



**2<sup>ND</sup> QUARTER**

**Board of Directors**

**Phillip L. List**  
Chairman of the Board

**James R. Milroy**  
President & CEO

**Richard O. Goedert**

**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**

**Kip Northrup**

**Alan Gurski**



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

**A Letter from the President**

To Our Shareholders,



Year-to-date, 1st State's net income was \$1,928,000, a reduction from the prior year's results of \$2,528,000. Lower PPP loan fee income, reduced income from mortgage origination activity, increased overhead expense due to inflationary factors and increased technology costs all contributed to these results. While we anticipated these challenges as we entered 2022, it is the Federal Reserve's actions during the second quarter we didn't anticipate, making a comparison to the first quarter's results worthy of further commentary.

For the second quarter of 2022, 1st State realized net income of \$1,075,000, an increase of \$222,000 over the first quarter's results of \$853,000. The Federal Reserve aggressively increased the fed funds rate during the second quarter from .50% on March 31 to 1.75% on June 30. As rates rise, the Bank benefits as variable rate loans and short-term investments reprice more quickly than funding costs. In addition, our customers hold over 60% of the Bank's deposits in checking accounts, enhancing our ability to manage interest costs during rising rates. This is a high percentage compared to other community banks and a benefit of being a bank for business. As a result, net interest income increased by \$434,000 in the second quarter, more than offsetting a decline in other income with reduced PPP fees and mortgage income. Finally, we were able to hold other expenses flat in the second quarter compared to the first quarter despite ongoing inflationary pressures.

We anticipate further rate increases from the Fed during 2022, which should provide additional bottom line benefit during the year while keeping an eye on the impact the Fed's moves could have on the overall economy and our asset quality.

On July 21, 2022, your Board of Directors approved a quarterly cash dividend of \$.075 per share paid on August 19 to shareholders of record on August 05, 2022.

Thank you for your continued support and customer referrals to 1st State Bank.

Sincerely,

James Milroy  
President & CEO

**Financial Report**

**CONSOLIDATED BALANCE SHEETS (unaudited)**

<u>Assets</u>	<u>6/30/2022</u>	<u>12/31/2021</u>	<u>6/30/2021</u>
Cash Equivalents and Investments	\$ 171,756,618	\$ 186,858,771	\$ 156,699,604
Loans, net of reserve for loan losses	260,213,467	244,219,793	269,910,559
Other assets	28,769,713	25,385,120	23,721,837
<b>Total Assets</b>	<b>\$ 460,739,798</b>	<b>\$ 456,463,684</b>	<b>\$ 450,332,000</b>
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 411,065,483	\$ 402,435,063	\$ 395,054,500
Other Borrowings & Other Liabilities	13,900,297	16,088,542	19,715,242
<b>Total Liabilities</b>	<b>424,965,780</b>	<b>\$ 418,523,605</b>	<b>414,769,742</b>
<b>Total Shareholders' Equity</b>	<b>35,774,018</b>	<b>37,940,079</b>	<b>35,562,258</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 460,739,798</b>	<b>\$ 456,463,684</b>	<b>\$ 450,332,000</b>

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2022</u>	<u>6/30/2021</u>
<b>Net Interest Income</b>	<b>\$ 3,316,331</b>	<b>\$ 2,762,883</b>	<b>\$ 6,198,510</b>	<b>\$ 5,504,215</b>
Provision for Loan Losses	0	50,000	0	300,000
<b>Net Interest Income After Provision for Loan Losses</b>	<b>3,316,331</b>	<b>2,712,883</b>	<b>6,198,510</b>	<b>5,204,215</b>
<b>Other Income</b>	<b>883,536</b>	<b>1,464,270</b>	<b>1,918,066</b>	<b>3,265,709</b>
<b>Other Expense</b>	<b>2,845,608</b>	<b>2,759,380</b>	<b>5,688,998</b>	<b>5,277,866</b>
<b>Net Income Before Federal Income Tax</b>	<b>1,354,259</b>	<b>1,417,773</b>	<b>2,427,578</b>	<b>3,192,058</b>
Federal Income Tax	279,000	294,200	499,800	664,000
<b>Net Income Available to Common Shareholders</b>	<b>\$ 1,075,259</b>	<b>\$ 1,123,573</b>	<b>\$ 1,927,778</b>	<b>\$ 2,528,058</b>

**PERFORMANCE RATIOS**

	<u>6/30/2022</u>	<u>12/31/2021</u>	<u>6/30/2021</u>
Return on Average Assets - YTD	0.83%	1.16%	1.12%
Return on Average Equity - YTD	10.57%	14.84%	14.86%
Independent Valuation Stock Price	\$ 22.50	\$ 22.00	\$ 20.80
Net Book Value per Share	\$ 20.02	\$ 21.38	\$ 20.17
Price to Book Value	1.11	1.03	1.03
Earnings per Share	\$ 1.08	\$ 3.00	\$ 1.44
Dividends paid per share	\$ 0.15	\$ 0.26	\$ 0.13

# Quarterly Highlights

## OFFICE LOCATIONS



### Lynne Neumeyer Joins 1st State Bank

1st State Bank is pleased to announce that Lynne Neumeyer has joined the staff as Senior Vice President, Business Services & Public Funds. In this role, Neumeyer will lead the Bank's public fund and government banking activities, as well as support business customers with their banking service needs. Neumeyer brings 38 years of banking, public funds, and merchant service experience to 1st State Bank. Most recently she was Vice President, Treasury Management Sales Associate at Independent Bank. She resides in Bay City.



### 1st State Bank Staff Promotions

Angy Dixon has been promoted to Assistant Vice President, Branch Services Administrator. In this role, Dixon will oversee all bank branch activities and staff. She joined 1st State Bank in 2013 as Branch Manager of the Wilder Road office. In 2017, Dixon added the Downtown Bay City office to her management scope. Finally, in March of 2021, she transitioned to the Main Office as Branch Manager. Dixon has 16 years of banking experience.



Kim Amley has been promoted to Assistant Vice President, Compliance Officer and Deposit Operations Supervisor. She joined 1st State Bank in October of 2018 as Compliance Specialist. She was promoted to Compliance Officer in 2019. The Bank has benefited from Amley's compliance expertise and will benefit from her leadership in the Deposit Operations area. Amley has 20 years of banking experience.

### Kristopher (Kip) Northrup and Alan Gurski Join Board of Directors



1st State Bank is proud to announce that Kristopher (Kip) Northrup and Alan Gurski have been appointed to 1st State Bank's Board of Directors.

Kristopher Northrup is the owner and founder of Blue Thumb, a manufacturer of water feature equipment, located in Saginaw. He has several other real estate investments and business interests in the Great Lakes Bay Region. Northrup serves on the Board of the Saginaw Valley Nursery and Landscape Association (SVNLA) and is a member of the Stevens Center for Family Business. He studied International Business at Eastern Michigan University.



Alan Gurski is president and chief executive officer of Gougeon Brothers Inc. located in Bay City. Gougeon Brothers is an employee-owned business that manufactures epoxy products including WEST SYSTEM®, PRO-SET® and ENTROPY RESINS® for the marine and composites industries. Gurski is also managing partner of PRO-VAC USA LLC. He earned his bachelor's degree in Construction and Project Management from Michigan State University.

Both Northrup and Gurski are recipients of 1st State Bank's RUBY Award.



**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

**RUBY AWARD NOMINATIONS BEGIN AUGUST 29**

**1st State Bank is Closed  
Labor Day - September 5**

