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Sturgis Bancorp Reports Earnings for Second Quarter 2017

For Immediate Release

STURGIS, Mich., July 25, 2017 -- **Sturgis Bancorp, Inc.** (OTCQX: **STBI**) today announced net income of \$1.6 million for the first half of 2017 and \$939,000 for the second quarter of 2017.

Sturgis Bancorp is the holding company for **Sturgis Bank & Trust Company** (Bank), and its subsidiaries **Oakleaf Financial Services, Inc.** and **Oak Mortgage, LLC.** Sturgis Bancorp provides a full array of trust, commercial and consumer banking services from 12 banking centers in Sturgis, Bangor, Bronson, Centreville, Climax, Colon, South Haven, Three Rivers and White Pigeon, Michigan. Oakleaf Financial Services offers a complete range of investment and financial advisory services. Oak Mortgage offers residential mortgages in all markets of the Bank.

Key Highlights for the second quarter of 2017:

- Net income increased 33% for the second quarter of 2017 to \$939,000, compared to \$705,000 for the second quarter of 2016, primarily due to higher net interest income, lower provisions for ALLL, and net gain on cash flow hedges.
- The Bank maintained strong capital ratios, exceeding “well-capitalized” requirements, with Tier 1 leverage capital at 8.42%. Total capital at June 30, 2017 was 14.42% of risk-weighted assets. The Bank's risk-weighted assets were \$252.9 million at June 30, 2017.
- Total deposits increased 2.6% to \$305.5 million, mostly noninterest-bearing deposits.
- Allowance for loan losses was 1.15% of gross loans, down slightly from 1.20% on December 31, 2016.
- Asset quality improved, with 0.30% of loans in nonaccrual status on June 30, 2017, compared to 0.34% on December 31, 2016. Loans past due 90 days and accruing were 0.04% of loans on June 30, 2017, compared to 0.10% on December 31, 2016.

Three months ended June 30, 2017 vs. three months ended June 30, 2016 - Net income for the three months ended June 30, 2017 was \$939,000, or \$0.45 per share, compared to net income of \$705,000, or \$0.34 per share, for the three months ended June 30, 2016. The tax equivalent net interest margin decreased to 3.75% in the second quarter of 2017 from 3.78% in the second quarter of 2016.

Noninterest income was \$1.7 million in the second quarter of 2017, compared to \$1.4 million in the second quarter of 2016. Most of the increase was \$242,000 net gain on cash flow hedges. Service charges and other fees also increased \$105,000, to \$354,000, primarily due to changes in checking account fee income. Investment brokerage commission income decreased to \$403,000 in 2017 from \$510,000 in 2016. The decrease in commission income was primarily due to the Department of Labor's Fiduciary Rule and the 2016 conversion to Raymond James Financial Inc. from LPL Financial.

Noninterest expense was \$3.8 million in 2017 and \$3.4 million in 2016. Salaries and employee benefits, the largest component of noninterest expense, increased \$275,000, primarily due to higher pension funding in 2017 and cost of living increases. Real estate owned expense decreased to \$47,000 in 2017, compared to \$107,000 in 2016.

The Company provided (\$106,000) to the allowance for loan losses in the second quarter of 2017, compared to \$88,000 in the same quarter of 2016. Net charge-offs were (\$24,000) in 2017, compared to \$35,000 in 2016.

Six months ended June 30, 2017 vs. six months ended June 30, 2016 - Net income for the first half of 2017 was \$1.6 million, or \$0.77 per share, compared to net income of \$1.3 million, or \$0.62 per share, for the first half of 2016. The tax equivalent net interest margin increased to 3.77% in the first half of 2017 from 3.76% in the first half of 2016.

Noninterest income was \$2.8 million in the first half of 2017, compared to \$2.6 million in the first half of 2016. Most of the increase was \$258,000 net gain on cash flow hedges. Service charges and other fees also increased \$113,000, to \$614,000, primarily due to changes in checking account fee income. Investment brokerage commission income decreased to \$732,000 in 2017 from \$954,000 in 2016. The decrease in commission income was primarily due to the Department of Labor's Fiduciary Rule and the 2016 conversion to Raymond James Financial Inc. from LPL Financial.

