



1<sup>st</sup> STATE



BANK

The bank for business.

20<sup>th</sup> ANNIVERSARY

2023 Annual Report

# 20<sup>th</sup> ANNIVERSARY



Capturing the Moments  
Celebrating 20 years of being:

**The bank for business.  
In town. In touch.**

In 2004, a group of business and professional people felt there was a need for a local bank. One that was part of the community. One that understood the unique needs of businesses in this area. Attracting investors from the community, 1<sup>st</sup> State Bank was launched, bringing together a team of experienced business bankers from across the Great Lakes Bay Region.

The newly assembled management team and board of directors shared a vision and commitment to the future growth and success of the Great Lakes Bay Region business community.

1<sup>st</sup> State Bank has been growing ever since. By providing a full range of business and personal banking services. By being flexible, meeting the needs of Great Lakes Bay Region businesses and professionals. By being knowledgeable, trusted advisors. And by being in town and in touch.

20 years later, 1<sup>st</sup> State Bank's focus and commitment to be the bank for business in the Great Lakes Bay Region remains unchanged.



The bank for business.



## To Our Shareholders,

Our team's dedication to our core mission, "helping businesses succeed in the Great Lakes Bay Region," produced financial rewards in 2023. This year's net income of \$5.3 million exceeded the prior year by over 20%. Growth in net interest income along with controlled overhead costs were the primary contributors to these results. In addition, we experienced strong organic growth in both loans and deposits. However, higher interest rates incentivized customers to pay down lines of credit and to consider alternatives for their deposit dollars, offsetting a significant portion of this year's growth.

On April 12, 2024, 1<sup>st</sup> State Bank will be celebrating its 20th year of serving the business community in Saginaw, Bay, and Midland counties. That was the original vision of our founding directors. As mentioned above, we have stayed true to that vision for the past 20 years, benefiting not only the business community in general, but our customers, our staff, and you, our shareholders as well.

When we opened the doors in April of 2004, the Bank held approximately \$12 million in total assets. At the end of 2023, total assets stand at \$482 million, a compound average growth rate of over 20% per year. Every business loan we make has a multiplier effect on the local economy. With a servicing portfolio of business loans exceeding \$400 million, 1<sup>st</sup> State Bank is making a significant impact on our communities. Thirteen employees opened our doors in 2004. Today we employ over seventy dedicated bankers. If you were an original investor in 1<sup>st</sup> State Bank stock in 2004, your \$10 per share investment is now valued at \$25.95 per share on December 31, 2023. Including cash dividends paid, your investment has produced an annual return over the past 20 years of approximately 9% per year. It is natural when celebrating anniversaries to look back and reflect. But we also must continually look forward. What will the next 10 or 20 years bring? The future is always uncertain, but we are positioning ourselves to continue our past success into the future.

A strong balance sheet, with the necessary capital, liquidity, and asset quality measures provides a good foundation for growth as well as protection against unknown events. As does quality leadership. While we have seen many of our founding directors retire from the board, we have welcomed six new directors over the past 4 years who are providing new insight and valuable guidance to our management team. In addition, Todd Gregory, Executive Vice President, Chief Lending Officer is poised and ready to lead our team of employees as their new President & CEO on July 1<sup>st</sup> when I retire. And we are making significant investments in our future. Most notably, we are preparing for a significant upgrade in our core operating system in May, a new business loan underwriting system in November, and we are nearing the end of a two-year project to completely reconfigure our IT infrastructure to meet the demands of the future, all designed to provide superior service and increased security for our customers.

We can look back at the past 20 years with a great deal of pride from the journey traveled. And we can be extremely excited about the future as we make critical investments in our people and technology while staying true to our mission of helping businesses succeed in the Great Lakes Bay Region. Thank you for your investment in and support of 1<sup>st</sup> State Bank.

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

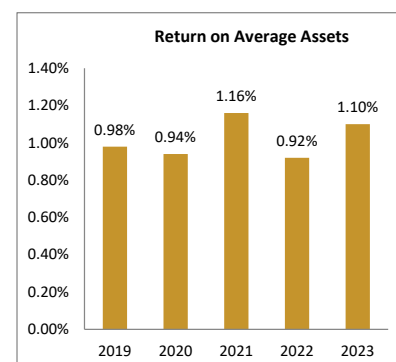
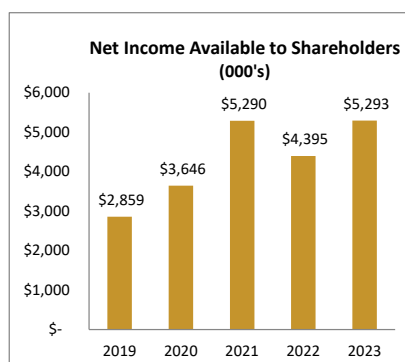
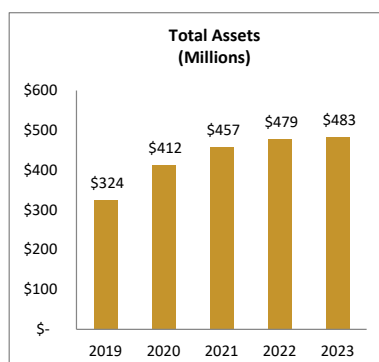
James R. Milroy  
President & CEO

