CBC

County Bank Corp

2012 Annual Report

Table of Contents

Stock Transfer Agent

IST Shareholder Services
433 S Carlton Avenue
Wheaton, IL 60187-9904
(800) 757-5755
Fax: (630) 480-0641

Market Maker

Boenning & Scattergood, Inc
Nick Bicking and Tom Dooley
9922 Brewster Lane
Powell, OH 43065
(866) 326-8113
www.boenninginc.com

Independent Auditors

Crowe Horwath, LLP
55 Campau Avenue NW, Ste. 300
Grand Rapids, Michigan 49503
(616) 774-0774
Fax: (616) 752-4226

Stock Symbol

CBNC

Annual Meeting

The County Bank Corp Annual Meeting will be Friday, April 19, 2013, at 3 p.m. The meeting will be held at the Lapeer Country Club, 3786 Hunt Rd., Lapeer.

President's Letter

To Our Stockholders, Customers and Friends:

I am pleased to report 2012 corporate earnings of $1,867,000, below our expectations but nonetheless a significant accomplishment in our current operating environment. The 2012 earnings represent the 2nd highest level achieved by the Corporation since 2008, which coincidentally generally marks the beginning of what is now being called the "Great Recession." Compared to 2011, earnings were down $251,000.

Similar to the previous four years, 2012 was one of the most challenging years I have experienced in the banking industry. New regulations resulting from the Dodd-Frank Act, increased competition from both regional and local financial service providers and the additional burden brought about by more intense regulatory scrutiny have all contributed to a more difficult operating environment.

2012 did produce some notable achievements:

- Record high total assets of $302,000,000;
- Residential real estate mortgage originations of $18,000,000;
- Year over year net gains on security investments of $775,000;
- Nearly $100,000 improvement in gains on loan sales;
- Increases in debit card usage, online banking, remote deposit and other internet based products;
- EPS of $1.73; and
- Stockholder's equity of $30,892,000.

In 2012, we successfully migrated our core data processing from an in-house system to one of the most advanced core processing systems available to any community bank in the country. The migration allows us to offer more appropriately priced products to existing and potential customers across southeast Michigan. The information technology upgrade leveled the playing field with most of our competitors,

Bruce J. Cady, President & CEO

thereby reducing any perceived advantage enjoyed by a large bank.

We paid a cash dividend totaling $270,000 to our stockholders which represents the 71st consecutive year the Corporation has paid a dividend.

Essential keys to our future success include expanding our revenue producing opportunities, taking full advantage of our information technology programs, spending capital wisely and providing fair and equitable returns to our stockholders and depositors.

To that end, we are expanding our trust

In 2012, we successfully migrated our core data processing from an in-house system to one of the most advanced core processing systems available to any community bank in the country.

Monitoring credit quality and achieving stability in this critical area will drive the Bank's profitability, particularly in the current low interest rate environment.

capabilities with the assistance of a registered investment advisor, Financial Counselors, Inc. We are streamlining our mortgage processing capabilities and recently employed Mr. Phil Candela to assist the Bank in the origination of residential real estate mortgages. We added software that allows our customers to apply and track the progress of their mortgage application online. We are excited about the prospects of some of our recent initiatives and should see the results of their implementation in 2013.

We continue to look for operating efficiencies in all areas of the Bank as we pursue our expense reduction initiatives. In the process, we discovered we can work smarter, not harder, and through attrition have eliminated 3 full-time positions.

Credit Quality issues remain, however on a more diminished scale than 2011. The majority of the contributions to the allowance for loans and lease losses (ALLL) were made in the first six months of 2012 and many of our commercial customers reported improved financial conditions in the latter half of 2012.

I believe credit quality will be the predominant issue in the Bank's financial performance for many years to come. Monitoring credit quality and achieving stability in this critical area will drive the Bank's profitability, particularly in the current low interest rate environment. It has become increasingly difficult to maintain an adequate spread between what we earn on our loans and investment securities and the interest we pay our depositors. Therefore, it is essential that credit quality improve in order to reduce our loan losses and the resulting provisions to the ALLL.

There are however, headwinds in our market area. The economic conditions, while improving, still present significant challenges. The current regulatory environment requires consistently more effort and more expense with no measurable increases to operating efficiencies. Interest rate risk, low loan demand and high unemployment in our footprint are likewise areas of concern.

Internally, Ms. Danielle Chateauvert was promoted to Business Development Director and longtime credit manager, Mr. Greg Potter was promoted to Credit Officer. In April, Mr. William "Bill" Hartley joined us as Special Assets Officer and as previously mentioned, Mr. Phil Candela joined us in December as our Mortgage Officer. These four individuals bring experience, professionalism and dedication to the Bank and we look forward to their many contributions.

In closing, I would like to thank our Board of Directors for their many hours of dedicated service, insight and direction and our employees for their exemplary service through one of the most difficult periods in our economic history. Without their participation and involvement, the Bank would not have been able to function at the high level maintained during the crisis.

The 2013 annual meeting will be held Friday, April 19, at the Lapeer Country Club, beginning at 3:00 p.m. Please join me there.

Very truly yours,

Bruce J. Cady
President & CEO

Board of Directors

County Bank Corp Board of Directors — (from left) Timothy Oesch, Patrick A. Cronin, Ernest W. Lefever, DPM, Bruce J. Cady, Curt Carter, David H. Bush, David J. Churchill, Eric Burrough and Michael H. Blazo.

Bruce J. Cady
President & CEO —
Lapeer County Bank & Trust Co.

Curt Carter
Chairman — County Bank Corp

Michael H. Blazo
Retired

Eric (Rick) Burrough
Owner — JAMS Media
& Michigan Web Press

David H. Bush
Doctor of Optometry

David J. Churchill
Attorney at Law — Taylor, Butterfield,
Howell, Churchill & Jarvis, P.C.

Patrick A. Cronin
Agent — State Farm Insurance

Ernest W. Lefever
D.P.M — Foot Specialists of Lapeer

Timothy Oesch, CPA
President — Oesch & Sieting, P.C.

