Huron Community Financial Services, Inc.

Consolidated Financial Report
December 31, 2010

Contents

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Independent Auditor's Report

To the Board of Directors and Stockholders
Huron Community Financial Services, Inc.

We have audited the accompanying consolidated balance sheet of Huron Community Financial Services, Inc. (the "Corporation") as of December 31, 2010 and 2009 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 consolidated financial position of Huron Community Financial Services, Inc. at December 31, 2010 and 2009 and the consolidated results of its operations, changes in stockholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 31, 2011

Huron Community Financial Services, Inc.

Consolidated Balance Sheet
(000s omitted, except per share data)

	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 1,753	$ 10,823
Federal funds sold	12,551	35
Total cash and cash equivalents	14,304	10,858
Interest-bearing deposits in banks	2,087	-
Investment securities - Available for sale (Note 2)	20,517	23,508
Other securities (Note 2)	1,416	1,554
Loans - Net of allowance for loan losses of $2,293 and $1,919 in 2010 and 2009, respectively (Note 3)	140,726	147,257
Foreclosed assets	1,674	1,903
Premises and equipment (Note 5)	3,153	3,267
Goodwill	405	405
Intangible assets	-	115
Accrued interest receivable	572	741
Other assets	6,473	7,156
Total assets	**$ 191,327**	**$ 196,764**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 26,048	$ 22,427
Interest-bearing (Note 6)	126,521	130,031
Total deposits	152,569	152,458
Short-term borrowings (Note 7)	8,253	8,362
Federal Home Loan Bank advances (Note 8)	7,000	13,000
Accrued and other liabilities	784	1,489
Total liabilities	168,606	175,309
Stockholders' Equity		
Common stock - $1 par value:		
Authorized - 1,050,000 shares		
Issued and outstanding - 598,212 shares and 585,561 shares in 2010 and 2009, respectively	598	586
Additional paid-in capital	19,817	19,414
Undivided profits	2,284	1,064
Accumulated other comprehensive income	22	391
Total stockholders' equity	22,721	21,455
Total liabilities and stockholders' equity	**$ 191,327**	**$ 196,764**

Huron Community Financial Services, Inc.

Consolidated Statement of Income

(000s omitted, except per share data)

	Year Ended December 31, 2010	Year Ended December 31, 2009
Interest Income		
Loans - Including fees	$ 8,933	$ 9,517
Investment securities:		
Taxable	222	366
Tax-exempt	280	303
Other	31	1
Total interest income	9,466	10,187
Interest Expense		
Deposits	1,611	2,153
Interest on FHLB advances	299	723
Interest on short-term borrowings	19	32
Total interest expense	1,929	2,908
Net Interest Income	7,537	7,279
Provision for Loan Losses (Note 3)	774	608
Net Interest Income After Provision for Loan Losses	6,763	6,671
Other Operating Income		
Service charges - Deposits	576	581
Gain on sale of securities	540	-
Loan servicing income - Net	307	519
Other	41	167
Total other operating income	1,464	1,267
Other Operating Expenses		
Salaries and employee benefits	2,988	2,943
Amortization of intangible assets	115	229
FDIC assessment	326	255
Occupancy expense	482	473
Service fees	307	216
Depreciation expense	315	354
Other	1,398	1,597
Total other operating expenses	5,931	6,067
Income - Before income taxes	2,296	1,871
Provision for Income Taxes (Note 9)	602	424
Net Income	**$ 1,694**	**$ 1,447**
Earnings per Share		
Basic earnings per common share	$ 2.84	$ 2.52
Diluted earnings per common share	2.80	2.46

Huron Community Financial Services, Inc.

Consolidated Statement of Stockholders' Equity

(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Undivided Profits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance - January 1, 2009	$ 569	$ 17,540	$ 2,147	$ 36	$ 20,292
Comprehensive income:					
Net income	-	-	1,447	-	1,447
Change in net unrealized gain on securities available for sale	-	-	-	355	355
Total comprehensive income					1,802
Sale of common stock	45	1,864	-	-	1,909
Purchases of common stock	(28)	-	(1,253)	-	(1,281)
Stock-based compensation	-	10	-	-	10
Dividends declared $2.20 per common share	-	-	(1,277)	-	(1,277)
Balance - December 31, 2009	586	19,414	1,064	391	21,455
Comprehensive income (loss):					
Net income	-	-	1,694	-	1,694
Change in net unrealized loss on securities available for sale	-	-	-	(369)	(369)
Total comprehensive income					1,325
Sale of common stock	40	1,622	-	-	1,662
Purchases of common stock	(28)	(1,235)	-	-	(1,263)
Stock-based compensation	-	16	-	-	16
Dividends declared $.80 per common share	-	-	(474)	-	(474)
Balance - December 31, 2010	**$ 598**	**$ 19,817**	**$ 2,284**	**$ 22**	**$ 22,721**

Huron Community Financial Services, Inc.