## CONSOLIDATED BALANCE SHEET

	<u>12/31/2023</u>	<u>12/31/2022</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 85,740,296	\$ 84,236,316
Investments	93,615,642	98,635,656
Loans, net of allowance for credit losses	274,469,933	267,528,201
Premises and equipment, net	13,955,248	13,851,190
Other assets	<u>14,906,771</u>	<u>14,833,524</u>
<b>Total Assets</b>	<b><u>\$ 482,687,890</u></b>	<b><u>\$ 479,084,887</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Interest bearing deposits	\$ 222,729,662	\$ 220,007,488
Noninterest bearing deposits	205,453,045	211,418,108
Borrowed funds	7,500,000	8,250,000
Other liabilities	<u>3,034,995</u>	<u>2,210,345</u>
<b>Total Liabilities</b>	<b>438,717,702</b>	<b>441,885,941</b>
<b>Total Shareholders' Equity</b>	<b><u>43,970,188</u></b>	<b><u>37,198,946</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 482,687,890</u></b>	<b><u>\$ 479,084,887</u></b>

## CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31	
	<u>2023</u>	<u>2022</u>
Interest Income (including loan fees)	\$ 22,066,113	\$ 16,109,588
Interest Expense	<u>4,915,365</u>	<u>844,445</u>
<b>Net Interest Income</b>	<b>17,150,748</b>	<b>15,265,143</b>
Credit Loss Expense	<u>275,000</u>	<u>0</u>
<b>Net Interest Income After Credit Loss Expense</b>	<b>16,875,748</b>	<b>15,265,143</b>
Other Income	1,510,597	2,052,630
Other Expense	<u>11,732,439</u>	<u>11,778,385</u>
<b>Income Before Federal Income Tax</b>	<b>6,653,906</b>	<b>5,539,388</b>
Federal Income Tax Expense	<u>1,360,900</u>	<u>1,144,100</u>
<b>Net Income</b>	<b><u>\$ 5,293,006</u></b>	<b><u>\$ 4,395,288</u></b>



# 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, 2023.

Dollars in thousands, except per share data	2023	2022	2021	2020	2019
Net Income Available to Common Shareholders	\$ 5,293	\$ 4,395	\$ 5,290	\$ 3,646	\$ 2,859

## BALANCE SHEET DATA (DECEMBER 31)

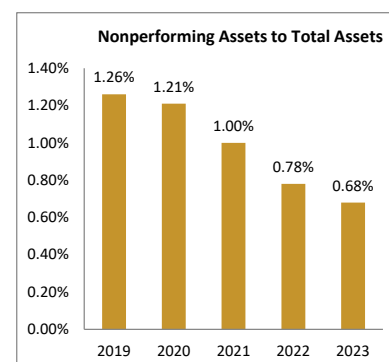
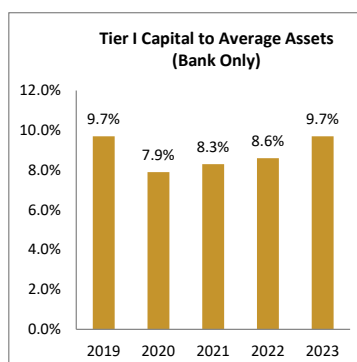
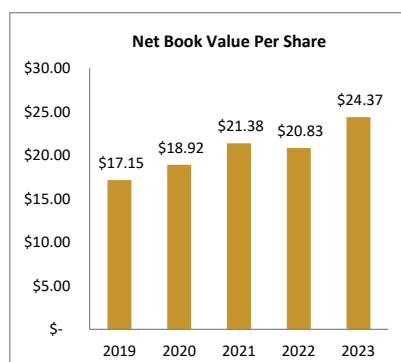
Total Assets	\$ 482,688	\$ 479,085	\$ 456,553	\$ 412,392	\$ 323,674
Total Loans	278,535	272,568	249,506	277,683	216,013
Total Deposits	428,183	431,426	402,473	360,461	275,731
Total Shareholders' Equity	43,970	37,199	37,938	33,183	29,463
Tier I Capital to Average Assets (Bank Only)	9.68%	8.60%	8.33%	7.89%	9.66%
Net Book Value per Common Share	\$ 24.37	\$ 20.83	\$ 21.38	\$ 18.92	\$ 17.15
Independent Valuation Stock Price	\$ 25.95	\$ 24.05	\$ 22.00	\$ 20.80	\$ 20.60

## PERFORMANCE RATIOS

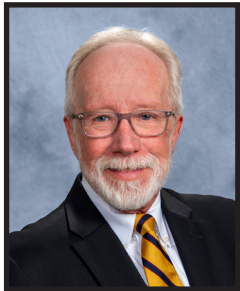
Return on Average Assets	1.10%	0.92%	1.16%	0.94%	0.98%
Return on Average Common Equity	13.19%	12.00%	14.84%	11.67%	10.16%
Net Interest Margin	3.75%	3.23%	2.59%	3.05%	4.17%
Net Income per Average Common Share	\$ 2.95	\$ 2.46	\$ 3.00	\$ 2.10	\$ 1.67
Dividends Paid Per Common Share	\$ 0.32	\$ 0.30	\$ 0.26	\$ 0.24	\$ 0.20

## ASSET QUALITY MEASURES

Net Loan Charge-offs (Recoveries)	\$ (43)	\$ (37)	\$ 132	\$ (73)	\$ 698
Net Loan Charge-offs to Average Total Loans	(0.02%)	(0.01%)	0.05%	(0.03%)	0.34%
Allowance for Credit Losses to Total Loans	1.78%	1.85%	2.01%	1.74%	1.47%
Non-performing Assets to Total Assets	0.68%	0.78%	1.00%	1.21%	1.26%



# 1<sup>ST</sup> STATE BANK BOARD OF DIRECTORS



Phillip List  
Chairman of the Board



Rick Goedert  
Vice Chairman of the Board



Jim Milroy



Todd Gregory



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



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989.799.7500

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