Financial Summary

At Year End (000s omitted)	2012	2011	2010	2009
Assets	$ 301,808	$ 300,941	$ 289,317	$ 294,362
Deposits	270,053	270,062	261,088	267,228
Loans	168,412	181,652	191,728	180,638
Securities	102,176	94,992	72,122	78,000
Stockholders' equity	30,892	30,038	27,253	26,370

For the year (000s omitted)				
Net income (loss)	$ 1,867	2,118	743	505
Cash dividend paid	270	108	54	378
Return on average assets (%)	.63	.71	.27	.18
Return on average stockholders' equity (%)	6.25	7.50	2.80	1.87

Per Share				
Book value	$ 28.58	27.79	25.21	24.39
Net income	1.73	1.96	.69	.47
Cash dividends paid	.25	.10	.05	.35

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors
County Bank Corp
Lapeer, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of County Bank Corp, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of County Bank Corp as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of County Bank Corp as of December 31, 2011 were audited by other auditors whose report dated February 10, 2012 expressed an unqualified opinion on those statements.

Crowe Horwath LLP

Crowe Horwath LLP

Grand Rapids, Michigan
February 25, 2013

COUNTY BANK CORP

CONSOLIDATED BALANCE SHEETS

December 31, 2012 and 2011

(Dollars In Thousands Except Per Share Data)

	2012	2011
ASSETS		
Cash and due from banks	$ 13,319	$ 9,955
Federal funds sold	100	100
Cash and cash equivalents	13,419	10,055
Interest-bearing deposits in banks	4,724	5,811
Available for sale investment securities	96,827	88,570
Held-to-maturity investment securities (fair value of ($5,625 and $6,699 in 2012 and 2011)	5,349	6,422
Restricted investment securities	1,431	1,431
Net loans	164,665	176,719
Premises and equipment, net	5,551	5,014
Bank owned life insurance	4,055	-
Accrued interest receivable and other assets	5,787	6,919
Total assets	$ 301,808	$ 300,941
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Interest bearing	$ 222,604	$ 227,724
Non-interest bearing	47,449	42,338
Total deposits	270,053	270,062
Accrued interest payable and other liabilities	863	841
Total liabilities	270,916	270,903
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	16,454	14,857
Accumulated other comprehensive income	400	1,143
Total stockholders' equity	30,892	30,038
Total liabilities and stockholders' equity	$ 301,808	$ 300,941

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2012 and 2011

(In Thousands Except Per Share Data)

	2012	2011
Interest income		
Loans (including fees)	$ 9,624	$ 10,883
Investments		
Taxable	2,090	2,092
Non-taxable	504	513
Interest on deposits with other banks	40	34
Total interest income	12,258	13,522
Interest expense on deposits	1,207	1,919
Net interest income	11,051	11,603
Provision for loan losses	3,454	3,100
Net interest income, after provision for loan losses	7,597	8,503
Noninterest income		
Services charges on deposit accounts	1,511	1,467
Net gain on sale or calls of investment securities	1,238	463
Net gains on sale of loans	298	290
Net gain (loss) on sale of other real estate owned	39	(88)
Trust income	699	714
Debit card income	401	371
Other	923	742
Total noninterest income	5,109	3,959
Noninterest expenses		
Salaries and employee benefits	5,401	5,354
Occupancy and equipment	912	939
FDIC Insurance	397	595
Other	3,435	2,649
Total noninterest expenses	10,145	9,537
Income before federal income taxes	2,561	2,925
Federal income taxes	694	807
Net income	$ 1,867	$ 2,118
Net income per basic share of common stock	$ 1.73	$ 1.96

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2012 and 2011
(In Thousands)

	2012	2011
Net income	$ 1,867	$ 2,118
Available-for-sale securities		
Unrealized holding gains arising during the year	112	1,637
Reclassification adjustment for net realized gains included in net income	(1,238)	(463)
Other comprehensive income (loss) before income tax expense	(1,126)	1,174
Income tax benefit (expense) related to other comprehensive income (loss)	383	(399)
Other comprehensive income (loss)	(743)	775
Comprehensive income	$ 1,124	$ 2,893

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2012 and 2011
(Dollars In Thousands Except Per Share Data)

	Common Stock Shares	Common Stock Amount	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2011	1,080,946	$ 5,404	$ 8,634	$ 12,847	$ 368	$ 27,253
Net income	-	-	-	2,118	-	2,118
Other comprehensive income/(loss)	-	-	-	-	775	775
Cash dividends paid ($.10 per share)	-	-	-	(108)	-	(108)
Balance, December 31, 2011	1,080,946	5,404	8,634	14,857	1,143	30,038
Net income	-	-	-	1,867	-	1,867
Other comprehensive income/(loss)	-	-	-	-	(743)	(743)
Cash dividends paid ($.25 per share)	-	-	-	(270)	-	(270)
Balance, December 31, 2012	1,080,946	$ 5,404	$ 8,634	$ 16,454	$ 400	$ 30,892

See accompanying notes to consolidated financial statements.

COUNTY BANK CORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011
(In Thousands)

