



NEWSLETTER

Your Bank For Business

3RD QUARTER

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Director Emeritus

Richard T. Watson

Director Emeritus



Bauer Financial, Inc.

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

A Letter from the President

To Our Shareholders,



The Bank's growth continues with deposits increasing at 11% and loans growing 7% year-over-year. Net income is up 26%. We are pleased with the performance and progress of the Bank. The Board has approved a dividend of \$0.035 per share. It will be paid on November 21st, to shareholders of record as of November 10th. This is our fourth dividend of 2017.

To support the growth of the bank and ongoing opportunities in the Great Lakes Bay Region, your Board of Directors has determined to move forward with a capital plan that includes an offering of a limited number of shares to increase the Company's operating capital levels. The Board has approved a limited placement of shares to be specifically targeted to the Midland community. Our planned offering is being limited to 50 investors with our intent of raising approximately \$3 million in capital. Our past success has shown that localized shareholders within a specific market will ensure the success of our company in that market.

Additionally, the planned offering is priced at our current fair market value, as updated quarterly by the firm that provides a third party stock valuation of 1st State Financial on a per share basis. Please know that shares are not being offered at a discount and that the minimum purchase is established at 1,000 shares for new investors. Feel free to contact me with any questions or comments.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

Assets	9/30/2017	12/31/2016	9/30/2016
Cash and cash equivalents	\$ 51,650,780	\$ 29,933,235	\$ 27,231,112
Investments	10,324,306	13,321,494	14,486,616
Loans, net of reserve for loan losses	174,948,047	168,445,654	163,092,893
Other assets	14,749,037	14,643,840	14,845,789
Total Assets	\$ 251,672,170	\$ 226,344,223	\$ 219,656,410
Liabilities and Shareholder Equity			
Deposits	\$ 207,753,127	\$ 192,516,497	\$ 188,163,711
FHLB and other borrowings	20,000,000	11,000,000	9,000,000
Other liabilities	1,180,016	1,718,399	1,680,856
Total Liabilities	228,933,143	205,234,896	198,844,567
Total Shareholders' Equity	22,739,027	21,109,327	20,811,843
Total Liabilities and Shareholders' Equity	\$ 251,672,170	\$ 226,344,223	\$ 219,656,410

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		NINE MONTHS ENDING	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Interest Income				
Investments	\$ 175,436	\$ 123,334	\$ 379,216	\$ 327,114
Loans	2,250,066	2,019,014	6,501,166	5,895,297
Total Interest Income	2,425,502	2,142,348	6,880,382	6,222,411
Interest Expense				
Deposits	86,985	116,680	265,025	369,103
Other Borrowings	66,695	35,343	172,585	119,225
Total Interest Expense	153,680	152,023	437,610	488,328
Net Interest Income	2,271,822	1,990,325	6,442,772	5,734,083
Provision for Loan Losses	115,000	60,000	265,000	300,000
Net Interest Income After Provision for Loan Losses	2,156,822	1,930,325	6,177,772	5,434,083
Other Income	516,451	490,824	1,448,225	1,200,258
Other Expense	1,793,292	1,580,039	5,248,069	4,744,765
Net Income Before Federal Income Tax	879,981	841,110	2,377,928	1,889,576
Federal Income Tax Expense	296,500	285,900	811,600	645,500
Net Income Available to Common Shareholders	\$ 583,481	\$ 555,210	\$ 1,566,328	\$ 1,244,076

Quarterly Highlights

Concerned about the Equifax Breach?

In September, it was announced that Equifax, one of the three major credit bureaus, experienced a massive data breach. The hackers accessed sensitive information for approximately 143 million U.S. Consumers. To find out if you have been affected visit <https://www.equifaxsecurity2017.com/>. Whether or not you've been affected by the Equifax data breach, there is no better time to protect yourself against potential hackers and data breaches. Consider enrolling in our ID TheftSmart service to safeguard your identity and assets.



ID TheftSmart™ SAFEGUARD YOUR IDENTITY AND ASSETS

Identity Theft Counseling & Restoration \$ 2.00/mo.

Credit Bureau Monitoring, Identity Theft Counseling, & Restoration \$ 5.00/mo.

SPECIAL REDUCED PRICING FOR IN TOWN CLUB & FOUNDER ACCOUNT HOLDERS

Call 989-799-7500 or come into any office for details on how you can be protected.

Todd Gregory Joins 1st State Bank



Please join us in welcoming Todd Gregory to 1st State Bank as Senior Vice President, Business Lending Manager. Todd has been a banker for nearly 20 years. He most recently served as Business Banking Manager and Saginaw Community President with his previous employer. He is a Past Chair of the Saginaw Chamber of Commerce. He serves on the boards of St. Mary's Hospital, Saginaw Future, Saginaw Community Foundation, Saginaw DDA, and previously the Saginaw Club. Todd is a graduate of CMU with a BS in Finance. He and his wife, Anne, live in Saginaw Township and have two college age children. Todd will lead the business lending team.

Meleah Retzloff Joins 1st State Bank



We are also pleased to announce Meleah Retzloff will be our Office Manager for our Downtown Midland Office opening in Spring 2018. She has 14 years of banking experience. Meleah is active in the Midland community with the Chamber of Commerce, Associated Builders & Contractors, Downtown Midland Marketing Committee, Noon Exchange Club, and Great Midland North Family Center. Meleah is a graduate of Northwood University with a BBA in Marketing/Management. Meleah and her husband, Jeff, live in Midland with their two children.

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

On the corner of Ashman and Buttles



Shareholder Contact

Tiffany Kukla

(989) 272-7506

TiffanyK@1stStateBk.com

Events of Note

- **Ruby Award Nominations due November 2nd on 1stStateBk.com**
- **Bank Holiday Closures**
 - Thanksgiving Day - Thursday November 23rd
 - Christmas Day - Monday December 25th
 - New Years Day - Monday, January 1st