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NASHVILLE BANK & TRUST®

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April 9, 2011

Dear Shareholder:

Nashville Bank and Trust enjoyed another year of growth and increased profitability in 2010. Despite lingering economic weakness, high unemployment and tepid demand for loans, we have delivered another year of solid financial performance in both our banking and wealth management businesses. Total assets increased by 12.6% in 2010 to $206.6 million at the end of the year compared to December 31, 2009. Net Income more than doubled, reaching $1.3 million. Fully diluted earnings per share climbed to $0.61 from $0.29 a year ago.

Net interest income grew to $6.3 million, up 28.6% from 2009. Non interest income increased 24% to $3.4 million. Deposits grew by 7.6% during 2010, while the bank's loans increased by 11.0% to $151.5 million. Loan growth was strong in the first half of 2010, but we saw demand weaken in the second half and remain very moderate into early 2011. The bank has a proud history of strong credit quality: we ended the year with no seriously delinquent loans and no foreclosed real estate. Weak credit quality is the greatest threat to the capital with which our shareholders have entrusted us. We will not grow at the expense of credit quality; we are shareholders too.

In 2010, our Trust and Wealth Management business also continued its strong and steady growth. Revenue in this business increased by 26.1% to $3.0 million and once again comprised the bulk of the bank's non interest income. There aren't many banks in the United States who derive such a high percentage of revenue from asset management, and only an elite few less than ten years old. Strong markets provided some wind at our back in 2010, but we continue to win new wealth management business from discerning people who require expert, confidential care for their most valuable assets and relationships.

We ended the year with a solid capital position. Our Tier 1 leverage ratio in the bank was 10.0%, double the FDIC's minimum threshold for a "well-capitalized bank". We returned 6% on book equity capital for the year, twice the return we made in 2009. Continuing to grow our returns on equity capital is among our highest priorities for the coming years.

Banks reflect, in part, the economies in which they operate. We are blessed to be located in Middle Tennessee, where a diversified economy and a business friendly political environment prevail. But business confidence and optimism are returning slowly after a recession that was engendered by excessive leverage. We expect loan growth to be moderate for the coming year.

Our bank is blessed above all with outstanding people. Our clients can choose among many banks – but they won't find people like ours elsewhere – experienced, knowledgeable, friendly and eager to serve. This staff has built a solid business with the base of capital the shareholders provided. We are poised for continued, careful growth.

We thank you again for your continued support.

Charles W. Cook , Jr.
Chairman of the Board

Thomas S. Stumb
President and Chief Executive Officer

NBT HOLDINGS INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

NBT HOLDINGS INC. AND SUBSIDIARY
Nashville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
NBT Holdings Inc. and Subsidiary
Nashville, Tennessee

We have audited the consolidated balance sheets of NBT Holdings Inc. and Subsidiary as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NBT Holdings Inc. and Subsidiary as of December 31, 2010 and 2009 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

Brentwood, Tennessee
March 23, 2011

NBT HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and due from financial institutions	$ 6,434,356	$ 4,027,197
Interest bearing deposits in other financial institutions	4,226,639	120,703
Federal funds sold	7,450,943	7,835,348
Cash and cash equivalents	18,111,938	11,983,248
Time deposits in other financial institutions	17,805,000	23,959,000
Securities available for sale	17,823,583	9,480,974
Gross loans	151,517,591	136,492,461
Allowance for loan losses	(2,191,049)	(1,783,809)
Net loans	149,326,542	134,708,652
Restricted equity securities	1,360,350	1,042,700
Premises and equipment, net	232,188	179,213
Accrued interest receivable	513,535	456,245
Prepaid long-term compensation	346,388	498,721
Prepaid FDIC insurance assessments	448,219	613,487
Deferred tax asset, net	323,589	389,671
Other assets	214,094	182,137
Total assets	$ 206,505,426	$ 183,494,048
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 30,969,585	$ 23,033,545
Interest bearing	136,090,258	132,199,658
Total deposits	167,059,843	155,233,203
Federal Home Loan Bank advances	15,250,000	6,228,687
Accrued interest payable	56,284	76,201
Other liabilities	1,145,206	725,944
Total liabilities	183,511,333	162,264,035
Shareholders' equity		
Preferred stock, $0.10 par value; 5,000,000 shares authorized; no shares issued in 2010 and 2009	-	-
Common stock, $0.10 par value; 40,000,000 shares authorized; 2,201,645 shares issued in 2010 and 2,151,645 in 2009	220,165	215,165
Additional paid-in capital	21,540,037	21,125,195
Retained earnings (accumulated deficit)	1,234,903	(86,928)
Accumulated other comprehensive income (loss)	(1,012)	(23,419)
Total shareholders' equity	22,994,093	21,230,013
Total liabilities and shareholders' equity	$ 206,505,426	$ 183,494,048

See accompanying notes to financial statements.

