2009 ANNUAL REPORT

CNB COMMUNITY BANCORP, INC.

75 Years of **GROWTH**

1934 1944 1954 1964 1974 1984 1994 2004 2009

BOARD OF DIRECTORS

Front (L to R)

Craig S. Connor
President & Chief Executive Officer,
County National Bank

Judy R. Gabriele
Director of Development,
Hillsdale Community Health Center

Edmund J. Sumnar
President, O'Meara-Sumnar Agency, Inc.

Middle (L to R)

Claude J. Rowley
President, Rowley, Inc.

Steven A. Wells
President, Wells Equipment Sales, Inc.

John P. Lovinger
Attorney, Parker, Hayes & Lovinger, P.C.

Back (L to R)

Stephen J. Maddalena
General Manager, Kentwood Office Furniture

David W. Pope
President, Powers Clothing, Inc.

2009 EXECUTIVE LETTER

In 2009, County National Bank celebrated seventy-five years of providing commercial banking services to local communities. On March 19, 1934, roughly fifty courageous and committed business people put up personal monies to invest and capitalize County National Bank. Today, that initial $60,000 investment has grown to $30,000,000, truly an entrepreneurial success story for our free enterprise system. Beyond the growth of the initial investment, CNB's role in promoting commerce and prosperity to our local communities has been historic, and our past and present shareholders can take pride in their important role in this story.

Our customers are of the highest caliber and we do believe they are much of the reason behind our success. Over this seventy-five year span there have been many stories from customers about how CNB helped them start businesses, expand businesses, purchase homes and finance cars. We have financed public infrastructure, purchased local public issued debt and made countless donations of money and manpower. Building partnerships with these customers to foster economic growth has been an enjoyable and rewarding experience.

Executive Committee
Front row, left to right: Dorene M. Shaw, Diane K. Clow, Craig S. Connor, Scott E. Evans
Back row, left to right: Lois E. Howard, Spencer D. Swank, Mary P. Marshall, Cindy Dwyer, John R. Waldron

Jackson Advisory Board
Front row, left to right: Donald J. Calbert, Richard M. Craft
Back row, left to right: Kurt J. Parker, Stephen J. Maddalena, Robert L. Simmons

The 2009 net profit was $2,389,021, representing $1.20 earnings per share and a return on average equity of 8.1%. Book value per share increased 33¢ to $14.88. Looking back over the past twenty years, I would categorize this as a decent year. However, given the depth, breadth and duration of this current recession, I think our earnings, dividend payout and stock performance represent an outstanding year.

Banks have been impacted by high levels of loan losses, as some consumers and businesses are unable to make payments. Collateral securing loans has lost value, as demand for real estate both residential and commercial declined. Our net write-offs for the twelve months were 29 basis points or .29% of the loan portfolio. This is historically high, but in today's economic environment a truly remarkable performance. I must commend the staff and officers for sound loan underwriting and their effectiveness in managing delinquencies and the challenges of collateral disposition.

Organizational growth was very strong during 2009. Total assets under management grew to $667,197,677 from $608,330,260, up 9.7%. Bank assets were $330,356,388, up 8.2 %, attributed to deposit growth of $28,000,000. Loans serviced were $221,294,138, up $43,637,552 for the year. Trust assets ended the year at $103,967,971, with several million in new trust accounts opened. Other assets being managed through sweep accounts and CDARS were $13,808,178 at year end.

MORTGAGE LOANS

Even though the economy was challenging, mortgage lending was arguably our biggest and brightest highlight. The mortgage servicing portfolio grew from 1,927 mortgages totaling $175 million in 2008, to 2,249 mortgages totaling $218 million, as of 12/31/2009. Our annual mortgage loan originations grew from 421 mortgages totaling $52.1 million in 2008, to an outstanding year in 2009 of 904 mortgages,

totaling $122.8 million; this is a 136% increase in originations for 2009. This strong performance contributed $1,544,509 to the bottom line and helped us to substantially build our allowance for loan loss reserve without sacrificing earnings or shareholder dividends.

In addition, during 2009, we received approval from the Federal Home Loan Bank of Indianapolis (FHLBI) to sell mortgages to this new secondary market investor in 2010. This will diversify us with multiple investors and provide interest rate and fee enhancements for our customers. Another new product expected in 2010 is Federal Housing Administration (FHA) mortgages, as we have submitted our application materials and expect approval in early 2010.

We continue to manage a bank portfolio of mortgages that total 2,422 loans with a balance of $87.6 million. This is down from $92 million in 2008. Part of the decline can be attributed to refinancing some portfolio mortgages and selling them in the secondary market. This portfolio remains strong, but as expected, delinquency and foreclosures continue to rise. We remain well below our peers in Other Real Estate Owned (OREO). As of 12/31/2009 we had only five properties in OREO. Our collection/loss mitigation department uses every tool that is available to them, including the new Home Affordable Modification Program (HAMP) along with traditional modifications and forbearance agreements, to keep borrowers in their homes. In September 2009, we hired Randall Tate to manage the collection/loss mitigation department. Randall brings a tremendous amount of experience in loss mitigation and will work with our lenders to compassionately assist borrowers.

CONSUMER LENDING

Our consumer lending area continues to grow despite the economic conditions in our markets. The portfolio of consumer and home equity loans grew 1.2% with a portfolio of $58.8 million. In 2009, we originated 886 loans totaling $20.8 million. Delinquencies in these portfolios continue below industry averages.

COMMERCIAL LOANS

The commercial loan portfolio grew more than 9% during 2009. This is noteworthy because many other banks have decided to restrict lending in this difficult economic environment. At CNB, we have been very active in our communities. We continue to provide credit where it is needed – on Main Street. We are very happy to say that CNB provided funding for a wide variety of new and existing ventures. Diversity among our customer base is wide, as is the variety of financing that we provide - equipment, working capital lines of credit, real estate, business expansion, and start ups. In fact, during 2009, we provided funding for numerous individual projects that created new jobs in all of our communities. The outlook for 2010 is one of improvement. At CNB, we will remain committed to our markets and to our ever increasing group of clients, while keeping credit quality at the forefront of any new loan originations.

MARKETING AND TECHNOLOGY

Our commitment to technology has allowed us to market new and efficient products. Our CNB E-coBanking campaign was designed to introduce new and prospective customers to the benefits of our many electronic services. We saw an increase in the usage of on-line banking, ATM and debit cards, direct deposits, on-line bill pay and on-line mortgage applications. There was significant growth in the number of customers using electronic statements, thus increasing the security of their personal information and conserving paper.

We launched our Remote Deposit Capture program for business customers and have signed up a number of them throughout the year and have several more interested. This technology and new product allow our business customers to reduce the time and money spent commuting to the Bank each day by making deposits at their place of business.

We replaced the Bank's telephone system with technology to improve customer service while reducing data line costs and time management of the phone system. This also has improved bank-wide communication. We proudly want our customers to speak first to a real individual when calling CNB.

We were able to use the Bank's seventy-fifth anniversary as an opportunity to promote the benefits of community banking in our market area. Our promotions involved print and radio advertising, as well as lobby and ATM posters. We held customer appreciation events at all of our locations, including hosting a Chamber of Commerce After Hours event at the main office in Hillsdale.

As other financial institutions pulled out of some of our markets, we used these events as an opportunity to promote CNB as the "local" financial institution and again touted the benefits of dealing with a community bank. As always, we participated in and supported a wide range of charitable and community

activities from financial literacy programs to county fair animal auctions to Fourth of July celebrations. In fact, our financial literacy program was again honored by the Michigan Bankers Association as the best in our banking district.

JACKSON

As we near our tenth year serving the county of Jackson, our positive image and momentum continue. All of our financial products and services have grown. Our local staff helped us to achieve the designation of "friendliest bank in Jackson". Our success is attributable to our wonderful employees, loyal customers, and strong referral network. We look forward to making the most out of the tremendous opportunity in this market for our customers and the Jackson Community.

