

Contacts:

Sturgis Bancorp -- Eric Eishen, President & CEO, or Brian P. Hoggatt, CFO -- P: 269 651-9345

## **Sturgis Bancorp Reports Earnings for Third Quarter 2017**

For Immediate Release

STURGIS, Mich., October 25, 2017 -- **Sturgis Bancorp, Inc.** (OTCQX: **STBI**) today announced net income of \$2.3 million for the first nine months of 2017 and \$739,000 for the third 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 19% for the first nine months of 2017 to \$2.3 million, compared to \$2.0 million for the first nine months 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 September 30, 2017 was 14.10% of risk-weighted assets. The Bank's risk-weighted assets were \$262.4 million at September 30, 2017.
- Total deposits increased 1.0% to \$300.7 million, mostly noninterest-bearing deposits.
- Allowance for loan losses was 1.12% of gross loans, down slightly from 1.20% on December 31, 2016.
- Asset quality improved, with 0.29% of loans in nonaccrual status on September 30, 2017, compared to 0.34% on December 31, 2016. Loans past due 90 days and accruing were 0.04% of loans on September 30, 2017, compared to 0.10% on December 31, 2016.

**Three months ended September 30, 2017 vs. three months ended September 30, 2016** - Net income for the three months ended September 30, 2017 was \$739,000, or \$0.35 per share, compared to net income of \$670,000, or \$0.32 per share, for the three months ended September 30, 2016. The tax equivalent net interest margin decreased to 3.72% in the third quarter of 2017 from 3.83% in the third quarter of 2016.

Noninterest income was \$1.3 million in the third quarter of 2017, compared to \$1.4 million in the third quarter of 2016. Most of the decrease was due to \$15,000 gain on sale of real estate owned in 2017, compared to \$196,000 in 2016. Service charges and other fees increased \$132,000, to \$391,000, primarily due to changes in checking account fee income.

Noninterest expense was \$3.6 million in 2017 and \$3.6 million in 2016. Salaries and employee benefits, the largest component of noninterest expense, increased \$48,000, primarily due to higher pension funding in 2017 and cost of living increases.

The Company provided \$59,000 to the allowance for loan losses in the third quarter of 2017, compared to \$102,000 in the same quarter of 2016. Net charge-offs were \$47,000 in 2017, compared to \$118,000 in 2016.

**Nine months ended September 30, 2017 vs. nine months ended September 30, 2016** - Net income for the first nine months of 2017 was \$2.3 million, or \$1.12 per share, compared to net income of \$2.0 million, or \$0.95 per share, for the first nine months of 2016. The tax equivalent net interest margin decreased to 3.75% in the first nine months of 2017 from 3.79% in the first nine months of

2016.

Noninterest income was \$4.2 million in the first nine months of 2017, compared to \$3.9 million in the first nine months of 2016. Most of the increase was \$258,000 net gain on cash flow hedges. Service charges and other fees also increased \$247,000, to \$1.0 million, primarily due to changes in checking account fee income. Investment brokerage commission income decreased to \$1.1 million in 2017 from \$1.2 million 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. Gain on sale of real estate owned also decreased to \$23,000 in 2017 from \$196,000 in 2016.

Noninterest expense was \$11.0 million in 2017 and \$10.4 million in 2016. Salaries and employee benefits, the largest component of noninterest expense, increased \$601,000, primarily due to higher pension funding in 2017 and cost of living increases.

The Company provided (\$182,000) to the allowance for loan losses in the first nine months of 2017, compared to \$284,000 in the first nine months of 2016. Net charge-offs were (\$48,000) in 2017, compared to \$329,000 in 2016.

Total assets increased to \$404.7 million at September 30, 2017 from \$398.6 million at December 31, 2016, primarily in loans. Loans increased \$11.0 million from December 31, 2016. Most of the increase in loans was in commercial loans.

Noninterest-bearing deposits increased to \$75.1 million at September 30, 2017 from \$65.5 million at December 31, 2016. Interest-bearing deposits decreased to \$225.5 million at September 30, 2017 from \$232.3 million at December 31, 2016. The decrease in interest-bearing deposits includes \$3.0 million decrease in brokered deposits.

Total equity was \$36.3 million at September 30, 2017, compared to \$34.7 million at December 31, 2016. Book value per share increased to \$17.37 (\$13.88 tangible) at September 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](http://www.sturgisbank.com).

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

	Sept.. 30, <u>2017</u>	Dec. 31, <u>2016</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 8,355	\$ 8,150
Other short-term investments	4,730	4,963
Total cash and cash equivalents	<u>13,085</u>	<u>13,113</u>
Interest-earning deposits in banks	13,585	16,068
Securities - available for sale	29,033	32,387
Securities - held to maturity	35,504	33,769
Federal Home Loan Bank stock, at cost	3,169	3,117
Loans held for sale, at fair value	412	1,089
Loans, net of allowance of \$3,108 and \$3,242	277,875	266,871
Premises and equipment, net	8,962	8,360
Goodwill	5,834	5,834
Core deposit intangibles	217	259
Originated mortgage servicing rights	1,238	1,216
Real estate owned	395	687
Bank-owned life insurance	10,198	9,998
Accrued interest receivable	1,642	1,407
Other assets	<u>3,539</u>	<u>4,454</u>
Total assets	<u><u>\$ 404,688</u></u>	<u><u>\$ 398,629</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 75,155	\$ 65,455
Interest-bearing	225,526	232,312
Total deposits	<u>300,681</u>	<u>297,767</u>
Federal Home Loan Bank advances and other borrowings	62,987	61,180
Accrued interest payable	246	243
Other liabilities	<u>4,429</u>	<u>4,712</u>
Total liabilities	368,343	363,902
<b>Stockholders' equity</b>		
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 2,092,741 shares at Sept. 30, 2017 and 2,085,991 at December 31, 2016	2,093	2,086
Additional paid-in capital	7,473	7,367
Retained earnings	26,821	25,234
Accumulated other comprehensive loss	<u>(42)</u>	<u>40</u>
Total stockholders' equity	<u>36,345</u>	<u>34,727</u>
Total liabilities and stockholders' equity	<u><u>\$ 404,688</u></u>	<u><u>\$ 398,629</u></u>

