

A MESSAGE FROM THE PRESIDENT

We are pleased to report continued excellent results for Katahdin Bankshares Corp. Third quarter net income before preferred stock dividends totaled \$1,872,000, bringing year to date earnings to \$5,311,000. Earnings increased over the first nine months of 2017 by \$1,949,000 or 58%. Four key factors make up this year over year growth:

1. Increased pre-tax net interest income of \$610,000,
2. A reduction of \$428,000 in pre-tax operating expenses (2017 included extra one-time branch closing costs of \$285,000),
3. Improving credit quality requiring a lower provision for loan losses of \$620,000 pre-tax, and
4. Savings from the Federal corporate tax rate reduction last year producing tax accrual savings of an estimated \$812,000.

The Company earned \$1.39 per share year to date, an increase of \$0.59 over 2017. Return on average assets totaled 0.90% and the Company return on average equity stood at 10.79% compared to 6.45% in 2017.

Total assets are down slightly from last year, mainly reflecting two large loan payoffs in the third quarter of 2018. Total assets stood at \$792,445,000 on September 30, 2018 compared to \$793,160,000 in 2017 and \$801,672,000 on June 30, 2018. Investments totaled \$90,170,000. We've purchased securities sufficient to maintain but not grow the portfolio during this time, as yields have not been favorable. Total loans stand at \$656,137,000, down from last year by \$5.5 million as a result of a net \$14.8 million portfolio reduction in the third quarter. We continue to develop new business to replace this reduction, while at the same time focusing on maintaining solid credit standards and net interest margins. Higher interest rates have somewhat slowed the pace of new business, particularly on refinances.

Credit conditions remained solid. Non-performing loans to period-end loans totaled 1.05%, very similar to last quarter and down from 1.82% last year at this time. Our assessment is that the allowance for loan losses is adequately funded at this time. We assess our allowance on an ongoing basis.

We continue to experience good deposit growth, benefiting our funding mix and helping maintain profits through a stable net interest margin. Total deposits stood at \$632,483,000, down from last year by \$14.5 million. However, this total includes local deposit growth of \$18.4 million year over year coupled with a reduction in brokered deposits and national cd's of \$32.9 million. We're pleased with the results of business development efforts throughout all of our market areas.

The Company paid a quarterly dividend of \$0.1075 per share in the third quarter 2018, representing a 7.5% increase over 2017.

I am proud to share that Katahdin Trust has been named as one of the 2018 Best Places to Work in Maine. Based on employee feedback, we were ranked one of the top 37 companies in the medium employer category (50–249 employees). This awards program is a project of the Society for Human Resource Management — Maine State Council (MESHRM) and Best Companies Group. In addition to offering an outstanding benefits package, we take great pride in our company culture. Our employees are committed to our customers' success, providing a supportive environment for one another, and being actively involved in their communities.

As we continue to celebrate our 100th anniversary I would like to thank the many employees who chose to participate in their local parades this summer with a Katahdin Trust float. I appreciate the time and effort it took to prepare and the enthusiasm displayed by each employee in helping their communities celebrate with us.

We are pleased to welcome Sarah Bowie as Vice President, Business Development Officer. She joins the Bank with over fifteen years of banking experience and will be based at our Scarborough office. Sarah will be responsible for business development of all types with a concentration on deposit services for small business, commercial and non-profit entities. As we continue to grow in southern Maine our current and future customers will benefit from Sarah's banking experience and excellent understanding of the financial products and services needed by businesses in the Greater Portland region.

Congratulations to Sam Clockedile who has been promoted to Marketing Officer. Sam has been with Katahdin Trust for eight years and recently obtained his Certified Financial Marketing Professional (CFMP) certification. Sam's expertise in all aspects of our Bank's brand has been a great benefit to our marketing efforts. We appreciate everything Sam contributes to our visibility in the communities we serve.

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
Krista K. Putnam, Senior Vice President, Marketing

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



KatahdinTrust.com

MEMBER FDIC EQUAL HOUSING LENDER



Katahdin
Bankshares Corp.

