



MEMBER FDIC

Tri-County Bancorp, Inc.

Brown City, Michigan

2017 Annual Report

**Message From The President
To our Shareholders, Customers and Friends:**

The 2017 performance of the bank can best be summed up with the terms Profit, Growth, Strength and Security.

Profit

I am proud to report that the performance of the bank continues to be extremely impressive. Net income for the year ended December 31, 2017 was \$3,336,415, an increase of 4.2% over 2016 income of \$3,201,650. The bank achieved a Return on Assets of 1.19% and Return on equity of 11.37%, both well above our peer group average.

Growth

Total assets, loans and deposits as of December 31, 2017, were \$283.7 million, \$188.4 million and \$251.7 million compared to totals at December 31, 2016, of \$269.7 million, \$172.0 million and \$240.8 million, for year-over-year increases of 5.2%, 9.5% and 4.5% respectively.

Strength

The bank's regulatory capital ratios continue to far exceed the minimum needed to be considered a "Well Capitalized Bank" with a Risk Based Capital Ratio of 16.92% and Tier 1 Leverage Ratio of 10.85%. Bauer Financial continues to recognize TCB as a "5 - Star" Rated Bank - the highest rating a bank can achieve in the area of safety, soundness and performance. Other independent evaluations of our bank have produced the highest ratings available in the areas of asset quality, earnings, capital and liquidity. Your investment in our bank continues to be a wise one as the Independent Appraisal of our stock and current trading price is \$45.00 as of December 31, 2017 - compared to \$36.75 as of December 31, 2016. This is a year-over-year increase of 22.44%. You should find these numbers financially rewarding both now and in the future.

Security

While there continues to be plenty of talk regarding cybersecurity and information security, Tri-County Bank recognizes that the security of our customer's information requires ongoing commitment. We will continue to work diligently on a daily basis to evaluate and improve the information and security controls that we have in place and enhance those controls as needed. In 2017 we introduced a new checking account product, Hometown Secure Rewards Checking. This account offers customers identity theft and credit report monitoring services along with other benefits. It is a nice addition to Tri-County Bank's existing account options. Additionally, we enhanced our online bill paying system to provide our customers a better platform and more options. In 2018, we will continue to ensure our existing products/systems are being efficiently used to their fullest potential, in the securest environment possible.

As impressive as our recent financial success has been, we are even more excited about 2018 and beyond. The newly implemented tax reform bill will result in a decline in our effective tax rate of approximately 10%. This will allow the bank to continue to see improved earnings, increased shareholder value and allow us to competitively compensate our employee team. We are also excited for the construction of our new main office headquarters located in downtown Brown City to begin in 2018. The consolidation of the three existing Brown City locations into one will result in operational efficiencies. Ground breaking for the new building will be early summer of this year with expected completion in March, 2019.

On behalf of everyone at Tri-County Bank, we thank you for your support and look forward to continuing to serve you.

Sincerely,



Michael A. Ford
President & Chief Executive Officer

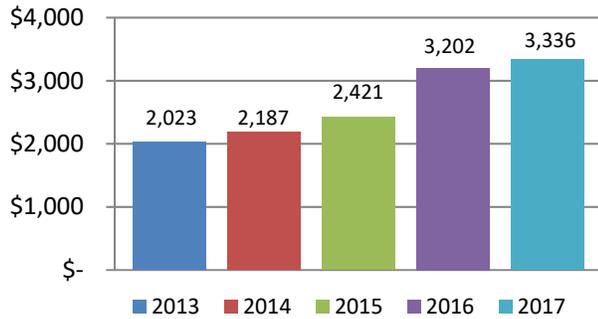


FIVE YEARS OF CONSISTENT GROWTH

Financial Highlights

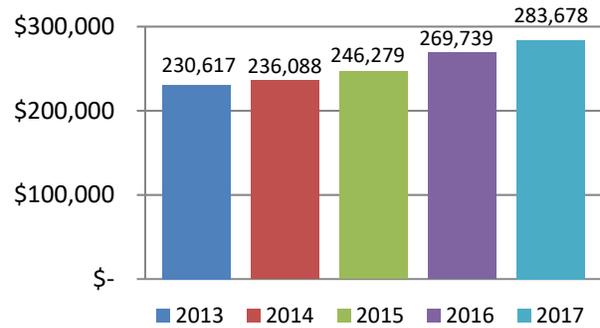
NET INCOME

(in thousands)



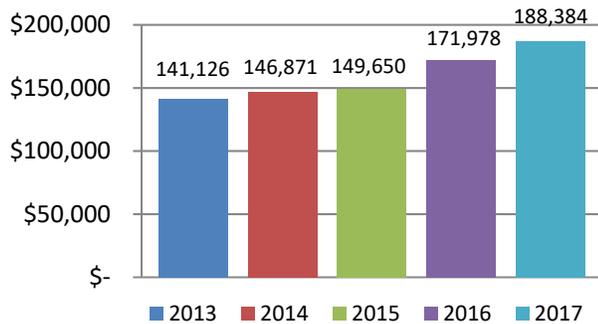
TOTAL ASSETS

(in thousands)



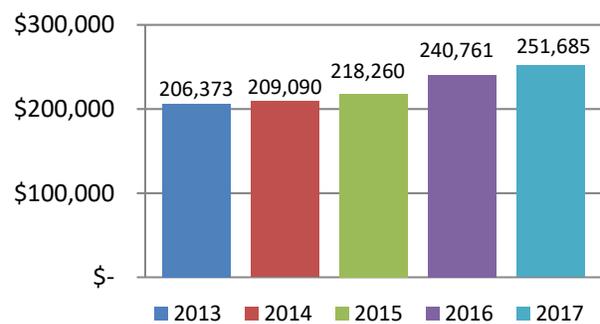
TOTAL LOANS

(in thousands)

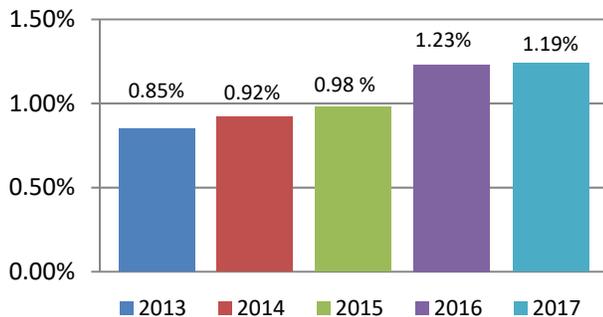


TOTAL DEPOSITS

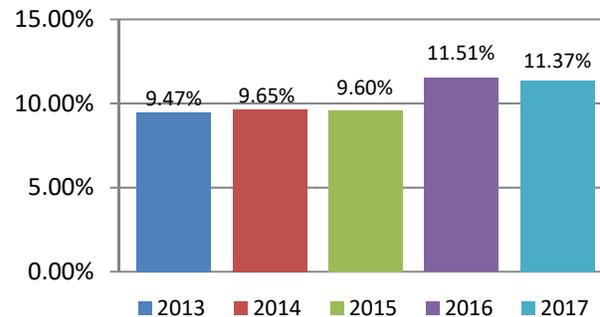
(in thousands)



RETURN ON AVERAGE ASSETS (ROA)



RETURN ON AVERAGE EQUITY (ROE)



TRI-COUNTY BANCORP, INC.

Table of Contents

	<u>Page</u>
Message From the President	Inside Front Cover
Independent Auditors' Report	1
Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016	
Consolidated Balance Sheets	2
Consolidated Statements of Income	3
Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Stockholders' Equity	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Years of Service Awards	43
Directors, Management and Facilities	Inside Back Cover

INDEPENDENT AUDITORS' REPORT

March 21, 2018

Stockholders and Board of Directors
Tri-County Bancorp, Inc.
Brown City, Michigan

We have audited the accompanying consolidated financial statements of *Tri-County Bancorp, Inc.* (the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Accountants' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on auditor judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of *Tri-County Bancorp, Inc.* as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

TRI-COUNTY BANCORP, INC.

