

2017 ANNUAL REPORT

WISCONSIN TRUST  
STRENGTH  
NEIGHBORHOOD GROWTH  
COMMITMENT COMMUNITY  
FIRST NATIONAL BANK  
AND TRUST COMPANY  
ILLINOIS  
LEGACY SOUND ADVICE



Centre 1 Bancorp, Inc.



# 2017 TO OUR SHAREHOLDERS

RESPONSIBILITY BALANCE  
ACCOMPLISHMENTS

Dear Fellow Shareholder:

2017 marked the seventh consecutive year for record earnings at Center 1 Bancorp, Inc. A 20% increase in earnings fueled this milestone. Stockholder equity grew by 5.8%, with dividends expanding from \$1.75 to \$2.10 per share, a gain of 4.4% over the previous year.

A solid finish for the year reflect the momentum experienced across all of the Company's markets. Total assets for First National Bank and Trust (FNBT) remained stable at 1.1 billion. Strong commercial production led to the expansion of the loan portfolio—by \$35 million, although deposits dipped slightly—by \$18 million. We were able to positively attribute this to the strengthening economy, as many of our business customers were spending cash to invest in growth. An improving economic environment and a record stock market bolstered the year's positive results, including our 20% income growth in our Wealth Management division.

Last year marked the final official meeting for our longest serving board member, Peter Halverson. Pete was appointed to the Board of Directors in January 1970 – when my father, John Eldred was President of the bank. He has been providing insights to the board and executive management team for an impressive 47 years, and I'd like to thank him for his contributions, his friendship, and his impressive career on our board of directors.

In December, Don O'Day joined FNBT in a new role as our Chief Lending and Retail Banking executive. Don has brought more than 30 years of banking experience with an impressive career in retail sales, customer service, commercial and consumer lending, cash management and credit administration. His focus on the customer experience combined with his remarkable career

in executive leadership will help position us for future growth. He is a great addition to the bank and we are excited he has joined our team.

January 1, marked a milestone in our bank's history as David McCoy, our Chief Financial Officer (CFO), was promoted to President and CFO. He is the first FNBT president named after four generations of Eldreds have served as both President and Chief Executive Officer. I will continue to lead the bank in my role as CEO and Chairman of the Board, however David will now be responsible for the day-to-day operations of the bank. David joined us in 2016 with over 30 years of banking and executive leadership experience. This combined with his skills in financial and risk management, and his focus on business development and process improvement will help lead the bank into the future.

A bright future lies ahead. We are focused on executing profitable strategies while continuing our mission as a truly local community bank, serving the markets where our customers and employees live and work. We remain committed to increasing value for our shareholders, employees, customers and communities.



Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Eldred'. The signature is fluid and cursive, written on a white background.

**Steven M. Eldred**  
President and CEO



## VOTED BEST BANK

FNBT was honored as a first-place winner in the bank/credit union category of both the Gazette's "2017 Best of Walworth County" contest, and the Beloit Daily News "2017 Best of Stateline" contest.



## COMMITMENT TO KNOWLEDGE

A key ingredient of our culture  
is continuous learning

# 3,800+

Training and professional  
development courses completed.

# 218

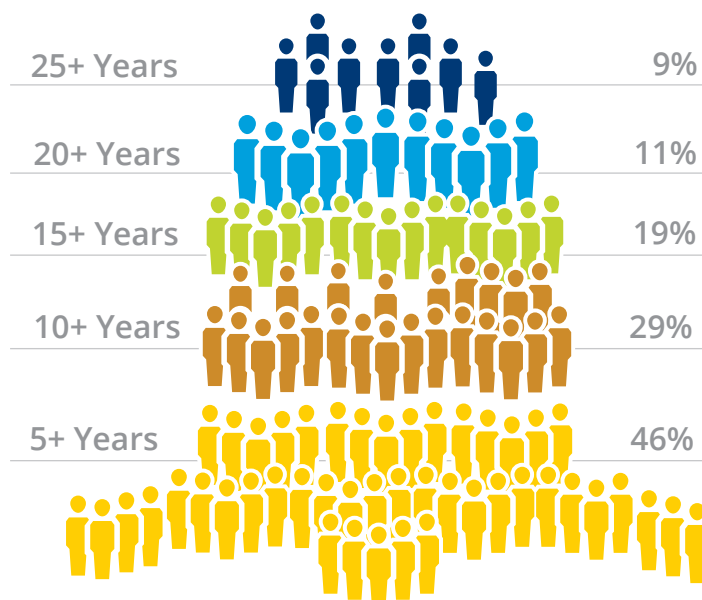
American Bankers Association  
certificate programs completed

