

# A MESSAGE FROM THE PRESIDENT

Net income before preferred stock dividends totaled \$3,439,000 for the first six months, as record second quarter profits of \$1,803,000 built on an excellent first quarter. These earnings represent an increase of \$1,458,000 or 73.6% over the same six months last year. Profitability ratios have improved. Earnings per common share year to date total \$0.89 cents per share compared to \$0.46 last year. Return on average assets and return on average equity increased to 0.88% and 10.58%, respectively, compared to 0.51% and 5.59% in the first six months of 2017.

Several factors contributed to the bottom line improvement. First, net interest income rose \$473,000 or 3.8% compared to 2017. The increase can be attributed to balance sheet growth and yield improvement, increased local deposit funding compared to more costly wholesale funding, and a slight improvement in year over year net interest margin. Second, while non-interest income has contracted moderately from last year due to less interest rate swap revenue, overall fee income has remained stable. Third, reduced operating costs have helped significantly. Year to date non-interest expenses are lower this year by \$555,000 or 5.0%. Included in last year's expenses was \$285,000 of one-time write-downs from branch closures; however, we've continued to recognize expense savings and efficiency as both our company and our customers utilize more technology for everyday business. Fourth, continued credit improvement and lower loan growth have led to a lower provision for loan loss by \$410,000 this year vs. 2017. Lastly, it's estimated that bottom line savings from the Federal corporate tax rate reduction has saved tax expense accruals in the first six months of \$520,000.

Total assets were \$801,672,000 as of June 30th, over last year by \$1.9 million. We decided to reduce some investments to partially cover the \$5.6 million in loan growth over last year. Loans have been growing steadily this year although at a slower pace than some prior years. Loan growth during the last six months has on average been priced higher than our current portfolio yield, helping to maintain net interest spread. The Federal Reserve has continued to increase their short term Fed Funds target rate and is expected to continue to gradually raise short term rates.

We're very pleased with results of our effort to improve credit conditions within the portfolio. Non-performing loans to period end loans now stands at 1.06% compared to 1.87% last year at this time. We feel our allowance for loan loss is funded at an adequate level based on management's current assessment of overall risks.

Solid local deposit growth year over year has benefited the Bank with new and deeper relationships. It also has helped reduce reliance on more expensive wholesale funding. While the balance sheet shows a reduction in Deposits of \$16.8 million and a corresponding increase in borrowings of \$15 million, underneath the Deposit number local deposits grew year over year by \$25 million while at the same time we chose to shrink brokered deposits and national CD's by \$41.7 million. We continue to focus on building deposit relationships as we grow.

The Company paid a quarterly dividend of \$0.1075 per share in the second quarter 2018, representing a 7.5% increase over 2017.

In April we again participated in Teach Children to Save Day. I appreciate the twenty-six employees who went to eleven different

schools to provide financial literacy to over 900 children attending PreK – Grade 6.

In May we held a special 100th anniversary employee appreciation event and recognized thirty-two employees for milestone anniversaries ranging from five to thirty-five years. I am grateful for their dedication and commitment to the Bank and our customers.

We are pleased to welcome Jamie Haining as Vice President, Business Development Officer. Jamie is based at our Hampden office and is responsible for business development of all types with a concentration on deposit services for small business, commercial and non-profit entities. She joins the Bank with over twelve years of banking experience.

Congratulations to several employees for recent promotions: Rebecca Potter to Commercial Services Officer in Bangor; Tori Barber to Assistant Vice President, Branch Manager and Retail Services Officer at our Mars Hill location; Sunny Flannery to Assistant Vice President, Branch Manager and Retail Services Officer at our Hampden location; Debbie Schillinger to Assistant Vice President, Branch Manager and Retail Services Officer at our Island Falls and Oakfield locations; Joe Clukey to Vice President, Retail Services Officer in Presque Isle; and Peggy Smith to Vice President, Branch Manager and Retail Services Officer at our Caribou and Van Buren locations.

Rebecca joined Katahdin Trust in 2008 and is responsible for business lending and development in the greater Bangor area. Tori began her career with Katahdin Trust in 1991 with the opening of our Presque Isle office and later joined Mars Hill as manager in 2009. Sunny joined Katahdin Trust in 2011 as manager with the opening of the Hampden office and has over thirty years of banking experience. Debbie has been with Katahdin Trust for over thirty-five years having served as the manager for Island Falls since 1987 and Oakfield since 2017. Joe has been with Katahdin Trust since 1991 and has served in numerous roles before being appointed Assistant Vice President, Retail Services Officer in 2004. Peggy came to Katahdin Trust in 2000 and was promoted to Assistant Vice President, Branch Manager and Retail Services Officer for Caribou in 2008 and Van Buren in 2015.