NBT HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2010 and 2009

	2010	2009
Non-interest income		
Wealth management services	$ 2,986,996	$ 2,368,631
Service charges on deposit accounts	154,048	143,218
Gain on securities	82,545	-
Other	148,841	213,807
Total non-interest income	3,372,430	2,725,656
Interest income		
Loans, including fees	7,896,676	6,401,986
Taxable securities	292,130	85,114
Tax-exempt securities	11,159	-
Interest bearing deposits	494,196	572,260
Federal funds sold	20,065	12,153
Total interest income	8,714,226	7,071,513
Interest expense		
Deposits	1,761,325	1,897,488
Short-term borrowings	1,847	1,725
Long-term borrowings	214,689	63,548
Total interest expense	1,977,861	1,962,761
Net interest income	6,736,365	5,108,752
Provision for loan losses	407,240	185,706
Net interest income after provision for loan losses	6,329,125	4,923,046
Total revenue, net	9,701,555	7,648,702
Non-interest expense		
Salaries and employee benefits	5,227,438	4,281,218
Occupancy	308,203	249,519
Furniture and equipment	36,258	68,344
Data processing	520,966	445,906
Wealth management processing fees	290,039	266,513
Advertising and public relations	98,804	116,569
Professional services	369,068	381,969
FDIC insurance assessments	192,191	288,972
Other	516,267	503,402
Total non-interest expense	7,559,234	6,602,412
Income before income taxes	2,142,321	1,046,290
Income tax expense	820,490	413,402
Net income	$ 1,321,831	$ 632,888
Earnings per share:		
Basic	$ 0.61	$ 0.29
Diluted	$ 0.61	$ 0.29

See accompanying notes to financial statements.

NBT HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2010 and 2009

	Shares	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2009	2,151,645	$ 215,165	$21,010,273	$ (719,816)	$ 15,817	$20,521,439
Stock based compensation expense	-	-	114,922	-	-	114,922
Comprehensive income (loss):						
Net income	-	-	-	632,888	-	632,888
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	(39,236)	(39,236)
Total comprehensive income						593,652
Balance at December 31, 2009	2,151,645	215,165	21,125,195	(86,928)	(23,419)	21,230,013
Proceeds from insuance of common stock	30,000	3,000	297,000	-	-	300,000
Issuance of restricted shares of common stock	20,000	2,000	(2,000)	-	-	-
Stock based compensation expense	-	-	119,842	-	-	119,842
Comprehensive income:						
Net income	-	-	-	1,321,831	-	1,321,831
Change in unrealized gain (loss) on securities available for sale, net of tax	-	-	-	-	22,407	22,407
Total comprehensive income						1,344,238
Balance at December 31, 2010	2,201,645	$ 220,165	$21,540,037	$ 1,234,903	$ (1,012)	$22,994,093

See accompanying notes to financial statements.

