



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**

- Carrie Mahar Kessel**

- Tim Hausbeck**

A Letter from the President

To Our Shareholders,



Net income through June 30, 2021 is \$2,528,000, which compares to \$1,667,000 earned through the same time period in 2020. Fee income related to the Paycheck Protection Program (“PPP”) as well as mortgage origination volume remain the primary drivers of these results.

Round two of the PPP program ended on May 31st. Through both rounds of the program, our business lending group originated \$132 million of loans to local businesses. For these efforts, the Bank received \$5 million of fee income which we recognize over the life of these loans. For 2021, we recorded \$1,387,000 of PPP fee income through June 30, which compares to the prior year of \$305,000. We are estimating \$1,400,000 of PPP fee income will be recognized in the second half of this year, helping to keep our earnings performance strong.

Mortgage origination volume remains robust in 2021. Year-to-date, our mortgage lending group originated \$44 million of residential mortgages, producing \$948,000 of origination income, \$118,000 more than the same time period in 2020. While we see some tapering of origination volume from its current pace, we anticipate origination volume to remain solid through the balance of this year.

As noted, we anticipate both the PPP fee income and mortgage origination activity to continue to help the Bank produce strong earnings through the remainder of 2021. However, these drivers will also dissipate in 2022, forcing us to deal with historically low interest rates compressing net interest income. Fortunately, it appears concerns over the prospective health of our borrowers at the start of the pandemic is not materializing. Asset quality indicators remain strong, allowing us to reduce the amount of provision for loan loss expensed in the second quarter compared to prior quarters. For the six months in 2021, we have recorded \$300,000 of provision expense versus \$475,000 in 2020. We anticipate modest levels of provision expense for the balance of the year subject to any change in our asset quality trends.

On July 15, 2021, your Board of Directors approved a quarterly cash dividend of \$.065 per share. The dividend will be paid on August 17th to shareholders of record on August 6, 2021.

As always, we thank you for your continued support and referrals of new customers to the Bank.

Sincerely,

James Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>6/30/2021</u>	<u>12/31/2020</u>	<u>6/30/2020</u>
Cash Equivalents and Investments	\$ 156,699,604	\$ 115,593,422	\$ 117,966,159
Loans, net of reserve for loan losses	269,910,559	273,526,315	278,314,906
Other assets	23,721,837	23,876,175	17,580,193
Total Assets	\$ 450,332,000	\$ 412,995,912	\$ 413,861,158
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 395,054,500	\$ 360,461,410	\$ 362,127,517
Other Borrowings & Other Liabilities	19,715,242	19,351,293	20,487,995
Total Liabilities	414,769,742	379,812,703	382,615,512
Total Shareholders' Equity	35,562,258	33,183,209	31,245,646
Total Liabilities and Shareholders' Equity	\$ 450,332,000	\$ 412,995,912	\$ 413,861,158

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2021</u>	<u>6/30/2020</u>
Net Interest Income	\$ 2,762,883	\$ 2,730,958	\$ 5,504,215	\$ 5,473,489
Provision for Loan Losses	50,000	250,000	300,000	475,000
Net Interest Income After Provision for Loan Losses	2,712,883	2,480,958	5,204,215	4,998,489
Other Income	1,464,270	1,134,907	3,265,709	1,841,461
Other Expense	2,759,380	2,429,029	5,277,866	4,723,858
Net Income Before Federal Income Tax	1,417,773	1,186,836	3,192,058	2,116,092
Federal Income Tax	294,200	251,900	664,000	449,400
Net Income Available to Common Shareholders	\$ 1,123,573	\$ 934,936	\$ 2,528,058	\$ 1,666,692

PERFORMANCE RATIOS

	<u>6/30/2021</u>	<u>12/31/2020</u>	<u>6/30/2020</u>
Return on Average Assets - YTD	1.12%	0.94%	0.93%
Return on Average Equity - YTD	14.86%	11.09%	11.03%
Independent Valuation Stock Price	\$ 20.80	\$ 20.80	\$ 20.60
Net Book Value per Share	\$ 20.17	\$ 18.92	\$ 17.91
Price to Book Value	1.03	1.10	1.15
Earnings per Share	\$ 1.44	\$ 2.10	\$ 0.97
Dividends paid per share	\$.13	\$.24	\$.12



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

Quarterly Highlights

Tim Hausbeck Joins the 1st State Bank Board of Directors



1st State Bank is proud to welcome Tim Hausbeck to our Board of Directors as of May 20, 2021. Hausbeck is President, CEO, and co-owner of Hausbeck Pickles & Peppers, a third generation Saginaw family business that processes fresh produce primarily for the national quick service restaurant market. Hausbeck received an Associate's Degree in Business Administration from Delta College before graduating from Michigan State University with a Bachelor's Degree in Finance. He currently serves on the boards of Covenant HealthCare and the Saginaw Country Club. He previously served on the board of the Saginaw County Chamber of Commerce, and held the position of board chair in 2018. Hausbeck is a past recipient of the Chamber's Dr. Samuel H. Shaheen Vision of Free Enterprise award. He also served on the board of the Saginaw Club.

Gail J. Sarnowski Joins 1st State Bank

Please join us in welcoming Gail Sarnowski to 1st State Bank! Gail began working at 1st State Bank April 19, 2021. Sarnowski has over 20 years of financial and banking experience including business lending and commercial credit. Most recently, Sarnowski served as Commercial Loan Portfolio Manager for an area bank. She received her Bachelor's degree in Business Administration from Saginaw Valley State University. As an active member in the community, Sarnowski is President of Safe and Sound Children's Advocacy Center of Midland, and the Secretary of the Williams Twp. Planning Commission. She is also an Alumni of Leadership Midland, and a volunteer with Midland United Way. Sarnowski and her family reside in Auburn.



Welcome Lesley Makl!



On March 29, 2021, 1st State Bank welcomed Lesley Makl as the State Street Branch Manager in Saginaw. Makl has over 12 years of management experience, most recently as a General Manager in retail. Makl is a graduate of Northwood University with a Bachelor's Degree in Business Management. She resides in Saginaw.

Employee Changes

Please join us in welcoming the newest additions to the 1st State Bank staff

Mackenzie Ruthruff – Loan Specialist
Kara Neuenfeldt – Loan Specialist
Mike Moore – Credit Analyst
Kaitlyn Deshone – Deposit Operations Supervisor
Erin Nicklas – Personal Banker (Midland)
Victoria Wells – Personal Banker (All Locations)
Amber Gibbons – Personal Banker (Bay City)
Taylor Duhaime – Personal Banker (State Street)

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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(989) 272-7585

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Ashley Swartz

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AshleyS@1stState.Bank

Events of Note

RUBY Award Nomination Begins August 30

1st State Bank is Closed: Labor Day - Monday, September 6

