

# YOUR BANK FOR BUSINESS

October 2016

**1<sup>st</sup> STATE**



**BANK**

**Board of Directors**

Michael D. Bierlein

Mitzi M. Dimitroff

Joseph R. Fabiano II

Richard O. Goedert

David M. Hall

Michael L. Hanisko

Scott L. Holman

Phillip L. List

Terry R. Niederstadt

James J. Shinnars

Lynn R. Wolgast

Richard T. Watson  
Director Emeritus



BAUER FINANCIAL, Inc.  
Earning a 4-Star Excellent  
Rating denotes that  
1<sup>st</sup> State Bank is among the  
strongest banks in the nation.



Volume XIV, Issue III

## Letter from the President

To Our Shareholders,

1st State Bank recorded record earnings in the third quarter of 2016! This has been accomplished by improvements across all areas of the income statement. Net interest income increased, provision for loan loss was down, there was a significant jump in non-interest income and we managed our expenses on budget. We also had a couple of non-recurring items on the income statement that were positive to earnings. Thanks to the staff for their diligence in executing our strategy of incremental improvement. We continue to enjoy good solid growth in both loans and deposits with annual increases of 8% and 6.5% respectively.

We look forward to good results for both the fourth quarter and year-end. We appreciate the referrals you have sent to us, please keep sending them our way! Thank you for all of your support.

Sincerely,

## Financial Report

### CONSOLIDATED BALANCE SHEETS (unaudited)

	9/30/2016	12/31/2015	9/30/2015
<b>Assets</b>			
Cash and cash equivalents	\$27,231,112	\$33,211,870	\$25,293,872
Investments	14,486,616	16,616,109	19,104,359
Loans, net of reserve for loan losses	163,092,893	157,313,674	150,917,690
Other assets	14,845,789	11,235,736	11,117,110
<b>Total Assets</b>	<b>\$219,656,410</b>	<b>\$218,377,389</b>	<b>\$206,433,031</b>
<b>Liabilities and Shareholders' Equity</b>			
Deposits	\$188,163,711	\$187,395,557	\$176,596,551
FHLB and other borrowings	9,000,000	9,500,000	9,500,000
Other liabilities	1,680,856	2,006,272	1,107,977
<b>Total Liabilities</b>	<b>198,844,567</b>	<b>198,901,829</b>	<b>187,204,528</b>
<b>Total Shareholders' Equity</b>	<b>20,811,843</b>	<b>19,475,560</b>	<b>19,228,503</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$219,656,410</b>	<b>\$218,377,389</b>	<b>\$206,433,031</b>

### CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		NINE MONTHS ENDING	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
<b>Interest Income</b>				
Investments	\$123,334	\$91,445	\$327,114	\$287,811
Loans	2,019,014	1,869,942	5,895,297	5,510,149
<b>Total interest income</b>	<b>2,142,348</b>	<b>1,961,387</b>	<b>6,222,411</b>	<b>5,797,960</b>
<b>Interest Expense</b>				
Deposits	116,680	133,533	369,103	446,010
Other borrowings	35,343	31,471	119,225	108,405
<b>Total interest expense</b>	<b>152,023</b>	<b>165,004</b>	<b>488,328</b>	<b>554,415</b>
<b>Net Interest Income</b>	<b>1,990,325</b>	<b>1,796,383</b>	<b>5,734,083</b>	<b>5,243,545</b>
Provision for loan losses	60,000	75,000	300,000	225,000
<b>Net Interest Income After Provision for Loan Losses</b>	<b>1,930,325</b>	<b>1,721,383</b>	<b>5,434,083</b>	<b>5,018,545</b>
<b>Other Income</b>	<b>490,824</b>	<b>362,208</b>	<b>1,200,258</b>	<b>991,663</b>
<b>Other Expense</b>	<b>1,580,039</b>	<b>1,494,369</b>	<b>4,744,765</b>	<b>4,533,489</b>
<b>Net Income Before Federal Income Tax</b>	<b>841,110</b>	<b>589,222</b>	<b>1,889,576</b>	<b>1,476,719</b>
Federal income tax expense	285,900	202,100	645,500	507,500
<b>Net Income</b>	<b>\$555,210</b>	<b>\$387,122</b>	<b>\$1,244,076</b>	<b>\$969,219</b>
Preferred stock dividends	0	2,222	0	8,972
<b>Net Income Available to Common Shareholders</b>	<b>\$555,210</b>	<b>\$384,900</b>	<b>\$1,244,076</b>	<b>\$960,247</b>



