

CHOICEONE FINANCIAL SERVICES INC

Form 10-K

March 29, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-19202

ChoiceOne Financial Services, Inc.

(Exact Name of Registrant as Specified in its Charter)

Michigan

(State or Other Jurisdiction of
Incorporation or Organization)

38-2659066

(I.R.S. Employer Identification No.)

109 East Division Street, Sparta, Michigan 49345

(Address of Principal Executive Offices) (Zip Code)

(616) 887-7366

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Common Stock

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this form, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2017, the aggregate market value of common stock held by non-affiliates of the Registrant was \$73.5 million. This amount is based on an average bid price of \$23.44 per share for the Registrant's stock as of such date.

As of February 28, 2018, the Registrant had 3,374,279 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of ChoiceOne Financial Services, Inc. for the Annual Meeting of Shareholders to be held on May 23, 2018 are incorporated by reference into Part III of this Form 10-K.

ChoiceOne Financial Services, Inc.

Form 10-K ANNUAL REPORT

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FORWARD-LOOKING STATEMENTS

This report and the documents incorporated into this report contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and ChoiceOne Financial Services, Inc. Words such as "anticipates," "believes," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "may," "could," "estimates," and variations of such words and similar expressions are intended to identify such forward-looking statements. Management's determination of the provision and allowance for loan losses, the carrying value of goodwill, loan servicing rights and other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other than temporary and the amount of any impairment) and management's assumptions concerning pension and other postretirement benefit plans involve judgments that are inherently forward-looking. All of the information concerning interest rate sensitivity is forward-looking. All statements with references to future time periods are forward-looking. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements. Furthermore, ChoiceOne Financial Services, Inc. undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Risk factors include, but are not limited to, the risk factors disclosed in Item 1A of this report. These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

PART I

Item 1. Business

General

ChoiceOne Financial Services, Inc. ("ChoiceOne" or the "Company") is a financial holding company registered under the Bank Holding Company Act of 1956, as amended ("BHC Act"). The Company was incorporated on February 24, 1986, as a Michigan corporation. The Company was formed to create a bank holding company for the purpose of acquiring all of the capital stock of ChoiceOne Bank (formerly Sparta State Bank), which became a wholly owned subsidiary of the Company on April 6, 1987. The Company's only subsidiary and significant asset as of December 31, 2017, was ChoiceOne Bank (the "Bank"). Effective November 1, 2006, the Company merged with Valley Ridge Financial Corp. ("VRFC"), a one-bank holding company for Valley Ridge Bank ("VRB"). In the merger, the Company issued shares of its common stock in exchange for all outstanding shares of VRFC. In December 2006, VRB was consolidated into the Bank. The Bank owns all of the outstanding common stock of ChoiceOne Insurance Agencies, Inc., an independent insurance agency headquartered in Sparta, Michigan (the "Insurance Agency").

The Company's business is primarily concentrated in a single industry segment - banking. The Bank is a full-service banking institution that offers a variety of deposit, payment, credit and other financial services to all types of customers. These services include time, savings, and demand deposits, safe deposit services, and automated transaction machine services. Loans, both commercial and consumer, are extended primarily on a secured basis to corporations, partnerships and individuals. Commercial lending covers such categories as business, industry, agricultural, construction, inventory and real estate. The Bank's consumer loan department makes direct and indirect loans to consumers and purchasers of residential and real property. No material part of the business of the Company or the Bank is dependent upon a single customer or very few customers, the loss of which would have a materially adverse effect on the Company.

The Bank's primary market area lies within Kent, Muskegon, Newaygo, and Ottawa counties in Michigan in the communities where the Bank's offices are located. Currently the Bank serves these markets through twelve full-service offices and one loan production office. The Bank is in the process of establishing two additional full-service offices which are scheduled to open in 2018. The Company and the Bank have no foreign assets or income except for foreign debt securities.

At December 31, 2017, the Company had consolidated total assets of \$646.5 million, net loans of \$394.2 million, total deposits of \$539.9 million and total shareholders' equity of \$76.6 million. For the year ended December 31, 2017, the Company recognized consolidated net income of \$6.2 million. The principal source of revenue for the Company and the Bank is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 60%, 59%, and 59% of total revenues in 2017, 2016, and 2015, respectively. Interest on securities accounted for 13%, 13%, and 12% of total revenues in 2017, 2016, and 2015, respectively. For more information about the Company's financial condition and results of operations, see the consolidated financial statements and related notes included in Part II, Item 8 of this report.

Competition

The Bank's competition primarily comes from other financial institutions located within Kent, Muskegon, Newaygo, and Ottawa counties in western Michigan. There are a number of larger commercial banks within the Bank's primary market area. The Bank also competes with a large number of other financial institutions, such as savings and loan associations, insurance companies, consumer finance companies, credit unions and commercial finance and leasing companies for deposits, loans and service business. Money market mutual funds, brokerage houses and nonfinancial institutions provide many of the financial services offered by the Bank. Many of these competitors have substantially greater resources than the Bank. The principal methods of competition for financial services are price (the rates of interest charged for loans, the rates of interest paid for deposits and the fees charged for services) and the convenience and quality of services rendered to customers.

Supervision and Regulation

Banks and bank holding companies are extensively regulated. The Company is subject to supervision and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Company's activities are generally limited to owning or controlling banks and engaging in such other activities as the Federal Reserve Board may determine to be closely related to banking. Prior approval of the Federal Reserve Board, and in some cases various other government agencies, is required for the Company to acquire control of any additional bank holding companies, banks or other operating subsidiaries. Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support it.

The Bank is chartered under state law and is subject to regulation by the Michigan Department of Insurance and Financial Services ("DIFS"). State banking laws place restrictions on various aspects of banking, including permitted activities, loan interest rates, branching, payment of dividends and capital and surplus requirements. The Bank is a member of the Federal Reserve System and is also subject to regulation by the Federal Reserve Board. The Bank's deposits are insured by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum extent provided by law. The Bank is a member of the Federal Home Loan Bank system, which provides certain advantages to the Bank, including favorable borrowing rates for certain funds.

The Company is a legal entity separate and distinct from the Bank. The Company's primary source of funds available to pay dividends to shareholders is dividends paid to it by the Bank. There are legal limitations on the extent to which the Bank can lend or otherwise supply funds to the Company. In addition, payment of dividends to the Company by the Bank is subject to various state and federal regulatory limitations.