Noninterest expense was \$7.4 million in 2017 and \$6.8 million in 2016. Salaries and employee benefits, the largest component of noninterest expense, increased \$553,000, primarily due to higher pension funding in 2017 and cost of living increases. Real estate owned expense decreased to \$63,000 in 2017, compared to \$167,000 in 2016.

The Company provided (\$241,000) to the allowance for loan losses in the first half of 2017, compared to \$182,000 in the first half of 2016. Net charge-offs were (\$95,000) in 2017, compared to \$104,000 in 2016.

Total assets increased to \$406.4 million at June 30, 2017 from \$398.6 million at December 31, 2016, primarily in cash and cash equivalents. Loans decreased \$1.8 million from December 31, 2016. Most of the decrease in loans was in commercial loans.

Noninterest-bearing deposits increased to \$75.9 million at June 30, 2017 from \$65.5 million at December 31, 2016. Interest-bearing deposits decreased to \$229.6 million at June 30, 2017 from \$232.3 million at December 31, 2016. Brokered deposits increased to \$10.0 million in the first half of 2017 from \$9.6 million at December 31, 2016.

Total equity was \$35.8 million at June 30, 2017, compared to \$34.7 million at December 31, 2016. Book value per share increased to \$17.14 (\$13.63 tangible) at June 30, 2017 from \$16.65 (\$13.14 tangible) at December 31, 2016.

This release contains statements that constitute forward-looking statements. These statements appear in several places in this release and include statements regarding intent, belief, outlook, objectives, efforts, estimates or expectations of Bancorp, primarily with respect to future events and the future financial performance of the Bancorp. Any such forward-looking statements are not guarantees of future events or performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statement. Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement include, but are not limited to, changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; government and regulatory policy changes; the outcome of any pending and future litigation and contingencies; trends in consumer behavior and ability to repay loans; and changes of the world, national and local economies. Bancorp undertakes no obligation to update, amend or clarify forward-looking statements as a result of new information, future events, or otherwise. The numbers presented herein are unaudited.

For additional information, visit our website at www.sturgisbank.com.

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)

	June. 30, <u>2017</u>	Dec. 31, <u>2016</u>
ASSETS		
Cash and due from banks	\$ 14,525	\$ 8,150
Other short-term investments	11,488	4,963
Total cash and cash equivalents	26,013	13,113
Interest-earning deposits in banks	13,585	16,068
Securities - available for sale	30,289	32,387
Securities - held to maturity	35,078	33,769
Federal Home Loan Bank stock, at cost	3,117	3,117
Loans held for sale, at fair value	1,237	1,089
Loans, net of allowance of \$3,096 and \$3,242	265,052	266,871
Premises and equipment, net	9,018	8,360
Goodwill	5,834	5,834
Core deposit intangibles	230	259
Originated mortgage servicing rights	1,268	1,216
Real estate owned	469	687
Bank-owned life insurance	10,130	9,998
Accrued interest receivable	1,354	1,407
Other assets	3,770	4,454
Total assets	\$ 406,444	\$ 398,629
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 75,897	\$ 65,455
Interest-bearing	229,612	232,312
Total deposits	305,509	297,767
Federal Home Loan Bank advances and other borrowings	60,163	61,180
Accrued interest payable	250	243
Other liabilities	4,689	4,712
Total liabilities	370,611	363,902
Stockholders' equity		
Preferred stock - \$1 par value: authorized - 1,000,000 shares issued and outstanding - 0 shares	-	-
Common stock - \$1 par value: authorized - 9,000,000 shares issued and outstanding 2,090,491 shares at June 30, 2017 and 2,085,991 at December 31, 2016	2,090	2,086
Additional paid-in capital	7,435	7,367
Retained earnings	26,334	25,234
Accumulated other comprehensive loss	(26)	40
Total stockholders' equity	35,833	34,727
Total liabilities and stockholders' equity	\$ 406,444	\$ 398,629

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share and per share data)

