

2018 ANNUAL REPORT



Centre 1 Bancorp, Inc.



Our Mission & Vision

We treat our customers, employees, shareholders and communities like family by delivering an exceptional experience.

We will help all of our families succeed.

Dear Shareholder Family,

At First National Bank and Trust, it's all about the relationships we have with our families. This is true whether your family is 4 people around a dinner table or 40 employees at a local manufacturing company. And just like family ... we're in it for the long haul. We strive to be a great investment for our shareholder family and your go-to resource for a lifetime of financial solutions. In 2018 we improved our dividends per share to \$2.20. Our earnings were slightly behind 2017, while continuing our commitment to serving our customer family well, with growth in our loan portfolio by \$30 million, and a year over year increase in deposits of \$19 million.



Last year we replaced an open board position with a business leader in our Walworth County market, William Ring of Dalco Metals, Inc., and also welcomed a new Chief Financial Officer, Dan Kittleson. We led several major initiatives to help better position ourselves for improved efficiency and increased capacity to build for the future:

- We moved our operations teams to a new state-of-the-art facility in the Iron Works building across the river from our headquarters.
- We delivered a full day workshop of service training for all employees.
- We collaborated to create a new cross-functional 3 year strategic plan, and as a result,
- Improved our focus by refreshing our mission and vision dedicating our efforts to help families succeed.

Most people see banks as interchangeable – we all accept deposits, lend money, pay interest, and offer convenient account management and payments options. There's no difference in the bank across the street, right? At FNBT we work every day to challenge that thinking by exceeding expectations and treating our customers, employees, communities and shareholders like family. We know that will make the difference in whether you view us as just another bank, or you come to First National first for your next financial need.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Eldred', written in a cursive, flowing style.

Steven M. Eldred
Chief Executive Officer

YEAR IN REVIEW



Small Business and Entrepreneurship Educational Program

Our partnership with Everfi, the leading digital learning solutions experts in the banking industry, has allowed us to improve our focus of

helping small business owners. *Everfi Engage* is a digital and in-person learning program designed to empower small business owners to identify and utilize the various financing options that are available to them, with a special focus on developing a robust business plan and business financial statements.

Businesses that bank with us can now optimize their employee benefits package and deliver greater value - without breaking the bank - with our FREE Bank at Work program.

Employees of Bank at Work

companies receive free checking and account benefits, like cell phone protection, pharmacy and vision discounts and identify theft aid. Employers benefit from reduced payroll costs and improved morale by empowering employees with access to a wide range of banking products and services designed to help them achieve their financial goals.



First National Bank and Trust Company



"Huddle Rooms" are modern day small meeting spaces to encourage collaboration.

Shop local. Save local.

BaZing brings 360,000 discounts where you live, work or travel!



BaZing

Our consumer checking products received a complete makeover and part of that plan was to improve the benefits that come with our customer accounts. The upgraded benefits are powered by BaZing and include cell phone and identity theft protection, roadside assistance and everyday savings at online and local merchants. We asked our customers what they thought of the Bazing benefits:

"I love that I can save at local businesses." – Kristina S.

"BaZing is easy to use with a lot of good deals too. I absolutely love it" – Kelli A.

"Great deals that save you time and money. I love it!" – Steffanie K.

"I did not realize how fun and easy it could be to save money when out and about! Since the phone is with me, I always have savings opportunities at hand instead of forgetting coupons at home." – Susan M.

2018



Large conference room with the best view on the river.



Work Hard, Play Hard. Our “Playdium” break room is equipped with air hockey, a pool table, darts, foosball and a basketball game.



The lunchroom has seating for more than 50 employees to enjoy snacks, eat their lunch or sip on a gourmet coffee or hot chocolate.

2018 was a year of growth for First National Bank and Trust.

In late 2017, the bank signed a lease agreement to build out a new Operations Center in downtown Beloit. Construction started in early 2018 on the new facility, located at 601 Third Street, Suite 300 in the Ironworks campus, across the river from the bank's Beloit-Grand Ave. headquarters. The new Operations Center allows for 100 workstations with room for expansion, and includes some cool office enhancements. All desks are adjustable for sitting and standing. A large lunchroom as well as a state of the art “playdium” provides a relaxing retreat

with social and recreational opportunities for team members during work breaks.

