



Together, We are First.

Annual Report 2018



Kalamazoo | Portage | Grand Rapids | Holland | Lansing

LETTER TO OUR Shareholders

Executive Officers



Daniel Bitzer
President and
CEO



Jefra Groendyk
Market President,
Grand Rapids
and Senior
Lender



Cindy Kole
Senior Vice
President and Chief
Operating Officer



Matthew Morgan
Senior Vice President
and Chief Financial
Officer, Secretary
and Treasurer



Steve Piper
Senior Vice President
and Chief Credit Officer

Board of Directors

Larry D. Lueth,
Chairman
John M. Schreuder,
Chairman Emeritus
Daniel E. Bitzer
Eric V. Brown, Jr.
Joseph Calvaruso
James DeKruyter
James S. DeMoss
John M. Dunn
James S. Gunderson
David L. Holmes
Ben Ipema
Edward B. Montgomery
Sondra K. Phillips
Virginia M. Seyferth
Joshua T. Weiner
Emeritus: Daniel Smith

First National Bank of Michigan continued to experience expansive growth for the eleventh straight year. During 2017, our Bank's pre-tax income increased 5% to \$7.4 million, pre-tax Earnings Per Share increased 4% to \$3.54, loans increased 9% to \$387 million, deposits increased 11% to \$405 million, and First National Bank of Michigan's total assets reached \$484 million. All of this resulted in a year end stock price increase of 13% to \$39.00 per share. We continue to achieve financial success by utilizing the strengths, capabilities and expertise of our dedicated Employees, Board Members and Bank Shareholders while expanding into new markets.

Signed in December 2017, the Tax Cut and Jobs Act of 2017 (the "ACT") lowered the corporate tax rate. The Act will have a positive impact on future after tax earnings, resulting in lowering our effective tax rate from over 28 percent to approximately 18 percent beginning in 2018. As a result of the Act, our 2017 financial results included a one-time, non-cash income tax expense of \$850,000 as we adjusted our deferred tax assets to the lower rates. This one-time adjustment will be recouped in the next thirteen months through continued tax savings.

In early 2017, we announced our expansion into the Lansing market, led by veteran Lansing banker Patty Barnas, Market President. We've been successful taking our community banking model in Kalamazoo where our bank was founded, to Grand Rapids, Holland and now Lansing. In March of 2018, our loan production office in Holland, led by Greg Accardo, Market President, relocated to the historic downtown business district to become a full service bank. Our mission is to deliver personal attention and exceptional financial solutions through a locally owned-bank dedicated to the growth and prosperity of the communities in which we work and live. Our decisions are local and we understand the needs of our communities and businesses.

The end of 2017 brought the retirements of our founders, John M. Schreuder and Larry D. Lueth. Larry will continue to serve First National Bank of Michigan as Chairman of the Board and John will serve as Chairman Emeritus of the Board. They provided the foundation for the Bank and we look forward to their continued Board governance.

Thank you for continuing to help build your investment in First National Bank of Michigan by banking with us. Please remember, your support, including your referrals, help set us apart and contribute to our growth and overall success! Please think of First National Bank of Michigan for all of your banking needs.

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Daniel E. Bitzer
President and CEO

2006-2017

Financial Review

For the Year	2018	2017	2016
Net interest income	\$16,749,000	\$15,009,000	
Provision for loan losses	327,000	458,000	
Non-interest income	1,211,000	1,195,000	
Non-interest expense	10,239,000	8,687,000	
Income tax expense	2,681,000	1,746,000	
Net income	4,713,000	5,313,000	
Pre-Tax Pre-Provision	7,721,000	7,517,000	
At Year End			
Assets	\$483,564,000	\$456,942,000	
Gross Loans	386,808,000	356,360,000	
Allowances for loan loss (ALLL)	5,578,000	5,241,000	
Other assets	102,334,000	105,823,000	
Deposits	405,375,000	366,219,000	
Other liabilities	29,479,000	46,661,000	
Shareholders' equity	48,710,000	44,062,000	
Ratios			
Return on average assets	1.00	1.22	
Return on average equity	10.28	12.91	
Total risk-based capital ratio	12.64	12.23	
ALLL as percentage of loans	1.44	1.47	

THOUGHTS FROM OUR Business Partners



"Greg Accardo made the loan process for our new construction painless. he understands our day-to-day operations, and because he's a local bank, his reaction time is great.

