

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through September 30, 2016 show net income before preferred stock dividends of \$3,555,000, a 1.6% decrease over the same period in 2015. Net interest income rose \$1,351,000, due to securities growth of \$15,342,000 and loan growth of \$37,491,000, as well as recovered interest of \$787,000 on distressed loan accounts thus far in the year. Non-interest income rose by 16.8% year over year. Two components are increased revenue on products and services and fees on back to back swap arrangements with customers. Non-interest expense increased by \$1,044,000 over the same nine month period in 2015, nearly 60% of the increase being salaries and benefits, much of which was for strategic hires and succession planning for various officer positions. We expect the salary increases to level out over time.

The provision for loan losses increased by \$848,000 over the prior year. During the third quarter we provided \$118,000. Management monitors credit quality and the Allowance for Loan Losses on an ongoing basis. We're pleased to see non-performing loans to period end loans continuing to improve to 1.54% as compared to 1.74% last quarter and 2.16% last year at this time.

Turning to liabilities, growth continued for the Bank with \$15,530,000 of local deposits during the third quarter and \$52,428,000 year over year. We continue to be pleased with deposit growth in general.

Total assets reached \$744,291,000, an all-time high. Total consolidated equity stood at \$65,303,000. A quarterly common stock dividend of \$.10 per share was paid for the third quarter of 2016. Tangible book value grew at a rate of 7.1% over the prior year.

We are pleased to welcome James Mattila as Assistant Vice President, Commercial Services Officer. Based in Houlton, he will be responsible for business lending and development in southern Aroostook County. Prior to joining the Bank, James spent eight years at The County Federal Credit Union, having served as Loan Officer and most recently as Branch Manager in Houlton. His

experience in business development and his community outreach will be a tremendous asset in his new position at Katahdin Trust as we continue to grow our relationships with small businesses throughout The County.

I would like to congratulate Natasha McCarthy on her well-deserved promotion to Human Resources Director, succeeding Bonnie London who retired September 2, 2016. Bonnie was involved in banking her entire career, joining the industry shortly after graduating from Houlton High School. She joined Katahdin Trust in 1991 as Asst. Treasurer and in 1999 was named Executive Assistant and Personnel Officer. The majority of her career at Katahdin Trust has involved working closely with the Office of the President, the Board of Directors, our shareholders and human resources. Natasha has exhibited tremendous dedication and commitment to Katahdin Trust and is a highly valued member of our team, contributing daily to the success of our employees throughout the Bank. Natasha joined the Bank in 2009 as Human Resources Assistant and was promoted to Human Resources Generalist in 2014, the position she held until her recent promotion. In her new role she will be responsible for developing and implementing human resource policies and procedures to recruit and retain the best possible staff to provide superior customer service to the Bank's customers.

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**
Kimberley A. Niles
Paul R. Powers
Arthur L. Shur

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 THIRD QUARTER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	September 30, 2016	September 30, 2015
ASSETS		
Cash & Due from Banks	\$ 14,218	\$ 11,020
Investments	85,070	69,728
Total Loans	617,351	579,860
Reserve for Loan Loss	(5,719)	(5,417)
Fixed Assets	12,321	13,419
Other Assets	21,050	19,203
Total Assets	\$ 744,291	\$ 687,813
LIABILITIES		
Deposits	\$ 644,425	\$ 576,485
Repurchase Agreements	694	412
Borrowings	20,180	36,291
Other Liabilities	13,689	12,721
Total Liabilities	\$ 678,988	\$ 625,909
SHAREHOLDERS' EQUITY		
Preferred Stock, Series D	\$ 9,743	\$ 9,650
Common Shareholders' Equity	55,637	52,995
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	735	248
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(812)	(989)
Total Shareholders' Equity	\$ 65,303	\$ 61,904
Total Liabilities & Shareholders' Equity	\$ 744,291	\$ 687,813
Letters of Credit	\$ 2,840	\$ 2,909

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended September 30, 2016		For 9 Months Ended September 30, 2016	
	2016	2015	2016	2015
Interest Income	\$ 7,433	\$ 6,994	\$ 22,130	\$ 20,503
Interest Expense	1,044	966	3,168	2,892
Net Interest Income	\$ 6,389	\$ 6,028	\$ 18,962	\$ 17,611
Less: Provision for Loan Losses	118	-	848	-
Net Interest Income After Provisions	\$ 6,271	\$ 6,028	\$ 18,114	\$ 17,611
Non-Interest Income	1,278	1,011	3,315	2,839
Non-Interest Expense	5,509	5,068	16,146	15,102
Net Operating Income	\$ 2,040	\$ 1,971	\$ 5,283	\$ 5,348
Less: Provision for Income Taxes	668	638	1,728	1,736
Net Income	\$ 1,372	\$ 1,333	\$ 3,555	\$ 3,612
Less: Dividends on Preferred Stock	218	219	656	692
Net Income Available to Common Shareholders	\$ 1,154	\$ 1,114	\$ 2,899	\$ 2,920
Earnings Per Common Share	\$ 0.34	\$ 0.33	\$ 0.85	\$ 0.86
Annualized Return on Average Assets	0.74%	0.77%	0.66%	0.71%
Annualized Return on Average Common Equity	8.30%	8.46%	7.14%	7.55%
Book Value Per Share at period end ¹			\$ 16.32	\$ 15.35
Tangible Book Value Per Share at period end ²			\$ 14.65	\$ 13.68
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			0.93%	0.93%
Non-Performing Loans to period end Loans ³			1.54%	2.16%
Non-Performing Assets to Total Assets ⁴			1.37%	1.93%

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 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 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 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