	2012	2011
Cash flows from operating activities		
Net income	$ 1,867	$ 2,118
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	3,454	3,100
Provision for foreclosed asset losses	405	284
Depreciation	368	375
Net amortization of investments	719	884
Deferred income tax benefit	-	(31)
Net gain on sales or calls of investment securities	(1,238)	(463)
Net gain on sale of loans	(298)	(290)
Net (gain) loss on sales of foreclosed assets	(39)	88
Earnings from bank owned life insurance	(55)	-
Origination of loans held for sale	(12,113)	(6,669)
Proceeds from loan sales	12,459	6,901
Net changes in operating assets and liabilities which provided (used) cash		
Accrued interest receivable and other assets	(147)	422
Accrued interest payable and other liabilities	22	(135)
Net cash provided by operating activities	5,404	6,584
Cash flows from investing activities		
Net change in interest-bearing deposits in banks	1,087	(2,120)
Activity in available-for-sale securities		
Purchases	(107,972)	(71,448)
Maturities, prepayments, sales and calls	99,119	46,685
Activity in held-to-maturity securities		
Purchases	(123)	(52)
Maturities, prepayments, sales and calls	1,185	2,698
Redemption of restricted investments	-	(890)
Purchase of bank owned life insurance	(4,000)	-
Loan principal originations and collections, net	8,130	6,041
(Sales) purchase of loans held for sale	-	4,496
Proceeds from sales of foreclosed assets	1,718	496
Premises and equipment expenditures	(905)	(158)
Net cash used in investing activities	(1,761)	(14,252)
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	(9)	8,974
Cash dividends paid	(270)	(108)
Net cash provided by (used in) financing activities	(279)	8,866
Net increase (decrease) in cash and cash equivalents	3,364	1,198
Cash and cash equivalents, beginning of year	10,055	8,857
Cash and cash equivalents, end of year	$ 13,419	$ 10,055
Supplemental cash flow information		
Transfer of loans to other real estate owned	$ 1,348	$ 2,360
Financing of sale of other real estate owned	926	-
Cash paid for interest	1,260	1,967
Cash paid for income taxes	700	1,215

See accompanying notes to consolidated financial statements.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of County Bank Corp, (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.

Nature of Business: The Corporation is independently owned and operates 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 and other manufacturing industries 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.

Regulatory Governance: The Bank is a state chartered bank and 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 undergoes periodic examinations by these regulatory authorities. The Corporation is also subject to regulations of the Federal Reserve Board governing bank holding companies.

Subsequent Events: The Corporation has evaluated subsequent events for recognition and disclosures through February 25, 2013, which is the date the financial statements were available to be issued.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United State of America 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 expense 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 values of financial instruments, the valuation of foreclosed real estate, and the valuation of deferred tax assets.

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 Other Financial Institutions: Interest-bearing deposits in banks mature within one year and are carried at cost.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 investment securities are recorded in investment income on the trade date and are determined using the specific identification method.

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

Restricted Investments: The Bank is a member of the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank System of Indianapolis ("FHLBI") and is required to invest in capital stock of the FRB and the "FHLBI." The amount of the required investment in the FRB is determined by the FRB and is carried at cost based on the Bank's capital and surplus. The amount of required investment in the FHLBI is based upon the available balance of the Bank outstanding home mortgage loans or advances from the FHLBI and is carried at cost plus the value assigned to stock dividends.

Loans Held For Sale: Loans originated 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. In 2011, the Corporation sold a group of loans purchased from another financial institution that were classified as loans held for sale.

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. Consumer 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 and interest is considered doubtful.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments (120 days or more past due on real estate residential loans) and loans modified under troubled debt restructurings (nonperforming originated loans).

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

The allowance consists of two primary components, general reserves and specific reserves related to impaired loans. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent two years. The Bank places more emphasis, or weight, on the more current quarters in the loss history period. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, real estate construction, residential real estate, and consumer and other with risk characteristics described as follows:

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Real Estate Construction: Real estate construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer and Other: The consumer and other loan portfolio is usually comprised of a large number of small loans, including automobile, personal loans, credit cards, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

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. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

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

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Bank evaluates the credit quality of loans in the consumer and other and residential real estate loan portfolios, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans, loans past due as to principal or interest 90 days or more and loans modified under troubled debt restructurings of the originated portfolio past due in accordance with the loans' original contractual terms, are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and on a quarterly basis performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention (or Watch): Loans classified as special mention (watch) have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention (watch) loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

Loss: Loans classified as loss are considered uncollectible and are charged off immediately.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The majority of the Bank's consumer and other and residential real estate loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of these loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and other and residential real estate loan portfolios is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Banks's primary regulators review the appropriateness of the allowance.

The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

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. Other than servicing, as disclosed in Note 5, the Bank has no substantive continuing involvement related to these loans. The Bank sold residential mortgage loans to unrelated third parties with proceeds of $12,459 and $11,397 during 2012 and 2011, respectively, which resulted in a net gain of $298 and $290 in 2012 and 2011, respectively.

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 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. Servicing fee income earned on such loans was $18 and $17 in 2012 and 2011, respectively, and is included in other noninterest income.

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, 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 $1,664 and $2,813 are included in accrued interest receivable and other assets on the accompanying consolidated balance sheets at December 31, 2012 and 2011, respectively. Foreclosed assets, as of those dates are presented net of a valuation allowance of $477 and $501, respectively. Expenses related to foreclosed assets amounted to $730 and $339 in 2012 and 2011, respectively, and are included in other noninterest expenses on the accompanying consolidated statements of income.

Premises and Equipment: Land is carried at cost. 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.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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.

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

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

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

NOTE 1 – BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Advertising Costs: The cost of advertising and promotions are expensed as incurred. The Corporation incurred $68 and $84 in advertising costs in 2012 and 2011, respectively.

Net Income Per Basic 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 2012 and 2011.

Reclassifications: Certain amounts as reported in the 2011 consolidated financial statements have been reclassified to conform with the 2012 presentation.

Adoption of New Accounting Standards:
In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective for annual reporting periods ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. The adoption of this amendment had no impact on the consolidated financial statements as the current presentation of comprehensive income is in compliance with this amendment.

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for annual reporting periods beginning after December 15, 2011. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition.

NOTE 2 - 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).

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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.

Following is a description of the valuation methodologies and key inputs used to measure financial assets recorded at fair value on a recurring or non-recurring basis:

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 for like securities, if available. 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. The Bank does not currently hold any investment securities designated as Level 3.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Upon transfer from the loan portfolio, foreclosed assets are recorded at fair value less costs to sell. They are subsequently carried at the lower of the initial value or current 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.

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Appraisals for both collateral-dependent impaired loans and foreclosed assets are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Management reviews the assumptions and approaches utilized in the appraisal. Management periodically evaluates the appraised values and will discount a property's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property.

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, 2012 and 2011, 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.

