A MESSAGE FROM THE PRESIDENT...

To our Shareholders, Customers and Employees:

Unaudited financial results through March 31, 2013 show net income before preferred stock dividends of $938,000. This is a decline from the same period in 2012 of $65,000. Pressure on our yield on earning assets due to an extremely low interest rate environment, expenses related to moving from our prior software providers to our new software partner Fiserv, and tax credits reflected in 2012 not repeated in 2013 all contributed to lower income this quarter compared to last year.

While our net interest income grew slightly by 2.6% over the same period in 2012, the very low and flat yield curve has led to declining margins, which we were not able to offset with loan growth to the extent we had budgeted. Loan demand, for the first time in recent months, was down in the 1st quarter as our loan portfolio actually shrank by $2,727,000 as compared to December 31. Year over year, loans are up by $23,711,000 or 5.2%. We continue to utilize a disciplined approach to loan acquisition whereby we will not decrease our underwriting standards in order to "reach" for loan growth.

One time software expenses of $104,000 occurred in the 1st quarter in preparation for the move to new information systems that will take place during the 2nd quarter. Additional costs will be accounted for in the 2nd quarter upon completion of the system changeover in June. These costs are non-recurring and thus won't be repeated in coming years. We feel this system upgrade over time will allow us to deliver new technology to our customers quicker and more efficiently, while providing services that consumers and small businesses have come to expect.

Last year the Bank accounted for estimated tax credits in Q1 2012 totaling approximately $132,000. These credits are not certain in 2013, thus particularly causing the higher estimated tax allocation for the 1st quarter this year.

Year over year, local deposits grew by $4.2 million. We continue to work diligently to bring new core deposits to the Bank throughout our markets. The balance of funding for loans and investments has come from other sources of funds such as national and brokered certificate of deposits. We've continued to improve liquidity on the balance sheet and reduce interest expense by reducing our secured borrowings and wholesale repurchase agreements which are down by $15,715,000 as compared to last year at this time.

Our investment portfolio grew $4,307,000 year over year.

Our stable credit quality coupled with the slight downtick in our loan portfolio dictated that we not add to our Reserve for Loan Loss in the 1st quarter. Management carefully examines our estimate of reserves on an ongoing basis and will take into account all factors affecting the reserve moving forward.

On a budgeted basis, we are in line with what we projected for results and will continue to manage the Bank through this very difficult operating environment. We will continue to position ourselves for an eventual upturn in rates. The Company has made significant investments in expansion and technology over the past three years that will allow us to better serve our customers as well as grow in promising new markets.

The board declared a cash dividend of $.0975 per share for the 1st quarter, which was 8.3% above the 1st quarter of last year.

In early February we moved our Scarborough office to a new location at 144 U.S. Route One. This move allows us to provide a more convenient and spacious facility and to enjoy greater visibility in the community. From this location we provide both small business lending by our commercial services officer and a home for Maine Financial Group.

We were also pleased to be honored by the American Bankers Association (ABA) with a Community Commitment Award. This honor that has been bestowed upon the Bank for the past several years, is based on the commitment to the communities it serves. I am indeed grateful and proud of the spirit of volunteerism that is demonstrated by our employees on a consistent basis, as when blended with the financial services we provide, help to define our role as a true community 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*
Arthur L. Shur, *Vice Chairman*
Robert E. Anderson
Robert H. Anderson
Peter F. Briggs
Paul R. Powers
Jon J. Prescott
Harold L. Stewart II, Esq.
Richard J. York

KATAHDIN TRUST COMPANY SENIOR MANAGEMENT

Jon J. Prescott, *President & CEO*
Bonnie C. Foster, *Senior Vice President, Retail Services*
Matthew M. Nightingale, *Senior Vice President, Treasurer & CFO*
Vicki J. Smith, *Senior Vice President, Marketing & Communications*
Peter P. St. John, *Senior Vice President, Commercial Services*