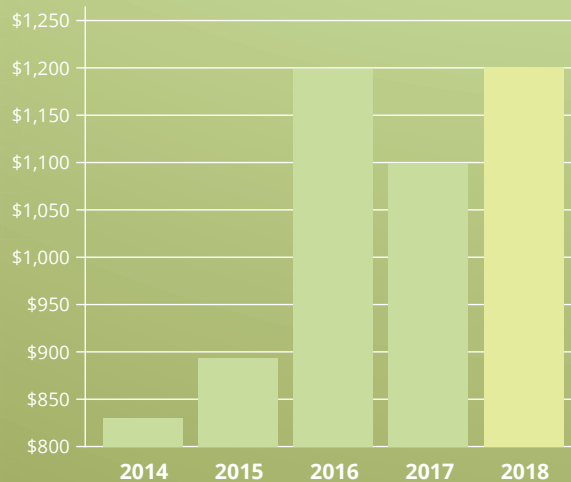
The decision to expand into new space was in part to support future growth, as well as to provide the opportunity to reconfigure our work groups to increase efficiency, which the previous space did not allow for.

In September, nearly 100 employees in accounting, compliance, customer support, information technology and operations relocated to the new space.

PERFORMANCE

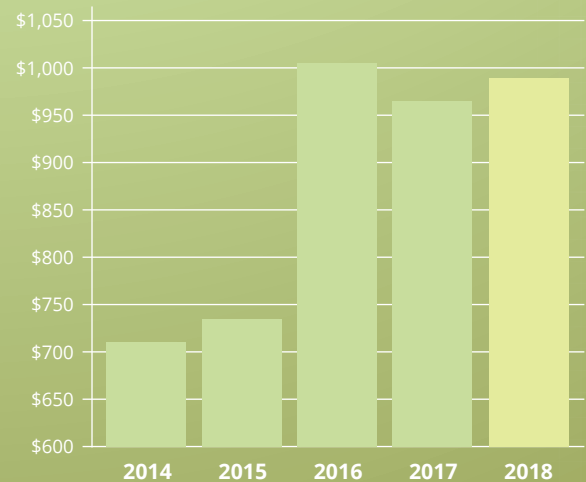
Assets

(in millions)



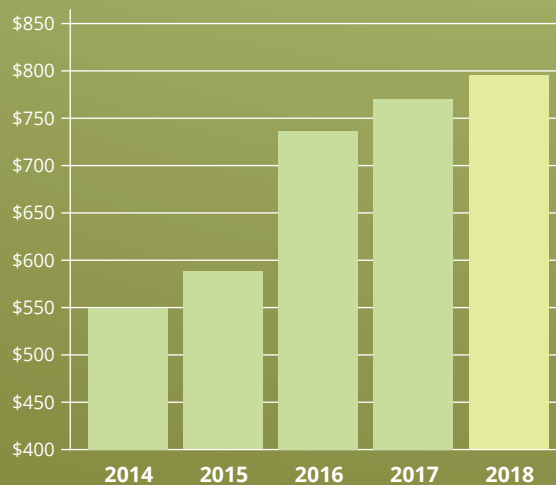
Deposits

(in millions)



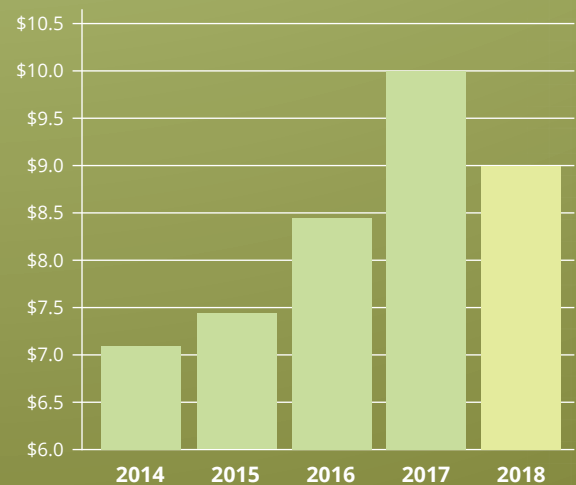
Loans

(in millions)