The FDIC formed the Deposit Insurance Fund ("DIF") in accordance with the Federal Deposit Insurance Reform Act of 2005 ("Reform Act") to create a stronger and more stable insurance system. The FDIC maintains the insurance reserves of the DIF by assessing depository institutions an insurance premium. The DIF insures deposit accounts of the Bank up to a maximum amount of \$250,000 per separately insured depositor. FDIC insured depository institutions are

required to pay deposit insurance premiums based on the risk an institution poses to the DIF. In February 2011, the FDIC finalized rules, effective for assessments occurring after April 1, 2011, which redefined an institution's assessment base as average consolidated total assets minus average Tier 1 capital. The new rules also established the initial base assessment rate for Risk Category 1 institutions, such as the Bank, at 5 to 9 basis points (annualized). Effective July 1, 2016, the FDIC amended its rules to eliminate Risk Categories for small banks, replacing them with a method based on a bank's CAMELS composite rating and several financial ratios. On that date, the Bank's initial base assessment rate was reduced to 3 basis points, since the Federal Deposit Insurance Reserve Ratio reached 1.15% as of June 30, 2016.

The Deposit Insurance Funds Act of 1996 authorized the Financing Corporation ("FICO") to impose periodic assessments on all depository institutions. The purpose of these periodic assessments is to spread the cost of the interest payments on the outstanding FICO bonds issued to recapitalize the Savings Association Insurance Fund ("SAIF") over a larger number of institutions.

The federal banking agencies have adopted guidelines to promote the safety and soundness of federally-insured depository institutions. These guidelines establish standards for, among other things, internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

The Company and the Bank are subject to regulatory “risk-based” capital guidelines. Failure to meet these capital guidelines could subject the Company or the Bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. In addition, the Bank would generally not receive regulatory approval of any application that requires the consideration of capital adequacy, such as a branch or merger application, unless it could demonstrate a reasonable plan to meet the capital requirement within a reasonable period of time.

Under Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. In addition, if DIFS deems the Bank’s capital to be impaired, DIFS may require the Bank to restore its capital by a special assessment on the Company as the Bank’s sole shareholder. If the Company fails to pay any assessment, the Company’s directors will be required, under Michigan law, to sell the shares of the Bank’s stock owned by the Company to the highest bidder at either a public or private auction and use the proceeds of the sale to restore the Bank’s capital.

The Federal Deposit Insurance Corporation Improvement Act (“FDICIA”) requires, among other things, federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. FDICIA sets forth the following five capital categories: “well-capitalized,” “adequately-capitalized,” “undercapitalized,” “significantly-undercapitalized” and “critically-undercapitalized.” A depository institution’s capital category will depend upon how its capital levels compare with various relevant capital measures as established by regulation, which include Tier 1 and total risk-based capital ratio measures and a leverage capital ratio measure. Under certain circumstances, the appropriate banking agency may treat a well-capitalized, adequately-capitalized, or undercapitalized institution as if the institution were in the next lower capital category.

Federal banking regulators are required to take specified mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Subject to a narrow exception, the banking regulator must generally appoint a receiver or conservator for an institution that is critically undercapitalized. An institution in any of the undercapitalized categories is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. An undercapitalized institution is also generally prohibited from paying any dividends, increasing its average total assets, making acquisitions, establishing any branches, accepting or renewing any brokered deposits or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval.

On July 3, 2013, the FDIC Board of Directors approved the Regulatory Capital Interim Final Rule, implementing Basel III. This rule redefines Tier 1 capital as two components (Common Equity Tier 1 and Additional Tier 1), creates a new capital ratio (Common Equity Tier 1 Risk-based Capital Ratio) and implements a capital conservation buffer. It also revises the prompt corrective action thresholds and makes changes to risk weights for certain assets and off-balance-sheet exposures. The Bank was required to transition into the new rule beginning on January 1, 2015.

Banks are subject to a number of federal and state laws and regulations, which have a material impact on their business. These include, among others, minimum capital requirements, state usury laws, state laws relating to fiduciaries, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, the Real Estate Settlement Procedures Act, the Service Members Civil Relief Act, the USA PATRIOT Act, the Bank Secrecy Act, regulations of the Office of Foreign Assets Controls, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, electronic funds transfer laws, redlining laws, predatory lending laws, antitrust laws, environmental laws, money laundering laws and privacy laws. The monetary policy of the Federal Reserve Board may influence the growth and distribution of bank loans, investments and deposits, and may also affect interest rates on loans and deposits. These policies may have a significant effect on the operating results of banks.

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be closely related to the business of banking. In addition, bank holding companies that qualify and elect to be financial holding companies may engage in any activities that are financial in nature or complementary to a financial activity and do not pose a substantial risk to the safety and soundness of depository institutions or the financial system without prior approval of the Federal Reserve Board. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

In order for the Company to maintain financial holding company status, both the Company and the Bank must be categorized as “well-capitalized” and “well-managed” under applicable regulatory guidelines. If the Company or the Bank ceases to meet these requirements, the Federal Reserve Board may impose corrective capital and/or managerial requirements and place limitations on the Company’s ability to conduct the broader financial activities permissible for financial holding companies. In addition, if the deficiencies persist, the Federal Reserve Board may require the Company to divest of the Bank. The Company and the Bank were both categorized as “well-capitalized” and “well-managed” as of December 31, 2017.

Bank holding companies may acquire banks and other bank holding companies located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state banking law. Banks may also establish interstate branch networks through acquisitions of and mergers with other banks. The establishment of *de novo* interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is allowed only if specifically authorized by state law.

Michigan banking laws do not significantly restrict interstate banking. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the Department of Insurance and Financial Services, (1) acquisition of Michigan banks by FDIC-insured banks, savings banks or savings and loan associations located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank, savings bank or savings and loan association located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

Banks are subject to the provisions of the Community Reinvestment Act (“CRA”). Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess the bank’s record in meeting the credit needs of the community served by that bank, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Under the CRA, institutions are assigned a rating of “outstanding,” “satisfactory,” “needs to improve,” or “substantial non-compliance.” The regulatory agency’s assessment of the bank’s record is made available to the public. Further, a bank’s federal regulatory agency is required to assess the CRA compliance record of any bank that has applied to establish a new branch office that will accept deposits, relocate an office, or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution. In the case of a bank holding company applying for approval to acquire a bank or another bank holding company, the Federal Reserve Board will assess the CRA compliance record of each subsidiary bank of the applicant bank holding company, and such compliance records may be the basis for denying the application. Upon receiving notice that a subsidiary bank is rated less than “satisfactory,” a financial holding company will be prohibited from additional activities that are permitted to be conducted by a financial holding company and from acquiring any company engaged in such activities. The Bank’s CRA rating was “Satisfactory” as of its more recent examination.

