

Annual Report 2010



First Suffield Financial, Inc.

OCC DISCLAIMER

This statement has not been reviewed, or confirmed for accuracy or relevancy by the Office of the Comptroller of the Currency

Our Cover

The cover of this year's Annual Report is a reproduction of a painting commissioned by the Bank from local artist, Fran Scully. The painting depicts the new home of the Suffield Senior Center located at 145 Bridge Street in Suffield. For the past 10 years the Senior Center was located in the Suffield Village on Bridge Street. In an effort to provide more opportunities for senior citizens space became a need. Through grants, fund raising, and naming rights from the community on September 26, 2010 the Grand Opening for the new Suffield Senior Center location was celebrated in the renovated former Calvary Church building. The First National Bank of Suffield in conjunction with the Suffield Rotary Club is proud to have underwritten the commercial grade kitchen which allows the Center to offer lunches to seniors.

The First National Bank of Suffield
a wholly owned subsidiary of
First Suffield Financial, Inc.

Established 1864
fnbanksuffield.com

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To Our Shareholders,

2010 was a good year for First Suffield Financial and The First National Bank of Suffield. Interest rates have remained at historical lows and a recovery appears to be starting to take hold. Our local economy has fared better than other areas of the country but it is a fragile one. While other recent recoveries have been consumer led this one is being led by the manufacturing sector.

I am pleased to report that we earned \$1,650,002 in 2010 which is an increase of 6.4% from last year's earnings \$1,551,544. The Bank produced a return on average assets of .79% and a return on average equity of 7.59%. Deposits increased this year by 5.9% to \$181,998,154 while total assets as of yearend increased 4.0% to \$208,842,155. Shareholders' equity increased to \$22.26 million from \$21.40 million while we continued to pay a dividend of \$140.00 per share. The Bank continues to be very well capitalized with a Risk Based Capital ratio of 19.63% and a Tier 1 Capital ratio of 10.63% both of which are well in excess of the amounts needed to be considered "Well Capitalized" by the regulatory authorities.

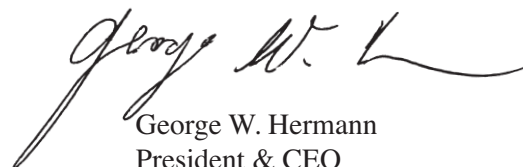
The biggest challenge that the Bank faced last year was the continued historically low interest rates. The low rates were responsible for the large volume of mortgage loans that the bank originated. During 2010, the Bank originated more than \$33 million of residential mortgages, the majority of which were refinance transactions. From a long term risk prospective it was not prudent for the Bank to hold these long term, low rate loans on its balance sheet. The majority of the loans originated were sold to FNMA but are serviced by The First National Bank of Suffield. The net result of the refinancing activity was that the Bank's residential loan portfolio decreased \$18.8 million. An increase in commercial loans of \$7.75 million helped to reduce the overall decrease of loans of \$13.3 million. The resulting decrease in loan interest income was more than offset by the increase of income from the sale of the mortgage loans. The continued slow economy did result in an increase of non performing loans of \$1.2 million. The Bank maintains an adequate Allowance for Loan Losses of \$1,478,979 which is 1.03% of total loans.

The recently passed Dodd-Frank Act is intended to make sure that the "Financial Crisis" does not happen again. The Act is going to result in a dramatic increase in new regulations that the Bank is going to be required to comply with. The irony of this is that community banks like The First National Bank of Suffield that did not cause the crisis, and instead were the "shock absorber" to help insure a soft landing, are the ones that are bearing the brunt of the regulatory changes. The Bank has started doing what it needs to be ready when the new regulations are released.

The way that we get and share information as a society is evolving on a daily basis and the Bank has to be part of the evolution. In order to get our message to our customers and potential customers the Bank has added a Facebook page that provides financial tips along with community information. We have also started advertising on the new online daily newspaper "Patch.com" that has an individual and unique edition in each of our communities.

The Bank continues to receive the support of the communities that we do business in and in turn does all that we can to support our communities. During the past year we donated more than \$47,000 to 130 different organizations and our employees volunteered more than 3,000 hours. As you can see we are heavily invested in our communities.

Sincerely,



George W. Hermann
President & CEO

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The Board of Directors and Stockholders
First Suffield Financial, Inc.
Suffield, Connecticut

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheets of First Suffield Financial, Inc. and Subsidiary as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Shatswell, MacLeod + Company, P.C.
SHATSWELL, MacLEOD & COMPANY, P.C.

West Peabody, Massachusetts
February 14, 2011

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Cash and due from banks	\$ 5,748,372	\$ 5,484,848
Interest-bearing deposits with banks	<u>25,040,931</u>	<u>12,538,041</u>
Cash and cash equivalents	30,789,303	18,022,889
Interest bearing time deposits with other banks	8,730,000	7,475,000
Investments in available-for-sale securities (at fair value)	19,079,126	13,858,599
Federal Home Loan Bank stock, at cost	893,900	893,900
Federal Reserve Bank stock, at cost	33,750	33,750
Loans, net	141,697,348	154,966,907
Premises and equipment	1,934,933	1,945,653
Cash surrender value of life insurance	2,546,249	-0-
Other real estate owned	-0-	117,652
Accrued interest receivable	675,778	711,404
Deferred tax asset, net	1,196,535	1,432,131
Other assets	<u>1,265,233</u>	<u>1,281,874</u>
Total assets	<u>\$208,842,155</u>	<u>\$200,739,759</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Deposits:		
Noninterest-bearing	\$ 37,792,295	\$ 37,479,362
Interest-bearing	<u>144,205,859</u>	<u>134,423,401</u>
Total deposits	181,998,154	171,902,763
Federal Home Loan Bank advances	1,402,564	3,938,107
Securities sold under agreements to repurchase	2,483,266	2,263,029
Other liabilities	<u>701,910</u>	<u>1,239,785</u>
Total liabilities	<u>186,585,894</u>	<u>179,343,684</u>
Stockholders' equity:		
Common stock, \$25.00 par value; authorized 5,000 shares; issued and outstanding 5,000 shares	125,000	125,000
Paid-in capital	1,000,000	1,000,000
Retained earnings	21,685,405	20,735,403
Accumulated other comprehensive loss	<u>(554,144)</u>	<u>(464,328)</u>
Total stockholders' equity	<u>22,256,261</u>	<u>21,396,075</u>
Total liabilities and stockholders' equity	<u>\$208,842,155</u>	<u>\$200,739,759</u>

