

2016 Annual Report

**Our Passion
is Helping
Power Yours.**



 **LevelOne**
BANK

Board of Directors

From left to right: Steven H. Rivera, D.O., MBA, FACEP, President-Elect Medical Staff, St. John Providence Hospital, Managing Partner, Independent Emergency Physicians, P.C.; Mark J. Herman, President & COO, ANYI Management Company; Barbara E. Allushuski, President & CEO, Blue Heron Talent, LLC; Victor L. Ansara, President & CEO, Ansara Restaurant Group, Inc.; Stefan Wanczyk, President & CEO, Utica Enterprises, Inc.; Patrick J. Fehring, President & CEO, Level One Bank; Shukri W. David, M.D., FACC, Physician Chair, Heart & Vascular Center of Excellence, St. John Providence Health System, Clinical Professor of Medicine, Wayne State University School of Medicine; Michael A. Brillati, CEO, Salus Group; Thomas A. Fabbri, President & CEO, Aaro Companies; James Bellinson, Managing Director, Riverstone Communities



Executive Team

From left to right: Eva Scurlock, EVP, Risk Management Officer; Timothy R. Mackay, EVP, Consumer Banking Officer; Patrick J. Fehring, President & CEO; David Walker, EVP, CFO & Treasurer; Gregory A. Wernette, EVP, CLO



To Our Shareholders

I am pleased to report 2016 was a year of significant growth and expansion for Level One Bank. Through organic growth, an acquisition and branching into new markets, we have achieved remarkable results.

Our Net Income was \$11 million in 2016, a slight decrease from 2015 due to the costs associated with the acquisition of Bank of Michigan. The acquisition will be accretive to earnings in 2017, further strengthening shareholder value. Total Assets grew 22% to \$1.128 billion in 2016. Operating at the billion-dollar level brings new challenges to Level One, including increased accounting and regulatory oversight and greater competition, for all of which we are well prepared.

Due to the investments we have made over the years in people, technology and systems infrastructure, we are now benefiting from a strong performance profile that includes four year compounded growth of 18% in assets, 14% growth in earnings per share, and 17% in our share price to \$23 per share. We were recognized by Standard & Poor's in 2016 as ranking 10th in the nation for performance among community banks our size. We continue to experience quality growth in our commercial, retail and mortgage portfolios, with loans increasing 25% and deposits increasing 18% in 2016. Quality growth

requires quality team members, and I am especially thankful for our dedicated team of bankers who are the driving force behind our success.

In 2016, we opened our first banking center in the City of Detroit, reinforcing our commitment to Detroit businesses and families during an important time in the city's resurgence. For the first time in the Bank's history, we also expanded outside of Southeast Michigan and opened a full-service banking center in Grand Rapids. The Grand Rapids office is off to a great start and we are excited about the opportunities before us in the West Michigan region.

As we look ahead to 2017 and approach ten years in business, I am optimistic and enthusiastic about the future of Level One Bank. I want to personally thank you for your continued support as we remain focused on building a better way to bank in our local communities.

Sincerely,



Patrick J. Fehring
President & CEO

2016 The Year In Review

- Q1** · Opened a new banking center in Downtown Detroit
- Reached the milestone of \$1.0 billion in assets

- Q3** · Named one of the 'Best Banks to Work For' in the nation by American Banker Magazine
- Honored for the fourth consecutive year as one of Metro Detroit's 'Best and Brightest Companies to Work For'
- Recognized in Inc. Magazine's list of 5,000 Fastest Growing Private Companies in America

- Q2** · Completed the integration and operating systems conversion of Bank of Michigan
- Ranked 10th in the nation among Best Performing Community Banks by S&P Global Market Intelligence

- Q4** · Named 'Export Lender of the Year' by the Small Business Administration (SBA) for the third consecutive year
- Celebrated the grand opening of HOPE Inside to offer free money management and credit coaching workshops to the Detroit community
- Opened a new banking center in Grand Rapids, our first location in West Michigan

Growth & Expansion

In less than a decade since our founding in 2007, it's incredible to see how much we have grown – today we operate with 13 offices, more than 200 team members, thousands of clients and over a billion dollars in assets. Through these years of tremendous growth and success, our vision has never wavered. At our core, we are a relationship-based community bank with an undeniable entrepreneurial spirit, founded to build a better way to bank for local businesses and families.

