

# A MESSAGE FROM THE PRESIDENT

Fourth Quarter earnings are largely impacted by a one-time adjustment to our balance sheet tax position, mainly due to the passage of the Tax Cuts and Jobs Act of 2017. The law has lowered our statutory corporate tax rate from 34% to 21% starting January 1, 2018. However, since the act was signed into law in 2017, an adjustment was required to reconcile our tax position to the new rates. Therefore, the Federal Tax Expense accrual has been increased in the 4th Quarter Provision for Income Taxes by \$438,000. This reduced our 4th Quarter Net Income before Preferred Stock Dividends to \$991,000 from an otherwise excellent \$1,429,000. Year to Date Net Income before Preferred Stock Dividends totaled \$4,353,000 after the tax adjustment.

In addition to the tax adjustment, other factors further impacted 2017. First, in 2016 the Bank recovered interest totaling \$749,000, which was not repeated in 2017. Second, one-time branch closure costs totaled \$285,000. Third, we experienced higher FDIC premiums of \$87,000 due to a change in the calculation for assessing fees for brokered deposits. We're pleased that solid deposit growth and a shift to less costly borrowings have helped us nearly eliminate the extra FDIC premiums related to brokered deposit funding. Lastly, elevated debit card fraud in early 2017 totaled \$51,000 over last year. Because of enhanced monitoring introduced during the year, these losses were greatly reduced in the second half of 2017.

Net Interest Income totaled \$25,462,000 in 2017, up from \$25,069,000 last year, representing an increase of \$393,000.

Non-Interest Expenses ended at \$21,529,000 year to date, down slightly from 2016. The 4th Quarter Non-Interest Expenses continued to show strong run-rate improvement over the same time last year at \$5,179,000 which is down by \$210,000 or 3.9%. This reduction is largely due to operating efficiencies implemented throughout the year.

The Provision for Loan Loss totaled \$1,225,000, down from 2016 by \$91,000. Non-Performing Assets to Total Assets had a significant improvement in the 4th Quarter to 0.95% as compared to 1.59% last quarter and 2.11% last year at this time. This reduction can mostly be attributed to the resolution of one relationship that accounted for over 42% of our non-performing assets. We're pleased with the resulting asset quality improvement in the 4th Quarter and feel that our allowance for loan loss is adequately funded as of year-end.

Turning to the balance sheet, investments last year grew by \$1.5 million to \$90.4 million. Loan growth was solid in 2017, but remained flat from the previous quarter at \$661,636,000. Year over year, loans grew \$38.4 million or 6.2%.

Total Deposits ended the year at \$647,752,000. While this is down from last year, the mix of deposits is important to consider. Local deposits have grown substantially this year and this quarter, up by \$41,245,000 and \$23,992,000, respectively. We're very pleased with the relationships being built between our employees and customers. Local deposit growth is increasingly valuable as wholesale funding costs have continued to rise. Local deposits completely covered loan growth in 2017 and allowed for a \$4.4 million reduction in overall wholesale funding. The Bank took advantage of borrowed funding from the Federal Home Loan Bank of Boston at more favorable rates and terms than insured brokered deposit

funding; therefore the entire increase in borrowings was utilized to pay down brokered funding in 2017.

Tangible Book Value per share ended 2017 at \$15.24, up from 2016 by \$0.76 cents or 5.2%. The company paid out a dividend of \$0.10 per share to common shareholders in the 4th Quarter, representing an annualized dividend yield of 2.5% at the time of writing.

A full presentation of our audited financial statements will be published online at [otcmart.com](http://otcmart.com) in early February and distributed in our 2017 Annual Report, along with the proxy statement, in March. We encourage all shareholders to review the financial details and vote your shares. Your vote is important to the company.

In October our Executive Vice President and long-time senior Commercial Services Officer Peter St. John retired. For more than 22 years with the Bank, Pete helped oversee great growth in our loan portfolio and was critical in helping make decisions that shaped our company. We will miss his contributions and commitment to excellence. Best wishes to him, and his wife Judy, as he enjoys retirement.

In December we were honored to receive the 2017 Outstanding Partner Award from the Maine Small Business Association (SBA) for originating a significant number of SBA guaranteed loans throughout the State of Maine. Craig Staples, Vice President, Commercial Services Officer, received this year's SBA STAR Award in Maine for his dedication to assisting small business customers. We are certainly proud of Craig's accomplishment and his continued efforts to support small business.

I am happy to announce the promotions of Cindy Boot to Commercial Services Officer, based at our Presque Isle office and Jim Amabile and Sue McCarthy to Vice President at Maine Financial Group, a loan production office of the Bank located in Scarborough. Cindy will continue to oversee the Bank's dealer floor plan portfolio with added responsibility of business lending and development in central and northern Aroostook County. Jim and Sue will continue with their responsibilities for business lending and development to customers throughout Maine. Congratulations to Cindy, Jim, and Sue on their on their well-deserved promotions.

