

# 2018 ANNUAL REPORT

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# WE CREATE VALUE

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## Board of Directors



**David P. Lamb**  
President, Chief Executive Officer  
Oxford Bank Corporation



**Karen Mersino, Chair**  
Business Owner, Mersino Dewatering, Inc.



**Todd Fox**  
Shareholder, Doeren Mayhew



**Dr. Michael E. Kubinski**  
Shareholder, North Oakland Dental Group



**Harvey Solway**  
Entrepreneur



**Richard Thompson**  
Owner, Industrial Businesses

# LETTER TO SHAREHOLDERS

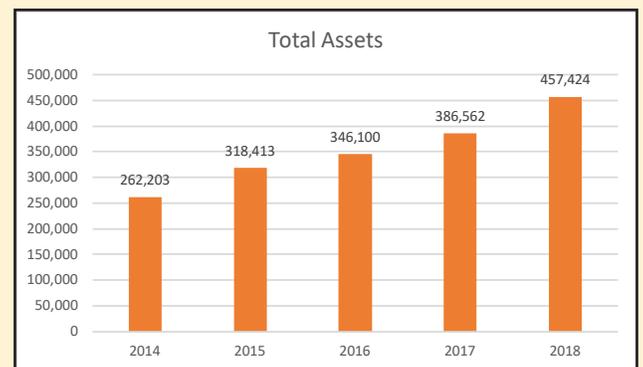
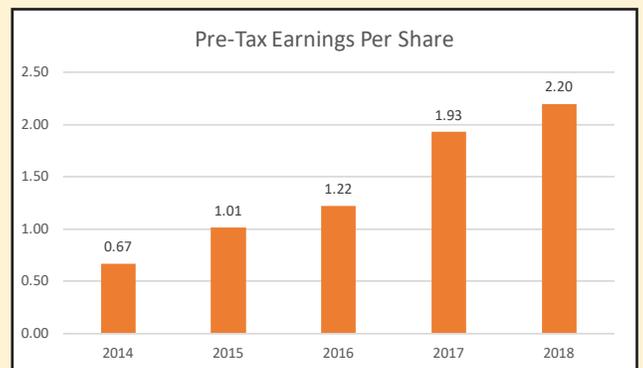
Dear Shareholder:

Your business continues to progress as anticipated in past letters from me. In 2018, we focused on our competitive advantages and live one of our mantras to not be “all things to all people.” Our competitive advantage is the relationship with our team and customers, which is most apparent in the way we do business with small and mid-size businesses. To that end in the fall of 2018, we decided to re-focus our mortgage banking business to a product line delivered through our relationship bankers with a better customer experience and value, rather than competing more regionally on a commodity basis. We believe this step, along with focused investment in our deposit and SBA businesses, are the best way to create value for you, our shareholder, and for our team members who are making it happen.

We still believe that your Company must become bigger to improve our customers’ and teams’ experience. However, we believe there must be a balance in earnings growth vs. balance sheet growth to lessen the impact on our potential stock valuation. I use the term “potential” valuation because we believe our stock value doesn’t reflect existing market valuation levels due to the limited trading liquidity. Another factor in our strategy is that the country’s economic expansion is getting long in the tooth and we don’t want to buy credit aggressively into the potential top of the expansion. We are in a time of fast change driven by technology but still believe economically, what goes up must come down!

My first thought reading the above is that it sounds like an excuse by a previously self-described growth company for not growing faster but let me assure you it is not the case. We continue to be a growth company with a tighter focus on where we should grow. To that end, we grew core deposits by 19% and SBA loan balances by 67% in 2018. The SBA balances are still relatively small but grew significantly even though we still sell the guaranteed portion in the secondary market. In

fact, we were one of the top three originators in the State of Michigan for the SBA’s fiscal year, which ended September 30, 2018!

