



3rd 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,



Net income through September 30, 2019 totaled \$2,419,000, an increase of \$430,000 or 22% over the same time period in 2018. Growth in net interest income created by an improved net interest margin along with 10% growth in net loans continues to drive our operating performance. With the general decline in interest rates during the 3rd quarter, mortgage origination activities benefited from increased purchase and refinance transactions. Mortgage origination income is up \$135,000 or 28% from this same point in time last year with continued strong activity levels anticipated through the 4th quarter.

Throughout the year the Bank has seen an increase in the dollar level of loans considered to be in a problem status. While the increase is limited to only a few larger credits, it has resulted in the Bank increasing 2019's provision for loan losses to \$395,000 versus \$210,000 in 2018. We anticipate this negative variance in provision expense to continue through the 4th quarter in order to maintain an adequate level of loan loss reserves.

On October 17, 2019, your Board of Directors approved a quarterly cash dividend of \$.05 per share. This dividend will be paid in the 4th quarter on November 20th to shareholders of record on November 8th. Total dividends paid in 2019 will equal \$.20 per share, an increase of 29% over the \$.155 per share paid in 2018.

October 1, 2019 marked the one year anniversary of opening our Midland branch. The increased presence of our dedicated staff and physical location has been well received by the community. Given the changing competitive landscape, opportunities exist for 1st State Bank, a business bank that is truly "In town. In touch." and we are pleased with the progress we have made in Midland thus far.

Continued support and customer referrals from you, our shareholders, are greatly appreciated.

Sincerely,

Jim Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	09/30/2019	12/31/2018	09/30/2018
Assets			
Cash Equivalents and Investments	\$ 68,119,163	\$ 69,658,686	\$ 67,992,941
Loans, net of reserve for loan losses	205,811,768	195,782,132	187,716,840
Other assets	17,639,800	17,468,747	16,405,745
Total Assets	\$ 291,570,731	\$ 282,909,565	\$ 272,115,526
Liabilities and Shareholders' Equity			
Deposits	\$ 242,667,171	\$ 237,874,223	\$ 227,521,598
Other Borrowings & Other Liabilities	19,893,685	18,457,189	18,551,872
Total Liabilities	262,560,856	256,331,412	246,073,470
Total Shareholders' Equity	29,009,875	26,578,153	26,042,056
Total Liabilities and Shareholders' Equity	\$ 291,570,731	\$ 282,909,565	\$ 272,115,526

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		NINE MONTHS ENDING	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Net Interest Income	\$ 2,804,840	\$ 2,593,603	\$ 8,408,530	\$ 7,335,921
Provision for Loan Losses	200,000	85,000	395,000	210,000
Net Interest Income After Provision for Loan Losses	2,604,840	2,508,603	8,013,530	7,125,921
Other Income	582,979	572,963	1,680,347	1,503,792
Other Expense	2,180,798	2,123,101	6,626,153	6,109,185
Net Income Before Federal Income Tax	1,007,021	958,465	3,067,724	2,520,528
Federal Income Tax Expense	213,000	201,900	649,000	531,600
Net Income Available to Common Shareholders	\$ 794,021	\$ 756,565	\$ 2,418,724	\$ 1,988,928

PERFORMANCE RATIOS

	09/30/2019	12/31/2018	09/30/2018
Return on Average Assets - YTD	1.13%	0.94%	1.02%
Return on Average Equity - YTD	11.64%	10.30%	11.23%
Independent Valuation Stock Price	\$ 20.25	\$ 18.25	\$ 16.75
Net Book Value per Share	\$ 16.92	\$ 15.63	\$ 15.35
Price to Book Value	1.20	1.17	1.09
P/E Ratio (TTM)	11.8x	11.9x	12x
Earnings per Share	\$ 1.42	\$ 1.54	\$ 1.24

Quarterly Highlights

1st State Bank on the Move



1st State Bank's Employee Activity Committee planned a night of adventure with Sunrise Pedal Trolley! The Bank staff enjoyed spending the evening together pedaling the streets of Bay City. It was a night full of music, fun, and laughter. Along with planning staff events, the Employee Activity Committee is also responsible for choosing local non-profits to donate weekly Jean Day contributions, and arranging with local shelters to provide Christmas gifts to local families.

Midland Daily News - Reader's Choice Award

Our Midland Mortgage lender Ali Ellis has been awarded the Silver Medal for Best Mortgage Lender in the Midland Daily News Reader's Choice Award. Congratulations to Ali on this accomplishment! Thank you to all that had voted!

1st STATE BANK

Thank you for your support!

**Best Mortgage Lender
Silver Medal**

Ali Ellis
989.492.7500
AliE@1stStateBk.com
NMLS #883429

400 Ashman St. Midland, MI 48640

FDIC

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

Kevin Fraser
(989) 272-7585
KevinF@1stStateBk.com

Events of Note

- Holiday Banking Closures**
 - Thanksgiving Day - Thursday, November 28
 - Christmas Eve - Tuesday, December 24 - Closing at 1pm
 - Christmas Day - Wednesday, December 25
 - New Years Day - Wednesday, January 1

