

# 2020 Annual Report

Business banking with  
*the power of E*



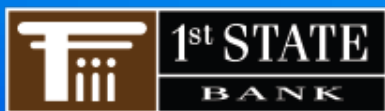
The bank  
for business.

# ExpertEASE

If one word could sum up our  
business banking approach

*The power of E*

LEARN MORE



The bank  
for business.

Have you noticed our new look? 1<sup>st</sup> State Bank has launched a new marketing campaign! The goal of this new campaign is to expand our reputation in the Great Lakes Bay Region as the Bank for Business.

We saw the potential for building new messaging around the pillars of ease of doing business, banker expertise and quality and reliability of online tools. The theme we chose to represent this was:

Business banking with  
*the power of E*

The E represents our expertise, and the ease of doing business with 1<sup>st</sup> State Bank.

The new campaign will begin with three different messages, and will be delivered using digital ads, TV commercials and a new landing page. Our new videos will be used as social media posts.



## To Our Shareholders,

It will take years to fully appreciate the impact of the COVID-19 pandemic. This is true for each of us on a personal level as well as for 1<sup>st</sup> State Bank. In 2020, our workplace norms, processes and methods of communicating with each other changed dramatically. The Bank's balance sheet experienced unprecedented growth with the Paycheck Protection Program ("PPP") adding \$86 million of 1% interest rate loans to our books and customers carrying historically high levels of deposits due to uncertainty and pent-up demand. Low interest rates produced levels of mortgage originations previously unimaginable.

Despite its challenges, 2020 produced its rewards and successes. Financially, net income of \$3.6 million was a 28% increase over 2019, establishing a new milestone for the Bank driven by PPP fee income and mortgage origination income. Combined, these two areas produced \$3.8 million of other income, offsetting \$1.6 million of Provision for Loan Loss expense needed to adequately protect the Bank from potential fallout from the economic impact of the pandemic.

Round one of PPP last April was one of the most rewarding experiences in my banking career. Despite the constant fluidity of the rules governing the program, our size and structure allowed us to quickly adapt and process customer applications the minute the program opened. Our 'in touch' approach allowed our lenders to work directly with our business customers through both the application and forgiveness process. Our entire team worked tirelessly, originating over 500 PPP loans, representing \$86 million of aid to the region's business community. Of the 500 loans, approximately 100 were new customers to 1st State as businesses heard we were able to process these applications in a timely and efficient manner. Considering the chaos and uncertainty of the pandemic and the PPP program itself, our customers' sense of urgency was palpable at that time, and you should be proud that 1st State Bank was able to deliver.

Equally impressive was the work and dedication of our mortgage origination team of employees. In 2020, we originated 522 residential mortgage loans totaling \$93 million, compared to our previous high in 2019 of 257 loans totaling \$38 million. Seeing our customers realize the tangible benefit of historically low rates through our 'in touch' approach was equally rewarding.

2020 is leaving its challenges. PPP loan forgiveness, combined with high customer deposit levels, will challenge our ability to deploy excess cash due to the uncertainty of when customers will invest and spend their deposits. The ultimate economic impact to the business community is still unknown as well as the impact of low interest rates on our net interest margin. As we did in 2020, I am confident our entire team will work diligently to successfully meet these challenges.

COVID-19. The loss of life, economic disruption, and social upheaval caused by this pandemic was unimaginable in February of 2020. With perseverance, resolve, and creativity, we will continue our work helping businesses succeed in the Great Lakes Bay Region. We greatly appreciate your support as an investor in this mission.

Sincerely,

A handwritten signature in black ink, appearing to read "James Milroy". The signature is fluid and cursive.

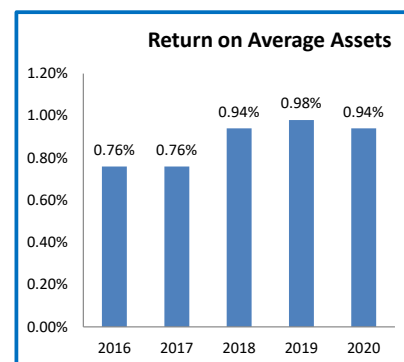
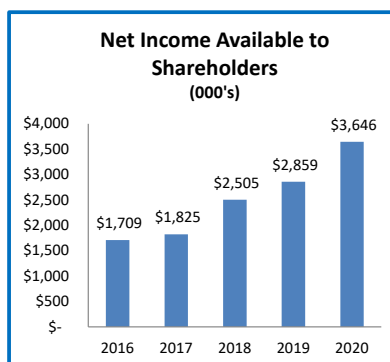
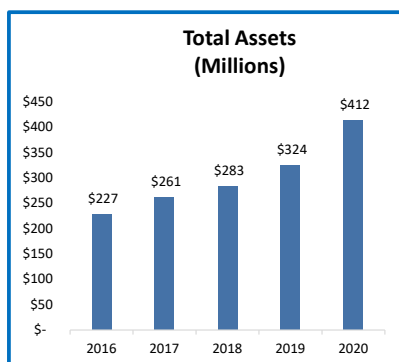
James R. Milroy  
President & CEO