TRUST AND INVESTMENTS

In keeping with the movement of CNB toward a greener organization, the on-line viewing of the Trust Department statements has 1/3 of our clients now utilizing this technology. With $5 million in additional new accounts and the stock market rebounding in 2009, trust assets have increased. We have developed new and improved investment portfolio models which allow our clients to tailor their investment portfolio goals to the ever changing circumstances surrounding life events. Chris Walworth earned the designation of Accredited Trust Operations Professional by virtue of the culmination of experience in trust operations, three years of specialized education and passing a comprehensive exam.

PERSONNEL

We are very pleased the following dedicated employees were promoted during 2009: In June of 2009, Gwenda J. Ripley was promoted to branch officer - Cortland office and Robert J. Wrozek was promoted to branch officer - Horton Road office, both having formerly held the title of branch manager of these offices. Both Gwenda and Bob do a fine job for us in the Jackson market.

In November of 2009, Jeffrey S. Jackson was promoted from an indirect lender to a consumer loan officer after having developed numerous successful relationships with market dealerships. Jeff's expertise in the indirect lending business has enabled CNB to continue profitability in the auto loan business for the past several years.

We added a talented and well recognized lender in May of 2009. Craig D. Talbert joined CNB as a mortgage officer in the Jackson market at the Cortland office bringing 12 years of mortgage related experience. Dennis Vass, one of our trust officers, retired in July of 2009. We wish Denny enjoyment in his retirement and thank him for his many years of service to our trust clients.

BOARD OF DIRECTORS

Mr. Edmund Sumnar will be retiring from the Board of Directors in April 2010. Mr. Sumnar has a long tenure as a CNB Board Member and has served on various committees and also as Chairman of the Audit Committee for many years. Mr. Sumnar began his directorship in 1971 when the Bank had $35 million in assets and two offices. With his help and guidance, the Bank has successfully grown to 11 full service banking offices and a Trust Department. We have had tremendous growth in Bank assets, capital and earnings during Mr. Sumnar's tenure. All of us share a deep gratitude to Mr. Sumnar for his dedication and insight over those years and wish him all the best in his retirement.

THE FUTURE

Our future is promising. No doubt the current economic climate gives us an extreme challenge. However, that same troubled economy has given us new opportunities to provide banking services to many worthy customers, as businesses and consumers seek out a responsive and caring community banking organization. Our conservative business model has served us well and we will continue to keep what we do simple, providing retail and commercial banking services to the communities we call home. Once again, all of us, Directors and employees would like to thank you for continued support of your locally owned community bank.

Craig S. Connor,
President & C.E.O.

75 Years of **GROWTH**

2009 COMPARISON HIGHLIGHTS

	2009	2008
FOR THE YEAR:		
Income before federal income taxes	$ 3,640,621	$ 2,485,078
Net income	2,389,021	1,531,078
Basic and diluted earnings per share	1.20	0.77
Cash dividends declared	1,987,917	1,824,343
Per share	1.00	0.91
AT YEAR END:		
Investment securities	$ 25,542,821	$ 18,747,990
Loans held for sale	194,350	552,868
Net portfolio loans	258,463,791	252,966,686
Total assets	330,356,388	303,140,160
Deposits	284,666,209	256,255,500
Shareholders' equity	29,599,635	28,877,035
Book value per share	14.88	14.55
Number of shares outstanding	1,989,263	1,984,043
Number of shareholders	346	344

2009 FIVE YEAR COMPARATIVE FINANCIAL SUMMARY

In thousands, except per share data

	2009	2008	2007	2006	2005
ASSETS					
Cash and due from banks	$ 31,103	$ 17,308	$ 19,518	$ 15,281	$ 13,843
Federal funds sold	322	879	12,479	6,609	6,070
U.S. Treasury and agency securities	8,076	8,394**	10,744	10,803	18,852
State, municipal and other securities	17,467	10,354**	13,208	8,779	10,782
Loans held for sale	194	553	446	1,917	2,120
Net loans	258,464	252,967	233,371	226,434	206,408
Other assets	14,730	12,685	13,169	12,550	12,406
TOTAL	**$ 330,356**	**$ 303,140**	**$ 302,935**	**$ 282,373**	**$ 270,481**
LIABILITIES AND SHAREHOLDERS' EQUITY					
Noninterest-bearing demand	$ 46,814	$ 36,904	$ 39,194	$ 38,742	$ 36,626
Interest-bearing	237,852	219,351	217,565	200,533	194,815
Total deposits	284,666	256,255	256,759	239,275	231,441
FHLB advances	13,490	16,050	13,077	11,577	9,900
Line of credit note payable	961	961	750	-	-
Other liabilities	1,639	997	2,312	2,125	956
Total shareholders' equity	29,600	28,877	30,037	29,396	28,184
TOTAL	**$ 330,356**	**$ 303,140**	**$ 302,935**	**$ 282,373**	**$ 270,481**
Book value per share	$ 14.88	$ 14.55	$ 14.88	$ 14.40	$ 13.81
Total interest and dividend income	$ 16,513	$ 17,225	$ 18,871	$ 16,638	$ 13,910
Total interest expense	3,600	4,867	6,113	4,461	2,722
Net interest income	12,913	12,358	12,758	12,177	11,188
Provision for loan losses	1,579	661	401	270	187
Net interest income after provision for loan losses	11,334	11,697	12,357	11,907	11,001
Noninterest income	5,077	3,826	3,844	3,858	3,158
Noninterest expenses	12,770	13,038	11,786	11,490	10,581
Income before federal income taxes	3,641	2,485	4,415	4,275	3,578
Federal income taxes	1,252	954	1,346	1,413	976
Net income	**$ 2,389**	**$ 1,531**	**$ 3,069**	**$ 2,862**	**$ 2,602**
Basic and diluted earnings per share	$ 1.20	$ 0.77	$ 1.51	$ 1.40	$ 1.25
Return on shareholders' equity *	8.1%	5.1%	10.4%	10.2%	8.8%
Cash dividends per share	$ 1.00	$ 0.91	$ 0.90	$ 0.86	$ 0.80

* Based on shareholders' equity at beginning of year

** There was a reclassification in 2008 to conform to the 2009 presentation

INDEPENDENT AUDITORS' REPORT

March 4, 2010

Board of Directors and Shareholders
CNB Community Bancorp, Inc.
Hillsdale, Michigan

We have audited the accompanying consolidated balance sheets of ***CNB Community Bancorp, Inc.*** as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' 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 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 consolidated 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 ***CNB Community Bancorp, Inc.*** as of December 31, 2009 and 2008, and the consolidated 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.

Jackson, Michigan

Rehmann Robson

2009 CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2009	December 31, 2008
Cash and due from banks	$ 31,102,758	$ 17,308,422
Federal funds sold	321,896	878,719
Cash and cash equivalents	31,424,654	18,187,141
Investment securities	25,542,821	18,747,990
Net portfolio loans	258,463,791	252,966,686
Loans held for sale	194,350	552,868
Accrued interest receivable	1,095,162	1,064,999
Premises and equipment, net	4,706,626	5,003,975
Goodwill	2,590,750	2,590,750
Core deposit intangibles, net	-	14,837
Other assets	6,338,234	4,010,914
Total assets	**$ 330,356,388**	**$ 303,140,160**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	$ 46,813,813	$ 36,904,051
NOW and MMDA	112,475,282	91,495,728
Savings	52,845,659	46,656,900
Time	72,531,455	81,198,821
Total deposits	284,666,209	256,255,500
FHLB advances	13,490,354	16,049,646
Line of credit borrowings	960,841	960,841
Accrued interest payable	170,375	295,446
Other liabilities	1,468,974	701,692
Total liabilities	**300,756,753**	**274,263,125**
Commitments and contingent liabilities (Notes 15, 16, 17 and 18)		
Shareholders' equity		
Common stock, no par value; 2,135,880 shares authorized, 1,989,263 shares issued and outstanding (1,984,043 at December 31, 2008)	10,419,830	10,306,345
Unearned restricted stock awards	(200,376)	(179,739)
Retained earnings	19,146,312	18,745,208
Accumulated other comprehensive income	233,869	5,221
Total shareholders' equity	**29,599,635**	**28,877,035**
Total liabilities and shareholders' equity	**$ 330,356,388**	**$ 303,140,160**

The accompanying notes are an integral part of these consolidated financial statements.

