



A Letter from the President

To Our Shareholders,



The world is battling the coronavirus pandemic. In Michigan, shelter in place was extended to May 15, 2020. The timing and ability of returning to “normal” is unknown as is the ultimate impact on our community’s physical, emotional and economic health.

Despite all of this, 1st State Bank remains open, continuing to serve our customers but just in a slightly different way. For safety reasons, access to branch lobbies is by appointment with drive-thru service fully operational. We temporarily consolidated two of our branches. Many of our employees work from home, yet we are still banking. We closed a record number of mortgages in March, opened new deposit accounts and processed wire transfers and ACH payroll payments just as if things were “normal”.

Banking is considered an essential business. This was no more apparent than with the introduction of the Treasury Department’s Paycheck Protection Program, providing relief for small businesses. Despite the constant fluidity of the rules governing the program, 1st State Bank was poised and ready to submit customer applications on day one. We processed over 380 requests in excess of \$77 million for our business customers. We are ready for round two of the PPP program beginning April 27. Throughout this crisis, you can be very proud of the staff at 1st State Bank for professionally adapting to continually changing conditions and keeping the end goal of serving our customers in focus.

Despite the gravity of COVID-19, we do have operating results to report. Net income for the first quarter 2020 was \$731,756, an increase of 4% over the prior year. Mortgage origination income was integral to this performance. Record low interest rates created a new wave of refinance activity but a decline in net interest income as well. The rapid decline of interest rates during the 1st quarter negatively impacted the Bank’s net interest margin and will continue to challenge us through the remainder of 2020.

On April 16, 2020, your Board of Directors approved a \$.06 per share cash dividend. This dividend will be paid on May 19 to shareholders of record on May 8.

We find ourselves in unprecedented times. More challenges will arise. But we will keep our core purpose at the forefront of our actions...helping businesses succeed. We hope this letter finds you and you loved ones safe. We appreciate your ongoing support.

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2019</u>
Assets			
Cash Equivalents and Investments	\$ 90,148,442	\$ 93,327,828	\$ 69,434,236
Loans, net of reserve for loan losses	210,195,010	212,620,478	197,822,509
Other assets	<u>17,452,565</u>	<u>17,575,515</u>	<u>18,012,179</u>
Total Assets	<u>\$ 317,796,017</u>	<u>\$ 323,523,821</u>	<u>\$ 285,268,924</u>
Liabilities and Shareholders' Equity			
Deposits	\$ 269,896,809	\$ 275,730,793	\$ 239,729,232
Other Borrowings & Other Liabilities	<u>17,675,491</u>	<u>18,330,222</u>	<u>18,255,321</u>
Total Liabilities	<u>287,572,300</u>	<u>294,061,015</u>	<u>257,984,553</u>
Total Shareholders' Equity	<u>30,223,717</u>	<u>29,462,806</u>	<u>27,284,371</u>
Total Liabilities and Shareholders' Equity	<u>\$ 317,796,017</u>	<u>\$ 323,523,821</u>	<u>\$ 285,268,924</u>

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING	
	<u>3/31/2020</u>	<u>3/31/2019</u>
Net Interest Income	\$ 2,742,531	\$ 2,761,031
Provision for Loan Losses	<u>225,000</u>	<u>90,000</u>
Net Interest Income After Provision for Loan Losses	<u>2,517,531</u>	<u>2,671,031</u>
Other Income	706,554	473,749
Other Expense	<u>2,294,829</u>	<u>2,253,738</u>
Net Income Before Federal Income Tax	929,256	891,042
Federal Income Tax	<u>197,500</u>	<u>187,500</u>
Net Income Available to Common Shareholders	<u>\$ 731,756</u>	<u>\$ 703,542</u>

PERFORMANCE RATIOS

	<u>3/31/2020</u>	<u>12/31/2019</u>	<u>3/31/2019</u>
Return on Average Assets - YTD	0.90%	0.98%	1.00%
Return on Average Equity - YTD	9.83%	10.16%	10.60%
Net Book Value per Share	\$ 17.54	\$ 17.15	\$ 15.99
Price to Book Value	1.17	1.20	1.19
Earnings per Share	\$ 0.43	\$ 1.67	\$ 0.41

1st QUARTER

Board of Directors

Phillip L. List

Chairman of the Board

James R. Milroy

Richard O. Goedert

Terry R. Niederstadt

Michael D. Bierlein

James J. Shiners

Lynn R. Wolgast

Mitzi M. Dimitroff

Joseph R. Fabiano II

Michael L. Hanisko

Max D. Holman

Paul J. Barbeau



Bauer Financial, Inc.

A 5-Star Superior Rating denotes that 1st State Bank is among the strongest banks in the nation

Quarterly Highlights

15th Annual RUBY Awards

On February 26th a celebration was held to recognize the Upward, Bright and Young of our community. Congratulations to this year's recipients!

- Meghan Baruth** - Saginaw Valley State University
- Christopher Chandler** - Dow
- Jennifer Chaytor** - Saginaw Valley State University
- Rob Clements** - Clements Electric, Inc.
- Candice Colby-Scott** - Baker Ear Nose & Throat Associates, PLC
- Kevin Douglas** - Nexteer Automotive
- Latrice Goodwine** - Girl What's In Your Purse, LLC
- Jennifer Nash** - Dermatology Associates of Midland, PLC
- Alayna Wesener** - Sushi Remix & Chevron Creative
- Emily Yeager** - CAN Council Great Lakes Bay Region



Employee Changes

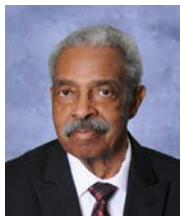
Please join us in welcoming the newest additions to the 1st State Bank staff

- Lindsey Barsaleau** - Human Resource Generalist
- Conner Hart** - Credit Analyst
- Savannah Bedford** - Personal Banker
- Alyssa Veres** - Personal Banker

Annual Meeting Update

To comply with Covid-19 social distancing measures, this year's 1st State Financial Annual Meeting will be held without attendees. Please send in your proxies so that your vote can be counted during the meeting. The meeting will be recapped in the 2nd quarter edition of the newsletter.

Remembering Dave Hall



The staff and Board of Directors of 1st State Bank honor the memory of our Founding Board Member, Retired Brigadier General David M. Hall who died on March 21, 2020. It was our privilege to have Dave serve the Bank from its start in 2004 until his retirement in 2017. We are sincerely grateful for his insights and deep commitment to 1st State Bank and the Great Lakes Bay region. Dave will be greatly missed.

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

Kevin Fraser
(989) 272-7585
KevinF@1stStateBk.com

Events of Note

Bank Holiday Closure
Memorial Day - Monday May 25, 2020

