

YOUR BANK FOR BUSINESS

December 2016



Board of Directors

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Mitzi M. Dimitroff

Joseph R. Fabiano II

Richard O. Goedert

David M. Hall

Michael L. Hanisko

Scott L. Holman

Phillip L. List

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Director Emeritus



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



Volume XIV, Issue IV

Letter from the President

To Our Shareholders,

The Bank continued its strong performance in the 4th quarter, contributing to year-over-year earnings growth of over 34%. These earnings provided a solid 8.4% return on equity for all of you, our shareholders. Our earnings of \$1,709,172 are the highest posted by the Bank. We plan on having many more years of record earnings in the future. As we have said throughout the year, our improvement came in all areas of the Bank. We posted gains of over 7% in loans and 6% in in-market deposits, both very respectable.

As shareholders you have received numerous communications regarding the dividend and the Dividend Reinvestment Program. The Board and the staff are very excited that we are able to reward our shareholders and we appreciate all the support you have given us. Please mark your calendar for the 13th Annual Shareholders meeting, feel free to invite a guest interested in learning more about 1st State Bank. If you have any questions regarding the dividend or Dividend Reinvestment Program please contact me.

Sincerely,

Rick Goedert

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Cash and cash equivalents	\$29,933,235	\$33,211,869
Investments	13,321,494	16,691,109
Loans, net of reserve for loan losses	168,445,654	157,203,032
Other assets	<u>14,643,840</u>	<u>11,187,579</u>
Total Assets	<u>\$226,344,223</u>	<u>\$218,293,588</u>
<u>Liabilities and Shareholders' Equity</u>		
Deposits	\$192,516,497	\$187,395,556
FHLB and other borrowings	11,000,000	9,500,000
Other liabilities	<u>1,718,399</u>	<u>1,922,472</u>
Total Liabilities	205,234,896	198,818,028
Total Shareholders' Equity	<u>21,109,327</u>	<u>19,475,560</u>
Total Liabilities and Shareholders' Equity	<u>\$226,344,223</u>	<u>\$218,293,588</u>

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>TWELVE MONTHS ENDING</u>	
Interest Income				
Investments	\$97,679	\$91,521	\$424,793	\$379,332
Loans	<u>2,059,424</u>	<u>1,885,557</u>	<u>7,954,721</u>	<u>7,395,706</u>
Total interest income	<u>2,157,103</u>	<u>1,977,077</u>	<u>8,379,514</u>	<u>7,775,038</u>
Interest Expense				
Deposits	98,048	133,462	467,151	579,472
Other borrowings	38,966	38,997	158,191	147,402
Total interest expense	<u>137,014</u>	<u>172,459</u>	<u>625,342</u>	<u>726,874</u>
Net Interest Income	2,020,089	1,804,618	7,754,172	7,048,164
Provision for loan losses	<u>60,000</u>	<u>105,000</u>	<u>360,000</u>	<u>330,000</u>
Net Interest Income After Provision for Loan Losses	1,960,089	1,699,618	7,394,172	6,718,164
Other Income	430,657	347,423	1,630,915	1,339,086
Other Expense	<u>1,682,850</u>	<u>1,574,414</u>	<u>6,427,615</u>	<u>6,107,903</u>
Net Income Before Federal Income Tax	707,896	472,627	2,597,472	1,949,347
Federal income tax expense	<u>242,800</u>	<u>162,200</u>	<u>888,300</u>	<u>669,700</u>
Net Income	<u>\$465,096</u>	<u>\$310,427</u>	<u>\$1,709,172</u>	<u>\$1,279,647</u>
Preferred stock dividends	0	0	0	7,222
Net Income Available to Common Shareholders	<u>\$465,096</u>	<u>\$310,427</u>	<u>\$1,709,172</u>	<u>\$1,272,425</u>



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

Ruby Award

This year eleven local young professionals will receive the RUBY Award recognizing their individual achievements. The 12th Annual RUBY Award recipients will be honored Tuesday, February 28th, at Apple Mountain in Freeland. Eric Jylha will be returning as Master of Ceremonies and Matthew Felan, Great Lakes Bay Regional Alliance President & CEO, will be the guest speaker. Contact Apple Mountain or 1st State Bank for ticket information.



Quarterly Announcements

Promotions

1st State Bank is pleased to announce two promotions this quarter. David Brown was promoted to Vice President. David has been with the Bank since 2006. He was promoted to Business Lender in 2012 from Senior credit Analyst. David has a Bachelors degree in Business Administration from Northwood University. Jesse Kendall was promoted from Credit Analyst to Business Lender. Jesse began working at the bank in 2012. He has a Bachelors degree in Finance from Saginaw Valley State University.

1st State Bank Welcomes Tiffany Kukla

Tiffany Kukla has joined 1st State Bank as an HR Generalist. Her duties include Human Resources and will also work as a liaison to shareholders and board members. Tiffany has been with Dow Corning for the last five years in their HR department. Previously she worked in HR for Coca Cola and Ajilon Communications in Bay City. She earned a BS in Business Administration with an Human Resources concentration from Davenport University and is working toward a Master's Degree in HR Management from Central Michigan.

Dividend Reinvestment Program

Did you know that in addition to your dividends being invested, with the Dividend Reinvestment Program you can make supplemental contributions to the plan to buy stock on a regular basis? (Up to \$2,000 per quarter) Your contributions, dividends or supplemental will be invested in whole and fractioned shares. This allows full investment of all cash contributions. For further information contact Rick Goedert at 989-596-0836 or RickG@1stStateBk.com.

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 2:00pm. Follow us on social media to hear the latest information!

Facebook – Like – 1st State Bank

Twitter – Follow – @1stStateBk

LinkedIn – Follow – 1st State Bank Great Lakes Bay



◀ Events of Note ▶

- ◇ **13th Annual Shareholder's Meeting - May 10th, 5:00pm, 1st State Bank Main Office, Second Floor**
- ◇ **Holiday Banking Hours** – President's Day February 20th – Closed
- ◇ **Stevens Center for Family Business** – “Unraveling Your Hard-Wiring: Understanding Yourself & Others” Thursday, February 23 ,7:30 a.m., Curtis Hall, SVSU
- ◇ **12th Annual RUBY Award Celebration Dinner** – Tuesday, February 28th 5:00 p.m., Apple Mountain Conference Center