Consolidated Statement of Cash Flows
(000s omitted)

	Year Ended 2010	Year Ended 2009
Cash Flows from Operating Activities		
Net income	$ 1,694	$ 1,447
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	430	583
Gain on sale of securities	(540)	-
Gain on sale of fixed assets	(2)	-
Loss on sale of foreclosed assets	250	160
Net gain on sale of mortgage loans	(205)	(246)
Proceeds from sale of mortgage loans	11,820	30,986
Origination cost of mortgages held for sale	(11,615)	(30,740)
Provision for loan losses	774	608
Amortization and accretion on securities	267	344
Deferred tax expense	-	(450)
Stock-based compensation	16	10
Net change in:		
Accrued interest receivable	169	(71)
Other assets	854	(2,034)
Accrued expenses and other liabilities	(705)	176
Net cash provided by operating activities	3,207	773
Cash Flows from Investing Activities		
Net change in interest-bearing deposits in banks	(2,087)	-
Activity in available-for-sale securities:		
Sales	1,171	-
Maturities, prepayments, and calls	17,361	20,479
Purchases	(15,829)	(27,154)
Net decrease in loans	5,757	3,233
Decrease in other securities	138	-
Capital expenditures	(425)	(80)
Sales of fixed assets	226	-
Net cash provided by (used in) investing activities	6,312	(3,522)
Cash Flows from Financing Activities		
Net increase in deposits	111	9,991
Net change in short-term borrowings	(109)	2,977
Proceeds from FHLB advances	3,000	-
Payments on FHLB advances	(9,000)	(4,000)
Proceeds from sale of common stock	1,662	1,909
Purchases of common stock	(1,263)	(1,281)
Cash dividends paid on common stock	(474)	(1,277)
Net cash (used in) provided by financing activities	(6,073)	8,319
Net Increase in Cash and Cash Equivalents	3,446	5,570
Cash and Cash Equivalents - Beginning of year	10,858	5,288
Cash and Cash Equivalents - End of year	**$ 14,304**	**$ 10,858**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 2,023	$ 2,956
Income taxes	608	447
Loans transferred to other real estate	419	1,204

Note 1 - Nature of Business and Significant Accounting Policies

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of Huron Community Financial Services, Inc. (the "Corporation") and its wholly owned subsidiary, Huron Community Bank (the "Bank"). The Bank also owns 100 percent of HCB Investments, Inc., which provides insurance products to customers. All significant intercompany transactions and balances have been eliminated in consolidation. The 000s have been omitted in tabular columns.

Nature of Operations - The Bank operates in Iosco, Arenac, and southern Alcona counties in the state of Michigan. The Bank's revenue results primarily from providing real estate and commercial loans and, to a lesser extent, consumer loans. Its primary deposit products are savings and term certificate accounts.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities, mortgage servicing rights, and goodwill.

Significant Group Concentrations of Credit Risk - Most of the Corporation's activities are with customers located within the counties of Iosco, Arenac, and Alcona in Michigan. Note 2 discusses the types of securities in which the Corporation invests. Note 3 discusses the types of lending in which the Corporation engages. The Corporation does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Federal funds sold are generally sold for one-day periods.

Interest-bearing Deposits in Banks - Interest-bearing deposits in banks mature within one year and are carried at cost.

Securities - Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted investment securities include Federal Reserve and Federal Home Loan Bank stock and are carried at cost.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans - The Corporation grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout Michigan. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these 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.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Foreclosed Assets - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net other operating expenses.

Banking Premises and Equipment - Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Goodwill - Goodwill results from prior business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any such impairment will be recognized in the period identified.

