2014
SECOND QUARTER REPORT

PHOTOS BY PAUL CYR

Katahdin Bankshares Corp.

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through June 30, 2014 show net income before preferred stock dividends of $1,878,000. This is a decrease of $127,000 from the same period of 2013. Although net interest income increased $513,000, this was offset by an increase to the provision for loan losses of $475,000 year over year. Other major income and expense categories saw only slight changes from the same period last year. On the positive side, our net interest margin has remained stable for the last six months.

On the balance sheet, loan growth from the prior year stood at $41,849,000. Local deposits grew $7,020,000 year over year, with the balance of funding for growth procured in the national and brokered CD markets. Total assets reached a record high of $647,082,000.

On June 27, 2014 Katahdin Bankshares Corp. issued 4,000 shares of Series D floating rate non-cumulative perpetual preferred stock to StoneCastle Financial Corp. The net proceeds from the new offering added $9,634,000 of new Tier 1 equity capital to Katahdin Bankshares Corp. The dividend will be set quarterly at a floating rate of 3 Month LIBOR plus 4.25% with a floor of 8.75%. $4,500,000 of the proceeds were immediately transferred to Katahdin Trust Company, providing additional Tier I Capital to be used for general corporate purposes. This was an advantageous transaction for the Company and we were pleased to raise capital in the private markets for the first time since 2007. The Company may also consider future capital raising methods. With the infusion of capital, Total Shareholders' Equity increased to $69,891,000. The Company again declared a $.10 dividend for the second quarter, which was a 2.6% increase over the same period in 2013.

On May 21 Katahdin Bankshares Corp (KTHN) was among eight inaugural banks to be listed on the OTCQX® marketplace. Previously we had been listed on the OTCQB quote board. OTCQX is the OTC Markets Group premier listing service (www.otcmarkets.com). To be on the OTCQX vs. the OTCQB, a company must be either a SEC Registrant or a strong well-capitalized regulated Bank. While not a SEC Registrant, Katahdin does fit the criteria for listing on this higher tier. We are committed to enhancing value for our shareholders and are always trying to create interest in our company for both current and potential investors. This provides a method to do so by offering more financial information at the investor's finger tips which is both current and conveniently located in one place. Complete details on the listing of KTHN can be found at www.otcmarkets.com/stock/KTHN.

In April twenty six of our employees participated in the annual Teach Children to Save Day, a nationwide event designed to teach children their financial ABC's. Employees reached out to over 550 students in twenty seven classrooms throughout northern Maine and the greater Bangor area.

On May 5 we opened our 19th location at 79 West Main Street in Fort Kent. This location marked our third in the St. John Valley area and fully completes our coverage of the Aroostook County market. As part of our ribbon cutting ceremony, we announced a donation of $1,900, which is symbolic of $100 for each of our locations, to the Fort Kent Recreation and Parks Department.

In May we added a second commercial services officer to our Scarborough location and welcome Vice President Vicki Bessette to our team. Vicki brings over 34 years of experience in the financial services industry and will be a tremendous asset in her new position at Katahdin Trust. She has earned a well-deserved reputation for lending excellence and we look forward to the expertise that she will bring to our Bank.

In May we also hired three young professionals as part of the Bank's first Summer Internship Program. Our desire is to develop young people who may have a role in our future work force, as well as help create jobs in Aroostook County. This program will give students a sense of professionalism that supplements their work in the classroom and show our younger population that they don't have to leave The County to use their degree. We are pleased to welcome Riley Parady of Fort Fairfield, Alyson McGillicuddy of Houlton, and Mark Levasseur of Van Buren.

In June we were pleased to be recognized by the U.S. Small Business Administration (SBA) as the Top 7 (a) Dollar Volume Lender in Maine for 2013. SBA's 7(a) loans are used to establish new businesses or to assist in the acquisition, operation or expansion of an existing business.

