



2019 ANNUAL REPORT





Corporate Community Service Award

The Saginaw County Chamber of Commerce Corporate Community Service Award recognizes a Chamber member business/corporation in Saginaw County that has made a notable contribution to the quality of life in Saginaw County. These contributions can take the form of employee volunteerism and corporate financial support for those activities that enrich, protect or entertain the citizenry of the County of Saginaw.

1st State Bank had the amazing honor of receiving the award at the Saginaw County Chamber of Commerce Chairman's Ball. We are proud to be recognized for our contributions to the growth and success of the business community in the Great Lakes Bay Region.

This award is also a wonderful tribute to our employees and the dedication of their time, talents and service to local business and non-profit organizations throughout our region.



To Our Shareholders,

1st State Financial, Ltd. earned a record \$2.9 million in 2019. This year's earnings exceeded record earnings in 2018 by 14%. The efficiency of our earnings, measured by Return on Average Assets, also improved from .94% in 2018 to .98% in 2019 and our Return on Average Equity remained above 10%.

Strong growth in the balance sheet and a slightly improved net interest margin combined to grow net interest income by \$1.2 million, which fueled the rise in net income. The balance sheet grew because customer deposit balances increased \$38 million, or 16%, in 2019. New customer relationships along with additional balances from existing relationships, primarily in lower costing transaction accounts, combined to produce these favorable results and allowed us to finish the year in excess of \$300 million in total assets.

1st State Bank is a business bank with a broad mission of helping businesses succeed in the Great Lakes Bay Region. We do that by investing in loans and payment services our customers need and value; delivering those services in a personal and convenient manner; and by supporting and being involved in the broader business community in the Region.

1st State Bank's reputation and brand as "the bank for business" continues to strengthen and grow. 2019 was the first full year of operation in our downtown Midland office and we are pleased with the reception of the business community in Midland and resulting opportunities. By delivering quality, expedient service in all our communities, over the past three years 1st State Bank enjoyed annual growth in deposits of 14%. In comparison, nationally, community banks experienced deposit growth of 5%. Over the same three-year period, we also enjoyed strong annual growth in loans of 9%.

As shown on the opposite page, 1st State Bank was honored by the Saginaw County Chamber of Commerce with its Corporate Community Service Award for our contribution to the quality of life in Saginaw County through employee volunteerism and bank support of activities enriching its citizens. Being involved in our community, with focus on our business community, has been integral to 1st State Bank's way of doing business from the start. Our dedicated and passionate employees do this throughout Saginaw, Bay and Midland counties. We appreciate being recognized and the knowledge our efforts are making a difference.

During 2019, Rick Goedert retired as President and CEO after 12 years in that role. We can not thank him enough for his leadership from the Bank's formative years through today. In addition, Scott Holman, one of our founding directors, did not stand for reelection in May. We thank Scott for his guidance as a founding director. During 2019, we also welcomed Paul Barbeau and Max Holman to the Board of Directors and look forward to their contributions as new members.

As always, we thank you for your support of 1st State Bank as the bank for business in Saginaw, Bay and Midland counties.