Effects of Compliance With Environmental Regulations

The nature of the business of the Bank is such that it holds title, on a temporary or permanent basis, to a number of parcels of real property. These include properties owned for branch offices and other business purposes as well as properties taken in or in lieu of foreclosure to satisfy loans in default. Under current state and federal laws, present and past owners of real property may be exposed to liability for the cost of cleanup of environmental contamination on or originating from those properties, even if they are wholly innocent of the actions that caused the contamination. These liabilities can be material and can exceed the value of the contaminated property. Management is not presently aware of any instances where compliance with these provisions will have a material effect on the capital expenditures, earnings or competitive position of the Company or the Bank, or where compliance with these provisions will adversely affect a borrower's ability to comply with the terms of loan contracts.

Employees

As of February 28, 2018, the Company, the Bank and the Insurance Agency employed 173 employees, of which 135 were full-time employees. The Company, the Bank, and the Insurance Agency believe their overall relations with their employees are good.

Statistical Information

Additional statistical information describing the business of the Company appears on the following pages and in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Item 7 of this report and in the Consolidated Financial Statements and the notes thereto in Item 8 of this report. The following statistical information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes in this report.

Securities Portfolio

The carrying value of securities categorized by type at December 31 was as follows:

(Dollars in thousands)	2017	2016	2015
U.S. Government and federal agency	\$35,126	\$59,052	\$57,207
U.S. Treasury notes and bonds	1,960	4,072	6,100
State and municipal	100,048	88,973	77,754
Mortgage-backed securities	9,820	7,789	6,970
Corporate	5,151	7,041	8,387
Foreign debt securities	—	4,400	995
Equity securities	3,392	2,883	2,453
Asset-backed securities	94	178	270
Total	\$155,591	\$174,388	\$160,136

The Company did not hold investment securities from any one issuer at December 31, 2017, that were greater than 10% of the Company's shareholders' equity, exclusive of U.S. Government and U.S. Government agency securities.

Presented below is the fair value of securities as of December 31, 2017 and 2016, a schedule of maturities of securities as of December 31, 2017, and the weighted average yields of securities as of December 31, 2017:

(Dollars in thousands)	Securities maturing within:				Fair Value at Dec. 31, 2017	Fair Value at Dec. 31, 2016
	Less than 1 Year	1 Year - 5 Years	5 Years - 10 Years	More than 10 Years		
U.S. Government and federal agency	\$19,175	\$10,019	\$5,932	\$—	\$35,126	\$59,052
U.S. Treasury notes and bonds	—	1,960	—	—	1,960	4,072
State and municipal	8,221	51,656	37,722	2,449	100,048	88,973
Corporate	—	5,151	—	—	5,151	7,041
Foreign debt securities	—	—	—	—	—	4,400
Asset-backed securities	94	—	—	—	94	178
Total debt securities	27,490	68,786	43,654	2,449	142,379	163,716
Mortgage-backed securities	—	9,732	88	—	9,820	7,789
Equity securities (2)	—	—	1,000	2,392	3,392	2,883
Total	\$27,490	\$78,518	\$44,742	\$4,841	\$155,591	\$174,388

	Weighted average yields:					Total
	Less than 1 Year	1 Year - 5 Years	5 Years - 10 Years	More than 10 Years		
U.S. Government and federal agency	2.08 %	1.78 %	2.59 %	— %		2.08 %
U.S. Treasury notes and bonds	—	1.85	—	—		1.85
State and municipal (1)	3.73	3.06	3.44	4.46		3.29
Corporate	—	2.25	—	—		2.25
Foreign debt securities	—	—	—	—		—
Asset-backed securities	1.92	—	—	—		1.92
Mortgage-backed securities	5.50	2.60	3.06	—		2.60
Equity securities (2)	—	—	4.62	0.99		2.01

(1) The yield is computed for tax-exempt securities on a fully tax-equivalent basis at an incremental tax rate of 34%.

(2) Equity securities are preferred and common stock that may or may not have a stated maturity.

Loan Portfolio

The Bank's loan portfolio categorized by loan type (excluding loans held for sale) as of December 31, 2017 is presented below:

(Dollars in thousands)

	2017	2016	2015	2014	2013
Agricultural	\$48,464	\$44,614	\$40,232	\$41,098	\$37,048
Commercial and industrial	104,386	96,088	94,347	88,062	68,530
Consumer	24,513	21,596	20,090	20,752	19,931
Real estate - commercial	123,487	110,762	97,736	99,807	96,987
Real estate - construction	6,613	6,153	5,390	2,691	890
Real estate - residential	91,322	89,787	91,509	93,703	92,580
Total loans, gross	\$398,785	\$369,000	\$349,304	\$346,113	\$315,966

Maturities and Sensitivities of Loans to Changes in Interest Rates

The following schedule presents the maturities of loans (excluding residential real estate and consumer loans) as of December 31, 2017. All loans over one year in maturity (excluding residential real estate and consumer loans) are also presented classified according to the sensitivity to changes in interest rates as of December 31, 2017.

(Dollars in thousands)	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
<u>Loan Type</u>				
Agricultural	\$11,729	\$16,594	\$20,141	\$48,464
Commercial and industrial	31,676	61,042	11,668	104,386
Real estate - commercial	13,803	56,355	53,329	123,487
Real estate - construction	6,408	205	—	6,613
Totals	\$63,616	\$134,196	\$85,138	\$282,950

(Dollars in thousands)

	Less than 1 Year	1 Year - 5 Years	More than 5 Years	Total
<u>Loan Sensitivity to Changes in Interest Rates</u>				
Loans with fixed interest rates	\$19,170	\$116,042	\$73,332	\$208,544
Loans with floating or adjustable interest rates	44,446	18,154	11,806	74,406
Totals	\$63,616	\$134,196	\$85,138	\$282,950

Loan maturities are classified according to the contractual maturity date or the anticipated amortization period, whichever is appropriate. The anticipated amortization period is used in the case of loans where a balloon payment is due before the end of the loan's normal amortization period. At the time the balloon payment is due, the loan can either be rewritten or payment in full can be requested. The decision regarding whether the loan will be rewritten or a payment in full will be requested will be based upon the loan's payment history, the borrower's current financial condition, and other relevant factors.