Bank-owned Life Insurance - The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Intangible Assets - In connection with certain branch acquisitions, the excess of purchase price over the fair value of net assets acquired has been allocated to core deposit intangibles, which are being amortized over 10 years to 15 years. The amount recorded as core deposit intangibles totaled $0 and $115,000 as of December 31, 2010 and 2009, respectively. The carrying amount is net of amortization of $3,285,000 and $3,170,000 as of December 31, 2010 and 2009, respectively.

Short-term Borrowings - Short-term borrowings consist of repurchase agreements. Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Off-balance-sheet Instruments - In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. The Corporation is considered a guarantor when it issues a letter of credit. Accordingly, the Corporation recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Servicing - Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based on the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined by using prices for similar assets with similar characteristics, when available, or based on discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Stock Purchases and Sales - The Corporation regularly engages in the purchase and sale of Corporation common stock. Proceeds from the sale of common stock are recorded to additional paid-in capital. Prior to December 31, 2010, purchases of Corporation common stock were recorded to undivided profits. Effective January 1, 2011, all subsequent purchases of Corporation stock will be recorded to additional paid-in capital.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive (loss) income and related tax effects are as follows (000s omitted):

	2010	2009
Unrealized holding (losses) gains on available-for-sale securities	$ (1)	$ 538
Reclassification adjustment for losses realized in income	(540)	-
Net unrealized (losses) gains	(541)	538
Tax effect	172	(183)
Other comprehensive (loss) income	$ (369)	$ 355

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Earnings per Common Share - Earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. The number of weighted average common shares outstanding was 596,886 and 575,285 for the years ended December 31, 2010 and 2009, respectively. The Corporation uses the treasury stock method to compute diluted earnings per share, which assumes that proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period. The dilutive effect of stock options increased average common shares outstanding by 7,934 and 12,079 shares at December 31, 2010 and 2009, respectively. Approximately 9,900 options were not considered for dilution in 2010 and 2009, because the excercise price was in excess of the current market price.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including January 31, 2011, which is the date the consolidated financial statements were issued.

Reclassification - Certain amounts appearing in the prior year's consolidated financial statements have been reclassified to conform to the current year's consolidated financial statements.

Recent Accounting Pronouncement - *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses* - In July 2010, the FASB issued ASU No. 2010-20, *Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The standard will require the Corporation to expand disclosures about the credit quality of its loans and the related reserves against them. The extra disclosures will include details on the past due loans and credit quality indicators. The Corporation will adopt the standard beginning with the December 31, 2011 consolidated financial statements.

New Accounting Pronouncement - *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements* - In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Corporation's disclosures is reflected in Note 16 to the consolidated financial statements.

Note 2 - Securities

During 2009, the Corporation reclassified approximately $6,256,000 of held-to-maturity investments in an effort to increase the Corporation's liquidity and ability to respond to market fluctuation. This resulted in an unrealized gain of approximately $78,000.

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows (000s omitted):

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	$ 10,139	$ 17	$ (35)	$ 10,121
Corporate	2,039	8	-	2,047
Mortgage backed	2,473	-	(9)	2,464
State and municipal	5,833	140	(88)	5,885
Total available-for-sale securities	$ 20,484	$ 165	$ (132)	$ 20,517

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	$ 14,143	$ 39	$ -	$ 14,182
Corporate	631	432	-	1,063
State and municipal	8,141	124	(2)	8,263
Total available-for-sale securities	$ 22,915	$ 595	$ (2)	$ 23,508

At December 31, 2010 and 2009, securities with a carrying value of $10,050,000 and $14,182,000, respectively, were pledged to secure borrowings and public deposits and for other purposes required or permitted by law.

Note 2 - Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2010 follows (000s omitted):

	Available for Sale	
	Amortized Cost	Market Value
Due in 1 year or less	$ 7,102	$ 7,123
Due in 1 through 5 years	7,367	7,417
Due after 5 years through 10 years	3,479	3,531
Due after 10 years	2,536	2,446
Total	$ 20,484	$ 20,517

For the years ended December 31, 2010 and 2009, proceeds from sales of securities available for sale amounted to $1,171,000 and $0, respectively. Gross realized gains amounted to $540,000 for the year ended December 31, 2010. The tax benefit provision applicable to these net realized gains amounted to $184,000.