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

	Three Months Ended Sept. 30,	
	2017	2016
Interest income		
Loans	\$ 3,255	\$ 3,220
Investment securities:		
Taxable	208	168
Tax-exempt	278	234
Dividends	<u>35</u>	<u>28</u>
Total interest income	3,776	3,650
Interest expense		
Deposits	177	171
Borrowed funds	<u>368</u>	<u>290</u>
Total interest expense	<u>545</u>	<u>461</u>
<b>Net interest income</b>	3,231	3,189
Provision (benefit) for loan losses	<u>59</u>	<u>102</u>
<b>Net interest income after provision (benefit) for loan losses</b>	3,172	3,087
Noninterest income:		
Service charges and other fees	391	259
Interchange income	195	190
Investment brokerage commission income	368	267
Mortgage banking activities	161	201
Trust fee income	117	143
Earnings on cash value of bank-owned life insurance	68	66
Gain on sale of real estate owned	15	197
Other income	<u>33</u>	<u>28</u>
Total noninterest income	1,348	1,351
Noninterest expenses:		
Salaries and employee benefits	2,064	2,016
Occupancy and equipment	461	409
Interchange expenses	97	105
Data processing	182	209
Professional services	110	93
Real estate owned expense	39	42
Advertising	87	66
FDIC premiums	43	65
Realized loss (gain) on available for sale securities	20	(1)
Other expenses	<u>503</u>	<u>591</u>
Total noninterest expenses	<u>3,606</u>	<u>3,595</u>
<b>Income before income tax expense</b>	914	843
Income tax expense	<u>175</u>	<u>173</u>
<b>Net income</b>	<u>\$ 739</u>	<u>\$ 670</u>
Earnings per share	\$ 0.35	\$ 0.32
Dividends per share	0.12	0.12

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

	<u>Nine Months Ended Sept. 30,</u>	
	<u>2017</u>	<u>2016</u>
Interest income		
Loans	\$ 9,564	\$ 9,306
Investment securities:		
Taxable	620	471
Tax-exempt	820	658
Dividends	<u>96</u>	<u>84</u>
Total interest income	11,100	10,519
Interest expense		
Deposits	506	509
Borrowed funds	<u>990</u>	<u>834</u>
Total interest expense	<u>1,496</u>	<u>1,343</u>
<b>Net interest income</b>	9,604	9,176
Provision (benefit) for loan losses	<u>(182)</u>	<u>284</u>
<b>Net interest income after provision (benefit) for loan losses</b>	9,786	8,892
Noninterest income:		
Service charges and other fees	1,006	759
Interchange income	577	544
Investment brokerage commission income	1,101	1,222
Mortgage banking activities	578	533
Trust fee income	350	351
Earnings on cash value of bank-owned life insurance	199	196
Net gain on cash flow hedges	258	-
Gain (loss) on sale of real estate owned	23	196
Other income	<u>76</u>	<u>143</u>
Total noninterest income	4,168	3,944
Noninterest expenses:		
Salaries and employee benefits	6,429	5,828
Occupancy and equipment	1,348	1,302
Interchange expenses	284	317
Data processing	495	604
Professional services	313	198
Real estate owned expense	102	209
Advertising	193	182
FDIC premiums	139	192
Realized loss (gain) on available for sale securities	20	(1)
Other expenses	<u>1,695</u>	<u>1,540</u>
Total noninterest expenses	<u>11,018</u>	<u>10,371</u>
<b>Income before income tax expense</b>	2,936	2,465
Income tax expense	<u>596</u>	<u>498</u>
<b>Net income</b>	<u>\$ 2,340</u>	<u>\$ 1,967</u>
Earnings per share	\$ 1.12	\$ 0.95
Dividends per share	0.36	0.30

OTHER FINANCIAL INFORMATION  
(Amounts in thousands)

	<u>Three Months Ended Sept. 30,</u>	
	<u>2017</u>	<u>2016</u>
Sturgis Bank & Trust Company:		
Average noninterest-bearing deposits	\$ 78,019	\$ 69,865
Average interest-bearing deposits	227,151	232,795
Average total assets	406,536	390,372
Total risk-weighted assets, end of period	262,358	249,328
Sturgis Bancorp:		
Average equity	36,021	33,616
Average total assets	406,695	390,489
Total risk-weighted assets, end of period	262,569	249,582
Financial ratios for Sturgis Bancorp:		
Return on average assets	0.72%	0.68%
Return on average equity	8.14%	8.04%
Net interest margin	3.54%	3.67%
Tax equivalent net interest margin	3.72%	3.83%
	<u>Nine Months Ended Sept. 30,</u>	
	<u>2017</u>	<u>2016</u>
Sturgis Bank & Trust Company:		
Average noninterest-bearing deposits	\$ 71,987	\$ 65,956
Average interest-bearing deposits	233,601	230,164
Average total assets	402,865	380,111
Sturgis Bancorp:		
Average equity	35,592	33,142
Average total assets	403,031	380,217
Financial ratios for Sturgis Bancorp:		
Return on average assets	0.78%	0.69%
Return on average equity	8.79%	7.98%
Net interest margin	3.57%	3.62%
Tax equivalent net interest margin	3.75%	3.79%

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