NBT HOLDINGS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income	$ 1,321,831	$ 632,888
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	100,859	116,457
Net amortization of securities	36,925	5,806
Deferred income tax expense	52,179	65,345
Provision for loan losses	407,240	185,706
Gain on securities	(82,545)	-
Stock based compensation expense	119,842	114,922
Net change in:		
Accrued interest receivable	(57,290)	(86,002)
Accrued interest payable	(19,917)	(23,516)
Prepaid long-term compensation	152,333	70,334
Prepaid FDIC insurance assessments	165,268	(613,487)
Other assets	(31,957)	330,979
Other liabilities	419,262	418,064
Net cash from operating activities	2,584,030	1,217,496
Cash flows from investing activities		
Net (increase) decrease in time deposits in other financial institutions	6,154,000	(2,539,581)
Proceeds from Reserve Primary Fund investment	273,159	503,162
Available for sale securities:		
Purchases	(9,088,463)	(8,467,005)
Maturities, calls and paydowns	432,969	710,798
Sales	121,656	-
Net increase in loans	(15,025,130)	(8,680,086)
Purchase of restricted equity securities	(317,650)	(673,200)
Additions of premises and equipment, net	(153,834)	(43,051)
Net cash from investing activities	(17,603,293)	(19,188,963)
Cash flows from financing activities		
Net change in federal funds purchased	-	(6,000,000)
Proceeds from Federal Home Loan Bank advances	10,000,000	6,250,000
Repayments of Federal Home Loan Bank advances	(978,687)	(21,313)
Net increase in deposits	11,826,640	25,214,871
Proceeds from issuance of common stock	300,000	-
Net cash from financing activities	21,147,953	25,443,558
Net change in cash and cash equivalents	6,128,690	7,472,091
Cash and cash equivalents at beginning of year	11,983,248	4,511,157
Cash and cash equivalents at end of year	$ 18,111,938	$ 11,983,248
Supplemental cash flow information:		
Cash paid during year for interest	$ 1,997,779	$ 1,986,277
Cash paid during year for income taxes	689,375	217,298

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principals of Consolidation: The consolidated financial statements include NBT Holdings Inc. and its wholly owned subsidiary, Nashville Bank and Trust Company (the "Bank"), together referred to as "the Corporation." Intercompany transactions and balances are eliminated in consolidation.

The Bank received its charter as a state bank with trust powers and began operating on August 30, 2004. The Bank represents substantially all the operations in the consolidated financial statements and it provides a variety of banking, investment management and trust administration services to individuals, businesses and charitable institutions. Its primary deposit products are demand, money market and certificates of deposit and its primary lending products are residential and commercial real estate mortgages, commercial loans and loans to individuals.

Share Exchange: During July 2009, NBT Holdings Inc. was formed and the existing shares of common stock for Nashville Bank and Trust Company were acquired and exchanged for common shares in NBT Holdings Inc. Since the entities are under common control, the reorganization was accounted for at historical cost and presented as if the transaction occurred at the beginning of the earliest period shown.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosure through March 23, 2011 which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses and fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities under 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Time Deposits in Other Financial Institutions: Time deposits in other financial institutions are carried at cost. These accounts are maintained at several financial institutions and are all within the insurance limits provided by the Federal Deposit Insurance Corporation.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holding gains and losses reported in accumulated other comprehensive income (loss).

Interest income includes net amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Corporation's policy, typically after 90 days of non-payment.

All interest accrued, but not received, for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk: Most of the Corporation's business activity is with customers located within Nashville, Tennessee. Therefore, the Corporation's exposure to credit risk is significantly affected by changes in the economy in the Nashville, Tennessee metropolitan area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer loans are collectively evaluated for impairment and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective rate at inception.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the average loss history experienced by the banking industry over the most recent 25 years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Residential Real Estate Mortgages (Open End and Closed End), Commercial Residential Mortgages, Consumer Loans, Commercial Loans (non-real estate secured), Owner Occupied Construction and Speculative Construction & Land Development. The risk associated with the Construction portfolio segment is most directly tied to the probability of declines in the value of residential and commercial real estate in the Corporation's market area and secondarily to the financial capacity of the borrower. The other six portfolio segments have various risk characteristics associated with: i) the borrower's cash flow, ii) the value of the Corporation's collateral and iii) the capacity of guarantors.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation. Leasehold improvements are depreciated using the straight-line method over the shorter of the lease terms and the useful lives of the fixed assets. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from three to five years.

Restricted Equity Securities: The Corporation is a member of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) system. Members are required to own a certain amount of stock based on the level of borrowings and on their level of equity. FHLB and FRB stock is carried at cost, classified as a restricted equity security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Prepaid Long-term Compensation: The Corporation paid retention bonuses in cash to certain key employees. These cash bonuses are considered long-term compensation to be earned over a 36 to 60 month requisite service period. The amount of the contracts is earned prorata by the employees and expensed prorata by the Corporation over the contractual term of the agreements. In the event that the employee leaves during the life of the contract, the employee is obligated to repay the unearned amount.

