A MESSAGE FROM THE PRESIDENT

Unaudited results for the first quarter of 2018 show net income before preferred stock dividends of $1,636,000, an increase of $810,000 or more than 98% from the prior year. Earnings per common share increased 133.3% from $.18 per share to $.42 per share. There are many positive contributors to Net Income, including increased Net Interest Income, higher fee income, expense savings and an estimated $245,000 boost from the corporate tax rate reduction put in place by the Tax Cuts and Jobs Act of 2017.

This was the best quarter in our history from a bottom-line earnings standpoint, even if re-calculated on the old higher corporate tax rate. Return on average assets rose to .84% and return on average equity stood at 10.11%.

Net interest income increased $269,000 year over year in part due to loan growth of $16,379,000, though the investment portfolio shrank $6,594,000 during the same period. Net interest income also grew due to a slight widening of our net interest margin by 0.05%, an increase in the face of sharply rising wholesale funding costs.

Short-term rates have continued to increase, but corresponding longer-term rates have remained very low, causing a flattening of the yield curve. We are carefully monitoring our rate offerings for loans and deposits as our net interest margin is critical to our success. In general, higher loan rates have reduced opportunities for new business in the refinance area.

Non-interest income increased by $152,000 year over year. Much of this can be attributed to a one-time bonus from a vendor contract negotiation. Absent this factor, non-interest income was relatively flat year over year.

Non-interest expense decreased $374,000, due to the absence of $285,000 in branch closure write-downs included in the first quarter of 2017. Also, 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 $180,000 to the Allowance for Loan Losses in the first quarter, which was $40,000 below the provision for loan losses last year at this time. Non-performing loans to period end loans at 1.08% is lower than the 2.30% reported at the end of the first quarter of 2017, a sign of resolution of some problem loan relationships.

Total deposits show a drop of $42.4 million. However, this included a $71.8 million net reduction and strategic shift from wholesale brokered deposits to FHLB Borrowings which increased by a corresponding $50.9 million. Customer relationship deposits grew by $31.5 million or 6.3% year over year and covered all of our loan growth.

Total assets stood at $793,256,000 on March 31. Total consolidated equity increased to $66,812,000 at period end.

A quarterly dividend on common stock of $0.1075 per share was paid for the first quarter of 2018, representing a 7.5% increase over the prior quarter.

Staff has been working to roll out a new product offering of secondary market mortgages, while retaining our conventional portfolio offerings. This may allow us to attract a customer segment that we previously have not been able to reach. We expect this to be ready for market soon.

The United States Senate has passed a regulatory relief bill; S. 2155, which would offer us positive benefits. Currently the House of Representatives has not yet taken up a companion bill.

In March we celebrated the Bank's official 100th anniversary by hosting a week-long celebration at all 16 branch locations. Hundreds of customers and community members stopped by to enjoy refreshments, special anniversary giveaways, and daily prize drawings. Thank you to everyone who participated in celebrating this historic achievement with us. We are truly honored to reach this milestone and we look forward to the next 100 years.

I am very pleased to announce the well-deserved promotions of our Senior Management Team—Bonnie Foster, William Lucy, and Matthew Nightingale—to Executive Vice President. It is a privilege to work so closely with these three individuals every day. Their commitment to Katahdin Trust, our employees, customers, and shareholders is evident in every decision we make.

Bonnie has 35 years of banking experience. She joined Katahdin Trust in 2000 as Vice President of Retail Services and was named Senior Vice President in 2004. She will continue to be responsible for overall growth and administration of the retail division of the Bank, including branch administration, consumer lending, and training.

Bill joined the Bank in 2015 as Senior Vice President, Commercial Services after spending more than 20 years at People's United Bank and Merrill Merchants Bank, including his most recent position as Senior Vice President and Market President in Bangor. With 37 years of banking experience, Bill is responsible for the overall growth and administration of the commercial division of the Bank.

Matt has been with Katahdin Trust since 1998, working in various positions of the finance department before his promotion to Senior Vice President in 2009. With 20 years of banking experience, Matt is responsible for finance and accounting, asset-liability management, and oversees information technology, operations, and bank security.

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
Richard B. Harnum, Jr.
Kimberley A. Niles
Paul R. Powers

SENIOR MANAGEMENT

Jon J. Prescott, President & CEO
Bonnie C. Foster, Executive Vice President, Retail Services
William P. Lucy, Executive Vice President, Commercial Services
Matthew M. Nightingale, Executive 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

100 YEARS | Katahdin Trust Company

KatahdinTrust.com
MEMBER FDIC EQUAL HOUSING LENDER

Katahdin Bankshares Corp.

2018

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, 2018	March 31, 2017
ASSETS		
Cash & Due from Banks	$ 11,897	$ 10,360
Investments	86,605	93,199
Total Loans	665,407	649,028
Reserve for Loan Loss	(6,149)	(6,266)
Fixed Assets	11,083	11,632
Other Assets	24,413	23,899
Total Assets	**$ 793,256**	**$ 781,852**
LIABILITIES		
Deposits	$ 628,023	$ 670,460
Repurchase Agreements	110	180
Borrowings	83,224	32,320
Other Liabilities	15,087	13,799
Total Liabilities	$ 726,444	$ 716,759
SHAREHOLDERS' EQUITY		
Preferred Stock, Series D	$ 9,883	$ 9,790
Common Shareholders' Equity	59,290	56,561
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(2,030)	(782)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	226	(203)
Unearned ESOP Shares	(557)	(273)
Total Shareholders' Equity	$ 66,812	$ 65,093
Total Liabilities & Shareholders' Equity	**$ 793,256**	**$ 781,852**
Letters of Credit	$ 3,615	$ 2,552

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended March 31, 2018	2017
Interest Income	$ 7,875	$ 7,302
Interest Expense	1,491	1,187
Net Interest Income	$ 6,384	$ 6,115
Less: Provision for Loan Losses	180	220
Net Interest Income After Provisions	$ 6,204	$ 5,895
Non-Interest Income	1,138	986
Non-Interest Expense[7]	5,287	5,661
Net Operating Income	$ 2,055	$ 1,220
Less: Provision for Income Taxes	419	394
Net Income	**$ 1,636**	**$ 826**
Less: Dividends on Preferred Stock	$ 219	$ 219
Net Income Available to Common Shareholders	**$ 1,417**	**$ 607**
Earnings Per Common Share	$ 0.42	$ 0.18
Annualized Return on Average Assets	0.84%	0.43%
Annualized Return on Average Common Equity	10.11%	4.46%
Book Value Per Share at period end[1]	$ 16.85	$ 16.36
Tangible Book Value Per Share at period end[2]	$ 15.16	$ 14.68
Weighted Average Common Shares Outstanding[3]	3,361,298	3,380,173
Common Shares Outstanding period end	3,404,367	3,404,367
Adjusted Common Shares Outstanding period end[4]	3,361,298	3,380,173
Allowance for Loan Losses to period end Loans	0.92%	0.97%
Non-Performing Loans to period end Loans[5]	1.08%	2.30%
Non-Performing Assets to Total Assets[6]	0.95%	2.01%

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
Executive 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

BEST 50 OTCQX 2018

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.

Katahdin Bankshares Corp.