Risk Elements

The following loans were classified as nonperforming as of December 31:

(Dollars in thousands)

	2017	2016	2015	2014	2013
Loans accounted for on a nonaccrual basis	\$1,096	\$1,983	\$2,198	\$3,361	\$3,123
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	258	229	29	58	11
Loans defined as "troubled debt restructurings"	2,896	2,853	3,271	3,175	4,523
Totals	\$4,250	\$5,065	\$5,498	\$6,594	\$7,657

A loan is placed on nonaccrual status at the point in time at which the collectability of principal or interest is considered doubtful.

The table below illustrates interest forgone and interest recorded on nonperforming loans for the years presented:

(Dollars in thousands)

	2017	2016	2015	2014	2013
Interest on non-performing loans that would have been earned had the loans been in an accrual or performing status	\$ 73	\$ 107	\$ 150	\$ 204	\$ 251
Interest on non-performing loans that was actually recorded when received	\$ —	\$ —	\$ —	\$ —	\$ —

Potential Problem Loans

At December 31, 2017, there were \$3.6 million of loans not disclosed above where some concern existed as to the borrowers' abilities to comply with original loan terms. Specific loss allocations totaling \$302,000 from the allowance for loan losses had been allocated for all nonperforming and potential problem loans as of December 31, 2017. However, the entire allowance for loan losses is also available for these potential problem loans.

Loan Concentrations

As of December 31, 2017, there was no concentration of loans exceeding 10% of total loans that is not otherwise disclosed as a category of loans pursuant to Item III.A. of Industry Guide 3.

Other Interest-Bearing Assets

As of December 31, 2017, there were no other interest-bearing assets requiring disclosure under Item III.C.1. or 2. of Industry Guide 3 if such assets were loans.

Summary of Loan Loss Experience

The following schedule presents a summary of activity in the allowance for loan losses for the periods shown and the percentage of net charge-offs during each period to average gross loans outstanding during the period:

(Dollars in thousands)	2017	2016	2015	2014	2013
Allowance for loan losses at beginning of year	\$4,277	\$4,194	\$4,173	\$4,735	\$5,852
Charge-offs:					
Agricultural	—	—	—	—	88
Commercial and industrial	439	37	30	1	122
Consumer	253	218	291	273	351
Real estate - commercial	—	—	—	665	858
Real estate - construction	—	—	—	—	—
Real estate - residential	43	102	140	133	732
Total charge-offs	735	357	461	1,072	2,151
Recoveries:					
Agricultural	—	—	1	20	6
Commercial and industrial	21	31	64	119	337
Consumer	169	149	121	179	175
Real estate - commercial	258	89	47	48	84
Real estate - construction	40	—	—	—	—
Real estate - residential	62	171	149	44	132
Total recoveries	550	440	382	410	734
Net charge-offs (recoveries)	185	(83)	79	662	1,417
Provision for loan losses (1)	485	—	100	100	300
Allowance for loan losses at end of year	\$4,577	\$4,277	\$4,194	\$4,173	\$4,735
Allowance for loan losses as a percentage of:					
Total loans as of year end	1.15 %	1.16 %	1.20 %	1.21 %	1.50 %
Nonaccrual loans, accrual loans past due 90 days or more and troubled debt restructurings	108 %	84 %	76 %	63 %	62 %
	0.05 %	(0.02)%	0.02 %	0.20 %	0.45 %

Ratio of net charge-offs during the period to average loans
outstanding during the period

Loan recoveries as a percentage of prior year's charge-offs 154 % 95 % 36 % 19 % 29 %

Additions to the allowance for loan losses charged to operations during the periods shown were based on management's judgment after considering factors such as loan loss experience, evaluation of the loan portfolio, and (1) prevailing and anticipated economic conditions. The evaluation of the loan portfolio is based upon various risk factors such as the financial condition of the borrower, the value of collateral and other considerations, which, in the opinion of management, deserve current recognition in estimating loan losses.

The following schedule presents an allocation of the allowance for loan losses to the various loan categories as of the years ended December 31:

(Dollars in thousands)	2017	2016	2015	2014	2013
Agricultural	\$506	\$433	\$420	\$186	\$178
Commercial and industrial	1,001	688	586	527	562
Consumer	262	305	297	184	192
Real estate - commercial	1,761	1,438	1,030	1,641	1,842
Real estate - construction	35	62	46	9	12
Real estate - residential	726	1,013	1,388	1,193	1,626
Unallocated	286	338	427	433	323
Total allowance	\$4,577	\$4,277	\$4,194	\$4,173	\$4,735

The increase in the allowance allocation to commercial and industrial loans and commercial real estate loans was due to growth in these categories and an increase in the inherent risk. The decline in the allocation to residential real estate loans was caused by lower historical charge-off levels. Changes in historical charge-off levels and environmental factors affected all loan categories.

Management periodically reviews the assumptions, loss ratios and delinquency trends in estimating the appropriate level of its allowance for loan losses and believes the unallocated portion of the total allowance was sufficient at December 31, 2017.

The following schedule presents the stratification of the loan portfolio by category, based on the amount of loans outstanding as a percentage of total loans for the respective years ended December 31:

	2017	2016	2015	2014	2013
Agricultural	12 %	12 %	12 %	12 %	12 %
Commercial and industrial	26	26	26	25	22
Consumer	6	6	6	6	6
Real estate - commercial	31	30	28	29	31
Real estate - construction	2	2	2	1	—
Real estate - residential	23	24	26	27	29
Total allowance	100 %	100 %	100 %	100 %	100 %

Deposits

The following schedule presents the average deposit balances by category and the average rates paid thereon for the respective years:

(Dollars in thousands)

	2017		2016		2015	
Noninterest-bearing demand	\$136,353	— %	\$123,848	— %	\$115,488	— %
Interest-bearing demand and money market deposits	208,049	0.18	196,662	0.13	165,767	0.14
Savings	76,107	0.02	73,118	0.03	67,826	0.04
Certificates of deposit	104,936	0.75	86,042	0.60	94,891	0.66
Total	\$525,445	0.23 %	\$479,670	0.16 %	\$443,972	0.20 %

The following table illustrates the maturities of certificates of deposits issued in denominations of \$100,000 or more as of December 31, 2017:

(Dollars in thousands)

Maturing in less than 3 months	\$22,918
Maturing in 3 to 6 months	14,309
Maturing in 6 to 12 months	13,066
Maturing in more than 12 months	9,313
Total	\$59,606

At December 31, 2017, the Bank had no material foreign deposits.