In 2016, we took that vision to new heights and new markets. In the first quarter, we opened a banking center in the City of Detroit. Here, we are much more than a typical branch; we are a resource for the area's entrepreneurs, students and families. The new space was designed with our consultative approach in mind. Meeting rooms and WiFi are freely available to the public, new technology enables video-conferencing with clients and colleagues, and the vibrant colors echo a lively city on the rise. Through our new HOPE Inside initiative, a partnership with Operation HOPE, Wayne State University and TechTown, we offer free credit counseling and money management workshops to the Detroit community.

Acquisition continues to play an important role in Level One Bank's growth strategy. During the second quarter of 2016, we completed our fourth acquisition with the successful integration and systems conversion of Bank of Michigan. The deal propelled Level One over \$1.0 billion in assets, brought a new banking center in Farmington Hills, and added many new team members and clients.



As we strengthened our presence in Southeast Michigan, we also looked for opportunities to expand our footprint outside of Southeast Michigan for the first time. In November 2016, we bridged our way to West Michigan with the opening of a full-service office in Grand Rapids. Grand Rapids has one of the strongest and fastest growing economies in the nation and shares the same community-minded and entrepreneurial values as Level One. The new office includes comprehensive retail, mortgage and commercial banking services. As we establish our new presence in Grand Rapids, we look forward to future expansion opportunities.



1 Changing the signs during our acquisition of Bank of Michigan.

2 A conversation room in Detroit offers video conferencing technology.

3 Celebrating our new Detroit banking center with a ceremonial ribbon-cutting.



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4 Inaugurating our first office in Grand Rapids with local chamber members and business leaders.



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5 The industrial design in Detroit features a beautiful mural of the downtown area.



Our Passion: Our Clients

Youth Vision Solutions (YVS), Inc.

Youth Vision Solutions (YVS) is a Detroit-based non-profit organization with the mission of helping youth who were previously homeless, school dropouts or otherwise at-risk overcome those obstacles to graduate high school and lead successful, independent lives. YVS provides education management exclusively for Covenant House Academy, which currently operates three charter schools in Detroit and one in Grand Rapids. While most schools educate students up to the age of 19, Covenant House Academy is uniquely positioned to accommodate ages 16-22.

YVS began its banking relationship with Level One after the Bank of Michigan acquisition in 2016. "It was a smooth transition. They made everything easy for us," said Michael Krystyniak, President/Superintendent at YVS. Level One's banking center in downtown Detroit offers particular convenience to the YVS staff. "We are very happy with our relationship. Their services are much better and the Detroit location is easily accessible."

1 Former graduating class of YVS and Covenant House Academy.

2 Reggie is an extreme athlete and motivational speaker who uses the Trustep product from College Park Industries.

3 Josh is a retired Marine Sergeant and monoskiier who uses the Sidekicks feet from College Park Industries.

4 Joe is a sports enthusiast and business executive who uses the OdysseyK3 product from College Park Industries.



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College Park Industries

College Park Industries is a Michigan-based designer and manufacturer of highly customized prosthetic solutions. Nearly 30 years ago, the founders recognized a need for anatomically correct prosthetic feet with natural-feeling mobility. With the launch of the Truststep® foot prototype in 1988, College Park Industries revolutionized the prosthetic foot industry. Today, College Park Industries distributes its products to over 130 countries around the world and offers solutions that include feet, upper limbs and endoskeletal components.

When College Park Industries was looking to purchase a new building in 2012, they turned to Level One. “We shopped four different financial institutions and Level One was the only bank that truly listened to us and understood our requirements,” said Joseph Wicker, CFO at College Park Industries. After the satisfactory experience, the company moved all of its banking needs to Level One. “Level One Bank has a great listening and understanding ability that results in the right solutions for us,” he added.