Sincerely,

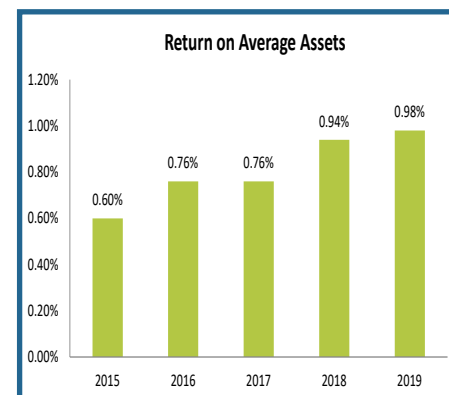
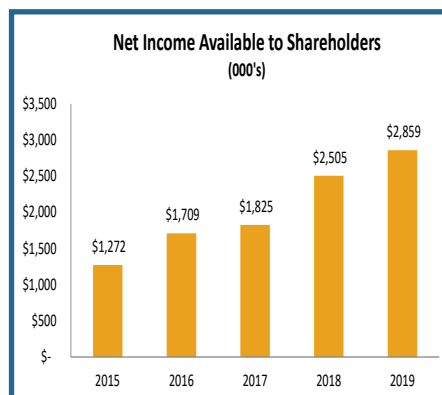
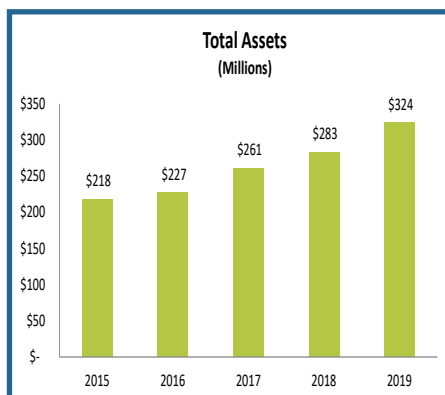
James R. Milroy
President & CEO

CONSOLIDATED BALANCE SHEET

	<u>12/31/2019</u>	<u>12/31/2018</u>
Assets		
Cash and cash equivalents	\$ 89,550,609	\$ 62,861,826
Investments	3,713,729	6,714,881
Loans, net of reserve for loan losses	212,851,297	195,794,609
Premises and equipment, net	14,885,067	15,056,397
Repossessed assets	158,676	296,676
Other assets	<u>2,514,505</u>	<u>2,483,448</u>
Total Assets	<u>\$323,673,883</u>	<u>\$283,207,837</u>
Liabilities and Shareholders' Equity		
Interest bearing deposits	\$166,164,313	\$130,791,742
Non-interest bearing deposits	109,566,480	107,082,481
Borrowed funds	16,500,000	16,500,000
Other liabilities	<u>1,980,284</u>	<u>2,255,252</u>
Total Liabilities	294,211,077	256,629,475
Total Shareholders' Equity	<u>29,462,806</u>	<u>26,578,362</u>
Total Liabilities and Shareholders' Equity	<u>\$323,673,883</u>	<u>\$283,207,837</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31	
	<u>2019</u>	<u>2018</u>
Interest Income	\$ 13,155,140	\$ 11,382,874
Interest Expense	<u>1,590,948</u>	<u>979,654</u>
Net Interest Income	11,564,192	10,403,220
Provision for loan losses	<u>995,000</u>	<u>450,000</u>
Net Interest Income After Provision for Loan Losses	10,569,192	9,953,220
Other Income	1,566,939	1,322,327
Other Expense	<u>8,508,939</u>	<u>8,100,654</u>
Income Before Federal Income Tax	3,627,192	3,174,893
Federal Income Tax Expense	<u>768,000</u>	<u>670,100</u>
Net Income	<u>\$ 2,859,192</u>	<u>\$ 2,504,793</u>



SELECTED FINANCIAL DATA

This unaudited table sets forth selected historical consolidated financial information derived from our audited consolidated financial statements for the five years ended December 31, 2019.

Dollars in thousands, except per share data	2019	2018	2017	2016	2015
Net Income Available to Common Shareholders	\$ 2,859	\$ 2,505	\$ 1,825	\$ 1,709	\$ 1,272

BALANCE SHEET DATA (DECEMBER 31)

