

A MESSAGE FROM THE PRESIDENT

To our Shareholders, Customers and Employees:

Unaudited results through December 31, 2015 show net income before preferred stock dividends of \$4,810,000, an increase of \$555,000 or 13.0% over the prior year. Earnings per common share increased to \$1.15, or 5.5%. Net interest income increased \$860,000 due to loan and securities growth. Non-interest income rose \$351,000 to \$3,882,000. Non-interest expense increased 3.9% to \$20,372,000. The provision for loan losses decreased \$498,000 as credit quality continued to be strong. We were very pleased with our earnings and will strive for continued improvement in 2016.

On the balance sheet, year-end totals showed loan growth of \$20,901,000, an increase of 3.7%. We increased the securities portfolio by \$14,489,000 year over year. On the deposit side, total deposits showed an increase of \$55,511,000, which was a substantial benefit to the Bank. Much of the growth came in local checking and savings deposits. This allowed us to slightly lessen our dependence on wholesale funding. Total consolidated equity stood at \$62,357,000. A quarterly common stock dividend of \$.10 per share was paid for the fourth quarter of 2015.

A full presentation of our audited financial statements will be distributed in our 2015 annual report.

We were once again pleased to be a participant in the 13th annual Get Smart about Credit Day sponsored by the American Bankers Association in October. Bank employees visited high school classrooms throughout central and northern Maine to educate young people on how to best use credit so that it can help equip them to better handle their financial responsibilities as an adult.

In October Kimberley A. Niles of Scarborough was elected to the Bank's board of directors upon the retirement of board director Robert 'Bob' Anderson of Bangor. A heartfelt thank you goes out to Bob for his guidance and insight during his nearly 20 year tenure on the board. Throughout Bob's time on the board we have grown a great deal, from 7 branches in northern Maine to 19 throughout Maine and \$130 million in assets to more than \$700 million today. Bob was an important component of that growth. He has been an avid supporter of the Bank with tremendous commitment and loyalty and we will certainly miss his input, dedication and camaraderie.

It is with great pleasure that we welcome Kimberley to fill Bob's

unexpired term. Kimberley is the Managing Director and Chief Financial Officer for Constant Energy Capital Management, an investment capital management company, in Portland, Maine and is founder and consultant for VC CFO Services, LLC, a financial consulting firm in Scarborough, Maine providing interim CFO services for companies as well as financial support services for startup opportunities and venture firms. It is an honor to have Kimberley join us.

I would like to congratulate Pete St. John and Janet Doak on their well-deserved promotions. Pete was named Executive Vice President, Commercial Services and Janet Doak as Branch Manager and Retail Services Officer. These individuals play a vital role in the key to our success and have demonstrated a strong commitment to the values that make us successful. Pete leads a talented team of professionals who, together, deliver a full suite of business banking solutions that champion the success of businesses across the state of Maine. Janet is responsible for retail lending, business development, and the daily branch management of the Bank's offices in Ashland and Washburn. Congratulations, Pete and Janet.

We are pleased to welcome William P. "Bill" Lucy to our senior management team as Senior Vice President, Commercial Services with responsibilities for business lending and development in the greater Bangor area. A 35-year banking veteran in the Bangor market, Bill recently spent more than 20 years at People's United Bank and Merrill Merchants Bank, serving most recently as Senior Vice President and Market President in Bangor. Prior to Merrill Merchants, Bill spent more than a decade at Merrill Trust Company and its successors, starting as a management trainee and working his way up to serve in a variety of management positions. Adding Bill to our team strengthens our ability to serve our customers in the best possible way. We are excited to have Bill join us.

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
Peter F. Briggs

Kimberley A. Niles
Paul R. Powers
Arthur L. Shur
Richard J. York

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
Vicki J. Smith, Senior Vice President, Marketing & Communications

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



PHOTOS BY PAUL CYR

2015
FOURTH QUARTER



www.KatahdinTrust.com



KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	December 31,	
	2015	2014
ASSETS		
Cash & Due from Banks	\$ 11,545	\$ 12,268
Investments	75,086	60,597
Total Loans	586,238	565,337
Reserve for Loan Loss	(5,330)	(5,899)
Fixed Assets	13,172	14,120
Other Assets	21,578	20,689
Total Assets	\$ 702,289	\$ 667,112
LIABILITIES		
Deposits	\$ 606,205	\$ 550,694
Repurchase Agreements	540	1,011
Borrowings	20,188	31,504
Other Liabilities	12,999	12,817
Total Liabilities	\$ 639,932	\$ 596,026
SHAREHOLDERS' EQUITY		
Preferred Stock, Series C	\$ -	\$ 11,000
Preferred Stock, Series D	9,673	9,603
Common Shareholders' Equity	53,611	51,143
Net Unrealized Appreciation/(Depreciation) on Securities Available-for-Sale, Net of Tax	(109)	(49)
Net Unrealized Appreciation/(Depreciation) on Derivative Investments at Fair Value, Net of Tax	(818)	(611)
Total Shareholders' Equity	\$ 62,357	\$ 71,086
Total Liabilities & Shareholders' Equity	\$ 702,289	\$ 667,112
Letters of Credit	\$ 2,723	\$ 2,467

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended December 31,		For 12 Months Ended December 31,	
	2015	2014	2015	2014
Interest Income	\$ 7,009	\$ 6,839	\$ 27,512	\$ 27,031
Interest Expense	969	1,001	3,861	4,240
Net Interest Income	\$ 6,040	\$ 5,838	\$ 23,651	\$ 22,791
Less: Provision for Loan Losses	50	70	50	548
Net Interest Income After Provisions	\$ 5,990	\$ 5,768	\$ 23,601	\$ 22,243
Non-Interest Income	1,043	888	3,882	3,531
Non-Interest Expense	5,270	5,030	20,372	19,601
Net Operating Income	\$ 1,763	\$ 1,626	\$ 7,111	\$ 6,173
Less: Provision for Income Taxes	565	467	2,301	1,918
Net Income	\$ 1,198	\$ 1,159	\$ 4,810	\$ 4,255
Less: Dividends on Preferred Stock	218	246	910	557
Net Income Available to Common Shareholders	\$ 980	\$ 913	\$ 3,900	\$ 3,698
Earnings Per Common Share	\$ 0.29	\$ 0.27	\$ 1.15	\$ 1.09
Annualized Return on Average Assets	0.68%	0.70%	0.70%	0.66%
Annualized Return on Average Common Equity	7.36%	7.13%	7.50%	7.44%
Book Value Per Share at period end ¹			\$ 15.47	\$ 14.93
Tangible Book Value Per Share at period end ²			\$ 13.80	\$ 13.26
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			0.91%	1.04%
Non-Performing Loans to period end Loans ³			1.47%	2.07%
Non-Performing Assets to Total Assets ⁴			1.31%	1.83%

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.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

