



NEWSLETTER

Your Bank For Business

4TH QUARTER

Board of Directors

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Joseph R. Fabiano II

Richard O. Goedert

Michael L. Hanisko

Scott L. Holman

Phillip L. List

Terry R. Niederstadt

James J. Shinnars

Lynn R. Wolgast

David M. Hall

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,



2017 produced another year of record earnings for 1st State Financial Ltd. Net income from operations was \$2,054,873, a 20% increase over 2016's results. Net interest income was the primary driver behind this year's improved performance. Growth in earning assets (up 15% year-over-year) along with an improved net interest margin (aided by Federal Reserve rate increases) produced a 13% increase in net interest income over 2016.

The signing of the Tax Cuts and Jobs Act of 2017 on December 22nd resulted in an accounting anomaly impacting 2017. The Act reduces corporate tax rates beginning in 2018. However, accounting rules require any deferred tax items to be revalued in the year new tax rates are known or when the law was signed. As a result, we increased federal income tax expense in 2017 by \$230,000 to record a write-down in our deferred tax asset. This reduced our actual bottom line to \$1,824,873 as shown below. The good news is that we will see the full benefit of reduced corporate tax rates in 2018.

On January 18th, your Board of Directors approved a quarterly dividend of \$.035 per share payable on February 20th to shareholders of record as of February 9th. We are entering our second year of paying quarterly dividends and are pleased to have the ability to do so.

We appreciate your ongoing support. 2018 will be an exciting year with the construction and opening of our newest location in downtown Midland.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>12/31/2017</u>	<u>12/31/2016</u>
Assets		
Cash and cash equivalents	\$ 57,460,096	\$ 29,933,235
Investments	8,560,457	13,321,494
Loans, net of reserve for loan losses	180,133,819	168,445,654
Other assets	14,499,828	14,643,840
Total Assets	\$ 260,654,200	\$ 226,344,223
Liabilities and Shareholders' Equity		
Deposits	\$ 217,523,011	\$ 192,516,497
FHLB and other borrowings	20,450,000	11,000,000
Other liabilities	1,188,873	1,718,399
Total Liabilities	239,161,884	205,234,896
Total Shareholders' Equity	21,492,316	21,109,327
Total Liabilities and Shareholders' Equity	\$ 260,654,200	\$ 226,344,223

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>TWELVE MONTHS ENDING</u>	
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Interest Income				
Investments	\$ 201,194	\$ 97,679	\$ 580,410	\$ 424,793
Loans	2,291,262	2,059,424	8,792,428	7,954,721
Total Interest Income	2,492,456	2,157,103	9,372,838	8,379,514
Interest Expense				
Deposits	96,240	98,048	361,265	467,151
Other Borrowings	91,191	38,966	263,776	158,191
Total Interest Expense	187,431	137,014	625,041	625,342
Net Interest Income	2,305,025	2,020,089	8,747,797	7,754,172
Provision for Loan Losses	165,000	60,000	430,000	360,000
Net Interest Income After Provision for Loan Losses	2,140,025	1,960,089	8,317,797	7,394,172
Other Income	476,861	430,657	1,925,086	1,630,915
Other Expense	1,877,941	1,682,850	7,126,010	6,427,615
Net Income Before Federal Income Tax	738,945	707,896	3,116,873	2,597,472
Federal Income Tax Expense	250,400	242,800	1,062,000	888,300
Net Income	\$ 488,545	\$ 465,096	\$ 2,054,873	\$ 1,709,172
Deferred Tax Valuation Adjustment	230,000	0	230,000	0
Net Income Available to Common Shareholders	\$ 258,545	\$ 465,096	\$ 1,824,873	\$ 1,709,172

Quarterly Highlights

Downtown Midland Office Groundbreaking

On November 28th we celebrated the groundbreaking of our Downtown Midland Office. The Downtown Midland Office will open on the corner of Ashman and Buttles in the Summer of 2018, and this was an exciting first step. We are thrilled to join Midland's strong business community!

Pictured: Paul Barbeau, (Executive Director of Momentum Midland) Joseph Fabiano, (1st State Bank - Board Member) Rick Keith, (Wolgast Corporation) Rick Goedert, (1st State Bank) Bill Allen, (President & CEO of the Midland Business Alliance) Meleah Retzloff (1st State Bank - Downtown Midland Office Manager) and Brad Kaye, (City Manager of the City of Midland)



13th Annual RUBY Award

RUBY
AWARD

This year ten local young professionals will receive the RUBY Award recognizing their individual achievements. The 13th Annual RUBY Award recipients will be honored Tuesday, February 27th, at Apple Mountain in Freeland. Eric Jylha will be returning as Master of Ceremonies and Jimmy E. Greene, President & CEO of Associated Builders and Contractors will be the guest speaker. Contact Apple Mountain or 1st State Bank for ticket information.

Missie Freier Joins 1st State Bank

Please join us in welcoming Missie Freier to 1st State Bank! Missie has 20 years of banking experience including branch management, commercial credit and business lending. Most recently, she served as Assistant Vice President Commercial Lender for an area bank. Missie received her Bachelor's degree in Business Administration from Northwood University. She is also a graduate of Leadership Midland. Missie is active in the Midland Community with the Midland Area Chamber of Commerce, Midland Noon Exchange Club, Shelterhouse, Education Training Connection, and Habitat for Humanity. She and her family reside in Freeland.



We are also pleased to announce that Susan Sweebe has joined us as a personal banker. Be sure to say hello to her at our Main Office and at our Downtown Midland Office in the Summer of 2018.

ACCESS

Refer a friend to 1st State Bank so they too can enjoy the benefits of access to local decision makers. Where decisions about your loans and deposits are made by bankers who understand the needs of your business!

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

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TiffanyK@1stStateBk.com

Events of Note

- **13th Annual Ruby Award Celebration Dinner** - Tuesday, February 27, 5:00 p.m., Apple Mountain Conference Center
- **Bank Holiday Closure** - President's Day, Monday, February 19