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Our Passion: Our Communities

We are deeply rooted in the communities we serve and are always looking for new ways to give our time, expertise and financial support to community organizations and neighbors in need. Our relationship with Habitat for Humanity® continues to expand. We are proud to help Habitat for Humanity of Oakland and Macomb Counties by originating mortgage loans and alleviating some of the regulatory burden associated with lending. Additionally, we are able to help Habitat clients with down payment assistance through our grant programs for low-to-moderate income home buyers.

We started a new partnership in 2016 with Operation HOPE, Wayne State University and TechTown to open a 'HOPE Inside' in Detroit. Our HOPE Inside office is located at TechTown and provides free credit counseling and money management workshops aimed at improving credit scores, increasing access to capital and achieving homeownership.

Our passion for small business birthed the 'Level One Cash Mob', an employee-based group that gives away free cash at small businesses to encourage others to shop and spend local. In 2016 the Level One Cash Mob gave out more than \$15,000 in cash. You can follow our efforts on social media using hashtag [#LevelOneCashMob](#).



We also continued our support of a number of community partners including Cornerstone Schools, Detroit Public Television, Empowerment Plan, Heat & Warmth Fund, Jewish Federation of Metro Detroit, Junior Achievement, March of Dimes, Meals on Wheels, Operation Give, ORT America, Read to a Child, Southwest Economic Solutions, YMCA and many more.



1 A recipient of Level One Bank's Welcome Home Loan and HOP grant celebrating a home dedication ceremony in partnership with Habitat for Humanity.

2 Celebrating the grand opening of Level One Bank's HOPE Inside location at TechTown Detroit.

3 Accepting the "Spirit of Detroit" award from the Detroit City Council during the grand opening of our Detroit banking center.



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4 The Level One Cash Mob giving away cash and t-shirts to small business patrons in Detroit.

5 Our Ferndale banking center hosting a networking reception in its community art gallery.

Our Passion: Our Team

Level One Bank's growth and expansion would not be possible without our dedicated team leading the way. We recognize our team is our most valuable asset, critical to the Bank's success in the past, present and future.

When considering our Bank's differentiators, our people are at the top of the list. Level One bankers are go-getters. We are entrepreneurial. We are creative problem solvers willing and ready to go above and beyond for our clients. This is what sets us apart from our competitors and generates long-term client relationships.

In 2016, our team exceeded 200 members for the first time. Now more than ever we are invested in our team's professional and personal development. Whether it's through on-the-job training, attendance at conferences and workshops or leadership development and mentorship, we are devoted to helping our team members achieve their goals. Level One Bank makes an effort to help team members pursue and maintain various professional certifications, some of which in 2016 included: Certified Regulatory Compliance Manager (CRCM), Certified DDI Facilitator, graduation from the Michigan Banker's Association Perry School of Banking and more.



In 2016, we launched our Reboot Internship, a professional development and paid internship program designed to help individuals get back into the workforce after a career hiatus. Our Level One Growth program continues to aid motivated and high-performing employees with career development. The annual program includes mentorship with senior managers and personal and professional assessment tools to help team members work towards their goals.

Level One Bank strives to be a place where talented people choose to work. In fact, we were honored by American Banker Magazine as one of the top 60 'Best Banks to Work For' in the country and one of Metro Detroit's '101 Best and Brightest Companies to Work For' in 2016.



1 Team members proudly representing the "L1" brand.

2 Our team of more than 200 gathering together for our quarterly All Team Member Meeting.



3 Team members warming up for our annual Battle of the Paddle ping-pong tournament.



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101
BEST AND
BRIGHTEST
COMPANIES
TO WORK FOR

AMERICAN BANKER
BEST BANKS
TO WORK
FOR 2016

4 Team members enjoying our annual Summer Salute client appreciation event.

5 Level One Bank was honored as one of Metro Detroit's '101 Best and Brightest Companies to Work For' the last 4 years in a row.