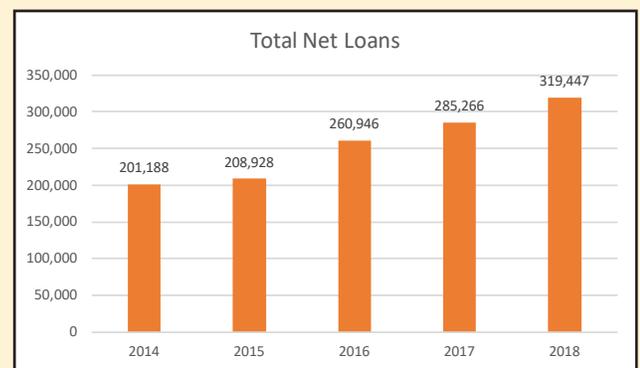
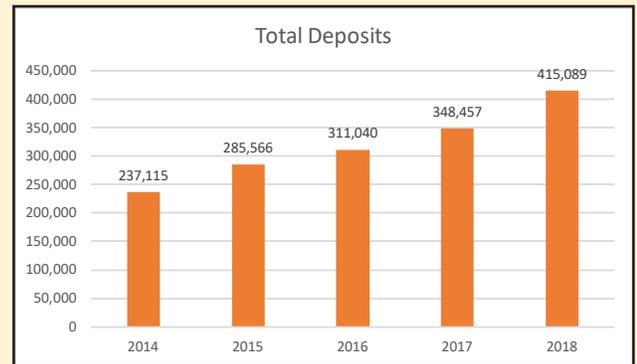


The growth in our deposit business has far outpaced national trends and has been entirely organic. We believe that the intangible factors of building a team is one who believes in relationship, is engaged and focused on the customer experience, and is the reason we win on the deposit front. The core of our company is "Relationship Creates Value," so we demand a relationship from our lending customers in regards to business and personal deposits. It is a real credit to our Personal Banking and

Business Banking teams on how well they work together because they know that neither team can be successful without the other. Even though our reason to be a bank is deposits, we shouldn't leave loans out of the accolades, as we did grow our loan balances by twelve percent, even with continuing to let more existing and underpriced investment real estate loans refinance elsewhere.

Overall our performance reflects continued improvement, as EPS year-over-year grew 146%. However, that is not a good comparison because 2017 was affected by non-cash charges due to the tax law changes. A better comparison is that year-over-year pre-tax earnings grew almost to 14%. Our ROAA ratio, although still not at our UBPR peer average which is our minimum standard, did grow 104% versus our peer's ROAA of 18% in 2018. We know our team is far above average and so our returns should, and will, reflect that fact in the future.

Thank you for your continuing commitment as an owner of the Corporation, and please visit me in Oxford when you have an opportunity.



**David P. Lamb**

President, Chief Executive Officer  
Oxford Bank Corporation

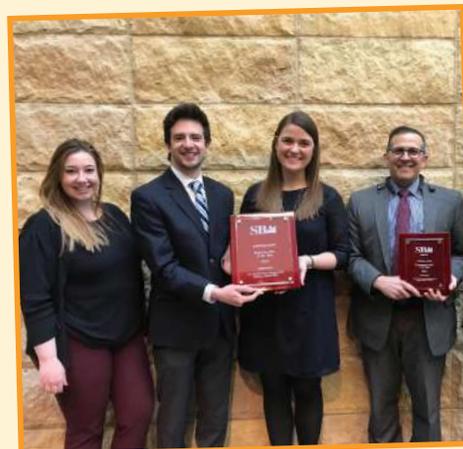
# STRATEGIC PLAN IN ACTION

Our growth strategy has several components: organic, merger and acquisition, innovation, and talent. The common theme between these components is that we believe we can help people; so reaching more people is truly a benefit to those folks who want a relationship and might not even know it, or those who don't know how good their experience can be with a bank. The only way we can help people is to constantly improve our overall customer experience, which includes our team's experience with the Company. We do that by deepening relationships and living our culture, which improves that experience.

## Organic:

Retaining our customers is very important to our strategy because doing more for our customers means growth. Retention alone can't produce the growth we are capable of, so we need to attract new customers. We attract new customers and retain existing clients by delivering an improved customer experience. We did that in 2018 by:

- Invested in a full time Customer Experience Manager to drive this critical effort consistently bank-wide.
- Implemented a CRM (Customer Relationship Manager) system to know our customers better and be consistent in our communication regardless of what channel they use to interact with us.
- Improved our Oxford Financial Services group (non-bank products) to above-average from very below average (on our broker partner Infinex's ranking of bank partners) by recruiting a team that fits our culture.
- Enhanced communication for customers, who chose to use our in-branch distribution, with new message boards and revamped our phone marketing messages to "news" our customers can use.
- Acted on our annual team engagement survey to improve our employees' experience.
- Launched a customer experience survey for all external customers with results due in first quarter of 2019.



