

IN TOWN. IN TOUCH.

November 2011

Letter from the President

Volume VIX, Issue IV



To Our Shareholders,

Growth was the highlight of the summer, with total assets growing over \$9 million in the 3rd quarter. Loans increased \$5 million and deposits increased \$7 million. This all contributed to this quarter's net income being up 41% compared to 2010 and positions the bank for a solid 4th quarter. The carrying costs of repossessed real estate are a negative impact on the bank's earnings and are slowing our progress toward long term goals. We continue to work through strategies to dispose of these properties. Mortgage volume is extremely high, with historically low rates causing a significant boost in income from sales to the secondary market.

We feel very good about the quality of our loan portfolio. Our credit quality is excellent. Delinquency for all loans has been less than 1% all year. Our loan loss reserve as a percentage of total loans has increased from 1.27% at year end to 1.40%. Our net charge-offs are actually slightly negative as we have recovered more previously charged-off loans than we have charged off this year.

Thank you all for your contribution to the growth and success of our bank. Please continue to spread the word. It helps tremendously.

Sincerely,

Rich Goedert

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

Assets	9/30/2011	12/31/2010	9/30/2010
Cash and Cash Equivalents	\$25,488,658	\$25,091,369	\$31,661,470
Investments	7,654,870	5,452,453	4,566,265
Loans, Net of Reserve for Loan Losses	135,366,188	121,509,336	123,559,438
Other Assets	<u>7,396,085</u>	<u>7,794,409</u>	<u>6,545,080</u>
Total Assets	\$175,905,801	\$159,847,567	\$166,332,253
Liabilities and Shareholders' Equity			
Deposits	\$134,276,766	\$121,985,305	\$128,513,300
FHLB and Other Borrowings	24,240,748	22,052,825	22,052,825
Other Liabilities	<u>1,303,333</u>	<u>909,486</u>	<u>976,486</u>
Total Liabilities	159,820,847	144,947,616	151,542,611
Total Shareholders' Equity	<u>16,084,954</u>	<u>14,899,951</u>	<u>14,789,642</u>
Total Liabilities and Shareholders' Equity	\$175,905,801	\$159,847,567	\$166,332,253

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	THREE MONTHS ENDING		NINE MONTHS ENDING	
	9/30/2011	9/30/2010	9/30/2011	9/30/2010
Interest Income				
Investments	\$78,845	\$114,217	\$260,044	\$345,963
Loans	<u>1,990,197</u>	<u>1,883,483</u>	<u>5,759,689</u>	<u>5,496,439</u>
Total Interest Income	<u>2,069,042</u>	<u>1,997,700</u>	<u>6,019,733</u>	<u>5,842,402</u>
Interest Expense				
Deposits	385,649	532,562	1,217,608	1,649,771
Other Borrowings	<u>164,669</u>	<u>162,901</u>	<u>481,362</u>	<u>476,969</u>
Total Interest Expense	<u>550,318</u>	<u>695,463</u>	<u>1,698,970</u>	<u>2,126,740</u>
Net Interest Income	1,518,724	1,302,237	4,320,763	3,715,662
Provision for Loan Losses	<u>105,000</u>	<u>240,000</u>	<u>405,000</u>	<u>820,000</u>
Net Interest Income After Provision for Loan Losses	1,413,724	1,062,237	3,915,763	2,895,662
Other Income	268,747	223,670	591,973	507,242
Other Expense	<u>1,332,760</u>	<u>1,024,869</u>	<u>3,627,301</u>	<u>2,921,069</u>
Net Income Before Federal Income Tax	349,711	261,038	880,435	481,835
Federal Income Tax Expense	<u>120,700</u>	<u>91,200</u>	<u>304,600</u>	<u>168,500</u>
Net Income	<u>\$229,011</u>	<u>\$169,838</u>	<u>\$575,835</u>	<u>\$313,335</u>
Preferred Stock Dividends and Accretion of Discount	19,641	20,962	61,565	65,248
Net Income Available to Common Shareholders	<u>\$209,370</u>	<u>\$148,876</u>	<u>\$514,270</u>	<u>\$248,087</u>

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

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8:30 a.m. – 5:30 p.m.
Saturday
9:00 a.m. – 12:00 p.m.



DOWNTOWN
BAY CITY
Dennis Dinauer
Office Manager
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Saturday
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Enhanced Cash Management Service Coming Soon

With losses from check fraud continuing to increase, fraud control is a major concern for businesses everywhere. Positive Pay is an automated fraud detection tool that will be offered as a cash management service to our business customers. The service matches the account number, check number, and dollar amount of each check presented for payment against a list of checks previously authorized and issued by the company. All three components of the check must match exactly or it will not pay. Business owners have complete control over which checks are paid and which are held for review. Positive Pay will be available to our business customers in January 2012.

eStatements Now Available

eStatements eliminates the wait and simplifies your banking with a secure and efficient way to receive your statements. You choose the method of receiving your statements electronically.

- Receive an email notice with your statement attached.
- Receive an email that notifies you when your statement is available to view using online banking.

Whether you prefer to receive your bank statements electronically or by mail, don't forget you can still combine account statements. Call or stop in to get your statements combined and begin receiving eStatements.

Club's "Inside Business" Speaker Series

1st State Bank was proud to be a sponsor of the "Inside Business" Speaker Series at the Saginaw Club in downtown Saginaw.

Business people from around the region filled the ballroom of the Saginaw Club on October 12, to hear John Nixon, Director of the State Budget Office, discuss Michigan's recovery plans.



Construction Kick Off 1st State Plaza

At the October 18 Construction Kick Off celebration, Tim Braun, Saginaw Township Supervisor, thanked the PN Investment Group and the Bank for their commitment to our community and to restoring the office complex located at 4800 Fashion Square Boulevard. The developer of this project, PN Investment Group, L.L.C., is comprised of several area businessmen, all of whom are members of 1st State Bank's board of directors.

The 1st State Plaza, formerly known as "Plaza North", is being revitalized into Class A office space and will be the corporate headquarters

for 1st State Bank, which will own and occupy the first floor.

The five story structure was built in the early 70's. Major upgrades will be made to the parking, landscape, building exterior, interior décor and mechanical-electrical systems. 1st State Bank will also construct drive-up banking on the northeast corner of the property. The updated version will provide a luxurious option to the office space market. A condominium association is being established for the site and will offer suites for lease or purchase. The Bank is looking forward to moving in spring 2012.

Events of Note

STEVENS CENTER FOR FAMILY BUSINESS

"Introduction to Emotional Intelligence: What It Is and Why It Matters in Your Family Business"

Tuesday, November 29, 2011, 7:30 a.m. at SVSU.

Contact us if you are interested in learning more about the Stevens Center for Family Business and for event reservations.

1st State Bank is a sponsor of the Stevens Center for Family Business.