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

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Interest and dividend income:		
Interest and fees on loans	\$7,842,518	\$8,269,797
Interest on debt securities:		
Taxable	202,065	354,576
Dividends	1,220	3,591
Other interest	162,869	88,639
Total interest and dividend income	<u>8,208,672</u>	<u>8,716,603</u>
Interest expense:		
Interest on deposits	1,231,611	1,592,158
Interest on Federal Home Loan Bank advances	61,853	132,377
Interest on securities sold under agreements to repurchase	9,907	11,697
Interest on other borrowed funds	61	56
Total interest expense	<u>1,303,432</u>	<u>1,736,288</u>
Net interest and dividend income	6,905,240	6,980,315
Provision for loan losses	142,500	50,000
Net interest and dividend income after provision for loan losses	<u>6,762,740</u>	<u>6,930,315</u>
Noninterest income:		
Service charges and fees	373,239	362,941
Gain on sales of loans, net	622,414	406,204
Income on bank owned life insurance	46,249	-0-
Other income	427,734	364,773
Total noninterest income	<u>1,469,636</u>	<u>1,133,918</u>
Noninterest expense:		
Salaries and employee benefits	3,115,786	3,043,058
Occupancy expense	330,215	379,828
Equipment expense	196,632	219,738
Examination and professional fees	285,387	254,303
FDIC assessment	237,993	310,500
Printing and office supplies	102,565	129,195
Other expense	1,283,837	1,158,843
Total noninterest expense	<u>5,552,415</u>	<u>5,495,465</u>
Income before income taxes	2,679,961	2,568,768
Income taxes	1,029,959	1,017,224
Net income	<u>\$1,650,002</u>	<u>\$1,551,544</u>
Net income per share of common stock	<u>\$ 330.00</u>	<u>\$ 310.31</u>

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

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2010 and 2009

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2008	\$125,000	\$1,000,000	\$19,883,859	\$ (576,049)	\$20,432,810
Comprehensive income:					
Net income	-0-	-0-	1,551,544	-0-	-0-
Other comprehensive income	-0-	-0-	-0-	111,721	-0-
Comprehensive income	-0-	-0-	-0-	-0-	1,663,265
Cash dividends declared (\$140.00 per share)	-0-	-0-	(700,000)	-0-	(700,000)
Balance, December 31, 2009	125,000	1,000,000	20,735,403	(464,328)	21,396,075
Comprehensive income:					
Net income	-0-	-0-	1,650,002	-0-	-0-
Other comprehensive loss	-0-	-0-	-0-	(89,816)	-0-
Comprehensive income	-0-	-0-	-0-	-0-	1,560,186
Cash dividends declared (\$140.00 per share)	-0-	-0-	(700,000)	-0-	(700,000)
Balance, December 31, 2010	<u>\$125,000</u>	<u>\$1,000,000</u>	<u>\$21,685,405</u>	<u>\$(554,144)</u>	<u>\$22,256,261</u>

Other comprehensive income and reclassification disclosure for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Unrealized losses on available-for-sale securities		
Net unrealized holding losses on available-for-sale securities	\$(132,193)	\$(140,456)
	(132,193)	(140,456)
Income tax benefit	52,219	54,339
Unrealized losses on available-for-sale securities, net of tax	(79,974)	(86,117)
Other comprehensive (loss) income - Pension Plan	(16,121)	324,059
Income tax benefit (expense)	6,279	(126,221)
	(9,842)	197,838
Other comprehensive (loss) income, net of tax	<u>\$(89,816)</u>	<u>\$111,721</u>

Accumulated other comprehensive loss consists of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Net unrealized holding (losses) gains on available-for-sale securities, net of taxes	\$ (50,212)	\$ 29,762
Unrecognized pension plan costs, net of tax	(503,932)	(494,090)
Accumulated other comprehensive loss	<u>\$(554,144)</u>	<u>\$(464,328)</u>

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

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income	\$ 1,650,002	\$ 1,551,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of securities, net	191,951	201,008
Change in deferred origination costs (fees), net	(14,303)	2,359
Gain on sales of other real estate owned	(764)	-0-
Provision for loan losses	142,500	50,000
Depreciation	164,116	172,099
Decrease (increase) in prepaid expenses	155,478	(843,695)
Decrease (increase) in accrued interest receivable	35,626	(624)
Decrease in other assets	3,335	21,275
Increase in accrued expenses	36,930	104,417
Decrease in accrued interest payable	(28,100)	(33,215)
Decrease in other liabilities	(615,825)	(185,926)
Deferred tax expense	294,094	127,517
Increase (decrease) in taxes payable	52,999	(6,868)
Decrease (increase) in taxes receivable	26,866	(33,067)
Increase in mortgage servicing asset	(169,038)	(108,001)
Increase on bank owned life insurance	(46,249)	-0-
Net cash provided by operating activities	<u>1,879,618</u>	<u>1,018,823</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(12,304,671)	(7,447,701)
Proceeds from maturities of available-for-sale securities	6,760,000	7,750,000
Purchases of interest bearing time deposits	(4,395,000)	(9,440,260)
Proceeds from maturities of interest bearing time deposits	3,140,000	2,685,260
Loan originations and principal collections, net	16,059,699	3,924,423
Loans purchased	(3,026,066)	(4,646,107)
Recoveries of loans previously charged off	-0-	2,070
Proceeds from sales of other real estate owned	226,145	-0-
Capital expenditures	(153,396)	(207,891)
Purchase of bank owned life insurance policies	(2,500,000)	-0-
Net cash provided by (used in) investing activities	<u>3,806,711</u>	<u>(7,380,206)</u>
Cash flows from financing activities:		
Net increase in demand deposits, NOW and savings accounts	8,288,157	13,737,039
Net increase in time deposits	1,807,234	5,371,144
Repayment of long-term Federal Home Loan Bank advances	(2,535,543)	(517,265)
Net increase (decrease) in securities sold under agreements to repurchase	220,237	(1,386,391)
Dividends paid	(700,000)	(700,000)
Net cash provided by financing activities	<u>7,080,085</u>	<u>16,504,527</u>
Net increase in cash and cash equivalents	12,766,414	10,143,144
Cash and cash equivalents at beginning of year	<u>18,022,889</u>	<u>7,879,745</u>
Cash and cash equivalents at end of year	<u>\$30,789,303</u>	<u>\$18,022,889</u>