Pictured top to bottom: SBA team wins Expert Lender of the Year and Community Lender of the Year; Oxford Financial Solutions goes to a Ford Motor Company plant to market our products and services; Oxford Bank shows off new branding screens on our Interactive Teller Machines, which are completely customizable with Oxford Bank pictures and verbiage.



Pictured top to bottom: Personal Bankers rally together to gain personal relationships at local events; Oxford Bank introduces Digital Wallet, which allows customers to pay using their smart phone; Oxford Bank's new Loan Production Office (LPO), located in the historic Armory Building in Owosso, Mich.

- Helping our communities grow by delivering:
  - o Over \$55 million in personal loans including residential mortgages
  - o Originating over \$100 million in new loans to businesses

### **Merger/Acquisition:**

We believe there are opportunities for us to grow through acquisition or merger. Your representatives, the Board of Directors, are focused on increasing the value of the Company so we do not have a preference for acquisition versus merger. However, we believe M&A only works where there is actual potential synergy, not just getting bigger without a value proposition.

### **Innovation:**

Customer experience can be achieved through technology combined with our talent. These efforts are a combination of improving internal processes and collaborating with other companies to offer products and services that help our customers and team members. We did that in 2018 by:

- Expanded risk management capabilities for our business clients by offering interest rate swaps through a well regarded third party, which included the ability to custom-design hybrid solutions to protect all or part of our customers' interest rate risk.
- Opened a new loan production office in the former Owosso Armory building so our new and existing talent in Shiawassee County can take advantage of market disruptions there.
- Launched Apple Pay and Google Pay in November 2018 to make our mobile experience more convenient.
- Improved treasury management platform for business customers by investing in our customer support team.
- Automated SBA reporting platform for loans we service which will also benefit our planned expansion to provide SBA services to other financial institutions.
- Added more functionality to our ITMs which allows for full ATM usage anytime.
- Implemented paperless expense reimbursement and payable processing, making it better for team and more productive for Company.

- Opened approximately 70 online deposit accounts in 2018
- Expanded e-signature capabilities for business loans, making closing more convenient for customers and more productive for team members

**Talent:**

Developing and retaining our talent is vital to our success. We need people who believe the same core values as our team, starting with a passion to help people. That doesn't mean we want to hire only people who "agree" our ideas, or views, on an issue as diversity of opinion is very valuable to us. To achieve our goals, we will need to develop new team members who share our energy, motivation and engagement to achieve, plus do it with the utmost humility. It could mean that a talented person might not be a fit with us.

As a part of change, we envision that we will need different skills over the plan period in areas such as digital marketing and product development, which we will utilize from our existing team and recruit externally.

- Realized gains from our culture of relationship and the "one team" approach of our personal and business relationship managers by growing deposits by 19% in 2018.
- Reduced our turnover rate by 50% in 2018 compared to 2017.
- Improved "candor" based communication significantly to the extent it impacted our employee engagement scores by materially improving one area and pointing out improvement needed in another area.



Pictured top to bottom: Employees represent Oxford Bank at a University career fair; the 2018 annual Oxford Bank softball game



# CONSOLIDATED BALANCE SHEET

(000s omitted, except per share data)