Consolidated Balance Sheets

		December 31	
		2017	2016
ASSETS			
Cash and due from banks		\$ 9,292,641	\$ 17,192,964
Federal funds sold		7,086,000	100,000
Cash and cash equivalents		16,378,641	17,292,964
Certificates of deposit		1,235,000	247,000
Investment securities		64,132,861	70,156,202
Restricted investments		839,500	764,500
Loans held for sale		269,500	215,900
Net loans		186,867,849	170,391,647
Accrued interest receivable		1,575,578	1,537,666
Premises and equipment, net		3,538,732	3,536,764
Goodwill, net		471,512	537,195
Bank owned life insurance		6,589,159	3,435,796
Other		1,779,754	1,623,284
Total assets		<u>\$ 283,678,086</u>	<u>\$ 269,738,918</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits			
Noninterest-bearing		\$ 88,696,616	\$ 85,307,059
Interest-bearing		162,988,654	155,453,941
Total deposits		251,685,270	240,761,000
Notes payable		150,000	260,000
Accrued interest payable and other liabilities		1,100,784	1,318,465
Total liabilities		<u>252,936,054</u>	<u>242,339,465</u>
Commitments and contingencies (Notes 13, 14, 15, and 16)			
Stockholders' equity			
Common stock, no par value: 1,500,000 shares authorized, 988,183 shares issued and outstanding (981,930 in 2016)		6,430,369	6,221,250
Unearned ESOP compensation		(687,507)	(859,384)
Retained earnings		25,763,530	22,865,413
Accumulated other comprehensive loss		(764,360)	(827,826)
Total stockholders' equity		<u>30,742,032</u>	<u>27,399,453</u>
Total liabilities and stockholders' equity		<u>\$ 283,678,086</u>	<u>\$ 269,738,918</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Income

	Year Ended December 31	
	2017	2016
Interest income		
Loans (including fees)	\$ 10,484,078	\$ 9,515,166
Investments	1,351,139	1,332,242
Federal funds sold	49,593	2,839
Total interest income	<u>11,884,810</u>	<u>10,850,247</u>
Interest expense		
Deposits	783,182	367,152
Borrowed funds	10,473	15,677
Total interest expense	<u>793,655</u>	<u>382,829</u>
Net interest income	11,091,155	10,467,418
Provision for loan losses	<u>73,000</u>	<u>179,500</u>
Net interest income, after provision for loan losses	<u>11,018,155</u>	<u>10,287,918</u>
Noninterest income		
Service charges on deposit accounts	1,056,766	998,803
Net gain on sale of investment securities	1,410	89,414
Net gain on sale of loans	260,856	375,805
Other	487,730	722,394
Total noninterest income	<u>1,806,762</u>	<u>2,186,416</u>
Noninterest expenses		
Compensation and benefits	4,582,451	4,585,660
Occupancy and equipment	822,072	535,311
Foreclosed assets	6,147	88,547
Data processing	616,132	549,742
Other	2,031,700	2,098,424
Total noninterest expenses	<u>8,058,502</u>	<u>7,857,684</u>
Income before income taxes	4,766,415	4,616,650
Income taxes	<u>1,430,000</u>	<u>1,415,000</u>
Net income	<u>\$ 3,336,415</u>	<u>\$ 3,201,650</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2017	2016
Net income	<u>\$ 3,336,415</u>	<u>\$ 3,201,650</u>
Other comprehensive income (loss)		
Available-for-sale securities		
Unrealized holding gains (losses) arising during the year	288,148	(670,903)
Reclassification adjustment for net realized gains included in net income	<u>(1,410)</u>	<u>(89,414)</u>
Other comprehensive income (loss) before income taxes	286,738	(760,317)
Income tax (expense) benefit related to other comprehensive income (loss)	<u>(97,491)</u>	<u>258,508</u>
Other comprehensive income (loss)	<u>189,247</u>	<u>(501,809)</u>
Comprehensive income	<u>\$ 3,525,662</u>	<u>\$ 2,699,841</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Stockholders' Equity

	Common Stock		Unearned ESOP Compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balances, January 1, 2016	991,018	\$ 6,437,401	\$ -	\$ 20,069,841	\$ (326,017)	\$ 26,181,225
Comprehensive income	-	-	-	3,201,650	(501,809)	2,699,841
Dividends (\$0.40 per share)	-	-	-	(590,263)	-	(590,263)
ESOP shares repurchased by Plan with employer loan (24,208 shares)	-	-	(859,384)	-	-	(859,384)
Share-based compensation	-	49,314	-	-	-	49,314
Issuance of common stock	16,337	551,318	-	-	-	551,318
Relinquishment of common stock	(7,316)	(184,185)	-	184,185	-	-
Issuance of shares upon exercise of common stock options	3,000	81,000	-	-	-	81,000
Redemption of common stock	(21,109)	(713,598)	-	-	-	(713,598)
Balances, December 31, 2016	981,930	6,221,250	(859,384)	22,865,413	(827,826)	27,399,453
Comprehensive income	-	-	-	3,336,415	189,247	3,525,662
Dividends (\$0.60 per share)	-	-	-	(576,183)	-	(576,183)
Compensation expense related to ESOP	-	-	171,877	12,104	-	183,981
Issuance of common stock	12,576	469,068	-	-	-	469,068
Issuance of shares upon exercise of common stock options	1,978	46,373	-	-	-	46,373
Redemption of common stock	(8,301)	(306,322)	-	-	-	(306,322)
Reclassification resulting from enactment of federal tax legislation	-	-	-	125,781	(125,781)	-
Balances, December 31, 2017	<u>988,183</u>	<u>\$ 6,430,369</u>	<u>\$ (687,507)</u>	<u>\$ 25,763,530</u>	<u>\$ (764,360)</u>	<u>\$ 30,742,032</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	2016
Cash flows from operating activities		
Net income	\$ 3,336,415	\$ 3,201,650
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	295,119	268,007
Amortization of goodwill	65,683	65,683
Net amortization (accretion) of premiums (discounts) on investment securities	367,269	(275,433)
Net gain on sale of investment securities	(1,410)	(89,414)
Mortgage servicing rights amortization	224,340	204,494
Provision for loan losses	73,000	179,500
Net gain on sale of loans	(260,856)	(375,805)
Provision for foreclosed asset losses	-	37,000
Loss (gain) on sale and disposal of equipment	74,408	(15,771)
(Gain) loss on sale of foreclosed assets	(539)	51,311
Share-based compensation	-	49,314
Increase in cash surrender value of bank owned life insurance	(153,363)	(91,137)
Deferred income tax (benefit) expense	(131,000)	339,000
Originations of mortgage loans held for sale	(18,903,200)	(28,184,700)
Proceeds from mortgage loan sales	19,110,456	28,618,205
Changes in operating assets and liabilities which used cash		
Accrued interest receivable	(37,912)	(243,998)
Other assets	(403,195)	(859,721)
Accrued interest payable and other liabilities	(86,681)	(159,950)
Net cash provided by operating activities	<u>3,568,534</u>	<u>2,718,235</u>
Cash flows from investing activities		
Net activity in certificates of deposit	(988,000)	496,000
Activity in held-to-maturity securities		
Purchases	-	(347,000)
Maturities, prepayments and calls	1,097,505	4,840,982
Activity in available-for-sale securities		
Purchases	(9,120,189)	(14,913,014)
Sales, maturities, prepayments and calls	13,966,904	14,939,011
Purchases of restricted investments	(75,000)	-
Loan principal originations, net	(16,645,308)	(22,578,511)
Purchases of premises and equipment	(592,087)	(315,382)
Purchase of bank owned life insurance	(3,000,000)	-
Proceeds from sale of equipment	220,592	36,474
Proceeds from sale of foreclosed assets	21,539	243,489
Net cash used in investing activities	<u>(15,114,044)</u>	<u>(17,597,951)</u>
Cash flows from financing activities		
Acceptances of deposits, net	10,924,270	22,501,224
Repayments of notes payable	(110,000)	(100,000)
ESOP shares earned	183,981	-
Loan to ESOP	-	(859,384)
Proceeds from issuance of common stock	469,068	551,318
Proceeds from exercise of common stock options, including tax benefit	46,373	81,000
Common stock repurchased and redeemed	(306,322)	(713,598)
Cash dividends paid	(576,183)	(590,263)
Net cash provided by financing activities	<u>10,631,187</u>	<u>20,870,297</u>
Net (decrease) increase in cash and cash equivalents	(914,323)	5,990,581
Cash and cash equivalents, beginning of year	<u>17,292,964</u>	<u>11,302,383</u>
Cash and cash equivalents, end of year	<u>\$ 16,378,641</u>	<u>\$ 17,292,964</u>

The accompanying notes are an integral part of these consolidated financial statements.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Business

The accompanying consolidated financial statements include the accounts of *Tri-County Bancorp, Inc.*, a registered bank holding company (the “Company”), and its wholly owned subsidiary, Tri-County Bank (the “Bank”). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its eight branches located in Sanilac, Lapeer, and St. Clair counties in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of the Bank’s primary markets. The Bank’s results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

Concentration Risks

The Bank’s primary deposit products are interest and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial, agricultural, and consumer loans. The Bank does not have any significant concentrations to any one industry, customer, or depositor.