2009 CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2009	**2008**
Interest and dividend income		
Loans, including fees	$ 15,647,337	$ 16,004,322
Debt securities		
Taxable	387,904	664,901
Tax-exempt	396,217	356,291
Federal funds sold	508	136,156
Dividends	80,613	63,268
Total interest and dividend income	**16,512,579**	**17,224,938**
Interest expense		
Deposits	2,873,852	4,125,111
Borrowed funds	725,738	742,304
Total interest expense	**3,599,590**	**4,867,415**
Net interest income	**12,912,989**	**12,357,523**
Provision for loan losses	1,579,202	661,100
Net interest income after provision for loan losses	**11,333,787**	**11,696,423**
Noninterest income		
Service charges on deposit accounts	1,111,164	1,251,044
Trust fees	526,596	533,317
Net gain on loans sold	2,093,354	609,236
ATM service charges	634,211	583,891
Net (mortgage servicing rights amortization) loan servicing fees	(143,436)	103,044
Other income	855,123	745,735
Total noninterest income	**5,077,012**	**3,826,267**
Noninterest expenses		
Compensation and benefits	7,390,056	6,552,291
Occupancy and equipment	2,009,359	1,931,319
Professional fees	328,885	305,170
Printing, stationery and supplies	175,270	189,065
Amortization of core deposit intangibles	14,837	60,175
Impairment losses on investment securities (Note 2)	-	1,610,000
Other	2,851,771	2,389,592
Total noninterest expenses	**12,770,178**	**13,037,612**
Income before federal income taxes	**3,640,621**	**2,485,078**
Federal income taxes	1,251,600	954,000
Net income	**$ 2,389,021**	**$ 1,531,078**
Basic and diluted earnings per share	**$ 1.20**	**$ 0.77**

The accompanying notes are an integral part of these consolidated financial statements.

2009 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock		Unearned Restricted Stock Awards	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
Balances, January 1, 2008	**2,018,562**	**$ 10,469,207**	**$ (156,001)**	**$19,662,741**	**$ 61,395**	**$ 30,037,342**
Comprehensive income						
Net income	-	-	-	1,531,078	-	1,531,078
Other comprehensive loss:						
Unrealized holding loss on available-for-sale securities	-	-	-	-	(85,112)	(85,112)
Related income tax benefit	-	-	-	-	28,938	28,938
Other comprehensive loss	-	-	-	-	(56,174)	(56,174)
Comprehensive income	-	-	-	1,531,078	(56,174)	1,474,904
Restricted stock awards, net of forfeitures (Note 11)	1,435	23,738	(23,738)	-	-	-
Redemption of common stock (Note 19)	(35,954)	(186,600)	-	(624,268)	-	(810,868)
Cash dividends paid - $.91 per share of common stock	-	-	-	(1,824,343)	-	(1,824,343)
Balances, December 31, 2008	**1,984,043**	**10,306,345**	**(179,739)**	**18,745,208**	**5,221**	**28,877,035**
Comprehensive income						
Net income	-	-	-	2,389,021	-	2,389,021
Other comprehensive income:						
Unrealized holding gain on available-for-sale securities	-	-	-	-	347,648	347,648
Related income taxes	-	-	-	-	(119,000)	(119,000)
Other comprehensive income	-	-	-	-	228,648	228,648
Comprehensive income	-	-	-	2,389,021	228,648	2,617,669
Restricted stock awards, net of forfeitures (Note 11)	5,220	113,485	(20,637)	-	-	92,848
Dividends declared - $1.00 per share of common stock	-	-	-	(1,987,917)	-	(1,987,917)
Balances, December 31, 2009	**1,989,263**	**$ 10,419,830**	**$ (200,376)**	**$ 19,146,312**	**$ 233,869**	**$ 29,599,635**

The accompanying notes are an integral part of these consolidated financial statements.

2009 CONSOLIDATED STATEMENTS OF CASH FLOW

	Year Ended December 31,	
	2009	**2008**
Cash flows from operating activities		
Net income	$ 2,389,021	$ 1,531,078
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	580,151	605,391
Amortization of mortgage servicing rights	539,626	259,785
Amortization of intangibles	14,837	60,175
Provision for loan losses	1,579,202	661,100
Share-based payment, restricted stock awards	92,848	-
Net amortization of discounts/premiums on investments	191,015	41,532
Deferred income tax benefit	(33,000)	(132,000)
Net gain on sales of investment securities	(214,066)	(38,221)
Impairment losses on investment securities	-	1,610,000
Proceeds from sales of loans	1,374,331	373,323
Net gain on sold loans	(2,093,354)	(609,236)
Net (gain) loss on sales of foreclosed assets	(79,515)	103,397
Changes in operating assets and liabilities which provided (used) cash		
Loans held for sale	61,333	(227,541)
Accrued interest receivable	(30,163)	212,273
Accrued interest payable	(125,071)	(422,334)
Other assets	(1,121,940)	314,120
Other liabilities	123,658	(731,193)
Net cash provided by operating activities	**3,248,913**	**3,611,649**
Cash flows from investing activities		
Activity in available-for-sale securities		
Purchases	(14,131,272)	(11,656,180)
Maturities, calls, and principal payments	11,687,880	14,722,980
Sales	1,528,786	-
Activity in held-to-maturity securities		
Purchases	(10,526,529)	(4,752,262)
Maturities, calls, and principal payments	5,017,003	5,190,937
Loan principal originations and collections, net	(8,795,401)	(21,216,816)
Proceeds from sales of foreclosed assets	1,070,441	764,454
Purchases of premises and equipment	(282,802)	(519,366)
Net cash used in investing activities	**(14,431,894)**	**(17,466,253)**
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	28,410,709	(503,723)
(Repayments of) FHLB advances	(2,559,292)	2,973,069
Net borrowings on line-of-credit	-	210,872
Redemption of common stock	-	(810,868)
Dividends paid	(1,430,923)	(1,824,343)
Net cash provided by financing activities	**24,420,494**	**45,007**
Net increase (decrease) in cash and cash equivalents	**13,237,513**	**(13,809,597)**
Cash and cash equivalents, beginning of year	18,187,141	31,996,738
Cash and cash equivalents, end of year	**$ 31,424,654**	**$ 18,187,141**

The accompanying notes are an integral part of these consolidated financial statements.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of CNB Community Bancorp, Inc., a registered bank holding company (the “Corporation”), and its wholly-owned subsidiary Hillsdale County National Bank (the “Bank”), and the Bank’s subsidiaries CNB Lending Services, LLC, CNB Services Corporation, and County National Financial Services. CNB Lending Services, LLC, is a mortgage banking company which is 99% owned by the Bank and 1% owned by CNB Services Corporation. CNB Services Corporation is owned 100% by the Bank and its only business activity is its 1% ownership of CNB Lending Services, LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the accompanying consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2009, the most recent consolidated balance sheet presented herein, through March 4, 2010, the date the accompanying consolidated financial statements were available to be issued.

Business and Concentrations of Risk

The Bank is an independently owned community bank engaged in the business of retail and commercial banking services through its 11 full-service branches located in Hillsdale, Jackson, Lenawee and Calhoun Counties in Michigan. Active competition, principally from other commercial banks, savings banks, and credit unions, exists in the Bank’s primary markets. The Bank’s results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

The Bank’s primary deposit products are interest and noninterest bearing checking accounts, savings accounts, and certificates of deposit, and its primary lending products are residential and commercial real estate mortgages, commercial and consumer loans. Note 3 further describes the types of lending the Bank engages in and Note 8 provides additional information on deposits. The Bank does not have any significant concentrations with respect to any one industry, customer, or depositor. The Bank also provides trust services.

The Bank is a federally chartered bank and is a member of the Federal Deposit Insurance Corporation (“FDIC”) Bank Insurance Fund. The Bank is subject to the regulations of the FDIC and the supervision of the Office of the Comptroller of the Currency (“OCC”) and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations of the Federal Reserve Board governing bank holding companies.