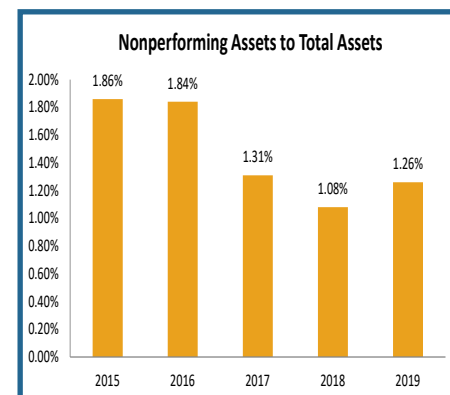
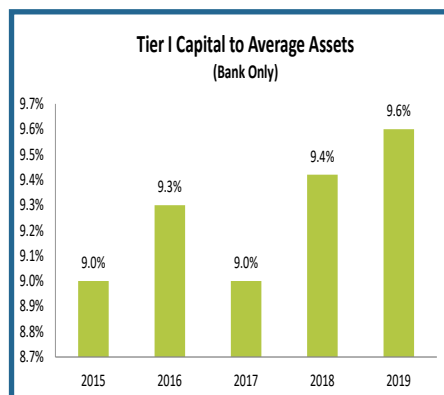
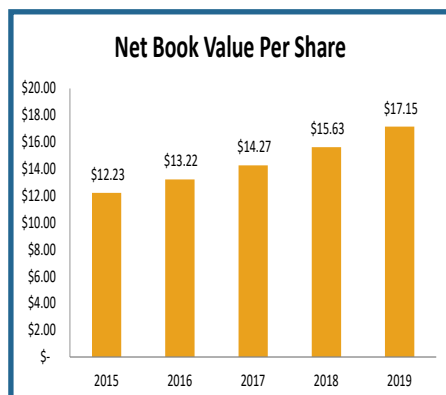
Total Assets	\$ 323,674	\$ 283,208	\$ 260,843	\$ 226,562	\$ 218,377
Total Loans	216,013	198,659	183,087	171,067	159,465
Total Deposits	275,731	237,874	217,523	192,516	187,396
Total Shareholders' Equity	29,463	26,578	21,492	21,109	19,476
Tier I Capital to Average Assets (Bank Only)	9.66%	9.42%	8.97%	9.34%	8.96%
Net Book Value per Common Share	\$ 17.15	\$ 15.63	\$ 14.27	\$ 13.22	\$ 12.23
Independent Valuation Stock Price	\$ 20.60	\$ 18.25	\$ 14.50	\$ 12.90	\$ 11.50

PERFORMANCE RATIOS

Return on Average Assets	0.98%	0.94%	0.76%	0.76%	0.60%
Return on Average Common Equity	10.16%	10.30%	8.38%	8.41%	6.79%
Net Interest Margin	4.17%	4.08%	3.93%	3.66%	3.55%
Net Income per Average Common Share	\$ 1.67	\$ 1.54	\$ 1.16	\$ 1.07	\$ 0.80

ASSET QUALITY MEASURES

Net Loan Charge-offs (Recoveries)	\$ 698	\$ 531	\$ 83	\$ (88)	\$ 224
Net Loan Charge-offs to Average Total Loans	0.34%	0.28%	0.05%	(0.05%)	0.15%
Allowance for Loan Losses to Total Loans	1.47%	1.44%	1.61%	1.52%	1.35%
Non-performing Assets to Total Assets	1.26%	1.08%	1.31%	1.84%	1.86%



1ST STATE BANK BOARD OF DIRECTORS



Phillip List
Chairman of the Board



Rick Goedert
Vice Chairman of the Board



Jim Milroy



Terry Niederstadt



Jake Shiners



Mike Bierlein



Lynn Wolgast



Mitzi Dimitroff



Joe Fabiano



Mike Hanisko



Max Holman



Paul Barbeau

LOCATIONS



4800 Fashion Square Boulevard
Saginaw, MI 48604
989.799.7500



5425 State Street
Saginaw, MI 48603
989.596.7500



601 N. Madison Avenue
Bay City, MI 48708
989.322.7500



3907 Wilder Road
Bay City, MI 48706
989.439.7500



400 Ashman Street
Midland, MI 48640
989.492.7500



In town. In touch.



989.799.7500
1stStateBk.com