Kevin Reeves,
President,
GP Reeves

2015	2014	2013	2012	2011	2010	2009	2008	2007
\$ 13,644,000	\$ 12,241,000	\$10,735,000	\$ 8,928,000	\$7,895,000	\$ 6,412,000	\$5,217,000	\$2,933,000	\$2,253,000
154,000	340,000	808,000	515,000	567,000	879,000	975,000	540,000	398,000
1,140,000	1,136,000	1,279,000	1,087,000	870,000	1,145,000	552,000	192,000	128,000
7,613,000	7,275,000	6,627,000	5,938,000	5,022,000	4,388,000	3,617,000	2,764,000	2,371,000
2,214,000	1,729,000	1,340,000	1,132,000	1,018,000	757,000	376,000	(190,000)	(300,000)
4,803,000	4,033,000	3,239,000	2,430,000	2,158,000	1,533,000	801,000	11,000	(88,000)
7,171,000	6,102,000	5,387,000	4,077,000	3,743,000	3,169,000	2,152,000	361,000	10,000
\$416,430,000	\$355,227,000	\$311,672,000	\$250,105,000	\$204,754,000	\$176,846,000	\$161,258,000	\$96,128,000	\$63,251,000
301,999,000	264,901,000	246,658,000	208,446,000	162,465,000	146,649,000	118,941,000	87,512,000	52,823,000
4,871,000	4,717,000	4,534,000	3,709,000	3,268,000	2,797,000	1,927,000	968,000	659,000
119,302,000	95,043,000	69,548,000	45,368,000	45,557,000	32,994,000	42,244,000	9,584,000	11,087,000
360,301,000	310,977,000	273,427,000	216,129,000	173,575,000	146,766,000	137,967,000	73,362,000	42,829,000
18,117,000	11,463,000	10,024,000	8,424,000	8,388,000	10,225,000	5,109,000	5,518,000	3,340,000
38,012,000	32,787,000	28,221,000	25,552,000	22,791,000	19,855,000	18,182,000	17,248,000	17,082,000
1.24	1.21	1.13	1.09	1.11	0.95	0.54	0.02	(0.15)
13.52	13.22	11.78	10.28	10.35	8.04	4.58	0.09	(0.48)
12.24	14.27	13.47	12.84	14.05	14.03	15.66	21.30	32.37
1.61	1.78	1.84	1.78	2.01	1.93	1.62	1.11	1.25



"Chris Mars and I have been friends since childhood. When you're sitting down at the table considering a loan or other big business decisions, having a banker who really knows you makes all the difference."

