

1ST QUARTERBoard of Directors

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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

NEWSLETTER

Your Bank For Business

A Letter from the President

To Our Shareholders,



The results of the 1st Quarter of 2018 were very good with a 10.4% Return on Average Equity. Net income for the quarter was \$563,000, an increase of slightly more than \$100,000 over the 1st Quarter's results in 2017. Nearly \$90,000 of that improvement was due to reduced corporate federal income tax rates effective the first of the year. Net interest income increased by \$272,000 or 13% year-over-year, driven by solid loan growth and higher short-term rates provided by Federal Reserve actions. However, higher overhead expenses due primarily to increased staffing in anticipation of our Midland office opening in late summer of 2018 largely offset this improvement.

On April 19th, your Board of Directors approved a quarterly cash dividend of \$.04 per share, a 14% increase over the previous quarter's dividend of \$.035 per share. This quarter's dividend will be payable on May 22nd to shareholders of record on May 11th.

We are approaching the end of our stock offering and we believe there will be shares available in which you may participate. The stock offering price is \$14.50 per share, which compares to March's net book value per share of \$14.58. If you are interested in increasing your current holdings of 1st State Financial, this stock offering provides a nice opportunity. Please contact me to discuss your level of interest.

We are excited for the potential growth over the next few years as the banking environment in our market continues to evolve.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>03/31/2018</u>	<u>12/31/2017</u>	<u>03/31/2017</u>
Cash and cash equivalents	\$ 47,040,748	\$ 57,460,096	\$ 36,944,229
Investments	7,952,812	8,478,478	12,229,896
Loans, net of reserve for loan losses	185,328,370	180,140,893	170,664,172
Other assets	14,619,067	14,763,733	14,589,971
Total Assets	\$ 254,940,997	\$ 260,843,200	\$ 234,428,268
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 211,557,347	\$ 217,523,010	\$ 195,789,944
FHLB and other borrowings	19,520,000	20,450,000	15,500,000
Other liabilities	1,439,922	1,377,874	1,476,776
Total Liabilities	232,517,269	239,350,884	212,766,720
Total Shareholders' Equity	22,423,728	21,492,316	21,661,548
Total Liabilities and Shareholders' Equity	\$ 254,940,997	\$ 260,843,200	\$ 234,428,268

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>	
	<u>03/31/2018</u>	<u>03/31/2017</u>
Interest Income		
Investments	\$ 221,605	\$ 98,315
Loans	2,275,918	2,078,907
Total Interest Income	2,497,523	2,177,222
Interest Expense		
Deposits	102,318	88,708
Other Borrowings	82,298	47,167
Total Interest Expense	184,616	135,875
Net Interest Income	2,312,907	2,041,347
Provision for Loan Losses	60,000	75,000
Net Interest Income After Provision for Loan Losses	2,252,907	1,966,347
Other Income	444,611	422,981
Other Expense	1,981,371	1,687,925
Net Income Before Federal Income Tax	716,147	701,403
Federal Income Tax Expense	153,400	239,100
Net Income Available to Common Shareholders	\$ 562,747	\$ 462,303

Quarterly Highlights



Downtown Midland Office Progress

Spring has arrived and the Downtown Midland Office's steel framework has been built! We are very excited to join the Midland business community this summer.

13th Annual RUBY Award

On February 27th a celebration dinner was held to Recognize the Upward, Bright and Young of our community. Congratulations to the 10 recipients of the 13th Annual RUBY Award.

Adam McCauley - Sandlot Sports

Amy Buben - Yeo & Yeo

Sheruni Ratnabalasuriar - Saginaw Valley State University

Justin Lipscomb - Moltus Building Group

Ryan Smith - The Dow Chemical Company

David Custer - WNEM-TV5

Jenifer Acosta - Jenifer Acosta Development

Erin Andrus - WTA Architects

Michael Keller Zehnder - Bavarian Inn Lodge

Panchanan Maiti - Field Neurosciences Institute



Not Pictured: Panchanan Maiti

Ali Ellis Joins 1st State Bank



Please join us in welcoming Ali Ellis to 1st State Bank as a Mortgage Lending Officer! Ali has over 8 years of experience in the Residential Mortgage Industry in the Great Lakes Bay Region. In this role, Ali is responsible for assisting residential home buyers/owners with their mortgage needs. Ellis received her Bachelor's degree in Business Administration from Northwood University. Ali is an affiliate member of the Midland Board of Realtors and a member of the Chamber of Commerce Young Professional Networks for Midland and Saginaw. She and her family reside in Freeland.

Annual Shareholders' Meeting

The 1st State Financial Annual Shareholders' Meeting will be held on Tuesday, May 8th at 4:00pm. The event will be held at 1st State Bank's Main Office in the second floor conference room. Please be sure to mark your calendar and plan to attend this event for a recap of 2017 and a preview of things to come in 2018!

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

- **14th Annual Shareholder's Meeting** - Tuesday, May 8th, 4:00 p.m.
1st State Bank Main Office, Second Floor
- **Bank Holiday Closures** - Memorial Day, Monday, May 28th
& Independence Day, Wednesday, July 4th