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 revenues and expenses during the year. 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 fair value of certain investment securities, the carrying values of intangible assets, and the fair values of financial instruments.

Significant Accounting Policies

Accounting policies used in the preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States. The principles which materially affect the determination of the financial position or results of operations of the Corporation and its subsidiary are summarized as follows:

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity’s own data. The Corporation may choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, allowing the Corporation to record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. At December 31, 2009 and 2008, the Corporation had not elected the fair option for any financial assets or liabilities.

For assets and liabilities recorded at fair value, it is the Corporation’s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, the Corporation includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. For a further discussion of Fair Value Measurement, refer to Note 20 to the consolidated financial statements.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold. Generally, federal funds are sold for a one-day period. The Corporation maintains deposit accounts in various financial institutions which generally exceed the federally insured limits or are not insured.

Investment Securities

Securities that management has the ability and positive intent to hold to maturity are classified as “held-to-maturity” and are recorded at amortized cost. Securities not classified as held-to-maturity or trading are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sale of the available-for-sale securities are recorded on the trade date and are determined using the specific identification method.

Investment securities are reviewed quarterly for possible other-than-temporary impairment (OTTI). In determining whether an other than temporary impairment exists for debt securities, management must assert that: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Declines in the fair value of held-to-maturity and available-for-sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income.

Loans

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 loan origination costs, are deferred and recognized as interest income over the term of the loan using the constant yield method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases,

loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest income 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

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 the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 doubtful, substandard or special mention. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that management believes affect its estimate of probable losses inherent in the portfolio. 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 Bank 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 the 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, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank generally does not separately identify individual residential mortgage, consumer and credit card loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which adjustments are recognized in the income statement.

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held-for-sale, as described above, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) 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 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheet.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

FDIC Insurance Premium (Included in Other Assets)

In 2009, the Corporation was required to prepay quarterly FDIC risk-based assessments for the fourth quarter of 2009 and each of the quarters in the years ending December 31, 2010, 2011 and 2012. The assessments for 2010 through 2012 have been recorded in the accompanying December 31, 2009 consolidated balance sheet as a prepaid asset of approximately $1,486,000, and will be expensed quarterly through December 31, 2012.

Intangibles

Intangible assets, arising from branch acquisitions, include goodwill and core deposit intangibles. Goodwill represents the excess of the purchase price over the value of identifiable net assets acquired and related core deposit intangibles identified. Goodwill is assessed at least annually for impairment and impairment losses, if any, are recognized in the period identified. Core deposit intangibles are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which expired in 2009.

Restricted Investments (Included in Other Assets)

The Bank is a member of the Federal Home Loan System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis ("FHLB"). The amount of the required investment is based upon the balance of the Bank's advances from the FHLB and is carried at cost plus the par value assigned to stock dividends.

The Bank is also a member of the Federal Reserve Bank System ("FRB"). The FRB determines the amount of the required investment at the time the Bank becomes a member. The amount is carried at cost.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when funded (Note 15).

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected to be realized.

Net Income Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the year, which was 1,987,355 and 2,000,140 during 2009 and 2008, respectively. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance.

2. INVESTMENT SECURITIES

The amortized cost and fair value of non-trading investment securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
Debt securities:				
Government-sponsored enterprises	$ 3,765,884	$ 8,101	$ -	$ 3,773,985
Mortgage-backed securities	4,187,658	103,028	-	4,290,686
Total debt securities	7,953,542	111,129	-	8,064,671
Money market preferred securities	466,340	-	-	466,340
Preferred stock	911,060	359,800	116,060	1,154,800
Total available-for-sale	**9,330,942**	**470,929**	**116,060**	**9,685,811**
Held-to-Maturity				
State and municipal	14,138,319	58,176	97,738	14,098,757
Mortgage-backed securities	11,318	302	-	11,620
Certificates of deposit	1,707,373	5,290	-	1,712,663
Total held-to-maturity	**15,857,010**	**63,768**	**97,738**	**15,823,040**
Total	**$25,187,952**	**$ 534,697**	**$ 213,798**	**$ 25,508,851**

Lewis Street Office Circa 1974

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
Debt securities:				
Government-sponsored enterprises	$ 4,116,644	$ 33,482	$ -	$ 4,150,126
Mortgage-backed securities	4,256,521	12,565	38,825	4,230,261
Total debt securities	8,373,165	46,047	38,825	8,380,387
Money market preferred securities	1,690,000	-	-	1,690,000
Total available-for-sale	**10,063,165**	**46,047**	**38,825**	**10,070,387**
Held-to-Maturity				
State and municipal	8,664,268	49,588	43,491	8,670,365
Mortgage-backed securities	13,335	-	38	13,297
Total held-to-maturity	**8,677,603**	**49,588**	**43,529**	**8,683,662**
Total	**$ 18,740,768**	**$ 95,635**	**$ 82,354**	**$18,754,049**

Investment securities with carrying values of approximately $2,422,000 and $2,183,000 as of December 31, 2009 and 2008, respectively, were pledged to secure public deposits or for other purposes as required by law.

The amortized cost and fair value of held-to-maturity and available-for-sale debt securities grouped by contractual maturity at December 31, 2009, are summarized as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 2,762,142	$ 2,767,105	$ 7,438,746	$ 7,440,440
Due after one year through five years	1,003,742	1,006,880	5,143,904	5,160,977
Due after five years through ten years	-	-	3,028,042	2,975,003
Due after ten years	-	-	235,000	235,000
	3,765,884	3,773,985	15,845,691	15,811,420
Mortgage-backed securities	4,187,658	4,290,686	11,318	11,620
	$ 7,953,542	**$ 8,064,671**	**$ 15,857,010**	**$ 15,823,040**

Because of their variable payments, mortgage-backed securities are not reported by a specific maturity grouping.

During 2009, proceeds from sales of available-for-sale securities amounted to $1,528,786 and gross gains amounted to $214,066. There were no sales of available-for-sale securities during 2008. Gross gains of $38,221 were recognized on calls of securities during 2008.

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Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31, 2009, is summarized as follows:

	Less Than Twelve Months		Over Twelve Months		Total
2009	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale					
Preferred stock	$ 116,060	$ 281,000	$	$	$ 116,060
Securities held-to-maturity					
State and municipal	$ 33,521	$ 2,371,207	$ 64,217	$ 1,180,744	$ 97,738
2008					
Securities available-for-sale					
Mortgage-backed securities	$ 38,825	$ 3,245,177	$ -	$ -	$ 38,825
Securities held-to-maturity					
State and municipal	$ 43,491	$ 1,203,781	$ -	$ -	$ 43,491
Mortgage-backed securities	38	13,297	-	-	38
Total securities held-to-maturity	$ 43,529	$ 1,217,078	$ -	$ -	$ 43,529

On September 7, 2008, the Federal government placed the Federal Home Loan Mortgage Corporation (Freddie Mac) into receivership. As a result, the value of certain investments in Freddie Mac were determined to have significantly declined and resulted in an other-than-temporary impairment charge to earnings of $500,000, net of federal income tax benefit of $170,000, in 2008.

The Corporation also determined certain investments in money market preferred auction rate securities to be significantly impaired as of December 31, 2008 which resulted in an other-than-temporary impairment charge to earnings of $1,110,000 in 2008. Due to the illiquid market of these money market preferred auction rate securities, and due to the recent failed auctions, management believed the Corporation would ultimately receive the underlying preferred shares associated with these investment securities. Therefore, management determined that the fair value of the preferred shares underlying these securities best reflected the fair value of the money market preferred auction rate securities as of December 31, 2008. During 2009, the Corporation received the underlying preferred shares for all but one of its money market preferred auction rate securities. The Corporation sold two unwound money market preferred auction rate securities during 2009 for a net gain of $206,186 and continues to hold three preferred securities that unwound during 2009 as of December 31, 2009. The remaining money market preferred auction rate security is valued using the fair value of the underlying preferred shares as of December 31, 2009.