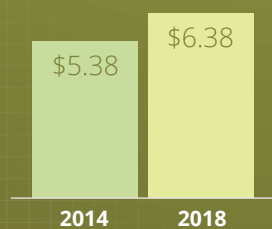


Net Income

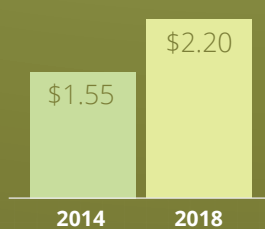
(in millions)



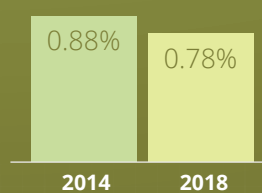
Earnings Per Share



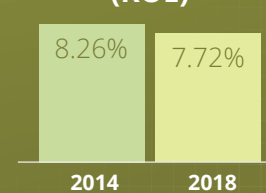
Dividends



Return on Assets (ROA)



Return on Common Equity (ROE)



FINANCIALS AT-A-GLANCE

2018

Asset Size
\$1.2 billion

Deposits
\$989 million

Loans
\$794 million

Total Risk-Based
Capital Ratio
(Well-capitalized is
10.0% or higher)
13.82%

Tier 1 Capital
(Well-capitalized is
5.0% or higher)
11.18%

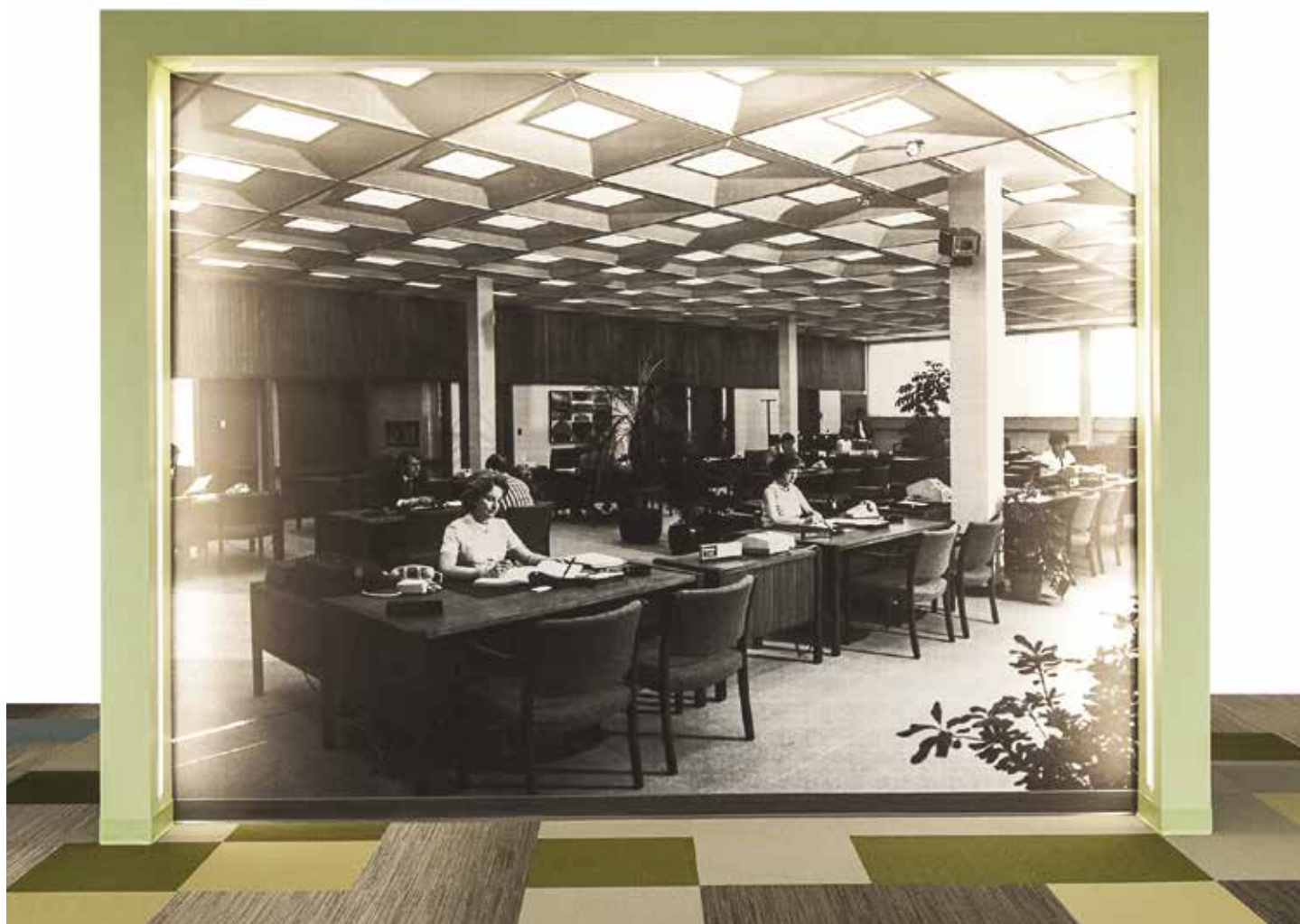
Earnings per Share
\$6.38

Return on Assets
0.78%

Return on
Common Equity
7.72%

Net Interest
Income
\$38 million

Net Income
\$9 million



CONSOLIDATED BALANCE SHEETS

As of December 31, 2018 and 2017 (as restated)

(dollars in thousands, except per-share data)

	2018	2017
ASSETS		
Cash and due from banks	\$ 32,586	\$ 43,940
Federal funds sold	44,836	742
Interest bearing deposits in banks	523	427
Cash and cash equivalents	77,945	45,109
Available for sale securities – stated at fair value	201,094	235,222
Held to maturity securities, fair value of \$6,493 and \$6,502 in 2018 and 2017	6,500	6,500
Loans, less allowance for loan losses of \$9,041 and \$8,590 in 2018 and 2017	792,854	762,970
Loans held for sale	940	741
Premises and equipment, net	24,659	23,285
Goodwill	24,699	24,699
Accrued interest receivable and other assets	24,452	24,214
Total assets	<u>\$ 1,154,143</u>	<u>\$ 1,122,740</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 248,006	\$ 238,121
Interest-bearing	741,364	732,353
Total deposits	989,370	970,474
Securities sold under repurchase agreements	4,858	2,090
Other borrowings	30,929	27,786
Accrued interest payable and other liabilities	12,426	10,800
Total liabilities	<u>1,037,583</u>	<u>1,011,151</u>
Stockholders' Equity		
Common stock, \$1 par value, 2,000,000 shares authorized, 1,447,187 and 1,432,217 shares issued in 2018 and 2017, 1,411,512 and 1,414,344 shares outstanding in 2018 and 2017, respectively	1,447	1,432