Assets Measured 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			
	Level 1	Level 2	Level 3	Total
2012				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 24,323	$ -	$ 24,323
States and municipal	-	25,968	-	25,968
Corporate	-	2	-	2
Mortgage-backed securities: residential	-	38,316	-	38,316
Mortgage-backed securities: commercial	-	8,218	-	8,218
Total assets at fair value	$ -	$ 96,827	$ -	$ 96,827
2011				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ -	$ 61,165	$ -	$ 61,165
States and municipal	-	4,485	-	4,485
Corporate	-	2	-	2
Mortgage-backed securities: residential	-	22,918	-	22,918
Total assets at fair value	$ -	$ 88,570	$ -	$ 88,570

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Assets Measured at Fair Value on a Non-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 nonrecurring basis as of December 31

	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
2012				
Impaired loans				
Commercial real estate	$ -	$ -	$ 3,599	$ 3,599
Foreclosed assets				
Commercial and industrial	-	-	1,065	1,065
Residential real estate	-	-	135	135
2011				
Impaired loans	$ -	$ -	$ 13,687	$ 13,687
Foreclosed assets	-	-	2,813	2,813

Impaired loans as of December 31, 2012 and 2011 measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $3,599, after a specific allowance allocation of $0, and $13,687 after a specific allowance allocation of $456, respectively, resulting in an additional provision for loan losses of $4,145 and $516 for the years then ended, respectively.

Foreclosed assets as of December 31, 2012 and 2011, respectively, carried at fair value were $1,200 and $2,813 resulting in charges of $405 and $284 for the years then ended.

As discussed previously, the fair values of impaired loans and other real estate carried at fair value are determined by third party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal and the type of the property. The following table presents quantitative information about level 3 fair value measurements for the larger classes of financial instruments measured at fair value on a non-recurring basis at December 31, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired loans				
Commercial real estate	$ 3,599	Sales comparison approach	Management discount for property type and recent market volatility	17% - 22% (20%)
		Income approach	Capitalization rate	10% - 12% (10%)
Foreclosed assets -				
Commercial and industrial	$ 1,065	Sales comparison approach	Management discount for property type and recent market volatility	0% - 100% (39%)

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

Fair Value of Financial Instruments

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis were as follows at year-end:

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents	$ 13,419	$ 13,419	$ 10,055	$ 10,055
Interest-bearing deposits in banks	4,724	4,724	5,811	5,811
Investment securities held-to-maturity	5,349	5,625	6,422	6,699
Restricted investment securities	1,431	N/A	1,431	N/A
Net loans	164,665	165,667	176,719	176,333
Accrued interest receivable	1,688	1,688	1,620	1,620
Liabilities:				
Interest-bearing deposits	$ 222,604	$ 222,929	$ 227,724	$ 228,411
Noninterest-bearing deposits	47,449	47,449	42,328	42,338
Accrued interest payable	73	73	126	126

The following methods and assumptions were used to estimate fair value for financial instruments:

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.

Investment Securities – Held to Maturity
Held-to-maturity securities are recorded at fair value on a nonrecurring basis, only when an other-than-temporary impairment is recorded. The fair value methodologies for held-to-maturity investment securities are similar to those disclosed for investment securities available-for-sale.

Restricted Investment Securities
It is not practicable to determine the fair value of Federal Reserve Bank Stock and Federal Home Loan Bank Stock due to restrictions placed on their transferability.

Loans, Net
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.

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

(In Thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (Continued)

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 for interest payable approximate their fair values.

Commitments to Extend Credit, Standby Letters of Credit, and Undisbursed Loans
The Bank'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 Bank does not receive fees in connection with these commitments.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and fair value of held-to-maturity and available for sale investment securities, including gross unrealized gains and losses, were as follows as of December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2012				
Held-to-maturity				
Mortgage-backed securities: residential	$ 203	$ 8	$ -	$ 211
States and municipal	5,146	269	1	5,414
Total held-to-maturity	5,349	277	1	5,625
Available-for-sale				
Government- sponsored enterprises	24,406	135	218	24,323
States and municipal	25,179	947	158	25,968
Corporate	8	-	6	2
Mortgage-backed securities: residential	38,187	293	164	38,316
Mortgage-backed securities: commercial	8,442	-	224	8,218
Total available-for-sale	96,222	1,375	770	96,827
Total	$ 101,571	$ 1,652	$ 771	$ 102,452

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2011				
Held-to-maturity				
Mortgage-backed securities: residential	$ 258	$ 8	$ -	$ 266
States and municipal	6,164	270	1	6,433
Total held-to-maturity	6,422	278	1	6,699
Available-for-sale				
Government- sponsored enterprises	60,213	1,236	284	61,165
States and municipal	4,176	310	1	4,485
Corporate	7	-	5	2
Mortgage-backed securities: residential	22,445	479	6	22,918
Total available-for-sale	86,841	2,025	296	88,570
Total	$ 93,263	$ 2,303	$ 297	$ 95,269

Investment securities with carrying values of approximately $25,671 and $5,970 at December 31, 2012 and 2011, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of held-to-maturity securities and available-for-sale securities grouped by contractual maturity at December 31, 2012, were as follows:

	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: residential	$ -	$ -	$ -	$ -	$ 203	$ 203
States and municipal	1,944	2,471	731	-	-	5,146
Total held-to-maturity	1,944	2,471	731	-	203	5,349
Available-for-sale						
Government- sponsored enterprises	13,959	-	997	9,450	-	24,406
States and municipal	755	4,225	18,240	1,959	-	25,179
Corporate	-	-	-	8	-	8
Mortgage-backed securities: residential	-	-	-	-	38,187	38,187
Mortgage-backed securities: commercial	-	-	-	-	8,442	8,442
Total available-for-sale	14,714	4,225	19,237	11,417	46,629	96,222
Total amortized cost	$ 16,658	$ 6,696	$ 19,968	$ 11,417	$ 46,832	$ 101,571
Fair value	$ 16,802	$ 7,037	$ 20,648	$ 11,220	$ 46,745	$ 102,452

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 are not reported by a specific maturity group.

During 2012 and 2011, proceeds from sales of available-for-sale securities amounted to approximately $58,250 and $19,362, respectively. Gross realized gains and losses amounted to $1,243 and $5 and $463 and $0 during 2012 and 2011, respectively.