At December 31, 2009, the Corporation had three investment securities in an unrealized loss position greater than twelve months (total unrealized losses of $64,217). The Corporation has the ability and the positive intent to hold these held-to-maturity debt securities until maturity or forecasted market recovery, and full collection of contractual amounts is expected by management; therefore, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

3. LOANS

The Bank grants mortgage, commercial and consumer loans to customers situated primarily in Hillsdale, Jackson, Lenawee and Calhoun Counties. The ability of the Bank's debtors to honor their repayment obligations is dependent upon the real estate and general economic conditions of this region. Substantially all of the consumer and residential mortgage loans are secured by various items of property, while commercial loans are secured primarily by business assets, real estate, and personal guarantees. At December 31, 2009 and 2008, approximately 74% and 73%, respectively, of the portfolio is secured by residential and commercial real estate properties, and approximately 1% of the loan portfolio is unsecured in both years.

Major loan classifications, excluding loans held for sale, are summarized as follows at December 31:

	2009	2008
Mortgage loans on real estate:		
Residential 1–4 family	$ 67,138,860	$ 70,476,541
Commercial	81,930,717	74,636,106
Home equity lines of credit	34,225,307	31,670,627
Construction	9,074,240	9,457,253
	192,369,124	186,240,527
Commercial	42,153,819	40,028,903
Consumer installment	24,639,169	26,477,025
Tax exempt	2,325,849	2,326,282
Total loans	261,487,961	255,072,737
Deferred loan origination costs, net	377,701	465,361
Allowance for loan losses	(3,401,871)	(2,571,412)
Net loans	**$ 258,463,791**	**$ 252,966,686**

At December 31, 2009, scheduled maturities of loans with fixed rates of interest are summarized as follows:

One year or less	$ 16,717,200
One to five years	88,889,113
Over five years	44,733,969
Total	**$ 150,340,282**

Variable rate loans subject to repricing amounted to $111,147,679 as of December 31, 2009.

Impaired loans and interest income recognized on impaired loans were not significant at December 31, 2009 and 2008, or for either of the years then ended.

Nonperforming loans were as follows at December 31:

	2009	2008
Loans on nonaccrual status	$ 2,946,227	$ 3,350,820
Loans past due over 90 days accruing interest	2,175,529	605,615

4. ALLOWANCES FOR LOAN AND FORECLOSED ASSET LOSSES

The following is a summary of the changes in the allowance for loan losses during the years ended December 31:

	2009	2008
Balance, beginning of year	**$ 2,571,412**	**$ 2,371,005**
Loans charged off	(836,203)	(650,998)
Recoveries	87,460	190,305
Net charge offs	(748,743)	(460,693)
Provision for loan losses	1,579,202	661,100
Balance, end of year	**$ 3,401,871**	**$ 2,571,412**

Foreclosed assets (included within other assets) of $880,041 and $760,931 as of December 31, 2009 and 2008, respectively, are presented net of a valuation allowance for losses. The following is a summary of the changes in the allowance for foreclosed asset losses during the years ended December 31:

	2009	2008
Balance, beginning of year	**$ 72,326**	**$ -**
Charge offs	(201,843)	(80,559)
Provision for losses	140,842	152,885
Balance, end of year	**$ 11,325**	**$ 72,326**

5. LOAN SERVICING

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2009 and 2008, approximate $218 million and $175 million, respectively; such loans are not included on the accompanying consolidated balance sheets.

The fair values of mortgage servicing rights were $1,964,000 and $1,699,000 at December 31, 2009 and 2008, respectively. The fair value of servicing rights was determined using discount rates ranging from 7.91% to 7.96%, and prepayment speeds ranging from 13.42% to 17.17%, depending upon the stratification of the specific right.

The following summarizes the carrying value and the changes therein of mortgage servicing rights for the years ended December 31:

	2009	2008
Mortgage servicing rights		
Balance at beginning of year	$ 816,360	$ 718,332
Mortgage servicing rights capitalized	1,022,574	357,813
Mortgage servicing rights amortized	(539,626)	(259,785)
Balance at end of year	**$ 1,299,308**	**$ 816,360**

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows at December 31:

	2009	2008
Land and improvements	$ 1,053,508	$ 1,053,508
Buildings and improvements	4,923,206	4,923,206
Leasehold improvements	492,937	492,937
Furniture and equipment	5,319,084	5,036,282
Total	11,788,735	11,505,933
Less accumulated depreciation	7,082,109	6,501,958
Premises and equipment, net	**$ 4,706,626**	**$ 5,003,975**

Depreciation expense amounted to $580,151 and $605,391 in 2009 and 2008, respectively.

7. CORE DEPOSIT INTANGIBLES

Core deposit intangibles were as follows as of December 31:

	2009	2008
Core deposit intangibles	$ 2,240,592	$ 2,240,592
Less accumulated amortization	2,240,592	2,225,755
Core deposit intangibles, net	**$ -**	**$ 14,837**

8. DEPOSITS

Time deposits of $100,000 or more were $21,567,057 and $25,796,310 as of December 31, 2009 and 2008, respectively. Interest expense for these deposits amounted to $675,257 and $960,223 in 2009 and 2008, respectively.

Scheduled maturities of time deposits for each of the years succeeding December 31, 2009 are summarized as follows:

Year	Amount
2010	$ 38,815,609
2011	17,587,105
2012	6,290,429
2013	4,631,900
2014	5,206,412
Total	**$ 72,531,455**

9. OTHER BORROWED FUNDS

Federal Home Loan Bank Advances

Outstanding Federal Home Loan Bank borrowings are collateralized by a blanket lien on all qualified 1-to-4 family whole mortgage loans with carrying values totaling approximately $27,404,000 and $31,145,000 at December 31, 2009 and 2008, respectively.

Federal Home Loan Bank borrowings and their contractual maturities are summarized as follows at December 31:

		2009	2008
Putable fixed rate advances:			
November 30, 2009	4.00%	$ -	$ 1,525,000
April 28, 2010	4.25%	1,600,000	1,600,000
November 30, 2010	4.89%	5,000,000	5,000,000
May 16, 2011	3.36%	1,994,631	3,000,000
November 14, 2012	4.93%	2,300,000	2,300,000
June 15, 2015	4.55%	895,723	924,646
December 1, 2016	4.77%	1,700,000	1,700,000
		$ 13,490,354	**$ 16,049,646**

Line of Credit Borrowings

The Corporation's line of credit note payable consists of outstanding draws on a $2,000,000 revolving credit facility with interest on borrowings charged at the prime rate less 1% with a floor of 3.25% (effective rate of 3.25% at December 31, 2009). The agreement expires on September 30, 2010. Borrowings are collateralized by 100% of the Bank's outstanding common stock. The borrowing agreement contains restrictive covenants which require the Bank to maintain well-capitalized ratios as defined by Federal Reserve Bank guidelines, allowance for loan losses to total loans of at least 1.0%, to limit non-performing assets to 25% of equity, and minimum return on average assets of 0.75%.

10. FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following components for the years ended December 31:

	2009	2008
Currently payable	$ 1,284,600	$ 1,086,000
Deferred benefit	(33,000)	(132,000)
Total provision	**$ 1,251,600**	**$ 954,000**

Federal income tax expense differs from the statutory federal income tax rate applied to pre-tax income primarily due to tax-exempt income for both 2009 and 2008 and nondeductibility of writedowns of certain other-than-temporarily impaired investment securities in 2008.

The components of the net deferred income tax liability included within other liabilities resulted from the following temporary differences between the carrying amounts of assets and liabilities for federal income tax and financial reporting purposes as of December 31:

	2009	2008
Deferred tax assets		
Allowance for loan losses	$ 1,073,842	$ 787,649
Deferred compensation	56,688	62,623
Impairment of preferred stock	170,000	170,000
Non-accrual interest	78,072	43,667
Other real estate owned	3,851	24,591
Other	42,137	39,735
Total deferred tax assets	**1,424,590**	**1,128,265**
Deferred tax liabilities		
Premises and equipment	(69,681)	(114,909)
Discount accretion	(8,378)	(7,238)
Deferred loan fees, net	(329,069)	(350,220)
Mortgage servicing rights	(441,765)	(277,562)
Prepaid expenses	(141,264)	(105,573)
Intangible assets	(513,348)	(384,704)
Unrealized gain on available-for-sale securities	(38,000)	(1,998)
Other	(11,676)	(11,650)
Total deferred tax liabilities	**(1,553,181)**	**(1,253,854)**
Net deferred tax liability	**$ (128,591)**	**$ (125,589)**

The Corporation and its subsidiary are subject to U.S. federal income tax. The Corporation is no longer subject to examination by taxing authorities for years before 2006. There are no material uncertain tax positions requiring recognition in the Corporation's consolidated financial statements. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. The Corporation does not have any amounts accrued for interest and penalties at December 31, 2009, and is not aware of any claims for such amounts by federal income tax authorities.

