County Bank Corp

2010 ANNUAL REPORT

PRESIDENT'S LETTER

County Bank Corp

To Our Stockholders, Customers and Friends:

Much like 2009, the protracted economic recession and its affect on the financial services industry, dominated the banking environment in 2010. The list of troubled banks continued to grow as real estate prices fell and failed to stabilize. Unemployment rates in Michigan remained excessively high as job growth in the post recession economy failed to materialize.

Undoubtedly, the Bank's operating environment impacted its financial performance in 2010. While profitable in every month of the year, capital constraints required the elimination of a dividend beginning in the 2nd quarter. The pace of deposit growth slowed considerably in 2010, allowing the Corporation's leverage capital ratio to stabilize in the 9% range, still well above regulatory guidelines for being categorized as well capitalized.

For the year, some of the Corporation's financial highlights include:

- Net profit of $743,000, representing an increase of $238,000 or 47% over 2009
- Total loans of $192,000,000, up in excess of $11,000,000 or 6% over 2009
- Total deposits of $261,000,000, down approximately $6,000,000 or (2%) from 2009, with most of the decrease in the long-term certificate of deposit category
- ROE of 2.80% compared to 1.87% in 2009
- ROA of .27% compared to .18% in 2009
- EPS of $.69 compared to $.47 in 2009 and a book value of $25.21 at December 31, 2010.

The unstable operating environment and slow economic recovery continued to affect asset quality. As a result, the Bank continued its relatively large contribution to the allowance for loan and lease losses in 2010, totaling $4,150,000. However it is worth noting the contribution is down in excess of $1,000,000 from 2009 levels, suggesting slightly improving credit trends for the Bank's commercial and retail customer base. Previously identified operating efficiencies were incorporated in 2010 resulting in expense control savings in excess of $168,000, which should carry into 2011 and beyond.

Other highlights in 2010 featured the focused business development effort with in excess of 1,100 personal customer calls made during the year resulting in new loans of $1,700,000, new deposits of $900,000 and many new trust, funds management and merchant visa accounts. LCBT University was established in 2010 with a mission of creating and perpetuating sales, service and quality standards throughout the Bank. A customer retention program was inaugurated in the residential mortgage area, a targeted email marketing newsletter entitled *Business Connections* began in March and online banking and its many opportunities and conveniences were promoted.

The Bank sponsored or took part in the Lapeer Citizen of the Year breakfast banquet, Imlay City Expo, LUTAR Business Fair, Imlay City Blueberry Festival, Oxford Chamber of Commerce Women's Expo, Lapeer Community Schools Annual College Night, Lapeer Days Festival, Metamora Days Festival and many other events. The 9th annual ice cream social drew over 2,000 people and in excess of 100 customers and prospects were entertained at the 5th annual tailgate party at the Metamora Golf and Country Club.

The Bank continued its unparalleled financial support of the Lapeer County community acting upon 130 requests for donations or sponsorships including the Housing Resource Center, Human Development Commission, Imlay City Fair, Imlay City Blueberry Festival, Lapeer Regional Medical Center, Lapeer County Community Foundation, Lapeer Development Corporation, PIX Theater, Seven Ponds Nature Center, Lapeer Symphony Orchestra, Habitat for Humanity, LACADA, Zonta, Family Literacy Center, 4-H, Suncrest Auxiliary and the Holiday Depot to name a few.

The Bank announced the additions of Mr. Thomas Mitchell as the new Vice President and Trust Officer, Mr. Gary Shegina as the Assistant Trust Officer, Ms. Paula Boegner as Compliance and Security Officer, Mr. Bob Lennox as the Financial Officer and Mr. Walt Bargen as a Branch Officer and Business Development Specialist.

Ms. Bernadette Talaski and Ms. Shelly Childers were each promoted to Senior Vice President and Executive Officer. Also promoted in 2010 were Ms. Jennifer Ward to Branch Officer, Ms. Ashley Winter to Commercial Loan Officer and Mr. Pete Batistoni to Commercial Loan Manager.

Please take the opportunity to meet the new officers at the annual meeting and join me in congratulating the recently promoted officers. The Bank is fortunate to employ such high quality individuals. The combined experience, professionalism and dedication they bring to Lapeer County Bank & Trust Co. will serve the Bank well for many years to come.

Regrettably, we must announce the retirement of Ms. Carol Ugorowski, longtime Compliance and Security Officer, effective December 31st. Her commitment to service excellence was second to none. Also effective December 31st, Mr. Chuck Schiedegger retired from the Board of Directors after 19 years of dedicated service. We wish them both well in retirement and they will be missed.

Finally, please join the directors, officers, employees and me at the annual meeting on Friday, April 22, 2011. The meeting will take place at the Lapeer Country Club and begin promptly at 3:30 p.m. I hope to see you all there.