	Three Months Ended June 30,	
	2017	2016
Interest income		
Loans	\$ 3,145	\$ 3,079
Investment securities:		
Taxable	198	147
Tax-exempt	275	220
Dividends	33	28
Total interest income	3,651	3,474
Interest expense		
Deposits	167	172
Borrowed funds	316	270
Total interest expense	483	442
Net interest income	3,168	3,032
Provision (benefit) for loan losses	(106)	88
Net interest income after provision (benefit) for loan losses	3,274	2,944
Noninterest income:		
Service charges and other fees	354	249
Interchange income	200	187
Investment brokerage commission income	403	510
Mortgage banking activities	294	196
Trust fee income	124	129
Earnings on cash value of bank-owned life insurance	66	65
Gain on sale of real estate owned	17	-
Net gain on cash flow hedges	242	-
Other income	19	17
Total noninterest income	1,719	1,353
Noninterest expenses:		
Salaries and employee benefits	2,179	1,904
Occupancy and equipment	447	488
Interchange expenses	90	114
Data processing	156	198
Professional services	89	45
Real estate owned expense	47	107
Advertising	59	55
FDIC premiums	48	64
Other expenses	659	433
Total noninterest expenses	3,774	3,408
Income before income tax expense	1,219	889
Income tax expense	280	184
Net income	\$ 939	\$ 705
Earnings per share	\$ 0.45	\$ 0.34
Dividends per share	0.12	0.10

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands, except share and per share data)

	Six Months Ended June 30,	
	2017	2016
Interest income		
Loans	\$ 6,310	\$ 6,086
Investment securities:		
Taxable	411	303
Tax-exempt	542	424
Dividends	61	56
Total interest income	7,324	6,869
Interest expense		
Deposits	330	338
Borrowed funds	621	544
Total interest expense	951	882
Net interest income	6,373	5,987
Provision (benefit) for loan losses	(241)	182
Net interest income after provision (benefit) for loan losses	6,614	5,805
Noninterest income:		
Service charges and other fees	614	501
Interchange income	382	354
Investment brokerage commission income	732	954
Mortgage banking activities	418	332
Trust fee income	232	208
Earnings on cash value of bank-owned life insurance	132	130
Gain (loss) on sale of real estate owned	8	(1)
Gain on securities	-	1
Net gain on cash flow hedges	258	-
Other income	44	115
Total noninterest income	2,820	2,594
Noninterest expenses:		
Salaries and employee benefits	4,365	3,812
Occupancy and equipment	892	894
Interchange expenses	187	212
Data processing	313	395
Professional services	203	106
Real estate owned expense	63	167
Advertising	106	115
FDIC premiums	95	127
Other expenses	1,188	949
Total noninterest expenses	7,412	6,777
Income before income tax expense	2,022	1,622
Income tax expense	421	324
Net income	\$ 1,601	\$ 1,298
Earnings per share	\$ 0.77	\$ 0.62
Dividends per share	0.24	0.18

OTHER FINANCIAL INFORMATION
(Amounts in thousands)

	<u>Three Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Sturgis Bank & Trust Company:		
Average noninterest-bearing deposits	\$ 69,694	\$ 65,169
Average interest-bearing deposits	236,416	233,784
Average total assets	400,718	370,003
Total risk-weighted assets	252,892	235,810
Sturgis Bancorp:		
Average equity	35,731	33,139
Average total assets	400,884	379,808
Total risk-weighted assets, end of period	253,094	242,113
Financial ratios for Sturgis Bancorp:		
Return on average assets	0.94%	0.75%
Return on average equity	10.55%	8.56%
Net interest margin	3.57%	3.61%
Tax equivalent net interest margin	3.75%	3.78%
	<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Sturgis Bank & Trust Company:		
Average noninterest-bearing deposits	\$ 68,920	\$ 63,980
Average interest-bearing deposits	236,879	228,834
Average total assets	401,045	374,861
Total risk-weighted assets, end of period	252,892	242,022
Sturgis Bancorp:		
Average equity	35,381	32,908
Average total assets	401,215	374,961
Total risk-weighted assets	253,094	242,113
Financial ratios for Sturgis Bancorp:		
Return on average assets	0.80%	0.70%
Return on average equity	9.12%	7.93%
Net interest margin	3.59%	3.60%
Tax equivalent net interest margin	3.77%	3.76%

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