Your Bank For Business

October 2012

Volume XV, Issue III

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Letter from the President

To Our Shareholders,

Significant year-over-year gains continued in the 3rd quarter, as you can see below. While historically low mortgage rates continue to provide refinancing opportunities and income to the Bank, the move of the main office added some non-recurring expenses in the quarter. Net growth in loans has slowed somewhat as evidenced by a reduction in working capital lines of our business customers. A little slowing of the local economy and uncertainty over the federal and state elections has given our customers a more cautious attitude.

Since 2010, we have continuously improved our technology to provide more competitive cash management services. We now have improved Merchant Services, business charge cards, ACH fraud protection, and fully FDIC insured CDs and money markets. We will soon add fully FDIC insured transaction checking accounts, remote deposit capture, additional fraud protections, and improved lock box services. We are dedicated to helping you maximize the efficiency of your cash, so please give us a call if we can assist you with any of these services.

As the banking environment continues to change, we want you to know that 1st State Bank is committed to the Great Lakes Bay Region and our customers for the long term.

Sincerely,

Rick Goedert

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

Assets	**9/30/2012**	**12/31/2011**	**9/30/2011**
Cash and cash equivalents	$18,862,283	$23,764,560	$25,488,658
Investments	11,353,763	8,457,216	7,654,870
Loans, net of reserve for loan losses	138,041,560	133,580,489	135,366,188
Other assets	10,516,611	8,395,530	7,396,085
Total Assets	**$178,774,217**	**$174,197,795**	**$175,905,801**
Liabilities and Shareholders' Equity			
Deposits	$138,803,207	$133,351,671	$134,276,766
FHLB and Other Borrowings	21,376,081	23,212,966	24,240,748
Other Liabilities	1,243,327	1,318,754	1,303,333
Total Liabilities	**161,422,615**	**157,883,391**	**159,820,847**
Total Shareholders' Equity	**17,351,602**	**16,314,404**	**16,084,954**
Total Liabilities and Shareholders' Equity	**$178,774,217**	**$174,197,795**	**$175,905,801**

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		**NINE MONTHS ENDING**	
	9/30/2012	**9/30/2011**	**9/30/2012**	**9/30/2011**
Interest Income				
Investments	$61,655	$78,845	$193,998	$260,044
Loans	1,928,461	1,990,197	5,774,376	5,759,689
Total Interest Income	**1,990,116**	**2,069,042**	**5,968,374**	**6,019,733**
Interest Expense				
Deposits	290,947	385,649	924,799	1,217,608
Other Borrowings	143,204	164,669	444,649	481,362
Total Interest Expense	**434,151**	**550,318**	**1,369,448**	**1,698,970**
Net Interest Income	**1,555,965**	**1,518,724**	**4,598,926**	**4,320,763**
Provision for Loan Losses	90,000	105,000	270,000	405,000
Net Interest Income After Provision for Loan Losses	**1,465,965**	**1,413,724**	**4,328,926**	**3,915,763**
Other Income	**344,437**	**268,747**	**890,645**	**591,973**
Other Expense	**1,334,560**	**1,332,760**	**3,721,033**	**3,627,301**
Net Income Before Federal Income Tax	**475,842**	**349,711**	**1,498,538**	**880,435**
Federal Income Tax Expense	163,300	120,700	509,000	304,600
Net Income	**$312,542**	**$229,011**	**$989,538**	**$575,835**
Preferred Stock Dividends & Accretion of Discount	5,000	19,641	15,000	61,565
Net Income Available to Common Shareholders	**$307,542**	**$209,370**	**$974,538**	**$514,270**

Your Bank For Business

1st STATE BANK RECEIVES "SMALL BUSINESS BANK AWARD" AND GETS AN "A" ON BANKINGGRADES.COM

1st STATE BANK has been recognized as one of the best small business lenders in the country by MultiFunding, the company responsible for a free online tool, Banking Grades. 1st STATE BANK has a current rating of A Excellent ranking 90th out of 7,265 banks in America that are graded by Banking Grades. "*One of the biggest challenges that small businesses face is access to capital*," says Ami Kassar, CEO of MultiFunding, a small business financial advisory firm. "Our grading system and website helps small business owners find local banks that are friends of small business - Banking Grades (www.bankinggrades.com)."

Banking Grades is a proprietary online tool that grades every bank on its commitment to small business lending. Using public data from the Federal Deposit Insurance Corporation (FDIC), Banking Grades compares the amount of a bank's deposits to the number of loans that bank has made to small businesses. These loans are $1,000,000 or less. "This is a very objective grade. The data is there. Based on their lending record, 1st STATE BANK has shown that it is committed to helping small businesses. It is making loans to small businesses," explains Kassar.

Saginaw Chamber of Commerce "Business After Hours"

1st State Bank and 1st State Plaza were pleased to host the September Saginaw Chamber of Commerce "Business After Hours" event. The large turnout of area professionals enjoyed networking and participated in fun activities. Tours of 1st State Bank's new main office were provided and our knowledgeable business lenders were available to respond to business questions. 1st State Bank is fortunate to be associated with so many successful local businesses that share its passion and devotion to the Great Lakes Bay Region.

1st State Bank's Business Checking Accounts

1st State Bank offers deposit services for businesses of all sizes and in all stages of growth, from start-up through establishment. Having your checking account with 1st State Bank will help you manage your finances and introduce you to the many other helpful services we offer. Let us provide you with a free analysis of these services to find the right fit for you.

Business Checking Accounts

Business Basic Checking
Our business checking is especially designed to serve the needs of most businesses. It's simple, straightforward and efficient. It's the perfect operating account for companies with all levels of checking account activity.

Business Plus Checking
Now you can receive interest on your checking account without paying a sweep fee. The business plus checking is perfect for the business customer with moderate activity and balances.

Insured Cash Sweep
1st State Bank offers an account for those high balance accounts where funds need to be fully insured by the FDIC. Funds are eligible for multi-million-dollar FDIC insurance while earning interest. The sweep fund is facilitated through our affiliate, Promontory Interfinancial Network, L.L.C.

Business Sweep Checking
Our business sweep checking is for companies with high balance, high transaction volumes that would like to earn interest on excess funds. Featuring a competitive interest rate and earnings credit, it helps reduce and may even eliminate the service charges and the monthly maintenance fee.

Events of Note

Steven's Center for Family Business

"Gordon Food Service: From Butter and Eggs to the Largest Family Owned Food Distributorship in North America."
Wednesday, December 5, 2012, 7:30 a.m., Curtis Hall, SVSU

"Inside Business" Speaker Series program
Tuesday, November 13th, 2012, Saginaw Club - As part of its 50th Anniversary celebration, SVSU will sponsor Michael Finney, President and CEO, Michigan Economic Development Corporation (MEDC)
Reservations please: 754.8404 Registration 4:45pm Program 5:15pm

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

Holiday Banking Hours

Thursday, November 22nd Thanksgiving Day - Closed
Monday, December 24th Christmas Eve - Closing at 1:00pm
Tuesday, December 25th Christmas Day - Closed
Tuesday, January 1st New Years Day - Closed

Office Locations

MAIN OFFICE
Anne Smith
Office Manager
4800 Fashion Square Blvd.,
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

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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

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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