

IN TOWN. IN TOUCH.

January 2012

Letter from the President

Volume VIX, Issue IV



To Our Shareholders,

2011 saw significant earnings improvement and balance sheet growth. The near doubling of earnings and 9% growth moves us toward our long term goal of being a high performing, locally owned bank. We continue to work through the disposition of the repossessed real estate that has suppressed earnings. That has been partially offset by the high volume of residential mortgage business. We are pleased with the overall results. We are also very proud of receiving Bauer Financial's 5 Star rating, the highest given by Bauer. We are the only bank in the region to receive five stars.

2011 was filled with projects, including work on the new main office and technology upgrades. On the following page I have provided more detail about the main office. Technology upgrades will include improved customer services such as an improved phone system, enhanced business charge cards, a fraud protection program, electronic alerts, and remote deposit capture. The balance of technology upgrades will provide the Bank with operational efficiencies.

We have a hard working, dedicated staff that continues to provide the excellent customer service that is responsible for the success of the Bank. We want to thank all of you for your support and business referrals. They are also critical to our success.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	12/31/2011	12/31/2010
Assets		
Cash and Cash Equivalents	\$23,764,560	\$25,091,369
Investments	8,457,216	5,452,453
Loans, Net of Reserve for Loan Losses	133,580,489	121,509,336
Other Assets	8,395,530	7,794,409
Total Assets	\$174,197,795	\$159,847,567
Liabilities and Shareholders' Equity		
Deposits	\$133,351,671	\$121,985,305
FHLB and Other Borrowings	23,212,966	22,052,825
Other Liabilities	1,318,754	909,486
Total Liabilities	157,883,391	144,947,616
Total Shareholders' Equity	16,314,404	14,899,951
Total Liabilities and Shareholders' Equity	\$174,197,795	\$159,847,567

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		TWELVE MONTHS ENDING	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Interest Income				
Investments	\$76,367	\$107,117	\$336,411	\$453,080
Loans	2,008,856	1,882,289	7,768,545	7,378,728
Total Interest Income	2,085,223	1,989,406	8,104,956	7,831,808
Interest Expense				
Deposits	350,052	466,330	1,567,660	2,116,101
Other Borrowings	157,357	164,688	638,719	641,657
Total Interest Expense	507,409	631,018	2,206,379	2,757,758
Net Interest Income	1,577,814	1,358,388	5,898,577	5,074,050
Provision for Loan Losses	105,000	210,000	510,000	1,030,000
Net Interest Income After Provision for Loan Losses	1,472,814	1,148,388	5,388,577	4,044,050
Other Income	322,713	333,131	914,686	840,373
Other Expense	1,414,702	1,269,867	5,042,003	4,190,936
Net Income Before Federal Income Tax	380,825	211,652	1,261,260	693,487
Federal Income Tax Expense	131,185	74,700	435,785	243,200
Net Income	\$249,640	\$136,952	\$825,475	\$450,287
Preferred Stock Dividends and Accretion of Discount	48,500	20,962	110,065	86,209
Net Income Available to Common Shareholders	\$201,140	\$115,990	\$715,410	\$364,078

Board of Directors

Michael D. Bierlein

Mitzi M. Dimitroff

Joseph R. Fabiano II

Richard O. Goedert

David M. Hall

Scott L. Holman

Phillip L. List

Terry R. Niederstadt

James J. Shinnors

Richard T. Watson

Lynn R. Wolgast





Office Locations

TOWNE CENTRE
Anne Smith
Office Manager
4805 Towne Centre
Suite 100
Saginaw, MI 48604

Phone: 989.799.7500
Mon. – Fri.
8:30 a.m. – 5:00 p.m.