CONSOLIDATED BALANCE SHEETS

December 31, 2016 and 2015

[Dollars in thousands, except per share data]

	2016	2015
ASSETS		
Cash and due from financial institutions	\$ 19,116	\$ 16,036
Securities available for sale	100,533	116,702
Federal Home Loan Bank stock	5,828	4,052
Mortgage loans held for sale, at fair value	9,860	3,656
Loans		
Acquired loans	149,821	107,121
Originated loans	803,572	652,597
Less: Allowance for loan losses	[11,089]	[7,890]
Net loans	942,304	751,828
Premises and equipment, net	15,719	11,949
Goodwill	9,387	4,549
Other intangible assets, net	901	647
Other assets	23,883	15,244
Total assets	\$ 1,127,531	\$ 924,663
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand	\$ 616,611	\$ 491,855
Savings	8,889	7,760
Time	299,424	284,500
Total deposits	924,924	784,115
Borrowings	82,645	34,510
Subordinated debentures	14,786	14,733
Other liabilities	8,605	5,671
Total liabilities	1,030,960	839,029
Shareholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 6,350,532 [2016] and 6,309,783 [2015] shares issued and outstanding	58,306	57,640
Retained earnings	39,391	28,345
Accumulated other comprehensive loss	[1,126]	[351]
Total shareholders' equity	96,571	85,634
Total liabilities and shareholders' equity	\$ 1,127,531	\$ 924,663

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2016, 2015 and 2014

[Dollars in thousands, except per share data]

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income [loss]	Total Shareholders' Equity
BALANCE AT JANUARY 1, 2014	\$ 11,287	\$ 57,115	\$ 14,159	\$ [3,028]	\$ 79,533
Net income	-	-	1,883	-	1,883
Exercise stock options [35,000 shares]	-	320	-	-	320
Preferred stock dividends	-	-	[113]	-	[113]
Stock based compensation expense	-	66	-	-	66
Other comprehensive income	-	-	-	2,732	2,732
BALANCE AT DECEMBER 31, 2014	11,287	57,501	15,929	[296]	84,421
Net income	-	-	12,528	-	12,528
Exercise stock options [2,835 shares]	-	25	-	-	25
Preferred stock dividends	-	-	[112]	-	[112]
Preferred stock redemption	[11,287]	-	-	-	[11,287]
Stock based compensation expense	-	114	-	-	114
Other comprehensive income	-	-	-	[55]	[55]
BALANCE AT DECEMBER 31, 2015	\$ -	\$ 57,640	\$ 28,345	\$ [351]	\$ 85,634
Net income	-	-	11,046	-	11,046
Exercise stock options [27,008 shares], including tax benefit	-	300	-	-	300
Tax benefit from restricted stock vesting	-	2	-	-	2
Stock based compensation expense	-	364	-	-	364
Other comprehensive income	-	-	-	[775]	[775]
BALANCE AT DECEMBER 31, 2016	\$ -	\$ 58,306	\$ 39,391	\$ [1,126]	\$ 96,571

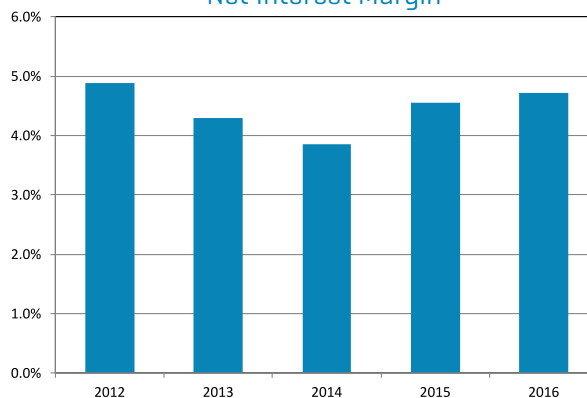
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2016, 2015 and 2014

(Dollars in thousands, except per share data)