Short-Term Borrowings

Federal funds purchased by the Company are unsecured overnight borrowings from correspondent banks. Federal funds purchased are due the next business day. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2017		2016		2015	
Outstanding balance at December 31	\$—		\$—		\$—	
Average interest rate at December 31	—	%	—	%	—	%
Average balance during the year	\$703		\$610		\$—	
Average interest rate during the year	1.47	%	0.70	%	—	%
Maximum month end balance during the year	\$5,470		\$4,100		\$1,857	

Repurchase agreements include advances by Bank customers that are not covered by federal deposit insurance. These agreements are direct obligations of the Company and are secured by securities held in safekeeping at a correspondent bank. The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2017	2016	2015
Outstanding balance at December 31	\$7,148	\$7,913	\$9,460
Average interest rate at December 31	0.05 %	0.05 %	0.04 %
Average balance during the year	\$4,958	\$7,762	\$17,825
Average interest rate during the year	0.05 %	0.05 %	0.17 %
Maximum month end balance during the year	\$8,440	\$10,539	\$26,743

Advances from the Federal Home Loan Bank (“FHLB”) with original repayment terms less than one year are considered short-term borrowings for the Company. These advances are secured by residential real estate mortgage loans and U.S. government agency securities. The advances have maturities ranging from 1 month to 12 months from the date of issue.

The table below provides additional information regarding these short-term borrowings:

(Dollars in thousands)

	2017		2016		2015	
Outstanding balance at December 31	\$20,268		\$12,000		\$—	
Average interest rate at December 31	1.36	%	0.86	%	0.57	%

Average balance during the year	\$22,830	\$25,732	\$11,332
Average interest rate during the year	1.21 %	0.61 %	0.73 %
Maximum month end balance during the year	\$40,273	\$45,000	\$31,873

There were no other categories of short-term borrowings whose average balance outstanding exceeded 30% of shareholders' equity in 2017, 2016 or 2015.

Return on Equity and Assets

The following schedule presents certain financial ratios of the Company for the years ended December 31:

	2017	2016	2015
Return on assets (net income divided by average total assets)	0.98 %	1.04 %	1.04 %
Return on equity (net income dividend by average equity)	8.22 %	8.44 %	8.39 %
Dividend payout ratio (dividends declared per share divided by net income per share)	37.57%	36.63%	37.79%
Equity to assets ratio (average equity divided by average total assets)	11.91 %	12.30%	12.40 %

Item 1A. Risk Factors

The Company is subject to many risks and uncertainties. Although the Company seeks ways to manage these risks and develop programs to control risks to the extent that management can control them, the Company cannot predict the future. Actual results may differ materially from management's expectations. Some of these significant risks and uncertainties are discussed below. The risks and uncertainties described below are not the only ones that the Company faces. Additional risks and uncertainties of which the Company is unaware, or that it currently does not consider to be material, also may become important factors that affect the Company and its business. If any of these risks were to occur, the Company's business, financial condition or results of operations could be materially and adversely affected.

Investments in the Company's common stock involve risk.

The market price of the Company's common stock may fluctuate significantly in response to a number of factors, including:

- Variations in quarterly or annual operating results
- Changes in dividends per share
- Changes in interest rates
- New developments, laws or regulations in the banking industry
- Acquisitions or business combinations involving the Company or its competition
- Regulatory actions, including changes to regulatory capital levels, the components of regulatory capital and how regulatory capital is calculated
- Volatility of stock market prices and volumes
- Changes in market valuations of similar companies
- New litigation or contingencies or changes in existing litigation or contingencies
- Changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies
- Rumors or erroneous information
- Credit and capital availability
- Issuance of additional shares of common stock or other debt or equity securities of the Company

Asset quality could be less favorable than expected.

A significant source of risk for the Company arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most loans originated by the Company are secured, but some loans are unsecured depending on the nature of the loan.

With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans. Collateral values may be adversely affected by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, terrorist activity, environmental contamination and other external events.

The Company's allowance for loan losses may not be adequate to cover actual loan losses.

The risk of nonpayment of loans is inherent in all lending activities and nonpayment of loans may have a material adverse effect on the Company's earnings and overall financial condition, and the value of its common stock. The Company makes various assumptions and judgments about the collectability of its loan portfolio and provides an allowance for potential losses based on a number of factors. If its assumptions are wrong, the allowance for loan losses may not be sufficient to cover losses, which could have an adverse effect on the Company's operating results, and may cause it to increase the allowance in the future. The actual amount of future provisions for loan losses cannot now be determined and may exceed the amounts of past provisions for loan losses. Federal and state banking regulators, as an integral part of their supervisory function, periodically review the allowance for loan losses. These regulatory agencies may require the Company to increase its provision for loan losses or to recognize further loan charge-offs based upon their judgments, which may be different from the Company's judgments. Any increase in the allowance for loan losses could have a negative effect on the Company's regulatory capital ratios, net income, financial condition and results of operations.

General economic conditions in the state of Michigan could be less favorable than expected.

The Company is affected by general economic conditions in the United States, although most directly within Michigan. An economic downturn within Michigan could negatively impact household and corporate incomes. This impact may lead to decreased demand for both loan and deposit products and increase the number of customers who fail to pay interest or principal on their loans.

The Company could be adversely affected by the soundness of other financial institutions, including defaults by larger financial institutions.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of credit, trading, clearing, counterparty or other relationships between financial institutions. The Company has exposure to multiple counterparties, and it routinely executes transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by the Company or by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which the Company interacts on a daily basis, and therefore could adversely affect the Company.

If the Company does not adjust to changes in the financial services industry, its financial performance may suffer.

The Company's ability to maintain its financial performance and return on investment to shareholders will depend in part on its ability to maintain and grow its core deposit customer base and expand its financial services to its existing customers. In addition to other banks, competitors include credit unions, securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies. The increasingly competitive environment is, in part, a result of changes in the economic environment within the state of Michigan, regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. New competitors may emerge to increase the degree of competition for the Company's customers and services. Financial services and products are also constantly changing. The Company's financial performance will also depend in part upon customer demand for the Company's products and services and the Company's ability to develop and offer competitive financial products and services.