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (000s omitted):

	2010			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. government and federal agency	$ 35	$ 1,964	$ -	$ -
Mortgage backed	9	2,464	-	-
State and municipal	88	1,722	-	-
Total held-to-maturity securities	$ 132	$ 6,150	$ -	$ -

Note 2 - Securities (Continued)

	2009			
	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
State and municipal	$ -	$ -	$ 2	$ 178

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Other securities, totaling $1,416,000 and $1,554,000 at December 31, 2010 and 2009, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

Note 3 - Loans

A summary of the balances of loans follows (000s omitted):

	2010	2009
Mortgage loans on real estate - Residential 1-4 family	$ 51,381	$ 54,384
Commercial and commercial real estate	80,237	82,978
Consumer installment loans	11,401	11,814
Total loans	143,019	149,176
Less allowances for loan losses	2,293	1,919
Net loans	$ 140,726	$ 147,257
Allowance for loan losses as a percent of loans	1.60%	1.29%

An analysis of the allowance for loan losses follows (000s omitted):

	2010	2009
Balance - Beginning of year	$ 1,919	$ 2,149
Provision charged to operations	774	608
Loans charged off	(416)	(860)
Loan recoveries	16	22
Balance - End of year	$ 2,293	$ 1,919

Note 3 - Loans (Continued)

The following is a summary of information pertaining to impaired loans (000s omitted):

	2010	2009
Impaired loans without a valuation allowance	$ 2,465	$ 1,649
Impaired loans with a valuation allowance	1,491	1,269
Total impaired loans	$ 3,956	$ 2,918
Valuation allowance related to impaired loans	$ 478	$ 437
Total nonaccrual loans	3,269	2,996

The following is a summary of information pertaining to impaired loans (000s omitted):

	2010	2009
Average investment in impaired loans	$ 3,125	$ 1,954
Interest income recognized on impaired loans	-	-
Interest income recognized on a cash basis on impaired loans	-	-

No additional funds are committed to be advanced in connection with impaired loans.

The Corporation has had, and expects to have in the future, transactions with the Corporation's executive officers, directors, and their affiliates. Such transactions were made in the ordinary course of business and included extensions of credit, all of which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in management's opinion, involve more than a normal risk of collectibility or present other unfavorable features. The aggregate amount of such loans attributable to persons who were related parties approximated $5,229,000 at the beginning of 2010 and $3,959,000 at the end of 2010. During 2010, new loans to related parties aggregated to $308,000 and repayments totaled $1,578,000.

Note 4 - Loan Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheet. The unpaid principal balances of mortgage and other loans serviced for others were $70,200,000 and $71,800,000 at December 31, 2010 and 2009, respectively.

The balance of capitalized servicing rights, net of valuation allowance, included in other assets at December 31, 2010 and 2009 was $404,000 and $427,000, respectively. The fair value of the capitalized servicing rights approximates the carrying value. The key economic assumptions used in determining the fair value of the mortgage servicing rights include an annual constant prepayment speed (CPR) of 16.2 percent and 13.6 percent for December 31, 2010 and 2009, respectively, and a discount rate of 8.0 percent for December 31, 2010 and 2009.

Note 4 - Loan Servicing (Continued)

The following summarizes mortgage servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances (000s omitted):

	2010	2009
Mortgage servicing rights capitalized	$ 125	$ 349
Mortgage servicing rights amortized	148	262
Valuation allowances - Balance at beginning of year	-	-

Note 5 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows (000s omitted):

	2010	2009
Buildings and improvements	$ 4,261	$ 4,220
Furniture and fixtures	2,786	2,599
Vault and equipment	300	300
Automobiles	34	106
Land	711	711
Construction in progress	-	7
Total premises and equipment	8,092	7,943
Accumulated depreciation	(4,939)	(4,676)
Net premises and equipment	$ 3,153	$ 3,267

Depreciation expense for the years ended December 31, 2010 and 2009 amounted to $315,000 and $354,000, respectively.

Note 6 - Deposits

The following is a summary of the distribution of interest-bearing deposits at December 31 (000s omitted):

	2010	2009
NOW accounts	$ 54,140	$ 48,827
Savings	14,463	13,460
Money market demand	964	949
Time:		
Under $100,000	45,644	51,950
$100,000 and over	11,310	14,845
Total interest-bearing deposits	$ 126,521	$ 130,031

Note 6 - Deposits (Continued)

At December 31, 2010, the scheduled maturities of time deposits are as follows (000s omitted):

2011	$	34,397
2012		14,607
2013		2,817
2014		939
2015		4,194
Total	$	56,954

Note 7 - Short-term Borrowings

Short-term borrowings include securities sold under agreements to repurchase, which are classified as secured borrowings and generally mature within one or two years. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Corporation may be required to provide additional collateral based on the fair value of the underlying securities.

