



EDGEWATER

BANCORP, INC.

2018

ANNUAL REPORT

FOR STOCKHOLDERS

2018 Annual Report For Stockholders

LETTER FROM THE PRESIDENT

BOARD OF DIRECTORS

Kenneth F. Ankli, III, Board Chairman

Retired
Benton Harbor

Richard E. Dyer

Edgewater Bank
St. Joseph

Norma Tirado-Kellenberger

Spectrum Health Lakeland
St. Joseph

James R. Marohn

Doubleday Office Products, Inc.
Benton Harbor

Stephen Ross

Stephen Ross & Company, P.C.
Stevensville

Thomas L. Starks

Starks Family Funeral Homes
St. Joseph

Lynn C. Todman, Ph.D.

Spectrum Health Lakeland
St. Joseph

On behalf of the directors, officers, and employees of Edgewater Bancorp, Inc., I am pleased to provide you with this 2018 Annual Report for Stockholders.

Net income for the year ended 12/31/18 was much improved over the prior year. Net income of \$1,245,811 for 2018 was 156.7% of the \$485,322 net income reported for 2017. Earnings per share increased to \$1.89 per share for 2018 from \$.77 per share for 2017. The earnings per share increase was achieved even after the number of shares outstanding increased from 683,198 at 12/31/17 to 705,616 at 12/31/18.

Key highlights for 2018 include:

- Total Assets increased 8.7% from \$156.4 million at 12/31/17 to \$170.0 million 12/31/18
- Gross Loans increased 6.8% from \$120.2 million at 12/31/17 to \$128.3 million at 12/31/18
- Total Deposits increased 4.4% from \$137.6 million at 12/31/17 to \$143.8 million at 12/31/18
- Opening a loan production office in Fremont, MI

Net interest income increased 13.0% from \$4.8 million in 2017 to \$5.5 million in 2018. The increase in net interest income is primarily due to growth in the commercial loans and residential mortgage portfolios, along with only modest increases in the rate paid on deposit balances.



Net income for 2018 marks the second consecutive year of double year-to-year net income growth and the fifth straight year of improved net income.

The provision expense for loan losses was \$150,000 for the year ended December 31, 2018, compared to \$60,000 for the year ended 12/31/17. The provision was based upon management's assessment of relevant factors, including types and amounts of non-performing loans, historical and anticipated loss experience on such types of loans, and economic conditions. The increased expense is reflective of the growth in the Bank's loan portfolio.

Noninterest income was \$847,919 in 2018, compared to \$922,401 in 2017. Secondary market mortgage banking activities represent the largest component of noninterest income. Increased secondary market mortgage interest rates and the slowdown of refinance activity during 2018 reduced the amount received in "gain on mortgage sales" and total noninterest income.

Noninterest expense increased to \$6.3 million in 2018 versus \$5.2 million in 2017. The \$1.2 million contribution to the Bank's defined benefit plan during 2018 was the primary reason for the increase in noninterest expense. Without the \$1.2 million pension contribution, total noninterest expense for 2018 would have been \$5.1 million, modestly less than the 2017 total.

Income before income tax for 2018 is impacted by the \$1.2 million defined benefit plan expense. The deferred tax asset valuation reserve reversal, however, created a \$1.4 million income tax benefit, offsetting the defined benefit plan expense.

Edgewater's total stockholders' equity was \$15.3 million at 12/31/18 compared to \$14.0 million at 12/31/17 an increase of \$1.3 million, or 9.2%. Edgewater's Tier 1 capital to average assets ratio improved from 9.01% at 12/31/17 to 9.23% at 12/31/18.

We expect both deposit and loan growth to continue throughout 2019 as we continue to take advantage of the unique role we play as THE REAL LOCAL BANK in all of our markets. Thank you for your support and loyalty, and your business as one of our clients.