The Bank is a state chartered bank and is a member of both the Federal Reserve Bank of Chicago (“FRB”) and the Federal Deposit Insurance Corporation (“FDIC”) Bank Insurance Fund. The Bank is also subject to the regulations and supervision of state regulators and undergoes periodic examinations by these regulatory authorities. The Company is further subject to regulations of the Federal Reserve Bank Board governing bank holding companies.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses, the fair value of certain investment securities, and the fair value of financial instruments.

Summary of Significant Accounting Policies

Accounting policies used in preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America. The principles which materially affect the determination of the consolidated financial position and results of operations of the Company and the Bank are summarized below.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions which generally exceed FDIC insured limits or are not insured. Management does not believe the Company is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

Certificates of Deposit

Certificates of deposit held by the Bank are those with original maturities of more than three months. Certificates of deposit are carried at cost. These deposits in other financial institutions may exceed insured limits. Management believes the Bank is not exposed to any significant interest rate or other financial risk on these deposits.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

- Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2.

Investment Securities

Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the investment securities. Realized gains or losses on the sale of available-for-sale investment securities are recorded in investment income on the trade date and are determined using the specific identification method.

Notes to Consolidated Financial Statements

Investment securities are reviewed at each reporting period for possible other-than-temporary impairment (“OTTI”). In determining whether an other-than-temporary impairment exists for debt securities, management must assert that: (a) it does not have the intent to sell the security; and (b) it is more likely than not the Bank will not have to sell the security before recovery of its cost basis. If these conditions are not met, the Bank must recognize an OTTI charge through earnings for the difference between the debt security’s amortized cost basis and its fair value, and such amount is included in noninterest income. For these debt securities, the Bank separates the total impairment into the credit loss component and the amount of the loss related to other factors. In order to determine the amount of the credit loss for a debt security, the Bank calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The amount of the total OTTI related to credit risk is recognized in earnings and is included in noninterest income. The amount of the total OTTI related to other risk factors is recognized as a component of other comprehensive income (loss). For debt securities that have recognized an OTTI through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

Available-for-sale equity securities are reviewed for other-than-temporary impairment at each reporting date. This evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and management’s ability and intent to hold the securities until fair value recovers. If it is determined that management does not have the ability and intent to hold the securities until recovery or that there are conditions that indicate that a security may not recover in value, then the difference between the fair value and the cost of the security is recognized in earnings and is included in noninterest income. No such losses were recognized in 2017 or 2016.

Restricted Investments

The Bank is a member of the Federal Home Loan Bank System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis (“FHLB”). The amount of the required investment is based upon the available balance of the Bank’s outstanding home mortgage loans or advances from the FHLB and is carried at cost plus the value assigned to stock dividends.

The Bank is also a member of the Federal Reserve Bank System (“FRB”). The amount of the required investment is determined by the FRB at the time the Bank becomes a member. The amount of the investment may be adjusted thereafter and is carried at cost.

Loans

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Management estimates that direct costs incurred in originating loans approximate the origination fees generated on these loans. Therefore, net deferred loan origination fees on loans classified as held-to-maturity are not included on the accompanying consolidated balance sheets.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. Loans that become 180 days past due and are not in the process of collection will be foreclosed, the collateral disposed of, and any deficiency charged off. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments and loans modified under troubled debt restructurings (nonperforming originated loans).

Allowance for Loan Losses

The allowance for loan losses (“allowance”) is an estimate of loan losses inherent in the Bank’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the appropriateness of the total allowance after loan losses and loan growth. Loan losses are charged off against the allowance when the Bank determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of general, specific and unallocated components. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent three years. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment allowances or disclosures, unless such loans are the subject of a restructuring agreement or in nonaccrual status.

The Bank evaluates the credit quality of loans in the consumer and residential (including construction) loan portfolios, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans past due as to principal or interest 90 days or more are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") for economic or legal reasons related to the borrower's financial difficulties if the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Special Mention (or Watch): Loans classified as special mention (watch) have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention (watch) loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged off immediately.

The majority of the Bank's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, agricultural, residential construction, residential real estate, and consumer and other, with risk characteristics described as follows:

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than other portfolio segments as crops are insured, in most cases, at a substantial portion of the crop's expected income. Economic and environmental trends determined by commodity prices and crop yields can significantly impact the quality of these loans.

Residential Construction: Residential construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer and Other: The consumer and other loan portfolios are usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators review the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examinations.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when they are funded.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held-for-sale, as described above, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, as disclosed in Note 5, the Bank has no substantive continuing involvement related to these loans. The Bank sold to an unrelated third party residential mortgage loans with proceeds of \$19,110,456 and \$28,618,205 in 2017 and 2016, respectively, which resulted in net gains of \$260,856 and \$375,805 in 2017 and 2016, respectively. Servicing fee income earned on such loans was \$300,804 and \$281,096 for 2017 and 2016, respectively, and is included in other noninterest income on the consolidated statements of income.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recognized as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of other noninterest income.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in expenses from foreclosed assets on the consolidated statements of income.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 2 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

Goodwill

Goodwill consists of amounts paid in excess of the fair value of assets acquired and liabilities assumed in connection with a business combination. The Company amortizes goodwill on a straight line basis over 10 years. Goodwill is also tested for impairment when a triggering event occurs that indicates that the fair value of the Company may be below its carrying amount. Goodwill is tested for impairment at the Company level. Goodwill amortization, which is recorded in other noninterest expenses, is insignificant in 2017 and 2016.

Bank-Owned Life Insurance

The Company holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Company, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the consolidated balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

See Note 10 for a discussion of the impact of federal tax legislation (Tax Cuts and Jobs Act), which was enacted on December 22, 2017.

Common Stock

Shares of common stock are purchased and redeemed in the ordinary course of business. The cost of common shares purchased and redeemed has been charged entirely to common stock.

Share-Based Compensation Plans

Compensation expense relating to share-based compensation plans is based on the fair value of the awards granted and is recognized on a straight-line basis over the requisite service period of each award.

Reclassifications

Certain amounts as reported in the 2016 consolidated financial statements have been reclassified to conform with the 2017 presentation.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2017, the most recent consolidated balance sheet presented herein, through March 21, 2018, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified, other than the adoption of the new accounting pronouncement issued in February 2018 as described below.

New Accounting Pronouncement

ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, was issued in February 2018 to eliminate the stranded tax effects associated with the change in the federal corporate income tax rate included in the Tax Cuts and Jobs Act of 2017. The amendments in the update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted change in the federal corporate income tax rate. The amount of the reclassification is based on the difference between the historical corporate income tax rate and the enacted 21 percent corporate income tax rate, or \$125,781 in 2017. Although the update is effective for fiscal years beginning after December 31, 2018, the Company has elected to early adopt the guidance in 2017.

ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, was issued in 2016 with the intention of improving financial reporting by requiring timelier recording of credit losses on loans and certain other financial instruments held by financial institutions.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The ASU requires that the measurement of all expected credit losses for financial assets that are measured at amortized cost at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will also use forward-looking information to develop their credit loss estimates.

The ASU requires enhanced disclosures to assist investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an institution's portfolio.

In addition, the ASU amends existing guidance on accounting for credit losses on available for-sale debt securities, purchased financial assets with credit deterioration, and also applies to certain off-balance sheet credit exposures.

The ASU on credit losses will take effect for fiscal years beginning after December 15, 2020. Management is currently evaluating the provisions of ASU 2016-13 to determine the potential impact on the Company's consolidated financial statements.

2. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company only has securities available-for-sale which are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as investment securities held-to-maturity, loans held for sale, foreclosed assets, mortgage servicing rights, goodwill and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments, including federal funds sold, approximate fair values.

Certificates of Deposit

Fair values of certificates of deposit are based on the discounted value of contractual cash flows, using interest rates currently being offered for similar certificates.

Investment Securities

Held-to-maturity securities are recorded at fair value on a nonrecurring basis, only when an other-than-temporary impairment is recorded. Investment securities classified as available-for-sale or trading are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 fair value measurements are based upon quoted prices for similar securities in active markets or quoted prices for identical assets in inactive markets. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include U.S. Treasury securities, government sponsored enterprises, collateralized mortgage obligations, mortgage-backed securities issued by government-sponsored entities, and municipal bonds in active markets. For Level 3 securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Securities classified as Level 3 would include securities in less liquid markets and could include certain municipal securities. The Company did not have any securities classified as Level 3 at December 31, 2017 or 2016.

