

YOUR BANK FOR BUSINESS

January 2014

Volume XVI, Issue IV



Letter from the President

To Our Shareholders,

We are pleased to report record results for 2013. Valley Financial Group, the holding company for 1st State Bank, earned \$1,410,781. This produced a return on assets of .81%, up from .73% in 2012 and nearly \$147,000 greater than last year. Total assets continued to grow 4.6% year-over-year. Loan balances grew 3.9% and deposits grew 9.3%. With a sizeable increase in deposits we were able to pay down some long term advances from the Federal Home Loan Bank. We were also able to pay off a line of credit at the holding company as well.

In 2013 we took advantage of an opportunity to expand our presence in the Bay City market. We acquired a branch on Wilder Road that was one of four that Bank of America was closing in the region. We are excited about the potential to increase our customer base in Bay County.

Our objectives for 2014 remain much like those of 2013. We will continue to provide first class personal service to our customers, grow our customer base with an emphasis on our presence in the Bay County market, and focus on net interest margin by reducing long term liabilities. There will continue to be challenges with the rate environment and regulatory requirements, but our dedicated, hardworking staff is ready to meet those challenges.

Thank you for your support. We hope to see you at the 10th Annual Shareholders Meeting on May 6, 2014.

Sincerely,

Financial Report

CONSOLIDATED BALANCE SHEETS (unaudited)

<u>Assets</u>	<u>12/31/2013</u>	<u>12/31/2012</u>
Cash and cash equivalents	\$21,404,782	\$22,241,228
Investments	15,807,308	12,252,308
Loans, net of reserve for loan losses	140,535,872	135,213,168
Other assets	10,692,775	10,460,808
Total Assets	\$188,440,737	\$180,167,512

Liabilities and Shareholders' Equity

Deposits	\$154,804,200	\$141,652,154
FHLB and other borrowings	13,722,837	19,846,335
Other liabilities	873,574	1,014,027
Total Liabilities	169,400,611	162,512,516
Total Shareholders' Equity	19,040,126	17,654,996
Total Liabilities and Shareholders' Equity	\$188,440,737	\$180,167,512

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	<u>THREE MONTHS ENDING</u>		<u>12 MONTHS ENDING</u>	
	<u>12/31/2013</u>	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2012</u>
Interest Income				
Investments	\$64,808	\$60,693	\$237,833	\$254,691
Loans	1,865,963	1,967,460	7,504,670	7,741,836
Total interest income	1,930,771	2,028,153	7,742,503	7,996,527
Interest Expense				
Deposits	221,422	252,681	915,730	1,177,480
Other borrowings	96,440	115,385	450,051	560,034
Total interest expense	317,862	368,066	1,365,781	1,737,514
Net Interest Income	1,612,909	1,660,087	6,376,722	6,259,013
Provision for loan losses	195,000	165,000	375,000	435,000
Net Interest Income After Provision for Loan Losses	1,417,909	1,495,087	6,001,722	5,824,013
Other Income	343,425	318,834	1,366,075	1,209,479
Other Expense	1,375,759	1,342,746	5,213,016	5,063,779
Net Income Before Federal Income Tax	385,575	471,175	2,154,781	1,969,713
Federal income tax expense	135,200	179,700	724,000	688,700
Net Income	\$250,375	\$291,475	\$1,430,781	\$1,281,013
Preferred stock dividends	5,000	5,000	20,000	20,000
Net Income Available to Common Shareholders	\$245,375	\$286,475	\$1,410,781	\$1,261,013

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 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

STATE STREET
Vicki Pavlik
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

**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

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

Phone: 989.439.7500
Mon. – Thurs.
9:00 a.m. – 5:00 p.m.
Friday
9:00 a.m. – 6:00 p.m.
Saturday
9:00 a.m. – 12:00 p.m.
ATM 24/7

9th Annual RUBY Award Celebration Dinner

Please join us on Tuesday, February 25, 2014, for an evening celebrating our Great Lakes Bay Region young professionals who have made an impact in their profession. This year's recipients include:

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 Cribbley-Wahl** – Director of Operations/Co-Owner, Cobblestone Homes; **Cale Wasserman** – Head Coach Men's Soccer, Saginaw Valley State University; **Charles Zimmer** – Global High Performance Insulation Business Director, Dow Corning Corporation.

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

1st State Bank Now Open on Wilder Road, Bay City



1st State Bank's new Wilder Road branch in Bay City officially opened with a ribbon cutting ceremony on December 11, 2013. Board members, employees, and Bay Area Chamber of Commerce representatives were on hand for the event. The office actually began conducting business on November 18, 2013, just two days after taking possession of the former Bank of America building. President Rick Goedert remarked, "We have strong ties to this business district. We look forward to developing relationships with our neighbors and demonstrating 1st State Bank's commitment to outstanding customer service."

Bank Employees Participate in "Casual for a Cause"

Periodically the Bank allows employees to wear jeans for a day for a \$5.00 donation to it's Casual for a Cause program. The funds are then donated to a charitable organization. Beginning in September, Jean Day funds were earmarked for Christmas giving. Over \$500 was raised and Collections for Christmas (C4C), a charity in Bay City, connected 1st State Bank with a family in need. The Jeans Day funds, supplemented with donations from generous staff members, were used to provide the family with necessities such as boots and gloves, as well as toys and games. We were pleased to be able to brighten this family's holiday and look forward to touching more lives through our Casual for a Cause program in 2014.

◀ Events of Note ▶

Steven's Center for Family Business

"It's easier to manage the business than it is to manage the family."
Thursday, February 13, 2014, Curtis Hall 7:30 - 9:00 a.m.

9th Annual RUBY Award Celebration Dinner

Tuesday, February 25, 2014, 5:00 p.m., Apple Mountain Conference Center

1st State Bank Annual Meeting

Tuesday, May 6, 2014, 4:30 p.m., Bay City Country Club

Holiday Banking Hours - Monday, February 17th, President's Day
Closed - Employee In-service Day

BAUER FINANCIAL, Inc.

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

