

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results for the first quarter of 2016 show net income before preferred stock dividends of \$908,000, which was down \$73,000 from the prior year's first quarter. Earnings per common share decreased from \$.22 per share to \$.20 per share. Growth in net interest income of \$234,000 was offset by an increased provision for loan losses of \$270,000 which is an increase from no provision in the first quarter of last year. The net interest income increase was due to strong growth in the loan portfolio year over year of \$33,500,000, aided by an \$11,116,000 rise in the investments portfolio. Non-interest income increased 15.7% or \$131,000 over the first quarter of 2015. Non-interest expense rose \$200,000 or 3.9% year over year.

Our funding levels and mix continue to improve. Year over year, local deposits grew 15.6% or \$63,282,000. Checking and savings accounts alone grew \$29,072,000. This has reduced the emphasis on brokered and national CD's, which is positive for the Bank. We will continue to place emphasis on deposit growth in all markets.

In February, we took advantage of continued low rates by restructuring \$34,000,000 of callable brokered CD's, which lowered our monthly expense on those deposits by approximately \$29,000 per month. Although there was a one-time expense associated with this restructure totaling \$134,000 and included in first quarter results, the break-even time frame will be under 5 months.

Total consolidated equity stood at \$62,873,000. A quarterly common stock dividend of \$.10 per share was paid for the first quarter of 2016.

On April 1, the Company introduced the Computershare Investment Plan (CIP), a direct stock purchase and dividend reinvestment plan, for our shareholders. This program is strictly voluntary and offers a full array of attractive features. For more information visit our web site at www.katahdintrust.com/stock-information.aspx.

In April, director Harold L. "Hal" Stewart II resigned from the board. Hal was appointed as a Maine Superior Court Justice and sworn in on April 14, which prohibits him from continued board service. We certainly wish Hal the very best in his new position and know he will do a great job. Hal joined the board in 2004 and was appointed Vice Chairman in 2013. During his tenure he has been an integral part of our Board and the Bank and we will greatly miss the valuable guidance and insight he has provided over the years, as well as his passion and commitment for community banking. During Hal's time on the board, the Bank doubled its asset size from slightly over \$343 million to over

\$700 million today and expanded its footprint to include the greater Bangor and Portland market areas. On behalf of the entire board and staff we extend a heartfelt thank you to Hal.

After 19 years heading up the Bank's marketing department Vicki Smith has made the decision to step down from her position on the senior management team as Senior Vice President, Marketing & Communications. Vicki has been a tremendous asset to the senior management team and throughout the past 19 years has brought our marketing to an extremely high level. She has done an excellent job over the past few years in preparing Krista Putnam to take over and Krista has now assumed full responsibility of the marketing department. I am pleased to inform you that Vicki will assume the role of Executive Assistant to me in September upon the retirement of Bonnie London and will assume Bonnie's responsibilities as they pertain to shareholder relations and the board of directors.

We are pleased to welcome Angela Butler as Senior Vice President, Commercial Services Officer with responsibilities for business lending and development in the greater Bangor area. A longtime banker in the Bangor area, Angela recently spent over twenty years at People's United Bank and Merrill Merchants Bank with extensive experience in commercial credit and lending. Prior to joining Katahdin Trust she held the position of Senior Vice President, Commercial Banking Region Manager with responsibilities of managing the business banking staff in the greater Bangor market and as far south as Waterville, the commercial and industrial and commercial real estate portfolio, and the division's largest and most complex commercial accounts. For many years, she has earned a well-deserved reputation for commercial lending excellence in Bangor and we look forward to the expertise that she will bring to our Bank.

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
Jon J. Prescott
Robert E. Anderson
Peter F. Briggs

Kimberley A. Niles
Paul R. Powers
Arthur L. Shur
Richard J. York

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* 17 Main Street 435-6461	Fort Kent* 79 West Main Street 834-2348	Oakfield 200 Oakfield Smyrna Rd 757-8288
Bangor* 609 Broadway 942-3146	Hampden* 57 Western Avenue 862-2211	Patten* 11 Main Street 528-2211
Bangor* 52 Springer Drive 947-9674	Houlton* 65 North Street 532-4277	Presque Isle* 6 North Street 764-8000
Caribou* 105 Bennett Drive 498-4200	Island Falls* 1007 Crystal Road 463-2228	Scarborough 144 US Route One 510-7017
Eagle Lake 3440 Aroostook Road 444-5543	Limestone* 35 Main Street 325-4711	Van Buren* 29 Main Street, Ste.105 868-2728
Easton 82 Center Road 488-6642	Mars Hill* 28 Main Street 429-8400	Washburn 1282 Main Street 455-8141
Fort Fairfield* 290 Main Street 472-3161	*24-HOUR ATM	

COMMERCIAL LOAN OFFICE

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



www.KatahdinTrust.com



PHOTO BY PAUL CYR



2016 FIRST QUARTER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	March 31,	
	2016	2015
ASSETS		
Cash & Due from Banks	\$ 9,214	\$ 14,688
Investments	74,618	63,502
Total Loans	592,831	559,331
Reserve for Loan Loss	(5,579)	(5,804)
Fixed Assets	12,908	13,920
Other Assets	20,686	20,104
Total Assets	\$ 704,678	\$ 665,741

LIABILITIES

Deposits	\$ 606,286	\$ 581,950
Repurchase Agreements	566	862
Borrowings	23,051	196
Other Liabilities	11,902	11,119
Total Liabilities	\$ 641,805	\$ 594,127

SHAREHOLDERS' EQUITY

Preferred Stock, Series C	\$ -	\$ 11,000
Preferred Stock, Series D	9,696	9,603
Common Shareholders' Equity	53,937	51,537
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	277	281
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,037)	(807)
Total Shareholders' Equity	\$ 62,873	\$ 71,614
Total Liabilities & Shareholders' Equity	\$ 704,678	\$ 665,741

Letters of Credit	\$ 3,139	\$ 2,409
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CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended March 31,	
	2016	2015
Interest Income	\$ 7,046	\$ 6,662
Interest Expense	1,117	967
Net Interest Income	\$ 5,929	\$ 5,695
Less: Provision for Loan Losses	270	-
Net Interest Income After Provisions	\$ 5,659	\$ 5,695
Non-Interest Income	967	836
Non-Interest Expense	5,281	5,081
Net Operating Income	\$ 1,345	\$ 1,450
Less: Provision for Income Taxes	437	469
Net Income	\$ 908	\$ 981
Less: Dividends on Preferred Stock	\$ 219	\$ 246
Net Income Available to Common Shareholders	\$ 689	\$ 735
Earnings Per Common Share	\$ 0.20	\$ 0.22
Annualized Return on Average Assets	0.52%	0.60%
Annualized Return on Average Common Equity	5.18%	5.83%
Book Value Per Share at period end ¹	\$ 15.62	\$ 14.98
Tangible Book Value Per Share at period end ²	\$ 13.95	\$ 13.31
Weighted Average Common Shares Outstanding	3,404,367	3,404,367
Common Shares Outstanding period end	3,404,367	3,404,367
Allowance for Loan Losses to period end Loans	0.94%	1.04%
Non-Performing Loans to period end Loans ³	1.69%	2.33%
Non-Performing Assets to Total Assets ⁴	1.51%	2.05%

1) Common Equity per common share.

2) Tangible common equity per common share.

3) Non-performing loans consist of non-accrual loans and restructured loans, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

4) Non-performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

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 Investor Relations at Computershare Trust Company, N.A.

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 CIP at Computershare.

Computershare Trust Company, N.A.
P.O. 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