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009
(continued)

	<u>2010</u>	<u>2009</u>
Supplemental disclosures:		
Interest paid	\$1,331,532	\$1,769,503
Income taxes paid	656,000	929,642
Loans transferred to other real estate owned	107,729	117,652

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

FIRST SUFFIELD FINANCIAL, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2010 and 2009

NOTE 1 - NATURE OF OPERATIONS

First Suffield Financial, Inc. (Company) is a Connecticut corporation that was organized in 2006 to become the holding company of The First National Bank of Suffield (Bank). The Company's primary activity is to act as the holding company for the Bank. The Bank is a nationally chartered bank which was incorporated in 1864 and is headquartered in Suffield, Connecticut. The Bank operates its business from four banking offices located in Connecticut. The Bank is engaged principally in the business of attracting deposits from the general public and investing those deposits in residential and commercial real estate loans, and in consumer and small business loans.

NOTE 2 - ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and predominant practices within the banking industry. The consolidated financial statements of the Company were prepared using the accrual basis of accounting. The significant accounting policies of the Company are summarized below to assist the reader in better understanding the consolidated financial statements and other data contained herein.

USE OF ESTIMATES:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany accounts and transactions have been eliminated in the consolidation.

CASH AND CASH EQUIVALENTS:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash items, due from banks and interest-bearing deposits with banks.

SECURITIES:

Investments in debt securities are adjusted for amortization of premiums and accretion of discounts computed so as to approximate the interest method. Gains or losses on sales of investment securities are computed on a specific identification basis.

The Company classifies debt and equity securities into one of three categories: held-to-maturity, available-for-sale, or trading. These security classifications may be modified after acquisition only under certain specified conditions. In general, securities may be classified as held-to-maturity only if the Company has the positive intent and ability to hold them to maturity. Trading securities are defined as those bought and held principally for the purpose of selling them in the near term. All other securities must be classified as available-for-sale.

- Held-to-maturity securities are measured at amortized cost in the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings or in a separate component of capital. They are merely disclosed in the notes to the consolidated financial statements.
- Available-for-sale securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses are not included in earnings, but are reported as a net amount (less expected tax) in a separate component of capital until realized.
- Trading securities are carried at fair value on the consolidated balance sheets. Unrealized holding gains and losses for trading securities are included in earnings.

For any debt security with a fair value less than its amortized cost basis, the Company will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either condition is met, the Company will recognize a full impairment charge to earnings. For all other debt securities that are considered other-than-temporarily impaired and do not meet either condition, the credit loss portion of impairment will be recognized in earnings as realized losses. The other-than-temporary impairment related to all other factors will be recorded in other comprehensive income.

Declines in marketable equity securities below their cost that are deemed other than temporary are reflected in earnings as realized losses.

As a member of the Federal Home Loan Bank (FHLB), the Company is required to invest in \$100 par value stock of FHLB. The FHLB capital structure mandates that members must own stock as determined by their Total Stock Investment Requirement which is the sum of a member's Membership Stock Investment Requirement and Activity-Based Stock Investment Requirement. The Membership Stock Investment Requirement is calculated as 0.35% of member's Stock Investment Base, subject to a minimum investment of \$10,000 and a maximum investment of \$25,000,000. The Stock Investment Base is an amount calculated based on certain assets held by a member that are reflected on call reports submitted to applicable regulatory authorities. The Activity-Based Stock Investment Requirement is calculated as 4.5% of a member's outstanding principal balances of FHLB advances plus a percentage of advance commitments, 4.5% of standby letters of credit issued by the FHLB and 4.5% of the value of intermediated derivative contracts. Management evaluates the Company's investment in FHLB of Boston stock for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Based on its most recent analysis of the FHLB of Boston as of December 31, 2010 management deems its investment in FHLB of Boston stock to be not other-than-temporarily impaired.

On December 8, 2008, the Federal Home Loan Bank of Boston announced a moratorium on the repurchase of excess stock held by its members. The moratorium will remain in effect indefinitely.

LOANS HELD-FOR-SALE:

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. No losses have been recorded.

LOANS:

Loans receivable that management has the intent and ability to hold until maturity or payoff are reported at their outstanding principal balances adjusted for amounts due to borrowers on unadvanced loans, any charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Interest on loans is recognized on a simple interest basis.

Loan origination and commitment fees and certain direct origination costs are deferred, and the net amount amortized as an adjustment of the related loan's yield. The Company is amortizing these amounts over the contractual life of the related loans.

Residential real estate loans are generally placed on nonaccrual when reaching 90 days past due or in process of foreclosure. All closed-end consumer loans 90 days or more past due and any equity line in the process of foreclosure are placed on nonaccrual status. Secured consumer loans are written down to realizable value and unsecured consumer loans are charged-off upon reaching 120 or 180 days past due depending on the type of loan. Commercial real estate loans and commercial business loans and leases which are 90 days or more past due are generally placed on nonaccrual status, unless secured by sufficient cash or other assets immediately convertible to cash. When a loan has been placed on nonaccrual status previously accrued and uncollected interest is reversed against interest on loans. A loan can be returned to accrual status when collectibility of principal is reasonably assured and the loan has performed for a period of time, generally six months.

Cash receipts of interest income on impaired loans are credited to principal to the extent necessary to eliminate doubt as to the collectibility of the net carrying amount of the loan. Some or all of the cash receipts of interest income on impaired loans is recognized as interest income if the remaining net carrying amount of the loan is deemed to be fully collectible. When recognition of interest income on an impaired loan on a cash basis is appropriate, the amount of income that is recognized is limited to that which would have been accrued on the net carrying amount of the loan at the contractual interest rate. Any cash interest payments received in excess of the limit and not applied to reduce the net carrying amount of the loan are recorded as recoveries of charge-offs until the charge-offs are fully recovered.