STATE STREET
Deb Mazur
Office Manager
5424 State Street
Saginaw, MI 48603

Phone: 989.596.7500
Mon. – Fri.
8:30 a.m. – 5:30 p.m.
Saturday
9:00 a.m. – 12:00 p.m.
Drive-Thru Service Only

DOWNTOWN
BAY CITY
Dennis Dinauer
Office Manager
601 N. Madison Ave.
Bay City, MI 48708

Phone: 989.322.7500
Mon. – Fri.
8:30 a.m. – 5:30 p.m.
Saturday
9:00 a.m. – 12:00 p.m.
Drive-Thru Service Only

In town. In touch.

Business Charge Cards

1st State Bank strives to offer small business owners the tools, resources and opportunities they need to run their businesses more efficiently and effectively. For that reason, we are upgrading our business charge cards. Now, with three statement options and online account monitoring, business owners can better handle spending, account management and bill paying. Credit card customer service is available 24/7, and you can add additional employee cards and set individual spending limits by calling one of our three locations. Let 1st State Bank's business charge card be your safe, fast, and convenient way to manage your business. Positive Pay will be available to our business customers in early 2012.

In town. In touch. And online.

1st State Bank believes that your relationship with your bank is one of the most important business relationships you have, and we are committed to our customers' business and/or consumer needs. One of our main tools is our website where we offer many services to help you securely and efficiently monitor your account(s). By providing a full range of business and personal online banking services, we have the tools to allow you to stay on top of finances and manage your day-to-day business operations. Our website is designed to let you get to know us and the benefits we offer, and easily refer us to your friends and colleagues. 1st State Bank believes that by being flexible enough to meet the needs of Great Lakes Bay Region businesses and professionals, by putting local money to work to help build the local economy, and by being in town and in touch, **we are your bank for business.**

7th Annual RUBY Award Celebration



Come celebrate the 7th Annual RUBY Awards with us February 28th at Apple Mountain Conference Center. We will Recognize the 2011 Upward, Bright and Young winners who have made a mark in their professions. Tickets are \$38.00 for individuals or \$30.00 for members of the area Young Professionals Network and can be purchased by calling 1st State Bank at 989-596-0847 or Apple Mountain at 989-781-6789.

1st State Plaza Update

Approximately one year ago, several members of the Bank's board of directors joined together to form PN Investment Group to purchase the landmark Saginaw building called "Plaza North". Soon to be known as "1st State Plaza", the five story building is being revitalized into Class A office space and will serve as the Bank's permanent headquarters. A June move is anticipated. Major upgrades are being made to the parking lot, landscaping, and building exterior and interior. Upon completion, the updated facility will provide an attractive alternative to the Saginaw office market.

In November 2011, PN Investment Group agreed to sell the first and second floors of the building to 1st State Bank at cost. In addition, the Investment Group agreed to share all building renovation charges proportionately with the Bank at cost. 1st State Bank will pay its own finish costs for the first floor, which will immediately serve as its headquarters. The Bank is also constructing a drive-up banking facility on the northeast corner of the property. As the Bank grows over the long-term, the second floor will provide necessary space for expansion. In the interim, the Bank is actively seeking to lease this space.

We want to thank PN Investment Group for their commitment to our Bank in purchasing and holding the building for a year as we obtained regulatory approval to move our headquarters. The benefits of this relocation will be tremendous as the Bank will have a permanent landmark location at approximately 60% of the cost of new construction. As we lease the second floor, our net cost of ownership will quickly approach our current occupancy cost, with over twice the space and far greater visibility than our Towne Centre location.

◀ Events of Note ▶

STEVENS CENTER FOR FAMILY BUSINESS

Wednesday, February 22, 2012

Dr. Kent Rhodes will speak about "Conflict Patterns in Family Business". Contact us to learn more about the Stevens Center for Family Business and for event reservations.

1st State Bank is a sponsor of the Stevens Center for Family Business

8TH ANNUAL SHAREHOLDERS MEETING

Tuesday, April 17, 2012, Apple Mountain Resort

1st State Bank has been awarded
Bauer Financial's highest Five-Star
Rating

