

2021 Annual Report



The bank
for business.

What Our Customers Are Saying



1st State Bank takes care of local businesses like I take care of my local customers.

Michael Collins
Healthway Compounding Pharmacy

We look to them as a partner in business. My business lender is always available and is very knowledgeable, advising on opportunities for growth.

Mike Grillo
Michigan Brand



1st State Bank smooths out the bumps in the road and makes things easy. I've referred other small business owners, the ultimate sign of customer satisfaction.

Paul Reder
Reder Landscaping

At 1st State Bank, I know I'm working with somebody who understands my unique situation, and I can have a face-to-face discussion.

Kip Northrup
Blue Thumb Ponds.





To Our Shareholders,

2021 produced another record year for 1st State Financial. This year's net income of \$5.3 million was a 45% increase over 2020's record earnings of \$3.6 million. While our staff remained steadfast in effectively providing outstanding customer service, two unique events are responsible for the significant increase in 2021's net income.

First, 1st State Bank recorded \$3 million of fees related to loans originated under the Paycheck Protection Program ("PPP"), an increase of \$1 million over PPP fee income recorded in 2020. Second, the Bank significantly reduced its Provision for Loan Loss expense this year. 2021's Provision was only \$300,000 versus \$1,600,000 in 2020. The economic distress caused by the pandemic in 2020 has yet to manifest itself in our loan portfolio as originally feared. As the year progressed, our asset quality indicators remained strong, and the need to provide more dollars to the Allowance for Loan Losses was fortunately unwarranted.

While we are pleased with 2021's financial results, unfortunately we will not be able to repeat them in 2022. We, along with our business customers, will be operating in a challenging environment of increased costs and inflation, staffing challenges, and supply chain disruptions exacerbated by Russia's invasion of Ukraine. In addition, as the PPP program winds down, so will our fee income. We will record \$500,000 of remaining PPP fee income in 2022, a reduction of \$2.5 million from 2021. In addition, the torrid pace of residential mortgage originations in 2020 and 2021 will decline with the rise in interest rates and the shortage of homes available for sale. Lastly, while our asset quality metrics continue to be good, 2022's challenges may begin to adversely impact our customers and cause us to resume providing dollars toward Provision for Loan Loss expense.

Longer term, we remain optimistic. Disruptions in the marketplace due to mergers and acquisitions are highlighting 1st State Bank as "The Bank for Business". Our performance with PPP over the past two years certainly strengthened our reputation. As competitors introduce new operating models, our expertise in business banking and direct access to decision makers is creating new customer opportunities. Prospects for higher interest rates, improvements in the supply chain and the end to the pandemic should provide a more normal operating environment. Market disruptions have also afforded us the opportunity to acquire experienced talent from our competitors. Along with a strong balance sheet, adequate capital, and loan loss reserves, 1st State Bank is well-positioned for continued long-term growth.

During 2021, two of our founding directors retired from the Board. Mike Bierlein did not stand for reelection in May and Terry Niederstadt, the Bank's first President & CEO, resigned in October due to his relocation to Austin, Texas. We thank both Mike and Terry for their ongoing guidance and counsel as founding directors. During 2021, we also welcomed Carrie Mahar Kessel and Tim Hausbeck to the Board of Directors and look forward to their contributions as a new members of the Board.

Thank you for your continued support of 1st State Bank. We are making a difference, strengthening our community by helping businesses succeed.

