# Your Bank For Business

January 2013

Volume XV, Issue IV

**Board of Directors**

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Richard O. Goedert

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Scott L. Holman

Phillip L. List

Terry R. Niederstadt

James J. Shinners

Richard T. Watson

Lynn R. Wolgast

## *Letter from the President*

To Our Shareholders,

We are pleased to report our results for 2012. As you can see, we earned $1,261,013, an increase of nearly $550,000 over 2011. The .75% return on assets and 7.6% return on equity represent very solid returns for Valley Financial Group. Net interest income improvement, mortgage refinancing activity, and reduction in carrying costs of foreclosed properties all contributed to the improvement. Overall, the Bank grew about 4%, although loans were up only about 1% reflecting a very cautious business environment.

This year will be remembered in the Bank's history as the year we moved into our new main office, giving us the visibility and permanence we wanted. It will join other landmark dates such as the year we opened (2004) and the year we became profitable (2008). Year 2012 was also important because a large part of our mission was validated. We were recognized as one of the best small business lenders in the country by MultiFunding. Out of 7,265 banks, 1st State ranks 90th best. MultiFunding compares bank deposits to our small business loan record. We accomplished this while maintaining our Bauer Financial 5 Star rating, the highest rating available. Bauer rates the strength of banks in terms of earnings, capital and loan quality. We thank you for your support in achieving these milestones.

We are proud of the Bank's accomplishments and look forward to continued high marks in the future.

Sincerely,

Rick Goedert

## Financial Report

**CONSOLIDATED BALANCE SHEETS (unaudited)**

| **Assets** | **12/31/2012** | **12/31/2011** |
|---|---|---|
| Cash and cash equivalents | $22,241,229 | $23,764,560 |
| Investments | 12,327,308 | 8,457,216 |
| Loans, net of reserve for loan losses | 135,175,226 | 133,580,489 |
| Other assets | 10,439,439 | 8,395,530 |
| **Total Assets** | **$180,183,202** | **$174,197,795** |
| **Liabilities and Shareholders' Equity** | | |
| Deposits | $141,652,152 | $133,351,671 |
| FHLB and other borrowings | 19,846,335 | 23,212,966 |
| Other Liabilities | 1,029,718 | 1,318,754 |
| **Total Liabilities** | **162,528,205** | **157,883,391** |
| **Total Shareholders' Equity** | **17,654,997** | **16,314,404** |
| **Total Liabilities and Shareholders' Equity** | **$180,183,202** | **$174,197,795** |

**CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

| | **3 MONTHS ENDING** | | **12 MONTHS ENDING** | |
|---|---|---|---|---|
| | **12/31/2012** | **12/31/2011** | **12/31/2012** | **12/31/2011** |
| **Interest Income** | | | | |
| Investments | $60,693 | $76,367 | $254,691 | $336,411 |
| Loans | 1,967,460 | 2,008,856 | 7,741,836 | 7,768,545 |
| **Total Interest Income** | **2,028,153** | **2,085,223** | **7,996,527** | **8,104,956** |
| **Interest Expense** | | | | |
| Deposits | 252,681 | 350,052 | 1,177,480 | 1,567,660 |
| Other Borrowings | 115,385 | 157,357 | 560,034 | 638,719 |
| **Total Interest Expense** | **368,066** | **507,409** | **1,737,514** | **2,206,379** |
| **Net Interest Income** | **1,660,087** | **1,577,814** | **6,259,013** | **5,898,577** |
| Provision for Loan Losses | 165,000 | 105,000 | 435,000 | 510,000 |
| **Net Interest Income After Provision for Loan Losses** | **1,495,087** | **1,472,814** | **5,824,013** | **5,388,577** |
| **Other Income** | **318,834** | **322,713** | **1,209,479** | **914,686** |
| **Other Expense** | **1,342,746** | **1,414,702** | **5,063,779** | **5,042,003** |
| **Net Income Before Federal Income Tax** | **471,175** | **380,825** | **1,969,713** | **1,261,260** |
| Federal Income Tax Expense | 179,700 | 131,185 | 688,700 | 435,785 |
| **Net Income** | **$291,475** | **$249,640** | **$1,281,013** | **$825,475** |
| Preferred Stock Dividends and Accretion of Discount | 5,000 | 48,500 | 20,000 | 110,065 |
| **Net Income Available to Common Shareholder** | **$286,475** | **$201,140** | **$1,261,013** | **$715,410** |

