

A Letter from the President

To Our Shareholders,



2021 is off to a strong start. Net income of \$1,404,485 this quarter nearly doubled net income recorded in the first quarter of last year. Fees related to round one Paycheck Protection Program (“PPP”) loans originated in 2020 as well as fees from round two loans originated in 2021 produced \$898,000 of additional income this year versus last year. In addition, fee income from mortgage origination activity increased by \$171,000 year-over-year. Ongoing low interest rates helped to maintain mortgage refinance activity while home purchase activity picked up during the quarter as well.

The Bank’s balance sheet also grew rapidly during the first quarter. Total assets increased from \$413 million at December 31, 2020 to \$458 million at March 31, 2021 predominantly because of the \$47 million of round two PPP loans and corresponding deposits originated during the quarter. We anticipate customer deposit balances to remain elevated for some time due to the government’s aggressive fiscal response to the pandemic.

We are pleased to report that our asset quality indicators remain strong. On March 31st, delinquent loans represented only .14% of total loans, non-performing assets to total assets declined to .79% and the level of charged-off loans in the first quarter was modest. The economic distress caused by the pandemic has yet to show significant distress in our loan portfolio as was feared in early 2020. While we are cautiously optimistic, we prudently expensed \$250,000 of provision for loan loss expense in the first quarter to provide protection against future losses that may occur.

On April 15, 2021, your Board of Directors approved a quarterly cash dividend of \$.065 per share, unchanged from the prior quarter. The dividend will be paid on May 25 to shareholders of record on May 14, 2021.

As always, we thank you for your continued support.

Sincerely,

James Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	<u>3/31/2021</u>	<u>12/31/2020</u>	<u>3/31/2020</u>
Assets			
Cash Equivalents and Investments	\$ 152,499,882	\$ 115,593,422	\$ 90,148,442
Loans, net of reserve for loan losses	282,026,052	273,526,315	210,195,010
Other assets	23,901,292	23,876,175	17,452,565
Total Assets	\$ 458,427,226	\$ 412,995,912	\$ 317,796,017
Liabilities and Shareholders' Equity			
Deposits	\$ 402,175,382	\$ 360,461,410	\$ 269,896,809
Other Borrowings & Other Liabilities	21,898,300	19,351,293	17,675,491
Total Liabilities	424,073,682	379,812,703	287,572,300
Total Shareholders' Equity	34,353,544	33,183,209	30,223,717
Total Liabilities and Shareholders' Equity	\$ 458,427,226	\$ 412,995,912	\$ 317,796,017

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>	
	<u>3/31/2021</u>	<u>3/31/2020</u>
Net Interest Income	\$ 2,741,332	\$ 2,742,531
Provision for Loan Losses	250,000	225,000
Net Interest Income After Provision for Loan Losses	2,491,332	2,517,531
Other Income	1,801,439	706,554
Other Expense	2,518,486	2,294,829
Net Income Before Federal Income Tax	1,774,285	929,256
Federal Income Tax	369,800	197,500
Net Income Available to Common Shareholders	<u>\$ 1,404,485</u>	<u>\$ 731,756</u>

PERFORMANCE RATIOS

	<u>3/31/2021</u>	<u>12/31/2019</u>	<u>3/31/2020</u>
Return on Average Assets - YTD	1.29%	0.94%	0.90%
Return on Average Equity - YTD	16.95%	11.09%	9.83%
Independent Valuation Stock Price	\$ 20.80	\$ 20.80	\$ 20.60
Net Book Value per Share	\$ 19.54	\$ 18.92	\$ 17.54
Price to Book Value	1.06	1.10	1.17
Earnings per Share	\$ 0.80	\$ 2.10	\$ 0.43
Dividends paid per share	\$.065	\$.24	\$.06

1ST 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

Carrie Mahar Kessel



Bauer Financial, Inc.

A 4-Star Superior Rating denotes that 1st State Bank is among the strongest banks in the nation

Quarterly Highlights

16th Annual RUBY Award

This year 1st State Bank hosted a digital event to celebrate the 16th Annual RUBY Award. The event was streamed on the RUBY Award Facebook page and is still available to view. The event honored eight incredible young professionals in the Great Lakes Bay Region.

Ashley Blake – Encompass Therapy Center
John Boothroyd – Michigan Sugar Company
Kristen Bovid – Dow
Nick Bovid – Delta College
Andrew Heppner – Populace Coffee
Elizabeth Pionk, D.O., FAAFP – McLaren Bay Region
Bill Stec – Saginaw Valley State University
Martha Zehnder Kaczynski – Bavarian Inn Lodge



Annual Meeting Update

To comply with Covid-19 social distancing measures, this year's 1st State Financial Ltd. 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.

Carrie Mahar Kessel Joins 1st State Bank Board of Directors

1st State Bank is proud to welcome Carrie Mahar Kessel to our Board of Directors. Carrie Kessel is the Chief Operations Officer and part-owner of her family owned business, Mahar Tool Supply. Mahar Tool Supply is a multi-million Industrial Distribution Company with international supply headquartered in Saginaw. Kessel is a strong advocate of community involvement. Some of her involvements include, the YMCA Board of Directors, Junior League of Saginaw, Women in Leadership, and The Stevens Center for Family Business. Kessel graduated with her undergrad from the University of Colorado Boulder and has earned her Executive MBA from the University of Michigan Ann Arbor.

Shareholder Contact

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AshleyS@1stState.Bank

Events of Note

All Branch Lobbies will reopen Monday, May 3

1st State Bank is Closed: Memorial Day - Monday, May 31

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