Changes in interest rates could reduce the Company's income and cash flow.

The Company's income and cash flow depends, to a great extent, on the difference between the interest earned on loans and securities, and the interest paid on deposits and other borrowings. Market interest rates are beyond the Company's control, and they fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies including, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates and interest rate relationships, will influence the origination of loans, the purchase of investments, the generation of deposits and the rate received on loans and securities and paid on deposits and other borrowings.

The Company is subject to liquidity risk in its operations, which could adversely affect its ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due or capitalize on growth opportunities as they arise because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit obligations to borrowers, loan originations, withdrawals by depositors, repayment of debt, dividends to shareholders, operating expenses and capital expenditures. Liquidity is derived primarily from retail deposit growth and earnings retention, principal and interest payments on loans and investment securities, net cash provided from operations and access to other funding. If the Company is unable to maintain adequate liquidity, then its business, financial condition and results of operations would be negatively affected.

Legislative or regulatory changes or actions could adversely impact the Company or the businesses in which it is engaged.

The financial services industry is extensively regulated. The Company and the Bank are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of their operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance fund, and not to benefit the Company's shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact the Company or its ability to increase the value of its business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Future regulatory changes or accounting pronouncements may increase the Company's regulatory capital requirements or adversely affect its regulatory capital levels. Additionally, actions by regulatory agencies against the Company or the Bank could require the Company to devote significant time and resources to defending its business and may lead to penalties that materially affect the Company.

The Company relies heavily on its management and other key personnel, and the loss of any of them may adversely affect its operations.

The Company is and will continue to be dependent upon the services of its management team and other key personnel. Losing the services of one or more key members of the Company's management team could adversely affect its operations.

The Company may be a defendant in a variety of litigation and other actions, which may have a material adverse effect on the Company's financial condition and results of operations.

The Company and the Bank are regularly involved in a variety of litigation arising out of the normal course of business. The Company's insurance may not cover all claims that may be asserted against it, and any claims asserted against it, regardless of merit or eventual outcome, may harm its reputation or cause the Company to incur unexpected expenses, which could be material in amount. Should the ultimate expenses, judgments or settlements in any litigation exceed the Company's insurance coverage, they could have a material adverse effect on the Company's financial condition and results of operations. In addition, the Company may not be able to obtain appropriate types or levels of insurance in the future, nor may it be able to obtain adequate replacement policies with acceptable terms, if at all.

If the Company cannot raise additional capital when needed, its ability to further expand its operations through organic growth or acquisitions could be materially impaired.

The Company is required by federal and state regulatory authorities to maintain specified levels of capital to support its operations. The Company may need to raise additional capital to support its current level of assets or its growth. The Company's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. The Company cannot assure that it will be able to raise additional capital in the future on terms acceptable to it or at all. If the Company cannot raise additional capital when needed, its ability to maintain its current level of assets or to expand its operations through organic growth or acquisitions could be materially limited.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of computer systems or otherwise, could severely harm the Company's business.

As part of its business, the Company collects, processes and retains sensitive and confidential client and customer information on behalf of itself and other third parties. Despite the security measures the Company has in place for its facilities and systems, and the security measures of its third party service providers, the Company may be vulnerable to security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information, whether by the Company or by its vendors, could severely damage the Company's reputation, expose it to the risks of litigation and liability, disrupt the Company's operations and have a material adverse effect on the Company's business.

The Company's information systems may experience an interruption or breach in security.

The Company relies heavily on communications and information systems to conduct its business and deliver its products. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan and other systems. While the Company has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches of the Company's information systems or its customers' information or computer systems would not damage the Company's reputation, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to civil litigation and financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations.

Environmental liability associated with commercial lending could result in losses.

In the course of its business, the Company may acquire, through foreclosure, properties securing loans it has originated or purchased that are in default. Particularly in commercial real estate lending, there is a risk that hazardous substances could be discovered on these properties. In this event, the Company might be required to remove these substances from the affected properties at the Company's sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. The Company may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on the Company's business, results of operations and financial condition.

The Company depends upon the accuracy and completeness of information about customers.

In deciding whether to extend credit to customers, the Company relies on information provided to it by its customers, including financial statements and other financial information. The Company may also rely on representations of customers as to the accuracy and completeness of that information and on reports of independent auditors on financial statements. The Company's financial condition and results of operations could be negatively impacted to the extent that the Company extends credit in reliance on financial statements that do not comply with generally accepted accounting principles or that are misleading or other information provided by customers that is false or misleading.

The Company operates in a highly competitive industry and market area.

The Company faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national and regional banks within the various markets where the Company operates, as well as internet banks and other Fintech companies. The Company also faces competition from many other types of financial institutions, including savings and loan associations, credit unions, finance companies, brokerage firms, insurance companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. The Company competes with these institutions both in attracting deposits and in making new loans. Technology has lowered barriers to entry into the market and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Company's competitors have fewer regulatory constraints and may have lower cost structures, such as credit unions that are not subject to federal income tax. Due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Company can.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the Company's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Company to incur additional expenses.

The Company relies on dividends from the Bank for most of its revenue.

The Company is a separate and distinct legal entity from the Bank. It receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay cash dividends on the Company's common stock. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Company. If the Bank is unable to pay dividends to the Company, the Company may not be able to pay cash dividends on its common stock. The earnings of the Bank have been the principal source of funds to pay cash dividends to shareholders. Over the long-term, cash dividends to shareholders are dependent upon earnings, as well as capital requirements, regulatory restraints and other factors affecting the Company and the Bank.

Additional risks and uncertainties could have a negative effect on financial performance.

Additional factors could have a negative effect on the financial performance of the Company and the Company's common stock. Some of these factors are financial market conditions, changes in financial accounting and reporting standards, new litigation or changes in existing litigation, regulatory actions and losses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The offices of the Company as of February 28, 2018, were as follows:

Company's main office:

109 East Division, Sparta, Michigan

Office is owned by the Bank and comprises 24,000 square feet.

Bank's branch office:

416 West Division, Sparta, Michigan

Office is leased by the Bank and comprises 3,000 square feet.

Bank's branch office:

4170 - 17 Mile Road, Cedar Springs, Michigan

Office is owned by the Bank and comprises 3,000 square feet.

Bank's branch office:

6795 Courtland Drive, Rockford, Michigan

Office is owned by the Bank and comprises 2,400 square feet.