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

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:

	Less than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
2012						
Held-to-maturity						
States and municipal	$ -	$ -	$ 99	$ 1	$ 99	$ 1
Available-for-sale						
Government- sponsored enterprises	$ 9,764	$ 218	$ -	$ -	$ 9,764	$ 218
Corporate	-	-	2	6	2	6
Mortgage-backed securities: residential	18,842	164	-	-	18,842	164
Mortgage-backed securities: commercial	8,214	224	-	-	8,214	224
States and municipal	5,790	158	-	-	5,790	158
Total securities available-for-sale	$ 42,610	$ 764	$ 2	$ 6	$ 42,612	$ 770
2011						
Held-to-maturity						
States and municipal	$ 278	$ 1	$ -	$ -	$ 278	$ 1
Available-for-sale						
Government- sponsored enterprises	$ 22,716	$ 280	$ 2,996	$ 4	$ 25,712	$ 284
Corporate	-	-	2	5	2	5
Mortgage-backed securities: residential	-	-	464	6	464	6
States and municipal	-	-	175	1	175	1
Total securities available-for-sale	$ 22,716	$ 280	$ 3,637	$ 16	$ 26,353	$ 296

(In Thousands)

NOTE 3 - INVESTMENT SECURITIES (Continued)

As of December 31, 2012, the Corporation's investment security portfolio consisted of 217 securities, 43 of which were in an unrealized loss position. The majority of unrealized losses are related to the Corporation's government-sponsored enterprise securities, as discussed below.

At December 31, 2012, the Corporation held 19 mortgage-backed securities in an unrealized loss position of which 14 were issued by Fannie Mae and Freddie Mac, U.S. government-sponsored agencies, which the government has affirmed its commitment to support. The remaining 5 mortgage-backed securities were issued by the Small Business Administration and are collateralized by commercial loans as opposed to residential mortgage loans which collateralize the Fannie Mae and Freddie Mac mortgage-backed securities. Additionally, the Corporation held 8 government-sponsored enterprise securities and 15 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 government-sponsored enterprise 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, 2012.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans were as follows at December 31:

	2012	2011
Commercial and industrial	$ 17,726	$ 20,640
Commercial real estate	86,221	88,532
Real estate construction	4,714	9,294
Residential real estate	41,524	43,217
Consumer and other	18,227	19,969
Total loans	168,412	181,652
Allowance for loan losses	3,747	4,933
Loans, net	$ 164,665	$ 176,719

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present activity in the allowance for loan losses and the recorded investment in loans, by portfolio segment and based on impairment method at December 31:

	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
2012							
Allowance for loan losses:							
Balance at beginning of year	$ 193	$ 1,913	$ 809	$ 378	$ 652	$ 988	$ 4,933
Provision for loan losses	89	4,807	(835)	61	(20)	(648)	3,454
Loans charged-off	(26)	(4,444)	-	(153)	(269)	-	(4,892)
Recoveries	1	73	97	-	81	-	252
Balance at end of year	$ 257	$ 2,349	$ 71	$ 286	$ 444	$ 340	$ 3,747
Ending balance: Individually evaluated for impairment	$ 139	$ 147	$ 8	$ 12	$ 60	$ -	$ 366
Ending balance: Collectively evaluated for impairment	118	2,202	63	274	384	340	3,381
Total allowance for loan losses	$ 257	$ 2,349	$ 71	$ 286	$ 444	$ 340	$ 3,747
Loans:							
Ending balance:							
Individually evaluated for impairment	$ 916	$ 16,380	$ 2,649	$ 534	$ 236		$ 20,715
Ending balance:							
Collectively evaluated for impairment	16,810	69,841	2,065	40,990	17,991		147,697
Total loans	17,726	86,221	4,714	41,524	18,227		168,412
Accrued interest receivable	92	514	27	130	17		780
Total recorded investment	$ 17,818	$ 86,735	$ 4,741	$ 41,654	$ 18,244		$ 169,192

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Unallocated	Total
2011							
Allowance for loan losses:							
Balance at beginning of year	$ 199	$ 2,321	$ 1,231	$ 271	$ 900	$ (1,414)	$ 3,508
Provision for loan losses	19	698	(182)	221	(58)	2,402	3,100
Loans charged-off	(27)	(1,106)	(255)	(172)	(235)	-	(1,795)
Recoveries	2	-	15	58	45	-	120
Balance at end of year	$ 193	$ 1,913	$ 809	$ 378	$ 652	$ 988	$ 4,933
Ending balance: Individually evaluated for impairment	$ 48	$ 401	$ -	$ 7	$ -	$ -	$ 456
Ending balance: Collectively evaluated for impairment	145	1,512	809	371	652	988	4,477
Total allowance for loan losses	$ 193	$ 1,913	$ 809	$ 378	$ 652	$ 988	$ 4,933
Loans:							
Ending balance:							
Individually evaluated for impairme	$ 773	$ 12,367	$ -	$ 547	$ -		$ 13,687
Ending balance:							
Collectively evaluated for impairme	19,867	76,165	9,294	42,670	19,969		167,965
Total loans	20,640	88,532	9,294	43,217	19,969		181,652
Accrued interest receivable	79	245	28	171	69		592
Total recorded investment	$ 20,719	$ 88,777	$ 9,322	$ 43,388	$ 20,038		$ 182,244

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows the loans allocated by management's internal risk ratings as of December 31 year-end:

	Commercial Credit Risk Profile Risk Rating			
	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Total
2012				
Risk Rating				
Pass	$ 15,550	$ 65,093	$ 2,065	$ 82,708
Special mention or watch	1,260	10,756	-	12,016
Substandard	916	10,372	2,649	13,937
Total	$ 17,726	$ 86,221	$ 4,714	$ 108,661
2011				
Risk Rating				
Pass	$ 17,626	$ 66,580	$ 7,037	$ 91,243
Special mention or watch	1,729	4,028	69	5,826
Substandard	1,285	17,924	2,188	21,397
Total	$ 20,640	$ 88,532	$ 9,294	$ 118,466

