

# 2016 ANNUAL REPORT



Centre 1 Bancorp, Inc.

## OUR MISSION

We will be the premier community bank in the markets we serve through our commitment to building long-term relationships. Our goal is to increase value for our shareholders, customers, team members, and communities by providing Sound Advice and innovative and competitive financial products.

## OUR VISION

We will satisfy our customers' financial needs and help them succeed financially. Our product is service, our value added is advice and our competitive advantage is our people.

## OUR STRATEGIC DIRECTION

We strive to become a "super" community bank. We will offer more than traditional banking services, including Trust, Retirement Services, Investment Management, Brokerage and Insurance. We are also a distributor—delivering through a variety of channels that our customers have told us they want: the traditional branch, ATM network, customer support center, Internet, mobile phone, email and traditional mail.

## OUR GOAL

Through great service and Sound Advice, our goal is to earn all of our customers' business.

**67**

% of our customers' share of wallet—two times the industry average

**26**

% of our customers who use eight or more FNBT financial products

**4,913**

Number of households who have been banking with us for more than 25 years

## To Our Shareholders,

2016 proved to be a transformational year for Centre 1 Bancorp, and the most notable in our history. We generated record profits, preserved loan and deposit growth and continued to expand our market presence and customer base, all while maintaining strong credit quality, capital and liquidity levels. These are all good indicators of the company's financial strength.

Our most significant accomplishment in 2016 was closing on our acquisition of Walworth State Bank headquartered in Walworth, Wisconsin. This transaction, the largest in First National Bank and Trust's (FNBT) history, made us the most convenient community bank network in all of Walworth County. The combination of the two companies has advanced our goal to be #1 or #2 in all markets we serve, with a dominant market share in Walworth County, and a total of 16 locations in the Stateline.

Now, as a \$1.2 billion-asset financial institution, we have the scale to offer our customers products and services of a regional bank, while remaining focused on doing so as a community bank. All banks continue to face regulations that have increased the cost of doing business. It's another reason size and scale matter more today than perhaps ever before. FNBT continues to support thoughtful regulations that help financial institutions operate with integrity and transparency. Our size and continued growth help us adapt to the new regulatory environment successfully. We're able to attract quality bench strength on our teams and acquire the systems needed to stay up-to-date on new regulations and rules. We will continue to sustain a strong "tone at the top" on this topic to make sure our people can successfully monitor our standing and progress going forward.

Despite a highly competitive environment and the transition that comes with the largest acquisition in our company's history, our lending professionals have continued to perform well. Our mortgage team generated revenue of \$2.2 million, compared to \$1.3 million in 2015. Total home loan production for the year was \$101 million, compared with \$55 million in 2015. New commercial loan production exceeded \$105 million. Combined with the Walworth customer relationships our lending teams added \$166 million to our total outstanding loan balances. If the current interest rate environment remains low we should benefit from a sustained demand for mortgage re-finances, combined with our strong position in Walworth County, and 2017 should be another strong year for our mortgage team.

Careful capital management remains a high priority to ensure FNBT continues to be a well-capitalized financial institution. Because of smart oversight on the part of the board and management, our capital position remains strong.

As always, we will continue to maintain our strong balance sheet and allocate capital appropriately.

We are pleased to report that Stockholder equity grew by 5.5%. Dividends increased from \$1.60 to \$1.75 per share, enhancing shareholder's dividend yield by 9.38% over the previous year.

This past year, we also had changes at the top with two long-standing board members, Charles P. McCleary and H. Jack Warner retiring, along with Dennis A. Staaland, Executive Vice President of Wealth Management and Centre 1 Bancorp Secretary, and Donna K. Beilfuss, Chief Financial Officer and Centre 1 Bancorp Treasurer. Their support and leadership over the years has been instrumental in shaping the progress in our company and should be noted in our transformation over the past 35 years. We wish them well in their retirement.

We accomplished a great deal in 2016. It was a challenging, inspiring, transformative year, and because of the hard work, passion and commitment of FNBT's now 315 team members, it was also a highly successful one. As we look ahead, we will continue to challenge ourselves to reach even higher for our customers, communities, team members and shareholders. Thank you for your continued investment in Centre 1 Bancorp. We look forward to great things ahead.

Sincerely,



**Steven M. Eldred**  
Chairman, President  
and Chief Executive Officer



# HIGHLIGHTS OF 2016

For the 15th year in a row, FNBT has earned a “recommended” rating by BauerFinancial, Inc. for

# strength and stability

in the banking industry.