Very truly yours,

Bruce J Cady

Bruce J. Cady
President & CEO

front: **James F. Harrington**, President, H&H Tool, Inc.; **Bruce J. Cady**, President & CEO, Lapeer County Bank & Trust Co.; **Michael H. Blazo**, President, Kirk Construction; **Ernest W. Lefever**, D.P.M., Foot Specialists of Lapeer; **Timothy Oesch**, C.P.A., President, Nolin, Oesch & Sieting, P.C. ■ back: **David J. Churchill**, Attorney, Taylor, Butterfield, Riseman, Howell, Churchill, Jarvis & Stutz, P.C.; **Patrick A. Cronin**, Agent, State Farm Insurance; **Curt Carter**, Chairman, County Bank Corp; **David H. Bush**, O.D.; and **Eric (Rick) Burrough**, Owner JAMS Media and Michigan Web Press

Charles E. Schiedegger
RETIRED

Charles "Chuck" E. Schiedegger

Chuck Schiedegger retired from the Board of Directors at the end of 2010, after nineteen years as a dedicated and active director. He retired as President, Manufacturing Group, Tapco International, A Headwaters Co., in 2009. He also served on the Four County Community Foundation Board for 9 years. He remains an active member of the Lapeer Rotary Club.

FINANCIAL SUMMARY

AT YEAR END (000's omitted)	2010	2009	2008	2007
Assets	$ **289,317**	$ 294,362	$ 255,965	$ 264,523
Deposits	**261,088**	267,228	228,150	232,043
Loans	**191,728**	180,638	169,809	182,078
Securities	**72,122**	78,000	65,899	61,068
Stockholders' equity	**27,253**	26,370	26,824	30,946

FOR THE YEAR (000's omitted)	2010	2009	2008	2007
Net income (loss)	$ **743**	$ 505	$ (3,431)	$ 2,881
Cash dividend declared	**54**	378	919	1,730
Return on average assets (%)	**.27**	.18	(1.33)	1.07
Return on average stockholders' equity (%)	**2.80**	1.87	(11.61)	9.03

PER SHARE	2010	2009	2008	2007
Book value	$ **25.21**	24.39	$ 24.82	$ 28.63
Net income (loss)	**.69**	.47	(3.18)	2.67
Cash dividends declared	**.05**	.35	.85	1.60

CONSOLIDATED BALANCE SHEETS
(In Thousands Except Share Data)

	December 31 2010	December 31 2009
ASSETS		
Cash and due from banks	$ 8,757	$ 13,409
Federal funds sold	100	100
Cash and cash equivalents	**8,857**	**13,509**
Interest-bearing deposits in other banks	3,691	12,362
Investment securities	72,122	78,000
Federal Reserve Bank stock, at cost	541	541
Loans held for sale	4,438	-
Net loans	188,220	177,043
Premises and equipment, net	5,231	5,431
FDIC insurance premium	1,506	1,934
Accrued interest receivable and other assets	4,711	5,542
Total assets	**$ 289,317**	**$ 294,362**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Interest-bearing	$ 223,866	$ 234,633
Noninterest-bearing	37,222	32,595
Total deposits	**261,088**	**267,228**
Accrued interest payable and other liabilities	976	764
Total liabilities	**262,064**	**267,992**
Commitments and contingencies (Notes 11, 12 and 13)		
Stockholders' equity		
Common stock, $5 par value, 3,000,000 shares authorized, 1,080,946 shares issued and outstanding	5,404	5,404
Surplus	8,634	8,634
Retained earnings	12,847	12,158
Accumulated other comprehensive income	368	174
Total stockholders' equity	**27,253**	**26,370**
Total liabilities and stockholders' equity	**$ 289,317**	**$ 294,362**

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

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands Except Per Share Data)

	Year Ended December 31	
	2010	2009
Interest income		
Loans (including fees)	$ 10,714	$ 10,603
Investments	2,625	2,859
Federal funds sold	-	1
Interest on deposits with other banks	36	36
Total interest income	**13,375**	**13,499**
Interest expense	**2,968**	**3,837**
Net interest income	**10,407**	**9,662**
Provision for loan losses	4,150	5,200
Net interest income, after provision for loan losses	**6,257**	**4,462**
Noninterest income		
Service charges on deposit accounts	1,450	1,923
Net gain on sales or calls of investment securities	298	1,112
Trust income	609	586
Other	1,064	1,188
Total noninterest income	**3,421**	**4,809**
Noninterest expenses		
Salaries and employee benefits	5,103	5,112
Occupancy and equipment	961	1,062
FDIC assessment	465	739
Net loss on sale of other real estate	23	39
Other	2,405	2,136
Total noninterest expenses	**8,957**	**9,088**
Income before federal income tax benefit	**721**	**183**
Federal income tax benefit	22	322
Net income	**$ 743**	**$ 505**
Net income per basic share of common stock	**$ 0.69**	**$ 0.47**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands)

	Year Ended December 31	
	2010	2009
Available-for-sale securities		
Unrealized holding gains arising during the year	$ 590	$ 231
Reclassification adjustment for net realized gains included in net income	(298)	(1,112)
Other comprehensive income (loss) before income tax (expense) benefit	**292**	**(881)**
Income tax (expense) benefit related to other comprehensive income (loss)	(98)	300
Other comprehensive income (loss)	**194**	**(581)**
Net income	743	505
Comprehensive income (loss)	**$ 937**	**$ (76)**

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands Except Share Data)