Note 8 - FHLB Advances

The Bank has advances from Federal Home Loan Bank (FHLB). Interest rates range from 1.27 percent to 4.05 percent during 2010 and from 2.30 percent to 5.99 percent during 2009. Interest is payable monthly. The advances are collateralized by approximately $25,773,000 and $23,333,000 of mortgage loans as of December 31, 2010 and 2009, respectively, under a blanket collateral agreement.

The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2010 (000s omitted):

2011	$	2,000
2012		3,000
2013		2,000
Total	$	7,000

Note 9 - Income Taxes

The components of the net deferred tax asset, included in other liabilities, are as follows (000s omitted):

	2010	2009
Deferred tax assets:		
Allowance for loan losses	$ 662	$ 546
Basis difference in investment security	-	295
Capital loss carryforward	111	-
Accrued employee benefits	225	206
Other	175	153
Total deferred tax assets	1,173	1,200
Deferred tax liabilities:		
Depreciation	40	54
Net unrealized gain on securities available for sale	11	183
Servicing rights	137	145
Prepaid assets	-	5
Total deferred tax liabilities	188	387
Net deferred tax asset	$ 985	$ 813

Allocation of income taxes between current and deferred portions is as follows (000s omitted):

	2010	2009
Current	$ 602	$ 874
Deferred	-	(450)
Total income tax expense	$ 602	$ 424

The reasons for the differences between the income tax expense at the federal statutory income tax rate and the recorded income tax expense are summarized as follows (000s omitted):

	2010	2009
Income before income taxes	$ 2,296	$ 1,871
Income tax expense at federal statutory rate of 34 percent	$ 781	$ 636
Increases resulting from nondeductible expenses	15	8
Decreases resulting from nontaxable income	(194)	(220)
Net income tax expense	$ 602	$ 424

Note 10 - Benefit Plan

The Corporation has a 401(k) plan whereby a certain percentage of employees' contributions can be matched with discretionary contributions by the Corporation. Contributions to the plan for the years ended December 31, 2010 and 2009 were $49,000 and $68,000, respectively.

Note 11 - Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents approximate fair values.

Interest-bearing Deposits in Banks - The carrying amounts of interest-bearing deposits maturing within 90 days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities - Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying value of Federal Home Loan Bank and Federal Reserve Bank stock approximates fair value based on the redemption provisions of the issuers.

Loans Receivable - For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Note 11 - Fair Value of Financial Instruments (Continued)

Deposit Liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term Borrowings - The carrying amounts of borrowings under repurchase agreements maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Other Borrowings - The fair values of the Corporation's other borrowings are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest - The carrying amounts of accrued interest approximate fair value.

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

The estimated fair values and related carrying or notional amounts of the Corporation's financial instruments are as follows (000s omitted):

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and equivalents	$ 14,304	$ 14,304	$ 10,858	$ 10,858
Interest-bearing deposits in banks	2,087	2,087	-	-
Securities	21,933	21,933	25,062	25,062
Loans	140,726	142,659	147,257	146,132
Accrued interest receivable	572	572	741	741
Financial liabilities:				
Demand deposits	26,048	26,048	22,427	22,427
Interest-bearing deposits	126,521	126,770	130,031	129,251
FHLB advances	7,000	7,110	13,000	13,319
Short-term borrowings	8,253	7,990	8,362	8,075
Accrued interest payable	113	113	207	207

Note 12 - Off-balance-sheet Activities

Credit-related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk (000s omitted):

	Contract Amount	
	2010	2009
Commitments to grant loans	$ 17,800	$ 20,412

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Note 12 - Off-balance-sheet Activities (Continued)

Collateral Requirements - To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies - Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Note 13 - Restrictions on Dividends, Loans, and Advances

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation.

Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus.

