



**Sauk
Valley
Bank**

2016 Annual Report

President's Message

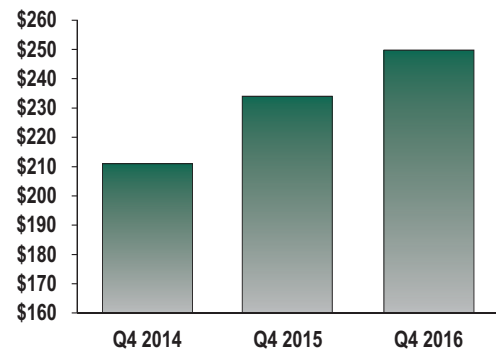
Sauk Valley Bank was built upon the principles that we build our relationships around accountability to our customers and team members, by delighting them with the attention and respect they deserve. Our commitment to building and cultivating lasting relationships drives our business every day. Keeping these principles as a priority allows us to compete effectively, while remaining focused on the most important component of our business, our customer.

Our initiatives to grow our lines of business drove another successful year in 2016, as net income increased 11% to \$2.7 million, or \$3.03 per share. Tangible book value of our common stock increased to \$27.69, representing an almost 11% increase for the year. Total assets grew to \$353.8 million, an increase of almost 6% from the prior year. The loan portfolio gained almost \$17 million, a 7% increase overall. The majority of our loan growth was attributed to our lending offices in Bettendorf, Iowa and Janesville, Wisconsin, although all our communities and areas of lending experienced positive results. Our loan growth helped drive a 12% increase in net interest income. As in years' past, we have commented on rising operating costs, knowing it is a price of doing business. One key aspect of these expenses is the regulatory costs that have become part of the entry fee to be in banking today. To attach a number to the incremental cost of regulation is difficult as all areas are impacted, but it is estimated the cost is approximately \$500,000. We recognize this is a cost of doing business, and we are willing to pay the price to stay engaged with our communities.

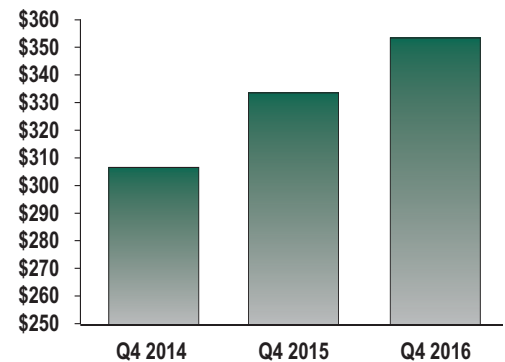
Our focus to drive growth and build sustainable earnings comes through investments made in key areas; infrastructure, people, and technology. Two significant investments we made this year were the addition of our Lockbox service and building a responsive website. Our Lockbox service is offered through the Business Services department and allows companies to outsource their receivables processing. With our technology, we can streamline the receivables operation for our customers, allowing them to become more efficient. We know that each business is unique, and because we differentiate through our service delivery, we have the ability to customize the process.

As mentioned above, the other significant investment was building a responsive website. Our upgraded site will recognize the device our visitors are using, and will respond by creating an optimum experience. We recognize that the way people gather information on the internet has changed, and continues to change. As we began this project, we also needed to evaluate products and services that we could integrate into the new site that would be ideal for the visitor. Our next step was to provide solutions to address the way technology is changing how people interact with banks. Whether it is opening an account online, upgrading our current process to enroll in online banking, or having the option to immediately close a debit card if stolen, these are all within our capability with a new site. Our progress on this new site is moving along, and we expect to launch in February of 2017. The objective with these investments is to create long-term value that will allow us to remain competitive and responsive as the landscape changes.

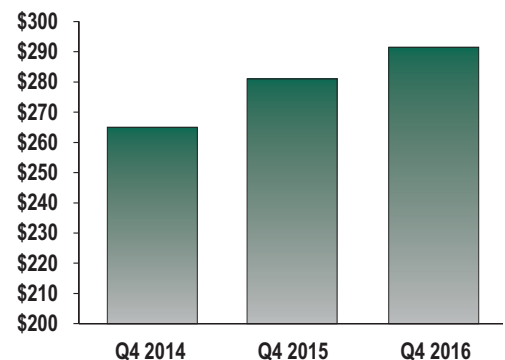
Total Loans (in millions)



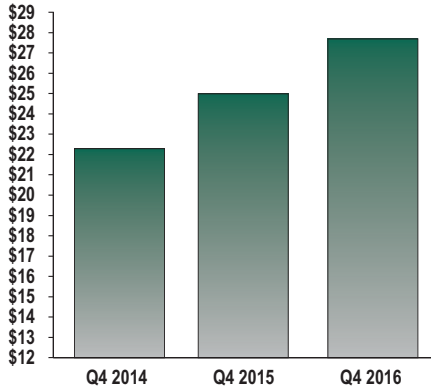
Total Assets (in millions)



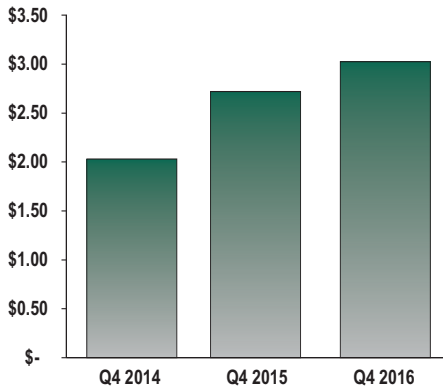
Total Deposits (in millions)