Bank's branch office:

5050 Alpine Avenue NW, Comstock Park, Michigan

Office is owned by the Bank and comprises 2,400 square feet.

Bank's branch office:

450 West Muskegon, Kent City, Michigan

Office is owned by the Bank and comprises 27,300 square feet.

Bank's branch office:

3069 Slocum Road, Ravenna, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

5475 East Apple Avenue, Muskegon, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

661 West Randall, Coopersville, Michigan

Office is owned by the Bank and comprises 2,700 square feet.

Bank's branch office:

10 West Main Street, Grant, Michigan

Office is owned by the Bank and comprises 4,800 square feet.

Bank's branch office:

246 West River Valley Drive, Newaygo, Michigan

Office is owned by the Bank and comprises 2,600 square feet.

Bank's branch office:

1423 West Main Street, Fremont, Michigan

Office is owned by the Bank and comprises 1,600 square feet.

Bank's loan production office:

237 Fulton West, Grand Rapids, Michigan

Office is leased by the Bank and comprises 1,800 square feet.

The Company believes that the offices are suitable and adequate for future needs and are in good condition. The Company's management believes all offices are adequately covered by property insurance.

Item 3. Legal Proceedings

As of December 31, 2017, there were no significant pending legal proceedings to which the Company or the Bank is a party or to which any of their properties were subject, except for legal proceedings arising in the ordinary course of business. In the opinion of management, pending legal proceedings will not have a material adverse effect on the consolidated financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Stock Information

Several brokers trade ChoiceOne's common shares in the OTC Pink marketplace. There is no well-established public trading market for the shares and trading activity is infrequent. ChoiceOne's trading volume and recent share price information can be viewed under the symbol '**COFS**' on certain financial websites.

The range of high and low bid prices for shares of common stock for each quarterly period during the past two years is as follows:

	2017		2016	
	Low	High	Low	High
First Quarter	\$21.43	\$23.33	\$21.27	\$22.67
Second Quarter	21.67	23.99	21.05	22.71
Third Quarter	21.95	23.55	20.97	22.61
Fourth Quarter	22.03	24.10	20.57	22.86

The prices listed above are over-the-counter market quotations reported to ChoiceOne by its market makers. The over-the-counter market quotations reflect inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions. As of February 28, 2018, the average bid price for shares of

ChoiceOne common stock was \$24.65.

As of February 28, 2018, there were 678 shareholders of record of ChoiceOne common stock.

The following table summarizes the quarterly cash dividends declared per share of common stock during 2017 and 2016:

	2017	2016
First Quarter	\$0.16	\$0.16
Second Quarter	0.17	0.16
Third Quarter	0.17	0.16
Fourth Quarter	0.17	0.16
Total	\$0.67	\$0.64

ChoiceOne's principal source of funds to pay cash dividends is the earnings and dividends paid by the Bank. The Bank is restricted in its ability to pay cash dividends under current banking regulations. See Note 20 to the consolidated financial statements for a description of these restrictions. Based on information presently available, management expects ChoiceOne to declare and pay regular quarterly cash dividends in 2018, although the amount of the quarterly dividends will be dependent on market conditions and ChoiceOne's requirements for cash and capital, among other things.

On October 25, 2017, the Company issued 542 shares of common stock to its directors pursuant to the Directors' Stock Purchase Plan for an aggregate cash price of \$13,000. The Company relied on the exemption contained in Section 4(6) of the Securities Act of 1933 in connection with these sales.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan
October 1 - October 31, 2017				
Employee Transactions	—	\$ —	—	
Repurchase Plan	—	\$ —	—	20,424
November 1 - November 30, 2017				
Employee Transactions (1)	587	\$ 23.00	—	
Repurchase Plan (2)	5,000	\$ 23.00	5,000	15,424
December 1 - December 31, 2017				
Employee Transactions	—	\$ —	—	
Repurchase Plan	—	\$ —	—	15,424

(1) Shares submitted for cancellation to satisfy tax withholding obligations that occur upon the vesting of restricted units. The value of the shares delivered or withheld is determined by the applicable stock compensation plan.

(2) The Company purchased 5,000 shares of its own common stock during the quarter ended December 31, 2017. As of December 31, 2017, there were 15,424 shares remaining that may yet be purchased under approved plans or programs. The repurchase plan was adopted and announced on July 26, 2007. There is no stated expiration date. The plan authorized the repurchase of up to 100,000 shares.

The information under Item 12 of this report regarding equity compensation plans is incorporated herein by reference.

Item 6. Selected Financial Data

ChoiceOne Financial Services, Inc.

Selected Financial Data

(Dollars in thousands, except per share data)

	2017		2016		2015		2014		2013		
For the year											
Net interest income		\$20,563		\$19,343		\$18,362		\$17,863		\$17,596	
Provision for loan losses		485		—		100		100		300	
Noninterest income		7,811		7,881		7,702		6,802		6,245	
Noninterest expense		19,334		18,972		18,276		16,794		16,664	
Income before income taxes		8,555		8,252		7,688		7,771		6,877	
Income tax expense		2,387		2,162		1,945		2,076		1,783	
Net income		6,168		6,090		5,743		5,695		5,094	
Cash dividends declared		2,317		2,231		2,170		1,945		1,780	
Per share											
Basic earnings		\$1.79		\$1.76		\$1.67		\$1.65		\$1.48	
Diluted earnings		1.78		1.76		1.66		1.64		1.47	
Cash dividends declared		0.67		0.64		0.63		0.56		0.51	
Shareholders' equity (at year end)		22.20		20.72		20.18		19.12		17.79	
Average for the year											
Securities		\$177,125		\$173,119		\$152,361		\$142,361		\$133,704	
Gross loans		388,609		357,880		342,382		330,355		312,798	
Deposits		525,445		479,670		443,972		422,737		410,462	
Federal Home Loan Bank advances		22,830		26,049		19,989		14,555		7,415	
Shareholders' equity		75,026		72,134		68,439		64,143		61,317	
Assets		629,748		586,299		551,762		526,669		502,333	
At year end											
Securities		\$159,158		\$177,955		\$163,323		\$145,706		\$139,832	
Gross loans		398,785		369,000		349,304		346,113		315,966	
Deposits		539,853		512,386		474,696		434,828		418,127	
Federal Home Loan Bank advances		20,268		12,301		11,332		18,363		6,392	
Shareholders' equity		76,550		71,698		69,842		66,190		61,558	
Assets		646,544		607,371		567,746		549,640		514,575	
Selected financial ratios											
Return on average assets		0.98	%	1.04	%	1.04	%	1.08	%	1.01	%
Return on average shareholders' equity		8.22		8.44		8.39		8.88		8.31	
Cash dividend payout as a percentage of net income		37.57		36.63		37.79		34.15		34.93	
Shareholders' equity to assets (at year end)		11.84		11.80		12.30		12.04		11.96	

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is designed to provide a review of the consolidated financial condition and results of operations of ChoiceOne, and its wholly-owned subsidiaries. This discussion should be read in conjunction with the consolidated financial statements and related footnotes.