11. SHARE-BASED PAYMENTS

Stock Compensation Plan

A ten-year Stock Compensation Plan was adopted by the Corporation in April 2007. Under the plan, the Corporation and its subsidiary may grant common stock purchase options, shares of restricted stock, and stock appreciation rights to its directors, officers, and key employees. The aggregate number of shares under option stock and restricted stock that may be issued and outstanding pursuant to the exercise of options, the granting of restricted stock awards or stock appreciation rights under this plan may not exceed 74,000 shares. During 2009 and 2008, no stock options were granted nor stock appreciation rights awarded under the plan.

The Corporation issued 5,360 and 4,920 shares of restricted common stock in 2009 and 2008, respectively. The fair value of restricted stock at the grant date was determined by the Corporation's Board of Directors based on the weighted-average selling price of the Corporation's common stock for the previous four quarters ($21.87 and $22.75 per share in 2009 and 2008, respectively). Under the provisions of the plan, the Corporation cannot be obligated to "cash-settle" any of the restricted stock awards through redemption. The shares become vested ratably over a four-year period on December 31 of each year if the designated performance criteria are met for that year. During the period the shares are not vested, the grantee may not sell, assign, transfer or pledge the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Restricted stock is immediately forfeited when the employment of a grantee is terminated. Noninterest expense is recognized for the fair value of the vested shares as of the vesting date. During 2009, of the 5,360, 4,920, and 7,620 shares of restricted stock issued in 2009, 2008, and 2007, respectively, grantees became fully vested in a total of 4,230 shares ($21.95 per share). During 2008, no additional shares became fully vested related to the restricted stock issued in both 2008 and 2007. Included within the Corporation's consolidated statements of income is compensation expense of $71,187 and $ -0- in 2009 and 2008, respectively, and directors' fees expense of $21,323 and $ -0- in 2009 and 2008, respectively, related to the vested shares under the plan. Basic and diluted earnings per share were impacted by approximately $0.01 and $ -0- in 2009 and 2008, respectively, related to the cumulative effect. As of December 31, 2009 and 2008, respectively, cumulative unrecognized compensation costs related to nonvested restricted stock awards had balances of $200,376 and $179,739 and are presented as a reduction of shareholders' equity. A corresponding increase to shareholders' equity for both 2009 and 2008 is presented within common stock, resulting in a $ -0- impact on total shareholders' equity as of December 31, 2009 and 2008.

Incentive Stock Option Plan

A ten-year Incentive Stock Option Plan was adopted in 1995 in which options may be granted to officers and other key employees to purchase up to 40,000 shares of common stock at fair value on the date of grant. Options are exercisable, in whole or in part, beginning two years and expiring ten years after the date of grant. Effective February 8, 2005, the Incentive Stock Option Plan was terminated in accordance with the Plan document. As such, there were no options available for grant as of December 31, 2009 or 2008.

A summary of activity in the Incentive Stock Option Plan during 2009 and 2008 is as follows:

	Options Available for Grant	Options Outstanding	Weighted Average Exercise Price
Outstanding, January 1, 2008	-	17,860	$ 36.82
Exercised	-	-	-
Terminated (retirees did not exercise and expiration)	-	(3,620)	-
Outstanding, December 31, 2008	-	14,240	$ 37.89
Exercised	-	-	-
Terminated (retirees did not exercise and expiration)	-	(4,640)	-
Outstanding, December 31, 2009	**-**	**9,600**	**$ 38.00**

For stock options outstanding at December 31, 2009 and 2008, the range of exercise prices per share was between $36.00 and $40.00 for both years, and the weighted average remaining contractual terms were 1.2 and 2.2 years, respectively. At December 31, 2009 and 2008, 9,600 and 14,240 options were exercisable at weighted average exercise prices of $38.00 and $37.89 per share, respectively.

12. EMPLOYEE BENEFIT PLANS

A noncontributory pension/profit sharing plan covers all salaried employees following the completion of 1 year of employment (1,000 hours in a 12 consecutive month period) and who are 21 years of age or older. Contributions to the plan are made annually to the employees' plan account. The amount of each contribution is determined by the Board of Directors.

During 2006, the Bank introduced a complementary Safe Harbor 401(k) plan for eligible employees, following three consecutive months of service. The Bank makes a "Safe Harbor" match contribution in the amount of 100% of the employees' contribution. The percentage rate applies to only the first 5% of the employees' Plan Salary.

Contribution expense related to the noncontributory pension/profit sharing plan was approximately $463,000 and $60,000 in 2009 and 2008, respectively. Contributions to the Safe Harbor 401(k) plan were $227,000 and $223,000 in 2009 and 2008, respectively.

13. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities

During 2009 and 2008, collateral was repossessed related to mortgage loans receivable of $1,399,389 and $848,015, respectively, which amounts were then transferred to foreclosed assets.

Other Cash Flows Information

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2009	2008
Interest	$ 3,724,661	$ 5,289,749
Income taxes	$ 1,684,309	$ 761,027

14. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their related interests. Annual activity approximated the following amounts during the years ended December 31:

	2009	2008
Beginning balance	$ 1,569,000	$ 1,592,000
New loans	2,242,000	2,104,000
Repayments	(2,013,000)	(2,127,000)
Ending balance	**$ 1,798,000**	**$ 1,569,000**

Deposits

Deposits of Corporation directors, executive officers and their related interests were approximately $445,000 and $575,000 at December 31, 2009 and 2008, respectively.

15. OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank 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 may 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 sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy to make such commitments, including collateral, as is followed for on-balance sheet instruments; no significant losses are anticipated as a result of these commitments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	Contract Amount	
	2009	2008
Unfunded commitments under lines of credit	$ 56,283,000	$ 51,522,000
Commitments to grant loans	21,414,000	2,394,000
Standby letters of credit	939,000	2,625,000

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 interest rates, 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 Bank, is based on management's credit evaluation of the customer. A portion of these commitments are uncollateralized.

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines-of-credit usually do contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed; a portion is uncollateralized.

Approximately 31% of the above commitments are at fixed rates of interest.

Standby letters of credit are conditional commitments issued by the Bank to guarantee a customer's performance to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary and at December 31, 2009 and 2008 such collateral amounted to $1,494,633 and $1,501,812, respectively. Guarantees that are not derivative contracts have been recorded on the Corporation's consolidated balance sheet at their fair value at inception. The Company considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2009.

Approximately $633,000 of the total commitments were to related parties as of December 31, 2009.

16. DERIVATIVE FINANCIAL INSTRUMENTS

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Corporation utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Corporation commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Corporation fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Corporation commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Corporation expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of undesignated forward loan sale commitments was $194,350 and $124,400 at December 31, 2009 and 2008, respectively.

The fair values of the rate lock loan commitments related to the origination or acquisition of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in these consolidated financial statements.

Collateral Requirements

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

17. REGULATORY MATTERS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by the federal banking agencies that if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines involving quantitative measures of their assets, liabilities, and certain off-balance sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measurements established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios

(set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined). Management believes as of December 31, 2009 and 2008, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the most recent notification that management believes have changed the Bank's category.