Surplus	17,352	15,613
Retained earnings	101,887	96,012
Treasury stock, 35,675 and 17,873 shares in 2018 and 2017 respectively, at cost	(2,780)	(1,315)
Accumulated other comprehensive income	(1,346)	(152)
Total stockholders' equity	<u>116,560</u>	<u>111,590</u>
Total liabilities and stockholders' equity	<u>\$ 1,154,143</u>	<u>\$ 1,122,740</u>

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2018 and 2017 (as restated)

(dollars in thousands, except per-share data)

	2018	2017
INTEREST INCOME		
Interest and fees on loans	\$ 38,351	\$ 35,698
Interest on investment securities:		
Taxable	1,959	756
Tax exempt	2,863	4,316
Interest on federal funds sold	117	113
Other	97	104
Total interest income	<u>43,387</u>	<u>40,987</u>
INTEREST EXPENSE		
Interest on deposits	4,489	2,775
Interest on securities sold under repurchase agreements	79	22
Interest on other borrowings	922	733
Total interest expense	<u>5,490</u>	<u>3,530</u>
Net interest income before provision for loan losses	37,897	37,457
Provision for loan losses	<u>75</u>	<u>900</u>
Net interest income after provision for loan losses	<u>37,822</u>	<u>36,557</u>
NONINTEREST INCOME		
Service fees on deposit accounts	4,655	4,084
Trust income	2,806	2,559
Investment sales commissions	477	504
Gain on sale of loans	554	802
Gain on sale of securities	323	52
Other income	2,853	2,984
Total Noninterest Income	<u>11,668</u>	<u>10,985</u>
NONINTEREST EXPENSE		
Salaries	18,387	14,327
Pension, profit sharing and other employee benefits	5,292	5,858
Occupancy	3,056	2,888
Computer services	1,517	1,432
Furniture and equipment expenses	1,278	1,171
FDIC assessment	332	279
Other expenses	9,822	9,250
Total Noninterest Expense	<u>39,684</u>	<u>35,205</u>
Income before income taxes	9,806	12,337
Less: Income tax expense	<u>801</u>	<u>2,315</u>
NET INCOME	<u>\$ 9,005</u>	<u>\$ 10,022</u>
Basic earnings per share	<u>\$ 6.38</u>	<u>\$ 7.09</u>
Diluted earnings per share	<u>\$ 6.26</u>	<u>\$ 6.93</u>
Weighted average shares outstanding	<u>1,411,512</u>	<u>1,414,344</u>