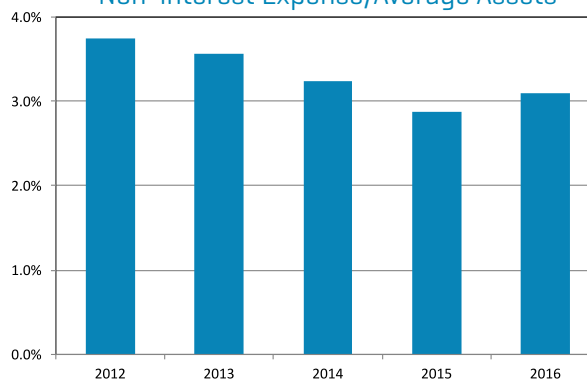
	2016	2015	2014
INTEREST INCOME			
Originated loans, including fees	\$ 33,771	\$ 26,978	\$ 20,753
Acquired loans, including fees	16,956	11,762	11,943
Securities	2,052	2,525	2,370
FDIC indemnification asset amortization	-	-	(8,676)
Federal funds sold and other	124	70	32
Total interest income	52,903	41,335	26,422
INTEREST EXPENSE			
Deposits	4,499	3,512	2,500
Borrowed funds	318	252	153
Subordinated debentures	1,015	28	-
Total interest expense	5,832	3,792	2,653
Net interest income	47,071	37,543	23,769
Provision for loan losses	3,925	1,359	2,743
Net interest income after provision for loan losses	43,146	36,184	21,026
NON-INTEREST INCOME			
Services charges on deposits	1,885	972	835
Net gain on sale of securities	926	280	149
Net gain on sale of residential mortgage loans	2,249	1,701	1,445
Net gain on sale of commercial loans	-	92	-
Loss sharing	-	-	(1,113)
Gain on FDIC loss share agreement termination	-	3,117	-
Other charges and fees	1,347	1,052	1,010
Total non-interest income	6,407	7,214	2,326
NON-INTEREST EXPENSE			
Salaries and benefits	17,978	14,663	12,758
Occupancy and equipment	3,370	2,792	2,353
Professional services	1,189	892	900
Marketing	806	567	425
Printing and supplies	468	349	357
Data processing	2,023	1,350	1,134
Other	6,573	4,275	3,264
Total non-interest expense	32,407	24,888	21,191
Income before income taxes	17,146	18,510	2,161
Income taxes	6,100	5,982	278
Net income	11,046	12,528	1,883
Less: Preferred stock dividends	-	112	113
Net income attributable to common shareholders	\$ 11,046	\$ 12,416	\$ 1,770
Earnings per share:			
Basic	\$ 1.74	\$ 1.97	\$ 0.28
Diluted	\$ 1.69	\$ 1.92	\$ 0.28

Net Interest Margin



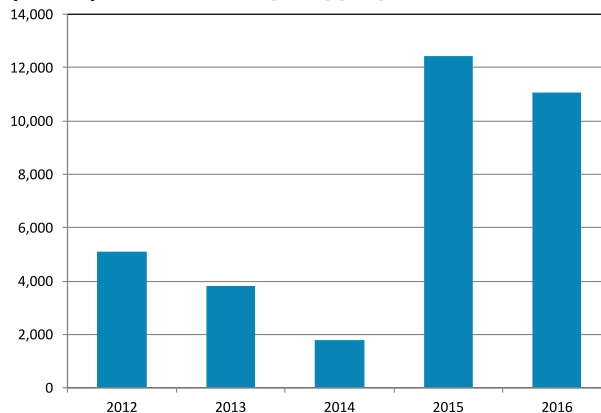
The Company's loans are its main revenue engine, and the loan yield increased more than the cost of funds increased, resulting in the Company's net interest margin rising to 4.7%.

Non-interest Expense/Average Assets



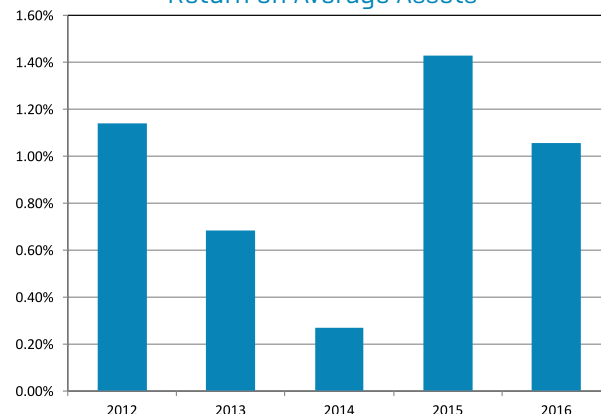
Offsetting net interest revenue is non-interest expense (e.g., salaries, occupancy, data processing, etc.) In 2016, this increased primarily due to acquisition expenses.

