

YOUR BANK FOR BUSINESS

May 2014

Volume XVII, Issue I

Letter from the President



To Our Shareholders,

As we anticipated, 2014 is presenting some challenges to the Bank's profitability. We are right on budget for the first quarter, but as you can see, we are down from last year's first quarter. Mortgage refinance activity is down considerably due to an uptick in rates causing non-interest income to be lower. Our net interest margin continues to decline, although slower than anticipated. The extreme weather has had an impact on our business loan demand, causing lower than expected loan balances in the first quarter.

While our strategy to expand our presence in Bay County is producing positive results, the additional expense of opening the Wilder Road office has had an impact on profitability. This is not unusual. When banks invest in additional branches, it takes time to grow the business to a sufficient size to support the cost and create profitability.

The balance sheet grew substantially thanks to a significant increase in our core deposits. We have seen success in marketing Public Funds which is contributing to the deposit balance increase. We believe there is an excellent opportunity to continue that success throughout our region.

The book value of the stock at March 31, 2014 is \$10.97 versus \$10.80 at December 31, 2013. If you are interested in purchasing some additional shares, please contact me. Thank you for your support.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	3/31/2014	12/31/2013	3/31/2013
Assets			
Cash and cash equivalents	\$26,323,860	\$21,404,782	\$26,042,305
Investments	15,896,178	15,807,308	13,085,643
Loans, net of reserve for loan losses	139,042,669	140,535,872	132,931,979
Other assets	10,904,144	10,692,775	10,317,314
Total Assets	\$192,166,851	\$188,440,737	\$182,377,241
Liabilities and Shareholders' Equity			
Deposits	\$159,404,217	\$154,804,200	\$143,257,748
FHLB and other borrowings	12,690,801	13,722,837	19,816,144
Other liabilities	750,192	873,574	1,278,485
Total Liabilities	172,845,210	169,400,611	164,352,377
Total Shareholders' Equity	19,321,641	19,040,126	18,024,864
Total Liabilities and Shareholders' Equity	\$192,166,851	\$188,440,737	\$182,377,241

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING	
	3/31/2014	3/31/2013
Interest Income		
Investments	\$71,766	\$58,007
Loans	1,818,872	1,875,812
Total interest income	1,890,638	1,933,819
Interest Expense		
Deposits	209,635	234,713
Other borrowings	76,035	126,343
Total interest expense	285,670	361,056
Net Interest Income	1,604,968	1,572,763
Provision for loan losses	60,000	75,000
Net Interest Income After Provision for Loan Losses	1,544,968	1,497,763
Other Income	264,530	301,251
Other Expense	1,386,926	1,242,526
Net Income Before Federal Income Tax	422,572	556,488
Federal income tax expense	146,000	185,100
Net Income	\$276,572	\$371,388
Preferred stock dividends	5,000	5,000
Net Income Available to Common Shareholders	\$271,572	\$366,388

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



Your Bank For Business



Office Locations Hours of Operation

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

Phone: 989.799.7500
Mon. – Fri.
9:00 a.m. – 5:30 p.m.
ATM 24/7

STATE STREET
Vicki Pavlik
Office Manager
5424 State Street
Saginaw, MI 48603

Phone: 989.596.7500
Mon. – Fri.
9:00 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.
9:00 a.m. – 5:30 p.m.
ATM 24/7

WILDER ROAD
Angy Dixon
Office Manager
3907 Wilder Rd.
Bay City, MI 48706

Phone: 989.439.7500
Mon. – Fri.
9:00 a.m. – 5:30 p.m.
Saturday
9:00 a.m. – 12:00 p.m.
ATM 24/7

Fraud Protection

With losses from check fraud reaching well into the billions, fraud control is a major concern for businesses everywhere. There are a number of things that you can do to protect your accounts from fraudulent activity. **Review your account statements** - You should promptly examine your statements when you receive them. If you think that an unauthorized person has withdrawn funds from your account, if deposits are not reflected on your statements, or if you think there is an error or discrepancy in your statements, you should notify the bank immediately. **Online Banking** - 1st State Bank is proud to deliver the highest level of security for our online banking customers. Using Online Banking gives you the ability to monitor account activity 24 hours a day and view copies of your checks as they are presented against your account. **eStatements** - Having electronic statements delivered to you rather than traditional paper statements can provide another layer of security, eliminating the worry of lost or stolen statements. We highly recommend all of our customers take advantage of this free service. **Positive Pay** is an effective risk management solution for businesses that provides the ability to monitor and combat fraudulent check activity. You have the confidence of knowing that only the checks you issue will be paid with Positive Pay. The service verifies transactions and identifies any discrepancies, such as duplicate transactions and amount or check number mismatches; offering a comprehensive means for preventing fraudulent account activity. Ask a 1st State Banker about our fraud protection today.



Wilder Road Renovations are Complete

In celebration of 1st State Banks 10th anniversary and the Grand Opening of the Wilder Road location, we hosted the April 17th Bay Area Chamber of Commerce Business After Hours. The weather was great and the turnout couldn't have been better. After weeks of renovations, the office looks and functions beautifully. We appreciate the support of all who attended.

2013 RUBY Award Celebration

The 9th annual RUBY Award winners shared their paths to professional success at the February 25th dinner and awards ceremony at Apple Mountain Conference Center. Family, friends and professional colleagues joined the recipients in an evening of celebration. Recognized were **Eric Friedman** – Public Policy Director, The Dow Chemical Company; **Rodney Iamurri** – Director of North American Operations Lean, Master Lean Coach of the Inalfa Roof Systems; **Daniel Kehres, D.C.** – Owner, Kehres Health & Chiropractic; **Kimberly Offenbecker** - Principal, Hampton Elementary School; **Steve Puvalowski** - Owner, Tri-City Motor Speedway; **Andrew Schoenborn** – Special Education Teacher, Anchor Bay Schools; **Brian Thomas** – Associate Professor of Sociology, Saginaw Valley State University; **David Tokarsky** – Head Golf Professional, Saginaw Country Club; **Melissa Cribley-Wahl** – Director of Operations/Co-Owner, Cobblestone Homes; **Cale Wasserman** – Head Coach Men's Soccer, Saginaw Valley State University; and **Charles Zimmer** – Global High Performance Insulation Business Director, Dow Corning Corporation.

◀ Events of Note ▶

1st State Bank Annual Meeting
Tuesday, May 6, 2014, 4:30 p.m., Bay City Country Club

Holiday Banking Hours - *Closed - Monday, May 26th, Memorial Day*
Closed - Friday, July 4th, Independence Day

BAUER FINANCIAL, Inc.

Earning a 4-Star Excellent rating denotes that 1st State Bank is among the strongest banks in the nation.