LOCATIONS

Ashland*
17 Main Street
435-6461

Bangor*
609 Broadway
942-3146

52 Springer Drive
947-9674

Caribou*
105 Bennett Drive
498-4200

Eagle Lake
3440 Aroostook Road
444-5543

Easton
82 Center Road
488-6642

Fort Fairfield*
290 Main Street
472-3161

Hampden*
57 Western Avenue
862-2211

Houlton*
65 North Street
532-4277

Island Falls*
1007 Crystal Road
463-2228

Limestone*
35 Main Street
325-4711

Mars Hill*
28 Main Street
429-8400

Oakfield
200 Oakfield Smyrna Rd
757-8288

Patten*
11 Main Street
528-2211

Presque Isle*
6 North Street
764-8000

Van Buren*
29 Main Street, Ste. 105
868-2728

Washburn
1282 Main Street
455-8141

Commercial Loan Offices

Scarborough
144 US Route One
510-7017

Maine Financial Group
144 US Route One
Scarborough
885-5900

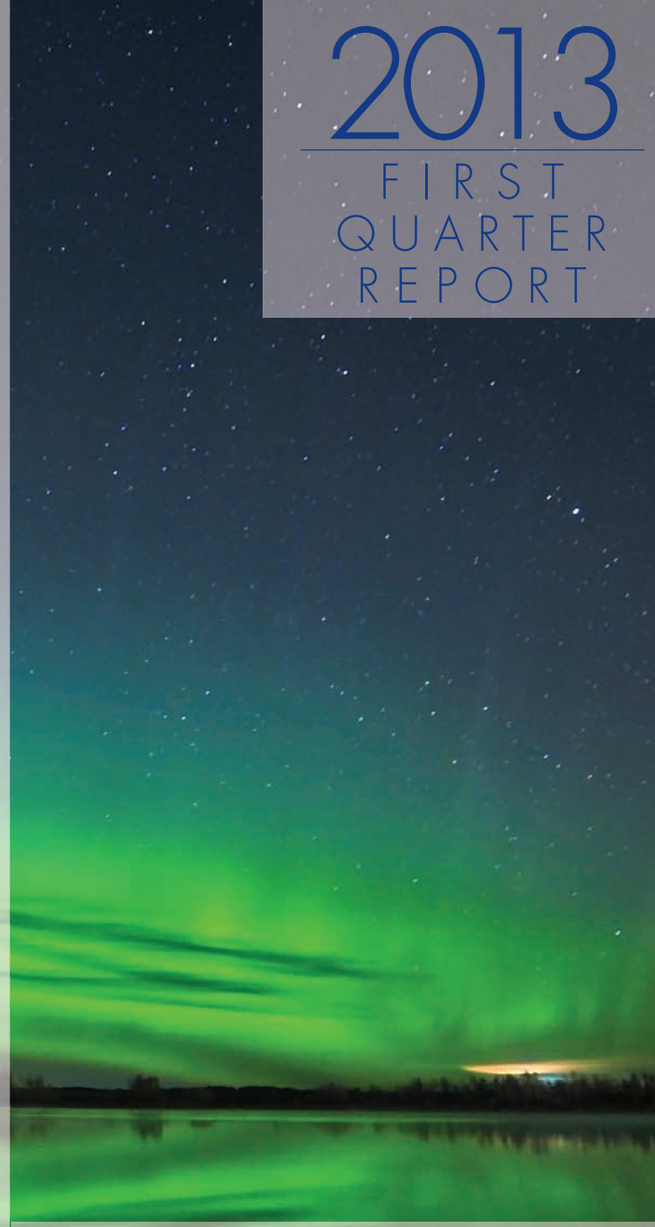
www.katahdintrust.com

MEMBER FDIC

*24-HOUR ATM

Katahdin Trust Company
Community Banking at its Best!

2013 FIRST QUARTER REPORT



Katahdin Bankshares Corp.

PO Box 450 | Patten, Maine 04765 | (207) 528-2211

KATAHDIN BANKSHARES CORP. (dollars in thousands, except per share data)

Consolidated Statement of Condition

(unaudited)

	March 31, 2013	March 31, 2012
ASSETS		
Cash & Due from Banks	$ 14,889	$ 12,581
Investments	60,877	56,570
Total Loans	478,859	455,148
Reserve for Loan Loss	(6,191)	(6,514)
Fixed Assets	13,132	10,408
Other Assets	22,716	21,789
Total Assets	**$584,282**	**$549,982**
LIABILITIES		
Deposits	$ 496,535	$449,385
Repurchase Agreements	674	7,628
Borrowings	17,717	26,478
Other Liabilities	10,763	10,598
Total Liabilities	$ 525,689	$494,089
SHAREHOLDERS' EQUITY		
Preferred Shareholders' Equity	$ 11,000	$ 11,000
Common Shareholders' Equity	46,991	44,049
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	1,044	1,286
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(442)	(442)
Total Shareholders' Equity	$ 58,593	$ 55,893
Total Liabilities & Shareholders' Equity	**$584,282**	**$549,982**
Letters of Credit	$ 2,477	$ 2,394

Consolidated Statements of Income

(unaudited)

	For 3 Months Ended March 31, 2013	For 3 Months Ended March 31, 2012
Interest Income	$ 6,416	$ 6,632
Interest Expense	1,222	1,569
Net Interest Income	$ 5,194	$ 5,063
Less: Provision for Loan Losses	-	220
Net Interest Income After Provisions	$ 5,194	$ 4,843
Non-Interest Income	836	794
Non-Interest Expense	4,667	4,367
Impairment of Investment Securities	11	42
Net Operating Income	$ 1,352	$ 1,228
Less: Provision for Income Taxes	414	225
Net Income	**$ 938**	**$ 1,003**
Less: Dividends Paid on Preferred Stock	41	28
Net Income Available to Common Shareholders	**$ 897**	**$ 975**
Earnings Per Common Share	$ 0.26	$ 0.29
Annualized Return on Average Assets	0.66%	0.75%
Annualized Return on Average Common Equity	7.66%	8.77%
Book Value Per Share at period end[1]	$ 13.98	$ 13.19
Tangible Book Value Per Share at period end[2]	$ 12.29	$ 11.48
Weighted Average Common Shares Outstanding	3,404,367	3,403,348
Common Shares Outstanding period end	3,404,367	3,404,367
Allowance for Loan Losses to period end Loans	1.29%	1.43%
Non-Performing Loans to period end Loans[3]	1.89%	1.98%
Non-Performing Assets to Total Assets[4]	1.86%	1.69%

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

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:

Jon J. Prescott, President & CEO
Katahdin Trust Company
PO Box 450 • Patten, Maine 04765
(207) 521-0455 Ext. 30211 • j.prescott@katahdintrust.com

STOCK

Katahdin Bankshares Corp. stock is quoted on the OTC Markets quote board OTCQB under the symbol KTHN.

TRANSFER AGENT

Shareholder inquiries regarding change of address or title should be directed to:

Investor Relations
Registrar and Transfer Company
10 Commerce Drive • Cranford, NJ 07016-3572
(800) 368-5948 • info@rtco.com • www.rtco.com

Northern Maine Photos by Paul A. Cyr – Presque Isle, Maine

Katahdin Bankshares Corp.