2018

THIRD QUARTER



PHOTO BY PAUL CYR



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

| | September 30, | |
|-----------------------|-------------------|-------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Cash & Due from Banks | \$ 15,464 | \$ 12,146 |
| Investments | 90,170 | 91,516 |
| Total Loans | 656,137 | 661,648 |
| Reserve for Loan Loss | (5,873) | (6,627) |
| Fixed Assets | 10,612 | 11,090 |
| Other Assets | 25,935 | 23,387 |
| Total Assets | \$ 792,445 | \$ 793,160 |

LIABILITIES

| | | |
|-----------------------|------------|------------|
| Deposits | \$ 632,483 | \$ 646,939 |
| Repurchase Agreements | - | 135 |
| Borrowings | 71,754 | 65,045 |
| Other Liabilities | 19,670 | 14,548 |
| Total Liabilities | \$ 723,907 | \$ 726,667 |

SHAREHOLDERS' EQUITY

| | | |
|--|-------------------|-------------------|
| Preferred Stock, Series D | \$ 9,930 | \$ 9,837 |
| Common Shareholders' Equity | 61,761 | 57,716 |
| Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax | (2,383) | (285) |
| Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax | 316 | (131) |
| Unearned ESOP Shares | (1,086) | (644) |
| Total Shareholders' Equity | \$ 68,538 | \$ 66,493 |
| Total Liabilities & Shareholders' Equity | \$ 792,445 | \$ 793,160 |

| | | |
|-------------------|----------|----------|
| Letters of Credit | \$ 2,989 | \$ 3,049 |
|-------------------|----------|----------|

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

| | For 3 Months Ended September 30, | | For 9 Months Ended September 30, | |
|--|-------------------------------------|-----------------|-------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Interest Income | \$ 8,416 | \$ 7,923 | \$ 24,528 | \$ 22,812 |
| Interest Expense | 1,821 | 1,465 | 5,047 | 3,941 |
| Net Interest Income | \$ 6,595 | \$ 6,458 | \$ 19,481 | \$ 18,871 |
| Less: Provision for Loan Losses | - | 210 | 180 | 800 |
| Net Interest Income After Provisions | \$ 6,595 | \$ 6,248 | \$ 19,301 | \$ 18,071 |
| Non-Interest Income | 1,103 | 1,025 | 3,294 | 3,265 |
| Non-Interest Expense ⁷ | 5,348 | 5,221 | 15,922 | 16,350 |
| Net Operating Income | \$ 2,350 | \$ 2,052 | \$ 6,673 | \$ 4,986 |
| Less: Provision for Income Taxes | 478 | 671 | 1,362 | 1,624 |
| Net Income | \$ 1,872 | \$ 1,381 | \$ 5,311 | \$ 3,362 |
| Less: Dividends on Preferred Stock | 218 | 218 | 656 | 656 |
| Net Income Available to Common Shareholders | \$ 1,654 | \$ 1,163 | \$ 4,655 | \$ 2,706 |
| Earnings Per Common Share | \$ 0.50 | \$ 0.34 | \$ 1.39 | \$ 0.80 |
| Annualized Return on Average Assets | 0.94% | 0.68% | 0.90% | 0.57% |
| Annualized Return on Average Common Equity | 11.19% | 8.11% | 10.79% | 6.45% |
| Book Value Per Share at period end ¹ | | | \$ 17.61 | \$ 16.90 |
| Tangible Book Value Per Share at period end ² | | | \$ 15.89 | \$ 15.20 |
| Weighted Average Common Shares Outstanding ³ | | | 3,350,217 | 3,379,975 |
| Common Shares Outstanding period end | | | 3,404,367 | 3,404,367 |
| Adjusted Common Shares Outstanding period end ⁴ | | | 3,329,455 | 3,353,173 |
| Allowance for Loan Losses to period end Loans | | | 0.90% | 1.00% |
| Non-Performing Loans to period end Loans ⁵ | | | 1.05% | 1.82% |
| Non-Performing Assets to Total Assets ⁶ | | | 0.90% | 1.59% |

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 9 months ended September 30, 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



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.