# 10

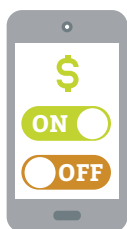
Future leaders graduated from our  
7 module Leadership Learning Series

## COMMITTED EMPLOYEES

Nearly half of our employees have  
been with us at least 5 years, and one-fifth  
of our team will be celebrating  
anniversaries that exceed 15 years.



## INNOVATION & TECHNOLOGY



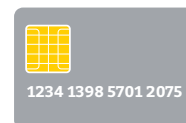
**Easy Debit Card Management** with CardValet, now allows our customers to turn their debit card on and off right from their mobile app and setup restrictions, such as limiting usage by geography, merchants or placing maximum transaction thresholds.

**Any device** may now be used to apply for a consumer loan or mortgage or simply login to online banking. Our online banking and mortgage applications were retooled for a mobile responsive world, and our customers are opening accounts, applying for loans and accessing online banking from their smart phones and tablets more than 50% of the time.



We introduced the Pinwheel, our new employee intranet portal. For all communication: top down, bottom up, and peer-to-peer, the Pinwheel is our employee efficiency and communication one-stop shop for everything FNBT!

**EMV chip** enabled replacement debit cards were issued to our customers in 2017, helping us in our endeavor to reduce fraud and protect customer information for our debit card users.



## SOUND ADVICE SCHOLARS

Today, few schools in America are providing basic education in economics. Only a handful of states require high school students to complete personal finance coursework. As bankers, we see examples every day of people struggling to manage their financial lives because it can be very complex.

As part of First National Bank and Trust's ongoing effort to provide Sound Advice, we have partnered with EverFi to provide financial literacy among high school students. This program works with our bankers and

high schools in our communities to provide Sound Advice and to help build the foundation for students' future financial well-being. Our sponsorship of the EverFi Sound Advice Scholars program provides high schools in our markets with access to online digital courses at no charge to the schools. Today hundreds of students across the Stateline have completed thousands of financial literacy modules through Sound Advice Scholars. Our goal with this new program is to position FNBT as a steward of Financial Literacy across high schools in the community.

**1,110**

students reached

**10**

local high school partnerships

**3,742**

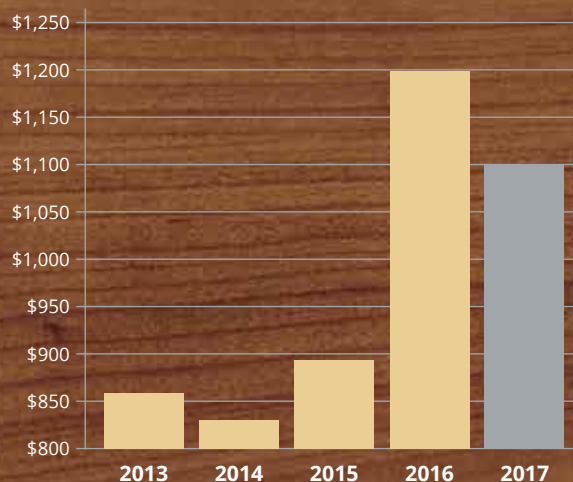
financial education modules completed

# OUR PERFORMANCE

ASSETS DEPOSITS DIVIDENDS  
RETURN ON AVERAGE CHECKS AND BALANCE EARNINGS

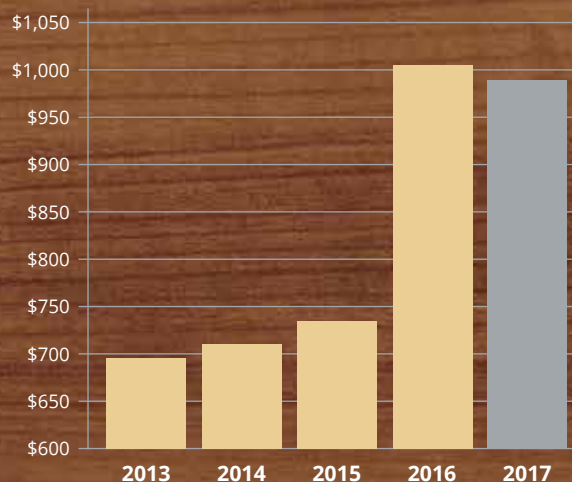
## Assets

(in millions)



