



NEWSLETTER

Your Bank For Business

2ND 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

Terry R. Niederstadt

James J. Shanners

Lynn R. Wolgast

David M. Hall

Director Emeritus

Richard T. Watson

Director Emeritus

A Letter from the President

To Our Shareholders,



On July 20th, the Board of Directors approved our third quarterly dividend of \$.035 per share. This dividend will be paid on August 25th to shareholders of record as of August 15th. Establishing a quarterly trend of dividend declarations is very exciting for us and we are pleased to report this to you.

The Bank's financial results were strong for the second quarter, resulting in a solid first half of 2017. Greater than anticipated loan growth combined with the Federal Reserve normalizing interest rates produced a significant boost to our Net Interest Income. Residential Mortgage origination volume and Business Charge Card activity both contributed to a year-over-year increase in Non-Interest Income. Sound loan quality allowed us to reduce this year's loan loss expense from 2016.

Speaking of growth, we have selected a site for an office in Midland. A Midland Office has been a part of our strategy from the beginning and we are now moving forward with it. We have submitted our site plan to the Midland Planning Committee and City Council for approval, as well as a branch application for approval by bank regulators. We plan to begin construction sometime in September at our site on the corner of Ashman and Buttles.

Thank you for all of your support,

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>6/30/2017</u>	<u>12/31/2016</u>	<u>6/30/2016</u>
Cash and cash equivalents	\$ 31,532,995	\$ 29,933,235	\$ 37,040,415
Investments	13,078,586	13,321,494	16,495,963
Loans, net of reserve for loan losses	175,422,186	168,445,654	164,013,831
Other assets	14,329,866	14,643,840	11,485,761
Total Assets	\$ 234,363,633	\$ 226,344,223	\$ 229,035,970
<u>Liabilities and Shareholder Equity</u>			
Deposits	\$ 193,612,004	\$ 192,516,497	\$ 196,329,590
FHLB and other borrowings	17,000,000	11,000,000	10,500,000
Other liabilities	1,564,011	1,718,399	1,954,302
Total Liabilities	212,176,015	205,234,896	208,783,892
Total Shareholders' Equity	22,187,618	21,109,327	20,252,078
Total Liabilities and Shareholders' Equity	\$ 234,363,633	\$ 226,344,223	\$ 229,035,970

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Interest Income				
Investments	\$ 119,667	\$ 103,854	\$ 217,982	\$ 203,780
Loans	2,172,193	1,954,405	4,251,100	3,876,283
Total Interest Income	2,291,860	2,058,259	4,469,082	4,080,063
Interest Expense				
Deposits	89,332	124,031	178,040	252,423
Other Borrowings	58,723	41,884	105,890	83,882
Total Interest Expense	148,055	165,915	283,930	336,305
Net Interest Income	2,143,805	1,892,344	4,185,152	3,743,758
Provision for Loan Losses	75,000	120,000	150,000	240,000
Net Interest Income After Provision for Loan Losses	2,068,805	1,772,344	4,035,152	3,503,758
Other Income	508,793	342,506	931,774	709,434
Other Expense	1,766,852	1,601,832	3,454,777	3,164,726
Net Income Before Federal Income Tax	810,746	513,018	1,512,149	1,048,466
Federal Income Tax Expense	276,000	176,500	515,100	359,600
Net Income Available to Common Shareholders	\$ 534,746	\$ 336,518	\$ 997,049	\$ 688,866



Bauer Financial, Inc.

A 4 Star Excellent Rating denotes that 1st State Bank is among the strongest banks in the nation

Quarterly Highlights

Brand New Look, Same 1st State Bank!

Our account statements are getting a makeover! In October, expect a brand new design for personal and business checking and savings accounts. The new design will be applied to both mailed statements and e-statements.

1st State Bank's RUBY Award - Accepting Nominations

Do you know someone under the age of 40 who has made their mark in their profession and is making a difference in the Great Lakes Bay Region? If so, nominate them for the 13th Annual RUBY Award! You can make a nomination at 1stStateBk.com under the About Us tab. The online application can be filled out and submitted from your desktop, tablet, or mobile device. Nominations for the RUBY Award are due November 2nd.



Shareholder Meeting Recap



During the Annual Shareholders Meeting on May 10th, Rick Goedert, James Shinner, and Lynn Wolgast were elected for another three years on our Board of Directors. Additionally, it was voted at the meeting to increase the authorized common stock of 1st State Financial from 2 million to 3 million shares. We also celebrated our board members Richard

Watson and David Hall, who were both honored with the title Director Emeritus.

Business Tip Tuesday

Business Tip Tuesday is series on 1st State Bank's social media platforms. Our focus is to bring timely and topical business information to business owners and managers. Whether our reader is an entrepreneur just starting their business or a seasoned professional ready to retire, we send out relevant information for everyone! The weekly business tip is sent out every Tuesday at 2:00pm. Follow us on social media to hear the latest information!

FOLLOW US!



New at 1st State Bank - Personal Mobile Bill Pay



PAY YOUR BILLS
ANYWHERE

ENROLL VIA PERSONAL
ONLINE BANKING

OFFICE LOCATIONS



MAIN OFFICE

Anne Smith
Office Manager
4800 Fashion Square Blvd.
Saginaw, MI 48604
989-799-7500



STATE STREET

Becke Popour
Office Manager
5424 State Street
Saginaw, MI 48603
989-596-7500



DOWNTOWN BAY CITY

Dennis Dinauer
Office Manager
601 N. Madison Ave.
Bay City, MI 48708
989-322-7500



WILDER ROAD

Angy Dixon
Officer Manager
3907 Wilder Road
Bay City, MI 48706
989-439-7500



Shareholder Contact

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Events of Note

- **Stevens Center for Family Business - Bush's Baked Beans - Thursday,** September 21 4:00 pm, Curtiss Hall, SVSU
- **Holiday Banking Hours**
Closed for Labor Day, Monday September 5
Open for Columbus Day, October 9 and Veteran's Day, November 11