A MESSAGE FROM THE PRESIDENT...

To our Shareholders, Customers and Employees:

Unaudited financial results through September 30, 2013 show Net income before preferred stock dividends of \$3,101,000. This is a decline of \$132,000 compared to the first nine months of 2012. While Net Interest Income grew 2.64% over the same period a year earlier to \$16,226,000, non-interest expense, partially related to systems changeovers, grew 7.60%. Improving credit quality has led to a decline in the provision for loan losses over last year. Non-performing assets to total assets declined 41 basis points year over year to 1.49%.

On the balance sheet, total assets grew \$44,478,000 to a record \$621,482,000. Strong loan growth of \$33,976,000 included \$20.2 million in the commercial area and \$13.7 million in the residential and consumer areas. Management projects that with recent rises in interest rates residential lending may slow in the coming months as consumers are less likely to refinance their homes. Our current pipeline remains fairly strong and we expect some continued growth prior to year end.

Deposits grew nicely by \$59,537,000 year over year. A further look at this number shows that local checking and savings deposits, our lowest cost source of funding, grew \$18,618,000 over that period. Money markets and certificates of deposit also grew by \$10,709,000. We are pleased with the rate of growth on the liabilities side of the balance sheet. We are further pleased that growth is coming from all areas of our markets. Total Capital increased to \$58,749,000 on a consolidated basis. The board declared a cash dividend of \$.0975 per share for the third quarter, which was 8.3% above the third quarter of last year.

Overall we are pleased we have been able to deliver consistent results thus far in 2013.

In October at our annual employee appreciation events, we recognized twenty-nine employees for their combined 425 years of service with Katahdin Trust Company, ranging from five to forty five years. We are fortunate to have many talented employees who have made and continue to make vital contributions to our Company.

I would like to congratulate several employees for recent well deserved promotions. Susan Lunn Vice President, Compliance Officer; Jean Noyes Vice President and Information Security Officer; Andrew Putnam Vice President and Chief Information Officer; Katie Hill Assistant Vice President, Bank Operations Manager and Sarah Silliboy Assistant Vice President, Electronic Banking Manager. Susan has over 30 years in the financial

services industry and has been with the bank since 1998, serving in various positions in the Operations Department, most recently as Vice President of Bank Operations. In her new position, she will be responsible for overseeing the compliance risk management program as well as the Community Reinvestment Act (CRA) to ensure adherence with regulatory requirements. Jean has been with the Bank for nearly 35 years serving in various positions, most recently as Vice President of Management Information Systems. In her new role she will be responsible for vendor management, data security monitoring, disaster recovery and business continuity. Andrew joined the bank in 1999 and has served in various departments, most recently as Assistant Vice President and Technology Product Manager. In his new position he will be responsible for the direct oversight of the Management Information Systems Department and the ongoing technology development and support for Bank staff and customers. Katie joined the Bank in 2003 and has served in multiple positions, most recently as Supervisor in the Operations Department. In her new position, she will oversee all bank operations for deposits and loans. Sarah joined the Bank in 2003 and has served in several departments, most recently as Supervisor of the Electronic Banking Department. In her new position, she will oversee all areas of Electronic Banking.

As always, if you have questions regarding the company or this report, please don't hesitate to contact us.

President & CEO

DIRECTORS

Steven L. Richardson, Chairman Arthur L. Shur. Vice Chairman Robert E. Anderson Robert H. Anderson Peter F. Briggs

Paul R. Powers Jon J. Prescott Harold L. Stewart II, Esq. Richard J. York

KATAHDIN TRUST COMPANY 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

Ashland* 17 Main Street 435-6461

Bangor* 609 Broadway 942-3146

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

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 Maine Financial Group 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

Commercial Loan Office

144 US Route One Scarborough 885-5900

www.katahdintrust.com



*24-HOUR ATM





PO Box 450 | Patten, Maine 04765 | (207) 528-2211

KATAHDIN BANKSHARES CORP. (dollars in thousands, except per share data)

Consolidated Statement of Condition

(unaudited)

(September 30,		
ASSETS	2013	2012	
Cash & Due from Banks	\$ 18,268	\$ 12,148	
Investments	57,181	53,715	
Total Loans	518,378	484,402	
Reserve for Loan Loss	(5,573)	(6,643)	
Fixed Assets	13,915	11,836	
Other Assets	19,313	21,546	
Total Assets	\$621,482	\$577,004	
LIABILITIES			
Deposits	\$ 541,639	\$482,102	
Repurchase Agreements	915	7,738	
Borrowings	8,462	18,723	
Other Liabilities	11,717	10,847	
Total Liabilities	\$ 562,733	\$519,410	
SHAREHOLDERS' EQUITY			
Preferred Shareholders' Equity	\$ 11,000	\$ 11,000	
Common Shareholders' Equity	48,448	45,626	
Net Unrealized Appreciation/(Depreciation)			
on Securities Available-for-Sale, Net of Tax	(332)	1,463	
Net Unrealized Appreciation/(Depreciation)			
on Derivative Investments at Fair Value,			
Net of Tax	(367)	(495)	
Total Shareholders' Equity	\$ 58,749	\$ 57,594	
Total Liabilities & Shareholders' Equity	\$621,482	\$577,004	
Letters of Credit	\$ 2,603	\$ 2,424	

Consolidated Statements of Income

(unaudited)		Months eptember 30,		Months eptember 30,
	2013	2012	2013	2012
Interest Income	\$ 6,788	\$ 6,783	\$ 19,800	\$ 20,174
Interest Expense	1,169	1,377	3,574	4,366
Net Interest Income	\$ 5,619	\$ 5,406	\$ 16,226	\$ 15,808
Less: Provision for Loan Losses	195	401	(535)	822
Net Interest Income After Provisions	\$ 5,424	\$ 5,005	\$ 16,761	\$ 14,986
Non-Interest Income	872	901	2,591	2,546
Non-Interest Expense	4,676	4,381	14,123	13,125
Loss on Other Real Estate Owned	26	4	701	4
Impairment of Investment Securities	-	1	19	43
Net Operating Income	\$ 1,594	\$ 1,520	\$ 4,509	\$ 4,360
Less: Provision for Income Taxes	498	432	1,408	1,127
Net Income	\$ 1,096	\$ 1,088	\$ 3,101	\$ 3,233
Less: Dividends Paid on Preferred Stock	28	27	96	110
Net Income Available to				
Common Shareholders	\$ 1,068	\$ 1,061	\$ 3,005	\$ 3,123
Earnings Per Common Share Annualized Return on Average Assets Annualized Return on Average Common Equity Book Value Per Share at period end¹ Tangible Book Value Per Share at period end² Weighted Average Common Shares Outstanding Common Shares Outstanding period end Allowance for Loan Losses to period end Loans Non-Performing Loans to period end Loans³ Non-Performing Assets to Total Assets⁴	\$ 0.31 0.71% 8.91%	\$ 0.31 0.75% 9.08%	\$ 0.88 0.70% 8.45% \$ 13.95 \$ 12.27 3,404,367 3,404,367 1.08% 1.73% 1.49%	\$ 0.92 0.77% 9.15% \$ 13.69 \$ 11.99 3,404,029 3,404,367 1.37% 2.20% 1.90%

- 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.
- 4) Non-performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable.

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@katahdinţrust.com

STOCK

Katahdin Bankshares Corp. stock is quoted on the OTC Markets quote board OTCQB under the symbol KTHN.

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

Northern Maine Photos by Paul A. Cyr – Presque Isle, Maine