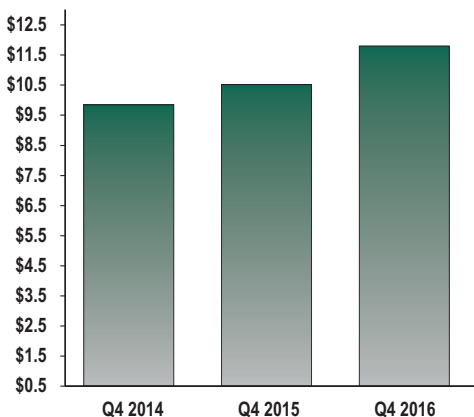
Tangible Book Value Per Share



Earnings Per Share



Net Interest Inc. (in millions)



At Sauk Valley Bank, our commitment to our communities continues to be a key aspect of our culture-so much that in 2016, we launched a community-driven initiative called "Be Great, Donate 8." This employee program promotes reinvestment by way of volunteer hours, and allows each employee an opportunity to spend 8 hours per year outside of the bank to donate time in an organization of their choice. Not only does the bank compensate an employee for those donated hours, but they are encouraged to find opportunities that occur during the work day when they normally would not be able to volunteer. In our first year, we logged an impressive 352 volunteer hours. These hours were donated at libraries, food banks, schools, blood donation centers, and other nonprofit organizations. By allowing our employees to choose where their time is donated, our outreach is wider, more meaningful to the employee, and better for our communities.

On December 31st, our previous Chief Lending Officer, Rick Erdman retired from Sauk Valley Bank. Rick gave his leadership and direction for the last 11 years, and his passion for the success of the bank was evident. Rick carried the RADAR values through everything he did. On behalf of the Board of Directors, Sauk Valley Bank and myself, we wish Rick the best in retirement, and we thank him for his years of hard work and dedication.

As we begin a new year, our focus to grow through consistent execution remains the same, and I am confident in our ability to uphold the vision that was created when we first began. We will continue to strive to be a financial institution that makes our customers, community, team members, and you, our shareholder proud.

Dick M. Cummings
President & CEO

A special note of thanks to Rick Erdman:

Rick Erdman retired on December 31st after 11 years of dedicated service to Sauk Valley Bank.

In his role, Rick worked to drive and grow the lending department to what it is today. His knowledge and experience has been an asset to our institution.

One of the things he enjoyed most about his job was having the opportunity to mentor new lenders, watching them succeed in their roles, and in their careers.



Rick has shared he looks forward to retirement to be able to spend more time with his family, traveling to new places, and having an opportunity to volunteer in his community.

Saying a thank you for what contributions Rick has made to Sauk Valley Bank would be a vast understatement.

Rick will be missed, and we wish him the best as he begins this next chapter.

Enjoy your retirement, Rick.

SV Financial Inc.

Selected Consolidated Financial Data

	Year Ended December 31,		
	2016	2015	2014
Income Statement Data:			
Interest Income	\$ 13,456,076	\$ 11,954,469	\$ 11,335,095
Interest Expense	1,662,421	1,438,596	1,492,991
Net Interest Income	11,793,655	10,515,873	9,842,104
Provision for Loan Losses	400,000	75,000	325,000
Non-Interest Income	2,857,888	2,357,478	1,203,024
Non-Interest Expense	10,222,000	9,176,722	7,923,674
Pre-Tax Earnings	4,029,543	3,621,629	2,796,454
Income Tax Expense	1,316,404	1,195,000	879,937
Net Income	2,712,933	2,426,629	1,916,517
Per Common Share Data:			
Earnings	\$ 3.03	\$ 2.72	\$ 2.03
Tangible Book Value per Share	27.69	24.99	22.29
Book Value per Share	26.98	25.07	22.69
Shares Outstanding	896,828	896,828	942,041
Balance Sheet Data at Period End:			
Total Assets	\$ 353,881,354	\$ 334,311,485	\$ 307,493,548
Total Loans	250,316,511	234,187,626	210,824,928
Allowance for Loan Losses	2,402,820	2,600,452	2,270,328
Total Investment Securities	80,337,282	79,865,398	77,655,320
Total Deposits	291,486,000	281,136,269	265,173,624
Total Stockholders' Equity	24,195,446	22,484,689	21,378,206
Loan to Deposit Ratio	85.88%	83.30%	79.50%
Average Ratios:			
Return on Average Assets	0.78%	0.76%	0.64%
Return on Average Stockholders' Equity	11.36%	11.22%	9.63%
Net Interest Margin	3.46%	3.42%	3.86%
Asset Quality Ratios:			
Net Charge-Offs as a Percentage of Average Total Loans	0.25%	(0.12%)	0.04%
Non Performing Loans to Total Loans	0.59%	0.88%	1.47%
Allowance for Loan Losses as a Percentage of Total Loans	0.96%	1.11%	1.08%



Ronald Gerken
Chairman of the Board



Robert Hill
Vice Chair



Dirk Meminger
President and CEO



John Berge
Director



James L. Reese
Director



Kelly Keaschall
Director



Mary Whelan
Director



Dr. David Yeager
Director



Steve Munson
Director

A note from the Chairman:

On behalf of the Board of Directors, I would like to express my appreciation to the Sauk Valley Bank team for their hard work and dedication this past year. I would also like to thank our customers for entrusting us to be their financial partner. Finally, I would like to thank you, our shareholder for the confidence you have placed in us as we strive to ensure you see value in our organization now, and in the future.

Sincerely,

Ronald Gerken
Chairman of the Board



R.A.D.A.R.

AT SAUK VALLEY BANK,

We build our

RELATIONSHIPS

around

ACCOUNTABILITY

to our customers and team members by

DELIGHTING

them with the

ATTENTION

and

RESPECT

they deserve.