I am happy to announce that Krista Putnam has been promoted to Senior Vice President, Marketing. Krista joined the Bank in 2003 as a Marketing Assistant. In her 15 year tenure she has assumed increasing roles of responsibility and was promoted to Vice President of Marketing in 2015. Krista will continue to have oversight for all areas of marketing and undertake additional duties, including serving on the Bank's senior management team.

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, Executive Vice President, Retail Services  
William P. Lucy, Executive Vice President, Commercial Services  
Matthew M. Nightingale, Executive Vice President, Treasurer & CFO  
Krista K. Putnam, Senior Vice President, Marketing

## 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

**K**atahdin  
Bankshares Corp.

# 2018

## SECOND QUARTER



PHOTO BY PAUL CYR





# KATAHDIN BANKSHARES CORP.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

# SHAREHOLDER INFORMATION

## CONSOLIDATED STATEMENT OF CONDITION

(UNAUDITED)

	June 30,	
ASSETS	2018	2017
Cash & Due from Banks	\$ 13,250	\$ 11,621
Investments	86,951	93,933
Total Loans	670,983	665,407
Reserve for Loan Loss	(6,009)	(6,409)
Fixed Assets	10,891	11,364
Other Assets	25,606	23,840
<b>Total Assets</b>	<b>\$ 801,672</b>	<b>\$ 799,756</b>

### LIABILITIES

Deposits	\$ 632,661	\$ 649,444
Repurchase Agreements	107	140
Borrowings	85,231	70,177
Other Liabilities	16,211	13,660
Total Liabilities	\$ 734,210	\$ 733,421

### SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,907	\$ 9,813
Common Shareholders' Equity	60,490	57,136
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(2,138)	(132)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	289	(209)
Unearned ESOP Shares	(1,086)	(273)
Total Shareholders' Equity	\$ 67,462	\$ 66,335
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 801,672</b>	<b>\$ 799,756</b>

Letters of Credit	\$ 3,496	\$ 2,949
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## CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For 3 Months Ended June 30,		For 6 Months Ended June 30,	
	2018	2017	2018	2017
Interest Income	\$ 8,237	\$ 7,587	\$ 16,112	\$ 14,889
Interest Expense	1,735	1,289	3,226	2,476
Net Interest Income	\$ 6,502	\$ 6,298	\$ 12,886	\$ 12,413
Less: Provision for Loan Losses	-	370	180	590
Net Interest Income After Provisions	\$ 6,502	\$ 5,928	\$ 12,706	\$ 11,823
Non-Interest Income	1,053	1,254	2,191	2,240
Non-Interest Expense <sup>7</sup>	5,287	5,468	10,574	11,129
Net Operating Income	\$ 2,268	\$ 1,714	\$ 4,323	\$ 2,934
Less: Provision for Income Taxes	465	559	884	953
<b>Net Income</b>	<b>\$ 1,803</b>	<b>\$ 1,155</b>	<b>\$ 3,439</b>	<b>\$ 1,981</b>
Less: Dividends on Preferred Stock	219	219	438	438
<b>Net Income Available to Common Shareholders</b>	<b>\$ 1,584</b>	<b>\$ 936</b>	<b>\$ 3,001</b>	<b>\$ 1,543</b>
Earnings Per Common Share	\$ 0.47	\$ 0.28	\$ 0.89	\$ 0.46
Annualized Return on Average Assets	0.91%	0.59%	0.88%	0.51%
Annualized Return on Average Common Equity	11.04%	6.67%	10.58%	5.59%
Book Value Per Share at period end <sup>1</sup>			\$ 17.29	\$ 16.72
Tangible Book Value Per Share at period end <sup>2</sup>			\$ 15.58	\$ 15.04
Weighted Average Common Shares Outstanding <sup>3</sup>			3,360,763	3,380,173
Common Shares Outstanding period end			3,404,367	3,404,367
Adjusted Common Shares Outstanding period end <sup>4</sup>			3,328,998	3,380,173
Allowance for Loan Losses to period end Loans			0.90%	0.96%
Non-Performing Loans to period end Loans <sup>5</sup>			1.06%	1.87%
Non-Performing Assets to Total Assets <sup>6</sup>			0.92%	1.63%

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 6 months ended June 30, 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  
Executive 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.