Restricted Investments

The carrying value of Federal Home Loan Bank Stock and Federal Reserve Bank Stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank and the Federal Reserve.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Bank classifies loans held for sale with nonrecurring fair value adjustments as Level 2.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed interest rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of declines, if any, in the credit quality of borrowers since the loans were originated. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value or discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2017 and 2016, a majority of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank classifies the impaired loan as nonrecurring Level 3.

Accrued Interest Receivable

The carrying amounts reported in the consolidated balance sheets for interest receivable approximate fair value.

Foreclosed Assets

Upon transfer from the loan portfolio, foreclosed assets are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank classifies the foreclosed asset as nonrecurring Level 3.

Goodwill

Goodwill is subject to impairment testing. Goodwill is qualitatively evaluated for impairment when a triggering event occurs that indicates that the fair value of the Company may be below its carrying amount. If it is determined that the carrying balance of goodwill is more likely than not to be impaired, management performs a cash flow valuation to determine the extent of the potential impairment. This valuation method requires a significant degree of management judgment. If the testing resulted in impairment, the Company would classify goodwill subjected to nonrecurring fair value adjustments as Level 3. At December 31, 2017 and 2016, no goodwill impairment was recorded and, therefore, no goodwill was recorded at fair value on a nonrecurring basis.

Notes to Consolidated Financial Statements

Mortgage Servicing Rights

Mortgage servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies loan servicing rights subjected to nonrecurring fair value adjustments as a Level 3. At December 31, 2017 and 2016, there was no impairment recorded for mortgage servicing rights and, therefore, no mortgage servicing rights assets were recorded at fair value on a nonrecurring basis.

Interest- and Noninterest-Bearing Deposits

The fair values of demand deposit accounts, such as interest- and noninterest-bearing checking, savings and money market accounts, are equal to the amounts payable on demand. Fair values for interest-bearing deposits (time deposits) with defined maturities are based on the discounted value of contractual cash flows, using interest rates currently being offered for deposits of similar maturities. The fair values for variable-interest rate certificates of deposit approximate their carrying value.

Notes Payable

The fair value of the Company's notes payable are estimated using discounted cash flow analyses based on the Company's current incremental rates for similar types of borrowing arrangements.

Accrued Interest Payable

The carrying amounts reported in the consolidated balance sheets for interest payable approximates fair value.

Commitments to Extend Credit, Standby Letters of Credit, and Undisbursed Loans

The Bank's unused loan commitments, standby letters of credit and undisbursed loans have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused loan commitments have not been drawn upon and, generally, the Bank does not receive fees in connection with these commitments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Assets Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of investment securities measured at fair value on a recurring basis as of December 31:

2017	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale				
U.S. Treasury and federal agency	\$ -	\$ 2,974,690	\$ -	\$ 2,974,690
Government sponsored enterprises	-	26,425,959	-	26,425,959
Mortgage-backed securities	-	10,114,293	-	10,114,293
Collateralized mortgage obligations	-	5,526,845	-	5,526,845
States and municipal	-	15,471,082	-	15,471,082
Total assets at fair value	\$ -	\$ 60,512,869	\$ -	\$ 60,512,869

2016	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale				
U.S. Treasury and federal agency	\$ -	\$ 1,008,867	\$ -	\$ 1,008,867
Government sponsored enterprises	-	28,667,460	-	28,667,460
Mortgage-backed securities	-	12,035,664	-	12,035,664
Collateralized mortgage obligations	-	4,935,254	-	4,935,254
States and municipal	-	18,791,460	-	18,791,460
Total assets at fair value	\$ -	\$ 65,438,705	\$ -	\$ 65,438,705

Assets Recorded at Fair Value on a Nonrecurring Basis

Assets recorded at fair value on a nonrecurring basis for which impairment was recognized in the current period consist only of impaired loans and foreclosed assets.

Impaired loans, which are measured for impairment using the fair value of collateral for collateral dependent loans or discounted cash flow analysis, are classified as Level 3, and had carrying amounts of \$2,607,109 and \$3,176,298 as of December 31, 2017 and 2016, respectively, resulting in an allowance for loan losses allocation of \$317,085 and \$486,573 as of December 31, 2017 and 2016, respectively.

There were no foreclosed assets as of December 31, 2017 or 2016 with nonrecurring write-downs. There were no foreclosed asset write-downs during 2017. Foreclosed assets, which are carried at the lower of carrying value or fair value, were written down in 2016 resulting in charges to earnings of \$37,000 during 2016.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Quantitative information about Level 3 fair value measurements is as follows as of December 31:

2017	Level 3 Instruments			
Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average and/or Range
Impaired Loans	\$ 860,946	Discounted Cash Flow	Duration of Cash Flows	140-308 Months
			Reduction in Interest Rate from Originated Loan Terms	1.00% - 2.90%
	\$ 1,746,163	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	0% - 35%
2016	Level 3 Instruments			
Instrument	Fair Value	Valuation Technique	Unobservable Input	Weighted Average and/or Range
Impaired Loans	\$ 789,324	Discounted Cash Flow	Duration of Cash Flows	145-313 Months
			Reduction in Interest Rate from Originated Loan Terms	0.25% - 2.15%
	\$ 2,386,974	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	6% - 35%

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Company uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. The methodologies for estimating fair value of financial assets and financial liabilities on a recurring and non-recurring basis are discussed above.

The carrying amount and estimated fair value of financial instruments on the Company's consolidated balance sheets are as follows as of December 31:

	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 16,378,641	\$ 16,378,641	\$ 17,292,964	\$ 17,292,964
Certificates of deposit	1,235,000	1,235,000	247,000	247,000
Securities held-to-maturity	3,619,992	3,650,111	4,717,497	4,697,772
Restricted investments	839,500	839,500	764,500	764,500
Loans held for sale	269,500	269,500	215,900	215,900
Net loans	186,867,849	192,638,000	170,391,647	177,264,000
Accrued interest receivable	1,575,578	1,575,578	1,537,666	1,537,666
Mortgage servicing rights	717,223	1,430,905	726,840	1,247,731

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Liabilities				
Deposits	\$ 251,685,270	\$ 251,455,000	\$ 240,761,000	\$ 240,816,000
Notes payable	150,000	150,000	260,000	260,000
Accrued interest payable	57,417	57,417	59,652	59,652

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
States and municipal	\$ 3,619,992	\$ 33,690	\$ 3,571	\$ 3,650,111
Available-for-Sale				
U.S. Treasury and federal agency	2,993,751	-	19,061	2,974,690
Government sponsored enterprises	26,725,233	-	299,274	26,425,959
Mortgage-backed securities	10,343,006	7,646	236,359	10,114,293
Collateralized mortgage obligations	5,678,056	-	151,211	5,526,845
States and municipal	15,740,844	10,238	280,000	15,471,082
Total available-for-sale	61,480,890	17,884	985,905	60,512,869
Total	\$ 65,100,882	\$ 51,574	\$ 989,476	\$ 64,162,980

2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
States and municipal	\$ 4,717,497	\$ 18,475	\$ 38,200	\$ 4,697,772
Available-for-Sale				
U.S. Treasury and federal agency	1,010,179	-	1,312	1,008,867
Government sponsored enterprises	28,936,056	1,309	269,905	28,667,460
Mortgage-backed securities	12,421,377	9,113	394,826	12,035,664
Collateralized mortgage obligations	5,067,660	-	132,406	4,935,254
States and municipal	19,258,192	18,430	485,162	18,791,460
Total available-for-sale	66,693,464	28,852	1,283,611	65,438,705
Total	\$ 71,410,961	\$ 47,327	\$ 1,321,811	\$ 70,136,477

Investment securities with carrying values of approximately \$6,191,000 and \$6,204,000 at December 31, 2017 and 2016, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The amortized cost and fair value of held-to-maturity and available-for-sale securities grouped by contractual maturity at December 31, 2017, are summarized as follows:

	Maturing				Securities With Variable Monthly Payments	Total
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years		
Held-to-maturity						
States and municipal	\$ 271,686	\$ 1,754,189	\$ 1,594,117	\$ -	\$ -	\$ 3,619,992
Available-for-Sale						
U.S. Treasury and federal agency	\$ -	\$ 2,993,751	\$ -	\$ -	\$ -	\$ 2,993,751
Government sponsored enterprises	8,999,008	14,264,145	3,462,080	-	-	26,725,233
Mortgage-backed securities	-	-	-	-	10,343,006	10,343,006
Collateralized mortgage obligations	-	-	-	-	5,678,056	5,678,056
States and municipal	-	9,762,164	5,978,680	-	-	15,740,844
Total available-for-sale	8,999,008	27,020,060	9,440,760	-	16,021,062	61,480,890
Total amortized cost	\$ 9,270,694	\$ 28,774,249	\$ 11,034,877	\$ -	\$ 16,021,062	\$ 65,100,882
Total fair value	\$ 9,231,579	\$ 28,526,467	\$ 10,763,796	\$ -	\$ 15,641,138	\$ 64,162,980

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed securities and collateralized mortgage obligations are not reported by a specific maturity group.