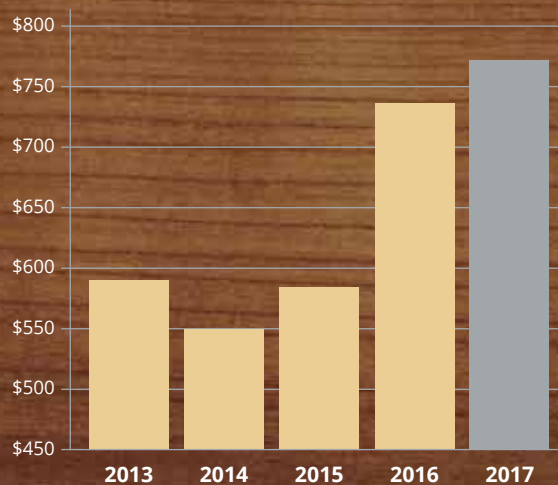
## Deposits

(in millions)



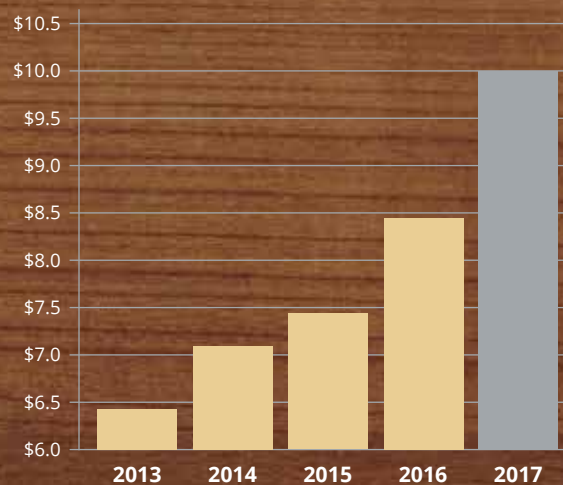
## Loans

(in millions)

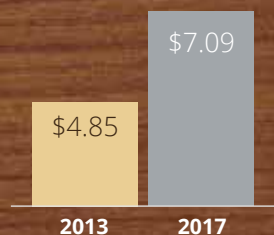


## Net Income

(in millions)



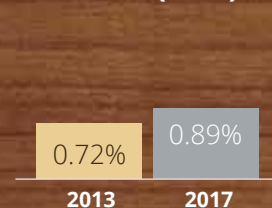
## Earnings Per Share



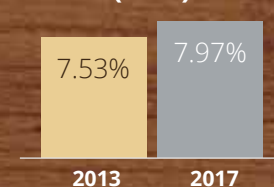
## Dividends



## Return on Average Assets (ROA)



## Return on Average Common Equity (ROE)





Earnings per Share  
**\$7.09**

Return on Average Assets  
**0.89%**

Return on Average  
Common Equity  
**7.97%**

Net Interest Income  
**\$37.5 million**

Net Income  
**\$10 million**



*New artwork was commissioned for our headquarters' lobby in June 2017 and serves as the design theme for this year's annual report.*

# CONSOLIDATED BALANCE SHEETS

As of December 31, 2017 and 2016 (as restated)

(dollars in thousands, except per-share data)