Sincerely,



Richard E. Dyer
President and CEO

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	12/31/2018	12/31/2017
Cash and Due From Banks	\$ 1,037,182	\$ 715,152
Federal Funds and Other Deposits	20,254,877	20,159,757
Interest-Bearing Time Deposits	1,964,000	--
Investment Securities	13,433,920	11,220,499
Loans (Gross)	128,343,456	120,224,820
Allowance for Loan Loss	(1,401,935)	(1,276,434)
Loans (Net)	126,941,521	118,948,386
Fixed Assets	2,957,803	3,026,108
Deferred Tax Asset	1,393,337	--
Other Assets	2,012,651	2,314,439
Total Assets	\$ 169,995,291	\$ 156,384,341
LIABILITIES	12/31/2018	12/31/2017
Deposits: Non Interest-Bearing	\$ 22,176,701	\$ 20,277,320
Deposits: Interest-Bearing	121,574,192	117,352,952
Total Deposits	\$ 143,750,893	\$ 137,630,272
FHLB Advances	7,000,000	4,000,000
Other Borrowings	1,967,263	--
Other Liabilities	1,878,487	680,217
Total Liabilities	\$ 154,596,643	\$ 142,310,489
TEMPORARY EQUITY	12/31/2018	12/31/2017
ESOP Shares Subject to Redemption	\$ 142,822	\$ 107,493
STOCKHOLDERS' EQUITY	12/31/2018	12/31/2017
Common Stock	\$ 7,056	\$ 6,832
Paid-In-Capital & Surplus	4,844,037	4,734,077
Retained Earnings	10,531,225	9,285,414
Accumulated Other Comprehensive Loss	(126,492)	(59,964)
Total Stockholders' Equity	\$ 15,255,826	\$ 13,966,359
Total Liabilities and Equity	\$ 169,995,291	\$ 156,384,341

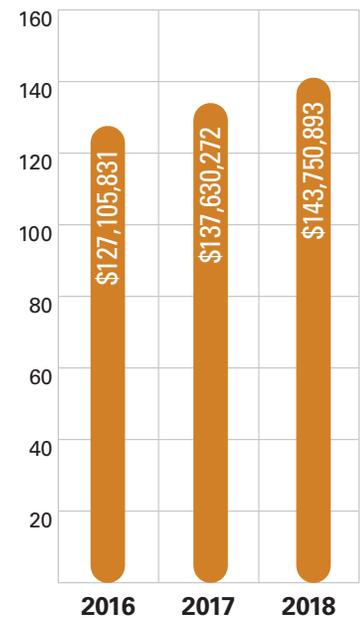
FINANCIAL RATIOS

	12/31/2018	12/31/2017
Return on Average Equity	8.45%	3.52%
Return on Average Assets	0.78%	0.32%
Tier 1 Capital to Average Assets	9.23%	9.01%
Allowance for Loan Loss / Loans	1.09%	1.06%

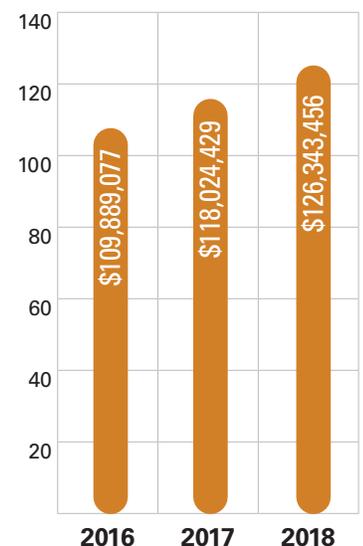
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

INTEREST INCOME	12/31/2018	2017
Interest and Fees On Loans	\$ 5,805,923	\$ 5,190,182
Interest On Federal Funds Sold and Other Deposits	317,960	181,254
Interest On Investment Securities	321,604	155,301
Total Interest Income	\$ 6,445,487	\$ 5,526,737
Interest Expense	973,566	685,020
Net Interest Income	\$ 5,471,921	\$ 4,841,717
Provision for Loan Losses	150,000	60,000
Net Interest Income After Provision	\$ 5,321,921	\$ 4,781,717
Non Interest Income	847,919	922,401
Non Interest Expense	6,336,696	5,218,796
Income Before Income (Loss) Before Taxes	(166,856)	485,322
Income Tax Benefit	(1,412,667)	--
Net Income	\$ 1,245,811	\$ 485,322
Earnings Per Common Share	\$ 1.89	\$ 0.77

