

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through December 31, 2016 show net income before preferred stock dividends of \$4,814,000, a slight increase over the prior year. During the fourth quarter we provided \$468,000 to our reserve for loan loss, which diminished our net income from expectations. This was primarily a result of the weakening of one large customer, as well as adjustments to several smaller relationships that have been hurt by the struggling logging and related industries. At the time of this writing, it is not known if the larger relationship will result in an actual future loss; however management felt it prudent to make the extra provision. For the calendar year, we provided \$1,316,000 compared to only \$50,000 the prior year.

Net interest income rose by \$1,418,000 for the year. Included in that figure was recovered interest of \$787,000; however we still saw growth in core net interest income. Non-interest income rose \$578,000 over the prior year, in line with expectations as a result of several initiatives. Non-interest expenses for the year rose 5.7% or \$1,163,000, with the bulk of the increase being strategic hires and succession planning across several positions. We expect salaries to moderate going forward. The company was able to recognize certain tax credits in the fourth quarter tax provision, including credits related to 2015 and 2016.

On the balance sheet, year-end totals showed loan growth of \$37,041,000, or 6.3%. We increased the securities portfolio by \$13,879,000 year over year. On the liabilities side, total deposits continued strong growth at \$46,764,000. Much of the growth came in local checking and savings deposits. This allowed us to maintain a relatively flat level of wholesale funding, which is our desire.

Total assets reached \$754,012,000, an all-time high. Total consolidated equity stood at \$64,415,000. A quarterly common stock dividend of \$.10 per share was paid for the fourth quarter of 2016.

A full presentation of our audited financial statements will be published online at www.otcmrket.com in early February and distributed in our 2016 Annual Report, along with the proxy statement, in March. We encourage all shareholders to review the financial details and vote your shares. Your vote is important to the company.

As announced during the quarter, on January 31 the bank will close three branches in Easton, Washburn and Limestone, consolidating their business activity into nearby offices. As consumer habits have changed over time leading to increased use of our online and mobile banking platforms, it is no longer feasible to operate many branches in close proximity to one another. We'll continue to strive to exceed customer expectations each day, yet look for operating efficiencies when possible.

We're pleased to announce the formation of an Employee Stock Ownership Plan (ESOP) in the fourth quarter of 2016. The new ESOP has initially purchased 25,500 shares of Katahdin Bankshares stock. The plan will from time to time purchase shares and assist with capital planning while simultaneously implementing an employee ownership structure. Increased

employee ownership has been demonstrated to improve company performance and create a culture of entrepreneurship.

In October, we were once again pleased to team up with the American Bankers Association's Get Smart About Credit program. The program is a national campaign of bankers who help young people develop responsible credit habits. The Bank utilized this as an opportunity to visit Maine schools and present lessons on important financial obstacles facing teens, including paying for college, building good credit habits, managing their money and protecting their identity.

I am pleased to announce the promotions of Alison Gould to Commercial Services Officer, based at our Houlton location and Yancy LaPointe to Manager and Retail Services Officer at our Fort Fairfield location. Yancy replaces Sue Fitzherbert who retired after over thirty years in banking. We thank Sue for the excellent leadership demonstrated during her tenure, which extended beyond the daily duties of providing financial solutions for our customers to her active involvement in the community and surrounding areas.

Alison's new responsibilities include business lending and development in southern Aroostook County. She started her career with Katahdin Trust in 1993 as a Commercial Services Assistant, and has held positions of increasing responsibility. In 2014 she was promoted to Commercial Services Specialist, the position she held until this recent promotion. Alison has earned several diplomas and certificates from the Center for Financial Training, including her Commercial Lending Diploma, Bank Operations Diploma, Small Business Banking Certificate and Supervisor Certificate.

In his new position Yancy will be responsible for the day-to-day management of activities at the Fort Fairfield branch, sales and business development, and retail lending. Yancy joined the bank in 2005 starting his banking career as a part-time teller and has earned several promotions since. Yancy attended the Northern New England School of Banking in Durham New Hampshire and the Young Professionals Institute in Presque Isle. He has also earned several banking diplomas and certificates from the Center for Financial Training Education Alliance. Yancy is also very active in his community serving in a variety of positions with various organizations.

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	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



www.KatahdinTrust.com



PHOTO BY PAUL CYR



2016 FOURTH QUARTER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	December 31,	
	2016	2015
ASSETS		
Cash & Due from Banks	\$ 11,323	\$ 11,545
Investments	88,965	75,086
Total Loans	623,279	586,238
Reserve for Loan Loss	(6,032)	(5,330)
Fixed Assets	12,162	13,172
Other Assets	24,315	21,578
Total Assets	\$ 754,012	\$ 702,289

LIABILITIES

Deposits	\$ 652,969	\$ 606,205
Repurchase Agreements	889	540
Borrowings	21,178	20,188
Other Liabilities	14,561	12,999
Total Liabilities	\$ 689,597	\$ 639,932

SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,766	\$ 9,673
Common Shareholders' Equity	56,097	53,611
Net Unrealized Depreciation on Securities Available-for-Sale, Net of Tax	(856)	(109)
Net Unrealized Depreciation on Derivative Investments at Fair Value, Net of Tax	(319)	(818)
Unearned ESOP Shares	(273)	-
Total Shareholders' Equity	\$ 64,415	\$ 62,357
Total Liabilities & Shareholders' Equity	\$ 754,012	\$ 702,289

Letters of Credit	\$ 2,505	\$ 2,723
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CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended December 31,		For 12 Months Ended December 31,	
	2016	2015	2016	2015
Interest Income	\$ 7,220	\$ 7,009	\$ 29,350	\$ 27,512
Interest Expense	1,113	969	4,281	3,861
Net Interest Income	\$ 6,107	\$ 6,040	\$ 25,069	\$ 23,651
Less: Provision for Loan Losses	468	50	1,316	50
Net Interest Income After Provisions	\$ 5,639	\$ 5,990	\$ 23,753	\$ 23,601
Non-Interest Income	1,145	1,043	4,460	3,882
Non-Interest Expense	5,389	5,270	21,535	20,372
Net Operating Income	\$ 1,395	\$ 1,763	\$ 6,678	\$ 7,111
Less: Provision for Income Taxes	136	565	1,864	2,301
Net Income	\$ 1,259	\$ 1,198	\$ 4,814	\$ 4,810
Less: Dividends on Preferred Stock	219	218	875	910
Net Income Available to Common Shareholders	\$ 1,040	\$ 980	\$ 3,939	\$ 3,900
Earnings Per Common Share	\$ 0.31	\$ 0.29	\$ 1.16	\$ 1.15
Annualized Return on Average Assets	0.67%	0.68%	0.66%	0.70%
Annualized Return on Average Common Equity	7.50%	7.36%	7.23%	7.50%
Book Value Per Share at period end ¹			\$ 16.17	\$ 15.47
Tangible Book Value Per Share at period end ²			\$ 14.48	\$ 13.80
Weighted Average Common Shares Outstanding ³			3,399,826	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%	0.91%
Non-Performing Loans to period end Loans ⁵			2.45%	1.47%
Non-Performing Assets to Total Assets ⁶			2.11%	1.31%

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.

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.otcmarkets.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

