



# STOCKHOLDER QUARTERLY REPORT

## 2Q 2018

*Edgewater Bank opened a loan production office (LPO) in Fremont, MI, specializing in commercial and agricultural lending, during the second quarter of 2018*

## Financial Highlights

Edgewater Bancorp's second quarter year-to-date 2018 net income of \$827,377, or \$1.29 per share, compared to net income of \$141,735, or \$0.21 per share, for the second quarter of 2017, representing a 484% increase in net income. Return on Average Equity (annualized) was 11.61% at June 30, 2018 compared to 3.52% for December 31, 2017 and Return on Average Assets (annualized) was 1.09% compared to 0.32%. Financial results for 2018 continue to outpace both 2017 and budgeted figures because of growth in the organization's loan and investment portfolios, increased market interest rates, reduced non-interest expenses (net of one-time charges), and positive outcomes from strategic decisions.

Several strategic items occurred during the second quarter that are reflected in Edgewater's financial statements. The first was a \$2.0 million term loan, obtained from one of Edgewater's correspondent banks. Loan proceeds were used to downstream \$1.5 million into Edgewater Bank with the remaining \$500,000 retained at the holding company level for liquidity purposes.

The second item was a \$1.37 million reversal of the total \$1.87 million deferred tax asset reserve. The 100% reserve against the deferred tax asset was established in 2009. The reversal is shown on the Consolidated Statement of Income as a contra tax item. Reversal of the remaining \$496,527 reserve is anticipated in the future.

Offsetting the income created through the reserve reversal was a \$1.2 million defined benefit plan expense (included in the "salaries and employee benefits" line item). Edgewater notified Pentegra Financial, its



Bank management's experience and familiarity with the Fremont market, plus the opportunity to hire seasoned commercial banker Don Farmer, led to the decision to open the LPO. It provides an attractive opportunity to grow the bank's loan portfolio while diversifying from both geographic and industry perspectives.

defined benefit plan administrator, of its intention to withdraw from the multi-employer plan, effective June 30, 2018. The withdrawal process is expected to take several months, but will eliminate Edgewater's annual defined benefit expense. The defined benefit expense was \$128,074 during 2017 and has averaged \$142,204 over the past four years.

The last strategic item occurred late in the second quarter. A loan production office (LPO) was opened in Fremont, MI to provide commercial and agricultural lending services. Edgewater anticipates adding residential lending services in the Fremont market during the second half of 2018.

Total interest income increased \$356,586, or 13.5%, to \$3.0 million, compared to \$2.6 million during the first two quarters of 2017. Total interest expense increased only \$30,030 for the first half of 2018, from \$335,890 through the first six months of 2017 to \$365,920 during the same period of 2018. Total provision expense of \$50,000 for the first two quarters of 2018 exceeded provision expense of \$20,000 for the first two quarters of 2017.

Total non-interest expense increased from \$2.6 million to \$3.8 million from the second quarter of 2017 to the second quarter of 2018, with \$1.2 million representing the defined benefit plan contribution. Excluding the contribution, non-interest expenses decreased from second quarter 2017 to second quarter 2018.

Total consolidated assets at June 30 were \$154.4 million, down from \$156.4 million at December 31, 2017. Total net loans, however, increased to \$121.3 million from \$118.9 million and securities increased from \$11.2 million to \$15.9 million. Edgewater's loan growth is expected to continue as several commercial loans were approved during the second quarter but will fund throughout the remainder of 2018 and early 2019.

Total deposits decreased from \$137.6 million to \$128.3 million because of seasonally-low public fund balances. Federal Home Loan Bank advances increased from \$4.0 million to \$7.0 million from December 31, 2017 to June 30, 2018 to offset the decline in deposits.

Total equity increased to \$14.7 million as of June 30, 2018, with Edgewater Bank's Tier 1 capital ratio improving from 9.01% at December 31, 2017 to 9.68% at June 30, 2018.



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Certain statements in this communication are forward-looking and are based on certain assumptions and reflect our current expectations. As a result, these forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ from current expectations.

## Consolidated Balance Sheets

	UNAUDITED	AUDITED
	6/30/2018	12/31/2017
<b>ASSETS</b>		
Cash and Due From Banks	\$ 871,129	\$ 715,152
Federal Funds and Other Deposits	8,901,719	20,159,757
Investment Securities	15,854,304	11,220,499
Loans Held for Sale	536,909	-
Loans (Gross)	122,600,615	120,224,820
Allowance for Loan Loss	(1,305,353)	(1,276,434)
Loans (Net)	121,295,262	118,948,386
Fixed Assets	3,009,578	3,026,108
Deferred Tax Asset	1,371,127	-
Other Assets	2,607,210	2,314,439
<b>TOTAL ASSETS</b>	<b>\$ 154,447,238</b>	<b>\$ 156,384,341</b>
<b>LIABILITIES</b>		
Deposits: Non-Interest-Bearing	\$ 18,930,205	\$ 20,277,320
Deposits: Interest-Bearing	109,320,481	117,352,952
<b>Total Deposits</b>	<b>\$ 128,250,686</b>	<b>\$ 137,630,272</b>
FHLB Advances	7,000,000	4,000,000
Other Borrowings	2,000,000	-
Other Liabilities	2,352,569	680,217
<b>Total Liabilities</b>	<b>\$ 139,603,255</b>	<b>\$ 142,310,489</b>
<b>TEMPORARY EQUITY</b>		
ESOP Shares Subject to Redemption	\$ 118,179	\$ 107,493
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock	\$ 6,982	\$ 6,832
Paid-In-Capital and Surplus	4,889,146	4,734,077
Retained Earnings	9,994,593	9,285,414
Accumulated Other Comprehensive Loss	(164,917)	(59,964)
<b>Total Stockholders' Equity</b>	<b>14,725,804</b>	<b>\$ 13,966,359</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 154,447,238</b>	<b>\$ 156,384,341</b>

## Financial Ratios

	6/30/2018	12/31/2017
Return on Average Equity (Annualized)	11.61%	3.52%
Return on Average Assets (Annualized)	1.09%	0.32%
Tier 1 Capital to Average Assets	9.68%	9.01%
Allowance for Loan Loss / Loans	1.06%	1.06%

## Consolidated Statements of Income

	UNAUDITED	UNAUDITED
6 MONTHS ENDED JUNE 30	2018	2017
Interest and Fees On Loans	\$ 2,713,241	\$ 2,477,615
Interest on Fed Funds and Other Deposits	109,541	60,874
Interest on Investments	166,053	93,760
<b>Total Interest Income</b>	<b>2,988,835</b>	<b>2,632,249</b>
Interest Expense	365,920	335,890
<b>Net Interest Income</b>	<b>2,622,915</b>	<b>2,296,359</b>
Provision for Loan Losses	50,000	20,000
<b>Net Interest Income After Provision</b>	<b>2,572,915</b>	<b>2,276,359</b>
Non-Interest Income	486,841	454,167
Non-Interest Expense	3,751,777	2,588,791
Income Before Income Taxes	(692,021)	141,735
Income Tax Benefit	(1,519,398)	-
<b>NET INCOME</b>	<b>\$ 827,377</b>	<b>\$ 141,735</b>
<b>EARNINGS (PER COMMON SHARE)</b>	<b>\$ 1.29</b>	<b>\$ 0.21</b>

## STOCKHOLDER INFORMATION

Stock symbol:  
EGDW

Number of Shares Outstanding  
June 30, 2018:  
698,168

Book Value  
June 30, 2018:  
\$ 21.33

## INVESTOR RELATIONS CONTACTS

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