

# A MESSAGE FROM THE PRESIDENT

At the completion of 2018, net income before preferred stock dividends totaled \$7,197,000. This represented record earnings for the Company, and exceeded 2017 earnings by \$2,844,000 or 65.3%. Revenue and earnings growth can be attributed to a wider net interest margin than 2017, credit quality improvement over the prior year, and a lower corporate income tax rate resulting from the Tax Cut and Jobs Act of 2017. Importantly, managing the year without increasing overall operating expenses allowed much of the revenue growth and tax savings to pass through to bottom line net income.

Total assets reached \$803.1 million, representing modest growth of \$8.5 million over year end 2017. The growth came from additions to the investment portfolio. Total loans shrank slightly from the prior year, ending at a total portfolio level of \$660.5 million, down by \$1.2 million. Our focus was adding loans at favorable terms and rates throughout 2018. We were pleased to see loan growth of \$4.3 million in the 4th quarter as we headed into 2019.

Total deposits grew to \$657.1 million, up by \$9.3 million year over year. Within this number, customer deposits grew by \$20.1 million while both national CD's and brokered funding contracted by more than \$10 million. Additionally, as local customer deposit growth was sufficient to meet asset growth, secured borrowings also declined year over year by \$6.7 million to \$59.2 million. A top priority continues to be building customer deposit relationships throughout all of our markets.

We're very pleased with credit quality improvements in 2018 as demonstrated by a variety of measurements. As a result, the provision for loan loss expense totaled only \$180,000 in 2018 compared to \$1,225,000 in 2017. Management reviews credit performance regularly and believes the reserve for loan losses is adequately funded at this time.

Return on assets reached 0.91% in 2018 compared to 0.55% last year. Return on average common equity totaled 10.85%, up substantially from 6.17% in 2017.

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

Our complete audited financials will be published online at [otcmrkt.com](http://otcmrkt.com) in early February and distributed in our 2018 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.

It is with great pleasure that in December we appointed Marianna "Molly" Putnam Liddell, Esq. of Yarmouth and Keith P. Bourgoin, CPA of Hampden to the Bank's board of directors. As we continue to expand our operations throughout Maine, Molly and Keith's sound business management and civic engagement will be a tremendous asset to Katahdin Trust.

Molly is a Partner at Pierce Atwood LLP in Portland focusing on estate planning, estate administration, trust administration, business succession planning, and the tax planning related to these areas. Keith is the Managing Partner for Haverlock, Estey & Curran, LLC in Hampden where he services clients throughout central and northern Maine providing small business accounting, corporate and individual income tax services, attest services, and consulting services.

Congratulations to Melissa Dahlgren who was named as the Branch Manager for Fort Fairfield. Melissa has fourteen years of banking experience, joining Katahdin Trust in 2008 as a Teller in Presque Isle, and serving since then in a variety of roles.

Thank you to everyone who participated throughout the year to commemorate the Bank's 100th anniversary. It has been a great time and we couldn't be more proud of what we have accomplished together. We look forward to the next one hundred years!

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  
Keith P. Bourgoin, CPA

Peter F. Briggs  
Richard B. Harnum, Jr.  
Marianna Putnam Liddell, Esq.  
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



# 2018

## 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,	
	2018	2017
<b>ASSETS</b>		
Cash & Due from Banks	\$ 17,376	\$ 13,984
Investments	96,319	90,445
Total Loans	660,475	661,636
Reserve for Loan Loss	(5,856)	(6,048)
Fixed Assets	10,558	11,049
Other Assets	24,247	23,572
<b>Total Assets</b>	<b>\$ 803,119</b>	<b>\$ 794,638</b>

### LIABILITIES

Deposits	\$ 657,074	\$ 647,752
Repurchase Agreements	-	118
Borrowings	59,201	65,867
Other Liabilities	15,787	14,102
Total Liabilities	\$ 732,062	\$ 727,839

### SHAREHOLDERS' EQUITY

Preferred Stock, Series D	\$ 9,953	\$ 9,859
Common Shareholders' Equity	63,080	58,258
Net Unrealized Appreciation (Depreciation) on Securities Available-for-Sale, Net of Tax	(1,255)	(778)
Net Unrealized Appreciation (Depreciation) on Derivative Investments at Fair Value, Net of Tax	256	17
Unearned ESOP Shares	(977)	(557)
Total Shareholders' Equity	\$ 71,057	\$ 66,799
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 803,119</b>	<b>\$ 794,638</b>

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

(UNAUDITED)

	For 3 Months Ended December 31,		For 12 Months Ended December 31,	
	2018	2017	2018	2017
Interest Income	\$ 8,644	\$ 7,991	\$ 33,172	\$ 30,803
Interest Expense	1,859	1,400	6,906	5,341
Net Interest Income	\$ 6,785	\$ 6,591	\$ 26,266	\$ 25,462
Less: Provision for Loan Losses	-	425	180	1,225
Net Interest Income After Provisions	\$ 6,785	\$ 6,166	\$ 26,086	\$ 24,237
Non-Interest Income	1,114	1,151	4,408	4,416
Non-Interest Expense <sup>7</sup>	5,598	5,179	21,520	21,529
Net Operating Income	\$ 2,301	\$ 2,138	\$ 8,974	\$ 7,124
Less: Provision for Income Taxes	415	1,147	1,777	2,771
<b>Net Income</b>	<b>\$ 1,886</b>	<b>\$ 991</b>	<b>\$ 7,197</b>	<b>\$ 4,353</b>
Less: Dividends on Preferred Stock	219	219	875	875
<b>Net Income Available to Common Shareholders</b>	<b>\$ 1,667</b>	<b>\$ 772</b>	<b>\$ 6,322</b>	<b>\$ 3,478</b>
Earnings Per Common Share	\$ 0.50	\$ 0.23	\$ 1.89	\$ 1.03
Annualized Return on Average Assets	0.94%	0.50%	0.91%	0.55%
Annualized Return on Average Common Equity	11.02%	5.38%	10.85%	6.17%
Book Value Per Share at period end <sup>1</sup>			\$ 18.29	\$ 16.94
Tangible Book Value Per Share at period end <sup>2</sup>			\$ 16.59	\$ 15.24
Weighted Average Common Shares Outstanding <sup>3</sup>			3,345,012	3,373,220
Common Shares Outstanding period end			3,404,367	3,404,367
Adjusted Common Shares Outstanding period end <sup>4</sup>			3,339,734	3,361,298
Allowance for Loan Losses to period end Loans			0.89%	0.91%
Non-Performing Loans to period end Loans <sup>5</sup>			0.96%	1.08%
Non-Performing Assets to Total Assets <sup>6</sup>			0.79%	0.95%

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  
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.