ALLOWANCE FOR LOAN LOSSES:

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Company 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 loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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

SERVICING:

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

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Cost and related allowances for depreciation and amortization of premises and equipment retired or otherwise disposed of are removed from the respective accounts with any gain or loss included in income or expense. Depreciation and amortization are calculated principally on the straight-line method over the estimated useful lives of the assets.

OTHER REAL ESTATE OWNED AND IN-SUBSTANCE FORECLOSURES:

Other real estate owned includes properties acquired through foreclosure and properties classified as in-substance foreclosures in accordance with ASC 310-40, "Receivables - Troubled Debt Restructuring by Creditors." These properties are carried at the lower of cost or estimated fair value less estimated costs to sell. Any writedown from cost to estimated fair value required at the time of foreclosure or classification as in-substance foreclosure is charged to the allowance for loan losses. Expenses incurred in connection with maintaining these assets, subsequent writedowns and gains or losses recognized upon sale are included in other expense.

In accordance with ASC 310-10-35, "Receivables - Overall - Subsequent Measurements," the Company classifies loans as in-substance repossessed or foreclosed if the Company receives physical possession of the debtor's assets regardless of whether formal foreclosure proceedings take place.

ADVERTISING:

The Company directly expenses costs associated with advertising as they are incurred.

INCOME TAXES:

The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled.

FAIR VALUES OF FINANCIAL INSTRUMENTS:

ASC 825, "Financial Instruments," requires that the Company disclose estimated fair value for its financial instruments. Fair value methods and assumptions used by the Company in estimating its fair value disclosures are as follows:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents approximate those assets' fair values.

Interest bearing time deposits with other banks: The fair value of interest bearing time deposits with other banks was determined by discounting the cash flows associated with these instruments using current market rates for deposits with similar characteristics.

Securities (including mortgage-backed securities): Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

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

Accrued interest receivable: The carrying amount of accrued interest receivable approximates its fair value.

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

Federal Home Loan Bank advances: Fair values for Federal Home Loan Bank advances are estimated using a discounted cash flow technique that applies interest rates currently being offered on advances to a schedule of aggregated expected monthly maturities on Federal Home Loan Bank advances.

Securities sold under agreements to repurchase: The carrying amount of securities sold under agreements to repurchase approximates its fair value.

Off-balance sheet instruments: The fair value of commitments to originate loans is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments and the unadvanced portion of loans, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligation with the counterparties at the reporting date.

EARNINGS PER SHARE:

Basic earnings per share (EPS) excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

The Company has not presented diluted EPS for 2010 and 2009 because there were no dilutive potential common shares outstanding.

RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 166, “Accounting for Transfers of Financial Assets,” and SFAS No. 167, “Amendments to FASB Interpretation No. 46(R).” These standards are effective for the first interim reporting period of 2010. SFAS No. 166 amends the guidance in ASC 860 to eliminate the concept of a qualifying special-purpose entity (“QSPE”) and changes some of the requirements for derecognizing financial assets. SFAS No. 167 amends the consolidation guidance in ASC 810-10. Specifically, the amendments will (a) eliminate the exemption for QSPEs from the new guidance, (b) shift the determination of which enterprise should consolidate a variable interest entity (“VIE”) to a current control approach, such that an entity that has both the power to make decisions and right to receive benefits or absorb losses that could potentially be significant, will consolidate a VIE, and (c) change when it is necessary to reassess who should consolidate a VIE. These standards did not have a significant impact on the Company’s financial statements.

In March 2010, the FASB issued ASU 2010-11, “Scope Exception Related to Embedded Credit Derivatives.” The ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, CDOs and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separate fair value accounting. The ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. At transition, the Company may elect to reclassify various debt securities (on an instrument-by-instrument basis) from held-to-maturity (HTM) or available-for-sale (AFS) to trading. The new rules are effective July 1, 2010. The ASU did not have a material impact on the Company’s financial condition and results of operations.

In January 2010, the FASB issued ASU 2010-06, “Improving Disclosures about Fair Value Measurements.” The ASU requires disclosing the amounts of significant transfers in and out of Level 1 and 2 of the fair value hierarchy and describing the reasons for the transfers. The disclosures are effective for reporting periods beginning after December 15, 2009. The Company adopted ASU 2010-06 as of January 1, 2010. The required disclosures are included in Note 16. Additionally, disclosures of the gross purchases, sales, issuances and settlements activity in the Level 3 of the fair value measurement hierarchy will be required for fiscal years beginning after December 15, 2010.

In April 2010, the FASB issued ASU 2010-18, “Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset.” As a result of this ASU, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in this ASU are effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” This ASU is created to provide financial statement users with greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. This ASU is intended to provide additional information to assist financial statement users in assessing the entity’s credit risk exposures and evaluating the adequacy of its allowance for credit losses. The amendments in this ASU are effective for public entities as of the end of a reporting period for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011.

In December 2010, the FASB issued ASU 2010-28, “Intangibles – Goodwill and Other.” This ASU addresses when to perform step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For public entities, the amendments in this ASU are effective for fiscal years and interim periods beginning after December 15, 2010. For nonpublic entities, the amendments are effective for fiscal years and interim periods beginning after December 15, 2011.

In December 2010, the FASB issued ASU 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations." This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this ASU are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

NOTE 3 - INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

Securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost of investments in available-for-sale securities and their approximate fair values are as follows as of December 31:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2010:				
U.S. Government Agencies	\$19,066,621	\$62,200	\$ 82,097	\$19,046,724
Preferred stock	<u>95,500</u>	<u>-0-</u>	<u>63,098</u>	<u>32,402</u>
	<u>\$19,162,121</u>	<u>\$62,200</u>	<u>\$145,195</u>	<u>\$19,079,126</u>
December 31, 2009:				
U.S. Treasuries and Government Agencies	\$13,713,901	\$91,864	\$ 7,766	\$13,797,999
Preferred stock	<u>95,500</u>	<u>1,000</u>	<u>35,900</u>	<u>60,600</u>
	<u>\$13,809,401</u>	<u>\$92,864</u>	<u>\$ 43,666</u>	<u>\$13,858,599</u>

The scheduled maturities of available-for-sale debt securities were as follows as of December 31, 2010:

	<u>Fair Value</u>
Due within one year	\$ 5,047,769
Due after one year through five years	<u>13,998,955</u>
	<u>\$19,046,724</u>

There were no securities of issuers, other than U.S. Government Agencies, whose aggregate carrying amount exceeded 10% of stockholders' equity as of December 31, 2010.