FNBT was a Silver recipient of the **Million Dollar Lender Award**. This is presented each year to lenders who have partnered with, and made a significant contribution to, supporting Wisconsin rural residents looking to become homeowners through the USDA Guaranteed Rural Housing (GRH) Program.

The **Wisconsin Bankers Association (WBA)** recognized the FNBT team for their outstanding financial education efforts with an award. Twenty-eight employees of FNBT made 95 presentations throughout the year reaching nearly 3,200 students in the Stateline area.

We were recognized as one of the

## Top 200 Healthiest Banks

in the country by Deposit Accounts, an independent banking comparison website utilizing a proprietary institution health rating algorithm recognized and cited by hundreds of media outlets.

Healthy communities are the basis of successful businesses which is why in 2016 FNBT made significant pledges to support the following organizations:

- **Monroe Clinic Hospital** – Hospice Home capital campaign
- **Stateline Family YMCA** – New Beloit downtown YMCA
- **Beloit Health System Foundation** – Hendricks Family Heart Hospital

## our culture is strong

In June 2016, we asked our employees and our leadership team to complete a survey to help us identify opportunities to improve our organizational culture for greater success. The good news: we learned our culture was above average and contributed to an adaptive, enabling, and constructive environment at FNBT. However, this doesn't mean we are satisfied; instead this energized the management team to fine tune our efforts and ensure we continue to focus on maintaining this asset.

## referrals are the greatest compliment

In 2016, 1,029 FNBT customers referred a friend or family member to us and nearly 6% of those referrals came from Walworth market customers in the last five months.

# HIGHLIGHTS OF 2016

## Walworth State Bank acquisition



In February we completed the acquisition of Walworth State Bank, a deal which strengthened FNBT's lending resources and made us the most convenient community bank in Walworth County.

The hard work that went into integrating our two companies was an essential part of laying the foundation for continued financial performance and organic growth. Nearly 70 employees were part of a cross-functional team to complete the employee and customer conversion in late April, however we relied on every FNBT team member to help make this a success.



Delavan Branch



Elkhorn Branch



Walworth Branch



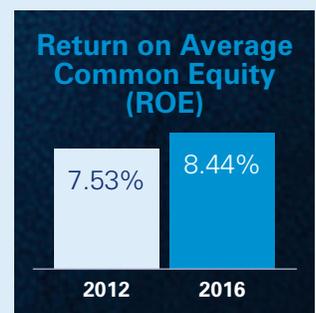
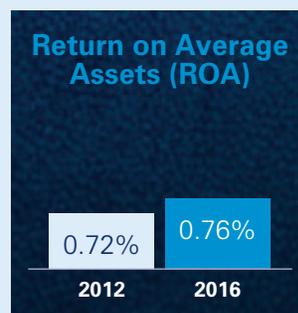
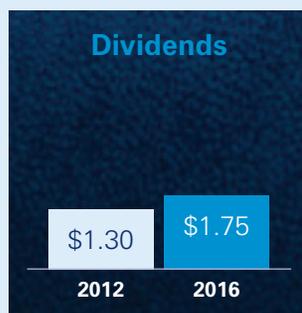
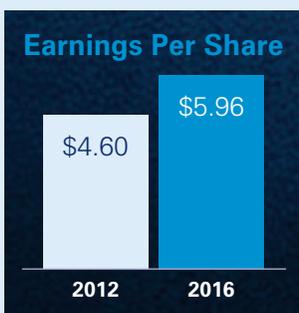
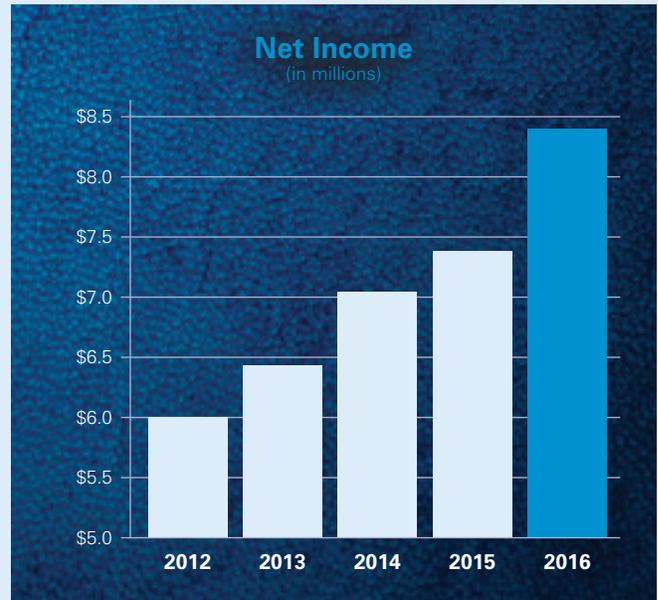
Williams Bay Branch