Long-term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Wealth Management Services Income Recognition: Income from Wealth Management Services is calculated by multiplying each investment management account's market value, determined on a specific date each month, by a static or tiered percentage, according to the investment management agreement. The income resulting from Wealth Management Services accounts is recognized monthly.

Stock-Based Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees and directors, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes: Income tax expense or benefit is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans: Employee 401(k) benefit plans expense is the amount of matching contributions for the period.

Earnings Per Share: Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe that there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Corporation or by the Corporation to shareholders.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Off Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded as loans when they are funded.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to current presentation.

NOTE 2 - SECURITIES

The following table summarizes the amortized cost and fair value of the available for sale securities portfolio at December 31, 2010 and 2009 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. government sponsored entities and agencies	$ 6,919,274	$ 102,437	$ (19,404)	$ 7,002,307
Mortgage-backed securities: residential	3,825,450	31,054	(70,220)	3,786,284
Collateralized mortgage obligations	121,353	6,001	-	127,354
Corporate bonds	3,527,321	72,212	(17,418)	3,582,115
State and political subdivisions	3,431,825	36	(106,338)	3,325,523
Total available for sale	$ 17,825,223	$ 211,740	$ (213,380)	$ 17,823,583
2009				
Available for sale				
U.S. government sponsored entities and agencies	$ 5,930,901	$ 321	$ (61,338)	$ 5,869,884
Mortgage-backed securities: residential	643,106	23,461	-	666,567
Collateralized mortgage obligations	216,082	9,346	-	225,428
Money market fund	195,162	-	-	195,162
Corporate bonds	2,533,674	314	(10,055)	2,523,933
Total available for sale	$ 9,518,925	$ 33,442	$ (71,393)	$ 9,480,974

Sales of available for sale securities were as follows:

	2010	2009
Proceeds	$ 121,656	$ -
Gross gains	4,548	-
Gross losses	-	-

NOTE 2 – SECURITIES (Continued)

The Corporation had an investment in a money market fund (Primary Liquidity Class I) with a company called The Reserve, which invested a portion of the assets in Lehman Brothers commercial paper. In connection with the bankruptcy of Lehman Brothers, the Corporation recognized an impairment loss of $114,972 in 2008 due to the defaulted commercial paper held in the fund. During 2010, the Corporation recovered $273,159 resulting in a gain of $77,997 related to the previously recognized impairment loss.

There were no securities pledged at year end 2010 and 2009 and no holdings of securities of any one issuer, other than the U.S. government sponsored entities and agencies, in an amount greater than 10% of shareholders' equity.

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
One to five years	$ 4,277,509	$ 4,369,126	$ 3,527,905	$ 3,515,739
Five to ten years	7,491,394	7,496,573	4,936,670	4,878,078
Beyond ten years	2,109,517	2,044,246	-	-
Money market fund	-	-	195,162	195,162
Mortgage-backed securities: residential and collateralized mortgage obligations	3,946,803	3,913,638	859,188	891,995
Total	$ 17,825,223	$ 17,823,583	$ 9,518,925	$ 9,480,974

The following table summarizes the investment securities with unrealized losses at December 31, 2010 and 2009 aggregated by major security type and length of time in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2010						
Available for sale						
U.S. government sponsored entities and agencies	$ 480,596	$ (19,404)	$ -	$ -	$ 480,596	$ (19,404)
Mortgage back securities: residential	3,354,083	(70,220)	-	-	3,354,083	(70,220)
Corporate bonds	982,582	(17,418)	-	-	982,582	(17,418)
State and political subdivisions	3,117,028	(106,338)	-	-	3,117,028	(106,338)
Total available for sale	$ 7,934,289	$(213,380)	$ -	$ -	$ 7,934,289	$(213,380)

NOTE 2 – SECURITIES (Continued)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2009						
Available for sale						
U.S. government sponsored entities and agencies	$ 4,608,478	$ (61,338)	$ -	$ -	$ 4,608,478	$ (61,338)
Corporate bonds	496,608	(10,055)	-	-	496,608	(10,055)
Total available for sale	$ 5,105,086	$ (71,393)	$ -	$ -	$ 5,105,086	$ (71,393)

As of December 31, 2010, the Corporation's security portfolio consisted of 39 securities, 20 of which were in an unrealized loss position. Unrealized losses on securities have not been recognized into income because the issuer(s) are of high credit quality, management does not intend to sell and it is more likely than not that management would not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates and illiquidity instead of credit quality. The fair value is expected to recover as the securities approach their maturity dates and/or market rates change. As a result, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2010.