Securities having carrying amounts of \$11,156,130 and \$11,233,863 as of December 31, 2010 and 2009, respectively, were pledged to secure securities sold under agreements to repurchase, public deposits, and for other purposes required or permitted by law.

There were no sales of available-for-sale securities during 2010 and 2009.

The aggregate fair value and unrealized losses of securities that have been in a continuous unrealized-loss position for less than twelve months and for twelve months or more, and are not other than temporarily impaired, are as follows as of December 31:

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2010:						
U.S. Government Agencies	\$8,122,645	\$82,097	\$ -0-	\$ -0-	\$8,122,645	\$ 82,097
Preferred stock	<u>3,500</u>	<u>11,500</u>	<u>28,902</u>	<u>51,598</u>	<u>32,402</u>	<u>63,098</u>
Total temporarily impaired securities	<u>\$8,126,145</u>	<u>\$93,597</u>	<u>\$28,902</u>	<u>\$51,598</u>	<u>\$8,155,047</u>	<u>\$145,195</u>

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
December 31, 2009:						
U.S. Treasuries and						
Government Agencies	\$2,302,500	\$ 7,766	\$ -0-	\$ -0-	\$2,302,500	\$ 7,766
Preferred stock	<u>15,000</u>	<u>2,500</u>	<u>29,600</u>	<u>33,400</u>	<u>44,600</u>	<u>35,900</u>
Total temporarily						
impaired securities	<u>\$2,317,500</u>	<u>\$10,266</u>	<u>\$29,600</u>	<u>\$33,400</u>	<u>\$2,347,100</u>	<u>\$ 43,666</u>

The investments in the Company's investment portfolio that are temporarily impaired as of December 31, 2010 consist of preferred stocks and debt securities. The preferred stocks were issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) and were written down to market value as of September 30, 2009. Based on the outlooks for FNMA and FHLMC, management considers these current declines in the market values to be temporary. The unrealized losses on debt securities are due to changes in market interest rates and are deemed to be temporary. Company management has the ability and intent to hold temporarily impaired investments until cost recovery occurs.

NOTE 4 - LOANS

Loans consisted of the following as of December 31:

	<u>2010</u>	<u>2009</u>
Commercial, financial and agricultural	\$ 18,585,287	\$ 11,110,154
Real estate - construction and land development	2,941,215	3,578,179
Real estate - residential	106,808,456	125,578,594
Real estate - commercial	13,788,746	14,840,997
Consumer	<u>956,527</u>	<u>1,255,341</u>
	143,080,231	156,363,265
Deferred loan origination costs, net	96,096	81,793
Allowance for loan losses	<u>(1,478,979)</u>	<u>(1,478,151)</u>
Net loans	<u>\$141,697,348</u>	<u>\$154,966,907</u>

Changes in the allowance for loan losses were as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Balance at beginning of period	\$1,478,151	\$1,469,157
Provision for loan losses	142,500	50,000
Recoveries of loans previously charged off	-0-	2,070
Loans charged-off	<u>(141,672)</u>	<u>(43,076)</u>
Balance at end of period	<u>\$1,478,979</u>	<u>\$1,478,151</u>

Certain directors and executive officers of the Company and companies in which they have significant ownership interest were customers of the Bank during 2010. Total loans to such persons and their companies amounted to \$1,142,180 as of December 31, 2010. During 2010, principal payments and advances totaled \$1,156,475 and \$1,043,421, respectively.

The following table sets forth information regarding nonaccrual loans and accruing loans 90 days or more overdue as of December 31:

	<u>2010</u>	<u>2009</u>
Total nonaccrual loans	<u>\$2,365,283</u>	<u>\$1,138,391</u>
Accruing loans which are 90 days or more overdue	<u>\$ -0-</u>	<u>\$ 88,303</u>

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of December 31:

	2010		2009	
	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses	Recorded Investment In Impaired Loans	Related Allowance For Credit Losses
Loans for which there is a related allowance for credit losses	\$ -0-	\$-0-	\$ 137,156	\$73,000
Loans for which there is no related allowance for credit losses	<u>1,667,451</u>	<u>-0-</u>	<u>855,000</u>	<u>-0-</u>
Totals	<u>\$1,667,451</u>	<u>\$-0-</u>	<u>\$ 992,156</u>	<u>\$73,000</u>
Average recorded investment in impaired loans during the year ended December 31			<u>\$1,217,553</u>	<u>\$1,018,183</u>
Related amount of interest income recognized during the time, in the year ended December 31, that the loans were impaired				
Total recognized			<u>\$ 47,609</u>	<u>\$ 50,136</u>
Amount recognized using a cash-basis method of accounting			<u>\$ 47,609</u>	<u>\$ 50,136</u>

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage and other loans serviced for others were \$53,444,039 and \$36,785,554 at December 31, 2010 and 2009, respectively.

Mortgage servicing rights of \$240,900 and \$161,152 were capitalized in 2010 and 2009, respectively. The balance of capitalized mortgage servicing rights included in other assets at December 31, 2010 and 2009 was \$346,212 and \$177,174, respectively. Amortization of capitalized mortgage servicing rights was \$78,035 and \$99,841 in 2010 and 2009, respectively.

Following is an analysis of the aggregate changes in the valuation allowance for mortgage servicing rights for the years ended December 31:

	2010	2009
Balance, beginning of year	\$12,115	\$58,805
Additions	28,731	2,118
Reductions	<u>(34,904)</u>	<u>(48,808)</u>
Balance, end of year	<u>\$ 5,942</u>	<u>\$12,115</u>

The fair value of the mortgage servicing rights is \$385,098 and \$204,211 as of December 31, 2010 and 2009, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2010	2009
Land	\$ 232,756	\$ 232,756
Buildings	2,144,594	2,131,478
Furniture and equipment	<u>2,702,322</u>	<u>2,562,042</u>
	5,079,672	4,926,276
Accumulated depreciation	<u>(3,144,739)</u>	<u>(2,980,623)</u>
	<u>\$1,934,933</u>	<u>\$1,945,653</u>

NOTE 6 - DEPOSITS

The aggregate amount of time deposit accounts in denominations of \$100,000 or more as of December 31, 2010 and 2009 was \$30,547,061 and \$26,355,808, respectively.