The following table shows the homogeneous loans allocated by payment activity as of December 31 year-end:

	Consumer Credit Risk Profile by Payment Activity		
	Residential Real Estate	Consumer and Other	Total
2012			
Payment activity			
Performing	$ 41,249	$ 18,052	$ 59,301
Non-performing	275	175	450
Total	$ 41,524	$ 18,227	$ 59,751
2011			
Payment activity			
Performing	$ 43,018	$ 19,811	$ 62,829
Non-performing	199	158	357
Total	$ 43,217	$ 19,969	$ 63,186

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table shows an aging analysis of the loan portfolio by time past due as of December 31 year-end:

	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
2012					
Commercial and industrial	$ 17,155	$ 245	$ 78	$ 248	$ 17,726
Commercial real estate	81,009	1,613	-	3,599	86,221
Real estate construction	41,223	26	74	201	41,524
Residential real estate	17,937	115	64	111	18,227
Consumer and other	4,714	-	-	-	4,714
Total	$ 162,038	$ 1,999	$ 216	$ 4,159	$ 168,412
2011					
Commercial and industrial	$ 20,330	$ -	$ -	$ 310	$ 20,640
Commercial real estate	87,706	36	260	530	88,532
Real estate construction	7,959	94	-	1,241	9,294
Residential real estate	42,590	428	22	177	43,217
Consumer and other	19,435	376	-	158	19,969
Total	$ 178,020	$ 934	$ 282	$ 2,416	$ 181,652

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans as of December 31 year-end:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2012					
Loans with no related allowance recorded					
Commercial and industrial	$ 248	$ 248	$ -	$ 373	$ 7
Commercial real estate	13,509	16,796	-	6,788	391
Residential real estate	-	-	-	56	-
Consumer	236	259	-	215	10
Construction	2,091	2,091	-	1,204	45
Loans with an allowance recorded					
Commercial and industrial	$ 668	$ 668	$ 139	$ 785	$ 17
Commercial real estate	2,871	2,871	147	6,657	104
Residential real estate	534	534	12	563	34
Consumer	-	-	60	-	-
Construction	558	558	8	345	19
Total impaired loans					
Commercial and industrial	$ 916	$ 916	$ 139	$ 1,158	$ 24
Commercial real estate	16,380	19,667	147	13,445	495
Residential real estate	534	534	12	619	34
Consumer	236	259	60	215	10
Construction	2,649	2,649	8	1,549	64
Total	$ 20,715	$ 24,026	$ 366	$ 16,986	$ 627

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2011					
Loans with no related allowance recorded					
Commercial and industrial	$ 89	$ 89	$ -	$ 91	$ 3
Commercial real estate	4,363	4,363	-	4,382	203
Loans with an allowance recorded					
Commercial and industrial	$ 684	$ 684	$ 48	$ 588	$ 4
Commercial real estate	8,004	8,119	401	8,008	369
Residential real estate	547	547	7	547	6
Total impaired loans					
Commercial and industrial	$ 773	$ 773	$ 48	$ 679	$ 7
Commercial real estate	12,367	12,482	401	12,390	572
Residential real estate	547	547	7	547	6
Total	$ 13,687	$ 13,802	$ 456	$ 13,616	$ 585

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

A summary of loans that were modified in troubled debt restructurings during 2012 and 2011 is as follows:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2012			
Commercial and industrial	2	$ 213	$ 213
Commercial real estate	12	3,369	3,369
Real estate construction	1	183	183
Residential real estate	2	60	60
Consumer and other	5	1,104	1,104
Total	22	$ 4,929	$ 4,929
2011			
Commercial and industrial	4	$ 1,076	$ 1,076
Commercial real estate	16	12,482	12,482
Real estate construction	2	1,314	1,220
Residential real estate	4	816	816
Consumer and other	1	6	6
Total	27	$ 15,694	$ 15,600

COUNTY BANK CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011
(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table details the number of loans and the recorded investment in loans considered to be TDRs by type of modification during 2012 and 2011:

	Total Modifications						
	Principal Deferrals		Interest Rate Reductions		Principal Forgiveness		
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Total Modifications
2012							
Commercial and industrial	1	$ 110	1	$ 103	-	$ -	$ 213
Commercial real estate	2	159	10	3,210	-	-	3,369
Real estate construction	-	-	1	183	-	-	183
Residential real estate	-	-	2	60	-	-	60
Consumer and other	2	520	3	584	-	-	1,104
Total	5	$ 789	17	$ 4,140	-	$ -	$ 4,929
2011							
Commercial and industrial	1	$ 90	3	$ 986	-	$ -	$ 1,076
Commercial real estate	4	2,645	12	9,837	-	-	12,482
Real estate construction	1	979	-	-	1	241	1,220
Residential real estate	-	-	4	816	-	-	816
Consumer and other	-	-	1	6	-	-	6
Total	6	$ 3,714	20	$ 11,645	1	$ 241	$ 15,600

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 12 month(s) to 5 years. The troubled debt restructurings described above increased the allowance for loan losses by $306 and $452 and resulted in an immaterial amount of charge offs during the years ending December 31, 2012 and 2011.

(In Thousands)

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following presents information on TDRs for which there was a payment default, whereby the borrower was past due with respect to principal and/or interest for 90 days or more, during the 12-months ended December 31, 2012 and 2011, that had been modified during the 12-month period prior to the default:

	Number of Loans	Recorded Investment (as of period end) (1)
2012		
Commercial real estate	2	$ 560
Total	2	$ 560
2011		
Commercial real estate	1	$ 264
Consumer and other	1	6
Total	2	$ 270

(1) The period end balances are inclusive of all partial paydowns and charge-offs since the modification date, if any. Loans modified in a TDR that were fully paid down, charged- off, or foreclosed upon by period end are not reported.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted as described above did not have a material impact on the allowance for loan losses and charge-offs during the years ending December 31, 2012 and 2011.

NOTE 5 - 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, 2012 and 2011, approximated $47,390 and $45,290, respectively; such loans are not included on the accompanying consolidated balance sheets.