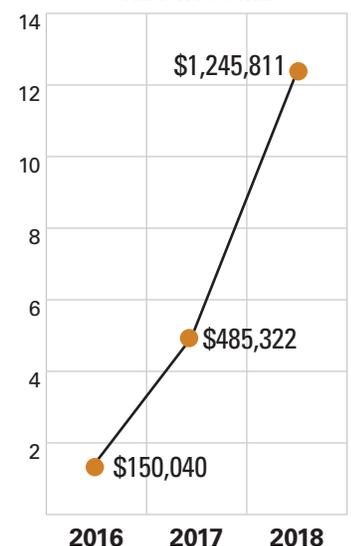
TOTAL DEPOSITS



TOTAL LOANS, NET OF MORTGAGE WAREHOUSE



NET INCOME





A HEALTHY ORGANIZATION

Edgewater Bank is a healthy organization, in many respects. The financial statements and graphs presented within this Annual Report for Stockholders illustrate the positive financial trends and health of the organization, but there is more to the health of Edgewater than the numbers. As it focuses on continued financial enhancements, the bank also focuses on the health of the Edgewater team.

A commitment to healthier lifestyles began over three years ago when Edgewater implemented an “Invest in Your Health” program, with the program expanding each year. It partners with Lakeland Health to educate employees about nutrition, diabetes, hypertension, heart disease, and other health factors. It sponsors seminars such as “You are what you drink” and “Keep Moving.” Most importantly, Edgewater encourages and funds biometric testing for all employees and spouses. The biometric testing allows individuals to “understand their numbers” as they work confidentially with Lakeland

Health professionals to interpret their results and develop plans to improve their results.

Edgewater pays an incentive each year to employees who complete certain health-related goals, such as having an annual physical, going to the dentist, walking/running a 5K, and volunteering their time. Giving back to others through volunteer activities is considered part of a healthy lifestyle by the bank.

The Edgewater employee group and spouses have lost over 400 pounds through the program, have cut out various medications, have changed eating and drinking habits, and have become very active. During 2018, Edgewater fielded two, five-person teams to participate in the Detroit Marathon relay and anticipates having two or three teams participating in the 2019 Grand Rapids Marathon relay.

For its efforts, Edgewater Bank was named by the Michigan Fitness Foundation and Governor’s Council of Physical Fitness as one of three finalists, state-wide, for the Healthy Workplace award in the small/medium sized company category. The winner will be announced during an awards dinner in Detroit on April 25.

COMMUNITY SUPPORT

When the St. Joseph Public School district and the St. Joseph Public School Foundation set out to construct a new robotics facility at the high school, it needed financial support. Through generous donations, funds for the \$1.3 million project were realized, however the pledges were to be paid over a 10-year timeframe, making immediate construction difficult – until Edgewater Bank stepped in and helped to make the Edward J. Todd Innovation Center a reality. Edgewater provided financing to

the Foundation so that the new facility could be built, and the school district’s robotics program could continue to grow.

In the spirit of a true community bank, in addition to providing the financing, Edgewater made a commitment to donate half of the interest earned each year on the loan back to the foundation to support the robotics facility and program.

Edgewater’s involvement with and support for the St. Joseph Public School district and St. Joseph Public School Foundation is just one example of how THE REAL LOCAL BANK supports and is involved with community initiatives, projects, and organizations.

STOCKHOLDER INFORMATION

Stock symbol:
EGDW

Number of Shares Outstanding
December 31, 2018:
705,616

Book Value
December 31, 2018:
\$ 21.80

INVESTOR RELATIONS CONTACTS

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COLOMA, ROYALTON AND ST. JOSEPH

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