During 2017, there were sales of eleven available-for-sale securities. Net realized gains amounted to \$1,410 during 2017. During 2016, there were six available-for-sale securities sold. Net realized gains amounted to \$89,414 during 2016.

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31 is as follows:

	Less Than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
2017						
Securities held-to-maturity						
States and municipal	\$ 831,428	\$ 3,571	\$ -	\$ -	\$ 831,428	\$ 3,571
Securities available-for-sale						
U.S. Treasury and federal agency	\$ 2,974,690	\$ 19,061	\$ -	\$ -	\$ 2,974,690	\$ 19,061
Government sponsored enterprises	10,152,160	80,976	16,273,799	218,298	26,425,959	299,274
Mortgage-backed securities	1,705,209	16,934	7,951,218	219,425	9,656,427	236,359
Collateralized mortgage obligations	1,405,276	13,892	4,121,569	137,319	5,526,845	151,211
States and municipal	9,239,750	89,764	5,561,095	190,236	14,800,845	280,000
Total securities available-for-sale	\$ 25,477,085	\$ 220,627	\$ 33,907,681	\$ 765,278	\$ 59,384,766	\$ 985,905

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

	Less Than 12 Months		Over 12 Months		Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss		
2016						
Securities held-to-maturity						
States and municipal	\$ 2,599,233	\$ 38,200	\$ -	\$ -	\$ 2,599,233	\$ 38,200
Securities available-for-sale						
U.S. Treasury and federal agency	\$ 1,008,867	\$ 1,312	\$ -	\$ -	\$ 1,008,867	\$ 1,312
Government sponsored enterprises	25,540,673	269,905	-	-	25,540,673	269,905
Mortgage-backed securities	11,402,441	394,783	5,291	43	11,407,732	394,826
Collateralized mortgage obligations	4,420,978	118,630	514,276	13,776	4,935,254	132,406
States and municipal	17,195,511	485,162	-	-	17,195,511	485,162
Total securities available-for-sale	\$ 59,568,470	\$ 1,269,792	\$ 519,567	\$ 13,819	\$ 60,088,037	\$ 1,283,611

At December 31, 2017 and 2016, management conducted an analysis to determine whether all securities currently in an unrealized loss position should be considered other-than-temporarily-impaired (“OTTI”). Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable that the issuer will be unable to pay the amount when due?
- Is it more likely than not that the Company will not have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended for an unreasonable period of time?

As of December 31, 2017, the Company’s investment security portfolio consisted of 67 securities in an unrealized loss position. Because the decline in the market value is attributable to changes in interest rates, and not credit quality, and because management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Company will not have to sell the securities before recovery of their cost basis, management does not believe that the values of any securities are other-than-temporarily impaired as of December 31, 2017.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank grants commercial and industrial, commercial real estate, agricultural, residential construction, residential real estate and consumer and other loans to customers located primarily in the Sanilac, Lapeer, and St. Clair Counties of Michigan. The ability of the Bank’s debtors to honor their contracts is dependent upon the real estate values and general economic conditions in this region. Substantially all of the consumer, agricultural, commercial real estate, and residential loans are secured by various items of property, while commercial and industrial loans are secured primarily by business assets and personal guarantees; a portion of loans are unsecured.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Loans are summarized by portfolio segment as follows at December 31:

	2017	2016
Commercial and industrial	\$ 19,256,246	\$ 16,793,979
Commercial real estate	71,964,055	64,565,438
Agricultural	59,401,133	53,607,398
Residential construction	7,459,352	5,572,094
Residential real estate	26,720,213	28,106,507
Consumer and other	3,582,979	3,332,952
Total loans	188,383,978	171,978,368
Allowance for loan losses	(1,516,129)	(1,586,721)
Loans, net	\$ 186,867,849	\$ 170,391,647

The changes in the allowance for loan losses and recorded investment in loans are as follows for the year ended December 31, 2017:

	Commercial and Industrial	Commercial Real Estate	Agricultural	Residential Construction	Residential Real Estate	Consumer and Others	Unallocated	Total
Allowance for loan losses:								
Balance at beginning of year	\$ 207,144	\$ 747,379	\$ 258,044	\$ 32,318	\$ 312,643	\$ 22,113	\$ 7,080	\$ 1,586,721
Provision for loan losses	(32,899)	53,118	40,756	10,946	(46,317)	43,923	3,473	73,000
Loans charged off	(21,992)	(98,436)	-	-	-	(31,817)	-	(152,245)
Recoveries	-	-	-	-	8,350	303	-	8,653
Balance at end of year	\$ 152,253	\$ 702,061	\$ 298,800	\$ 43,264	\$ 274,676	\$ 34,522	\$ 10,553	\$ 1,516,129
Allowance for loan losses attributable to:								
Individually evaluated for impairment	\$ 33,073	\$ 209,378	\$ 6,966	\$ -	\$ 67,668	\$ -	\$ -	\$ 317,085
Collectively evaluated for impairment	119,180	492,683	291,834	43,264	207,008	34,522	10,553	1,199,044
Total allowance for loan losses	\$ 152,253	\$ 702,061	\$ 298,800	\$ 43,264	\$ 274,676	\$ 34,522	\$ 10,553	\$ 1,516,129
Recorded investment in loans:								
Individually evaluated for impairment	\$ 131,282	\$ 1,032,310	\$ 984,072	\$ -	\$ 459,445	\$ -		\$ 2,607,109
Collectively evaluated for impairment	19,124,964	70,931,745	58,417,061	7,459,352	26,260,768	3,582,979		185,776,869
Total loans ending balance	19,256,246	71,964,055	59,401,133	7,459,352	26,720,213	3,582,979		188,383,978
Accrued interest receivable	18,549	265,908	881,730	46,305	95,171	21,068		1,328,731
Total recorded investment in loans	\$ 19,274,795	\$ 72,229,963	\$ 60,282,863	\$ 7,505,657	\$ 26,815,384	\$ 3,604,047		\$ 189,712,709

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The changes in the allowance for loan losses and recorded investment in loans are as follows for the year ended December 31, 2016:

	Commercial and Industrial	Commercial Real Estate	Agricultural	Residential Construction	Residential Real Estate	Consumer and Others	Unallocated	Total
Allowance for loan losses:								
Balance at beginning of year	\$ 189,138	\$ 582,234	\$ 198,103	\$ 30,782	\$ 385,228	\$ 23,722	\$ 54,960	\$ 1,464,167
Provision for loan losses	18,006	162,248	73,556	45,919	(80,325)	7,976	(47,880)	179,500
Loans charged off	-	-	(14,732)	(44,383)	-	(9,701)	-	(68,816)
Recoveries	-	2,897	1,117	-	7,740	116	-	11,870
Balance at end of year	<u>\$ 207,144</u>	<u>\$ 747,379</u>	<u>\$ 258,044</u>	<u>\$ 32,318</u>	<u>\$ 312,643</u>	<u>\$ 22,113</u>	<u>\$ 7,080</u>	<u>\$ 1,586,721</u>
Allowance for loan losses attributable to:								
Individually evaluated for impairment	\$ 98,333	\$ 297,371	\$ 3,511	\$ -	\$ 87,358	\$ -	\$ -	\$ 486,573
Collectively evaluated for impairment	108,811	450,008	254,533	32,318	225,285	22,113	7,080	1,100,148
Total allowance for loan losses	<u>\$ 207,144</u>	<u>\$ 747,379</u>	<u>\$ 258,044</u>	<u>\$ 32,318</u>	<u>\$ 312,643</u>	<u>\$ 22,113</u>	<u>\$ 7,080</u>	<u>\$ 1,586,721</u>
Recorded investment in loans:								
Individually evaluated for impairment	\$ 231,339	\$ 1,280,486	\$ 1,067,898	\$ -	\$ 596,575	\$ -		\$ 3,176,298
Collectively evaluated for impairment	16,562,640	63,284,952	52,539,500	5,572,094	27,509,932	3,332,952		168,802,070
Total loans ending balance	16,793,979	64,565,438	53,607,398	5,572,094	28,106,507	3,332,952		171,978,368
Accrued interest receivable	19,623	283,015	849,860	33,757	89,834	19,687		1,295,776
Total recorded investment in loans	<u>\$ 16,813,602</u>	<u>\$ 64,848,453</u>	<u>\$ 54,457,258</u>	<u>\$ 5,605,851</u>	<u>\$ 28,196,341</u>	<u>\$ 3,352,639</u>		<u>\$ 173,274,144</u>