The Corporation's and the Bank's actual and required capital amounts and ratios are as follows (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital to risk weighted assets						
Corporation	$ 29,824	11.7%	$20,330	8.0%	$ N/A	N/A%
Bank	30,640	12.1	20,330	8.0	25,412	10.0
Tier 1 capital to risk weighted assets						
Corporation	26,645	10.5	10,165	4.0	N/A	N/A
Bank	27,461	10.8	10,165	4.0	15,247	6.0
Tier 1 capital to average assets						
Corporation	26,645	8.3	12,822	4.0	N/A	N/A
Bank	27,461	8.6	12,822	4.0	16,027	5.0
As of December 31, 2008						
Total capital to risk weighted assets						
Corporation	$ 28,755	11.7%	$19,648	8.0 %	$ N/A	N/A%
Bank	29,665	12.1	19,648	8.0	24,560	10.0
Tier 1 capital to risk weighted assets						
Corporation	26,184	10.7	9,824	4.0	N/A	N/A
Bank	27,094	11.0	9,824	4.0	14,736	6.0
Tier 1 capital to average assets						
Corporation	26,184	8.6	12,120	4.0	N/A	N/A
Bank	27,094	8.9	12,120	4.0	15,150	5.0

Restrictions on Cash and Amounts Due from Banks

The Bank is required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. Required reserve balances were $5,640,000 and $4,767,000 at December 31, 2009 and 2008, respectively.

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 OCC is required if the total dividends declared by the Bank in a calendar year exceed the sum of the retained net income of the Bank for the current year plus its retained net income for the two preceding years, less any required transfers from retained earnings to common stock (as defined). 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 capital standards. At January 1, 2010, the Bank did not have any retained earnings available for the legal payment of dividends, without prior approval from the regulators.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's contributed capital (par value common stock and additional paid-in capital). Accordingly, at December 31, 2009, Bank funds available for loans or advances to the Corporation amounted to approximately $1,079,000.

18. CONTINGENCIES

Litigation

The Corporation may be party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate in foreclosure proceedings, the Bank is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted at December 31, 2009.

19. COMMON STOCK ACTIVITY

During 2009, no shares of the Corporation's common stock were redeemed. Between the months of March and December 2008, 35,954 shares of the Corporation's common stock were redeemed at prices that ranged from $21.61 to $23.67 per share. Common stock was reduced for a portion of the repurchase price using a prorata allocation based on the amounts originally identified with the original issuance of the common shares, with the remainder charged to retained earnings. The redeemed shares reverted back to the status of authorized but unissued shares.

20. FAIR VALUE

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale, trading securities, derivatives and certain liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, foreclosed assets, mortgage servicing rights, held-to-maturity securities, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Fair Value Hierarchy

Fair Value Measurement standards established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active market that the Corporation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a

description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities

Investment securities classified as available-for-sale are recorded at fair value on a recurring basis. The Corporation does not record held-to-maturity investments at fair value on a recurring basis, however, these securities may have an other than temporary impairment. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities in active markets. Securities classified as Level 3 include securities in less liquid markets, including illiquid markets in some instances, and include certain municipal securities, money market preferred and student loan auction rate securities.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. The fair value of loans held-for-sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Corporation classifies loans held for sale subjected to nonrecurring fair value adjustments as Level 2 valuations. At December 31, 2009 and 2008, there was no impairment recorded for loans held for sale and, therefore, no loans held for sale were recorded at fair value on a nonrecurring basis.

Loans

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, and liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2009 and 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2 valuations. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the impaired loan as nonrecurring Level 3 valuations.

Foreclosed Assets

The carrying amounts for foreclosed assets are reported in the consolidated balance sheets under "Other assets." Upon transfer from the loan portfolio, foreclosed assets are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the foreclosed asset as nonrecurring Level 2 valuations. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the foreclosed asset as nonrecurring Level 3 valuations.

Mortgage Servicing Rights

Mortgage servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies loan servicing rights subjected to nonrecurring fair value adjustments as a Level 3 valuation. At December 31, 2009 and 2008, there was no impairment recorded for mortgage servicing rights and, therefore, no mortgage servicing rights assets were recorded at fair value on a nonrecurring basis.

Goodwill

Goodwill is subject to impairment testing. A projected cash flow valuation method is used in the completion of impairment testing. This valuation method requires a significant degree of management judgment. In the event the projected undiscounted net operating cash flows are less than the carrying value, the asset is recorded at fair value as determined by the valuation model. If the testing resulted in impairment, the Corporation would classify goodwill and other intangible assets subjected to nonrecurring fair value adjustments as a Level 3 valuation. At December 31, 2009 and 2008, no goodwill impairment was recorded and, therefore, no goodwill was recorded at fair value on a nonrecurring basis.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 3,773,985	$ -	$ 3,773,985
Mortgage-backed securities	-	4,290,686	-	4,290,686
Money market preferred securities	-	466,340	-	466,340
Preferred stock	873,800	281,000	-	1,154,800
Total assets at fair value	**$ 873,800**	**$ 8,812,011**	**$ -**	**$ 9,685,811**
2008				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 4,150,126	$ -	$ 4,150,126
Mortgage-backed securities	-	4,230,261	-	4,230,261
Money market preferred securities	-	1,290,650	399,350	1,690,000
Total assets at fair value	**$ -**	**$ 9,671,037**	**$ 399,350**	**$ 10,070,387**

The following table sets forth a summary of changes in the fair value of the Company's Level 3 assets measured at fair value on a recurring basis:

	Money Market Preferred Securities
2009	
Balance of recurring Level 3 assets at January 1, 2009	$ 399,350
Total gains or losses (realized/unrealized):	
Included in earnings-realized	-
Included in earnings-unrealized	-
Included in other comprehensive income	-
Purchases, sales, issuances and settlements, net	-
Transfers in and/or out of Level 3	(399,350)
Balance of recurring Level 3 assets at December 31, 2009	**$ -**
2008	
Balance of recurring Level 3 assets at January 1, 2008	$ 600,000
Total gains or losses (realized/unrealized):	
Included in earnings-realized	(200,650)
Included in earnings-unrealized	-
Included in other comprehensive income	-
Purchases, sales, issuances and settlements, net	-
Transfers in and/or out of Level 3	-
Balance of recurring Level 3 assets at December 31, 2008	**$ 399,350**

Assets Recorded at Fair Value on a Nonrecurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a non-recurring basis as of December 31:

2009	Level 1	Level 2	Level 3	Total Carrying Value
Loans (1)	$ -	$ -	$1,305,886	$1,305,886
Foreclosed assets (2)	-	-	164,925	164,925
2008				
Foreclosed assets (2)	$ -	$ -	$ 322,660	$ 322,660

(1) Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1,305,886, resulting in an additional provision for loan losses of $300,000 for the year ended December 31, 2009.

(2) Foreclosed assets, which are carried at the lower of carrying value or fair value, were written down from cost to $164,925 and $322,660, resulting in a charge of $11,325 and $72,326 to earnings for the year ended December 31, 2009 and 2008, respectively.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

The following methods and assumptions were used to estimate the fair values for the Corporation's financial instruments. The carrying amount is considered to estimate fair value for cash and cash equivalents, federal funds purchased, Federal Reserve Bank stock, Federal Home Loan Bank stock, demand deposits, savings deposits, NOW and money market deposits, accrued interest, variable rate loans that reprice frequently and fully, and the line of credit that has a variable rate. For fixed rate loans or deposits, the fair value is estimated by discounted cash flow analysis using current market rates for the estimated life and credit risk. The fair values of long-term FHLB advances are estimated using discounted cash flow analyses based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements. The estimated fair value for other financial instruments and off-balance sheet items were not included as the amounts were not material at the reporting dates presented.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows (in thousands):

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 31,425	$ 31,425	$ 18,187	$ 18,187
Investment securities held-to-maturity	15,857	15,823	8,678	8,684
Federal Reserve Bank stock	324	324	324	324
Federal Home Loan Bank stock	804	804	804	804
Loans held for sale	194	194	553	553
Net loans	258,464	265,063	252,967	251,717
Mortgage servicing rights	1,299	1,964	816	1,699
Accrued interest receivable	1,095	1,095	1,065	1,065
Liabilities				
Deposits	$ 284,666	$ 285,147	$ 256,256	$ 256,881
FHLB advances	13,490	13,461	16,050	14,433
Line of credit	961	961	961	961
Accrued interest payable	170	170	295	295

Jonesville Office Circa Late 1970s

Construction of One South Howell Street Office 1987

Construction of 31 South Howell Street Office Circa 1968

Shareholder **STORIES**

My parents, John and Ruth Maxfield, lived next door to Buchanan's on Oak Street in Hillsdale. The time was the mid-50's, I was a teenager, as were the two Buchanan sons, Stuart and Bruce. Bruce and I were in the same French class. It was a simple time when neighbors were "neighbors".