	Common Stock				Accumulated Other	
	Shares	Amount	Surplus	Retained Earnings	Comprehensive Income	Total
Balances, January 1, 2009	**1,080,946**	**$ 5,404**	**$ 8,634**	**$ 12,031**	**$ 755**	**$ 26,824**
Comprehensive loss				505	(581)	(76)
Cash dividends paid ($0.35 per share)				(378)		(378)
Balances, December 31, 2009	**1,080,946**	**5,404**	**8,634**	**12,158**	**174**	**26,370**
Comprehensive income				743	194	937
Cash dividends paid ($0.05 per share)				(54)		(54)
Balances, December 31, 2010	**1,080,946**	**$ 5,404**	**$ 8,634**	**$ 12,847**	**$ 368**	**$ 27,253**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31 2010	2009
Cash flows from operating activities		
Net income	$ 743	$ 505
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	4,150	5,200
Provision for foreclosed asset losses	189	250
Depreciation	394	465
Net amortization of investments	672	438
Deferred income tax benefit	(87)	579
Net gain on sales or calls of investment securities	(298)	(1,112)
Net gain on sale of loans	(103)	(130)
Loss on sales of foreclosed assets	23	39
Gain on sales of equipment	-	(3)
Origination of loans held for sale	(8,846)	(18,381)
Proceeds from loan sales	8,949	18,511
Net changes in operating assets and liabilities which provided (used) cash		
FDIC insurance premium	428	(1,934)
Accrued interest receivable and other assets	746	462
Accrued interest payable and other liabilities	212	(227)
Net cash provided by operating activities	**7,172**	**4,662**
Cash flows from investing activities		
Net change in interest-bearing deposits in banks	8,671	(12,362)
Activity in available-for-sale securities		
Purchases	(47,876)	(62,052)
Maturities, prepayments, sales and calls	48,728	47,068
Activity in held-to-maturity securities		
Purchases	-	(316)
Maturities, prepayments and calls	4,944	2,992
Loan principal originations and collections, net	(16,559)	(16,052)
Purchase of loans held for sale	(4,438)	-
Proceeds from sales of foreclosed assets	1,094	1,156
Proceeds from sale of equipment	-	40
Premises and equipment expenditures	(194)	(125)
Net cash used in investing activities	**(5,630)**	**(39,651)**
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	(6,140)	39,078
Cash dividends paid	(54)	(378)
Net cash (used in) provided by financing activities	**(6,194)**	**38,700**
Net (decrease) increase in cash and cash equivalents	**(4,652)**	**3,711**
Cash and cash equivalents, beginning of year	13,509	9,798
Cash and cash equivalents, end of year	**$ 8,857**	**$ 13,509**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Business

The accompanying consolidated financial statements include the accounts of ***County Bank Corp,*** a registered bank holding Corporation (the "Corporation"), and its wholly owned subsidiary, Lapeer County Bank & Trust Co. (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation is independently owned and operates as a community bank engaged in the business of retail and commercial banking services through its seven branches located in the county of Lapeer in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of 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 or other manufacturing industry which comprise a significant portion of the local economic environment.

Concentration Risks

The Bank's primary deposit products are interest and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

The Bank is a state chartered bank and is a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund and the Federal Reserve System. The Bank is supervised and regulated by the Michigan Office of Financial and Insurance Regulation ("OFIR"), the Federal Reserve Board ("FRB"), and the FDIC. The Corporation is also subject to regulations of the Federal Reserve Board governing bank holding companies.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses, the fair value of certain investment securities, the valuation of foreclosed real estate, and the valuation of deferred tax assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Summary of Significant Accounting Policies
Accounting policies used in 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 and results of operations of the Corporation and the Bank are summarized below.

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 Bank maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

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

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 (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Investment Securities

Debt 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 are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains or losses on the sale of securities are recorded in investment income on the trade date and are determined using the specific identification method.

Investment securities are reviewed at each reporting period 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 the Bank will not have to sell the security before recovery of its cost basis. If neither of these conditions are met, the Corporation must recognize an other-than-temporary impairment charge through earnings for the difference between the debt security's amortized cost basis and its fair value, and such amount is included in noninterest income. For debt securities that do not meet the above criteria, and the Corporation does not expect to recover a security's amortized cost basis, the security is considered other-than-temporarily impaired. For these debt securities, the Corporation separates the total impairment into the credit loss component and the amount of the loss related to other factors. In order to determine the amount of the credit loss for a debt security, the Corporation calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The amount of the total other-than-temporary impairment related to the credit risk is recognized in earnings and is included in noninterest income. The amount of the total other-than-temporary impairment related to other risk factors is recognized as a component of other comprehensive income. For debt securities that have recognized an other-than-temporary impairment through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

Restricted Investments

The Bank is a member of the Federal Reserve Bank ("FRB") and is required to invest in capital stock of the FRB. The amount of the required investment is determined by the FRB and is carried at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Loans Held For Sale

Loans purchased and held for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income. Additionally, during 2010, the Corporation purchased a group of loans from another bank, which were considered held for sale and classified as such on the accompanying 2010 consolidated balance sheet.