**Tim Howard, Owner
Extreme Power Equipment**

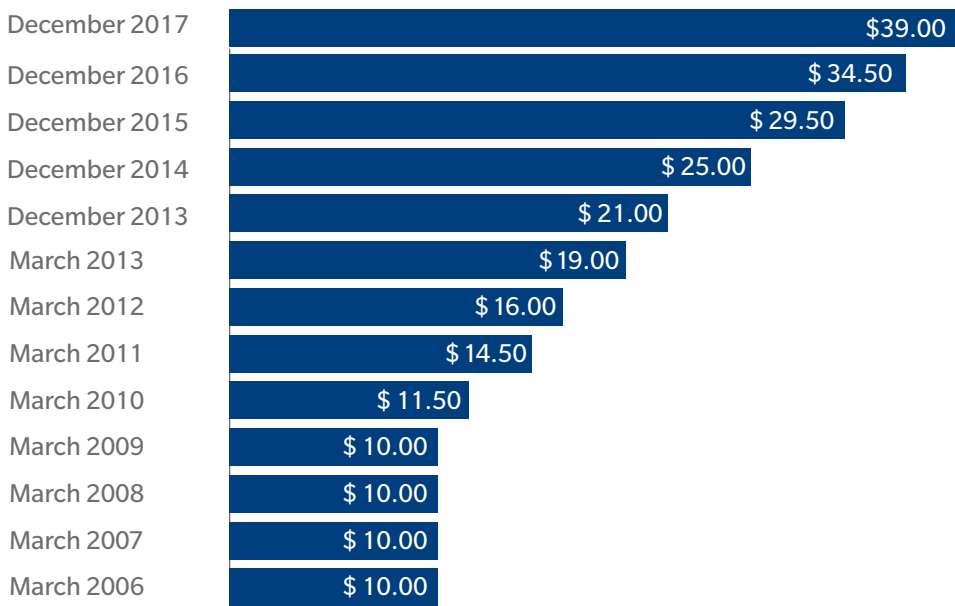


"Greg Accardo is professional, straightforward and responsive, and he actually understands and shows interest in what we do, I don't like paperwork, but Greg made the whole process almost enjoyable."

**Jacob Boot, Owner,
DUCA Stoneworks, Inc.**

Stock Performance

Price Per Share

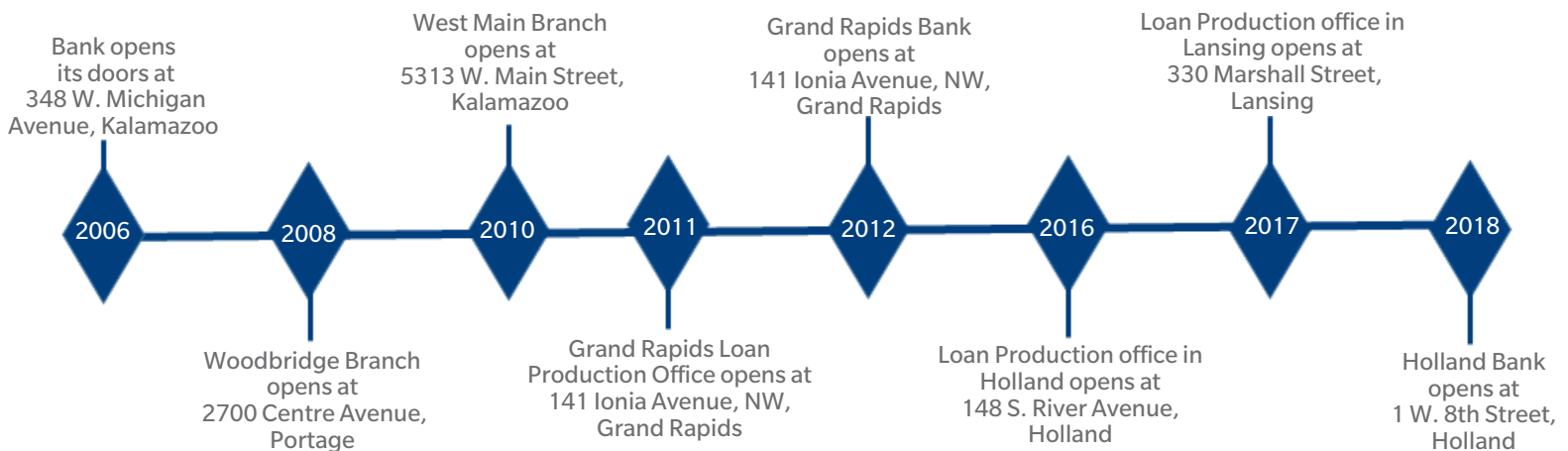


Business Partners



"When looking for a bank to partner with for a new development, we prefer one that is also open-minded and thinks creatively. First National Bank of Michigan dove right into the Outfield Loft project to help make it a reality. We have a lengthy history with their bankers because they maintain connections and care about their partners - we are more than just a name on a spreadsheet. First National Bank of Michigan is a true business partner."

Patrick Gillespie, President,
Gillespie Group



Together, We are First.

FNBMichigan.com

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Kalamazoo, MI 49007

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Portage
2700 W. Centre Ave.
Portage, MI 49024

269.488.0290

West Kalamazoo
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Kalamazoo, MI 49009

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Grand Rapids
141 Ionia Ave. NW, Suite 1
Grand Rapids, MI 49503

616.242.6500

Holland
1 West 8th Street
Holland, MI 49423

616.251.1200

Lansing - Loan Production Office
330 Marshall Street
Lansing, MI 48912

517.319.8000