



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Valley Financial Group, Ltd. (1st State Bank)

Person to be contacted regarding this report:	James R. Milroy
UST Sequence Number:	1310
CPP Funds Received:	1,300,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Dec 18, 2009
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	3223293
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	57626
City:	Saginaw
State:	Michigan

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	VFG closed its CPP transaction on December 18, 2009. No specific actions were taken in the 13 days the funds were available in 2009. However, the company anticipates utilizing the funds to continue to increase lending while maintaining desired capital adequacy levels.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Approximately 80% of 1st State Bank's total loans are comprised of loans to small businesses. Serving local business customers is the bank's primary focus. Anticipated growth in total loans would continue to be dominated by loans to small businesses.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	The bank anticipates potential leveraging of the CPP funds with approximately \$10 million of loan growth. It anticipates this occurring over a 1.5 to 2 year time frame. During the interim, the bank anticipates an increase in short-term investments until loan opportunities are realized.

<input type="checkbox"/> Make other investments	
<input type="checkbox"/> Increase reserves for non-performing assets	
<input type="checkbox"/> Reduce borrowings	
<input type="checkbox"/> Increase charge-offs	
<input type="checkbox"/> Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/> Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

Again, due to the timing of the CPP transaction, no specific actions were avoided in 2009. Without the availability of the CPP, the company would have had to consider slowing the growth of the bank in future years in order to maintain desired capital levels. VFG (1st State Bank) is a de novo organization formed in April of 2004. In approximately 5.5 years, the bank has been able to grow its total loan portfolio to approximately \$122 million serving small business customers within its market area. The bank continues to see opportunities for continued growth in the market given the current competitive environment and its focus on small businesses. The CPP funding will allow the bank to continue to take advantage of these opportunities.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The bank will be able to continue to take advantage of loan opportunities within its market area while maintaining desired capital levels.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.