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  
Richard B. Harnum, Jr.  
Kimberley A. Niles  
Paul R. Powers

# SENIOR MANAGEMENT

Jon J. Prescott, President & CEO  
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

<b>Ashland ATM</b> 17 Main Street 435-6461	<b>Fort Fairfield ATM</b> 290 Main Street 472-3161	<b>Oakfield ATM</b> 200 Oakfield Smyrna Rd 757-8288
<b>Bangor ATM</b> 609 Broadway 942-3146	<b>Fort Kent ATM</b> 79 West Main Street 834-2348	<b>Patten ATM</b> 11 Main Street 528-2211
<b>Bangor ATM</b> 52 Springer Drive 947-9674	<b>Hampden ATM</b> 57 Western Avenue 862-2211	<b>Presque Isle ATM</b> 6 North Street 764-8000
<b>Caribou ATM</b> 105 Bennett Drive 498-4200	<b>Houlton ATM</b> 65 North Street 532-4277	<b>Scarborough</b> 144 US Route One 510-7017
<b>Eagle Lake</b> 3440 Aroostook Road 444-5543	<b>Island Falls ATM</b> 1007 Crystal Road 463-2228	<b>Van Buren ATM</b> 29 Main Street, Ste.105 868-2728
	<b>Mars Hill ATM</b> 28 Main Street 429-8400	

## REMOTE ATM LOCATION


**Limestone ATM ONLY**  
35 Main Street, Limestone

## COMMERCIAL LOAN OFFICE

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



[KatahdinTrust.com](http://KatahdinTrust.com)

