



4th 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,



2019 was a successful year for 1st State Financial and 1st State Bank, one that saw us achieve several new milestones. First, extremely strong growth in deposits during the 4th quarter, funded primarily by new deposit relationships, helped to propel the Company past \$300 million in total assets for the first time. In addition, 2019 marked record earnings, finishing the year with \$2,859,000 in net income, an increase of \$354,000 or 14% over the previous year. Return on Average Assets was a record .98% and Return on Average Equity remained above 10%.

As reported throughout the year, growth in average earning assets combined with an improved net interest margin contributed to net interest income growth in 2019. In addition, record mortgage origination activity helped to increase other income. We did incur a large loan charge-off on a single relationship during the 4th quarter, resulting in a significant increase in the provision for loan loss expense this year. However, the strength of our overall performance helped to absorb this expense and still produce record earnings

Dividends per share totaled \$.20 per share in 2019, an increase of 29% over 2018's \$.155 per share. We are pleased to report on January 16, 2020 your Board of Directors approved a quarterly cash dividend of \$.06 per share, an increase of 20% over the previous quarter's dividend of \$.05 per share. This dividend will be paid on February 19th to shareholders of record on February 7th.

While we are pleased with 2019's results, we know challenges are ever present. The economic and political environment is continually changing while competitive pressures remain constant. However, as 1st State Bank's reputation in the business community continues to strengthen and grow, we believe we can successfully meet these challenges. We appreciate your investment and support in 1st State Bank, which is critical to our mission of being the bank for business.

Sincerely,

Jim Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>12/31/2019</u>	<u>12/31/2018</u>
<u>Assets</u>		
Cash Equivalents and Investments	\$ 93,327,828	\$ 69,658,686
Loans, net of reserve for loan losses	212,620,478	195,782,132
Other assets	17,575,515	17,468,747
Total Assets	<u>\$ 323,523,821</u>	<u>\$ 282,909,565</u>
<u>Liabilities and Shareholders' Equity</u>		
Deposits	\$ 275,730,793	\$ 237,874,223
Other Borrowings & Other Liabilities	18,330,222	18,457,189
Total Liabilities	<u>294,061,015</u>	<u>256,331,412</u>
Total Shareholders' Equity	<u>29,462,806</u>	<u>26,578,153</u>
Total Liabilities and Shareholders' Equity	<u>\$ 323,523,821</u>	<u>\$ 282,909,565</u>

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>TWELVE MONTHS ENDING</u>	
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2019</u>	<u>12/31/2018</u>
Net Interest Income	<u>\$ 2,810,652</u>	<u>\$ 2,718,083</u>	<u>\$ 11,219,181</u>	<u>\$ 10,054,004</u>
Provision for Loan Losses	600,000	240,000	995,000	450,000
Net Interest Income After Provision for Loan Losses	<u>2,210,652</u>	<u>2,478,083</u>	<u>10,224,181</u>	<u>9,604,004</u>
Other Income	<u>659,154</u>	<u>504,620</u>	<u>2,339,502</u>	<u>2,008,412</u>
Other Expense	<u>2,310,338</u>	<u>2,328,338</u>	<u>8,936,491</u>	<u>8,437,523</u>
Net Income Before Federal Income Tax	<u>559,468</u>	<u>654,365</u>	<u>3,627,192</u>	<u>3,174,893</u>
Federal Income Tax Expense	119,000	138,500	768,000	670,100
Net Income Available to Common Shareholders	<u>\$ 440,468</u>	<u>\$ 515,865</u>	<u>\$ 2,859,192</u>	<u>\$ 2,504,793</u>

PERFORMANCE RATIOS

	<u>12/31/2019</u>	<u>12/31/2018</u>
Return on Average Assets - YTD	0.98%	0.94%
Return on Average Equity - YTD	10.16%	10.30%
Independent Valuation Stock Price	\$ 20.60	\$ 18.25
Net Book Value per Share	\$ 17.15	\$ 15.63
Price to Book Value	1.20	1.17
Earnings per Share	\$ 1.67	\$ 1.54

Quarterly Highlights

Technology & Service Updates

This quarter we updated our Business Online Banking with a new design and intuitive navigation.

Beginning February 29th, our new SecureAlerts can let you know the moment something important happens in your account. Messages you choose to receive are sent instantly via email, text, or by push notifications on your smartphone with our Mobile Banking app. With our free SecureAlerts you'll always know exactly what's happening with your money, and you can watch for suspicious activity.

During the first quarter of 2020 we will be releasing a new 1stStateBk.com. This new website will have a fresh and modern design.

We are excited to announce our new check partner Main Street. With Main Street you will receive quicker turnaround times, cost savings, customizable check designs and more! To place your next check order call or stop into any of our five office locations.

Employee Spotlight

The 1st State Bank Employees brought Christmas joy to families across the Great Lakes Bay Region in December. The Bank's Employee Activity Committee, coordinated with local women's shelters to provide gifts to the families.



You're Invited to the 15th Annual RUBY Award



Tuesday, February 25, 2020

Apple Mountain Conference Center

Cocktails 5:00pm • Dinner Served 5:45pm • Guest Speaker & Award Celebration 6:15pm

Guest Speaker: Jim Fitterling

Chief Executive Officer of Dow

Cost \$40.00 per Person

Join the Celebration! RSVP to 989.596.0847

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

Closed President's Day Monday February 17th
Inservice Day for Employees

