

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through June 30, 2016 show net income before preferred stock dividends of \$2,183,000, a 4.2% decrease from the same period in 2015. Net interest income rose by \$990,000 or 8.6% during the period. The loan portfolio increased \$27,470,000 in addition to an increase of \$13,476,000 in the securities portfolio. Non-interest income rose by 11.4% year over year, as a result of various deposit initiatives including increased interchange income. Non-interest expense increased by 6.0%. Broken down, 2.4% of the increase is attributable to increases in salaries and benefits which includes costs related to hiring for management succession planning and new hires in the Bangor market, while 1.4% is directly related to increased collection cost activity as compared to last year.

The provision for loan losses increased by \$730,000 over the prior year. The increased provision reflects a more typical credit environment as we did not fund the provision during the same period in 2015. Despite the elevated provision and collection costs this year, credit quality remains strong and management is pleased with overall portfolio quality and is comfortable with the allowance for loan losses position.

Turning to liabilities, total deposits continued recent growth trends as local deposits rose \$51,468,000 year over year. Our wholesale brokered portfolio has declined during that time period. With recent declines in interest rates, management has taken steps to lock in some low funding costs for longer terms to protect a portion of the balance sheet against rising interest rate risk.

Total assets reached an all-time high of \$721,901,000. Total consolidated equity stood at \$64,181,000. A quarterly common stock dividend of \$.10 per share was paid for the first quarter of 2016. Tangible book value has continued to grow, increasing to \$14.32 per share which represents a 6.7% growth over last year at this time.

I would like to congratulate Dave Cambridge and Kevin Plourde on their well-deserved promotions to Senior Vice Presidents. Together they have nearly 40 years of service with Katahdin Trust Company. These individuals play a vital role in our success and have demonstrated a strong commitment to the values that make us strong. Dave has

over 30 years in the financial services industry, joining the Bank as Assistant Vice President, Commercial Services Officer in 1999. He was promoted to Vice President in 2001 and to Regional Vice President in 2014. In his new position as Senior Vice President, Commercial Services Officer, he will continue to be responsible for overseeing Business Lending and Development in the central and northern Aroostook areas. Kevin joined the Bank in 1995 as Assistant Vice President, Commercial Services Officer and in 1999 he was promoted to Vice President, Credit Administrator. As Senior Vice President, Credit Administrator, he will continue oversight of the Bank's Credit Analysis and Administration functions. Congratulations Dave and Kevin.

We are pleased to welcome John Quesnel as Vice President, Managed Assets Officer replacing Bruce Drouin who recently retired after a long and successful career in commercial banking spanning over 40 years. John will be responsible for managing and directing the collection activity for all retail and commercial loan accounts. Prior to joining Katahdin Trust he served as Vice President, Business Banker, at People's United Bank. His proven business leadership and 22 years of lending and credit control experience will definitely serve the Bank well.

In June, I was elected Chairman of the Maine Bankers Association. I look forward to serving in this role as bankers across Maine work together to address issues facing our industry.

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
Kimberley A. Niles
Paul R. Powers
Arthur L. Shur

SENIOR MANAGEMENT

Jon J. Prescott, President & CEO
Peter P. St. John, Executive Vice President, Commercial Services
Bonnie C. Foster, Senior Vice President, Retail Services
William P. Lucy, Senior Vice President, Commercial Services
Matthew M. Nightingale, Senior Vice President, Treasurer & CFO

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



www.KatahdinTrust.com



PHOTO BY PAUL CYR



2016 SECOND QUARTER

KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

SHAREHOLDER INFORMATION

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	June 30,	
ASSETS	2016	2015
Cash & Due from Banks	\$ 11,806	\$ 11,258
Investments	80,952	67,476
Total Loans	602,191	574,721
Reserve for Loan Loss	(5,597)	(5,485)
Fixed Assets	12,658	13,632
Other Assets	19,891	20,284
Total Assets	\$ 721,901	\$ 681,886
LIABILITIES		
Deposits	\$ 612,138	\$ 577,870
Repurchase Agreements	611	448
Borrowings	33,148	29,968
Other Liabilities	11,823	12,587
Total Liabilities	\$ 657,720	\$ 620,873
SHAREHOLDERS' EQUITY		
Preferred Stock, Series D	\$ 9,720	\$ 9,626
Common Shareholders' Equity	54,629	52,245
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	885	(101)
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(1,053)	(757)
Total Shareholders' Equity	\$ 64,181	\$ 61,013
Total Liabilities & Shareholders' Equity	\$ 721,901	\$ 681,886
Letters of Credit	\$ 3,090	\$ 3,119

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended June 30,		For 6 Months Ended June 30,	
	2016	2015	2016	2015
Interest Income	\$ 7,651	\$ 6,847	\$ 14,697	\$ 13,509
Interest Expense	1,007	959	2,124	1,926
Net Interest Income	\$ 6,644	\$ 5,888	\$ 12,573	\$ 11,583
Less: Provision for Loan Losses	460	-	730	-
Net Interest Income After Provisions	\$ 6,184	\$ 5,888	\$ 11,843	\$ 11,583
Non-Interest Income	1,070	992	2,037	1,828
Non-Interest Expense	5,356	4,953	10,637	10,034
Net Operating Income	\$ 1,898	\$ 1,927	\$ 3,243	\$ 3,377
Less: Provision for Income Taxes	623	629	1,060	1,098
Net Income	\$ 1,275	\$ 1,298	\$ 2,183	\$ 2,279
Less: Dividends on Preferred Stock	219	227	438	473
Net Income Available to Common Shareholders	\$ 1,056	\$ 1,071	\$ 1,745	\$ 1,806
Earnings Per Common Share	\$ 0.31	\$ 0.31	\$ 0.51	\$ 0.53
Annualized Return on Average Assets	0.71%	0.77%	0.62%	0.68%
Annualized Return on Average Common Equity	7.86%	8.29%	6.53%	6.78%
Book Value Per Share at period end ¹			\$ 16.00	\$ 15.09
Tangible Book Value Per Share at period end ²			\$ 14.32	\$ 13.42
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			0.93%	0.95%
Non-Performing Loans to period end Loans ³			1.74%	2.15%
Non-Performing Assets to Total Assets ⁴			1.53%	1.92%

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 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

For shareholder inquiries regarding change of address or title, please contact Investor Relations at Computershare Trust Company, N.A.

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 CIP at Computershare.

Computershare Trust Company, N.A.
P.O. 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

