

2022 Annual Report



The bank
for business.

Every Stage

1st State Bank is with you during every stage of your business. Whether a new business, a growing business, or a business positioned for change.

Most of all, we value the relationships we build. Fulfilling your dreams becomes our goal and we're with you throughout the early stage, and everything that follows.

We're the business partner you can start with, grow with, and stay with.

A business partner you can start, grow, and stay with



The bank for business



To Our Shareholders,

I am pleased to report our financial results for 2022. This year's net income of \$4.4 million produced a Return on Average Assets of .92% and Return on Average Shareholders' Equity of 12.0%. 1st State Bank's expanding reputation as the bank for business along with extraordinary efforts by our employees helped to capitalize on our changing competitive landscape.

Total loans grew \$23 million or 9% in 2022, primarily in business loans. Total deposits grew \$24 million or 6%, primarily in business demand deposit account balances. Our growth combined with rising interest rates helped to increase net interest income, excluding fees, by \$3.3 million this year. However, decreased Paycheck Protection Program ("PPP") fee income, reduced mortgage origination fee income and increased expenses related to information technology more than offset increased net interest income.

The Bank recognized \$.5 million of PPP fees in 2022 versus \$3.0 million in 2021, a decrease of \$2.5 million. The last PPP loan on our books was forgiven this year, closing a unique chapter in the Bank's history. However, this means no PPP fee income will be recorded in 2023. Mortgage origination activity suffered from rates increasing throughout the year. Fee income associated with this activity declined by \$1 million when compared to last year. With elevated interest rates potentially lasting through 2023, we anticipate another challenging year in mortgage originations. The Bank made two strategic moves related to technology in 2022. First, we partnered with a third-party for managed IT services, beginning a total reconfiguration of our internal network to better position the Bank for present and future technology needs. Second, the Bank engaged a consultant to help assess our core operating system, resulting in a decision to change our system provider in early 2024. While both exercises were critically important for our future, they created unusually high IT related expenses in 2022.

2022's growth in loans and deposits was largely generated by securing new customer relationships. Our performance with PPP, customer referrals, reputation, and cultivating relationships all contributed to bringing new customers to 1st State Bank. We retain these relationships by partnering with our customers through every stage of their business. We also attracted talented bankers to our team this past year. In 2022, we added nine bankers with over 175 years of in-market experience, enhancing our ability to deliver highly valued services to the business community.

We look forward to 2023, attracting new customers and expanding existing relationships. Considering the projected rate environment, we anticipate net interest income will continue to grow in 2023. Moderation in expenses, despite continued investments in technology, combined with increases in other income make us optimistic about next year's performance. However, we also recognize that economic conditions may create challenges for 2023. With the strength of our loan portfolio along with current levels of allowance for loan losses and capital reserves, we believe 1st State Bank is well-positioned for challenging conditions but recognize with caution the potential impact on 2023's performance.

In December of 2022, founding director, James (Jake) Shinnery retired from the Board. Jake was instrumental in the original formation of 1st State Bank, and we appreciate his support, counsel, and contributions throughout the years. In July of 2022, we welcomed Alan Gurski and Kip Northrup to the Board of Directors and in January of 2023 we also welcomed Tom Basil to the Board. We are thankful these three individuals have agreed to provide their talents and leadership to our organization and look forward to their future contributions.

Thank you for your continued support of 1st State Bank. We value your investment and appreciate you as ambassadors for our mission of helping businesses succeed.

A handwritten signature in black ink, appearing to read "James R. Milroy". The signature is fluid and cursive, written over a light-colored background.

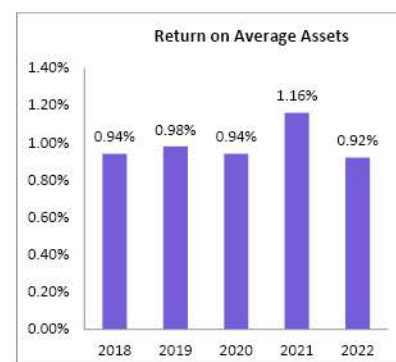
James R. Milroy
President & CEO

CONSOLIDATED BALANCE SHEET

	<u>12/31/2022</u>	<u>12/31/2021</u>
Assets		
Cash and cash equivalents	\$ 84,236,316	\$ 124,228,715
Investments	98,635,656	62,550,415
Loans, net of reserve for loan losses	267,528,201	244,503,490
Premises and equipment, net	13,851,190	14,011,329
Repossessed assets	0	23,264
Other assets	14,833,524	11,235,324
Total Assets	<u>\$ 479,084,887</u>	<u>\$ 456,552,537</u>
Liabilities and Shareholders' Equity		
Interest bearing deposits	\$ 220,007,488	\$ 210,403,753
Non-interest bearing deposits	211,418,108	192,069,634
Borrowed funds	8,250,000	13,500,000
Other liabilities	2,210,345	2,640,971
Total Liabilities	<u>441,885,941</u>	<u>418,614,358</u>
Total Shareholders' Equity	<u>37,198,946</u>	<u>37,938,179</u>
Total Liabilities and Shareholders' Equity	<u>\$ 479,084,887</u>	<u>\$ 456,552,537</u>

