



# NEWSLETTER

## Your Bank For Business

### 2<sup>ND</sup> QUARTER

#### Board of Directors

Michael D. Bierlein

Mitzi M. Dimitroff

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 5-Star Superior Rating denotes that 1<sup>st</sup> State Bank is among the strongest banks in the nation

## A Letter from the President

To Our Shareholders,



The 2<sup>nd</sup> Quarter was the best in the Bank's history with nearly \$670,000 in net income. Year-to-date, we are ahead of 2017 by \$235,000. The driving factors were unchanged from the 1<sup>st</sup> Quarter with reduced corporate income tax contributing to the bulk of the year-over-year improvement. A solid increase in net interest income was offset with higher expense due to the ramp up for the Downtown Midland Office opening in late September. Our return on average equity was approximately 11% for the year, a healthy return in the current environment.

The stock offering closed at the end of June, fully subscribed. We added 37 new shareholders with 24 in Midland, 9 in Bay and 4 in Saginaw. We were able to not only pay off the debt incurred to buy back a large block of shares, but we raised an additional \$1.1 million to supplement our capital for additional growth.

On July 19<sup>th</sup>, your board of directors approved a quarterly cash dividend of \$ 0.04 per share, the same as last quarter. The dividend will be payable on August 21<sup>st</sup> to shareholders of record August 10<sup>th</sup>.

Sincerely,

## Financial Report

### CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>06/30/2018</u>	<u>12/31/2017</u>	<u>06/30/2017</u>
Cash and cash equivalents	\$ 46,093,325	\$ 57,460,096	\$ 31,532,995
Investments	7,186,177	8,560,457	13,078,586
Loans, net of reserve for loan losses	187,788,704	180,133,819	175,422,186
Other assets	15,126,011	14,499,828	14,329,866
<b>Total Assets</b>	<b>\$ 256,194,217</b>	<b>\$ 260,654,200</b>	<b>\$ 234,363,633</b>
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 212,013,963	\$ 217,523,011	\$ 193,612,004
FHLB and other borrowings	17,500,000	20,450,000	17,000,000
Other liabilities	2,149,627	1,188,873	1,564,011
<b>Total Liabilities</b>	<b>231,663,590</b>	<b>239,161,884</b>	<b>212,176,015</b>
<b>Total Shareholders' Equity</b>	<b>24,530,627</b>	<b>21,492,316</b>	<b>22,187,618</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 256,194,217</b>	<b>\$ 260,654,200</b>	<b>\$ 234,363,633</b>

### CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>06/30/2018</u>	<u>06/30/2017</u>	<u>06/30/2018</u>	<u>06/30/2017</u>
<b>Interest Income</b>				
Investments	\$ 222,266	\$ 119,667	\$ 443,871	\$ 217,982
Loans	2,430,100	2,172,193	4,706,018	4,251,100
<b>Total Interest Income</b>	<b>2,652,366</b>	<b>2,291,860</b>	<b>5,149,889</b>	<b>4,469,082</b>
<b>Interest Expense</b>				
Deposits	145,437	89,332	247,755	178,040
Other Borrowings	77,518	58,723	159,816	105,890
<b>Total Interest Expense</b>	<b>222,955</b>	<b>148,055</b>	<b>407,571</b>	<b>283,930</b>
<b>Net Interest Income</b>	<b>2,429,411</b>	<b>2,143,805</b>	<b>4,742,318</b>	<b>4,185,152</b>
Provision for Loan Losses	65,000	75,000	125,000	150,000
<b>Net Interest Income After Provision for Loan Losses</b>	<b>2,364,411</b>	<b>2,068,805</b>	<b>4,617,318</b>	<b>4,035,152</b>
<b>Other Income</b>	<b>486,218</b>	<b>508,793</b>	<b>930,829</b>	<b>931,774</b>
<b>Other Expense</b>	<b>2,004,713</b>	<b>1,766,852</b>	<b>3,986,084</b>	<b>3,454,777</b>
<b>Net Income Before Federal Income Tax</b>	<b>845,916</b>	<b>810,746</b>	<b>1,562,063</b>	<b>1,512,149</b>
Federal Income Tax Expense	176,300	276,000	329,700	515,100
<b>Net Income Available to Common Shareholders</b>	<b>\$ 669,616</b>	<b>\$ 534,746</b>	<b>\$ 1,232,363</b>	<b>\$ 997,049</b>

# Quarterly Highlights



## Downtown Midland Office Progress

Major progress is being made on the exterior of our Downtown Midland Office. Soon the brick and window installation will be complete and work will begin on the interior of the Bank.

## 1<sup>st</sup> State Bank earns a 5-Star Bauer Rating

1<sup>st</sup> State Bank has earned Bauer Financial's 5-Star Superior rating for financial strength and security, based on financial data from March 31, 2018. This rating recognizes 1<sup>st</sup> State Bank as one of the strongest financial institutions in the nation. As a 5-Star Bank, 1<sup>st</sup> State Bank is included on Bauer Financial's Recommended Bank Report of financial institutions classified as financially sound and operating well above their regulatory requirement. Bauer Financial, Inc. is an independent financial rating agency which analyzes the performance of U.S. Banks and Credit Unions.

## 1<sup>st</sup> State Bank Promotes Four Officers

1<sup>st</sup> State Bank is proud to announce the promotion of four officers. Congratulations to Jim, James, Jesse and Cynthia on your new positions.



**Jim Milroy**, Chief Financial Officer & Executive Vice President has been appointed to the Board of Directors for 1<sup>st</sup> State Bank. Milroy joined 1<sup>st</sup> State Bank as CFO in 2007 and has 28 years of banking experience.



**James Papajesk**, Senior Vice President, has been promoted to Chief Credit Officer and is responsible for monitoring and managing the Bank's overall credit standards. Papajesk started with 1<sup>st</sup> State Bank in 2006 as a Business Lender and has over 23 years of experience in business banking.



**Jesse Kendall** is now an Assistant Vice President of the Bank. Kendall has worked for 1<sup>st</sup> State Bank for the past 6 years, starting as a Credit Analyst and was promoted to Business Lender in 2017.



**Cynthia Holliday** has been promoted to Bank Secrecy Officer of 1<sup>st</sup> State Bank. Holliday has over 17 years of banking experience and began working at 1<sup>st</sup> State Bank in 2017.

## New Employees

Our continued growth and the construction of our Downtown Midland Office has made it necessary to hire several new employees. Please join us in welcoming the newest additions to our staff!

**Darcy Chapin** - Loan Specialist

**Lacey Mansfield** - Credit Analyst

**Mike Hare** - Information Systems Network Specialist

**Heather McCreery** - Personal Banker

**Ellie Affholder** - Personal Banker

**Angela Hathaway** - Mortgage Loan Clerk

## 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  
989-492-7500



## Shareholder Contact

**Tiffany Kukla**

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TiffanyK@1stStateBk.com

## Events of Note

- **RUBY Award Nominations** - Begin September 4
- **Holiday Banking Hours**



**Closed** Labor Day, September 3

**Open** for Columbus Day, October 8 and Veteran's Day, November 12