Loans

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally 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 an adjustment of the related loan yield using the interest 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. 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 and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are 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 on these loans is accounted for on the cash-basis 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 could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the 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, the loans obtained market price, 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 does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

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 Corporation does not maintain effective control over the transferred assets through an agreement to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

repurchase them before their maturity. Other than servicing, as disclosed in Note 6, the Bank has no substantive continuing involvement related to these loans. The Corporation sold residential mortgage loans to an unrelated third party with proceeds of $8,949 and $18,511 as of December 31, 2010 and 2009, respectively, which resulted in a net gain of $103 and $130 in 2010 and 2009, respectively. Servicing fee income earned on such loans was $16 and $34 in 2010 and 2009, respectively, and is included in other noninterest income.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the purchase or 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 measured at fair value at each reporting date and changes in fair value are recorded in earnings in the periods in which the changes occur. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

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

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. Foreclosed assets of $1,321 and $1,395 are included in accrued interest receivable and other assets on the accompanying consolidated balance sheets at December 31, 2010 and 2009, respectively. Foreclosed assets, as of those dates are presented net of a valuation allowance of $263 and $200,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

respectively. Expenses related to foreclosed assets amounted to $309 and $342 in 2010 and 2009, respectively, and are included in other noninterest expenses on the accompanying consolidated statements of income.

Premises and Equipment
Buildings 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
In 2009, the Bank 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 which have been deferred on the accompanying December 31, 2010 and 2009 consolidated balance sheets as a prepaid asset, are expected to be expensed on a ratable basis quarterly through December 31, 2012.

Off-Balance Sheet Credit Related Financial Instruments
In the ordinary course of business, the Bank has entered into commitments to extend credit, including 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 they are funded.

Income Taxes
Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income 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 federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

Advertising Costs
The cost of advertising and promotions are expensed as incurred. The Corporation incurred $115 and $83 in advertising costs in 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Net Income Per Share
Net income per basic share of common stock represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year, which was 1,081 in 2010 and 2009.

Reclassifications
Certain amounts as reported in the 2009 consolidated financial statements have been reclassified to conform with the 2010 presentation.

Subsequent Events
In preparing these 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, 2010, the most recent balance sheet presented herein, through February 14, 2011, the date these consolidated financial statements were available to be issued.

2. FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Marketable securities available-for-sale 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 investment securities held-to-maturity, loans held for sale, foreclosed assets, mortgage servicing rights, 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.

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.

Cash and Cash Equivalents
The carrying amounts of cash and short-term instruments, including Federal funds sold, approximate fair values.

Interest-Bearing Deposits in Banks
The carrying amounts of interest-bearing deposits with unaffiliated banks approximate their fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

Investment Securities
Held to maturity securities are recorded at fair value on a nonrecurring basis, unless an other than temporary impairment is recorded. Investment securities classified as available for sale are recorded at fair value on a recurring basis. 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 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 2 securities include U.S. Treasury securities, mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities in active markets.

Federal Reserve Bank Stock
The carrying value of Federal Reserve Bank Stock approximates fair value based on the redemption provisions of the Federal Reserve.

Loans Held for Sale
Loans held for sale are carried at the lower of cost or fair 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 subjected to nonrecurring fair value adjustments as Level 2.

Loans
For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed interest rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of declines, if any, in the credit quality of borrowers since the loans were originated. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, 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, 2010 and 2009, substantially all of the 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. 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.

Accrued Interest Receivable
The carrying amounts reported in the consolidated balance sheets for interest receivable approximate their fair value.

Foreclosed 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 classifies the foreclosed asset as nonrecurring Level 2. 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 classifies the foreclosed asset as nonrecurring Level 3.

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 Level 3. At December 31, 2010 and 2009, 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.

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(In Thousands)

Interest- and Noninterest-Bearing Deposits
The fair values of demand deposit accounts, such as interest- and noninterest-bearing checking, savings and money market accounts, are equal to the amounts payable on demand. Fair values for interest-bearing deposits (time deposits) with defined maturities are based on the discounted value of contractual cash flows, using interest rates currently being offered for deposits of similar maturities. The fair values for variable-interest rate certificates of deposit approximate their carrying value.

Accrued Interest Payable
The carrying amounts reported in the consolidated balance sheets approximate fair values.

Commitments to Extend Credit, Standby Letters of Credit, and Undisbursed Loans
The Corporation's unused loan commitments, standby letters of credit and undisbursed loans have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused loan commitments have not been drawn upon and, generally, the Corporation does not receive fees in connection with these commitments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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 and liabilities measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 24,339	$ -	$ 24,339
States and municipal	-	6,664	-	6,664
Corporate	-	2	-	2
Mortgage-backed securities	-	32,238	-	32,238
Total assets at fair value	**$ -**	**$ 63,243**	**$ -**	**$ 63,243**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2009	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 28,116	$ -	$ 28,116
States and municipal	-	13,538	-	13,538
Corporate securities	-	8	-	8
Mortgage-backed securities	-	22,499	-	22,499
Total assets at fair value	**$ -**	**$ 64,161**	**$ -**	**$ 64,161**

Assets and Liabilities 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 and liabilities measured at fair value on a nonrecurring basis as of December 31:

2010	Assets at Carrying Value			
	Level 1	Level 2	Level 3	Total
Impaired loans (1)	$ -	$ -	$ 7,049	$ 7,049
Foreclosed assets (2)	-	-	1,321	1,321

2009	Assets at Carrying Value			
	Level 1	Level 2	Level 3	Total
Impaired loans (1)	$ -	$ -	$ 5,539	$ 5,539
Foreclosed assets (2)	-	-	1,395	1,395

(1) Impaired loans as of December 31, 2010 and 2009, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $7,049 and $5,539, respectively, resulting in an additional provision for loan losses of $392 and $890 for the years then ended, respectively.