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2017:

	Risk Rating				Total
	Pass	Special Mention (or Watch)	Substandard	Doubtful	
Commercial credit risk profile by risk rating					
Commercial and industrial	\$ 19,124,964	\$ -	\$ 131,282	\$ -	\$ 19,256,246
Commercial real estate	70,479,125	854,120	630,810	-	71,964,055
Agricultural	58,263,089	163,373	974,671	-	59,401,133
Total	\$ 147,867,178	\$ 1,017,493	\$ 1,736,763	\$ -	\$ 150,621,434

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2016:

	Risk Rating				Total
	Pass	Special Mention (or Watch)	Substandard	Doubtful	
Commercial credit risk profile by risk rating					
Commercial and industrial	\$ 16,562,640	\$ 95,157	\$ 136,182	\$ -	\$ 16,793,979
Commercial real estate	62,667,276	1,029,755	868,407	-	64,565,438
Agricultural	52,390,515	148,985	1,067,898	-	53,607,398
Total	\$ 131,620,431	\$ 1,273,897	\$ 2,072,487	\$ -	\$ 134,966,815

The following table shows homogeneous loans allocated by payment activity as of December 31, 2017:

	Consumer Credit Risk Profile by Payment Activity			
	Residential Construction	Residential Real Estate	Consumer and Other	Total
Payment activity				
Performing	\$ 7,459,352	\$ 26,720,213	\$ 3,582,979	\$ 37,762,544
Non-performing	-	-	-	-
Total	\$ 7,459,352	\$ 26,720,213	\$ 3,582,979	\$ 37,762,544

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table shows homogeneous loans allocated by payment activity as of December 31, 2016:

	Consumer Credit Risk Profile by Payment Activity			
	Residential Construction	Residential Real Estate	Consumer and Other	Total
Payment activity				
Performing	\$ 5,572,094	\$ 28,106,507	\$ 3,332,952	\$ 37,011,553
Non-performing	-	-	-	-
Total	\$ 5,572,094	\$ 28,106,507	\$ 3,332,952	\$ 37,011,553

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2017:

	Accrued Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial and industrial	\$ 19,256,246	\$ -	\$ -	\$ -	\$ 19,256,246
Commercial real estate	71,659,167	304,888	-	-	71,964,055
Agricultural	59,370,736	30,397	-	-	59,401,133
Real estate construction	7,459,352	-	-	-	7,459,352
Residential real estate	26,438,995	281,218	-	-	26,720,213
Consumer and other	3,564,018	18,961	-	-	3,582,979
Total	\$ 187,748,514	\$ 635,464	\$ -	\$ -	\$ 188,383,978

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2016:

	Accrued Interest			Total Nonaccrual	Total Loans
	Current	30-89 Days Past Due	More Than 90 Days Past Due		
Commercial and industrial	\$ 16,793,979	\$ -	\$ -	\$ -	\$ 16,793,979
Commercial real estate	64,521,790	-	-	43,648	64,565,438
Agricultural	53,599,348	-	-	8,050	53,607,398
Real estate construction	5,572,094	-	-	-	5,572,094
Residential real estate	27,650,545	455,962	-	-	28,106,507
Consumer and other	3,299,978	32,974	-	-	3,332,952
Total	\$ 171,437,734	\$ 488,936	\$ -	\$ 51,698	\$ 171,978,368

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table presents information related to impaired loans as of December 31, 2017:

	Loan Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Commercial and industrial	\$ 82,427	\$ 196,497	\$ -	\$ 83,606	\$ 6,436
Commercial real estate	94,059	94,059	-	107,132	7,881
Agricultural	974,671	974,671	-	887,260	57,886
Total	1,151,157	1,265,227	-	1,077,998	72,203
Loans with an allowance recorded					
Commercial and industrial	48,855	73,855	33,073	48,960	2,730
Commercial real estate	938,251	938,251	209,378	947,621	62,461
Agricultural	9,401	9,401	6,966	14,145	1,909
Residential real estate	459,445	542,040	67,668	467,406	25,050
Total	1,455,952	1,563,547	317,085	1,478,132	92,150
Total impaired loans					
Commercial and industrial	131,282	270,352	33,073	132,566	9,166
Commercial real estate	1,032,310	1,032,310	209,378	1,054,753	70,342
Agricultural	984,072	984,072	6,966	901,405	59,795
Residential real estate	459,445	542,040	67,668	467,406	25,050
Total	\$ 2,607,109	\$ 2,828,774	\$ 317,085	\$ 2,556,130	\$ 164,353

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The following table presents information related to impaired loans as of December 31, 2016:

	Loan Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Commercial and industrial	\$ 87,053	\$ 201,122	\$ -	\$ 88,451	\$ 7,081
Commercial real estate	114,280	114,280	-	115,436	8,471
Agricultural	1,059,848	1,059,849	-	1,060,728	75,009
Total	1,261,181	1,375,251	-	1,264,615	90,561
Loans with an allowance recorded					
Commercial and industrial	144,286	169,286	98,333	147,605	8,807
Commercial real estate	1,166,206	1,166,206	297,371	1,169,149	86,469
Agricultural	8,050	8,050	3,511	8,050	-
Residential real estate	596,575	679,169	87,358	603,368	33,163
Total	1,915,117	2,022,711	486,573	1,928,172	128,439
Total impaired loans					
Commercial and industrial	231,339	370,408	98,333	236,056	15,888
Commercial real estate	1,280,486	1,280,486	297,371	1,284,585	94,940
Agricultural	1,067,898	1,067,899	3,511	1,068,778	75,009
Residential real estate	596,575	679,169	87,358	603,368	33,163
Total	\$ 3,176,298	\$ 3,397,962	\$ 486,573	\$ 3,192,787	\$ 219,000

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

There were no loans modified in troubled debt restructurings during 2017 or 2016.

Additionally, there were no TDRs that had payment defaults during 2017 and 2016.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

5. SERVICING

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2017 and 2016, approximated \$122,598,000 and \$121,803,000, respectively; such loans are not included on the accompanying consolidated balance sheets.

The fair values of mortgage servicing rights were \$1,430,905 and \$1,247,731 at December 31, 2017 and 2016, respectively. The fair values of servicing rights was determined using discount rates of 6.33% and 5.97% at December 31, 2017 and 2016, respectively, and average prepayment speeds ranging from 6.00% to 13.10% and 8.70% to 14.80% at December 31, 2017 and 2016, respectively.

The following summarizes the carrying value and the changes therein of mortgage servicing rights included in other assets on the accompanying consolidated balance sheets at December 31:

	2017	2016
Mortgage servicing rights		
Balance at beginning of year	\$ 726,840	\$ 625,563
Mortgage servicing rights originated	214,723	305,771
Mortgage servicing rights amortized	<u>(224,340)</u>	<u>(204,494)</u>
Balance at end of year	<u>\$ 717,223</u>	<u>\$ 726,840</u>

There were no valuation allowances related to mortgage servicing rights as of December 31, 2017 and 2016.

6. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following components at December 31:

	2017	2016
Land	\$ 1,430,988	\$ 1,249,399
Buildings and improvements	3,583,741	3,583,741
Furniture and equipment	<u>4,847,450</u>	<u>4,731,953</u>
Total	9,862,179	9,565,093
Less accumulated depreciation	<u>6,323,447</u>	<u>6,028,329</u>
Premises and equipment, net	<u>\$ 3,538,732</u>	<u>\$ 3,536,764</u>

Depreciation expense was \$295,119 and \$268,007 for 2017 and 2016, respectively.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

7. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2017	2016
Interest-bearing		
Money market and NOW accounts	\$ 55,177,414	\$ 51,617,633
Savings	57,852,704	51,985,749
Time, \$250,000 and over	6,237,916	7,285,724
Other time	43,720,620	44,564,835
Total interest-bearing	162,988,654	155,453,941
Noninterest-bearing demand	88,696,616	85,307,059
Total deposits	<u>\$ 251,685,270</u>	<u>\$ 240,761,000</u>

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2017, are summarized as follows:

Year	Amount
2018	\$ 20,659,607
2019	6,321,497
2020	8,511,511
2021	6,995,951
2022	7,469,970
Total	<u>\$ 49,958,536</u>

8. NOTES PAYABLE (INCLUDING RELATED PARTIES) AND BORROWED FUNDS

Notes Payable (including related parties)

In 2008, the Company entered into three unsecured notes payable agreements with stockholders which totaled \$900,000. In 2010, the Company entered into three additional unsecured notes payable agreements with stockholders which totaled \$400,000. Repayments on these notes payable totaled \$110,000 and \$100,000 in 2017 and 2016, respectively. Principal is due in full by September 2018. Interest calculated at 5% is to be paid semi-annually in April and October. Interest expense on the notes payable totaled approximately \$12,000 and \$17,000 in 2017 and 2016, respectively.

