

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results for the first quarter of 2017 show net income before preferred stock dividends of \$826,000, which was down \$82,000 from the prior year's first quarter. Earnings per common share decreased from \$.20 per share to \$.18 per share. Growth in net interest income of \$186,000 was offset by a one-time charge included in non-interest expense of \$285,000. This charge was primarily for the write-down of real estate from branches closed in Washburn, Easton and Limestone. All three locations are being marketed for sale.

The increase in net interest income was due to strong loan growth of \$56,197,000 year over year, aided by additional investment portfolio assets of \$18,581,000 during the same period. Local deposits rose \$28,775,000 over the same period in 2016, representing 40% of the deposits required to fund asset growth. Management will continue to focus on growing deposits to fund as much of our asset growth as possible. Over the last few years, we've had success keeping our local vs. wholesale deposits growing proportionally with asset growth. The timing of deposit growth does not always coincide with asset growth, as demonstrated by first quarter asset growth being funded primarily by wholesale deposits.

Non-interest income increased by \$19,000 year over year. While this is a small increase, overall growth in this category has picked up in recent years due to new revenue initiatives put in place.

Non-interest expense increased \$380,000. Most of the non-interest expense growth was related to the branch closures referenced above. Excluding this one-time expense would bring the increase to \$95,000 or 1.8% over last year. Steps to improve operating efficiency are beginning to take shape within the numbers. Management continues to review expenses with the goal of balancing strategic growth with long term operating efficiency.

The Bank added \$220,000 to the Allowance for Loan Losses in the first quarter, which was \$50,000 below the provision for loan losses last year at this time. Non-performing loans to period end loans at

2.30% is elevated over last year's 1.69% and down from 2.45% at year-end 2016.

Total assets stood at \$781,852,000 on March 31. Total consolidated equity increased to \$65,093,000 at period end. A quarterly dividend on common stock of \$.10 per share was paid for the first quarter of 2017.

I am pleased to announce the promotions of Kate Goodwin to Project Manager and Sarah Silliboy to Bank Secrecy Act (BSA) Officer. Kate's new responsibilities include increasing the Bank's overall productivity and profitability by working closely with Senior Management as well as department heads and vendors to assist in delivering every project on time, within budget and within scope. Sarah will be responsible for implementing and monitoring all aspects of BSA to ensure that each functional area of the Bank achieves and maintains compliance with all Bank Secrecy Act/Anti-Money Laundering laws and banking regulations.

We were extremely saddened with the sudden passing of employee John Quesnel in March. John had worked in banking for many years and joined Katahdin Trust last May as Vice President, Managed Assets Officer. In his time with us he became a very valuable and dedicated employee and was well respected among his co-workers. We extend our heartfelt sympathy to his wife and daughter. He will be sadly missed.

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 ATM

17 Main Street
435-6461

Bangor ATM

609 Broadway
942-3146

Bangor ATM

52 Springer Drive
947-9674

Caribou ATM

105 Bennett Drive
498-4200

Eagle Lake

3440 Aroostook Road
444-5543

Fort Fairfield ATM

290 Main Street
472-3161

Fort Kent ATM

79 West Main Street
834-2348

Hampden ATM

57 Western Avenue
862-2211

Houlton ATM

65 North Street
532-4277

Island Falls ATM

1007 Crystal Road
463-2228

Mars Hill ATM

28 Main Street
429-8400

Oakfield ATM

200 Oakfield Smyrna Rd
757-8288

Patten ATM

11 Main Street
528-2211

Presque Isle ATM

6 North Street
764-8000

Scarborough

144 US Route One
510-7017

Van Buren ATM

29 Main Street, Ste.105
868-2728

REMOTE ATM LOCATION

Limestone ATM ONLY

35 Main Street, Limestone

COMMERCIAL LOAN OFFICE

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



www.KatahdinTrust.com



2017 FIRST QUARTER

PHOTO BY PAUL CYR

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	March 31,	
	2017	2016
ASSETS		
Cash & Due from Banks	\$ 10,360	\$ 9,214
Investments	93,199	74,618
Total Loans	649,028	592,831
Reserve for Loan Loss	(6,266)	(5,579)
Fixed Assets	11,632	12,908
Other Assets	23,899	20,686
Total Assets	\$ 781,852	\$ 704,678

LIABILITIES

Deposits	\$ 670,460	\$ 606,286
Repurchase Agreements	180	566
Borrowings	32,320	23,051
Other Liabilities	13,799	11,902
Total Liabilities	\$ 716,759	\$ 641,805

SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,790	\$ 9,696
Common Shareholders' Equity	56,561	53,937
Net Unrealized Depreciation on Securities Available-for-Sale, Net of Tax	(782)	277
Net Unrealized Depreciation on Derivative Investments at Fair Value, Net of Tax	(203)	(1,037)
Unearned ESOP Shares	(273)	-
Total Shareholders' Equity	\$ 65,093	\$ 62,873
Total Liabilities & Shareholders' Equity	\$ 781,852	\$ 704,678

Letters of Credit	\$ 2,552	\$ 3,139
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CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended March 31,	
	2017	2016
Interest Income	\$ 7,302	\$ 7,046
Interest Expense	1,187	1,117
Net Interest Income	\$ 6,115	\$ 5,929
Less: Provision for Loan Losses	220	270
Net Interest Income After Provisions	\$ 5,895	\$ 5,659
Non-Interest Income	986	967
Non-Interest Expense ⁷	5,661	5,281
Net Operating Income	\$ 1,220	\$ 1,345
Less: Provision for Income Taxes	394	437
Net Income	\$ 826	\$ 908
Less: Dividends on Preferred Stock	219	219
Net Income Available to Common Shareholders	\$ 607	\$ 689
Earnings Per Common Share	\$ 0.18	\$ 0.20
Annualized Return on Average Assets	0.43%	0.52%
Annualized Return on Average Common Equity	4.46%	5.18%
Book Value Per Share at period end ¹	\$ 16.36	\$ 15.62
Tangible Book Value Per Share at period end ²	\$ 14.68	\$ 13.95
Weighted Average Common Shares Outstanding ³	3,380,173	3,404,367
Common Shares Outstanding period end	3,404,367	3,404,367
Adjusted Common Shares Outstanding period end ⁴	3,380,173	3,404,367
Allowance for Loan Losses to period end Loans	0.97%	0.94%
Non-Performing Loans to period end Loans ⁵	2.30%	1.69%
Non-Performing Assets to Total Assets ⁶	2.01%	1.51%

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 3 months ended March 31, 2017 included real estate write-downs and other one-time branch consolidation costs totaling \$285,000.

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.