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017 (as restated)

(dollars in thousands, except per-share data)

	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balances – January 1, 2017	1,411	14,252	88,648	—	(2,097)	102,215
Comprehensive income:						
Net income	-	-	10,022	-	-	10,022
Other comprehensive	-	-	-	-	2,029	2,029
Comprehensive income	-	-	-	-	-	12,051
Cash dividends - \$1.95 per share	-	-	(2,758)	-	-	(2,758)
Stock issuance - 20,967 shares	21	1,517	-	-	-	1,538
Exercise of stock options - 28,240 shares	-	(441)	-	-	-	(441)
Stock compensation expense	-	84	-	-	-	84
Purchase of treasury stock - 17,867 shares	-	-	-	(1,315)	-	(1,315)
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
Balances – December 31, 2017	1,432	15,613	96,012	(1,315)	(152)	111,590
Comprehensive income:						
Net income	-	-	9,005	-	-	9,005
Other comprehensive income	-	-	-	-	(1,194)	(1,194)
Comprehensive income	-	-	-	-	-	7,811
Cash dividends - \$2.20 per share	-	-	(3,154)	-	-	(3,154)
Stock issuance - 29,470 shares	29	2,977	-	-	-	3,006
Exercise of stock options - 30,700 shares	(14)	(735)	-	-	-	(749)
Stock compensation expense	-	69	-	-	-	69
Purchase of treasury stock - 17,802 shares	-	-	-	(1,465)	-	(1,465)
Impact of change in tax rate on unrealized gain on investments	-	-	-	-	-	-
Grant of restricted stock-shares	-	(572)	-	-	-	(572)
Surrender of restricted stock	-	-	-	-	-	-
Tax impact of dividends on restricted stock	-	-	24	-	-	24
Balances – December 31, 2018	\$ 1,447	\$ 17,352	\$ 101,887	\$ (2,780)	\$ (1,346)	\$ 116,560

The company's financial statements for 2018 and 2017 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: Dan Kittleson, 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
and Chief Executive Officer

David N. McCoy
President

Dan Kittleson
Chief Financial Officer
and Treasurer

Mark E. Leach
Vice President
and Secretary

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
President, First National
Bank and Trust Company

Steven M. Eldred
Chairman of the Board,
and Chief Executive Officer,
First National Bank and
Trust Company

Timothy M. McKeve
President and
Chief Executive Officer,
Beloit Health System

Roger T. Kemman
President, Ryeco, Inc.

James L. Packard
Retired Executive
Chairman, Regal-Beloit
Corporation

Henry W. Kneppel
Retired Chairman and
Chief Executive Officer,
Regal-Beloit Corporation

William J. Ring
President and
Chief Executive Officer
Dalco Metals, Inc.

5-Star First National Bank and Trust: Relationship Banking at its Best

In 2018, we were once again awarded the highest (5-Star) rating for financial strength and stability from the independent rating firm, Bauer Financial. Earning a 5-Star rating indicates the bank excels in areas of capital adequacy, profitability, asset quality and much more. "First National Bank and Trust's ability to excel and consistently deliver a stellar financial performance, is a true testament to its values and dedication," remarks Karen Dorway, president of BauerFinancial. "Through an unwavering commitment to its customers and personal relationships, First National Bank and Trust has distinguished itself as one of the strongest banks in the nation."



ANNUAL MEETING

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

Thursday, May 9, 2019 • 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



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