Borrowed Funds

At December 31, 2017, the Bank has approximately \$13,390,250 available under a long-term line of credit with the Federal Home Loan Bank. Under the terms of this agreement, the Bank may borrow at a mutually agreed-upon interest rate at the time of borrowing.

The Bank also has a \$5,000,000 line-of-credit available from another financial institution. Under the terms of this agreement, the Bank may borrow at a mutually agreed upon interest rate at the time of the borrowing.

No such borrowings were outstanding at December 31, 2017 and 2016, under these credit facilities.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

9. FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following components for the years ended December 31:

	2017	2016
Currently payable	\$ 1,561,000	\$ 1,076,000
Deferred (benefit) expense	(131,000)	339,000
Income tax expense	<u>\$ 1,430,000</u>	<u>\$ 1,415,000</u>

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, among other provisions. The Company remeasured certain deferred tax assets and liabilities based on the rates at which such amounts are expected to impact taxable income in the future, which is generally 21%, resulting in an immediate credit of approximately \$62,000 in 2017.

A reconciliation between income tax expense reported and the amount computed by applying the statutory federal income tax rate of 34% to income before income taxes is as follows for the years ended December 31:

	2017	2016
Income tax provision at statutory rate	\$ 1,621,000	\$ 1,570,000
Effect of tax-exempt interest income	(127,000)	(116,000)
Remeasurement of deferred taxes due to changes in federal tax law	(62,000)	-
Other - net	(2,000)	(39,000)
Income tax expense	<u>\$ 1,430,000</u>	<u>\$ 1,415,000</u>

Significant components of the Company's deferred income tax liability, included in other liabilities in the accompanying consolidated balance sheets, are comprised of the following amounts at December 31:

	2017 (Remeasured at 21% tax rate)	2016
Deferred tax assets		
Unrealized loss on available-for-sale securities	\$ 203,000	\$ 426,000
Allowance for loan losses	99,000	136,000
Accrued vacation	16,000	23,000
Other	19,000	2,000
Total deferred tax assets	<u>337,000</u>	<u>587,000</u>
Deferred tax liabilities		
Premises and equipment	164,000	270,000
Mortgage servicing rights	151,000	247,000
Intangible assets	99,000	183,000
Other	23,000	21,000
Total deferred tax liabilities	<u>437,000</u>	<u>721,000</u>
Net deferred tax liability	<u>\$ 100,000</u>	<u>\$ 134,000</u>

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The Company concluded that there are no significant uncertain tax positions requiring recognition in these consolidated financial statements based on the evaluation performed for 2014 through 2017, the years which remain subject to examination by major tax jurisdictions as of December 31, 2017. The Company does not expect the total amount of unrecognized tax benefits (“UTB”) (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Company does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2017 and 2016, and it is not aware of any claims for such amounts by federal or state income tax authorities.

10. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately \$2,356,000 and \$668,000 at December 31, 2017 and 2016, respectively.

Deposits

Deposits of Company directors, executive officers and their affiliates were approximately \$1,607,000 and \$1,187,000 at December 31, 2017 and 2016, respectively.

11. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank’s exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including requirements for collateral, as it does for on-balance sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2017	2016
Unfunded commitments under lines of credit	\$ 18,122,000	\$ 17,617,000
Commitments to grant loans	8,923,000	5,870,000
Commercial and standby letters of credit	376,000	513,000

Unfunded commitments under commercial lines of credit, revolving lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit may be uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2017 and 2016.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Risk Management - Derivative Instruments Not Designated As Hedging Instruments

Certain derivative instruments do not meet the criteria for hedging requirements. These derivative instruments are generally recognized on the consolidated balance sheets at fair value, with changes in fair value recorded in other noninterest income.

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of mortgage loan commitments was overall insignificant at December 31, 2017 and 2016.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments and mortgage loan held for sale, the Bank utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "best efforts" contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

The Bank expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of forward loan sale commitments was overall insignificant at December 31, 2017 and 2016.

The fair value of the rate lock loan commitments related to the origination of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in these consolidated financial statements.

13. REGULATORY REQUIREMENTS

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements, including restrictions on dividends, can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital and certain off-balance sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The capital conservation buffer as of December 31, 2017 is 1.25% (0.625% for 2016). The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes, as of December 31, 2017 and 2016, that the Bank met all capital adequacy requirements to which they are subject.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

As of December 31, 2017 and 2016, the most recent notifications from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are also presented in the following table.

December 31, 2017	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

(Dollars in thousands)

Total Capital to Risk Weighted Assets:									
Tri-County Bank	\$	32,530	16.92%	\$	16,582	9.25%	\$	19,226	10.00%
Tier 1 (Core) Capital to Risk Weighted Assets:									
Tri-County Bank		31,014	16.13%		12,737	7.25%		15,380	8.00%
Common Tier 1 (CET1):									
Tri-County Bank		31,014	16.13%		9,853	5.75%		12,497	6.50%
Tier 1 Capital to Average Assets:									
Tri-County Bank		31,014	10.85%		11,432	4.00%		14,290	5.00%

December 31, 2016	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

(Dollars in thousands)

Total Capital to Risk Weighted Assets:									
Tri-County Bank	\$	29,166	16.89%	\$	14,891	8.625%	\$	17,265	10.00%
Tier 1 (Core) Capital to Risk Weighted Assets:									
Tri-County Bank		27,579	15.97%		11,438	6.625%		13,812	8.00%
Common Tier 1 (CET1):									
Tri-County Bank		27,579	15.97%		8,848	5.125%		11,222	6.50%
Tier 1 Capital to Average Assets:									
Tri-County Bank		25,579	10.22%		10,791	4.000%		13,489	5.00%

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

Restrictions on Cash and Amounts Due from Banks

The Bank is required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. The required reserve balances were \$294,000 and \$292,000 at December 31, 2017 and 2016, respectively.

Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Company by the Bank and dividends that can be paid to the Company by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

14. CONTINGENCIES

Litigation

The Company is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate from foreclosure proceedings, the Company is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2017.

15. EMPLOYEE BENEFIT PLANS

ESOP Plan

The Company has a noncontributory, internally leveraged employee stock ownership plan ("ESOP") covering substantially all of its employees. It is the Company's intent for the ESOP to invest in Tri-County Bancorp, Inc. common stock. The ESOP owned 141,484 shares of Tri-County Bancorp, Inc. common stock at both December 31, 2017 and 2016. Discretionary cash contributions to the Plan are recorded as compensation expense and were approximately \$184,000 and \$575,000, respectively, in 2017 and 2016. Distributions from the Plan may be in the form of whole shares of stock, cash, or a combination of both, based on the estimated fair value of the stock on the date of distribution. The employer contribution is allocated to each participant based on the adjusted compensation of each participant, defined as the total taxable salary or wages plus the amount of any salary reduction contributions to the 401(k) plan and any deferrals made to an Internal Revenue Code Section 125 Cafeteria Plan. The aggregate fair value of the shares allocated to the Plan as of December 31, 2017 and 2016, was approximately \$5,495,000 and \$4,310,000, respectively; such shares were included in the computation of dividends in each of the respective years.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

On September 30, 2016, the Company loaned the ESOP \$859,384 in order for the ESOP to repurchase 24,208 shares. This repurchase was funded with cash from an employer loan made by the Company to the ESOP. Unreleased shares are reported as unearned ESOP compensation in the accompanying consolidated balance sheets. As repayments are made, shares are released and allocated pro-rata to employees based on eligible compensation. As shares are committed to be released, the Company reports compensation expense equal to the average fair value of the shares as determined by an independent valuation.