## Office Locations Hours of Operation

### MAIN OFFICE

Anne Smith  
Office Manager  
4800 Fashion Square Blvd.  
Saginaw, MI 48604

Phone: 989.799.7500  
Mon. – Fri.  
9:00 a.m. – 5:30 p.m.  
ATM 24/7

### STATE STREET

Becke Popour  
Office Manager  
5424 State Street  
Saginaw, MI 48603

Phone: 989.596.7500  
Mon. – Fri.  
9:00 a.m. – 5:30 p.m.  
Saturday  
9:00 a.m. – 12:00 p.m.  
Drive-Thru Service Only  
ATM 24/7

### DOWNTOWN

**BAY CITY**  
Dennis Dinauer  
Office Manager  
601 N. Madison Ave.  
Bay City, MI 48708

Phone: 989.322.7500  
Mon. – Fri.  
9:00 a.m. – 5:30 p.m.  
ATM 24/7

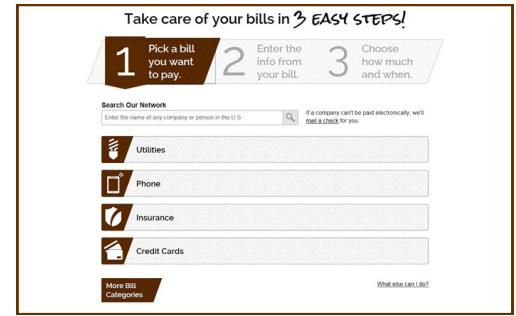
### WILDER ROAD

Angy Dixon  
Office Manager  
3907 Wilder Rd.  
Bay City, MI 48706

Phone: 989.439.7500  
Mon. – Fri.  
9:00 a.m. – 5:30 p.m.  
Saturday  
9:00 a.m. – 12:00 p.m.  
Drive-Thru Service Only  
ATM 24/7

## New Personal Online Bill Pay Service

Our new Personal Online Bill Pay Service launched October 17<sup>th</sup>! The new service offers many features and benefits such as increased control of bill pay timing, easy navigation, and the brand new service of Popmoney. Popmoney is a person-to-person payment service which will allow you to conveniently send, receive and request money with only an email address, mobile phone number or account number, eliminating the need for checks and cash. Sign up today thru online banking!



## Quarterly Announcements

### Rate Swap CD

We are now offering a 1.30% APY 44 month rate swap CD! Once during the life of the CD you can “swap” your rate with the current 44 month rate for the remaining term. Think of it as a free upgrade! Visit any of our offices for details on this offer!

### Employee Changes

At the end of the 2016, Maureen Brinker, our Administrative Assistant, will be retiring. We would like to wish Maureen the very best and congratulate her on a successful career! We have recently hired a new credit analyst, Andrea Winberg and a new part-time personal banker, Amy Grochowski. Please join us in welcoming our newest employees to 1st State Bank!

### Introducing Stock Valuation Service

Your board of directors recognizes that our company’s stock is not listed on an exchange that would provide shareholders immediate access to current price per share information. To meet this important need for our shareholders, we have secured the services of CAMELS Consulting Group, a third party independent firm that specializes in determining the fair market value (“FMV”) of non-listed community bank stocks. CAMELS will be providing valuations on a quarterly basis. We will be communicating their initial valuation as of September 30, 2016 on completion of their study. This service is also an important component to our recently introduced Self-Directed IRA program, allowing you to purchase shares of Valley Financial Group, Ltd/1<sup>st</sup> State Bank with the long-term hold associated retirement savings.

## We’ve Gone Social

### Social Media – Business Tip Tuesday

**Business Tip Tuesday** is a series on 1st State Bank’s social media platforms. Our focus is to bring timely and topical business information and updates to business owners and managers. The content is shared weekly on Tuesday at 1:45pm. Follow us on social media to hear the latest information!

Facebook – Like – 1<sup>st</sup> State Bank

Twitter – Follow – @1stStateBk

LinkedIn – Follow – 1<sup>st</sup> State Bank Great Lakes Bay



## ◀ Holiday Banking Hours ▶

Thanksgiving Day—Thursday November 24	Closed
Christmas Eve—Saturday December 24	Closed
Christmas Day—Observed Monday December 26	Closed
New Years Eve- Saturday December 31	Open
New Years Day—Observed Monday January 2	Closed
Martin Luther King Day- January 16	Open