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269.795.3338

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269.763.9418

310 N Main St
Nashville, MI 49073
517.852.0790

9265 Cherry Valley
Caledonia, MI 49316
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156 W Superior
Wayland, MI 49348
269.792.6201

124 W Michigan Ave
Marshall, MI 49068
269.558.0994

Home Banking Center
269.948.2000 or
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highpointcommunitybank.com

Transfer Agent
HCB Financial Corp
Continental Stock Transfer & Trust Company
1 State St Plaza, 30th Floor
New York, NY 10004-1561
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Second Quarter Financial Report

2019



July 26, 2019

To Our Shareholders:

Enclosed is the regular quarterly cash dividend of \$.17 per share on your HCB Financial Corp. common stock. It is payable today to shareholders of record at the close of business on June 28, 2019.

Net income for the six months ended June 30, 2019, was \$1,098,000 or \$1.03 per share. This represents a 3% improvement from the first half of 2018 with earnings of \$1,071,000 or \$1.00 per share. The largest contributing factor to our increased year-over-year earnings comes from a 4% improvement in our net interest income. A 7% increase in interest income allowed for this while sufficiently offsetting a 35% increase in our interest expense along with a modest increase in our loan loss provision.

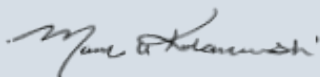
During the twelve months ended June 30, 2019, total assets decreased 1% to \$316,979,000. Total deposits decreased 2% to stand at \$252,890,000 at mid-year. Total loans grew to \$210,542,000 at the end of June, representing a 6% improvement. Shareholders' equity reached \$32,494,000, 9% more than it was one year ago, and brought the book value of our common shares to \$30.48 per share.

While loan volume has been steady, we had anticipated it to be stronger than we have seen during the first six months of the year. We are beginning to experience a pick up, particularly in the mortgage area, and remain positive that this trend will continue. We also anticipated deposit growth that we have yet to achieve this year. We continue to see a trend of dollars flowing out of FDIC insured accounts and into the stock market. These two factors are providing the largest challenges to our earnings goal this year.

Overall, our year-to-date performance has been better than we had projected in our Annual Plan. This is of special significance as our plan contains two extraordinary items that negatively impact earnings in the short term as we invest in our community bank and prepare for the future. First, the major initiative with the rebranding of our franchise is completed and successfully behind us. Secondly, we are now preparing for an exciting technology upgrade with the conversion of our core processing system which will take place in the fourth quarter. Our customers will be learning more about the conversion and its benefits in the coming months.

If you have any comments, questions or suggestions, we hope that you will contact any director or senior officer to discuss them. We are always pleased to hear from you.

Yours truly,



Mark A Kolanowski
President and Chief Executive Officer

HCB FINANCIAL CORP:

(Unaudited) Dollars in thousands, except per share data.

| Financial Highlights | Year-to-Date June 2019 | Year-to-Date June 2018 | % Change |
|----------------------------------|---------------------------|---------------------------|-------------|
| Interest Income (inc. loan fees) | \$5,717 | \$5,365 | 7% |
| Interest Expense | 522 | 387 | 35% |
| Loan Loss Provision | <u>35</u> | <u>30</u> | <u>17%</u> |
| Net Interest Income | \$5,160 | \$4,948 | 4% |
| Non-Interest Income | 1,307 | 1,340 | -2% |
| Other Non-Interest Expense | 5,345 | 5,142 | 4% |
| Federal Income Tax Provision | <u>24</u> | <u>75</u> | <u>-68%</u> |
| Net Income after Tax | <u>\$1,098</u> | <u>\$1,071</u> | <u>3%</u> |

Per Share Data

| | | | |
|----------------------------|-----------|-------|-----|
| Average Outstanding Shares | 1,066,000 | | |
| Net Income per Share | 1.03 | 1.00 | 3% |
| Dividends per Share | 0.34 | 0.30 | 13% |
| Book Value per Share | 30.48 | 27.93 | 9% |

Balance Sheet Highlights

(Unaudited) Dollars in thousands, except per share data.

| | | | |
|-------------------------|-----------|-----------|-----|
| Assets | \$316,979 | \$319,253 | -1% |
| Loans (gross) | \$210,542 | \$198,680 | 6% |
| Deposits | \$252,890 | \$258,828 | -2% |
| Interest Earning Assets | \$287,294 | \$292,686 | -2% |
| Shareholders Equity | \$32,494 | \$29,777 | 9% |