The ESOP shares are as follows at December 31:

	2017	2016
Allocated shares	122,118	117,276
Unreleased shares	19,366	24,208
Total ESOP shares	141,484	141,484
Fair value of unreleased shares	\$ 871,470	\$ 889,644

401(k) Plan

The Bank sponsors a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees of the Bank are covered under the Plan. The Bank matches the employee contributions equally up to 5% of the participant's compensation. Contributions to the Plan were \$58,591 and \$57,495, respectively in 2017 and 2016.

16. SHARE-BASED COMPENSATION

Share-based compensation expense related to employee stock options is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the employee's requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model.

Under the Company's Employee Stock Option Plan, the Company may grant options to its directors, officers and employees for the purchase of up to a maximum lifetime limit of 10,000 shares of common stock per participant, and up to a maximum of 150,000 shares under this plan. The exercise of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. The options are immediately vested upon grant date.

The expected volatility is based on the historical volatility of American Community Bankers' Association Index. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on historical exercise experience.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

In general, the Company's policy is to issue new shares upon performance of the Bank's return on average assets as defined in the Plan. A summary of the changes in the status of the Company's stock option plan is presented below:

	Common Shares Subject to Option	Weighted Average Exercise Price	Average Remaining Contractual Term (years)
Outstanding at January 1, 2016	10,287	\$ 25.06	7.26
Granted	6,000	29.25	
Exercised	(3,000)	27.00	
Forfeited	(4,000)	-	
Outstanding at December 31, 2016	9,287	26.81	7.47
Exercised	(1,978)	23.44	
Outstanding at December 31, 2017	7,309	27.72	7.51

No options were granted during 2017. The fair value of options granted during 2016 was \$49,314.

As of December 31, 2017, 7,309 options under the plan are outstanding at a weighted average exercise price of \$27.72 (range of \$23.50 - \$29.25), all of which are exercisable.

17. SUPPLEMENTAL CASH FLOWS INFORMATION

Other Cash Flows Information

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2017	2016
Interest	\$ 795,694	\$ 732,538
Income taxes	\$ 1,526,454	\$ 558,000

Non-Cash Investing Activities

Collateral repossessed on loans having carrying values in the amount of \$96,106 and \$193,000 on the date of transfer was transferred to foreclosed assets in 2017 and 2016, respectively.

TRI-COUNTY BANCORP, INC.

Notes to Consolidated Financial Statements

18. OTHER MATTERS

In April 2016, Tri-County Bancorp, Inc. and Tri-County Bank (the Bank) entered into a mutual release of claims and severance agreement with a former officer. The confidential settlement agreement serves as a mutual waiver and release of disputed claims and differences with no admissions by the parties of liability. Certain rights and interests on the part of the former officer were relinquished to the Bank, resulting in a one-time net gain of approximately \$548,000 which is reflected in the 2016 consolidated statement of income under the following line items:

Noninterest income	\$ 189,000
Reduction of expense, net	
Interest expense	338,000
Noninterest expense	<u>303,000</u>
Total reduction of expense, net	641,000
Income tax impact	<u>(282,000)</u>
Net gain	<u>\$ 548,000</u>

In addition to the aforementioned net gain, common stock with a fair value of \$184,185 was relinquished, resulting in a total increase to retain earnings of approximately \$732,000 in 2016.



Years of Service Awards

25 Years

Joanne Wills, AVP Compliance Officer & CRA Officer

20 Years

Peggy Kalbfleisch, AVP BSA/AML/OFAC/CIP Officer
Dayna Martus, Computer Operator
Tammy Martus, Loan Documentation Clerk
Shelley Young, Call Center Operator

15 Years

Maria Fleisher, AVP Assistant Chief Operations Officer
Tina Black, Mortgage Department Clerk

10 Years

Blair Christner, Credit Analyst/Retail Loan Officer/Branch Manager
Annette Sager, Teller

5 Years

Debra Shadley, Customer Service Representative/Teller
Shelly Pracht, Teller
Megan Moberly, Teller
Lori Glinski, Teller
Kimberly Batzloff, Teller



DIRECTORS, MANAGEMENT AND FACILITIES

TRI-COUNTY BANCORP, INC.

BOARD OF DIRECTORS

Laurence C Lang II Chairman	Mary Crake Director	Timothy Clemans Director	Vonda Zuhlke Secretary
Mark E. Wendt Vice Chairman	Francis Glinski Director	Michael A. Ford Director	

CORPORATE OFFICER

Michael A. Ford - President & Chief Executive Officer **Vonda Zuhlke** - Secretary & Treasurer

TRI-COUNTY BANK (A WHOLLY-OWNED SUBSIDIARY)

BOARD OF DIRECTORS

Francis Glinski Chairman	Michael A. Ford Director	Glenn Kreiner Director	Kelly Wood Secretary
Mark E. Wendt Vice Chairman	M. Kelly Martin Director	Jeffrey Liebler Director	Marlene McLeod Director

MANAGEMENT

Michael A. Ford President & Chief Executive Officer	Bradley Bissett Vice President - Chief Credit Officer & ERM Officer	Tara Antonelli Assistant Vice President - Almont Manager	Jolene Zyrowski FHLMC Custodial Accounting
Vonda Zuhlke Executive Vice President - Chief Operations Officer	Paul Burgess Vice President - Sr Agricultural Loan Officer	Sheryl Cribbins Assistant Vice President - Peck Manager	Angela Solon North Branch Manager
Mark Shadley Senior Vice President - Chief Lending Officer	Kendra Jickling Vice President - Coml Loan Officer Marlette Manager	Blair Christner Credit Analyst, Consumer Loan Officer, Brown City Manager	Noelle Mosier Capac Manager
Michael G. Boushelle Senior Vice President - Chief Financial Officer	Kelly Wood Vice President - Controller & Human Resource Manager	Joanne Wills Assistant Vice President - Compliance & CRA Officer	Heather Hart Imlay City Manager
Eric Bucklew Vice President - Information Technology Officer	Fred Manuilow Assistant Vice President - Coml Loan Officer	Peggy Kalbfleisch Assistant Vice President - BSA, AML, OFAC, CIP Officer	Louann Krzak Yale Manager
Emily Losinski Auditor	Jennifer Vanecek Assistant Vice President - Senior Mortgage Lender	Abby Hunter IRA & HSA Administrator	Dove Waltz Kingston Manager
Maria Fleisher Assistant Vice President - Ass't Chief Operations Officer	Chad Stoldt Coml Loan Officer & New Business Development Officer		Louann Krzak Yale Manager

Telephone Banking 877-677-2274 Toll Free
Visit us on the internet www.tri-countybank.com
Download our mobile banking app

FACILITIES

Main Office 4222 Main Street Brown City, Michigan 48416 810.346.2745 – Telephone 810.346.2500 – Fax	Imlay City 6730 Newark Road Imlay City, Michigan 48444 810.724.0090 – Telephone 810.724.7875 – Fax	Peck 2 E Lapeer Street Peck, Michigan 48446 810.378.5505 – Telephone 810.378.0005 – Fax	Kingston 5915 State Street Kingston, Michigan 48741 989.683.2023 – Telephone 989.683.2024 – Fax	Ben's Supermarket Branch Brown City 4436 Main Street Brown City, Michigan 48416 810.346.8100 – Telephone 810.346.8200 – Fax
Operations Center 4244 Main Street Brown City, Michigan 48416 810.346.4760 – Telephone 888.346.0800 – Toll Free 810.346.3342 – Fax	Almont 4511 Van Dyke Almont, Michigan 48003 810.798.3907 – Telephone 810.798.8859 – Fax	North Branch 6681 Bernie Kohler Drive North Branch, Michigan 48461 810.688.4163 – Telephone 810.688.4158 – Fax		Ben's Supermarket Branch Marlette 3418 Main Street Marlette, Michigan 48453 989.635.0639 – Telephone 989.635.0638 – Fax
Brown City Drive Up 4441 Main Street Brown City, Michigan 48416 810.346.2776 – Telephone 810.346.3613 – Fax	Yale 7514 S Brockway Road Yale, Michigan 48097 810.387.3201 – Telephone 810.387.9520 – Fax	Marlette 3482 S Main Street Marlette, Michigan 48453 989.635.3320 – Telephone 989.635.3366 – Fax	Mortgage Center 4511 Van Dyke Almont, Michigan 48003 800.346.9909 – Toll Free 810.798.3872 – Fax	Fronney's Supermarket Branch Capac 3433 Capac Road Capac, Michigan 48014 810-395-8113 – Telephone 810-395-8230 – Fax

