

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through December 31, 2014 show net income before preferred stock dividends of \$4,255,000, an increase of \$406,000 or 10.6%. Earnings per common share totaled \$1.09, equal to the total for 2013. The level earnings after preferred stock dividends is due to the increased carrying cost of Preferred Stock Series D shares issued on June 27. Net interest income increased \$986,000 due to loan growth and a stabilizing net interest margin. Non-interest income increased \$139,000 to \$3,548,000. Non-interest expense increased 4.18% to \$19,601,000. The provision for loan losses decreased \$250,000 year over year. Considering added expense associated with the opening of our Fort Kent branch in 2014, along with the still low interest rate environment that has persisted for several years, we were pleased with the increased earnings and will pursue every opportunity to continue this positive movement in 2015.

On the balance sheet, year-end totals showed loan growth of \$19,095,000, with much of the growth coming in the last quarter of the year. On the deposit side, total deposits show a decrease of \$7,239,000 which represents a shift of wholesale deposits to borrowings of approximately \$15,045,000 over last year at this time. Included in the total deposit number is a positive trend for local checking and savings account balances which increased by \$5,147,000 while money market and CD account balances increased by \$3,334,000, year over year. Total capital stood at \$71,086,000 on December 31.

A full presentation of our audited financial statements will be distributed in our 2014 Annual Report.

In October we were once again pleased to be a participant in the 12th annual Get Smart about Credit Day sponsored by the American Bankers Association. Bank employees visited high school classrooms throughout central and northern Maine to educate young people on how to best use credit so it will help equip them to handle adult financial responsibilities.

I would like to congratulate Patty Hersey for her recent well-deserved promotion to Vice President, Business Development

Officer. Patty has over 17 years of experience with Katahdin Trust. She joined the Bank as Electronic Banking Clerk in 1999 and has been promoted several times during her tenure: Supervisor of Deposit Operations in 2002, Operations Officer in 2006, Corporate Services Officer in 2007 and Assistant Vice President and Corporate Services Officer in 2009. Patty will be responsible for business development for small business, commercial and non-profit entities in the northern Penobscot and Aroostook County market area.

We are pleased to welcome Betty Buzzell as Financial Consultant with Katahdin Financial Services and Sherry Roberts as Vice President, Business Development Officer. Betty is based in Caribou with responsibility for the sales and service of investments and insurance products to customers in the Caribou, Limestone and St. John Valley areas through our independent third party provider, Cetera Investment Services, LLC. Betty has over six years of experience in the sales and service of insurance and investment products. In December we added a Business Development Officer position in the greater Bangor area and welcomed Sherry to our team. Sherry brings with her 23 years of banking experience in the Bangor market. Throughout her career she has earned a well-deserved reputation for customer service excellence and her expertise in cash management systems for business customers will be a tremendous asset for our Bank. Sherry's responsibilities include business development for small business, commercial and non-profit entities in the greater Bangor area.

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
FOURTH QUARTER
REPORT

PHOTOS BY PAUL CYR



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	December 31,	
	2014	2013
ASSETS		
Cash & Due from Banks	\$ 12,268	\$ 14,519
Investments	60,597	57,506
Total Loans	565,337	546,242
Reserve for Loan Loss	(5,899)	(6,097)
Fixed Assets	14,120	14,405
Other Assets	20,689	19,712
Total Assets	\$ 667,112	\$ 646,287
LIABILITIES		
Deposits	\$ 550,694	\$ 557,933
Repurchase Agreements	1,011	933
Borrowings	31,504	16,459
Other Liabilities	12,817	12,001
Total Liabilities	\$ 596,026	\$ 587,326
SHAREHOLDERS' EQUITY		
Preferred Stock, Series C	\$ 11,000	\$ 11,000
Preferred Stock, Series D	9,603	-
Common Shareholders' Equity	51,143	48,807
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	(49)	(509)
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(611)	(337)
Total Shareholders' Equity	\$ 71,086	\$ 58,961
Total Liabilities & Shareholders' Equity	\$ 667,112	\$ 646,287
Letters of Credit	\$ 2,467	\$ 2,819

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended December 31,		For 12 Months Ended December 31,	
	2014	2013	2014	2013
Interest Income	\$ 6,839	\$ 6,717	\$ 27,031	\$ 26,517
Interest Expense	1,001	1,138	4,240	4,712
Net Interest Income	\$ 5,838	\$ 5,579	\$ 22,791	\$ 21,805
Less: Provision for Loan Losses	70	670	548	798
Net Interest Income After Provisions	\$ 5,768	\$ 4,909	\$ 22,243	\$ 21,007
Non-Interest Income	888	856	3,548	3,409
Non-Interest Expense	5,030	4,692	19,601	18,815
Impairment of Investment Securities	-	-	17	19
Net Operating Income	\$ 1,626	\$ 1,073	\$ 6,173	\$ 5,582
Less: Provision for Income Taxes	467	325	1,918	1,733
Net Income	\$ 1,159	\$ 748	\$ 4,255	\$ 3,849
Less: Dividends Declared on Preferred Stock ⁵	\$ 246	\$ 27	\$ 557	\$ 123
Net Income Available to Common Shareholders	\$ 913	\$ 721	\$ 3,698	\$ 3,726
Earnings Per Common Share	\$ 0.27	\$ 0.21	\$ 1.09	\$ 1.09
Annualized Return on Average Assets	0.70%	0.47%	0.66%	0.64%
Annualized Return on Average Common Equity	7.13%	5.95%	7.44%	7.81%
Book Value Per Share at period end ¹			\$ 14.93	\$ 14.09
Tangible Book Value Per Share at period end ²			\$ 13.26	\$ 12.41
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			1.04%	1.12%
Non-Performing Loans to period end Loans ³			2.07%	1.73%
Non-Performing Assets to Total Assets ⁴			1.83%	1.50%

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) Preferred Stock Dividends for the 3 months ended December 31, 2014 includes Preferred Series C dividends of \$27,000 declared November 26, 2014 and payable January 2, 2015 and Preferred Series D dividends of \$219,000 declared November 26, 2014 and payable January 15, 2015. Preferred Stock Dividends for the 12 months ended December 31, 2014 includes Preferred Stock Series C dividends declared of \$110,000 in 2014 and Preferred Series D dividends of \$447,000 declared since issuance on June 27, 2014.

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