	2017	2016
<b>ASSETS</b>		
Cash and due from banks	\$ 43,940	\$ 49,478
Federal funds sold	742	799
Interest bearing deposits in banks	427	611
Cash and cash equivalents	45,109	50,888
Available for sale securities – stated at fair value	235,222	280,798
Held to maturity securities, fair value of \$6,502 and \$6,499 in 2017 and 2016	6,500	6,500
Loans, less allowance for loan losses of \$8,590 and \$9,244 in 2017 and 2016	762,970	737,932
Loans held for sale	741	2,019
Premises and equipment, net	23,285	22,551
Goodwill	24,699	24,699
Accrued interest receivable and other assets	24,214	26,526
Total assets	<u>\$ 1,122,740</u>	<u>\$ 1,151,913</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing	\$ 238,121	\$ 238,891
Interest-bearing	732,353	770,984
Total deposits	970,474	1,009,875
Securities sold under repurchase agreements	2,090	2,810
Other borrowings	27,786	24,893
Accrued interest payable and other liabilities	10,801	12,121
Total liabilities	<u>1,011,151</u>	<u>1,049,699</u>
<b>Stockholders' Equity</b>		
Common stock, \$1 par value, 2,000,000 shares authorized, 1,432,237 and 1,411,250 shares issued in 2017 and 2016, 1,414,344 and 1,411,244 shares outstanding in 2017 and 2016, respectively	1,432	1,411
Surplus	15,613	14,252
Retained earnings	96,012	88,648
Treasury stock, 17,873 and 6 shares in 2017 and 2016, respectively, at cost	(1,316)	0
Accumulated other comprehensive income	(152)	(2,097)
Total stockholders' equity	<u>111,589</u>	<u>102,214</u>
Total liabilities and stockholders' equity	<u>\$ 1,122,740</u>	<u>\$ 1,151,913</u>



# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2017 and 2016 (as restated)

(dollars in thousands, except per-share data)

	2017	2016
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 35,698	\$ 34,374
Interest on investment securities:		
Taxable	756	383
Tax exempt	4,316	4,669
Interest on federal funds sold	113	124
Other	104	104
Total interest income	<u>40,987</u>	<u>39,654</u>
<b>INTEREST EXPENSE</b>		
Interest on deposits	2,775	2,486
Interest on securities sold under repurchase agreements	22	13
Interest on other borrowings	733	673
Total interest expense	<u>3,530</u>	<u>3,172</u>
Net interest income before provision for loan losses	37,457	36,482
Provision for loan losses	<u>900</u>	<u>658</u>
Net interest income after provision for loan losses	<u>36,557</u>	<u>35,824</u>
<b>NONINTEREST INCOME</b>		
Service fees on deposit accounts	4,084	3,867
Trust income	2,559	2,043
Investment sales commissions	504	622
Gain on sale of loans	802	929
Gain on sale of securities	52	562
Other income	2,984	2,872
Total noninterest income	<u>10,985</u>	<u>10,895</u>
<b>NONINTEREST EXPENSE</b>		
Salaries	14,327	14,645
Pension, profit sharing and other employee benefits	5,858	5,663
Occupancy	2,888	2,689
Computer services	1,432	1,358
Furniture and equipment expenses	1,171	1,253
FDIC assessment	278	638
Other expenses	9,250	10,447
Total noninterest expense	<u>35,204</u>	<u>36,693</u>
Income before income taxes	12,338	10,026
Less: income tax expense	<u>2,316</u>	<u>1,397</u>
<b>NET (LOSS) INCOME</b>	<u>\$ 10,022</u>	<u>\$ 8,629</u>
Basic earnings per share	<u>\$ 7.09</u>	<u>\$ 6.14</u>
Diluted earnings per share	<u>\$ 6.93</u>	<u>\$ 6.06</u>
Weighted average shares outstanding	<u>1,414,344</u>	<u>1,404,575</u>

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016 (as restated)

