

IN TOWN. IN TOUCH.

May 2011

Volume VIX, Issue II



Letter from the President

To Our Shareholders,

We are pleased to report income of just over \$106,000 for the quarter, a 28% increase over 2010's \$82,551. Expenses related to Other Real Estate Owned (ORE) and problem loans caused operating expenses to be higher than desired. In spite of that, we are comparing quite well relative to other banks.

In March we saw a significant increase in loan demand which has continued into April and May. Businesses are doing better and seeing increasing needs for working capital and equipment related to improved sales. The region's employment numbers are up 2.5% over 2010's. Equipment values are firming, while real estate remains soft. We hope for improved economics for everyone.

Thanks to all who attended the Annual Meeting. We discussed our plans for technology, business cash management, capital, marketing campaigns and the new main office. On page two you'll find a rendering of the new office. The colors and appearance of the building continue the theme established with the State Street and Downtown Bay City branches. We are excited about the improved visibility and recognition offered by the new location and hope to move in December or January.

Thank you for your support. Please contact me with any questions or comments.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	3/31/2011	12/31/2010	3/31/2010
Assets			
Cash and Cash Equivalents	\$24,092,982	\$25,091,369	\$26,922,080
Investments	5,657,232	5,452,453	6,013,229
Loans, Net of Reserve for Loan Losses	123,595,795	121,509,336	121,502,173
Other assets	7,611,839	7,794,409	5,490,663
Total Assets	\$160,957,848	\$159,847,567	\$159,928,145
Liabilities and Shareholders' Equity			
Deposits	\$123,469,719	\$121,985,305	\$125,811,376
FHLB and Other Borrowings	21,552,825	22,052,825	18,802,825
Other Liabilities	929,593	909,486	701,844
Total Liabilities	145,952,137	144,947,616	145,316,045
Total Shareholders' Equity	15,005,711	14,899,951	14,612,100
Total Liabilities and Shareholders' Equity	\$160,957,848	\$159,847,567	\$159,928,145

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING	
	3/31/2011	3/31/2010
Interest Income		
Investments	\$92,057	\$113,715
Loans	1,850,355	1,800,287
Total Interest Income	1,942,412	1,914,002
Interest Expense		
Deposits	421,256	560,539
Other Borrowings	158,510	160,111
Total Interest Expense	579,766	720,650
Net Interest Income	1,362,646	1,193,352
Provision for loan losses	150,000	240,000
Net Interest Income After Provision for Loan Losses	1,212,646	953,352
Other Income	109,105	154,644
Other Expense	1,126,941	943,391
Net Income Before Federal Income Tax	194,810	164,605
Federal Income Tax Expense	67,800	58,730
Net Income	\$127,010	\$105,875
Preferred Stock Dividends and Accretion of Discount	20,962	23,324
Net Income Available to Common Shareholders	\$106,048	\$82,551

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. Shinnars

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.



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.

Independent Community Bankers of America

1st State Bank has partnered with the Independent Community Bankers of America, the nation's voice for community banks. ICBA represents nearly 5,000 community banks of all sizes and charter types throughout the United States. It is dedicated exclusively to representing the interests of the community banking industry and their communities and customers. With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small business, and the agriculture community.

Community banks like 1st State Bank grow our towns and cities by funding small business and using local dollars to help families purchase a home, finance college, and build financial security. ICBA member community banks create symbolic relationships with the communities they serve, favor local decision-making while adhering to the highest business practices and ethical standards, and support a democratically governed association where each member bank has a voice and a vote. To learn more about ICBA and what it means for you, please visit www.icba.org for more information.

1st State Mortgage Rates

Mortgage interest rates are still LOW! Low fixed rates, coupled with lower home prices, makes this a great time to purchase a home. If you are thinking about buying a new home or refinancing your current home, contact 1st State for a FREE pre-approval. Call Debbie Mazur in Saginaw at (989)596-0853 or Dennis Dinauer in Bay City at (989)586-0857.

12 Month C.D. 1.05% APY Great rate. 1st State!

The 1.05% annual percentage yield (APY) is available to customers who have direct deposit or maintain a monthly minimum balance of \$1,000 in a checking, savings, or money market account. This opportunity is available to businesses and individuals with a minimum deposit of \$500. All our certificates can also be used for your IRA. Rates and terms are subject to change, and an early withdrawal penalty may apply. Contact a personal banker for all the details.



www.1stStateBk.com

Online banking gives you easy and secure access to all your accounts online. Have 24/7 access to view current transactions, past statements, individual checks and deposits, and the ability to transfer between your accounts. Our Online Bill Payment service will save you time and money. We invite you to enroll.

Visit 1stStateBk.com for details on all the services we offer and ask your personal banker to enroll you in online banking.

A Total Card Payment Solution

Today's consumers are carrying less cash and checks and using more credit, debit, and prepaid cards. Our Merchant Services can help businesses meet the payment needs of customers with fast, reliable transaction processing.

1st State Bank, in cooperation with the card payment experts at FIS™, delivers the technology businesses need to accept Visa®, MasterCard®, Discover® Network and other major cards. If you would like a free quote on monthly processing, please give us a call. 1st State Bank will work with you directly to coordinate your quote and set up.



HOLIDAY BANKING HOURS

Memorial Day – Closed
Monday, May 30th
Independence Day – Closed
Monday, July 4th