For time deposits as of December 31, 2010, the scheduled maturities for the years ended December 31, are as follows:

2011	\$48,558,906
2012	10,848,360
2013	1,997,904
2014	921,484
2015	<u>1,094,443</u>
	<u>\$63,421,097</u>

Deposits from related parties held by the Company as of December 31, 2010 and 2009 amounted to \$3,185,146 and \$3,273,699, respectively.

The Bank has one customer with deposits at the Bank amounting to \$15,718,446, or 8.64% of total deposits, as of December 31, 2010.

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

Advances consist of funds borrowed from the Federal Home Loan Bank of Boston (FHLB).

At December 31, 2010, the Company had one outstanding advance from the FHLB. Principal payments on the advance for the years ending after December 31, 2010 are summarized as follows:

2011	\$ 554,472
2012	573,920
2013	<u>274,172</u>
Total	<u>\$1,402,564</u>

The amortizing advance is being repaid in monthly payments and is being amortized from the date of the advance to the maturity date on a direct reduction basis. At December 31, 2010, the interest rate on the FHLB advance is 3.43%.

Borrowings from the FHLB are secured by a blanket lien on qualified collateral, consisting primarily of loans with first mortgages secured by one to four family properties and other qualified assets.

NOTE 8 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The securities sold under agreements to repurchase as of December 31, 2010 and 2009 are securities sold on a short term basis by the Company that have been accounted for not as sales but as borrowings. The securities consisted of U.S. Government Agencies and were held in the Company's safekeeping account at Wells Fargo Bank under the control of the Company and pledged to the purchasers of the securities. The purchasers have agreed to sell to the Company substantially identical securities at the maturity of the agreements

NOTE 9 - INCOME TAXES

The components of income tax expense are as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Current:		
Federal	\$ 595,169	\$ 722,528
State	<u>140,696</u>	<u>167,179</u>
	<u>735,865</u>	<u>889,707</u>
Deferred:		
Federal	237,466	102,963
State	<u>56,628</u>	<u>24,554</u>
	<u>294,094</u>	<u>127,517</u>
Total income tax expense	<u>\$1,029,959</u>	<u>\$1,017,224</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>
Federal income tax at statutory rate	34.0%	34.0%
Increase (decrease) in tax resulting from:		
Tax exempt income	(.6)	(.1)
Other	.1	.8
State tax, net of federal tax benefit	<u>4.9</u>	<u>4.9</u>
Effective tax rates	<u>38.4%</u>	<u>39.6%</u>

The Company had gross deferred tax assets and gross deferred tax liabilities as follows as of December 31:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
Allowance for loan losses	\$ 484,636	\$ 481,414
Pension plan	-0-	26,179
Interest on nonperforming loans	46,660	26,791
Unrecognized employee benefit costs under ASC 715-10	321,510	315,231
Writedown on securities	741,803	741,803
Net unrealized holding loss on available-for-sale securities	32,783	-0-
Other	<u>455</u>	<u>545</u>
Gross deferred tax assets	<u>1,627,847</u>	<u>1,591,963</u>
Deferred tax liabilities:		
Net unrealized holding gains on available-for-sale securities	-0-	(19,436)
Depreciation	(94,058)	(71,387)
Mortgage servicing rights	(134,849)	(69,009)
Pension plan	<u>(202,405)</u>	<u>-0-</u>
Gross deferred tax liabilities	<u>(431,312)</u>	<u>(159,832)</u>
Net deferred tax asset	<u>\$1,196,535</u>	<u>\$1,432,131</u>

As of December 31, 2010, the Company had no operating loss and tax credit carryovers for tax purposes.

The Company adopted ASC 740-20, "Income Taxes - Intra-period Tax Allocation," as of December 31, 2009. It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2010 and 2009, there were no material uncertain tax positions related to federal and state income tax matters. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service and state taxing authorities for the years ended December 31, 2007 through December 31, 2010. There was no effect on the Company's balance sheet or income statement from adoption of ASC 740-20.

NOTE 10 - EMPLOYEE BENEFITS

The Company maintains a non-contributory defined benefit pension plan covering substantially all of its full-time employees. The Company's funding policy is to contribute annually at least the minimum contribution required by ERISA. Upon meeting certain eligibility requirements, the plan benefits are based on years of service and the employee's average annual salary subject to certain reductions if the employee retires or terminates employment before attaining the age of 65. Annual contributions to the plan are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following tables set forth information about the plan as of December 31 and the years then ended:

	<u>2010</u>	<u>2009</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$3,253,016	\$3,254,700
Service cost	205,265	200,152
Interest cost	187,867	197,062
Actuarial loss	199,052	81,148
Benefits paid	<u>(101,268)</u>	<u>(480,046)</u>
Benefit obligation at end of year	<u>3,743,932</u>	<u>3,253,016</u>
Change in plan assets:		
Plan assets at estimated fair value at beginning of year	2,373,205	1,963,132
Actual return on plan assets	366,208	490,119
Employer contribution	800,000	400,000
Benefits paid	<u>(101,268)</u>	<u>(480,046)</u>
Fair value of plan assets at end of year	<u>3,438,145</u>	<u>2,373,205</u>
Funded status included in other liabilities	<u>\$ (305,787)</u>	<u>\$ (879,811)</u>

Amounts recognized in accumulated other comprehensive loss as of December 31, 2010 and 2009, before tax effect consist of:

	<u>2010</u>	<u>2009</u>
Unrecognized net actuarial loss	<u>\$825,442</u>	<u>\$809,321</u>

The accumulated benefit obligation for the defined benefit pension plan was \$2,972,076 and \$2,542,148 at December 31, 2010 and 2009, respectively.