*(dollars in thousands, except per-share data)*

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balances – January 1, 2016</b>	1,358	11,180	82,473	(211)	1,755	96,555
Other comprehensive income:						
Net income	—	—	8,629	—	—	8,629
Other comprehensive (loss)	—	—	—	—	(3,852)	(3,852)
Comprehensive income	—	—	—	—	—	4,777
Cash dividends – \$1.75 per share	—	—	(2,469)	—	—	(2,469)
Stock issuance – 53,475 shares	53	3,690	—	—	—	3,743
Exercise of stock options – 12,600 shares	—	(306)	—	1,386	—	1,081
Stock compensation expense	—	118	—	—	—	118
Purchase of treasury stock – 21,996 shares	—	—	—	(1,572)	—	(1,572)
Sale from treasury stock	—	—	—	396	—	396
Vesting of restricted stock	—	130	—	—	—	130
Grant of restricted stock – 8,000 shares	—	(560)	—	—	—	(560)
Tax impact of dividends on restricted stock	—	—	15	—	—	15
<b>Balances – December 31, 2016</b>	1,411	14,252	88,648	—	(2,097)	102,214
Other comprehensive income:						
Net income	—	—	10,022	—	—	10,022
Other comprehensive gain	—	—	—	—	2,030	2,030
Comprehensive income	—	—	—	—	—	12,052
Cash dividends – \$1.95 per share	—	—	(2,758)	—	—	(2,758)
Stock issuance – 20,967 shares	21	1,517	—	—	—	1,538
Exercise of stock options – 29,316 shares	—	(441)	—	—	—	(441)
Stock compensation expense	—	84	—	—	—	84
Purchase of treasury stock – 17,867 shares	—	—	—	(1,316)	—	(1,316)
Sale from treasury stock	—	—	—	—	—	—
Impact of change in tax rate on unrealized gain on investments	—	—	85	—	(85)	—
Grant of restricted stock – 6,564 shares	—	(310)	—	—	—	(310)
Surrender of restricted stock	—	511	—	—	—	511
Tax impact of dividends on restricted stock	—	—	15	—	—	15
<b>Balances – December 31, 2017</b>	<b>\$ 1,432</b>	<b>\$ 15,613</b>	<b>\$96,013</b>	<b>(1,316)</b>	<b>\$ (152)</b>	<b>\$ 111,590</b>

The company's financial statements for 2017 and 2016 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 608-363-8187.

## 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**

Chief Financial Officer,  
Treasurer and Secretary

**Mark E. Leach**

Vice President

### Board of Directors

**Gregory K. Britton**

Retired Chief Executive  
Officer, Beloit Health  
System

**Dwight L. Kruse**

President,  
Century 21 Affiliated

**William C. DeLong**

Vice President of  
Grain, The DeLong  
Company, Inc.

**David N. McCoy**

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

**Steven M. Eldred**

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

**Timothy M. McKeve**

Chief Executive Officer,  
Beloit Health System

**Roger T. Kemman**

President, Ryeco, Inc.

**James L. Packard**

Retired Executive  
Chairman, Regal-Beloit  
Corporation

**Henry W. Knueppel**

Retired Chairman and  
Chief Executive Officer,  
Regal-Beloit Corporation

## ANNUAL MEETING

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

**Thursday, May 10, 2018 • 9:00 a.m.**

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

800-667-4401

[www.bankatfirstnational.com](http://www.bankatfirstnational.com)

## LONGTIME BOARD MEMBER RETIRES



In 2017, our longest serving  
board member, Peter  
Halverson, retired. Pete has  
been providing insights to  
the board and executive  
management team for an  
impressive 47 years.

When he joined the board, Pete was vice president  
of Beloit Foundry Company, a company he had  
helped develop and expand into one of the major  
job foundries in the United States. A Beloit native  
and graduate of Beloit Memorial High School, he  
attended the University of Wisconsin. At the time  
Pete joined the board of Centre 1 Bancorp, he  
was also serving as president of Beloit Memorial  
Hospital board, and had served on the board of  
trustees since 1964. He chaired their expansion  
committee during the development  
of the then-new hospital.

First National's asset size when Pete joined  
the board was \$40,906,279 and the company  
was embarking on a new bank headquarter  
building which would encompass the entire  
block in downtown Beloit...now known as  
345 East Grand Avenue.

Fast forward 47 years...and much has changed.  
FNBT's asset size is now \$1.2 billion and we  
have grown to 16 branches throughout southern  
Wisconsin and northern Illinois. Upon his  
appointment to the First National Bank board,  
the Executive Vice President of the Greater Beloit  
Association of Commerce wrote in a letter to Pete  
and copied John Eldred. In it he wrote, "You know,  
Pete, you're really quite a guy, and we're lucky to  
have you in our village." We couldn't have said it  
better. He is quite a guy. We thank Pete for his  
dedication, his advocacy and his commitment on  
our board of directors.





**Centre 1 Bancorp, Inc.**

345 E Grand Ave, Beloit, WI 53511

800-667-4401

[www.bankatfirstnational.com](http://www.bankatfirstnational.com)

Argyle | Beloit - Cranston Rd | Beloit - Grand Ave | Beloit - Inman Pkwy | Beloit - Madison Rd | Clinton  
Darien | Delavan | Elkhorn | Janesville | Monroe | Rockton | Roscoe | Walworth | Williams Bay | Winnebago