



2nd QUARTER

Board of Directors

Phillip L. List
Chairman of the Board

James R. Milroy
President & CEO

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

A Letter from the President

To Our Shareholders,



The second quarter of 2020 is seared in my memory. Unusual, unprecedented, unbelievable. During those three months, our society wrestled with the pandemic, balancing health and welfare, a faltering economy and racial bias and civil unrest. Significant challenges to say the least which are not going away anytime soon.

During the quarter, we quickly adapted to a shut down, migrated toward a reopening and are now pausing as COVID cases rise. We reconfigured our service delivery while keeping our employees safe. At one point, approximately 75% of our non branch staff was working from home. Today, approximately 50% to 60% continue to work from home. I am extremely proud of our entire staff for professionally absorbing this rapid change while continuing to provide quality service to our customers.

To-date, our business lending staff originated approximately 500 Paycheck Protection Program (PPP) loans totaling \$85 million. Our staff responded impressively during this chaotic time, fulfilling the need of existing and new customers to participate in PPP. Dealing directly with customers, our In touch approach proved extremely valuable. We are now in the forgiveness phase of PPP, assisting our customers with loan forgiveness applications and calculations.

During this entire time, historically low rates helped to produce record levels of residential mortgage originations. Initially, refinance activity dominated but now purchase activity is increasing. Our mortgage staff not only successfully handled this volume, but did so while being displaced and revising processes to accommodate the shut down. Through the second quarter, earnings totaled \$1,667,000, a 2.6% increase over the same time in 2019. Mortgage origination income and partial recognition of PPP origination fees boosted other income. Increased operating expenses and increased provision for loan loss expense, largely due to the pandemic, largely offset these gains. We are watching loan quality closely, sifting through the government assistance to monitor the economic impact of the pandemic on our customers. We will react accordingly with further provisions to the allowance for loan losses as appropriate.

On July 16, 2020, your Board of Directors approved a quarterly cash dividend of \$.06 per share. This dividend will be paid on August 10 to shareholders of record on August 21.

As always, we appreciate your ongoing support and customer referrals to 1st State Bank.

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	6/30/2020	12/31/2019	6/30/2019
Assets			
Cash Equivalents and Investments	\$ 117,966,059	\$ 93,327,828	\$ 56,057,644
Loans, net of reserve for loan losses	278,314,906	212,620,478	205,909,495
Other assets	17,580,193	17,575,515	17,750,904
Total Assets	\$ 413,861,158	\$ 323,523,821	\$ 279,718,043
Liabilities and Shareholders' Equity			
Deposits	\$ 362,127,517	\$ 275,730,793	\$ 230,880,082
Other Borrowings & Other Liabilities	20,487,995	18,330,222	20,619,485
Total Liabilities	382,615,512	294,061,015	251,499,567
Total Shareholders' Equity	31,245,646	29,462,806	28,218,476
Total Liabilities and Shareholders' Equity	\$ 413,861,158	\$ 323,523,821	\$ 279,718,043

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		SIX MONTHS ENDING	
	6/30/2020	6/30/2019	6/30/2020	6/30/2019
Net Interest Income	\$ 2,730,958	\$ 2,842,658	\$ 5,473,489	\$ 5,603,690
Provision for Loan Losses	250,000	105,000	475,000	195,000
Net Interest Income After Provision for Loan Losses	2,480,958	2,737,658	4,998,489	5,408,690
Other Income	1,134,907	623,619	1,841,461	1,097,368
Other Expense	2,429,029	2,191,617	4,723,858	4,445,355
Net Income Before Federal Income Tax	1,186,836	1,169,660	2,116,092	2,060,703
Federal Income Tax	251,900	248,500	449,400	436,000
Net Income Available to Common Shareholders	\$ 934,936	\$ 921,160	\$ 1,666,692	\$ 1,624,703