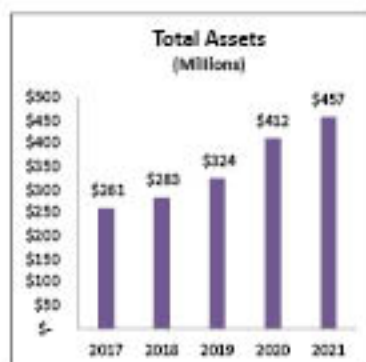
James R. Milroy
President & CEO

CONSOLIDATED BALANCE SHEET

	<u>12/31/2021</u>	<u>12/31/2020</u>
Assets		
Cash and cash equivalents	\$ 124,228,715	\$ 93,450,389
Investments	62,550,415	22,062,955
Loans, net of reserve for loan losses	244,503,490	272,848,483
Premises and equipment, net	14,011,329	14,445,938
Repossessed assets	23,264	-
Other assets	11,235,324	9,584,481
Total Assets	<u>\$ 456,552,537</u>	<u>\$ 412,392,246</u>
Liabilities and Shareholders' Equity		
Interest bearing deposits	\$ 210,403,753	\$ 191,953,299
Non-interest bearing deposits	192,031,310	168,508,111
Borrowed funds	13,500,000	15,500,000
Other liabilities	2,679,295	3,247,627
Total Liabilities	418,614,358	379,209,037
Total Shareholders' Equity	<u>37,938,179</u>	<u>33,183,209</u>
Total Liabilities and Shareholders' Equity	<u>\$ 456,552,537</u>	<u>\$ 412,392,246</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31	
	<u>2021</u>	<u>2020</u>
Interest Income	\$ 15,073,056	\$ 14,036,926
Interest Expense	<u>394,399</u>	<u>831,644</u>
Net Interest Income	14,678,657	13,205,282
Provision for loan losses	300,000	1,600,000
Net Interest Income After Provision for Loan Losses	14,378,657	11,605,282
Other Income	2,626,267	2,774,768
Other Expense	<u>10,329,596</u>	<u>9,752,151</u>
Income Before Federal Income Tax	6,675,328	4,627,899
Federal Income Tax Expense	1,385,100	981,400
Net Income	<u>\$ 5,290,228</u>	<u>\$ 3,646,499</u>



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, 2021.

Dollars in thousands, except per share data	2021	2020	2019	2018	2017
Net Income Available to Common Shareholders	\$ 5,290	\$ 3,646	\$ 2,859	\$ 2,505	\$ 1,825

BALANCE SHEET DATA (DECEMBER 31)

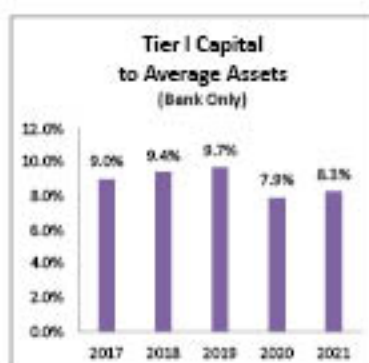
Total Assets	\$ 456,553	\$ 412,392	\$ 323,674	\$ 283,208	\$ 260,843
Total Loans	249,506	277,683	216,013	198,659	183,087
Total Deposits	402,435	360,461	275,731	237,874	217,523
Total Shareholders' Equity	37,938	33,183	29,463	26,578	21,492
Tier I Capital to Average Assets (Bank Only)	8.33%	7.89%	9.66%	9.42%	8.97%
Net Book Value per Common Share	\$ 21.38	\$ 18.92	\$ 17.15	\$ 15.63	\$ 14.27
Independent Valuation Stock Price	\$ 22.00	\$ 20.80	\$ 20.60	\$ 18.25	\$ 14.50

PERFORMANCE RATIOS

Return on Average Assets	1.16%	0.94%	0.98%	0.94%	0.76%
Return on Average Common Equity	14.84%	11.67%	10.16%	10.30%	8.38%
Net Interest Margin	2.59%	3.05%	4.17%	4.08%	3.93%
Net Income per Average Common Share	\$ 3.00	\$ 2.10	\$ 1.67	\$ 1.54	\$ 1.16
Dividends Paid Per Common Share	\$ 0.260	\$ 0.240	\$ 0.200	\$ 0.155	\$ 0.105

ASSET QUALITY MEASURES

Net Loan Charge-offs (Recoveries)	\$ 132	\$ (73)	\$ 698	\$ 531	\$ 83
Net Loan Charge-offs to Average Total Loans	0.05%	(0.03%)	0.34%	0.28%	0.05%
Allowance for Loan Losses to Total Loans	2.01%	1.74%	1.47%	1.44%	1.61%
Non-performing Assets to Total Assets	1.00%	1.21%	1.26%	1.08%	1.31%



1ST STATE BANK BOARD OF DIRECTORS



Phillip List
Chairman of the Board



Rick Goedert
Vice Chairman of the Board



Jim Milroy



Jake Shinnars



Lynn Wolgast



Mitzi Dimitroff



Joe Fabiano



Mike Hantsko



Max Holman



Paul Barbeau



Carrie Mahar Kessel



Tim Hausbeck

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

ExpertEASE

If one word could sum up our business banking approach

At 1st State Bank, we may take a few liberties with spelling, but we take your business seriously. ExpertEASE is all about harnessing the knowledge of our experts to make your banking experience easy and convenient. Our personal bankers and business lenders are experts in their field, focused on your business success.





The bank for business.

989.799.7500

1stState.Bank