(2) Foreclosed assets as of December 31, 2010 and 2009, respectively, which are carried at the lower of carrying value or fair value less cost to sell, were written down from cost to $1,321 and $1,395 resulting in charges of $189 and $250 to earnings for the years then ended, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

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 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:

	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and equivalents	$ 8,857	$ 8,857	$ 13,509	$ 13,509
Interest-bearing deposits in other banks	3,691	3,691	12,362	12,362
Investment securities held-to-maturity	8,879	9,032	13,839	14,063
Federal Reserve Bank Stock	541	541	541	541
Net loans	188,220	188,387	177,043	176,982
Accrued interest receivable	1,585	1,585	1,704	1,704
Foreclosed assets	1,321	1,321	1,395	1,395
Mortgage servicing rights	277	393	290	431
Liabilities:				
Interest-bearing deposits	$ 223,886	$ 225,209	$ 234,633	$ 228,275
Noninterest-bearing deposits	37,222	37,222	32,595	32,595
Accrued interest payable	173	173	415	415

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. 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:

2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity				
Mortgage-backed securities	$ 363	$ 8	$ -	$ 371
State and municipal	8,516	172	27	8,661
Total held-to-maturity	**8,879**	**180**	**27**	**9,032**
Available-for-Sale				
Government-sponsored enterprises	24,023	340	24	24,339
State and municipal	6,484	203	23	6,664
Corporate	7	-	5	2
Mortgage-backed securities	32,174	244	180	32,238
Total available-for-sale	**62,688**	**787**	**232**	**63,243**
Total	**$ 71,567**	**$ 967**	**$ 259**	**$ 72,275**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-Maturity				
Mortgage-backed securities	$ 449	$ 3	$ -	$ 452
State and municipal	13,390	292	71	13,611
Total held-to-maturity	**13,839**	**295**	**71**	**14,063**
Available-for-Sale				
Government-sponsored enterprises	28,451	38	373	28,116
State and municipal	13,049	505	16	13,538
Corporate securities	3	5	-	8
Mortgage-backed securities	22,395	112	8	22,499
Total available-for-sale	**63,898**	**660**	**397**	**64,161**
Total	**$ 77,737**	**$ 955**	**$ 468**	**$ 78,224**

Investment securities with carrying values of approximately $8,770 and $23,094 at December 31, 2010 and 2009, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

The amortized cost and fair value of held-to-maturity securities and available-for-sale securities grouped by contractual maturity at December 31, 2010, are summarized as follows:

	Maturing					
	Due In One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Over Ten Years	Securities With Variable Monthly Payments	Total
Held-to-maturity						
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ 363	$ 363
State and municipal	3,488	2,988	2,040	-	-	8,516
Total held-to maturity	**$ 3,488**	**$ 2,988**	**$ 2,040**	**$ -**	**$ 363**	**$ 8,879**
Available-for-sale						
Government-sponsored enterprises	7,802	4,402	8,819	3,000	-	24,023
State and municipal	1,030	2,632	2,426	396	-	6,484
Corporate	-	-	-	-	7	7
Mortgage-backed securities	-	-	-	-	32,174	32,174
Total available-for-sale	**$ 8,832**	**$ 7,034**	**$ 11,245**	**$ 3,396**	**$ 32,181**	**$ 62,688**
Total amortized cost	**$ 12,320**	**$ 10,022**	**$ 13,285**	**$ 3,396**	**$ 32,544**	**$ 71,567**
Fair value	**$ 12,415**	**$ 10,293**	**$ 13,580**	**$ 3,378**	**$ 32,609**	**$ 72,275**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed securities and Corporate securities are not reported by a specific maturity group.

During 2010 and 2009, proceeds from sales of available-for-sale securities amounted to approximately $33,660 and $24,808, respectively. Gross realized gains amounted to $356 and $1,119 during 2010 and 2009, respectively. Gross realized losses amounted to $58 and $7 during 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

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 is as follows:

2010	Less Than 12 Months		Over 12 Months			
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Total Gross Unrealized Losses
Held-to-maturity						
State and municipal	$ 1,201	$ 26	$ 19	$ 1	$ 1,220	$ 27
Available-for-sale						
Government-sponsored enterprises	$ 5,976	$ 24	$ -	$ -	$ 5,976	$ 24
Corporate	2	5	-	-	2	5
Mortgage-backed securities	15,867	172	687	8	16,554	180
State and municipal	767	22	300	1	1,067	23
Total securities available-for-sale	**$ 22,612**	**$ 223**	**$ 987**	**$ 9**	**$ 23,599**	**$ 232**

2009	Less Than 12 Months		Over 12 Months			
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Total Gross Unrealized Losses
Held-to-maturity						
State and municipal	$ 2,151	$ 31	$ 741	$ 40	$ 2,892	$ 71
Available-for-sale						
Government-sponsored enterprises	$ 19,393	$ 373	$ -	$ -	$ 19,393	$ 373
Mortgage-backed securities	1,338	8	-	-	1,338	8
State and municipal	1,437	16	-	-	1,437	16
Total securities available-for-sale	**$ 22,168**	**$ 397**	**$ -**	**$ -**	**$ 22,168**	**$ 397**

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As of December 31, 2010, the Corporation's investment security portfolio consisted of 186 securities, 29 of which were in an unrealized loss position. The majority of unrealized losses are related to the Corporation's mortgage-backed and state and municipal securities, as discussed below.