From the initial announcement of the acquisition, we implemented an integration strategy to ensure every decision—whether related to communications, locations, products or staffing—would significantly enhance our performance and reinforce our brand promise of providing Sound Advice to improve our customers' experience. This approach has made us stronger and more efficient, an integral factor in meeting the bank's net income goals in 2016.

## innovation to improve experience

Our technology, operations and product teams worked incredibly hard to set the stage for the company to complete multiple system and product improvements in 2016. These include: introducing EMV chip-enabled technology for our debit cards, improved consumer and business mobile banking capabilities, eliminating standard service fees for Popmoney and consumer mobile deposit, and an advanced commercial loan processing and origination system. Together, these new products and technology enhancements prove our continuous commitment to a better overall customer experience.

# OUR PERFORMANCE



## Centre 1 Bancorp At-a-Glance

Asset Size  
**\$1.2 billion**

Earnings per Share  
**\$5.96**

Deposits  
**\$1,010 million**

Return on Average Assets  
**0.76%**

Loans  
**\$738 million**

Return on Average  
Common Equity  
**8.44%**

Total Risk-Based Capital Ratio  
(Well-capitalized is 10.0% or higher)  
**15.2%**

Net Interest Income  
**\$36.5 million**

Tier 1 Capital  
(Well-capitalized is 5.0% or higher)  
**8.7%**

Net Income  
**\$8.4 million**

A view of Lake Geneva from Williams Bay, WI, the town of one of our newly acquired branch locations in the Walworth State Bank acquisition.

*Photo by Chris Kayser*

# CONSOLIDATED BALANCE SHEETS

As of December 31, 2016 and 2015  
(dollars in thousands, except per-share data)

|   | 2016         | 2015       |
|---|--------------|------------|
| <b>ASSETS</b>   |              |            |
| Cash and due from banks   | \$ 49,478    | \$ 40,501  |
| Federal funds sold  | 799          | 12,058     |
| Interest bearing deposits in banks  | 611          | 903        |
| Cash and cash equivalents   | 51,888       | 53,462     |
| Available for sale securities – stated at fair value  | 280,798      | 200,870    |
| Held to maturity securities, fair value of \$6,499 and \$6,499 in 2016 and 2015   | 6,500        | 6,500      |
| Loans, less allowance for loan losses of \$9,244 and \$8,883 in 2016 and 2015   | 737,932      | 571,550    |
| Loans held for sale   | 2,019        | 931        |
| Premises and equipment, net   | 22,551       | 20,231     |
| Goodwill  | 24,699       | 9,364      |
| Accrued interest receivable and other assets  | 26,886       | 18,428     |
| Total assets  | \$ 1,152,273 | \$ 881,336 |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |            |
| <b>Liabilities</b>  |              |            |
| Deposits:   |              |            |
| Noninterest-bearing   | \$ 238,891   | \$ 182,097 |
| Interest-bearing  | 770,984      | 561,661    |
| Total deposits  | 1,009,875    | 743,758    |
| Securities sold under repurchase agreements   | 2,810        | 3,341      |
| Other borrowings  | 24,893       | 26,750     |
| Accrued interest payable and other liabilities  | 12,859       | 10,942     |
| Total liabilities   | 1,050,437    | 784,791    |
| <br><b>Stockholders' Equity</b>   |              |            |
| Common stock, \$1 par value, 2,000,000 shares authorized, 1,411,250 and 1,357,775 shares issued in 2016 and 2015, 1,411,244 and 1,354,714 shares outstanding in 2016 and 2015, respectively | 1,411        | 1,358      |
| Surplus   | 14,252       | 11,180     |
| Retained earnings   | 89,253       | 83,337     |
| Treasury stock, 6 and 3,061 shares in 2016 and 2015, respectively, at cost  | 0            | (211)      |
| Accumulated other comprehensive income  | (3,080)      | 881        |
| Total stockholders' equity  | 101,836      | 96,545     |
| Total liabilities and stockholders' equity  | \$ 1,152,273 | \$ 881,336 |

# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2016 and 2015  
(dollars in thousands, except per-share data)

|   | <u>2016</u>      | <u>2015</u>      |
|---|------------------|------------------|
| <b>INTEREST INCOME</b>                                  |                  |                  |
| Interest and fees on loans                              | \$ 34,374        | \$ 25,449        |
| Interest on investment securities:                      |                  |                  |
| Taxable   | 383              | 350              |
| Tax exempt  | 4,669            | 3,608            |
| Interest on federal funds sold                          | 124              | 38               |
| Other   | 105              | 60               |
| Total interest income                                   | <u>39,655</u>    | <u>29,505</u>    |
| <b>INTEREST EXPENSE</b>                                 |                  |                  |
| Interest on deposits                                    | 2,486            | 1,829            |
| Interest on securities sold under repurchase agreements | 13               | 9                |
| Interest on other borrowings                            | 673              | 548              |
| Total interest expense                                  | <u>3,172</u>     | <u>2,386</u>     |
| Net interest income before provision for loan losses    | 36,483           | 27,119           |
| Provision for loan losses                               | 658              | 450              |
| Net interest income after provision for loan losses     | <u>35,825</u>    | <u>26,669</u>    |
| <b>NONINTEREST INCOME</b>                               |                  |                  |
| Service fees on deposit accounts                        | 3,868            | 3,832            |
| Trust income  | 2,043            | 1,994            |
| Investment sales commissions                            | 622              | 846              |
| Gain on sale of loans                                   | 929              | 681              |
| Gain on sale of securities                              | 562              | 27               |
| Other income  | 2,871            | 2,427            |
| Total noninterest income                                | <u>10,895</u>    | <u>9,807</u>     |
| <b>NONINTEREST EXPENSE</b>                              |                  |                  |
| Salaries  | 15,259           | 12,426           |
| Pension, profit sharing and other employee benefits     | 5,663            | 3,981            |
| Occupancy   | 2,689            | 2,366            |
| Computer services                                       | 1,358            | 1,195            |
| Furniture and equipment expenses                        | 1,253            | 1,048            |
| FDIC assessment   | 638              | 492              |
| Other expenses  | 10,448           | 6,934            |
| Total noninterest expense                               | <u>37,308</u>    | <u>28,442</u>    |
| Income before income taxes                              | 9,412            | 8,034            |
| Less: income tax expense                                | 1,042            | 627              |
| <b>NET (LOSS) INCOME</b>                                | <u>\$ 8,370</u>  | <u>\$ 7,407</u>  |
| Basic earnings per share                                | <u>\$ 5.96</u>   | <u>\$ 5.58</u>   |
| Diluted earnings per share                              | <u>\$ 5.87</u>   | <u>\$ 5.50</u>   |
| Weighted average shares outstanding                     | <u>1,404,575</u> | <u>1,326,969</u> |

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015  
(dollars in thousands, except per-share data)