The carrying values of originated mortgage servicing rights were $339 and $291, respectively, at December 31, 2012 and 2011 and are included in accrued interest receivable and other assets on the accompanying consolidated balance sheets.

(In Thousands)

NOTE 6 - PREMISES AND EQUIPMENT

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

	2012	2011
Land and improvements	$ 1,451	$ 1,443
Buildings and improvements	5,796	5,796
Furniture and equipment	4,696	3,872
Construction in process	88	16
Total	12,031	11,127
Less accumulated depreciation	6,480	6,113
Premises and equipment, net	$ 5,551	$ 5,014

Depreciation expense was $369 and $375 for 2012 and 2011, respectively.

NOTE 7 - DEPOSITS

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

	2012	2011
Money market and NOW accounts	$ 126,718	$ 125,689
Savings	35,480	29,798
Time, $100 and over	21,279	26,698
CDARS*	6,393	4,902
Other time	32,734	40,637
Total interest-bearing	222,604	227,724
Noninterest-bearing demand	47,449	42,338
Total deposits	$ 270,053	$ 270,062

(*) The Certificate of Deposit Account Registry Service.

Interest expense on time deposits issued in denominations of $100 or more was $361 in 2012 and $480 in 2011.

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2012, are summarized as follows:

Year	Amount
2013	$ 35,580
2014	15,898
2015	3,370
2016	2,012
2017	3,546
Total	$ 60,406

(In Thousands)

NOTE 8 - FEDERAL INCOME TAXES

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

	2012	2011
Currently payable	$ 101	$ 838
Deferred tax benefit	593	(31)
Income taxes	$ 694	$ 807

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:

	2012	2011
Income tax benefit at statutory rate	$ 871	$ 995
Effect of tax-exempt interest income	(187)	(195)
Other – net	10	7
Income taxes	$ 694	$ 807

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

	2012	2011
Deferred tax assets		
Allowance for loan losses	$ -	$ 617
Other real estate	123	218
AMT credit carryover	435	349
Non-accrual interest	7	24
Deferred compensation	113	53
Other	34	26
Total deferred tax assets	712	1,287
Deferred tax liabilities		
Mortgage servicing rights	115	99
Depreciation	283	291
Net unrealized gains on securities available-for-sale	206	587
Accretion	8	9
Prepaid expenses	13	48
Allowance for loan losses	46	-
Other	3	3
Total deferred tax liabilities	674	1,037
Net deferred tax asset	$ 38	$ 250

(In Thousands)

NOTE 8 - FEDERAL INCOME TAXES (Continued)

The Corporation has evaluated the provisions of ASC Topic 740, *Accounting for Uncertainty in Income Taxes.* The evaluation was performed for the years 2009 through 2012, the years which remain subject to examination by major tax jurisdictions as of December 31, 2012. 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, 2012 or 2011, and it is not aware of any claims for such amounts by federal or state income tax authorities. 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 2009.

NOTE 9 - RELATED PARTY TRANSACTIONS

Loans
In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately $6,722 and $6,302 as of December 31, 2012 and 2011, respectively.

Deposits
Deposits of Corporate directors, executive officers, and their affiliates were approximately $1,821 and $1,715 at December 31, 2012 and 2011, respectively.

NOTE 10 - 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 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, 2012 and 2011, the following financial instruments were outstanding whose contract amounts represent potential credit risk:

	Contract Amount	
	2012	2011
Unfunded commitments under lines of credit	$ 25,398	$ 25,947
Commitments to grant loans	1,335	2,635
Commercial and standby letters of credit	115	251

NOTE 10 - OFF-BALANCE SHEET ACTIVITIES (Continued)

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 Bank 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, 2012 or 2011.

NOTE 11 - REGULATORY REQUIREMENTS

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank and the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of 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.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 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, 2012 and 2011, that the Bank met all capital adequacy requirements to which they are subject.

(In Thousands)

NOTE 11 - REGULATORY REQUIREMENTS (Continued)

As of December 31, 2012, 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 Bank's actual capital amounts and ratios as of December 31, 2012 and 2011 are also presented in the table.

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2012						
Total capital to risk weighted assets:						
Bank	$ 32,297	18.3%	$ 14,114	8.0%	$ 17,643	10.0%
Tier 1 capital to risk weighted assets:						
Bank	30,073	17.0	7,057	4.0	10,586	6.0
Tier 1 capital to average assets:						
Bank	30,073	10.0	12,002	4.0	15,002	5.0
2011						
Total capital to risk weighted assets:						
Bank	$ 30,782	16.8%	$ 14,663	8.0%	$ 18,329	10.0%
Tier 1 capital to risk weighted assets:						
Bank	28,458	15.5	7,331	4.0	10,997	6.0
Tier 1 capital to average assets:						
Bank	28,458	9.5	12,047	4.0	15,059	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 $1,999 and $5,656 at December 31, 2012 and 2011, 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.

NOTE 12 - 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, 2012.

NOTE 13 - 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 $14 and $17 in 2012 and 2011, 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 $186 and $214 in 2012 and 2011, respectively.

Anniversaries

Alan J. Curtis
35 Years

Debra M. Coe
20 Years

Loretta Ramseyer
20 Years

Kristen Lange and Tracy Dryden
15 Years

10 Years of Service — Nina Black (back, from left), Michelle Curtis, Amy Nicolson, Margaret Fansler (front left) and Donna Nichols

5 Years of Service — Julie Hoody (back row, from left), Deborah Alexander, Nicole Kehus, Peter Batistoni (front) and Leslie Richardson.

New Officers

Greg Potter
Credit Officer

Greg Potter joined Lapeer County Bank & Trust Co. in October of 1983. He began as a credit analyst before becoming the Credit Department Manager in 2002. Potter has a Bachelor of Arts degree in Business Administration from Michigan State University.

Danielle Chateauvert
Business Development Director

Danielle Chateauvert joined Lapeer County Bank & Trust Co. in January of 1996. Before working in the Business Development department, she spent time as a teller and loan processor. Chateauvert received her Bachelors in Business Administration with a concentration in Marketing from the University of Michigan.