At December 31, 2010, the Corporation held 6 mortgage backed securities in an unrealized loss position, all of which were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, which the government has affirmed its commitment to support. Additionally, the Corporation held 20 state and municipal securities in an unrealized loss position. Because the decline in the market value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Corporation does not have the intent to sell these mortgage backed securities or state and municipal securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other than temporary impaired at December 31, 2010.

As of December 31, 2010 and 2009, management conducted an analysis to determine whether all securities currently in an unrealized loss position should be considered other-than-temporarily-impaired (OTTI). Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than 20% based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable that the issuer will be unable to pay the amount when due?
- Is it more likely than not that the Corporation will not have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended by more than 7 years?

Based on the Corporation's analysis using the above criteria, the fact that management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Corporation will not be required to sell the securities before recovery of their cost basis, management does not believe that the values of any securities are other-than-temporarily impaired as of December 31, 2010 or 2009.

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(In Thousands)

4. LOANS

The Bank grants commercial, consumer, and residential mortgage loans to customers situated primarily in Lapeer County, Michigan and the surrounding area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Substantially all of the consumer and residential loans are secured by various items of property, while commercial loans are secured primarily by business assets and personal guarantees; a portion of loans are unsecured.

Major loan classifications are summarized as follows at December 31:

	2010	2009
Mortgage loans		
Residential 1-4 family	$ 44,910	$ 41,762
Commercial	95,797	90,904
Construction	10,272	8,972
Equity lines of credit	15,197	14,925
Total mortgage loans	166,176	156,563
Commercial	21,333	18,794
Consumer installment loans	4,219	5,281
Total loans	191,728	180,638
Less		
Allowance for loan losses	3,508	3,595
Net loans	**$ 188,220**	**$ 177,043**

At December 31, 2010, scheduled maturities of loans with fixed rates of interest are as follows:

One year or less	$ 49,212
One to five years	90,824
Over five years	36,430
Total	**$ 176,466**

Variable rate loans of approximately $15,262 as of December 31, 2010, are re-priced quarterly or more frequently.

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The following is a summary of information pertaining to impaired and non-accrual loans as of and for the year ended December 31:

	2010	2009
Impaired loans without a valuation allowance	$ 2,530	$ 4,421
Impaired loans with a valuation allowance	4,519	1,118
Total impaired loans	$ 7,049	$ 5,539
Valuation allowance related to impaired loans	$ 392	$ 890
Loans on nonaccrual status	$ 3,040	$ 5,539
Average investment in impaired loans	$ 6,294	$ 6,718

Loans 90 days or more past due that are still accruing interest were not significant at either December 31, 2010 or 2009. Interest income recognized on impaired loans was not significant in 2010 or 2009.

No additional funds were committed to be advanced to customers whose loans were classified as nonaccrual or restructured at December 31, 2010.

Impaired loans include certain loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection. At December 31, 2010, the Corporation had $12,921 in total restructured loans, of which $1,406 were categorized as impaired and $11,515 were performing in accordance with their modified terms. At December 31, 2009, the Corporation had $9,535 in total restructured loans, of which $1,596 were categorized as impaired and $7,939 were performing in accordance with their modified terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. ALLOWANCE FOR LOAN LOSSES

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

	2010	2009
Balance, beginning of year	**$ 3,595**	**$ 2,463**
Loans charged off	(4,320)	(4,165)
Recoveries	83	97
Net charge-offs	(4,237)	(4,068)
Provision for loan losses	4,150	5,200
Balance, end of year	**$ 3,508**	**$ 3,595**

6. 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, 2010 and 2009, approximated $46,646 and $44,740, respectively; such loans are not included on the accompanying consolidated balance sheets.

The recorded values and activity pertaining to mortgage servicing rights were not significant during 2010 or 2009.

7. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts at December 31:

	2010	2009
Land and improvements	$ 1,434	$ 1,428
Buildings and improvements	5,752	5,747
Furniture and equipment	3,783	3,607
Total	10,969	10,782
Less accumulated depreciation	5,738	5,351
Premises and equipment, net	**$ 5,231**	**$ 5,431**

Depreciation expense was $394 and $465 for 2010 and 2009, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2010	2009
Interest-bearing		
Money market and NOW accounts	$ 120,131	$ 113,355
Savings	28,492	24,807
Time, $100,000 and over	31,560	47,395
Other time	43,683	49,076
Total interest-bearing	223,866	234,633
Noninterest-bearing demand	37,222	32,595
Total deposits	**$ 261,088**	**$ 267,228**

Interest expense on time deposits issued in denominations of $100,000 or more was $961 in 2010 and $1,392 in 2009.

