9 months ended September 30, 2017 included real estate write-downs and other one-time branch consolidation costs totaling \$285,000.

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
Senior Vice President, Treasurer & CFO
PO Box 450 | Patten, ME 04765
(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.