Net Income



Net income was solid at \$11M in 2016 despite acquisition expenses.

Return on Average Assets



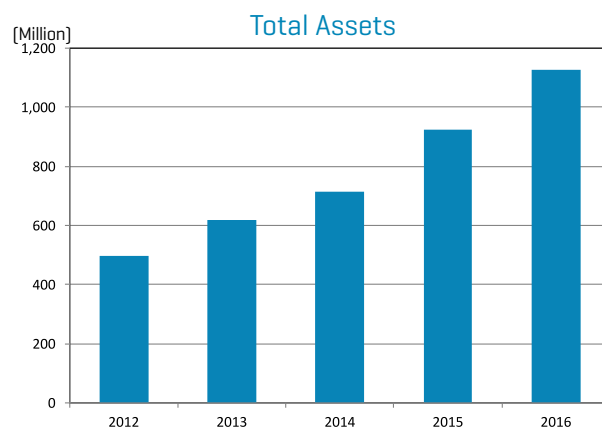
The Company's net income as percent of assets remains strong at 1.05%.

CONSOLIDATED STATEMENTS OF CASH FLOWS

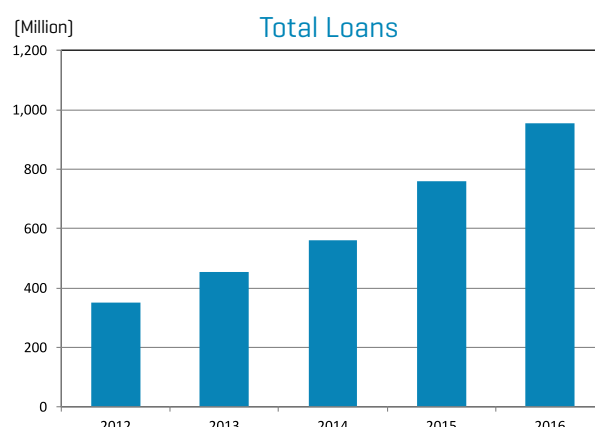
Years ended December 31, 2016, 2015 and 2014

[Dollars in thousands]

