A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through June 30, 2015 show net income before preferred stock dividends of $2,279,000, a 21.4% increase over the same six months of 2014. Net interest income increased $463,000 year over year, while non-interest income rose 5.7% to $1,828,000 for the six month period. Our net interest margin has remained stable over the first six months of this year, meaning growth in earning assets has produced positive net income. On the expense side, non-interest expense rose 3.6%, with normal operating cost inflation and technology expense accounting for most of the increase. For the second quarter alone, net income before preferred stock dividends increased by 37.8% to $1,298,000. This was a strong quarter for the Company.

We have not funded the Reserve for Loan Losses thus far in 2015. Management is comfortable with the Reserve and monitors it on a monthly basis.

Turning to the balance sheet, deposit growth has remained strong as local deposits have increased 10.7% year over year. Increased local deposits have funded loan growth so far this year, which is very positive. On the wholesale side, we have replaced a good portion of brokered deposits with lower-cost Federal Home Loan Bank borrowings. Loan growth picked up during the second quarter, with total loans at June 30 increasing $27,696,000 over the same period last year. Total Assets reached an all-time high of $681,886,000 at period end.

On April 27, 2015 the Company redeemed its Preferred Series C shares totaling $11 million. The Preferred Series C shares were issued as part of the Small Business Lending Fund (SBLF) which was created as part of the Small Business Jobs Act of 2010. Total consolidated equity stood at $61,013,000 at period end. The Board declared a dividend of $.10 per share for the second quarter.

I would like to congratulate Rebecca Smith for her recent promotion to Branch Manager and Retail Services Officer at our Broadway location in Bangor. Rebecca has been in the banking industry for nearly twenty years with a variety of responsibilities, including consumer and mortgage lending, staff management, teller and account opening. She joined the Bank in 2014, most recently serving as customer service representative at our Hampden office.

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 650 students in thirty classrooms throughout northern Maine and the greater Bangor area to help start children off on the right path to savings for their future. This is a very important service activity which we provide to our local communities.

In May we hired three young professionals to be a part of the Bank's second Summer Internship Program: Rachel Gillis of Nashville Plantation, Abigail Moody of Houlton, and Taylor Locke of Oakfield. We were very pleased with the results from last year's program; our first three interns have remained as employees of the Bank. Two are serving in part-time positions while they are attending college and one has transitioned to a full-time position. Our desire is to help create jobs in Aroostook County and to focus on our young people as future leaders. This program gives students a sense of professionalism that supplements their work in the classroom and shows our younger population that they don't have to leave Maine to find opportunity.

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



PHOTOS BY PAUL CYR

2015
SECOND QUARTER

Katahdin Trust Company

www.KatahdinTrust.com

MEMBER FDIC

Katahdin Bankshares Corp.

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)



CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

ASSETS	June 30, 2015	2014
Cash & Due from Banks	$ 11,258	$ 16,343
Investments	67,476	53,733
Total Loans	574,721	547,025
Reserve for Loan Loss	(5,485)	(6,164)
Fixed Assets	13,632	14,578
Other Assets	20,284	21,567
Total Assets	**$ 681,886**	**$ 647,082**
LIABILITIES		
Deposits	$ 577,870	$ 554,387
Repurchase Agreements	448	851
Borrowings	29,968	9,229
Other Liabilities	12,587	12,724
Total Liabilities	**$ 620,873**	**$ 577,191**
SHAREHOLDERS' EQUITY		
Preferred Stock, Series C	$ -	$ 11,000
Preferred Stock, Series D	$ 9,626	$ 9,634
Common Shareholders' Equity	52,245	49,949
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	(101)	(137)
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(757)	(555)
Total Shareholders' Equity	$ 61,013	$ 69,891
Total Liabilities & Shareholders' Equity	**$ 681,886**	**$ 647,082**
Letters of Credit	$ 3,119	$ 2,404

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended June 30, 2015	2014	For 6 Months Ended June 30, 2015	2014
Interest Income	$ 6,847	$ 6,724	$ 13,509	$ 13,297
Interest Expense	959	1,102	1,926	2,177
Net Interest Income	$ 5,888	$ 5,622	$ 11,583	$ 11,120
Less: Provision for Loan Losses	-	139	-	408
Net Interest Income After Provisions	$ 5,888	$ 5,483	$ 11,583	$ 10,712
Non-Interest Income	992	872	1,828	1,729
Non-Interest Expense	4,953	4,977	10,034	9,690
Net Operating Income	$ 1,927	$ 1,378	$ 3,377	$ 2,751
Less: Provision for Income Taxes	629	436	1,098	873
Net Income	**$ 1,298**	**$ 942**	**$ 2,279**	**$ 1,878**
Less: Dividends on Preferred Stock	227	28	473	55
Net Income Available to Common Shareholders	**$ 1,071**	**$ 914**	**$ 1,806**	**$ 1,823**
Earnings Per Common Share	$ 0.31	$ 0.27	$ 0.53	$ 0.54
Annualized Return on Average Assets	0.77%	0.59%	0.68%	0.59%
Annualized Return on Average Common Equity	8.29%	7.43%	6.78%	7.50%
Book Value Per Share at period end[1]			$ 15.09	$ 14.54
Tangible Book Value Per Share at period end[2]			$ 13.42	$ 12.87
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			0.95%	1.13%
Non-Performing Loans to period end Loans[3]			2.15%	2.27%
Non-Performing Assets to Total Assets[4]			1.92%	1.96%

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.



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:

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

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

INVESTOR RELATIONS

Computershare Shareholder Services
PO Box 30170 | College Station, TX 77842-3170
(800) 368-5948 | www.computershare.com/investor

Katahdin Bankshares Corp.