# Your Bank For Business

## David Brown Promoted to Business Lender

1st State Bank is pleased to announce the promotion of David E. Brown to the position of Business Lender. In David's new role he is helping businesses and their owners in the Great Lakes Bay Region with their banking needs. As a lifelong resident of Saginaw County, David has 14 years of bank experience. Most recently he served as Senior Commercial Credit Analyst with 1st State Bank. David is an active member of the community. He is a board member of Saginaw Economic Development Corporation, a volunteer for Junior Achievement, a board member of Victorious Believers Ministries Christian Education, and an alumnus of Saginaw Valley African American Leadership Training Institute. David is a graduate of Bridgeport High School and earned his Bachelor of Science degree in Business Administration from Northwood University, Midland, Michigan.

## Remote Deposit

***Looking for a way to do banking on your time?***

**We have the solution!** 1st State Bank is now offering Remote Deposit service for business customers. No need to go to the Bank, we bring the Bank to you. Simply scan your checks at your place of business 24/7, 365 days a year. You will even get same day credit on deposits made before 7:00 PM on business days.

***Want to learn more about Remote Deposit?***

Contact Margo Winieckie at (989) 596-0821 or margow@1ststatebk.com today for more information about Remote Deposit and our complete line of Cash Management Services.

## 8th Annual RUBY Award Celebration Dinner

Please join us on Tuesday, February 19th 2013, for an evening celebrating our Great Lakes Bay Region young professionals who have made an impact in their profession. This year's recipients include:

**Brooke L. Beebe** - Director of State Government Affairs-Midwest, The Dow Chemical Company; **Jill Covyeou,** Pharm. D - Associate Professor of Clinical Pharmacy, Ferris State University College of Pharmacy; **Benjamin Denay** - Controller, Garber Management Group; **Jules Gehrke** - Special Assistant to the Provost & Associate Professor of History, SVSU; **Brad Golomuch** - Superintendent & Special Education Director, Saginaw Learn to Earn Academy & Saginaw County Transitions Academy; **Mike Grossi** - Owner, Kremin, Incorporated; **Amanda Schafer Johnson** - Board Certified Neuropsychologist/Private Practice, Bay City Neuropsychology, PLLC; **Wendy Kanar** - Partner/Attorney, Cline Close Dyer PLC; **Brian P. Klump** - Intermediates & Utilities Area Leader, Hemlock Semiconductor; **Pavel Konecny** - Senior Vice President, Senior Investment Officer, Chemical Bank; **Rachel Larimore** - Director of Education, Chippewa Nature Center; **LT Michael Major** - Lieutenant & Human Resources Officer, US Navy & Director of Career Services, SVSU; **Heather Rousseau** - Owner, SugarHigh Bakery & SugarRush Sweets & Treats; **Karla D. Witzke, DO** - Board Certified Osteopathic Surgeon, Tri City Urology Associates, P.C.

Cost: $38.00 per person, $30.00 for members of the Young Professionals Network
Tickets and further information available at: 1st State Bank, 4800 Fashion Square Blvd, Saginaw - 596.0847
& Apple Mountain Conference Center - 781.6789

## Healthcare Seminar

On December 12, 2012 1st State Bank hosted a healthcare seminar for its business customers. Approximately 50 people came to learn about the upcoming changes in health care regulation as explained by two local insurance experts. There are significant changes in the new healthcare laws and their advice was to stay in touch with your insurance agent for proper planning, as the information is constantly changing.

## Events of Note

**Steven's Center for Family Business**
Chris Eckrich of Family Business Consulting Group discusses, "How to Have More Accountability in Our Family Business"
Wednesday, February 6, 2013, 7:30 a.m., Curtis Hall, SVSU

**8th Annual RUBY Award Celebration Dinner**
Tuesday, February 19, 2013, 5:00 p.m., Apple Mountain Conference Center

**1st State Bank Annual Meeting,** Monday, May 6, 2013, 4:00 p.m., 1st State Plaza, 5th floor.

**Holiday Banking Hours** - *February 18th, President's Day - Closed*

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
Debra 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.
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