MEMBER FDIC  EQUAL HOUSING LENDER



2017 FOURTH QUARTER

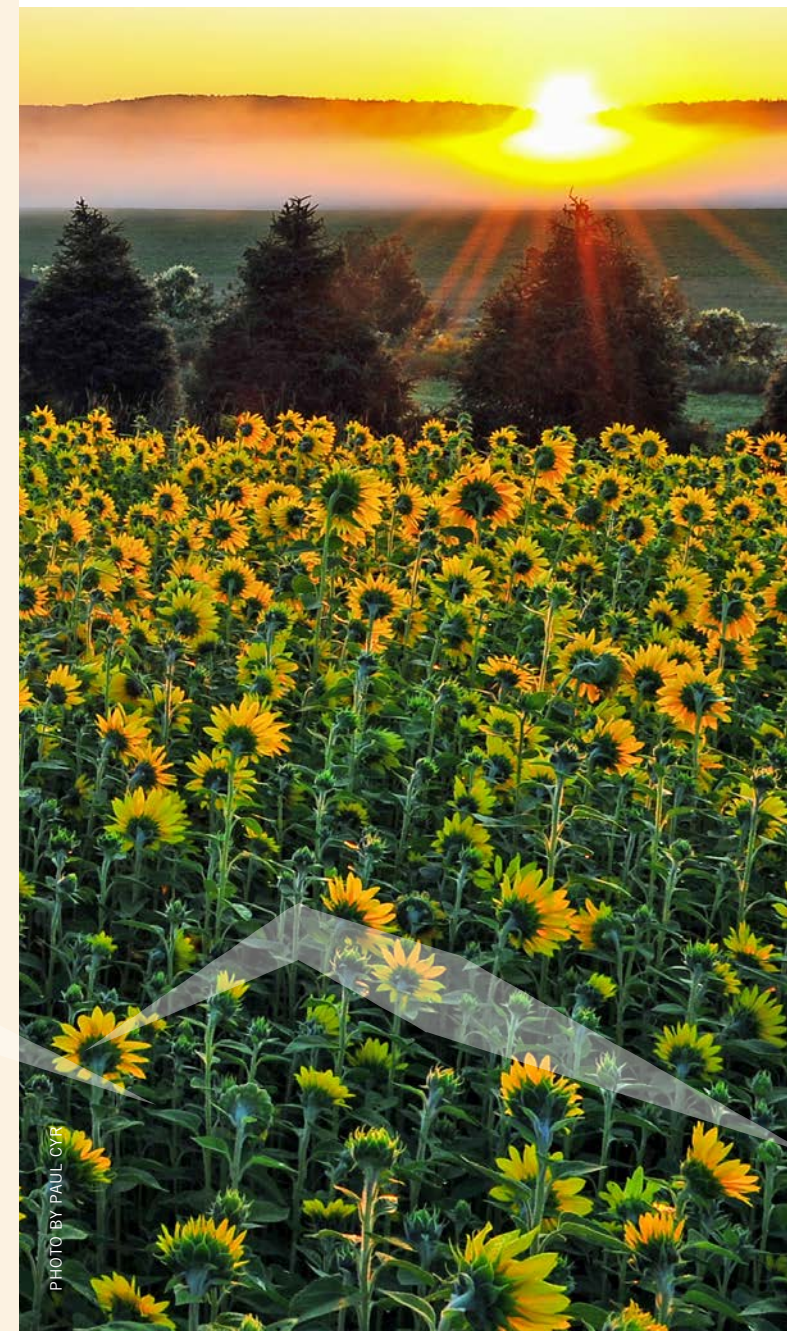


PHOTO BY PAUL CYR



# KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

## SHAREHOLDER INFORMATION

### CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	December 31,	
	2017	2016
<b>ASSETS</b>		
Cash & Due from Banks	\$ 13,984	\$ 11,323
Investments	90,445	88,965
Total Loans	661,636	623,279
Reserve for Loan Loss	(6,048)	(6,032)
Fixed Assets	11,049	12,162
Other Assets	23,572	24,315
<b>Total Assets</b>	<b>\$ 794,638</b>	<b>\$ 754,012</b>

#### LIABILITIES

Deposits	\$ 647,752	\$ 652,969
Repurchase Agreements	118	889
Borrowings	65,867	21,178
Other Liabilities	14,102	14,561
<b>Total Liabilities</b>	<b>\$ 727,839</b>	<b>\$ 689,597</b>

#### SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,859	\$ 9,766
Common Shareholders' Equity	58,258	56,097
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(778)	(856)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	17	(319)
Unearned ESOP Shares	(557)	(273)
<b>Total Shareholders' Equity</b>	<b>\$ 66,799</b>	<b>\$ 64,415</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 794,638</b>	<b>\$ 754,012</b>

Letters of Credit	\$ 3,365	\$ 2,505
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### CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended December 31,		For 12 Months Ended December 31,	
	2017	2016	2017	2016
Interest Income	\$ 7,991	\$ 7,220	\$ 30,803	\$ 29,350
Interest Expense	1,400	1,113	5,341	4,281
Net Interest Income	\$ 6,591	\$ 6,107	\$ 25,462	\$ 25,069
Less: Provision for Loan Losses	425	468	1,225	1,316
Net Interest Income After Provisions	\$ 6,166	\$ 5,639	\$ 24,237	\$ 23,753
Non-Interest Income	1,151	1,145	4,416	4,460
Non-Interest Expense <sup>7</sup>	5,179	5,389	21,529	21,535
Net Operating Income	\$ 2,138	\$ 1,395	\$ 7,124	\$ 6,678
Less: Provision for Income Taxes	1,147	136	2,771	1,864
<b>Net Income</b>	<b>\$ 991</b>	<b>\$ 1,259</b>	<b>\$ 4,353</b>	<b>\$ 4,814</b>
Less: Dividends on Preferred Stock	219	219	875	875
<b>Net Income Available to Common Shareholders</b>	<b>\$ 772</b>	<b>\$ 1,040</b>	<b>\$ 3,478</b>	<b>\$ 3,939</b>
Earnings Per Common Share	\$ 0.23	\$ 0.31	\$ 1.03	\$ 1.16
Annualized Return on Average Assets	0.50%	0.67%	0.55%	0.66%
Annualized Return on Average Common Equity	5.38%	7.50%	6.17%	7.23%
Book Value Per Share at period end <sup>1</sup>			\$ 16.94	\$ 16.17
Tangible Book Value Per Share at period end <sup>2</sup>			\$ 15.24	\$ 14.48
Weighted Average Common Shares Outstanding <sup>3</sup>			3,373,220	3,399,826
Common Shares Outstanding period end			3,404,367	3,404,367
Adjusted Common Shares Outstanding period end <sup>4</sup>			3,361,298	3,380,173
Allowance for Loan Losses to period end Loans			0.91%	0.97%
Non-Performing Loans to period end Loans <sup>5</sup>			1.08%	2.45%
Non-Performing Assets to Total Assets <sup>6</sup>			0.95%	2.11%

1) Common equity per common share. Book Value shall be calculated using Adjusted Common Shares Outstanding period end.

2) Tangible common equity per common share. Tangible Book Value shall be calculated using Adjusted Common Shares Outstanding period end.

3) Weighted Average Common Shares Outstanding less weighted average unallocated ESOP shares. Used for calculating Earnings per Common Share.

4) Adjusted Common Shares Outstanding are Common Shares Outstanding period end less unallocated ESOP shares period end. Since unearned ESOP shares are deducted from capital, this adjustment deducts the unallocated shares from shares outstanding for calculating book value and tangible book value.

5) Non-Performing loans consist of non-accrual loans and restructured loans, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

6) Non-Performing assets consist of non-accrual loans, restructured loans, and foreclosed assets, where applicable. Inclusive of any guaranteed portion of non-accrual loans.

7) Non-Interest Expense for 12 months ended December 31, 2017 included real estate write-downs and other one-time branch consolidation costs totaling \$285,000.

### 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](http://www.otcm Markets.com/stock/KTHN/quote).

### TRANSFER AGENT

For shareholder inquiries regarding change of address or title, please contact:

Computershare Trust Company, N.A.  
PO 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](http://www.computershare.com/investor)

### 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 Computershare.

