



1st QUARTER

Board of Directors

Michael D. Bierlein

Mitzi M. Dimitroff

Joseph R. Fabiano II

Richard O. Goedert

Michael L. Hanisko

Scott L. Holman

Phillip L. List

James R. Milroy

Terry R. Niederstadt

James J. Shinnors

Lynn R. Wolgast



Bauer Financial, Inc.

A 5-Star Superior Rating denotes that 1st State Bank is among the strongest banks in the nation

A Letter from the President

To Our Shareholders,



As this is my first “Letter from the President”, I can’t think of a more appropriate way to start than to first thank the Board of Directors for having the confidence in me to succeed Rick Goedert as President & CEO. In addition, I can’t thank Rick enough for not only his support and guidance during this transition period, but also for his ongoing leadership the past 12 years providing a strong foundation from which we can build upon going forward.

As evidence of that, we are pleased to report a strong start to 2019. Net income for the quarter was \$703,500, an increase of 25% over the first quarter in 2018. Growth in net interest income provided the increase in earnings as a result of both greater loan outstandings as well as an improved net interest margin. For the first time in our history, we are able to report a Return on Average Assets for the quarter of 1.00%, an established goal we have been targeting for a long time.

While competition for deposits, a flat yield curve and moderation in economic activity are concerns, our message of being a locally owned business bank continues to gain traction. We are receiving receptive audiences not only in Saginaw and Bay Counties, but in Midland County as well with the opening of our latest physical branch location in downtown Midland on October 1st, 2018.

On April 18th, your Board of Directors approved a quarterly cash dividend of \$.05 per share. This dividend will be paid on May 21st to shareholders of record on May 10th.

Please see page two of this newsletter for a summary of this year’s Annual Shareholders meeting held on May 8th. As always, we appreciate your investment in 1st State Bank and your ongoing support of our mission of serving the business community in the Great Lakes Bay Region.

Sincerely,

Jim Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>03/31/2019</u>	<u>12/31/2018</u>	<u>03/31/2018</u>
<u>Assets</u>			
Cash Equivalents and Investments	\$ 69,434,236	\$ 69,658,686	\$ 54,993,560
Loans, net of reserve for loan losses	197,822,509	195,782,132	185,328,370
Other assets	18,012,179	17,468,747	14,619,067
Total Assets	<u>\$ 285,268,924</u>	<u>\$ 282,909,565</u>	<u>\$ 254,940,997</u>
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 239,729,232	\$ 237,874,223	\$ 211,557,347
Other Borrowings & Other Liabilities	18,255,321	18,457,189	20,959,922
Total Liabilities	<u>257,984,553</u>	<u>256,331,412</u>	<u>232,517,269</u>
Total Shareholders' Equity	<u>27,284,371</u>	<u>26,578,153</u>	<u>22,423,728</u>
Total Liabilities and Shareholders' Equity	<u>\$ 285,268,924</u>	<u>\$ 282,909,565</u>	<u>\$ 254,940,997</u>

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>03/31/2019</u>	<u>03/31/2018</u>
Net Interest Income	\$ 2,761,031	\$ 2,312,907
Provision for Loan Losses	90,000	60,000
Net Interest Income After Provision for Loan Losses	2,671,031	2,252,907
Other Income	473,749	444,611
Other Expense	<u>2,253,738</u>	<u>1,981,371</u>
Net Income Before Federal Income Tax	891,042	716,147
Federal Income Tax Expense	187,500	153,400
Net Income Available to Common Shareholders	<u>\$ 703,542</u>	<u>\$ 562,747</u>

PERFORMANCE RATIOS

	<u>03/31/2019</u>	<u>12/31/2018</u>	<u>03/31/2018</u>
Return on Average Assets - YTD	1.00%	0.94%	0.90%
Return on Average Equity - YTD	10.60%	10.30%	10.37%
Independent Valuation Stock Price	\$ 19.05	\$ 18.25	\$ 14.50
Net Book Value per Share	\$ 15.99	\$ 15.63	\$ 14.58
Price to Book Value	1.19	1.17	0.99
P/E Ratio (TTM)	11.9x	11.9x	11.7x
Earnings per Share	\$ 0.41	\$ 1.54	\$ 0.37

Quarterly Highlights

Rick's Retirement Open House

On Friday, April 12th, we celebrated the retirement of Rick Goedert as President & CEO of 1st State Bank. Many of the Bank's shareholders, customers, partners and friends stopped by to wish Rick well on his retirement. In recognition of his leadership and his creation of the RUBY Award, Rick was presented with a honorary RUBY Award.



Outgoing and Incoming



Rick receiving his RUBY Award

Annual Meeting Recap

The 15th Annual 1st State Financial Shareholder Meeting was held on Wednesday, May 8. The meeting began with a vote to reelect James Milroy, Phillip List and Terry Niederstadt to the Board of Directors of 1st State Financial. Following the reelection, Kevin Fraser, Vice President & Controller of 1st State Bank, reviewed the 2018 financial highlights. During the meeting, it was announced that Founding Board Member Scott Holman has chosen to not stand for reelection. Chairman Phil List commemorated Scott's leadership and honored him with the title of Director Emeritus. The retirement of Rick Goedert was also acknowledged with a tribute to his career at 1st State and his twelve years of being President & CEO.



Phil List and Scott Holman



The Shareholders arriving at the meeting

OFFICE LOCATIONS



MAIN OFFICE
4800 Fashion Square Blvd.
Saginaw, MI 48604
989.799.7500



STATE STREET
5424 State Street
Saginaw, MI 48603
989.596.7500



DOWNTOWN BAY CITY
601 N. Madison Ave.
Bay City, MI 48708
989.322.7500



WILDER ROAD
3907 Wilder Road
Bay City, MI 48706
989.439.7500



DOWNTOWN MIDLAND
400 Ashman Street
Midland, MI 48640
989.492.7500

Shareholder Contact

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Events of Note

- **Bank Holiday Closures**
Memorial Day Monday, May 27
Independence Day Thursday, July 4