Dad had conversations with "Buck" Buchanan as he was known, who encouraged my father to purchase bank stock at that time. Fortunately, Dad listened, and those neighborly conversations resulted in me becoming a shareholder years later. I returned to Hillsdale two summers ago after an absence of many years. What an encouraging sign it was to see how the bank had grown. My husband and I were treated with the utmost respect as we conducted our business. Additionally, your President and CEO, Craig Connor, took the time to personally invite us into his office to become acquainted! **How nice to know that Hillsdale and CNB Community Bancorp, Inc. has retained its neighborliness and its small town "goodness", yet is progressive in its business decisions.**

— Gail (Maxfield) Moss, Rockport, Maine

My parents, Kenneth G. and Flora G. Prettie, moved to Hillsdale in 1925 when my father opened his law practice. They lived their whole married lives in Hillsdale. My father joined the board of the Hillsdale County National Bank and was a member of the board until he resigned in 1972, when he became Circuit Court Judge. Upon our parents' deaths, my sister and I inherited their stock in the bank. Her stockbroker and mine each suggested we sell the stock because neither knew anything about it. Both of us elected to retain the stock. We think it was a good decision.

Until the recent market downturn, the stock had increased in value on a steady basis. Over the years, the bank has also paid reasonable dividends. **Because the bank conducted their business on a conservative basis, it has not experienced the drastic reversals that many banks have experienced due to bad business practices.**

I remember the Hillsdale County Bank when it was a small, old fashioned bank in the middle of the block on Howell Street, and Louis Greenley was President. It has been interesting to visit the lovely new facilities and to see the addition of many branches in the surrounding area.

— Portia Prettie Anderson

At the time of my joining CNB in 1983, the bank stock was a prized possession and seldom available for purchase. Whenever I became aware that someone wanted to sell CNB stock and I felt I could "afford" it, I attempted to purchase it a little at a time. I still try to do this to this day because it is considered a great long-term investment, paying a dividend in excess of 3% at today's price of $22 per share. **Comparing CNB to other Michigan banks also encourages one to continue to invest in its stock because of the continuity of earnings and dividends and because I believe CNB ranks with the safest and strongest banks in the nation.**

— Norm Rodgers

75 Years of **GROWTH**

I would like to thank my parents for investing in the Hillsdale County Bank stock, as now that I'm a widow it helps me live a better life style. I hope my children will keep the stock and then pass them onto their children. **I get excited when a check comes each quarter – it's coming from my roots! Thank you for your continuing service.**

— Name Withheld by Request

My husband joined the Board of Directors of the Grosvenor Savings Bank in the early 1940's. He was required to purchase stock in the amount of $200. At that time, $200 was a lot of money, as I had to work two months in an attorney's office to earn that amount.

He served on this board until Grosvenor Savings Bank and Hillsdale County National Bank merged. At that time, he joined the board of Hillsdale County National Bank. One of his proudest accomplishments was his lead role in the establishment of the Trust Department. Prior to the establishment of our Trust Department, customers were driving to Grand Rapids for trust services and now they were able to receive those services at their local community bank. According to by-laws, he retired from the Board of Directors shortly after turning age 70. **All of our children have CNB stock and our son now serves on the board. An appreciative shareholder for nearly 70 years.**

— Mary Alice Pope

It was with interest that I noted that the Hillsdale County National Bank was chartered the same year that I was born. HCNB has been an integral part of the life of my family for as long as I can remember.

My maternal grandfather, O.G. McFarland, M.D., was (as early as I can remember) proud of his association with and ownership of stock in the Bank. The "Report to the Stockholders and Friends of the Bank" for the year 1957 commented on my grandfather's death as follows: "It was in large part through the effort of Dr. McFarland that this bank was reorganized and through his devotion to duty as a member of the Board that the bank has grown and prospered."

My father and mother (Albert W. and Kathleen Dimmers) continued the family association with the Bank by owning and buying stock in the Bank and using HCNB banking services throughout their lives. In addition, my father was honored, as was I, to serve as a member of the Hillsdale County National Bank Board of Directors for a number of years.

A small town such as Hillsdale is fortunate indeed to have a community bank such as HCNB serving the needs of its residents. The staff and employees of such a bank are able to know and look upon their customers as neighbors and friends – not as just another balance sheet. Bank presidents I have known, namely: Buck Buchanan, Jim Tamblyn, Norm Rodgers, and now Craig Connor have all been outstanding gentlemen and bankers honored by their peers. In addition, the rest of the employees and staff of the Bank have served their community well. Congratulations to Hillsdale County National Bank, its officers, staff, and employees on 75 years of outstanding service.

— Alan M. Dimmers

2009 OFFICERS

Top Left Photo, Front Row (L to R)
Phyllis J. Brooks, 2nd Vice President – Consumer Loans
Lois E. Howard, Vice President – Commercial Loans
Luann J. Crowley, 2nd Vice President – Mortgage Loans
Middle Row
Jeffrey S. Jackson, Consumer Loan Officer
Back Row (L to R)
Ronald J. Haber, 2nd Vice President – Commercial Loans
Scott E. Evans, Vice President – Senior Mortgage Officer

Second Left Photo, Front Row
Debra K. Storer, Underwriter Operations Officer
Back Row (L to R)
Dorene M. Shaw, Vice President – Chief Auditor
Rae A. Organ, Assistant Vice President – Bank Secrecy & Security Officer
Michelle R. Graber, Assistant Vice President – Compliance Officer

Third Left Photo, Front Row (L to R)
Craig R. Burlingame, Branch Officer – Homer, **Donald W. Germann**, Branch Officer – Jonesville
Back Row (L to R)
Michelle L. Caldwell, Branch Officer – Litchfield, **Robin G. Pelham**, Branch Officer – Somerset Center
AnnMarie Sanders, Assistant Vice President – Commercial Loan Officer

Fourth Left Photo, Front Row (L to R)
Wendora K. Broesamle, Branch Officer – Main Office
Sandra K. Grimm, Assistant Vice President – Data Processing
Debra S. Smith, 2nd Vice President – Accounting
Back Row (L to R)
Diane K. Clow, Vice President – Director of Human Resources
Cindy Dwyer, Vice President – Technology

Fifth Left Photo (L to R)
Timothy P. Sullivan, Assistant Vice President – Trust Officer
Christine L. Walworth, Assistant Vice President – Trust Operations Officer
L. Michelle Heminger, 2nd Vice President – Administration
Mary P. Marshall, Vice President – Senior Trust Officer

Top Right Photo (L to R)
Craig S. Connor, President & Chief Executive Officer
Spencer D. Swank, Executive Vice President & Chief Financial Officer

Second Right Photo, Front Row (L to R)
Robert J. Wrozek, Branch Officer – Horton Road Office, **Craig D. Talbert,** Mortgage Officer – Cortland Office
Gwenda J. Ripley, Branch Officer – Cortland Office, **Suzanne N. Schindler,** Mortgage Officer – Jackson
Kelly D. Jensen, Assistant Vice President & Branch Officer – Spring Arbor
Back Row (L to R)
Ryan R. Ambs, Branch Officer – Wisner Office
John R. Waldron, Vice President – Senior Loan Officer
William C. Jors, Assistant Vice President – Commercial Loan Officer – Jackson

County National Bank

Total Assets

2009- $330,356,000

2004- $260,383,809

1994- $125,000,661

1984- $83,232,863

1974- $41,756,580

1964- $15,373,023

1954- $3,258,329

1944- $1,511,000

1934-$181,340

75 Years of **GROWTH**

www.countynationalbank.com

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