PERFORMANCE RATIOS

	6/30/2020	12/31/2019	6/30/2019
Return on Average Assets - YTD	0.93%	0.98%	1.15%
Return on Average Equity - YTD	11.03%	10.16%	11.98%
Net Book Value per Share	\$ 17.91	\$ 17.15	\$ 16.50
Price to Book Value	1.15	1.20	1.19
Earnings per Share	\$ 0.97	\$ 1.67	\$ 0.95



Bauer Financial, Inc.
A 5-Star Superior Rating denotes that 1st State Bank is among the strongest banks in the nation

Quarterly Highlights

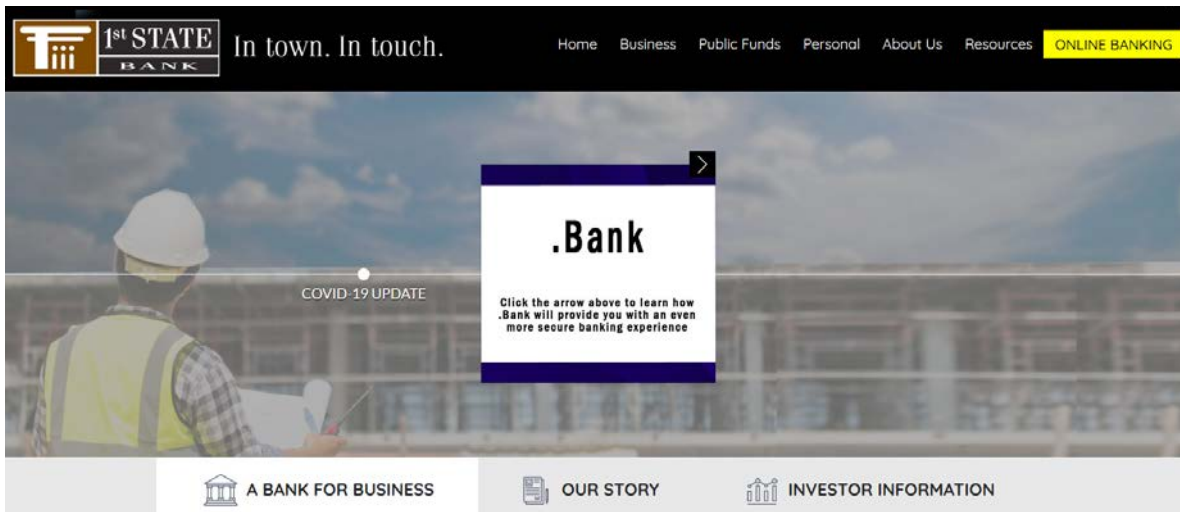
OFFICE LOCATIONS

Our Paycheck Protection Program Response

1st State Bank is proud to report that 100% of paycheck protection program applications that we received during round one were input and approved. That was accomplished because while many other banks were not yet accepting applications or were still building their websites and processes, we at 1st State Bank were inputting applications on the first day of the program. Being In town. In touch. means being accessible to our customers, at any hour of the day, any day of the week. It means talking to hundreds of customers and non customers in order to help them complete their PPP application. And it means collecting hundreds of PPP applications and having a team of dedicated lenders working all hours of the day and week to personally input and submit the applications. We are proud of our staff and the way they stepped up to handle this process.

Exciting Technology Changes

On August 3rd two exciting changes are coming for 1st State Bank. First, our website will be relaunched with a fresh new look. Second, our web address is changing from 1stStateBk.com to **1stState.Bank**. We are changing to .Bank to provide you with an even more secure banking experience. To learn more about .Bank, please visit our website for a full list of questions and answers or call any of five office locations for more information.



Annual Meeting Update

To comply with Covid-19 social distancing measures, this year's 1st State Financial Annual Meeting was held without attendees. At the Annual Meeting, the shareholders voted by proxy to renew the Board terms of Rick Goedert, Jake Shinnors, Lynn Wolgast, and Paul Barbeau.

Shareholder Contact

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

Events of Note

Bank Holiday Closure

Labor Day - Monday September 07, 2020

Current Lobby Status - Monitor our website for COVID-19 Updates

State Street, Downtown Bay City & Midland Offices - Open

All Drive-Thrus - Open



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

