



2nd QUARTER

Board of Directors

Phillip L. List

Chairman of the Board

James R. Milroy

Richard O. Goedert

Terry R. Niederstadt

Michael D. Bierlein

James J. Shiners

Lynn R. Wolgast

Mitzi M. Dimitroff

Joseph R. Fabiano II

Michael L. Hanisko

Max D. Holman

Paul J. Barbeau



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,



Operating performance in 2019 continues to be strong. Through June 30, 2019, net income totaled \$1,625,000, an increase of \$392,000 or 32% over June 30, 2018. Growth in profits was primarily due to increased net interest income. Improvement in our margin along with growth in loans combined to increase our main source of revenue by \$861,000 year-over-year. In addition, increased revenue from a number of non-interest income sources helped to offset additional overhead costs as well as additional expense for the provision for loan loss in 2019. The Bank incurred a significant loan charge-off associated with a single customer during the second quarter and provided the necessary provision to maintain an adequate reserve for loan losses.

While we are enjoying a good year, potential challenges exist. Softening of certain economic indicators appears to be increasing the likelihood of rate reductions by the Federal Reserve. 1st State Bank has benefited from rising rates over the past few years and is taking measures to guard against a change in direction. A potential softening in the economy also challenges us to anticipate asset quality issues as best we can. Competition is a constant along with the challenge of attracting new core deposits.

On July 18, 2019, the Board of Directors approved a quarterly cash dividend of \$.05 per share, unchanged from the prior quarter. The first three quarter dividends in 2019 total \$.15 per share versus \$.115 per share in 2018, an increase of 30%. This quarter's dividend will be paid on August 20th, to shareholders of record on August 9th.

We are pleased to announce the appointment of Max Holman and Paul Barbeau to our Board of Directors. Both Max and Paul are RUBY Award recipients and we are looking forward to their contributions as board members. Please see page two of this newsletter for a summary of their backgrounds. On page two you will also see a summary of officer promotions announced in May.

As always, we appreciate your support and referrals of new customers to the Bank.

Sincerely,

Jim Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>06/30/2019</u>	<u>12/31/2018</u>	<u>06/30/2018</u>
Assets			
Cash Equivalents and Investments	\$ 56,057,644	\$ 69,658,686	\$ 53,279,502
Loans, net of reserve for loan losses	205,909,495	195,782,132	187,788,704
Other assets	17,750,904	17,468,747	15,126,011
Total Assets	\$ 279,718,043	\$ 282,909,565	\$ 256,194,217
Liabilities and Shareholders' Equity			
Deposits	\$ 230,880,082	\$ 237,874,223	\$ 212,013,963
Other Borrowings & Other Liabilities	20,619,485	18,457,189	19,649,627
Total Liabilities	251,499,567	256,331,412	231,663,590
Total Shareholders' Equity	28,218,476	26,578,153	24,530,627
Total Liabilities and Shareholders' Equity	\$ 279,718,043	\$ 282,909,565	\$ 256,194,217

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>06/30/2019</u>	<u>06/30/2018</u>	<u>06/30/2019</u>	<u>06/30/2018</u>
Net Interest Income	\$ 2,842,658	\$ 2,429,411	\$ 5,603,690	\$ 4,742,318
Provision for Loan Losses	105,000	65,000	195,000	125,000
Net Interest Income After Provision for Loan Losses	2,737,658	2,364,411	5,408,690	4,617,318
Other Income	623,619	486,218	1,097,368	930,829
Other Expense	<u>2,191,617</u>	<u>2,004,713</u>	<u>4,445,355</u>	<u>3,986,084</u>
Net Income Before Federal Income Tax	1,169,660	845,916	2,060,703	1,562,063
Federal Income Tax Expense	248,500	176,300	436,000	329,700
Net Income Available to Common Shareholders	\$ 921,160	\$ 669,616	\$ 1,624,703	\$ 1,232,363

PERFORMANCE RATIOS

	<u>06/30/2019</u>	<u>12/31/2018</u>	<u>06/30/2018</u>
Return on Average Assets - YTD	1.15%	0.94%	0.97%
Return on Average Equity - YTD	11.98%	10.30%	10.92%
Independent Valuation Stock Price	\$ 19.60	\$ 18.25	\$ 16.75
Net Book Value per Share	\$ 16.50	\$ 15.63	\$ 14.95
Price to Book Value	1.19	1.17	1.12
P/E Ratio (TTM)	11.5x	11.9x	12.7x
Earnings per Share	\$ 0.95	\$ 1.54	\$ 0.79

Quarterly Highlights

OFFICE LOCATIONS

Introducing Two New Board Members

1st State Bank is proud to introduce two new members to our Board of Directors, Max Holman and Paul Barbeau.



Max Holman is a co-owner of The Bay Cast Companies and President & General Manager of Bay Cast Incorporated. He is a current board member of Bay Area Community Foundation, and Steel Founders Society of America. Holman has also served as board member for Bay Area Chamber of Commerce, Michigan Chamber of Commerce, Great Lakes Bay Economics Club, Junior Achievement of North Central Michigan, and the local board for the American Foundry Society. Holman graduated from Michigan Technological University with a degree in Electrical Engineering. Holman and his wife Lisa reside in Bay City with their three children.



Paul Barbeau works for Dow as Director, Real Estate Strategy and Facility Development. Barbeau serves on various boards and committees including the Greater Midland Community Center Board of Directors, Michigan Baseball Foundation Board of Directors, and Downtown Development Authority, City of Midland, Board of Directors. He earned his bachelor's degree in history and government from Georgetown University and his Master's in Business Administration degree from the University of Michigan, Ross School of Business. He resides in Midland with his wife Shauna and two children.

Both Holman and Barbeau are recipients of 1st State Bank's RUBY Award.

1st State Bank Promotes Six Officers

Kevin Fraser has been promoted to Senior Vice President & Chief Financial Officer. Fraser joined 1st State Bank in 2009 and has 20 years of experience in the accounting industry.

Denise Avery has been promoted to Senior Vice President. Avery oversees Deposit Operation Services, Compliance, and Bank Secrecy. Avery has worked for 1st State Bank since 2015 and has 18 years of banking experience.

Craig Loree, Bank Security Officer & Information Systems Officer, has been promoted to Senior Vice President. Loree joined 1st State Bank in 2010 and has 30 years of Information Systems experience.

Brittney Welke has been promoted to Banking Officer & Loan Administration Manager. Welke started at 1st State Bank in 2012 as a Loan Specialist and has 12 years of banking experience.

Kimberly Amley has been promoted to Banking Officer & Compliance Officer. Amley joined 1st State Bank in 2018 as Compliance Specialist and has 17 years of banking experience.

Cynthia Holliday has been promoted to Banking Officer & Bank Secrecy Officer. Holliday has over 18 years of banking experience and began working at 1st State Bank in 2017 as a Deposit Operations Specialist.



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

- **RUBY Award Nominations - Begin September 3**
Visit 1stStateBk.com to make your nomination
- **Holiday Banking Hours**

Closed Labor Day September 2

Open Columbus Day Oct. 14 & Veteran's Day Nov. 11