|  | <u>Common<br/>Stock</u> | <u>Surplus</u>   | <u>Retained<br/>Earnings</u> | <u>Treasury<br/>Stock</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> | <u>Total</u>      |
|--|-------------------------|------------------|------------------------------|---------------------------|--|-------------------|
| <b>Balances</b> – January 1, 2015              | \$ 1,311                | \$ 8,791         | \$ 78,048                    | \$ (533)                  | \$ 850   | \$ 88,467         |
| Net income                                     | —                       | —                | 7,407                        | —                         | —  | 7,407             |
| Other comprehensive income                     | —                       | —                | —                            | —                         | 31   | 31                |
| Comprehensive income                           | —                       | —                | —                            | —                         | —  | 7,438             |
| Cash dividends – \$1.60 per share              | —                       | —                | (2,131)                      | —                         | —  | (2,131)           |
| Stock issuance – 46,525 shares                 | 47                      | 3,075            | —                            | —                         | —  | 3,122             |
| Exercise of stock options –<br>22,250 shares   | —                       | (326)            | —                            | 1,556                     | —  | 1,230             |
| Stock compensation expense                     | —                       | 88               | —                            | —                         | —  | 88                |
| Purchase of treasury stock –<br>18,397 shares  | —                       | —                | —                            | (1,234)                   | —  | (1,234)           |
| Vesting of restricted stock                    | —                       | 78               | —                            | —                         | —  | 78                |
| Grant of restricted stock –<br>8,000 shares    | —                       | (526)            | —                            | —                         | —  | (526)             |
| Tax impact of dividends on<br>restricted stock | —                       | —                | 13                           | —                         | —  | 13                |
|  | —                       | —                | 13                           | —                         | —  | 13                |
| <b>Balances</b> – December 31, 2015            | 1,358                   | 11,180           | 83,337                       | (211)                     | 881  | 96,545            |
| Net income                                     | —                       | —                | 8,370                        | —                         | —  | 8,370             |
| Other comprehensive income                     | —                       | —                | —                            | —                         | (3,961)  | (3,961)           |
| Comprehensive income                           | —                       | —                | —                            | —                         | —  | 4,409             |
| Cash dividends – \$1.75 per share              | —                       | —                | (2,469)                      | —                         | —  | (2,469)           |
| Stock issuance – 53,475 shares                 | 53                      | 3,690            | —                            | —                         | —  | 3,743             |
| Exercise of stock options –<br>11,700 shares   | —                       | (276)            | —                            | 1,387                     | —  | 1,111             |
| Stock compensation expense                     | —                       | 88               | —                            | —                         | —  | 88                |
| Purchase of treasury stock –<br>21,996 shares  | —                       | —                | —                            | (1,572)                   | —  | (1,572)           |
| Sale from treasury stock                       | —                       | —                | —                            | 396                       | —  | 396               |
| Vesting of restricted stock                    | —                       | 130              | —                            | —                         | —  | 130               |
| Grant of restricted stock –<br>8,000 shares    | —                       | (560)            | —                            | —                         | —  | (560)             |
| Tax impact of dividends on<br>restricted stock | —                       | —                | 15                           | —                         | —  | 15                |
|  | —                       | —                | 15                           | —                         | —  | 15                |
| <b>Balances</b> – December 31, 2016            | <u>\$ 1,411</u>         | <u>\$ 14,252</u> | <u>\$ 89,253</u>             | <u>\$ 0</u>               | <u>\$ (3,080)</u>  | <u>\$ 101,836</u> |

The company's financial statements for 2016 and 2015 were audited by Baker Tilly Virchow Krause, LLP, Milwaukee, Wisconsin. You may obtain a copy of their report, including the financial statements and other information, by writing Centre 1 Bancorp, Inc., Attn: David N. McCoy, 345 East Grand Avenue, Beloit, WI 53511 or by calling 608-363-8080.

# CENTRE 1 BANCORP, INC. OFFICERS AND BOARD OF DIRECTORS

## Officers

**Steven M. Eldred**

Chairman of the Board,  
President and Chief  
Executive Officer

**David N. McCoy**

Executive Vice President,  
Chief Financial Officer,  
Treasurer and Secretary

**Brian K. Bisbey**

Executive Vice President  
and Chief Operating  
Officer

**Mark E. Leach**

Vice President

## Board of Directors

**Brian K. Bisbey**

Executive Vice President  
and Chief Operating  
Officer, First National  
Bank and Trust Company

**Gregory K. Britton**

Retired Chief Executive  
Officer, Beloit Health  
System

**William C. DeLong**

Vice President of  
Grain, The DeLong  
Company, Inc.

**Steven M. Eldred**

Chairman of the Board,  
President and Chief  
Executive Officer,  
First National Bank and  
Trust Company

**Peter C. Halverson**

Commercial Property  
and Farmland  
Entrepreneur

**Roger T. Kemman**

President, Ryeco, Inc.

**Henry W. Kneuppel**

Retired Chairman and  
Chief Executive Officer,  
Regal-Beloit Corporation

**Dwight L. Kruse**

President,  
Century 21 Affiliated

**Timothy M. McKeveitt**

Chief Executive Officer,  
Beloit Health System

**James L. Packard**

Retired Executive  
Chairman, Regal-Beloit  
Corporation

## ANNUAL MEETING

The annual meeting of shareholders of Centre 1 Bancorp, Inc. will be held:

**Friday, April 21, 2017 • 9:00 a.m.**

Third Floor Conference Center  
First National Bank and Trust Company  
345 E Grand Ave, Beloit, WI 53511

800-667-4401 • [www.bankatfirstnational.com](http://www.bankatfirstnational.com)



**Centre 1 Bancorp, Inc.**

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Darien | Delavan | Elkhorn | Janesville | Monroe | Rockton | Roscoe | Walworth | Williams Bay | Winnebago