NOTE 3 - LOANS

Loans at year end were as follows:

	2010	2009
Commercial	$ 28,348,063	$ 31,246,453
Real estate:		
Residential open-end	36,448,679	40,978,737
Residential closed-end	49,694,696	40,046,945
Commercial	19,982,147	13,089,939
Construction		
Owner occupied	2,015,088	1,134,289
Development	5,652,009	5,087,582
Consumer	9,344,924	4,849,479
Subtotal	151,485,606	136,433,424
Net deferred loan costs	31,985	59,037
Gross loans	$ 151,517,591	$ 136,492,461

As of December 31, 2010 and 2009, the Corporation did not have any loans classified as impaired, nonperforming, past due 90 days or more, or troubled debt restructurings as of December 31, 2010 and 2009.

Activity in the allowance for loan losses was as follows:

	2010	2009
Beginning balance	$ 1,783,809	$ 1,598,103
Provision for loan losses	407,240	185,706
Loans charged-off	-	-
Recoveries	-	-
Ending balance	$ 2,191,049	$ 1,783,809

NOTE 3 - LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010. The recorded investment amounts do not include accrued and unpaid interest or any deferred loan fees or costs.

	Commercial	Commercial Real Estate	Residential Real Estate Closed End	Residential Real Estate Opened End	Construction Owner Occupied	Construction Development	Consumer	Unallocated	Total
Allowance for loan losses:									
Ending allowance balance attributable to loans:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	654,839	337,696	447,255	328,041	38,990	130,561	115,386	138,281	2,191,049
Total ending allowance balance	$ 654,839	$ 337,696	$ 447,255	$ 328,041	$ 38,990	$ 130,561	$ 115,386	$ 138,281	$ 2,191,049
Loans:									
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	28,348,063	19,982,147	49,694,696	36,448,679	2,015,088	5,652,009	9,344,924	-	151,485,606
Total ending loans balance	$ 28,348,063	$ 19,982,147	$ 49,694,696	$ 36,448,679	$ 2,015,088	$ 5,652,009	$ 9,344,924	$ -	$ 151,485,606

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on an annual basis. The Corporation uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful
Commercial	$ 25,705,881	$ -	$ 2,642,182	$ -
Real estate:				
Residential open-end	35,064,499	707,066	677,114	-
Residential closed-end	49,694,696	-	-	-
Commercial	19,982,147	-	-	-
Construction owner occupied	1,831,519	183,569	-	-
Construction development	5,212,855	-	439,154	-
Consumer	9,103,625	241,299	-	-
Total	$ 146,595,222	$ 1,131,934	$ 3,758,450	$ -

NOTE 4 - PREMISES AND EQUIPMENT

Year end premises and equipment were as follows:

	2010	2009
Leasehold improvements	$ 225,945	$ 168,395
Furniture, fixtures and equipment	511,997	436,532
Computer software	289,996	269,177
	1,027,938	874,104
Less: Accumulated depreciation and amortization	795,750	694,891
Net premises and equipment	$ 232,188	$ 179,213

NOTE 4 - PREMISES AND EQUIPMENT (Continued)

Depreciation and amortization expense totaled $100,859 and $116,457 for 2010 and 2009, respectively.

The Corporation's main office facility is subject to a three year lease, terminating December 31, 2012. The lease agreement includes one renewal option of three years. Rent expense for 2010 and 2009 was $236,333 and $203,401.

Rent commitments under non-cancelable operating leases were as follows, before considering renewal options that are present.

2011	$ 253,923
2012	253,923

The Corporation had operating leases for property and equipment that have non-cancelable lease commitments as follows: $63,679 for 2011 and $33,135 for 2012 and $12,027 for 2013. These leases have terms of three years and resulted in lease expense of $85,288 and $84,754 for the years ending December 31, 2010 and 2009.