For the years ended December 31, 2010 and 2009, the assumptions used to determine benefit obligations are as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Discount rate	5.50%	6.00%
Increase in future compensation	5.00%	5.00%
Components of net periodic pension cost:		
	<u>2010</u>	<u>2009</u>
Service cost	\$205,265	\$200,152
Interest cost on benefit obligation	187,867	197,062
Expected return on assets	(217,752)	(158,679)
Amortization of unrecognized net loss	<u>34,475</u>	<u>73,767</u>
Net periodic pension cost	<u>209,855</u>	<u>312,302</u>
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net actuarial loss (gain)	50,596	(250,292)
Amortization of unrecognized net loss	<u>(34,475)</u>	<u>(73,767)</u>
Total change recognized in other comprehensive income	<u>16,121</u>	<u>(324,059)</u>
Total recognized in net periodic pension cost and other comprehensive income	<u>\$225,976</u>	<u>\$ (11,757)</u>

The estimated net loss that will be amortized from accumulated other comprehensive loss into net periodic pension cost over the year ended December 31, 2011 is \$39,987.

For the years ended December 31, 2010 and 2009, the assumptions used to determine the net periodic pension cost are as follows:

	<u>Years Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Discount rate	5.50%	6.00%
Expected long-term rate of return on plan assets	8.00	8.00
Annual salary increase	5.00	5.00

The Company's pension assets are professionally managed in accordance with the guidelines established by the Company's Pension Committee. The guidelines set by the committee establish specific limits on both the type of investments allowed and the percentage of dollars allocated to each investment category. The intended strategy is to invest conservatively in stocks, bonds and other cash equivalents, yet allow enough flexibility within the guidelines to achieve a reasonable, yet competitive, rate of return on invested assets. The expected long-term rate of return is 8% and is based on expected economic conditions.

The Company's pension plan asset allocations by asset category are as follows as of December 31, 2010 and 2009:

Asset Category	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2010:				
Cash	\$ 68,133	\$ 68,133	\$-0-	\$-0-
Equity mutual funds:				
U.S. large-cap	274,394	274,394	-0-	-0-
U.S. mid-cap	926,735	926,735	-0-	-0-
Emerging markets	231,897	231,897	-0-	-0-
International small-cap	177,816	177,816	-0-	-0-
International large value	261,912	261,912	-0-	-0-
Fixed income mutual funds:				
Ultrashort bonds	601,823	601,823	-0-	-0-
Global bonds	676,893	676,893	-0-	-0-
Real estate mutual funds:				
Domestic	127,250	127,250	-0-	-0-
International	91,292	91,292	-0-	-0-
Total	<u>\$3,438,145</u>	<u>\$3,438,145</u>	<u>\$-0-</u>	<u>\$-0-</u>
December 31, 2009:				
Cash	\$ 9,563	\$ 9,563	\$-0-	\$-0-
Equity mutual funds:				
U.S. large-cap	208,745	208,745	-0-	-0-
U.S. mid-cap	723,525	723,525	-0-	-0-
Emerging markets	220,155	220,155	-0-	-0-
International small-cap	131,193	131,193	-0-	-0-
International large value	198,372	198,372	-0-	-0-
Fixed income mutual funds:				
Ultrashort bonds	337,009	337,009	-0-	-0-
Global bonds	378,231	378,231	-0-	-0-
Real estate mutual funds:				
Domestic	101,834	101,834	-0-	-0-
International	64,578	64,578	-0-	-0-
Total	<u>\$2,373,205</u>	<u>\$2,373,205</u>	<u>\$-0-</u>	<u>\$-0-</u>

The Company's pension plan assets are generally classified within level 1 or level 2 of the fair value hierarchy (See Note 16, "Fair Value Measurements," to the Consolidated Financial Statements for a description of the fair value hierarchy) because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The plan's assets are invested for the long term. The primary investment objective is to preserve the future purchasing power of the assets and, at the same time, develop and maintain a well-diversified portfolio of assets. To accomplish this objective the Company must balance the desire for maximum total return of the assets with the desire to maintain prudent and acceptable levels of risk.

Allocation between common stocks and bonds will be the most important factor in determining investment performance. The purpose of investing in bonds is primarily to produce current income and to reduce overall volatility of the portfolio. The purpose of investing in common stocks is to provide future growth in both principal and income while also preserving the purchasing value of the assets.

To maximize the ability of achieving the Company's overall goals for the plan's assets and to provide the required level of income each year, the allocation between common stocks, bonds and cash equivalents shall adhere to the following target allocation based on market value:

	<u>Target Allocation</u>
U.S. equities	40%
International equities	20%
Fixed income	40%

Equity securities include no Company common stock at December 31, 2010 and 2009.

The Company expects to contribute \$397,000 to its pension plan in 2011.

The estimated future benefit payments, which reflect future service as appropriate, for each of the next five years and the five years thereafter, are as follows:

<u>Year</u>	<u>Pension Benefits</u>
2011	\$ 131,000
2012	135,000
2013	136,000
2014	137,000
2015	138,000
2016 through 2020	1,019,000

The Company has a 401(k) plan for eligible employees who have completed three months of service. The Company contributes a discretionary amount to be allocated to participants who have completed one year of service. Year of service means a period of 12 months during which an employee has at least 1000 hours of service. Current employee and company discretionary contributions are fully vested when contributions are initially made. Company profit sharing contributions, if made, are fully vested after seven years of continuous service. The amount that may be deferred by the employees is limited by the amount that will not cause the plan to exceed IRS limitations. Contributions made by the Company charged to employee benefit expense amounted to \$53,119 and \$46,292 for the years ended December 31, 2010 and 2009, respectively.

The Company has entered into change in control agreements with certain executive officers which provide from one to approximately three years of annual base salary upon a change in control as defined in the agreements.

NOTE 11 - COMMITMENTS AND CONTINGENT LIABILITIES

The Company is obligated under various lease agreements covering a branch office and equipment. These agreements are considered to be operating leases. The total minimum rental due in future periods under these existing agreements is as follows as of December 31, 2010:

2011	\$ 74,030
2012	72,076
2013	64,615
2014	62,370
2015	<u>49,778</u>
Total	<u>\$322,869</u>

The total rental expense amounted to \$77,435 and \$81,141 for the years ended December 31, 2010 and 2009, respectively.