## CONSOLIDATED BALANCE SHEET

|  | <u>12/31/2020</u>           | <u>12/31/2019</u>           |
|--|-----------------------------|-----------------------------|
| <b><u>Assets</u></b>                               |                             |                             |
| Cash and cash equivalents                          | \$ 93,450,389               | \$ 89,550,609               |
| Investments  | 22,062,955                  | 3,713,729                   |
| Loans, net of reserve for loan losses              | 272,848,483                 | 212,851,297                 |
| Premises and equipment, net                        | 14,445,938                  | 14,885,067                  |
| Reposessed assets                                  | -                           | 158,676                     |
| Other assets                                       | 9,584,481                   | 2,514,505                   |
| <b>Total Assets</b>                                | <b><u>\$412,392,246</u></b> | <b><u>\$323,673,883</u></b> |
| <b><u>Liabilities and Shareholders' Equity</u></b> |                             |                             |
| Interest bearing deposits                          | \$191,953,299               | \$166,164,313               |
| Non-interest bearing deposits                      | 168,508,111                 | 109,566,480                 |
| Borrowed funds                                     | 15,500,000                  | 16,500,000                  |
| Other liabilities                                  | 3,247,627                   | 1,980,284                   |
| <b>Total Liabilities</b>                           | <b>379,209,037</b>          | <b>294,211,077</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>\$412,392,246</u></b> | <b><u>\$323,673,883</u></b> |

## CONSOLIDATED STATEMENTS OF INCOME

|  | <u>2020</u>                   | <u>2019</u>                |
|--|-------------------------------|----------------------------|
|  | <b>Year ended December 31</b> |                            |
| <b>Interest Income</b>                                     | <b>\$ 14,036,926</b>          | <b>\$ 13,155,140</b>       |
| <b>Interest Expense</b>                                    | <b><u>831,644</u></b>         | <b><u>1,590,948</u></b>    |
| <b>Net Interest Income</b>                                 | <b>13,205,282</b>             | <b>11,564,192</b>          |
| Provision for loan losses                                  | 1,600,000                     | 995,000                    |
| <b>Net Interest Income After Provision for Loan Losses</b> | <b>11,605,282</b>             | <b>10,569,192</b>          |
| <b>Other Income</b>  | <b>2,774,768</b>              | <b>1,566,939</b>           |
| <b>Other Expense</b>                                       | <b><u>9,752,151</u></b>       | <b><u>8,508,939</u></b>    |
| <b>Income Before Federal Income Tax</b>                    | <b>4,627,899</b>              | <b>3,627,192</b>           |
| Federal Income Tax Expense                                 | 981,400                       | 768,000                    |
| <b>Net Income</b>  | <b><u>\$ 3,646,499</u></b>    | <b><u>\$ 2,859,192</u></b> |



# SELECTED FINANCIAL DATA

This unaudited table sets forth selected historical consolidated financial information derived from our audited consolidated financial statements for the five years ended December 31, 2020.

| Dollars in thousands, except per share data | 2020     | 2019     | 2018     | 2017     | 2016     |
|---|----------|----------|----------|----------|----------|
| Net Income Available to Common Shareholders | \$ 3,646 | \$ 2,859 | \$ 2,505 | \$ 1,825 | \$ 1,709 |