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
Harold L. Stewart II, Esq., Vice Chairman
Jon J. Prescott
Robert E. Anderson
Robert H. Anderson
Peter F. Briggs
Paul R. Powers
Arthur L. Shur
Richard J. York

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

BRANCH OFFICES

Ashland*
17 Main Street
435-6461

Bangor*
609 Broadway
942-3146

Bangor*
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

Fort Kent*
79 West Main Street
834-2348

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

Scarborough
144 US Route One
510-7017

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

Washburn
1282 Main Street
455-8141

*24-HOUR ATM

COMMERCIAL LOAN OFFICE

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

Katahdin Trust Company

MEMBER FDIC

EQUAL HOUSING LENDER

www.KatahdinTrust.com

PO BOX 450 I PATTEN, MAINE 04765 I (207) 528-2211

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	June 30, 2014	June 30, 2013
ASSETS		
Cash & Due from Banks	$ 16,343	$ 17,342
Investments	53,733	60,237
Total Loans	547,025	505,176
Reserve for Loan Loss	(6,164)	(5,416)
Fixed Assets	14,578	13,363
Other Assets	21,567	20,954
Total Assets	**$ 647,082**	**$ 611,656**
LIABILITIES		
Deposits	$ 554,387	$ 529,715
Repurchase Agreements	851	829
Borrowings	9,229	11,715
Other Liabilities	12,724	10,996
Total Liabilities	**$ 577,191**	**$ 553,255**
SHAREHOLDERS' EQUITY		
Preferred Stock, Series C	$ 11,000	$ 11,000
Preferred Stock, Series D	9,634	-
Common Shareholders' Equity	49,949	47,705
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	(137)	68
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(555)	(372)
Total Shareholders' Equity	$ 69,891	$ 58,401
Total Liabilities & Shareholders' Equity	**$ 647,082**	**$ 611,656**
Letters of Credit	$ 2,404	$ 2,629

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended June 30, 2014	For 3 Months Ended June 30, 2013	For 6 Months Ended June 30, 2014	For 6 Months Ended June 30, 2013
Interest Income	$ 6,724	$ 6,596	$ 13,297	$ 13,012
Interest Expense	1,102	1,183	2,177	2,405
Net Interest Income	$ 5,622	$ 5,413	$ 11,120	$ 10,607
Less: Provision for Loan Losses	139	(67)[5]	408	(67)[5]
Net Interest Income After Provisions	$ 5,483	$ 5,480	$ 10,712	$ 10,674
Non-Interest Income	872	883	1,729	1,719
Non-Interest Expense	4,951	4,780	9,664	9,447
Loss on Other Real Estate Owned	11	12[5]	11	12[5]
Impairment of Investment Securities	15	8	15	19
Net Operating Income	$ 1,378	$ 1,563	$ 2,751	$ 2,915
Less: Provision for Income Taxes	436	496	873	910
Net Income	**$ 942**	**$ 1,067**	**$ 1,878**	**$ 2,005**
Less: Dividends Paid on Preferred Stock	28	27	55	68
Net Income Available to Common Shareholders	**$ 914**	**$ 1,040**	**$ 1,823**	**$ 1,937**
Earnings Per Common Share	$ 0.27	$ 0.31	$ 0.54	$ 0.57
Annualized Return on Average Assets	0.59%	0.72%	0.59%	0.69%
Annualized Return on Average Common Equity	7.43%	8.76%	7.50%	8.21%
Book Value Per Share at period end[1]			$ 14.54	$ 13.92
Tangible Book Value Per Share at period end[2]			$ 12.87	$ 12.24
Weighted Average Common Shares Outstanding			3,404,367	3,404,367
Common Shares Outstanding period end			3,404,367	3,404,367
Allowance for Loan Losses to period end Loans			1.13%	1.07%
Non-Performing Loans to period end Loans[3]			2.27%	1.62%
Non-Performing Assets to Total Assets[4]			1.96%	1.40%

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. Inclusive of any guaranteed portion of non-accrual loans.
4) Non-performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable. Inclusive of any guaranteed portion of non-accrual loans.
5) The 3 and 6 months ended June 30, 2013 income statement includes a reclassification of $663,000 from Loss on Other Real Estate Owned to Provision for Loan Losses. The reclassification was done after the Company obtained additional information related to a charge off loan in the 4th Quarter 2013. The reclassification had no impact on 2013 Net Income.

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. 10211
j.prescott@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

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

Katahdin Bankshares Corp.