NOTE 12 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Most of the Company's business activity is with customers located within the state of Connecticut. There are no concentrations of credit to borrowers that have similar economic characteristics. The majority of the Company's loan portfolio is comprised of loans collateralized by real estate located in the state of Connecticut.

NOTE 13 - FINANCIAL INSTRUMENTS

The Company is party to 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 originate loans, standby letters of credit and unadvanced funds on loans. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to originate loans are agreements to lend to a customer provided 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. As of December 31, 2010 and 2009, the maximum potential amount of the Company's obligation was \$78,098 and \$155,598, respectively, for financial and standby letters of credit. The Company's outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer's underlying line of credit. If the customer's line of credit is also in default, the Company may take possession of the collateral, if any, securing the line of credit.

	<u>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 14,000	\$ 4,327,500
Standby letters of credit	78,098	155,598
Unadvanced portions of loans:		
Construction loans	24,603	216,420
Commercial and other lines of credit	7,144,954	7,272,868
Home equity lines of credit	11,548,458	12,326,859
Consumer loans	510,646	503,160
	<u>\$19,320,759</u>	<u>\$24,802,405</u>

There is no material difference between the notional amounts and the estimated fair values of the off-balance sheet liabilities.

NOTE 14 - LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's financial position or results of operations.

NOTE 15 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010 and 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are also presented in the following table.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollar amounts in thousands)						
As of December 31, 2010:						
Total Capital (to Risk Weighted Assets)	\$23,864	19.63%	\$9,724	≥8.0%	\$12,156	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)	22,344	18.38	4,862	≥4.0	7,293	≥6.00
Tier 1 Capital (to Average Assets)	22,344	10.63	8,407	≥4.0	10,509	≥5.00
As of December 31, 2009:						
Total Capital (to Risk Weighted Assets)	\$22,854	19.74%	\$9,261	≥8.0%	\$11,576	≥10.0%
Tier 1 Capital (to Risk Weighted Assets)	21,406	18.49	4,630	≥4.0	6,946	≥6.0
Tier 1 Capital (to Average Assets)	21,406	10.63	8,053	≥4.0	10,066	≥5.0

The Bank, as a National Bank, is subject to the dividend restrictions set forth by the Comptroller of the Currency. Under such restriction, the Bank may not, without the prior approval of the Comptroller of the Currency, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2010, that the Bank could declare, without the approval of the Comptroller of the Currency, amounted to \$1,315,979.

NOTE 16 - FAIR VALUE MEASUREMENTS

ASC 820-10, "Fair Value Measurements and Disclosures," provides a framework for measuring fair value under generally accepted accounting principles. This guidance also allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

In accordance with ASC 820-10, the Company groups its financial assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. Government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other methodologies, including option pricing models, discounted cash flow models and similar techniques, are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value for December 31, 2010 and 2009. The Company did not have any significant transfers of assets between level 1 and level 2 of the fair value hierarchy during the year ended December 31, 2010.

The Company's cash instruments are generally classified within level 1 or level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

The Company's investment in U.S. Treasuries and government agencies available-for-sale is generally classified within level 2 of the fair value hierarchy. For these securities, we obtain fair value measurements from independent pricing services. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. treasury yield curve, trading levels, market consensus prepayment speeds, credit information and the instrument's terms and conditions.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used. Subsequent to inception, management only changes level 3 inputs and assumptions when corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalization and other transactions across the capital structure, offerings in the equity or debt markets, and changes in financial ratios or cash flows.

The Company's impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using level 2 inputs based upon appraisals of similar properties obtained from a third party.

The following summarizes assets measured at fair value for the period ending December 31, 2010 and 2009.

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2010:				
Securities available-for-sale	<u>\$19,079,126</u>	<u>\$ 32,402</u>	<u>\$19,046,724</u>	<u>\$ -0-</u>
Totals	<u>\$19,079,126</u>	<u>\$ 32,402</u>	<u>\$19,046,724</u>	<u>\$ -0-</u>
December 31, 2009:				
Securities available-for-sale	<u>\$13,858,599</u>	<u>\$1,091,069</u>	<u>\$12,767,530</u>	<u>\$ -0-</u>
Totals	<u>\$13,858,599</u>	<u>\$1,091,069</u>	<u>\$12,767,530</u>	<u>\$ -0-</u>

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

Under certain circumstances we make adjustments to fair value for our assets and liabilities although they are not measured at fair value on an ongoing basis. The following table presents the financial instruments carried on the consolidated balance sheet by caption and by level in the fair value hierarchy at December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded:

	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2010:				
Impaired loans	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Totals	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
December 31, 2009:				
Impaired loans	\$ 64,156	\$ -0-	\$ 64,156	\$ -0-
Totals	<u>\$ 64,156</u>	<u>\$ -0-</u>	<u>\$ 64,156</u>	<u>\$ -0-</u>

The estimated fair values of the Company's financial instruments, all of which are held or issued for purposes other than trading, are as follows as of December 31:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 30,789,303	\$ 30,789,303	\$ 18,022,889	\$ 18,022,889
Interest bearing time deposits with other banks	8,730,000	8,731,000	7,475,000	7,469,000
Available-for-sale securities	19,079,126	19,079,126	13,858,599	13,858,599
Federal Home Loan Bank stock	893,900	893,900	893,900	893,900
Federal Reserve Bank stock	33,750	33,750	33,750	33,750
Loans, net	141,697,348	146,431,000	154,966,907	155,488,000
Accrued interest receivable	675,778	675,778	711,404	711,404
Financial liabilities:				
Deposits	181,998,154	182,507,000	171,902,763	172,248,000
Federal Home Loan Bank advances	1,402,564	1,401,575	3,938,107	3,831,644
Securities sold under agreements to repurchase	2,483,266	2,483,266	2,263,029	2,263,029

The carrying amounts of financial instruments shown in the above table are included in the consolidated balance sheets under the indicated captions. Accounting policies related to financial instruments are described in Note 2.

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 14, 2011, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

NOTE 18 - RECLASSIFICATION

Certain amounts in the prior year have been reclassified to be consistent with the current year's statement presentation.

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