



2ND QUARTER

Board of Directors

- Phillip List**
Chairman of the Board
- James Milroy**
President & CEO
- Richard Goedert**
- Mitzi Dimitroff**
- Joseph Fabiano II**
- Michael Hanisko**
- Max Holman**
- Paul Barbeau**
- Carrie Mahar Kessel**
- Tim Hausbeck**
- Kip Northrup**
- Alan Gurski**
- Thomas Basil**

A Letter from the President

To Our Shareholders,



I am pleased to report net income for the first six months of 2023 totaled \$2,549,000, a 32% increase over 2022. Strong loan growth helped produce these results. Total loans, primarily business loans, grew by \$23 million or 8% in the first half of the year. The Bank expensed \$150,000 toward the Provision for Loan Losses during the second quarter, a by-product of our success in growing loans. This was the first charge to the Provision for Loan Losses in over two years, despite having solid asset quality indicators. Without the Provision for Loan Loss charge, our second quarter results would have exceeded the first quarter's net income. The ability to maintain our net interest margin was the primary reason for solid performance thus far in 2023.

Liquidity remains an industry challenge as the Federal Reserve continues raising interest rates to combat ongoing inflation. This has led to competitive pressures for deposits from banks, credit unions and brokerage houses which will likely challenge our ability to maintain this margin going forward as we seek to maintain and grow deposit balances.

Each of you were sent a letter in May outlining various ways to continue investing in 1st State Financial via our Dividend Reinvestment Program ("DRIP"), Optional Cash Investment through the DRIP as well as inclusion in our potential buyer notification process. This letter also invited you to receive shareholder communications via email. Many of you took advantage of this invitation. If you would like to sign-up for email communications or have inquiries regarding ways to continue investing in your company, please contact Matt Foster at MattF@1ststate.bank or 989.272.7580.

On July 20, 2023, your Board of Directors approved a quarterly cash dividend of \$.08 per share to be paid on August 22, 2023, to shareholders of record on August 11, 2023.

As always, we appreciate your support of 1st State Bank.

Sincerely,
James Milroy
President & CEO

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>6/30/2023</u>	<u>12/31/2022</u>	<u>6/30/2022</u>
Cash Equivalents and Investments	\$159,835,772	\$ 182,946,849	\$ 171,756,618
Loans, net of reserve for loan losses	290,837,168	267,471,049	260,213,467
Other assets	28,676,866	28,774,319	28,769,713
Total Assets	\$479,349,806	\$ 479,192,217	\$460,739,798
Liabilities and Shareholders' Equity			
Deposits	\$429,071,516	\$ 426,290,500	\$ 411,065,483
Other Borrowings & Other Liabilities	\$10,417,491	15,702,771	13,900,297
Total Liabilities	\$439,489,007	\$ 441,993,271	424,965,780
Total Shareholders' Equity	\$39,860,799	37,198,946	35,774,018
Total Liabilities and Shareholders' Equity	\$479,349,806	\$ 479,192,217	\$ 460,739,798

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>SIX MONTHS ENDING</u>	
	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
Net Interest Income	\$ 4,087,807	\$ 3,316,331	\$ 8,177,430	\$ 6,198,510
Provision for Loan Losses	150,000	0	150,000	0
Net Interest Income After Provision for Loan Losses	3,937,807	3,316,331	8,027,430	6,198,510
Other Income	662,855	883,536	1,271,319	1,918,066
Other Expense	3,058,154	2,845,608	6,092,918	5,688,998
Net Income Before Federal Income Tax	1,542,507	1,354,259	3,205,830	2,427,578
Federal Income Tax	316,700	279,000	656,000	499,800
Net Income Available to Common Shareholders	\$ 1,225,807	\$ 1,075,259	\$ 2,549,330	\$ 1,927,778

PERFORMANCE RATIOS

	<u>6/30/2023</u>	<u>12/31/2022</u>	<u>6/30/2022</u>
Return on Average Assets - YTD	1.08%	0.92%	0.83%
Return on Average Equity - YTD	13.54%	12.00%	10.57%
Independent Valuation Stock Price	\$ 24.35	\$ 24.05	\$ 22.50
Net Book Value per Share	\$ 22.17	\$ 20.83	\$20.02
Price to Book Value	1.10	1.15	1.11
Earnings per Share	\$1.42	\$ 2.46	\$ 1.08
Dividends paid per share	\$0.16	\$ 0.300	\$ 0.15



Bauer Financial, Inc.

A 4-Star Superior Rating denotes that 1st State Bank is among the strongest banks in the nation

Quarterly Highlights

Staff Promotions



Kimberly Amley has been promoted to Vice President, Deposit Operations Manager and Compliance Officer. Amley joined 1st State Bank in 2018 as Compliance Specialist, was promoted to Compliance Officer in 2019, and in 2022 assumed the role of Deposit Operations Manager. Amley has 21 years of banking experience.



Lindsey Barsaleau has been promoted to Assistant Vice President, Human Resources Director. Barsaleau joined 1st State Bank in 2020 as Human Resource Generalist and was promoted to Human Resources Director in 2021.



Angy Hale has been promoted to Vice President, Branch Services Administrator and Physical Security Officer. Hale 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. In 2021, she transitioned to the Main Office as Branch Manager and in 2022 was promoted to Branch Services Administrator. Dixon has 20 years of banking experience.



Cynthia Holliday has been promoted to Assistant Vice President, BSA (Bank Secrecy Act) Officer. Holliday has over 22 years of banking experience and began working at 1st State Bank in 2017 as a Deposit Operations Specialist. She was promoted to Bank Secrecy Act Officer in 2018.



Brittney Welke has been promoted to Vice President, Loan Administration Manager. Welke started at 1st State Bank in 2012 as a Loan Specialist. In 2017, she was promoted to Loan Administration Supervisor. At the beginning of 2023, Welke took on the added responsibility of leading 1st State Bank's mortgage servicing department. She has 16 years of banking experience.

Lynn Wolgast Retires from Board of Directors



At the May 2023 Board of Director's meeting, Lynn Wolgast was honored with the title of Director Emeritus. Lynn was instrumental in the formation of 1st State Bank and raising the initial capital needed to open the Bank's doors in 2004. Lynn served as a Board Member since its inception, participating in numerous Board Committees, providing ongoing counsel, guidance, and assistance to Bank staff in countless ways. We wish all of life's best to Lynn and his family and thank him for contributions to the Bank's success.

1st State Bank – Day of Service

The staff of 1st State Bank had all hands on deck to give back to the community and make a difference! We had the privilege of working on a community service project with Sleep in Heavenly Peace, an organization that provides beds to children in need. Forty-five beds were built and will be delivered to families throughout the Great Lakes Bay Region.

Tri-Star Trust Mitten Money Podcast – Fraud Prevention

Recently 1st State Bank had the opportunity to collaborate with Tri-Star Trust on a two-part series on the Mitten Money Podcast hosted by William Zank. The topic covered in this series is the ever-growing concern of fraud in businesses. Every year thousands of are impacted by fraud and at 1st State Bank, we want to do all that we can to help prevent fraud from happening in businesses in our community. To hear the podcasts visit www.tristartrust.com and visit the Podcast page under their News tab.



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

Matt Foster

(989) 272-7580

MatthewF@1stState.Bank

Jennifer Ciesla

(989) 272-7507

JenniferC@1stState.Bank

Events of Note

1st State Bank is Closed

Labor Day - September 4