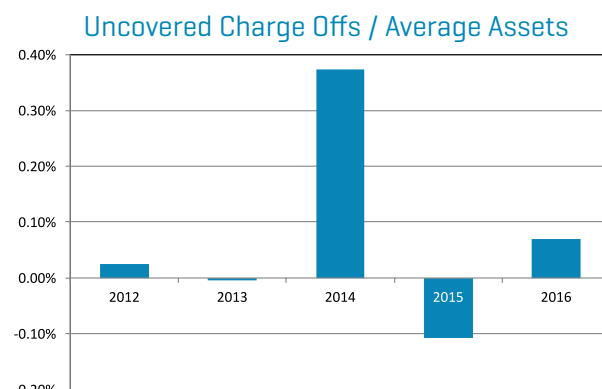
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 11,046	\$ 12,528	\$ 1,883
Adjustments to reconcile net income to net cash from operating activities			
Depreciation	1,445	1,026	845
Amortization of core deposit intangibles	233	154	112
Provision for loan losses	3,925	1,359	2,743
Discount on SBA/USDA retained loans	133	33	78
Net amortization of securities	608	864	1,061
Net realized gain on sales of securities	(926)	(280)	(149)
Origination of loans held for sale	(78,950)	(58,245)	(47,876)
Proceeds from sales of loans originated for sale	74,995	59,622	50,972
Net gain on sales on loans	(2,249)	(1,793)	(1,445)
Net accretion on acquired purchase credit impaired loans	(8,412)	(6,960)	(8,524)
OREO write downs	-	105	64
Gain on sale of OREO	(35)	(181)	(209)
Stock based compensation expense	364	114	66
Accretion of FDIC true up liability	-	-	324
Increase in cash surrender value of life insurance	(181)	(100)	(100)
Net change in:			
Accrued interest receivable and other assets	(4,658)	4,952	6,508
Accrued interest payable and other liabilities	2,865	(1,454)	713
Net cash from operating activities	203	11,744	7,066
CASH FLOWS FROM INVESTING ACTIVITIES			
Available-for-sale securities			
Sales	93,427	50,801	23,084
Maturities, prepayments and call	12,900	12,610	15,504
Purchases	(91,041)	(68,072)	(25,871)
Purchase of FHLB stock	(1,536)	-	(1,739)
Redemption of FHLB stock	-	313	6
Purchase of bank owned life insurance	(7,520)	-	-
Loan originations and payments, net	(89,466)	(109,972)	(101,173)
Proceeds from sale of OREO	116	714	1,804
Additions to premises and equipment	(3,066)	(1,050)	(890)
Net cash from (used) in acquisition	2,458	(965)	-
Net cash used in investing activities	(83,728)	(115,621)	(89,275)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in deposits	46,170	145,358	38,119
Repayment of Federal Home Loan Bank advances	(16,600)	(37,000)	-
Proceeds from Federal Home Loan Bank advances	65,000	35,000	5,000
Increase (decrease) in short term borrowings	(8,265)	(43,798)	44,899
Proceeds from issuance of subordinated debentures	-	14,733	-
Preferred stock dividends	-	(112)	(113)
Redemption of preferred stock	-	(11,287)	-
Proceeds from exercised stock options, including tax benefit	300	25	320
Net cash from financing activities	86,605	102,919	88,225
Change in cash and cash equivalents	3,080	(958)	6,016
Cash and cash equivalents at beginning of year	16,036	16,994	10,978
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 19,116	\$ 16,036	\$ 16,994
Supplemental cash flow information			
Interest paid	\$ 5,864	\$ 3,603	\$ 2,647
Taxes paid	1,200	1,050	2,700
Supplemental schedule of investing activities:			
Transfer from loans to OREO	258	399	1,019
Assets acquired -			
Bank of Michigan (2016), Lotus Bank (2015)	114,442	111,428	-
Liabilities assumed -			
Bank of Michigan (2016), Lotus Bank (2015)	102,762	98,906	-



Organic growth and an acquisition drove an increase in assets of 22% in 2016.



More than 90% of the asset growth was in loans. This growth occurred despite loan pay downs from the previous acquisitions.



Credit quality remains excellent with a .07% loss rate in 2016.



Corporate Office
 32991 Hamilton Court
 Farmington Hills, MI 48334
 248-737-0300



**Mortgage Loan
 Production Office**
 2750 South State Street
 Ann Arbor, MI 48104
 734-794-5225

Banking Center Locations



Birmingham
 1732 West Maple Road
 Birmingham, MI 48009
 248-723-4800



Ferndale
 22635 Woodward Avenue
 Ferndale, MI 48220
 248-414-6500



Bloomfield Township
 37100 Woodward Avenue
 Bloomfield Township, MI 48304
 248-530-7401



Grand Rapids
 2355 Burton St. SE
 Grand Rapids, MI 49506
 616-827-4400



Detroit
 1420 Washington Boulevard
 Detroit, MI 48226
 313-309-9980



Northville
 20550 Haggerty Road
 Northville, MI 48167
 248-380-6590



Farmington Hills
 30095 Northwestern Highway
 Farmington Hills, MI 48334
 248-865-1300



Novi
 44350 W. 12 Mile Road
 Novi, MI 48377
 248-735-1000



Farmington Hills
 31000 Northwestern Highway
 Farmington Hills, MI 48334
 248-538-7600



Sterling Heights
 43683 Schoenherr Road
 Sterling Heights, MI 48313
 586-412-1800



Farmington Hills
 30201 Orchard Lake Road
 Farmington Hills, MI 48334
 248-737-1110

