



**3<sup>RD</sup> QUARTER**

**Board of Directors**

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

**James R. Milroy**  
President & CEO

**Richard O. Goedert**

**James J. Shinnors**

**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,



We are pleased to report improved earnings this quarter. For the third quarter, net income was \$1,390,000, compared to the second and first quarter results of \$1,075,000 and \$853,000, respectively. Increased net interest income drove the overall improvement. As mentioned in prior shareholder letters, the Bank positioned its balance sheet to benefit from rising interest rates as more assets reprice in the short-term than liabilities. In addition, net interest income increases with more earning assets on the balance sheet. The Federal Reserve's 1.50% increase in the fed funds rate during the current quarter combined with an increase of \$12 million in average earning assets resulted in net interest income increasing \$663,000 over the second quarter. This helped to more than offset declines in other income due to reduced mortgage origination activity and PPP fees and increased other expenses associated with technology and loan collection costs.

During the third quarter, the last Paycheck Protection Program ("PPP") loan on the Bank's books was forgiven, closing the chapter on this highly impactful event. While working our way through the conclusion of this program, the Bank continued to build its reputation as the Bank for Business. Over the past twelve months, total business loans have grown 27% or \$51 million. Local businesses are recognizing the benefits of working with not just a local bank, but a local bank with experienced business lenders, cash management, and support staff providing value beyond a loan or deposit. Our employees continue to work hard to provide the highest level of service so that our reputation continues to provide the foundation for future growth.

On October 20, 2022, your Board of Directors approved a quarterly cash dividend of \$.075 per share paid on November 15 to shareholders of record on November 4, 2022.

Thank you for your ongoing support of 1st State Bank. We appreciate your referrals and positive messages in the community of our efforts to help businesses succeed.

Sincerely,

James Milroy  
President & CEO

**Financial Report**

**CONSOLIDATED BALANCE SHEETS (unaudited)**

<u>Assets</u>	<u>9/30/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>
Cash Equivalents and Investments	\$ 203,023,756	\$ 186,858,771	\$ 180,436,475
Loans, net of reserve for loan losses	257,686,230	244,219,793	247,084,062
Other assets	29,029,295	25,385,120	24,775,043
<b>Total Assets</b>	<b>\$ 489,739,281</b>	<b>\$ 456,463,684</b>	<b>\$ 452,295,580</b>
<u>Liabilities and Shareholders' Equity</u>			
Deposits	\$ 436,233,708	\$ 402,435,063	\$ 395,935,127
Other Borrowings & Other Liabilities	17,468,072	16,088,542	19,290,564
<b>Total Liabilities</b>	<b>453,701,780</b>	<b>\$ 418,523,605</b>	<b>415,225,691</b>
<b>Total Shareholders' Equity</b>	<b>36,037,501</b>	<b>37,940,079</b>	<b>37,069,889</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 489,739,281</b>	<b>\$ 456,463,684</b>	<b>\$ 452,295,580</b>

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

	<u>THREE MONTHS ENDING</u>		<u>NINE MONTHS ENDING</u>	
	<u>9/30/2022</u>	<u>9/30/2021</u>	<u>9/30/2022</u>	<u>9/30/2021</u>
Net Interest Income	\$ 3,979,507	\$ 2,669,304	\$10,178,017	\$ 8,173,519
Provision for Loan Losses	0	0	0	300,000
Net Interest Income After Provision for Loan Losses	3,979,507	2,669,304	10,178,017	7,873,519
Other Income	796,892	1,787,670	2,714,958	5,053,379
Other Expense	3,027,620	2,636,533	8,716,619	7,914,399
Net Income Before Federal Income Tax	1,748,779	1,820,441	4,176,356	5,012,499
Federal Income Tax	359,300	379,000	859,100	1,043,000
Net Income Available to Common Shareholders	<u>\$ 1,389,479</u>	<u>\$ 1,441,441</u>	<u>\$ 3,317,256</u>	<u>\$3,969,499</u>

**PERFORMANCE RATIOS**

	<u>9/30/2022</u>	<u>12/31/2021</u>	<u>9/30/2021</u>
Return on Average Assets - YTD	0.94%	1.16%	1.17%
Return on Average Equity - YTD	12.08%	14.84%	15.13%
Independent Valuation Stock Price	\$ 23.05	\$ 22.00	\$ 21.55
Net Book Value per Share	\$ 20.11	\$ 21.38	\$ 20.97
Price to Book Value	1.15	1.03	1.03
Earnings per Share	\$ 1.86	\$ 3.00	\$ 2.26
Dividends paid per share	\$ 0.225	\$ 0.260	\$ 0.195

# Quarterly Highlights

## Fraud Prevention

As business leaders/owners, we continue to face many challenges. Challenging times often are a catalyst to increased fraudulent activities, and unfortunately, statistics state that eventually every business will be impacted by fraud.

You may not be aware of a service that 1st State Bank offers to protect business customers against both check and ACH fraud. The service is called Positive Pay, and it allows a business to monitor their deposit account daily for discrepancies and ensure that funds are not released without prior customer approval. This service is \$30 per month for an account (\$10 each additional account), very economical when considering the potential impact of a single occurrence of check or ACH fraud.

Businesses are not afforded the same protections as consumers against fraud. The time permitted to a business to recapture stolen funds via a fraudulent check or ACH is less than 48 hours. This is one reason why it is so critical to catch fraud before it happens.

Beyond the use of Positive Pay, there are several things a business can do to better protect themselves against check and ACH fraud, including;

- Daily monitoring of account transactions/activities utilizing our free Online Banking system
- Use of deposit Account Alerts, a free Bank service
- Reviewing electronic check images and ACH items for accuracy
- Ensuring check stock is not accessible other than to those authorized to use
- Secondary review of outgoing checks by an individual other than person responsible for writing check
- Limit the number of persons with access to banking activities
- Safeguarding account information like an account number, debit cards, passwords and any other related information
- Use of a dedicated computer for electronic banking
- Closure of an account that has been compromised

If you would like additional information or details on service offerings of 1st State Bank, please reach out to a Business Lender or Branch Manager,



## Shares Available!

Interested in acquiring more shares of 1st State Financial? Shares of 1st State Financial Stock are available for current and new investors! For more information regarding the purchase of shares, please reach out to Kevin Fraser, Chief Financial Officer at 1st State Bank.

We would also like to encourage you to refer purchasing stock in 1st State Financial to those in your network who may be interested.



## Shareholder Contact

### Kevin Fraser

(989) 272-7585

KevinF@1stState.Bank

### Jennifer Ciesla

(989) 272-7507

JenniferC@1stState.Bank

## Events of Note

### 1st State Bank is Closed

Thanksgiving - Thursday, November 24

Christmas Eve - Saturday, December 24

Christmas (Observance) - Monday, December 26

New Year's (Observance) - Monday, January 2

## 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