William R. Hartley
Special Assets Officer

William Hartley joined Lapeer County Bank & Trust Co. in March as the Special Assets Officer. Hartley is an accomplished banking executive who brings with him a unique scope of experience spanning consumer, commercial and subprime lending, as well as collections, recovery systems, loan review and compliance.

Philip Candela
Mortgage Officer

Phil Candela joined Lapeer County Bank & Trust Co. in December as a Mortgage Officer. Candela has more than 25 years of real estate and mortgage experience. Candela will be responsible for growing the mortgage loan department through expanded services and loan programs.

Bank Officers

Executive

Bruce J. Cady	President & CEO
Joseph H. Black	Chief Financial Officer
Shelly M. Childers	Senior Vice President & Director of Information Technology
Bernadette Talaski	Senior Vice President & Branch Administrator

Commercial Lending

Alan J. Curtis	Vice President & Senior Lender
Peter Batistoni	Commercial Loan Manager
William E. O'Connor	Commercial Loan Officer
Ashley A. Winter	Commercial Loan Officer

Retail Lending

Beth A. Henderson	Retail Lending Director & Loan Compliance Officer
Colleen Sutton	Retail Lending Officer
Philip Candela	Mortgage Officer

Trust

Gary Drainville	Vice President & Senior Trust Officer
David Warrington	Assistant Trust Officer

Main Office

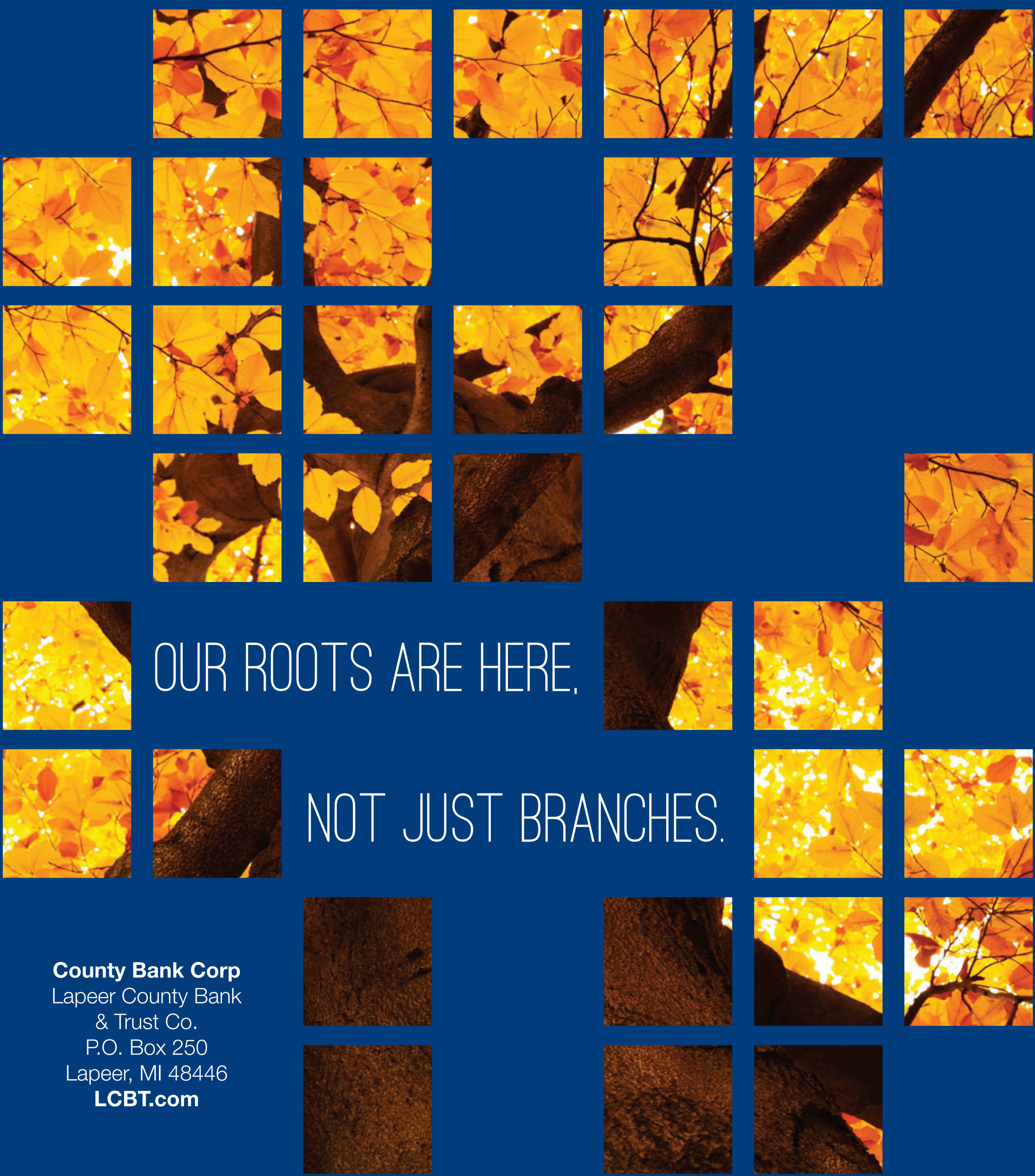
Cindy K. Strich	Auditor
Danielle Chateauvert	Business Development Director
Louise Vermillion	Check Processing Officer
Greg Potter	Credit Officer
Robert Lennox	Financial Officer
Loren Schafer	Human Resources Director
Marsha A. Kalakay	Sales Officer
William R. Hartley	Special Assets Officer

Branch

Elizabeth McVety	Attica Branch Officer
Kimberly S. Hill	Deerfield Branch Officer
Jennifer Ward	Elba Branch Officer
Walter Bargen	Imlay City & Metamora Branch Officer
Debra M. Coe	Southgate Branch Officer

CBC

County Bank Corp



County Bank Corp
Lapeer County Bank
& Trust Co.
P.O. Box 250
Lapeer, MI 48446
LCBT.com