	31 - Dec - 18	31 - Dec - 17
<b>Assets</b>		
Cash and due from banks	\$ 63,207	\$ 55,578
Total cash and cash equivalents	63,207	55,578
Investment securities - Available for sale	59,989	29,618
Investment securities - Held to maturity	720	990
Federal Home Loan Bank stock	575	575
Loans held for sale	-	1,064
Loans - Net of allowance for loan losses of \$3,224 and \$3,431 in 2018 and 2017, respectively	319,446	284,202
Other real estate owned	127	586
Premises and equipment - Net	8,453	8,601
Accrued interest receivable and other assets	4,901	4,999
Total assets	<b>\$ 457,418</b>	<b>\$ 386,213</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 51,370	\$ 45,304
Interest bearing	363,719	303,153
Total Deposits	415,089	348,457
Borrowings	825	525
Accrued interest, taxes, and other liabilities	1,191	1,058
Total liabilities	417,105	350,040
<b>Stockholders' Equity</b>		
Common stock – No par value		
Authorized - 10,000,000 shares		
Issued and outstanding - 2,289,052 at December 31, 2018 and 2017, respectively	25,285	25,285
Unearned equity compensation	(117)	(175)
Additional paid-in capital	286	84
Retained earnings	15,318	11,321
Accumulated other comprehensive loss	(459)	(342)
Total stockholders' equity	40,313	36,173
Total liabilities and stockholders' equity	<b>\$ 457,418</b>	<b>\$ 386,213</b>

# CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

(000s omitted, except per share data)	2018	2017
<b>Interest Income</b>		
Loans	\$ 16,436	\$ 14,463
Debt securities:		
Taxable	957	544
Tax-exempt	32	38
Other	1,021	268
Total interest income	18,446	15,313
<b>Interest Expense</b>	<b>1,649</b>	<b>743</b>
<b>Net Interest Income</b>	<b>16,797</b>	<b>14,570</b>
<b>Provision for Loan Losses</b>	<b>210</b>	<b>—</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>16,587</b>	<b>14,570</b>
<b>Non-interest Income</b>		
Service charges - Deposits	882	863
Mortgage banking activities	817	559
Gain on sale of loans	998	1,101
Gain (loss) on sale of other real estate owned	(11)	(87)
Gain (loss) on sale of securities	—	77
Other	888	682
Total non-interest income	3,574	3,195
<b>Non-Interest Expense</b>		
Salaries and employee benefits	9,177	8,057
Occupancy and equipment	1,782	1,783
FDIC Insurance premium	160	159
Other real estate owned expense	138	53
Other	3,869	3,292
Total non-interest expense	15,126	13,344
<b>Income - Before income taxes</b>	<b>5,035</b>	<b>4,421</b>
<b>Income Tax Expense</b>	<b>1,038</b>	<b>2,786</b>
<b>Consolidated Net Income</b>	<b>3,997</b>	<b>1,635</b>
<b>Other Comprehensive Loss – Net of tax</b>		
Unrealized loss on securities:		
Change in unrealized loss on securities	(148)	(36)
Tax effect	31	12
Total other comprehensive loss	(117)	(24)
<b>Comprehensive Income</b>	<b>\$ 3,880</b>	<b>\$ 1,611</b>

# CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(000s omitted, except per share data)

	Common Stock	Unearned Equity Compensation	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balance</b> - January 1, 2017	\$ 25,285	\$ (233)	\$ —	\$ 9,630	\$ (262)	\$ 34,420
Comprehensive income:						
Net Income	—	—	—	1,635	—	1,635
Change in net unrealized loss on securities	—	—	—	—	(24)	(24)
Issuance of restricted stock units	—	—	84	—	—	84
Equity compensation expense	—	58	—	—	—	58
Reclassification of tax effect on unrealized loss	—	—	—	56	(56)	—
<b>Balance</b> - December 31, 2017	\$ 25,285	(175)	84	11,321	(342)	36,173
Comprehensive income:						
Net Income	—	—	—	3,997	—	3,997
Change in net unrealized loss on securities	—	—	—	—	(117)	(117)
Issuance of restricted stock units	—	—	202	—	—	202
Equity compensation expense	—	58	—	—	—	58
<b>Balance</b> - December 31, 2018	\$ 25,285	\$ (117)	\$ 286	\$ 15,318	\$ (459)	\$ 40,313

# STOCK INFORMATION

## Stock Listing

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Symbol: OXBC

Over-The-Counter Bulletin Board

## Transfer Agent and Registrar

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Computershare Trust Company, N.A.

Computershare

P.O. Box 30170 • College Station, Texas 77842

(866) 595-6048

## Investor Relations Contact

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Oxford Bank

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810-658-1500

### **FARMINGTON HILLS LOAN OFFICE**

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Ste. 300 • By appointment only

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### **LAKE ORION OFFICE**

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### **OWOSSO LOAN OFFICE**

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