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2010, are summarized as follows:

Year	Amount
2011	$ 39,774
2012	27,045
2013	2,339
2014	3,503
2015	2,582
Total	**$ 75,243**

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9. FEDERAL INCOME TAXES

The federal income tax benefit consists of the following components for the years ended December 31:

	2010	2009
Currently payable (refundable)	$ 65	$ (901)
Deferred taxes (benefit)	(87)	579
Income tax benefit	**$ (22)**	**$ (322)**

A reconciliation between federal income tax expense reported and the amount computed by applying the statutory federal income tax rate of 34% to income before federal income taxes is as follows for the years ended December 31:

	2010	2009
Income tax provision at statutory rate	$ 246	$ 62
Effect of tax-exempt interest income	(318)	(411)
Other – net	50	27
Income tax benefit	**$ (22)**	**$ (322)**

The net deferred income tax assets presented on the accompanying consolidated balance sheets are comprised of the following amounts as of December 31:

	2010	2009
Deferred tax assets		
Allowance for loan losses	$ 129	$ 443
Other real estate	137	119
ATM credit carryover	665	626
Non-accrual interest	106	5
Other	248	98
Total deferred tax assets	**$ 1,285**	**$ 1,291**

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	2010	2009
Deferred tax liabilities		
Mortgage servicing rights	$ 94	$ 99
Depreciation	327	361
Net unrealized gain on securities available-for-sale	188	89
Accretion	11	18
Prepaid expenses	47	73
Other	-	21
Total deferred tax liabilities	**667**	**661**
Net deferred tax asset	**$ 618**	**$ 630**

The Corporation has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. The evaluation was performed for the years 2007 through 2010, the years which remain subject to examination by major tax jurisdictions as of December 31, 2010. The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2010 or 2009, and it is not aware of any claims for such amounts by federal or state income tax authorities.

10. RELATED PARTY TRANSACTIONS

<u>Loans</u>
In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately $7,866 and $5,915 as of December 31, 2010 and 2009, respectively.

11. OFF-BALANCE SHEET ACTIVITIES

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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in making commitments, including requirements for collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent potential credit risk:

	Contract Amount	
	2010	2009
Unfunded commitments under lines of credit	$ 26,997	$ 32,337
Commitments to grant loans	7,074	6,865
Commercial and standby letters of credit	113	412

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments 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.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These 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 Corporation 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, 2010 or 2009.

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12. REGULATORY REQUIREMENTS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the 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 that involve quantitative measures of their assets, liabilities, capital 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 weightings 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, 2010 and 2009, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2010 and 2009 are also presented in the table.

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	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2010	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk Weighted Assets:						
Consolidated	$ 28,585	14.9%	$ 15,373	8.0%	$ N/A	N/A%
Bank	28,242	14.7	15,387	8.0	19,233	10.0
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	26,169	13.6	7,686	4.0	N/A	N/A
Bank	25,824	13.4	7,693	4.0	11,540	6.0
Tier 1 Capital to Average Assets:						
Consolidated	26,169	9.0	11,540	4.0	N/A	N/A
Bank	25,824	9.0	11,540	4.0	14,425	5.0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2009	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk Weighted Assets:						
Consolidated	$ 28,394	15.2%	$ 13,957	8.0%	$ N/A	N/A%
Bank	28,026	15.0	13,936	8.0	17,421	10.0
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	26,197	14.0	6,978	4.0	N/A	N/A
Bank	25,829	13.8	6,968	4.0	10,452	6.0
Tier 1 Capital to Average Assets:						
Consolidated	26,197	9.0	11,674	4.0	N/A	N/A
Bank	25,829	8.9	11,664	4.0	14,580	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. The required reserve balances were $4,631 and $3,980 at December 31, 2010 and 2009, respectively.

Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

The Corporation is required to obtain approval from the Federal Reserve Board (the "FRB") prior to the declaration or payment of dividends to its shareholders and is restricted from the purchase or redemption of its holding company stock without prior FRB approval.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands)

13. CONTINGENCIES

Litigation
The Corporation is 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 from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2010.

14. EMPLOYEE BENEFIT PLANS

401(k) Plan
The Bank sponsors a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all employees of the Bank are covered under the plan. The Bank contributes up to 20% of employees pre-tax contributions, up to 5% of compensation. The cost of the plan amounted to $23 and $20 in 2010 and 2009, respectively.

Profit-sharing Plan
The Bank maintains a defined contribution profit-sharing plan in which all qualified employees participate. Contributions to the plan are made at the discretion of the Board of Directors. Contributions to the plan were $75 and $50 in 2010 and 2009, respectively.

15. SUPPLEMENTAL CASH FLOWS INFORMATION

Other Cash Flows Information Income
Cash paid for interest amounted to $3,210 and $3,878 during the years ended December 31, 2010 and 2009, respectively.

There were no cash payments made for income taxes during the years ended December 31, 2010 and 2009.

Non-Cash Investing Activities
Collateral repossessed on real estate loans having carrying values in the amount of $1,232 and $1,155 on the date of transfer was transferred to foreclosed assets in 2010 and 2009, respectively.

