



**3<sup>rd</sup> 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,



As I write this letter, COVID-19 continues to dominate all aspects of our lives. While we saw a respite in the number of cases during the summer, new cases are on the rise as we head into the traditional flu season. With the Governor's Executive Orders stricken down by the Michigan Supreme Court, we are again learning what is acceptable behavior and practices for businesses.

While advancements in vaccines and treatments appear promising, the COVID-19 threat through the next 90-120 days appears to be increasing and again demanding a greater focus. Despite the uncertainty surrounding COVID-19, we continue moving forward, assessing its impact on the economy and our business customers; staying abreast of best practices and protocols to keep our employees and customers safe; continuing to stay in touch with our employee's personal situations as they deal with school, elderly loved ones, isolation and the new normal.

From a bottom-line perspective, the third quarter was successful. Our quarterly net income of \$894,000 has only been exceeded twice in the Company's history and exceeded the 3rd quarter 2019 by 13%. A significant increase in Other Income contributed to this result. Approximately \$370,000 of fee income from the Paycheck Protection Program was recognized during the quarter. In addition, approximately \$390,000 of fee income from residential mortgage originations was also recognized. During the quarter, our origination team closed \$25 million in residential mortgage loans, a new record for us. Strong levels of originations will continue through the balance of this year.

Due to COVID-19, we are keeping a close eye on asset quality and preparing the best we can for what we believe will be a potentially challenging time in 2021. As a result, we increased our provision for loan loss expense in the 3rd quarter to \$350,000, continuing to build our Reserve for Loan Losses. This amount compares to the 1st and 2nd quarter levels of \$225,000 and \$250,000, respectively. We anticipate comparable or higher levels of provision expense in the 4th quarter as we continue to assess the longer term economic impact of the pandemic.

On October 15, 2020, your Board of Directors approved a quarterly cash dividend of \$.06 per share. This dividend will be paid on November 17th to shareholders of record on November 6th.

We appreciate your ongoing support and customer referrals to 1st State Bank. Stay safe.

**Financial Report**

**CONSOLIDATED BALANCE SHEETS (unaudited)**

<u>Assets</u>	<u>9/30/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
Cash Equivalents and Investments	\$ 104,911,408	\$ 93,327,828	\$ 68,119,163
Loans, net of reserve for loan losses	285,957,749	212,620,478	205,811,768
Other assets	<u>17,579,373</u>	<u>17,575,515</u>	<u>17,639,800</u>
<b>Total Assets</b>	<b><u>\$ 408,448,530</u></b>	<b><u>\$ 323,523,821</u></b>	<b><u>\$ 291,570,731</u></b>
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 354,163,685	\$ 275,730,793	\$ 242,667,171
Other Borrowings & Other Liabilities	22,194,317	18,330,222	19,893,685
<b>Total Liabilities</b>	<b>376,358,002</b>	<b>294,061,015</b>	<b>262,560,856</b>
<b>Total Shareholders' Equity</b>	<b><u>32,090,528</u></b>	<b><u>29,462,806</u></b>	<b><u>29,009,875</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 408,448,530</u></b>	<b><u>\$ 323,523,821</u></b>	<b><u>\$ 291,570,731</u></b>

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

	<u>THREE MONTHS ENDING</u>		<u>NINE MONTHS ENDING</u>	
	<u>9/30/2020</u>	<u>9/30/2019</u>	<u>9/30/2020</u>	<u>9/30/2019</u>
<b>Net Interest Income</b>	<b>\$ 2,669,900</b>	<b>\$ 2,804,840</b>	<b>\$ 8,143,389</b>	<b>\$ 8,408,530</b>
Provision for Loan Losses	350,000	200,000	825,000	395,000
<b>Net Interest Income After Provision for Loan Losses</b>	<b>2,319,900</b>	<b>2,604,840</b>	<b>7,318,389</b>	<b>8,013,530</b>
<b>Other Income</b>	<b>1,320,998</b>	<b>582,979</b>	<b>3,162,459</b>	<b>1,680,347</b>
<b>Other Expense</b>	<b><u>2,506,222</u></b>	<b><u>2,180,798</u></b>	<b><u>7,230,080</u></b>	<b><u>6,626,153</u></b>
<b>Net Income Before Federal Income Tax</b>	<b>1,134,676</b>	<b>1,007,021</b>	<b>3,250,768</b>	<b>3,067,724</b>
Federal Income Tax	240,500	213,000	689,900	649,000
<b>Net Income Available to Common Shareholders</b>	<b><u>\$ 894,176</u></b>	<b><u>\$ 794,021</u></b>	<b><u>\$ 2,560,868</u></b>	<b><u>\$ 2,418,724</u></b>

**PERFORMANCE RATIOS**

	<u>9/30/2020</u>	<u>12/31/2019</u>	<u>9/30/2019</u>
Return on Average Assets - YTD	0.90%	0.98%	1.13%
Return on Average Equity - YTD	11.09%	10.16%	11.64%
Independent Valuation Stock Price	\$ 20.80	\$ 20.60	\$ 20.25
Net Book Value per Share	\$ 18.35	\$ 17.15	\$ 16.92
Price to Book Value	1.13	1.20	1.20
Earnings per Share	\$ 1.48	\$ 1.67	\$ 1.42



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

# Quarterly Highlights

## Employee Changes

Please join us in welcoming the newest additions to the 1<sup>st</sup> State Bank staff

**Amber Auger** - Personal Banker  
**Jennifer Ciesla** - Executive Assistant  
**Nicole Hayward** - Personal Banker  
**Joy Howell** - Loan Specialist  
**Alyssa King** - Loan Specialist  
**Amy Kosecki-Courtney** - Mortgage Specialist  
**Nicole Sancrant** - Personal Banker  
**Sarah Spencer** - Credit Analyst  
**Kaitlin Szczepanski** - Personal Banker  
**Linda Young** - Personal Banker

## Current Lobby Status

The coronavirus (COVID-19) has led to big adjustments in our everyday lives, but one thing not changing is our commitment to serving you and your banking needs.

- State Street, Downtown Bay City & Midland Offices - Open
- Main Office & Wilder Road Offices - Drive-Thru Open, Call for appointment.
- All Drive-Thrus & ATMs - Open

Monitor [1stState.Bank](http://1stState.Bank) for COVID-19 Updates



**1<sup>st</sup> STATE BANK**

**Customer Education Center**

**Featured Topic:  
Fraud Prevention**

Visit our new Customer Education Center under the Resource Tab on [1stState.Bank](http://1stState.Bank) to learn how you can protect yourself from fraudulent activity and what fraud prevention services 1<sup>st</sup> State Bank offers.

**MEMBER FDIC EQUAL OPPORTUNITY LENDER**

## 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@1stState.Bank](mailto:KevinF@1stState.Bank)

## Events of Note

### Bank Holiday Closures

Thanksgiving Day - Thursday November 26  
Christmas Eve - Closing at 1pm - Thursday, December 24  
Christmas Day - Friday, December 25  
New Year's Day - Friday, January 1