

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through September 30, 2014 show net income before preferred stock dividends of \$3,096,000. This is a slight decrease of \$5,000 from the same period in 2013. Although net interest income increased \$727,000, this was partially offset by an increase to the provision for loan losses of \$350,000 year over year, while non-interest expense rose \$448,000 or 3.2%. 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 nine months.

On the balance sheet, loan growth from the prior year stood at \$26,307,000. Loan growth has slowed over the first nine months of this year, but our lending team continues to explore our markets for quality opportunities and our pipeline looks stronger for the last three months of 2014. We remain focused on asset quality and appropriate structure and pricing.

The extended low interest rates have not yielded many opportunities for burnishing the investment portfolio, where we have also maintained discipline by not reaching for yield and thereby taking on extension risk. Total assets stood at \$644,302,000.

Local deposits contracted \$2,465,000 year over year, primarily due to lower money market and certificate of deposit accounts. Checking and savings grew by \$5,808,000 over the same period. Local deposits grew \$5,794,000 from June 30, 2014. All deposits totaled \$555,135,000.

Total consolidated equity stood at \$70,733,000.

Rates remain at historically low levels, but banks and investors have attempted to parse statements and various press releases by Federal Reserve officials, that could indicate potential rate rises beginning in mid-2015. We attempt to position our balance sheet to be prepared for eventual changes in interest rates. However a quick reading of today's news indicates many economic and geo-political factors which could potentially also affect the Fed's decision.

In September and October at our annual employee appreciation events, we recognized sixteen employees for their combined 255 years of service with Katahdin Trust Company, ranging from five to thirty five years. We are fortunate to have many talented employees who have made and continue to make vital contributions to our Company.

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	Fort Kent* 79 West Main Street 834-2348	Oakfield 200 Oakfield Smyrna Rd 757-8288
Bangor* 609 Broadway 942-3146	Hampden* 57 Western Avenue 862-2211	Patten* 11 Main Street 528-2211
Bangor* 52 Springer Drive 947-9674	Houlton* 65 North Street 532-4277	Presque Isle* 6 North Street 764-8000
Caribou* 105 Bennett Drive 498-4200	Island Falls* 1007 Crystal Road 463-2228	Scarborough 144 US Route One 510-7017
Eagle Lake 3440 Aroostook Road 444-5543	Limestone* 35 Main Street 325-4711	Van Buren* 29 Main Street, Ste.105 868-2728
Easton 82 Center Road 488-6642	Mars Hill* 28 Main Street 429-8400	Washburn 1282 Main Street 455-8141
Fort Fairfield* 290 Main Street 472-3161	*24-HOUR ATM	

COMMERCIAL LOAN OFFICE

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



2014

THIRD QUARTER
REPORT

PHOTOS BY PAUL CYR



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	September 30,	
	2014	2013
ASSETS		
Cash & Due from Banks	\$ 12,781	\$ 18,268
Investments	57,548	57,181
Total Loans	544,685	518,378
Reserve for Loan Loss	(6,242)	(5,573)
Fixed Assets	14,332	13,915
Other Assets	21,198	19,313
Total Assets	\$ 644,302	\$ 621,482
LIABILITIES		
Deposits	\$ 555,135	\$ 541,639
Repurchase Agreements	869	915
Borrowings	5,551	8,462
Other Liabilities	12,014	11,717
Total Liabilities	\$ 573,569	\$ 562,733
SHAREHOLDERS' EQUITY		
Preferred Stock, Series C	\$ 11,000	\$ 11,000
Preferred Stock, Series D	9,603	-
Common Shareholders' Equity	50,817	48,448
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	(231)	(332)
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(456)	(367)
Total Shareholders' Equity	\$ 70,733	\$ 58,749
Total Liabilities & Shareholders' Equity	\$ 644,302	\$ 621,482
Letters of Credit	\$ 2,959	\$ 2,603

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended September 30,		For 9 Months Ended September 30,	
	2014	2013	2014	2013
Interest Income	\$ 6,895	\$ 6,788	\$ 20,192	\$ 19,800
Interest Expense	1,062	1,169	3,239	3,574
Net Interest Income	\$ 5,833	\$ 5,619	\$ 16,953	\$ 16,226
Less: Provision for Loan Losses	70	195	478	128 ⁵
Net Interest Income After Provisions	\$ 5,763	\$ 5,424	\$ 16,475	\$ 16,098
Non-Interest Income	942	872	2,671	2,591
Non-Interest Expense	4,907	4,676	14,571	14,123
Loss on Other Real Estate Owned	-	26	11	38 ⁵
Impairment of Investment Securities	2	-	17	19
Net Operating Income	\$ 1,796	\$ 1,594	\$ 4,547	\$ 4,509
Less: Provision for Income Taxes	578	498	1,451	1,408
Net Income	\$ 1,218	\$ 1,096	\$ 3,096	\$ 3,101
Less: Dividends Paid on Preferred Stock	\$ 37	\$ 28	\$ 92	\$ 96
Net Income Available to Common Shareholders	\$ 1,181	\$ 1,068	\$ 3,004	\$ 3,005
Earnings Per Common Share	\$ 0.34	\$ 0.31	\$ 0.88	\$ 0.88
Annualized Return on Average Assets	0.75%	0.71%	0.64%	0.70%
Annualized Return on Average Common Equity	9.42%	8.91%	8.16%	8.45%
Book Value Per Share at period end ¹			\$ 14.73	\$ 13.95
Tangible Book Value Per Share at period end ²			\$ 13.05	\$ 12.27
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			1.14%	1.08%
Non-Performing Loans to period end Loans ³			2.18%	1.73%
Non-Performing Assets to Total Assets ⁴			1.94%	1.49%

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 9 months ended September 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 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.otcm Markets.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