NOTE 5 - DEPOSITS

Scheduled maturities of time deposits for the next five years were as follows:

2011	$ 24,964,228
2012	8,390,570
2013	3,976,089
2014	663,413
2015	797,761

Time deposits of $100,000 or more were $29,176,091 and $31,076,642 at December 31, 2010 and 2009, respectively.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2010 and 2009, advances from the Federal Home Loan Bank were as follows:

	2010	2009
For 2009, interest rates ranged from 1.54% to 3.72% with maturities between July 29, 2011 and July 1, 2016. For 2010, rates range from 0.45% to 2.94% with maturities between January 4, 2011 and August 4, 2015.	$ 15,250,000	$ 6,228,687

The advances are subject to penalties if repaid before scheduled payments are due. The Corporation's outstanding borrowings from the Federal Home Loan Bank are secured by a blanket pledge agreement of 150% of 1-4 family loans, first lien mortgage loans. The Corporation has approximately $89,521,000 of 1-4 family, first mortgage loans available to pledge under the blanket pledge arrangement dated March 16, 2006. Based on the collateral and the Corporation's holdings of Federal Home Loan Bank Stock, the Corporation is eligible to borrow additional advances of $7,044,050 as of December 31,2010.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES (Continued)

Payments over the next five years are as follows:

2011	$ 1,750,000
2012	3,750,000
2013	6,750,000
2014	1,000,000
2015	2,000,000
	$ 15,250,000

NOTE 7 - INCOME TAXES

Income tax expense was as follows:

	2010	2009
Current expense		
Federal	$ 620,044	$ 308,534
State	148,267	39,523
Total current	768,311	348,057
Deferred expense		
Federal	60,846	33,361
State	(8,667)	31,984
Total deferred	52,179	65,345
Total	$ 820,490	$ 413,402

Effective tax rates differ from federal statutory rate of 34% applied to income before income taxes due to the following:

	2010	2009
Federal statutory rate times financial statement income	$ 728,389	$ 355,739
Effect of:		
State taxes, net of federal benefit	92,136	47,195
Other, net	(35)	10,468
Total income tax expense	$ 820,490	$ 413,402

NOTE 7 - INCOME TAXES (Continued)

Year-end deferred tax assets and liabilities were due to the following:

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 643,700	$ 606,807
Organizational and start-up expenditures	11,593	15,596
AMT credit carryforward	-	45,350
Origination income	38,249	35,839
Deferred lease incentive	16,018	23,385
Net unrealized loss on available for sale securities	628	14,531
Other	8,341	45,513
Total deferred tax assets	718,529	787,021
Deferred tax liabilities:		
Prepaid expenses	(148,810)	(210,012)
Stock compensation expense	(131,508)	(97,656)
Restricted equity stock dividends	(9,643)	(9,643)
Origination expenses	(50,496)	(58,444)
Depreciation	(54,483)	(21,595)
Total deferred tax liabilities	(394,940)	(397,350)
Deferred tax asset, net	$ 323,589	$ 389,671

The Corporation does not have any uncertain tax positions and does not have any interest and penalties recorded in the income statement for the years ended December 31, 2010 and 2009. The Corporation and its subsidiary are subject to U.S. federal income tax as well as income tax of the state of Tennessee. The Corporation is no longer subject to examination by taxing authorities for years before 2007.

NOTE 8 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors and their affiliates at December 31, 2010 and 2009 totaled $4,638,218 and $3,905,550, respectively.

Deposits from principal officers, directors and their affiliates at December 31, 2010 and 2009 totaled $1,694,560 and $1,457,167, respectively.

Wealth management fees earned from assets under management for principal officers, directors and their affiliates at December 31, 2010 and 2009 totaled $228,197 and $191,006, respectively.

NOTE 9 - REGULATORY CAPITAL MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of December 31, 2010, the Bank meets all capital adequacy requirements to which it is subject.

NOTE 9 - REGULATORY CAPITAL MATTERS (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion and capital restoration plans are required. As of December 31, 2010 and 2009, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (shown in thousands) and ratios for the Bank are presented below as of December 31, 2010 and 2009.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2010						
Total Capital to risk weighted assets	$ 24,641	15.69%	$ 12,562	8.00%	$ 15,702	10.00%
Tier 1 (Core) Capital to risk weighted assets	22,675	14.44%	6,281	4.00%	9,421	6.00%
Tier 1 (Core) Capital to average assets	22,675	9.99%	9,081	4.00%	11,352	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2009						
Total Capital to risk weighted assets	$ 22,998	15.99%	$ 11,506	8.00%	$ 14,383	10.00%
Tier 1 (Core) Capital to risk weighted assets	21,214	14.75%	5,753	4.00%	8,630	6.00%
Tier 1 (Core) Capital to average assets	21,214	12.14%	6,990	4.00%	8,737	5.00%

Dividend Restrictions - The Corporation's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2011, the Bank could, without prior approval, declare dividends of approximately $1,955,000 plus any 2011 net profits retained to date of declaration.

