Your Bank For Business

August 2013

Volume XVI, Issue II

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Letter from the President

To Our Shareholders,

We are pleased to announce 2nd quarter earnings of $404,113, up from $346,356 earned in the 2nd quarter of 2012. Year-to-date earnings are $770,501, 15.5% ahead of 2012's earnings of $666,996. Much of the improvement came from Mortgage Banking, Other Real Estate gains and expense reduction. Growth in loans and the overall balance sheet has been slow for the past six months. Our return on assets for the first six months is .90%, nearing our longer term goal of 1.00%. We are very happy with our progress toward this objective.

Two significant issues being discussed in Washington will impact the competitive environment of community banks like ours. The first is the tax exemption for credit unions. All Federal credit unions (and most are Federal) are exempt from all Federal, state and local taxes, with the exception of property taxes. Many credit unions are now open to anyone and provide all the services that banks offer. This is unfair competition. They should also be subject to taxes.

The second issue is "too big to fail" (TBTF). The International Monetary Fund and Bloomberg View each conducted studies estimating the subsidies to mega banks at $83 billion per year through lower funding costs. These banks need to hold more capital to protect taxpayers from another "bailout". The 10 largest banks have grown from 25% of GDP in 1997, to 56% in 2006, to 71% in 2013. Systemic risk is getting worse. We welcome competition in a fair environment. If you have an opportunity to support community banks in these issues, we ask that you do so. Thank you all for your continued support of 1st State Bank.

Sincerely,

Rick Goedert

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

Assets	**6/30/2013**	**12/31/2012**	**6/30/2012**
Cash and cash equivalents	$22,189,516	$22,241,228	$23,101,221
Investments	13,572,867	12,252,308	10,949,087
Loans, net of reserve for loan losses	136,177,501	135,213,168	132,131,227
Other assets	9,811,859	10,460,808	10,357,545
Total Assets	**$181,751,743**	**$180,167,512**	**$176,539,080**
Liabilities and Shareholders' Equity			
Deposits	$143,564,629	$141,652,154	$134,374,227
FHLB and other borrowings	18,035,502	19,846,335	22,905,389
Other liabilities	1,776,850	1,014,027	2,249,622
Total Liabilities	**163,376,981**	**162,512,516**	**159,529,238**
Total Shareholders' Equity	**18,374,762**	**17,654,996**	**17,009,842**
Total Liabilities and Shareholders' Equity	**$181,751,743**	**$180,167,512**	**$176,539,080**

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		**SIX MONTHS ENDING**	
	6/30/2013	**6/30/2012**	**6/30/2013**	**6/30/2012**
Interest Income				
Investments	$57,792	$61,804	$115,799	$132,343
Loans	1,851,596	1,924,650	3,727,408	3,845,915
Total interest income	**1,909,388**	**1,986,454**	**3,843,207**	**3,978,258**
Interest Expense				
Deposits	231,480	302,980	466,193	633,852
Other borrowings	118,350	148,218	244,693	301,445
Total interest expense	**349,830**	**451,198**	**710,886**	**935,297**
Net Interest Income	**1,559,558**	**1,535,256**	**3,132,321**	**3,042,961**
Provision for loan losses	75,000	90,000	150,000	180,000
Net Interest Income After Provision for Loan Losses	**1,484,558**	**1,445,256**	**2,982,321**	**2,862,961**
Other Income	**418,230**	**275,472**	**719,481**	**546,208**
Other Expense	**1,288,375**	**1,190,372**	**2,530,901**	**2,386,473**
Net Income Before Federal Income Tax	**614,413**	**530,356**	**1,170,901**	**1,022,696**
Federal income tax expense	205,300	179,000	390,400	345,700
Net Income	**$409,113**	**$351,356**	**$780,501**	**$676,996**
Preferred stock dividends	5,000	5,000	10,000	10,000
Net Income Available to Common Shareholders	**$404,113**	**$346,356**	**$770,501**	**$666,996**

Member FDIC

EQUAL HOUSING LENDER

Your Bank For Business

Plaza Suites

"Your Turn Key Business Center"

1st State Bank is pleased to introduce "Plaza Suites" offering Class A office space in the 1st State Plaza building. Give your business an immediate business presence at a fraction of the cost of traditional office space. A private office suite outfitted with high-end furnishings provides a professional appearance, without the capital expense of a full time lease. Each office is fully equipped with everything you need to hold a meeting or conduct your work day. Mail and telephone services will be provided through the full time staffed reception area. Conference rooms equipped with top of the line computer equipment can be reserved Monday through Friday. The flexible office allows you to focus on your business knowing we will take care of the office.

Bay Area Chamber of Commerce Golf Challenge

1st State Bank and Hagen Ford sponsored a hole-in-one contest at the recent Bay Area Chamber of Commerce Golf Challenge played at both the Bay City Country Club and Bay Valley Golf Resort. Hagen Ford offered a 2 year lease on a 2013 Ford Fusion to anyone who could make a hole-in-one at the 4th hole of the Bay City Country Club. We thank Bank employees Shelli Kelsey and Anne Smith for volunteering to man the hole on the day of the event.

Casual for a Cause

When 1st State Bank employees were looking for a way to give back to the communities we serve, Casual for a Cause presented the perfect fit. On a designated Friday each month employees pay $5.00 to wear jeans to the office. The Casual for a Cause committee chooses a charitable organization in the Great Lakes Bay Region to receive the proceeds from that month. This fun and easy opportunity to support local agencies has been a great success with staff. So far donations have been made to Hidden Harvest, Friends of the Saginaw County Animal Shelter and Just For Kids. Just another way we can be "In Town and In Touch."

OPEN HOUSE

On May 21st and May 23rd, 1st State Bank held our third annual open houses to express our appreciation to the real estate community for its business and referrals. The events, hosted at the State Street office and the Downtown Bay City office, offered Realtors and title company employees an opportunity to relax and network while enjoying refreshments.

Saginaw Township Property Tax Payments

For your convenience, 1st State Bank is accepting Saginaw Township summer property tax payments at each of our Saginaw offices and our Downtown Bay City office through September 14th.

Events of Note

Steven's Center for Family Business—"The Power of Family Business -- Positioning Yourself for Success"
Thursday, September 11, 2013, 4-6 p.m., Curtis Hall, SVSU

*RUBY Award nomination submissions open September 1st!

Holiday Banking Hours
Labor Day—Closed, Monday, September 2nd

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

Office Locations Hours of Operation

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
Vicki Pavlik
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