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INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
County Bank Corp
Lapeer, Michigan

We have audited the accompanying consolidated balance sheets of ***County Bank Corp*** as of December 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***County Bank Corp*** as of December 31, 2010 and 2009, 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.

Rehmann Robson

February 14, 2011

NEW OFFICERS

ROBERT LENNOX
Financial Officer

Bob joined the Bank in November 2010 bringing 10 years of previous banking experience. He is a licensed CPA and holds an MBA from Walsh College with a concentration in Finance. His duties include financial and regulatory reporting, as well as participating in bank audits.

PAULA K. BOEGNER
Compliance and Security Officer

With 29 years of banking experience, Paula joined the Bank in October 2010. She received her BA in Composition from Oakland University and has received certification through the Independent Community Bankers of America as a Certified Community Bank Compliance Officer (CCBCO).

THOMAS J. MITCHELL
V.P. & Trust Officer, Wealth Mgt. Group

Tom joined the Bank in August 2010. With 30+ years of trust and law firm experience, he is responsible for the management and administration of the Trust Dept., including investment/wealth management and client services.

GARY SHEGINA
Asst. Trust Officer, Wealth Mgt. Group

Gary joined the Bank in September 2010. He has 18 years of previous banking experience, 12 of them in wealth management. His responsibilities include overseeing daily operations, client servicing and business development.

WALTER BARGEN
Business Development Specialist and Imlay City Branch Officer

Walt was hired in late December 2009 as Business Development Specialist for the Imlay City area. He was named Business Development Specialist and Imlay City Branch Officer in July 2010.

PROMOTIONS

PETER BATISTONI
Commercial Loan Manager

Pete joined the Bank in August 2007, and was named Commercial Loan Manager in December 2010. Pete administers the Bank's existing loan portfolio and helps develop new commercial business.

BERNADETTE TALASKI
Sr. V.P. & Branch Administrator

Bernadette joined LCBT in December 1971. She has served as Branch Officer of the Elba, Southgate & Attica offices. In 1989 she was named Branch Administrator; 1992 Main Branch Officer; in 2008 V.P. & Branch Administrator. In December 2010 she was promoted to Sr. V.P. & Branch Administrator.

SHELLY M. CHILDERS
Sr. V.P. & Director of IT

Shelly joined the Bank in 1985; became Data Processing Department Supervisor in 1989 and D.P. Officer in 1995. In 2000 she was promoted to Director of Technology. In 2008 she was named V.P. and Director of IT. In December 2010 Shelly was promoted to Sr. V.P. and Director of Information Technology.

JENNIFER WARD
Elba Branch Officer

Jennifer joined the Bank in March 1999 and has worked at the Elba Office since 2000. Jennifer was named Elba Branch Manager in 2008, and was promoted to Elba Branch Officer in 2010.

ASHLEY A. WINTER
Commercial Loan Officer

Ashley has worked for the Bank since 2003. She held various positions in the Commercial Loan Department prior to her promotion to Commercial Loan Officer in March 2010.

5 YEARS OF SERVICE

seated: Marsha Kalakay, Jenna Lindsey, Diana Weingartz, Tamara Guy
standing: Deleasa Ayers, Lesley Burnham, Dave Miller, Heather Sweet, Jennifer Stever, Jeanne Dean

10 YEARS OF SERVICE

standing: Charlene Morris, Robert Stuewer, Kristie Waldorf

15 YEARS OF SERVICE

seated: Patti Butterfield, Marilynn Smith

25 YEARS OF SERVICE

Cindy K. Strich,
Shelly M. Childers

RETIREMENT

CAROL UGOROWSKI

Compliance and Security Officer

Carol retired at the end of 2010 after 26 dedicated years of service.

OFFICERS

BRUCE J. CADY President and Chief Executive Officer
JOSEPH H. BLACK Chief Financial Officer
BERNADETTE TALASKI Senior Vice President and Branch Administrator
SHELLY M. CHILDERS Senior Vice President and Director of IT
THOMAS J. MITCHELL Vice President and Trust Officer
ALAN J. CURTIS Vice President and Senior Lender
PETER BATISTONI Commercial Loan Manager
WILLIAM E. O'CONNOR Commercial Loan Officer
ASHLEY A. WINTER Commercial Loan Officer
BETH A. HENDERSON Retail Lending Director
COLLEEN SUTTON Retail Lending Officer
NANCY F. SOMMERVILLE Business Development Director
LOREN SCHAFER Human Resources Director
CINDY K. STRICH Auditor
PAULA K. BOEGNER Compliance and Security Officer
MARSHA A. KALAKAY Sales Officer
ROBERT LENNOX Financial Officer
GARY SHEGINA Assistant Trust Officer
LOUISE VERMILLION Check Processing Officer
KIMBERLY S. HILL Deerfield Branch Officer
DEBRA M. COE Southgate Branch Officer
MARY B. SCHROEDER Metamora Branch Officer
ELIZABETH McVETY Attica Branch Officer
JENNIFER WARD Elba Branch Officer
WALTER BARGEN Business Development Specialist and Imlay City Branch Officer

County Bank Corp

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