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others as long as conditions established in the contract are met. In addition, these agreements usually have expiration dates, and the commitments may expire without being used.

Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans including obtaining collateral at the exercise of the commitment. The majority of the Corporation's commitments to extend credit has maturities less than one year and reflects the prevailing market interest rates at the time of the commitment.

The contractual amount of financial instruments with off-balance sheet risk was as follows at December 31:

	2010	2009
Letters of Credit	$ 1,344,910	$ 915,660
Unused Lines of Credit	43,502,297	51,444,735

NOTE 11 - STOCK COMPENSATION PLAN

Total stock compensation expenses in 2010 and 2009 were $119,842 and $114,922, respectively. Related to the 2010 restricted stock grant, some employees made an election, in accordance with Section 83(b) of the Internal Revenue Code, to have the fair value of the awards taxable immediately. In connection with the election, the Corporation allowed the employees to forfeit shares to cover the related personal tax obligation, which resulted in forfeiting 3,175 shares with a fair value of $31,750. This amount was recorded in salaries and employee benefits on the Corporation's consolidated statement of operations in 2010.

The Corporation's 2008 Equity Incentive Plan provides for the grant of stock options, restricted stock and other equity based incentives up to 600,000 shares. As of December 31, 2010, the Corporation had issued grants totaling 454,425 shares under the 2008 Equity Incentive Plan and its predecessor, the 2004 Employee Share Option Plan.

<u>Stock Option Grants</u>

Option awards are granted with an exercise price equal to the market price of the Corporation's common stock at the date of grant. Option awards have vesting periods of one to three years and have 10-year contractual terms. The Corporation uses newly-issued shares to satisfy share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on the average share price volatilities of publicly traded Mid-South community banks. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding taking into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

NOTE 11 - STOCK COMPENSATION PLAN (Continued)

The Corporation issued non-qualified options for the purchase of 3,500 shares of common stock to outside directors in 2010. The fair value of options granted in 2010 was determined using the following assumptions as of grant date:

	2010
Risk-free interest rate	2.46%
Expected term	6 years
Expected stock price volatility	41.7%
Dividend yield	0%

A summary of the stock option activity for 2010 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	266,250	$ 10.25		
Granted	3,500	10.00		
Forfeited	-	-		
Exercised	-	-		
Outstanding at end of year	269,750	$ 10.25	4.3	n/a
Vested or expected to vest	269,750	$ 10.25	4.3	n/a
Exercisable at end of year	254,500	$ 10.25	4.3	n/a

Information related to stock options during each year follows:

	2010	2009
Intrinsic value of options exercised	$ -	$ -
Cash received from option exercises	$ -	$ -
Tax benefit realized from option exercises	$ -	$ -
Weighted average fair value of options granted	$ 4.36	$ -

There was a total of $15,767 unrecognized compensation cost related to non-vested stock options granted under the Plan as of December 31, 2010. The cost is expected to be recognized over a weighted-average period of 3.5 years.

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NOTE 11 - STOCK COMPENSATION PLAN (Continued)

Restricted Stock Grants

In 2010, the Corporation issued restricted shares of common stock. Compensation expense is recognized over the vesting period of the awards based on the value of the stock at issue date. The fair value of the stock was determined by a third party appraisal. These shares vest in 20% increments through 2015.

A summary of the changes in the Corporation's non-vested shares for the year follows:

Non-vested shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2010	27,760	$ 10.50
Granted	23,175	10.00
Vested	(6,940)	10.50
Forfeited	(3,175)	-
Non-vested at December 31, 2010	40,820	$ 10.26

As of December 31, 2010, there was $366,780 of total unrecognized compensation cost related to non-vested restricted shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.5 years.