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31	
	<u>2022</u>	<u>2021</u>
Interest Income (including loan fees)	\$ 16,109,588	\$ 15,073,056
Interest Expense	<u>844,445</u>	<u>394,399</u>
Net Interest Income	15,265,143	14,678,657
Provision for loan losses	<u>0</u>	<u>300,000</u>
Net Interest Income After Provision for Loan Losses	15,265,143	14,378,657
Other Income	2,052,630	2,626,267
Other Expense	<u>11,778,385</u>	<u>10,329,596</u>
Income Before Federal Income Tax	5,539,388	6,675,328
Federal Income Tax Expense	1,144,100	1,385,100
Net Income	<u>\$ 4,395,288</u>	<u>\$ 5,290,228</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, 2022.

Dollars in thousands, except per share data	2022	2021	2020	2019	2018
Net Income Available to Common Shareholders	\$ 4,395	\$ 5,290	\$ 3,646	\$ 2,859	\$ 2,505

BALANCE SHEET DATA (DECEMBER 31)

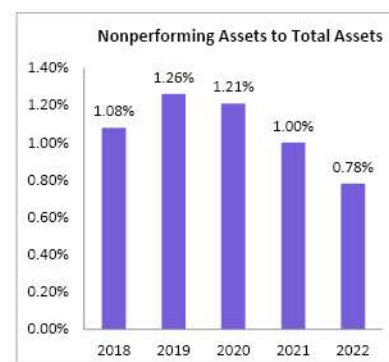
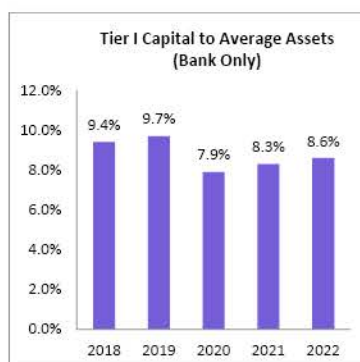
Total Assets	\$ 479,085	\$ 456,553	\$ 412,392	\$ 323,674	\$ 283,208
Total Loans	272,568	249,506	277,683	216,013	198,659
Total Deposits	431,426	402,473	360,461	275,731	237,874
Total Shareholders' Equity	37,199	37,938	33,183	29,463	26,578
Tier I Capital to Average Assets (Bank Only)	8.60%	8.33%	7.89%	9.66%	9.42%
Net Book Value per Common Share	\$ 20.83	\$ 21.38	\$ 18.92	\$ 17.15	\$ 15.63
Independent Valuation Stock Price	\$ 24.05	\$ 22.00	\$ 20.80	\$ 20.60	\$ 18.25

PERFORMANCE RATIOS

Return on Average Assets	0.92%	1.16%	0.94%	0.98%	0.94%
Return on Average Common Equity	12.00%	14.84%	11.67%	10.16%	10.30%
Net Interest Margin	3.23%	2.59%	3.05%	4.17%	4.08%
Net Income per Average Common Share	\$ 2.46	\$ 3.00	\$ 2.10	\$ 1.67	\$ 1.54
Dividends Paid Per Common Share	\$ 0.300	\$ 0.260	\$ 0.240	\$ 0.200	\$ 0.155

ASSET QUALITY MEASURES

Net Loan Charge-offs (Recoveries)	\$ (37)	\$ 132	\$ (73)	\$ 698	\$ 531
Net Loan Charge-offs to Average Total Loans	(0.01%)	0.05%	(0.03%)	0.34%	0.28%
Allowance for Loan Losses to Total Loans	1.85%	2.01%	1.74%	1.47%	1.44%
Non-performing Assets to Total Assets	0.78%	1.00%	1.21%	1.26%	1.08%



1ST STATE BANK BOARD OF DIRECTORS



Phillip List
Chairman of the Board



Rick Goedert
Vice Chairman of the Board



Jim Milroy



Lynn Wolgast



Mitzi Dimitroff



Joe Fabiano



Mike Hanisko



Paul Barbeau



Max Holman



Tim Hausbeck



Carrie Mahar Kessel



Alan Gurski



Kip Northrup



Tom Basil

LOCATIONS



Main Office
4800 Fashion Square Boulevard
Saginaw, MI 48604
989.799.7500



State Street Branch
5425 State Street
Saginaw, MI 48603
989.596.7500



Downtown Bay City Branch
601 N. Madison Avenue
Bay City, MI 48708
989.322.7500



Wilder Road Branch
3907 Wilder Road
Bay City, MI 48706
989.439.7500



Downtown Midland Branch
400 Ashman Street
Midland, MI 48640
989.492.7500



The bank for business.

989.799.7500

1stState.Bank

