



**A Letter from the President**

To Our Shareholders,



Reflecting on a unique, challenging and rewarding year, you can be proud of how our employees successfully managed 2020's challenges, both professionally and personally, while continuing to fulfill our mission of helping businesses succeed.

Net income for 2020 was \$3.6 million, an increase of 28% over 2019. The Paycheck Protection Program ("PPP") provided a significant boost to our bottom line as we recognized \$1.2 million of PPP fee income, net of tax. Residential mortgage loan originations during 2020 far exceeded levels we thought were attainable in a given year. Our mortgage staff closed over \$93 million of loans generating \$1.8 million of fee income, net of tax, more than doubling prior record levels. However, given the uncertainty of our economic environment, the Bank offset 2020's unique other income contributions with increased provision for loan loss expense. We added \$1.6 million to the reserve for loan losses in 2020, compared to \$995,000 in 2019.

While the pandemic still dominates our lives, we remain optimistic it will be eradicated sometime in 2021 as vaccines are distributed. That process will allow our economy to rebound and hopefully along with that, more calm and civility will return to our social discourse. However, potential economic fallout before we reach that point causes concern along with the impact of extended historically low interest rates. Both present challenges to future performance which we are working daily to address.

On January 21, 2021, your Board of Directors approved an increase to the quarterly cash dividend to \$.065 per share. This represents an increase of 8% over the previous quarter's dividend and will be paid on February 23 to shareholders of record on February 12, 2021.

As always, we thank you for your support, your business and your referral of others to 1st State Bank.

Sincerely,

James Milroy  
President & CEO

**Financial Report**

**CONSOLIDATED BALANCE SHEETS (unaudited)**

	<u>12/31/2020</u>	<u>12/31/2019</u>
<b>Assets</b>		
Cash Equivalents and Investments	\$ 115,593,422	\$ 93,327,828
Loans, net of reserve for loan losses	273,526,315	212,620,478
Other assets	<u>23,876,175</u>	<u>17,575,515</u>
<b>Total Assets</b>	<b><u>\$ 412,995,912</u></b>	<b><u>\$ 323,523,821</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits	\$ 360,461,410	\$ 275,730,793
Other Borrowings & Other Liabilities	<u>19,351,293</u>	<u>18,330,222</u>
<b>Total Liabilities</b>	<b><u>379,812,703</u></b>	<b><u>294,061,015</u></b>
<b>Total Shareholders' Equity</b>	<b><u>33,183,209</u></b>	<b><u>29,462,806</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 412,995,912</u></b>	<b><u>\$ 323,523,821</u></b>

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

	<b>THREE MONTHS ENDING</b>		<b>TWELVE MONTHS ENDING</b>	
	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
<b>Net Interest Income</b>	<b>\$ 3,058,199</b>	<b>\$ 2,810,652</b>	<b>\$ 11,201,588</b>	<b>\$ 11,219,181</b>
Provision for Loan Losses	775,000	600,000	1,600,000	995,000
<b>Net Interest Income After Provision for Loan Losses</b>	<b>2,283,199</b>	<b>2,210,652</b>	<b>9,601,588</b>	<b>10,224,181</b>
<b>Other Income</b>	<b>2,000,111</b>	<b>659,154</b>	<b>5,162,570</b>	<b>2,339,502</b>
<b>Other Expense</b>	<b><u>2,906,178</u></b>	<b><u>2,310,338</u></b>	<b><u>10,136,258</u></b>	<b><u>8,936,491</u></b>
<b>Net Income Before Federal Income Tax</b>	<b>1,377,132</b>	<b>559,468</b>	<b>4,627,900</b>	<b>3,627,192</b>
Federal Income Tax	291,500	119,000	981,400	768,000
<b>Net Income Available to Common Shareholders</b>	<b><u>\$ 1,085,632</u></b>	<b><u>\$ 440,468</u></b>	<b><u>\$ 3,646,500</u></b>	<b><u>\$ 2,859,192</u></b>

**PERFORMANCE RATIOS**

	<u>12/31/2020</u>	<u>12/31/2019</u>
Return on Average Assets - YTD	0.94%	0.98%
Return on Average Equity - YTD	11.09%	10.16%
Independent Valuation Stock Price	\$ 20.80	\$ 20.60
Net Book Value per Share	\$ 18.92	\$ 17.15
Price to Book Value	1.10	1.20
Earnings per Share	\$ 2.10	\$ 1.67

**4TH 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**



**Bauer Financial, Inc.**  
A 4-Star Superior Rating denotes that 1<sup>st</sup> State Bank is among the strongest banks in the nation

# Quarterly Highlights

## 16th Annual RUBY Award

This year 1st State Bank will be producing a digital version of the RUBY Award Celebration with help from Imageworks LTD, a video production company out of Midland. Imageworks LTD has been producing outstanding digital events for the chambers and other local organizations and we are very excited to work with them on this project. The event will premiere on the RUBY Award Facebook page in late February. While this year's celebration can not be held in person we plan to make this a memorable event for this year's eight recipients. Follow us at [www.facebook.com/RUBYAward](http://www.facebook.com/RUBYAward).

## 1stState.Bank

In August the Bank introduced our new URL. We made the transition from .com to .Bank to enhance our security measures. While website redirection and email forwarding will remain in place for a while longer we strongly encourage you to update your bookmark(s) to our site and any Bank email addresses in your address book.

## Paycheck Protection Loans (PPP Loans)

The Small Business Administration began accepting applications on January 11 for round two of the PPP Loan program. This round is available to borrowers for first-draw loans and for second-draw loans. Visit our website for a summary of the eligibility details as well as the applications. Business Lenders are available to take your calls.



**Featured Topic:  
Fraud Prevention**

Visit our new Customer Education Center under the Resource Tab on 1stState.Bank to learn how you can protect yourself from fraudulent activity and what fraud prevention services 1st State Bank offers.



## 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

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## Events of Note

**1st State Bank is Open:** President's Day - Monday February 15

More information to come regarding the upcoming Shareholder's Meeting.