RESULTS OF OPERATIONS

Summary

Net income for 2017 was \$6,168,000, which represented a \$78,000 or 1% increase from 2016. The growth in net income resulted primarily from an increase in net interest income in 2017 compared to 2016, which was partially offset by a higher provision for loan losses and higher noninterest expense. The effect of \$39.8 million of growth in average earning assets in 2017 compared to 2016 was partially offset by a 5 basis point decrease in the rate earned on average earning assets. A combination of an increase in net charge-offs in 2017 compared to the prior year and loan growth in 2017 caused ChoiceOne to recognize \$485,000 in provision expense for loan losses in 2017 compared to no provision in 2016. ChoiceOne had \$185,000 in net loan charge-offs in 2017, compared to net loan recoveries of \$83,000 in 2016. A decline in noninterest income of \$70,000 in 2017 compared to 2016 was mainly caused by a decrease in gains on sales of loans and net losses on sales of securities in 2017 in contrast to net gains recognized in 2016. This was offset by a \$908,000 gain on the sale of a portion of ChoiceOne's investment book of business discussed further in the noninterest income section below. The increase of \$362,000 in noninterest expense in 2017 compared to the prior year was primarily due to higher salaries and benefits expense as well as increased occupancy expense and professional fees.

Net income for 2016 was \$6,090,000, which represented a \$347,000 or 6% increase from 2015. The growth in net income resulted primarily from an increase in interest income in 2016 compared to 2015, which was partially offset by higher noninterest expense. The effect of \$34.6 million of growth in average earning assets in 2016 compared to 2015 was partially offset by an 8 basis point decrease in the rate earned on average assets. Net loan charge-offs continued to be low in 2016, which allowed for no provision expense for loan losses in 2016 compared to \$100,000 in 2015. ChoiceOne had \$83,000 in net loan recoveries in 2016, compared to net loan charge-offs of \$79,000 in 2015. Growth in noninterest income of \$179,000 in 2016 compared to 2015 was mainly caused by higher gains on sales of loans. The increase of \$696,000 in noninterest expense in 2016 compared to the prior year was primarily due to higher salaries and benefits.

Dividends

Cash dividends of \$2,317,000 or \$0.67 per common share were declared in 2017, compared to \$2,231,000 or \$0.64 per common share in 2016 and \$2,170,000 or \$0.63 per common share in 2015. The dividend yield on ChoiceOne's common stock was 2.86% as of year-end 2017, compared to 2.86% in 2016 and 2.77% in 2015. The cash dividend payout as a percentage of net income was 38% in 2017, compared to 37% in 2016 and 38% in 2015. In addition, a 5%

stock dividend was paid on May 31, 2017, which caused \$3,779,000 to be transferred from retained earnings to paid-in capital.

Table 1 – Average Balances and Tax-Equivalent Interest Rates

(Dollars in thousands)	Year ended December 31, 2017			2016			2015		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
Assets:									
Loans (1) (2)	\$388,609	\$17,974	4.63 %	\$357,880	\$16,518	4.62 %	\$342,382	\$15,982	4.67 %
Taxable securities (3)	122,150	2,371	1.94	118,787	2,171	1.83	102,550	1,783	1.74
Nontaxable securities (1)	54,975	2,142	3.90	54,332	2,190	4.03	49,952	2,156	4.32
Other	9,465	102	1.08	4,231	21	0.49	5,753	14	0.25
Interest-earning assets	575,199	22,589	3.93	535,230	20,900	3.91	500,637	19,935	3.98
Noninterest-earning assets (4)	54,549			51,069			51,125		
Total assets	\$629,748			\$586,299			\$551,762		
Liabilities and Shareholders' Equity:									
Interest-bearing demand deposits	\$208,049	\$385	0.18 %	\$196,662	\$253	0.13 %	\$165,767	\$226	0.14 %
Savings deposits	76,107	14	0.02	73,118	20	0.03	67,826	26	0.04
Certificates of deposit	104,936	790	0.75	86,042	517	0.60	94,891	625	0.66
Advances from Federal Home Loan Bank	22,830	276	1.21	26,049	171	0.66	19,989	83	0.41
Other	5,661	13	0.23	8,372	8	0.10	18,156	30	0.17
Interest-bearing liabilities	417,583	1,478	0.36	390,243	969	0.25	366,629	990	0.27
Demand deposits	136,353			123,848			115,488		
Other noninterest-bearing liabilities	786			74			1,206		
Total liabilities	554,722			514,165			483,323		
Shareholders' equity	75,026			72,134			68,439		
Total liabilities and shareholders' equity	\$629,748			\$586,299			\$551,762		
Net interest income (tax-equivalent basis)-interest spread									
		21,111	3.57 %		19,931	3.66 %		18,944	3.71 %
Tax-equivalent adjustment (1)									
		(548)			(591)			(582)	
Net interest income		\$20,563			\$19,340			\$18,362	
Net interest income as a percentage of earning assets (tax-equivalent			3.67 %			3.72 %			3.78 %

basis)

- (1) Interest on nontaxable securities and loans has been adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 34% for the years presented.
- (2) Interest on loans included net origination fees charged on loans of approximately \$1,003,000, \$1,054,000, and \$957,000 in 2017, 2016, and 2015, respectively.
- (3) Interest on taxable securities includes dividends on Federal Home Loan Bank and Federal Reserve Bank stock.
- (4) Noninterest-earning assets include loans on a nonaccrual status, which averaged approximately \$1,486,000, \$2,416,000, and \$2,145,000 in 2017, 2016, and 2015, respectively.

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Table 2 – Changes in Tax-Equivalent Net Interest Income

(Dollars in thousands)	Year ended December 31,			
	2017 Over 2016		2016 Over 2015	
	Total	Volume Rate	Total	Volume Rate
Increase (decrease) in interest income (1)				