Note 14 - Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 14 - Minimum Regulatory Capital Requirements (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risked-based, and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2010						
Total capital to risk-weighted assets - Bank	$ 22,819	16.9%	$ 10,783	8.0%	$ 13,478	10.0%
Tier I capital to risk-weighted assets - Bank	21,126	15.7	5,393	4.0	8,089	6.0
Tier I capital to average assets - Bank	21,126	10.9	7,760	4.0	9,700	5.0
As of December 31, 2009						
Total capital to risk-weighted assets - Bank	21,208	14.7	11,542	8.0	14,427	10.0
Tier I capital to risk-weighted assets - Bank	19,408	13.5	5,751	4.0	8,626	6.0
Tier I capital to average assets - Bank	19,408	9.8	7,922	4.0	9,902	5.0

Note 15 - Stock Option Plan

As of December 31, 2010, the Corporation has two share-based compensation plans which are described below. Options available for grant under the 1996 Nonemployee Director Stock Option Plan, the 1996 Employee Stock Option Plan, and the 1997 Nonemployee Director Discretionary Stock Option Plan have been issued. Some of the options issued under the 1996 and 1997 plans are exercisable by the participants until the end of the contractual terms.

Note 15 - Stock Option Plan (Continued)

The Corporation's 2005 Nonemployee Director Stock Option Plan and 2005 Employee Stock Option Plan (the "Plans"), which are stockholder approved, permit the grant of stock options for up to 15,000 shares and 35,000 shares of common stock, respectively. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the entity's stock at the date of grant; those option awards generally vest immediately for nonemployees and over three years for employees and have 10-year contractual terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The compensation cost that has been charged against income for the Plans was approximately $16,000 and $10,000 for 2010 and 2009, respectively.

The Corporation uses a Black-Scholes formula to estimate the calculated value of its share-based payments. The volatility assumption used in the Black-Scholes formula is based on the volatility of the Corporation's stock price and dividend payments throughout the year. The Corporation calculated the historical volatility of that using the monthly closing total stock price for the one year immediately prior.

The weighted average assumptions used in the Black-Scholes model are noted in the following table. The Corporation uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2010	2009
Calculated volatility	12.00 %	12.78 %
Weighted average dividends	2.61 %	2.75 %
Expected term (in years)	8	8
Risk-free rate	2.34 %	2.92 %

A summary of option activity under the Plans for the years ended December 31, 2010 and 2009 is presented below:

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	60,824	$ 37.91	74,506	$ 36.43
Options granted	5,636	46.00	5,493	46.00
Options exercised	(10,420)	23.50	(12,815)	28.03
Options forfeited	(350)	-	(6,360)	-
Options outstanding at end of year	55,690	40.45	60,824	37.91
Exercisable at year end	52,157	40.08	55,191	36.95

Note 15 - Stock Option Plan (Continued)

The weighted average grant date-calculated value of options granted during the years 2010 and 2009 was $5 and $3, respectively.

As of December 31, 2010, there was approximately $45,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 2.5 years.

Note 16 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2010 and 2009 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 16 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010 (000s omitted)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
U.S. government and federal agency	$ 1,000	$ 9,121	$ -	$ 10,121
Corporate	-	2,047	-	2,047
Mortgage backed	-	2,464	-	2,464
State and municipal	-	5,885	-	5,885
Total	$ 1,000	$ 19,517	$ -	$ 20,517

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009 (000s omitted)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
U.S. government and federal agency	$ -	$ 14,182	$ -	$ 14,182
Corporate	1,063	-	-	1,063
State and municipal	-	8,263	-	8,263
Total	$ 1,063	$ 22,445	$ -	$ 23,508

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include impaired loans (see Note 3) and other real estate owned.

The change in fair value of impaired loans is recorded through the allowance for loan losses. The Corporation estimates the fair value of impaired loans based on Level 3 inputs which includes the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Note 16 - Fair Value Measurements (Continued)

Other real estate-owned assets are reported in the following table at initial recognition of impairment and on an ongoing basis until recovery or chargeoff. At the time of foreclosure or repossession, real estate owned and repossessed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis. At that time, they are reported in the Corporation's fair value disclosures in the following nonrecurring tables:

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2010 (000s omitted)

	Balance at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 3,956	$ -	$ -	$ 3,956
Other real estate owned	1,674	-	-	1,674

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2009 (000s omitted)

	Balance at December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 2,918	$ -	$ -	$ 2,918
Other real estate owned	1,902	-	-	1,902