## BALANCE SHEET DATA (DECEMBER 31)

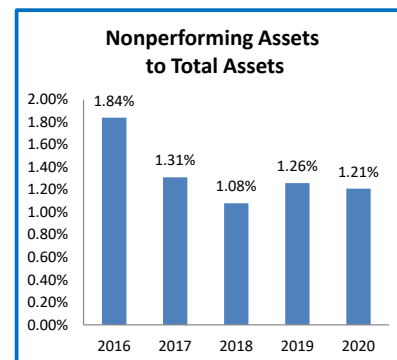
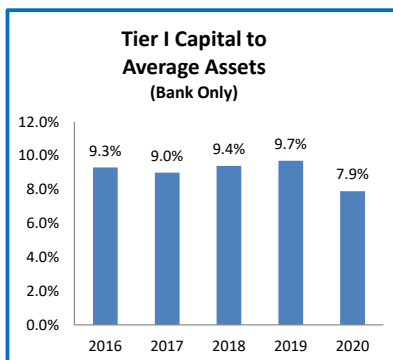
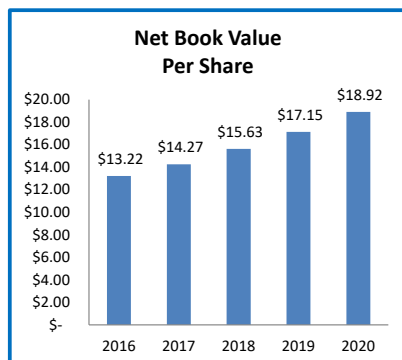
|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Total Assets                                 | \$ 412,392 | \$ 323,674 | \$ 283,208 | \$ 260,843 | \$ 226,562 |
| Total Loans                                  | 277,683    | 216,013    | 198,659    | 183,087    | 171,067    |
| Total Deposits                               | 360,461    | 275,731    | 237,874    | 217,523    | 192,516    |
| Total Shareholders' Equity                   | 33,183     | 29,463     | 26,578     | 21,492     | 21,109     |
| Tier I Capital to Average Assets (Bank Only) | 7.89%      | 9.66%      | 9.42%      | 8.97%      | 9.34%      |
| Net Book Value per Common Share              | \$ 18.92   | \$ 17.15   | \$ 15.63   | \$ 14.27   | \$ 13.22   |
| Independent Valuation Stock Price            | \$ 20.80   | \$ 20.60   | \$ 18.25   | \$ 14.50   | \$ 12.90   |

## PERFORMANCE RATIOS

|                                     |         |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|---------|
| Return on Average Assets            | 0.94%   | 0.98%   | 0.94%   | 0.76%   | 0.76%   |
| Return on Average Common Equity     | 11.67%  | 10.16%  | 10.30%  | 8.38%   | 8.41%   |
| Net Interest Margin                 | 3.05%   | 4.17%   | 4.08%   | 3.93%   | 3.66%   |
| Net Income per Average Common Share | \$ 2.10 | \$ 1.67 | \$ 1.54 | \$ 1.16 | \$ 1.07 |

## ASSET QUALITY MEASURES

|   |         |        |        |       |         |
|---|---------|--------|--------|-------|---------|
| Net Loan Charge-offs (Recoveries)           | \$ (73) | \$ 698 | \$ 531 | \$ 83 | \$ (88) |
| Net Loan Charge-offs to Average Total Loans | (0.03%) | 0.34%  | 0.28%  | 0.05% | (0.05%) |
| Allowance for Loan Losses to Total Loans    | 1.74%   | 1.47%  | 1.44%  | 1.61% | 1.52%   |
| Non-performing Assets to Total Assets       | 1.21%   | 1.26%  | 1.08%  | 1.31% | 1.84%   |





# 1<sup>ST</sup> STATE BANK BOARD OF DIRECTORS



**Phillip List**  
Chairman of the Board



**Rick Goedert**  
Vice Chairman of the Board



**Jim Milroy**



**Terry Niederstadt**



**Jake Shinnors**



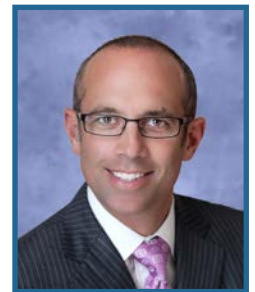
**Mike Bierlein**



**Lynn Wolgast**



**Mitzi Dimitroff**



**Joe Fabiano**



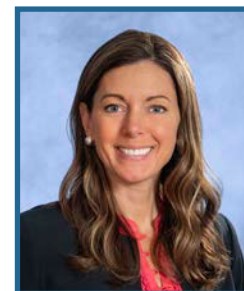
**Mike Hanisko**



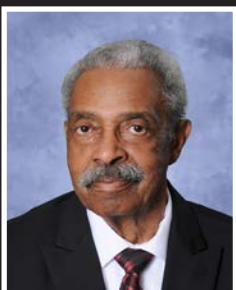
**Max Holman**



**Paul Barbeau**



**Carrie Mahar Kessel**



## REMEMBERING DAVID M. HALL

The staff and Board of Directors of 1st State Bank honor the memory of founding Board Member, Retired Brigadier General David M. Hall who passed away March 21, 2020. It was our privilege to have Dave serve the bank from its start in 2004 to his retirement in 2017. We are sincerely grateful for his insights and commitment to 1st State Bank and the Great Lakes Bay Region.

# LOCATIONS



4800 Fashion Square Boulevard  
Saginaw, MI 48604  
989.799.7500



5425 State Street  
Saginaw, MI 48603  
989.596.7500



601 N. Madison Avenue  
Bay City, MI 48708  
989.322.7500



3907 Wilder Road  
Bay City, MI 48706  
989.439.7500



400 Ashman Street  
Midland, MI 48640  
989.492.7500



The bank for business.

989.799.7500

1stState.Bank

