

YOUR BANK FOR BUSINESS

July 2012

Volume XV, Issue II



Letter from the President

To Our Shareholders,

A new chapter in 1st State Bank's history began on Monday, June 11, 2012, as we opened our new main office for business. After two years of searching, negotiating, planning, and constructing, we realized our goal to establish a permanent home in a landmark location that offered high visibility. We feel we met those objectives successfully and are very excited about the results. If you haven't had an opportunity to see the new offices, please stop by for a tour.

The Bank continues to improve its financial performance, as you will see in the table provided below. Loan quality remains strong, resulting in a lower provision for loan losses. Residential mortgage volume continues to add significant non-interest income due to historic low rates. The provision and mortgage volume have allowed the Bank to increase the return on assets to over .80%, moving toward our long term goal of 1.0%. However, the continued low rate environment is putting downward pressure on asset yields, leaving little room to lower liability costs. This causes net interest margin pressure which will provide challenges throughout the remainder of this year and into 2013.

We want to thank you for all your support as we move forward in the next chapter of 1st State Bank.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	6/30/2012	12/31/2011	6/30/2011
Assets			
Cash and Cash Equivalents	\$23,101,221	\$23,764,560	\$22,276,044
Investments	10,949,087	8,457,216	6,358,415
Loans, Net of Reserve for Loan Losses	132,131,227	133,580,489	130,497,278
Other assets	<u>10,357,545</u>	<u>8,395,530</u>	<u>7,556,439</u>
Total Assets	\$176,539,080	\$174,197,795	\$166,688,176
Liabilities and Shareholders' Equity			
Deposits	\$134,374,227	\$133,351,671	\$127,442,561
FHLB and Other Borrowings	22,905,389	23,212,966	22,802,825
Other Liabilities	<u>2,249,622</u>	<u>1,318,754</u>	<u>1,221,735</u>
Total Liabilities	159,529,238	157,883,391	151,467,121
Total Shareholders' Equity	17,009,842	16,314,404	15,221,055
Total Liabilities and Shareholders' Equity	\$176,539,080	\$174,197,795	\$166,688,176

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		SIX MONTHS ENDING	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Interest Income				
Investments	\$61,804	\$89,142	\$132,343	\$181,199
Loans	<u>1,924,650</u>	<u>1,919,137</u>	<u>3,845,915</u>	<u>3,769,492</u>
Total Interest Income	1,986,454	2,008,279	3,978,258	3,950,691
Interest Expense				
Deposits	302,980	410,703	633,852	831,959
Other Borrowings	<u>148,218</u>	<u>158,183</u>	<u>301,445</u>	<u>316,693</u>
Total Interest Expense	451,198	568,886	935,297	1,148,652
Net Interest Income	1,535,256	1,439,393	3,042,961	2,802,039
Provision for Loan Losses	<u>90,000</u>	<u>150,000</u>	<u>180,000</u>	<u>300,000</u>
Net Interest Income After Provision for Loan Losses	1,445,256	1,289,393	2,862,961	2,502,039
Other Income	275,472	214,121	546,208	323,226
Other Expense	1,190,372	1,167,600	2,386,473	2,294,541
Net Income Before Federal Income Tax	530,356	335,914	1,022,696	530,724
Federal Income Tax Expense	<u>179,000</u>	<u>116,100</u>	<u>345,700</u>	<u>183,900</u>
Net Income	\$351,356	\$219,814	\$676,996	\$346,824
Preferred Stock Dividends and Accretion of Discount	5,000	20,962	10,000	41,924
Net Income Available to Common Shareholders	\$346,356	\$198,852	\$666,996	\$304,900

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

MAIN OFFICE
Anne Smith
Office Manager
4800 Fashion Square Blvd.,
Suite 100
Saginaw, MI 48604

Phone: 989.799.7500
Mon. – Fri.
8:30 a.m. – 5:30 p.m.
Saturday
9:00 a.m. – 12:00 p.m.
Drive-Thru Service Only
ATM 24/7

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
ATM 24/7

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
ATM 24/7

“Is your Wall Street Money Fund Safe?”

The SEC is proposing reform to the Money Market Mutual Fund industry. Excerpts from some recent Wall Street Journal editorials, “Regulation created a perception that money funds are as safe as cash. In fact they are pools of securities that can rise and fall in values and investors need to know that.” “A current SEC rule allows money funds to pretend their net asset values never change allowing fund operators to present investors a picture of stability as if money funds are as safe as bank accounts, they aren’t.”

1st State Bank offers the Insured Cash SweepSM service (ICS) that allows you access to multi-million-dollar FDIC insurance on savings deposits (money market deposit accounts), earn interest, and withdraw funds up to six times per month. Who can benefit from ICS? Organizations that value security and convenience, including businesses, nonprofits, and individuals. By working directly with us, your deposit is divided into smaller amounts under the FDIC maximum and placed with member banks of the ICS network. You will receive one statement and have online access to view transactions. For a money market alternative that is truly safe as cash, contact any of our offices regarding our ICS service.

Fraud Prevention

Precautions to safeguard your financial information

With losses from check fraud reaching well into the billions, fraud control is a major concern for businesses everywhere. There are several precautions that you can and should take to decrease the risk of unauthorized transactions on your business bank accounts.

Talk to your Business Banker or any of our offices about how we can help protect your business!

1st State Bank Celebrates New Main Office



1st State Bank celebrated the grand opening of its new main office at 4800 Fashion Square Blvd., Saginaw Township. The board of directors and employees welcomed shareholders, customers, area business owners and community leaders to their ribbon-cutting ceremony and open house on June 19th.

1st State Bank’s new main office at 4800 Fashion Square Blvd., is a five story structure built in the early 70’s. PN Investment Group, L.L.C. purchased the building in fall 2011, and completed a major upgrade to the building’s exterior, interior and mechanical-electrical systems. 1st State Bank, which owns and occupies the first floor, has completed its renovations and added drive-thru banking for its customers.

Increase your Business’ Cash Flow Efficiency with our Cash Management Services

Deposit Pick-Up

Free courier service to pick up your deposits from your business when you want. Courier pick-ups can be on a recurring schedule or on an on-call basis.

ACH Service

Our ACH service provides you with a convenient and inexpensive means of processing vendor payments, tax payments, direct depositing your employees’ payroll or transferring funds between banks.

Merchant Services

Allows your business to accept credit and debit cards as payment for goods and services.

Zero Balance Account

A Zero Balance Account (ZBA) will link your various checking accounts to a General Operating checking account to provide efficiency to your available cash flow.

Wire Transfer Service

1st State Bank will transfer funds from your account with us to another bank on your instruction. Our in-house wire transfer area will handle your requests accurately and a timely fashion.

Online Banking

View account information, check images, make transfers between accounts, initiate stop payments and pay bills all at your convenience.

◀ Events of Note ▶

STEVEN’S CENTER FOR FAMILY BUSINESS

“Key Non-Family Executives: From Our Perspective”

Thursday, September 27, 2012, 4:30 p.m., Curtis Hall, SVSU

Saginaw County Chamber Of Commerce Business After Hours

hosted by 1st State Bank & 1st State Plaza

Location 1st State Plaza, 4800 Fashion Square Blvd.

September 13, 2012, 5:00 pm TO 7:00 pm

*RUBY Award nomination submissions open September 1st!

HOLIDAY BANKING HOURS

Labor Day—Closed, Monday, September 3rd

BAUER FINANCIAL, Inc.
A 5-Star rating indicates that
1st State Bank is one of the
strongest banks in the nation.