NOTE 12 - STOCK WARRANTS

Warrants for the purchase of 100,000 shares of common stock at $10 per share were granted to the organizers of the Corporation, eight of which are also executive officers or directors. No warrants were exercised in 2010 or 2009. As of December 31, 2010, 100,000 warrants were outstanding and exercisable, with weighted average exercise price of $10.00 and weighted average remaining contractual term of 3.7 years. The outstanding and exercisable warrants had no intrinsic value as of December 31, 2010.

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated using a matrix pricing model, which is based on market prices of similar securities (Level 2).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2010 Using:		
Financial Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investment securities available for sale			
U.S. government sponsored agencies	$ 7,002,307	$ -	$ 7,002,307
Mortgage backed securities - residential	3,786,284	-	3,786,284
Collateralized mortgage obligations	127,354	-	127,354
Money market fund	-	-	-
State and political subdivisions	3,325,523	-	3,325,523
Corporate bonds	3,582,115	-	3,582,115
Total investment securities available for sale	$ 17,823,583	$ -	$ 17,823,583

There were no significant transfers between Level 1 and Level 2 during 2010.

	Fair Value Measurements at December 31, 2009 Using:		
Financial Assets	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable\ Inputs (Level 2)
Investment securities available for sale			
U.S. government sponsored agencies	$ 5,869,884	$ -	$ 5,869,884
Mortgage backed securities - residential	666,567	-	666,567
Collateralized mortgage obligations	225,428	-	225,428
Money market fund	195,162	-	195,162
Corporate bonds	2,523,933	-	2,523,933
Total investment securities available for sale	$ 9,480,974	$ -	$ 9,480,974

NOTE 13 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Carrying amount and estimated fair values of financial instruments, at year end were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 18,111,938	$ 18,111,938	$ 11,983,248	$ 11,983,248
Interest bearing deposits	17,805,000	18,402,211	23,959,000	23,911,084
Securities available for sale	17,823,583	17,823,583	9,480,974	9,480,974
Loans, net	149,326,542	147,861,597	134,708,652	133,248,846
Restricted equity securities	1,360,350	n/a	1,042,700	n/a
Accrued interest receivable	513,535	513,535	456,245	456,245
Financial liabilities				
Deposits	$ 167,059,843	$ 162,272,291	$ 155,233,203	$ 150,784,575
Federal Home Loan Bank advances	15,250,000	15,120,000	6,228,687	6,329,463
Accrued interest payable	56,284	56,284	76,201	76,201

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of Federal Home Loan Bank advances is based on current rates for similar financing. It was not practicable to determine the fair value of restricted equity securities due to restrictions placed on transferability.

NOTE 14 - OTHER BENEFIT PLANS

In 2005, the Corporation adopted a 401(k) benefit plan that covers all employees who meet certain eligibility requirements and choose to participate in the plan. The plan allows employee contributions up to 15% of their compensation, which are matched dollar for dollar for the first 3% employee contribution, 3 ½% matched on 4% contribution, 4% matched on 5% contribution beginning on the first day of the calendar quarter following the employee's one year anniversary. The 401(k) benefit plan expense for 2010 and 2009 was $108,599 and $91,270, respectively.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share available to common shareholders is computed by dividing net income adjusted for income allocated to participating securities by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per share available to common shareholders reflects the potential dilution that could occur if stock options to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

NOTE 15 – EARNINGS PER SHARE (Continued)

The factors used in the earnings per share computation follows:

	2010	2009
Basic		
Net income	$ 1,321,831	$ 632,888
Less: Undistributed income allocated to participating securities	(24,831)	(8,165)
Net earnings allocated to common stock	$ 1,297,000	$ 624,723
Weighted common shares outstanding including participating securities	2,172,960	2,151,645
Less: Participating securities	(40,820)	(27,760)
Weighted average shares	2,132,140	2,123,885
Basic earnings per share	$ 0.61	$ 0.29
Diluted earnings allocated to common stock	$ 1,297,000	$ 624,723
Weighted average shares	2,132,140	2,123,885
Add: Diluted effects of assumed exercises of stock options	-	-
Average shares and dilutive potential common shares	2,132,140	2,123,885
Dilutive earnings per share	$ 0.61	$ 0.29

At year end 2010 and 2009, there were 269,750 and 266,250 stock options that were considered antidilutive and were excluded from the diluted earnings per common share calculation.