

IN TOWN. IN TOUCH.

August 2011

Letter from the President

Volume VIX, Issue III



To Our Shareholders,

The second quarter showed an 88% increase in net income available to shareholders over the first quarter. Year-to-date, 2011 is 200% over the same period of 2010. Our balance sheet has grown nicely following a flat 2010. We are pleased with our progress toward becoming a high performing bank and the bank of choice for businesses and professionals in the Great Lakes Bay Region.

We are making good progress on our new business cash management services and technology projects. We have a better merchant charge card processing service, a new business charge card will be rolled out near year end, and improved fraud protection services will be introduced this fall. Our new website is up and running, a new account opening process will be operating this month, and electronic statements and messaging to customers will be offered in the fall. Many provisions of the Wall Street Reform Act (Dodd-Frank) were enacted on July 21, 2011, giving us the ability to pay interest on business checking. We will introduce a new type of interest paying account in August.

On the following page you will meet some new employees. We added resources for loans, operations and compliance to strengthen the risk management area. We also increased our support for cash management services and marketing. Please call us for any of your banking needs and to refer us to your friends. Thank you for your support.

Sincerely,

Rick Goedert

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

	6/30/2011	12/31/2010	6/30/2010
Assets			
Cash and Cash Equivalents	\$22,276,044	\$25,091,369	\$28,951,461
Investments	6,358,415	5,452,453	5,122,467
Loans, Net of Reserve for Loan Losses	130,497,278	121,509,336	122,878,608
Other Assets	7,556,439	7,794,409	5,416,845
Total Assets	\$166,688,176	\$159,847,567	\$162,369,381
Liabilities and Shareholders' Equity			
Deposits	\$127,442,561	\$121,985,305	\$125,576,339
FHLB and Other Borrowings	22,802,825	22,052,825	21,302,825
Other Liabilities	1,221,735	909,486	857,890
Total Liabilities	151,467,121	144,947,616	147,737,054
Total Shareholders' Equity	15,221,055	14,899,951	14,632,327
Total Liabilities and Shareholders' Equity	\$166,688,176	\$159,847,567	\$162,369,381

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		SIX MONTHS ENDING	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Interest Income				
Investments	\$89,142	\$118,031	\$181,199	\$231,746
Loans	1,919,137	1,812,670	3,769,492	3,612,957
Total Interest Income	2,008,279	1,930,701	3,950,691	3,844,703
Interest Expense				
Deposits	410,703	556,670	831,959	1,117,209
Other Borrowings	158,183	153,957	316,693	314,068
Total Interest Expense	568,886	710,627	1,148,652	1,431,277
Net Interest Income	1,439,393	1,220,074	2,802,039	2,413,426
Provision for Loan Losses	150,000	340,000	300,000	580,000
Net Interest Income After Provision for Loan Losses	1,289,393	880,074	2,502,039	1,833,426
Other Income	214,121	128,928	323,226	283,572
Other Expense	1,167,600	952,809	2,294,541	1,896,200
Net Income Before Federal Income Tax	335,914	56,193	530,724	220,798
Federal Income Tax Expense	116,100	18,570	183,900	77,300
Net Income	\$219,814	\$37,623	\$346,824	\$143,498
Preferred Stock Dividends and Accretion of Discount	20,962	20,962	41,924	44,286
Net Income Available to Common Shareholders	\$198,852	\$16,661	\$304,900	\$99,212

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

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.

Industry News

Changes in the way 1st State and other banks can do business continue to be rolled out following passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act a year ago.

The latest of these changes address business checking accounts. Since 1933, federal regulation prohibited banks from offering interest-bearing checking accounts to businesses. As of this summer, this restriction has been lifted. Those that elect to have an interest bearing checking account will no longer be eligible for the unlimited deposit insurance coverage as a non-interest-bearing transaction account. 1st State Bank has taken this opportunity to re-vamp our line of business checking accounts.

Two Marketing Campaigns Beginning Soon

1st State Bank has embraced the recent change in banking regulations giving banks the ability to pay interest on business checking accounts. In the next couple weeks we will begin highlighting the features of our checking accounts to our current customers and other professionals and businesses in our area. Some changes include:

1. Business Checking will offer unlimited monthly items at no charge.
2. New Business Checking with Interest will be offered.
3. Business Sweep Checking is back!
4. New Insured Sweep Checking offers unlimited FDIC coverage.

Look for direct mail information and advertising in our branches, and listen for our ad on WSGW AM & FM.

In the fall you will see and hear our new image campaign, Bank for Business. The campaign draws attention to our knowledge of the business landscape in the Great Lakes Bay Region and highlights our expertise in business lending and deposit services. The ultimate goal is for businesses and professionals to view 1st State Bank as the bank of choice in the Great Lakes Bay Region. Marketing efforts will include in-house signage, a radio commercial heard on WSGW AM & FM, direct mail, and staff calling efforts.



1st State Bank is again joining with *Great Lakes Bay Regional Lifestyle Magazine*, WNEM TV -5, and the Young Professional Networks (YPN) of Saginaw, Bay and Midland counties to bring you the 7th Annual RUBY Award.

The RUBY award identifies some of the area's best and brightest professionals under the age of 40. They are people who have made their mark in their professions and are having an impact throughout the Great Lakes Bay Region.

Qualified candidates must be nominated. **The primary qualification is professional success.** All nominations must be received by November 4, 2011. The panel of judges will be composed of business professionals from throughout the area. Finalists will be announced in the January/February issue of *Great Lakes Bay Regional Lifestyle Magazine*. WNEM TV-5 and *Great Lakes Bay Regional Lifestyle Magazine* will profile each of the recipients in January 2012. 1st State Bank will host an award dinner in their honor in February/March 2012.

We're Growing...

Branch customers will notice that Audrey Thomas, Personal Banker, has moved from State Street to our Towne Centre office, and Jessica Papp was promoted to Head Teller at Towne Centre. State Street customers will be seeing more of Karen Sanders and Donna Prime. Karen accepted the full time personal banker position and Donna Prime moved from a float position into the part time personal banker position.

The loan department has added Angela Manor, Credit Analyst, and Brittany Chrcck, Loan Specialist. Shelli Kelsey has been hired as Deposit Services Specialist and will be working with business customers on their deposit needs. Brenda Demo, Risk Management Specialist, joined us following Maxine Ruterbusch's retirement in May. Max had been with us since our opening. We appreciate all of her contributions and wish her the very best in retirement.

Events of Note

INSIDE BUSINESS SPEAKER SERIES AT THE SAGINAW CLUB

John E. Nixon, Budget Director, State of Michigan
Thursday, October 6th, 3:30 pm - Sponsored by 1st State Bank

STEVENS CENTER FOR FAMILY BUSINESS EVENT

"Managing Your Day-to-Day Priorities for Strategic Results"
Thursday, October 13th, 7:30 am - Saginaw Valley State University

